

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Finding value in growth stocks

Bottom line up top:

Tough times for growth stocks continue, but we see glimmers amid the gloom. Growth stocks suffered year-to-date losses through May five times larger than their value peers, and that slump is extending into June. The road ahead looks bumpy, but we may start to see inklings of improvement during the second half of 2022. Among the factors at play:

- **Relative valuations are attractive.** Price-to-earnings (P/E) multiples for growth and technology shares look potentially more inviting after major growth-oriented indexes like the Nasdaq Composite and Russell 1000 Growth Index tumbled into bear market territory. By the end of last month, Russell 1000 Growth valuations had fallen below their 5-year average (Figure 1).
- **Moderation in inflation remains elusive, although a plateau may be in sight.** Last week's elevated CPI print for May and spike in the 10-year Treasury yield to a new 2022 peak made clear that the high inflation, rising rate environment that's been hampering growth stocks has yet to abate. A rare bright spot in May's CPI report was broad deflation in goods prices, indicating that the shift in spending toward services remains intact. Dovish observers might also point to other recent data showing decelerating wage growth, a peak in job openings and a gentle rise in unemployment claims.
- **Maximum Fed hawkishness: priced in or more to come?** With both CPI and PCE inflation (the Fed's preferred barometer) still too high, we expect 50 bps rate hikes at each of the summer FOMC meetings (June, July and September), with some upside risk to 75 bps this week. While a Fed-enabled soft landing is still possible, the path



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On behalf of Nuveen's Global Investment Committee

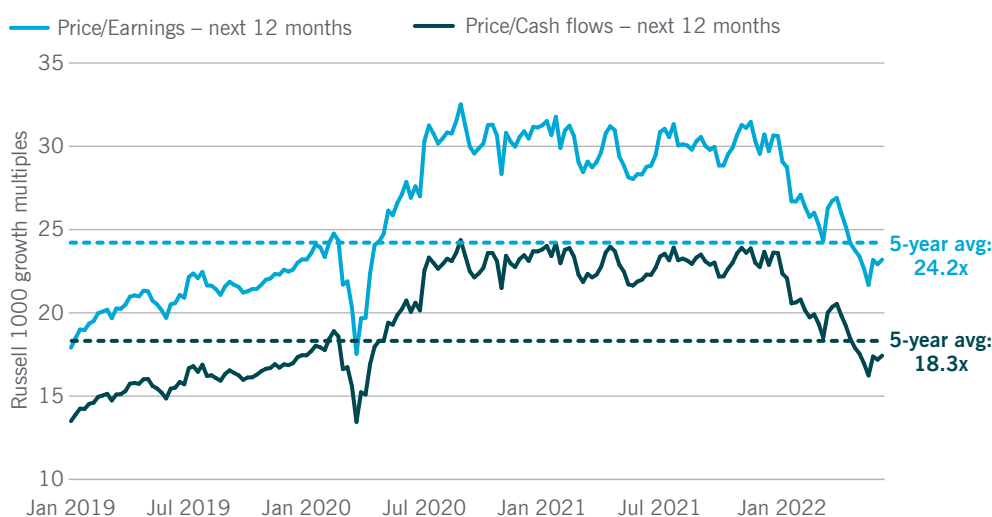
As Nuveen's CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she chairs Nuveen's Equities Investment Council and is a portfolio manager for several key investment strategies.

to a benign economic outcome looks narrower. It's worth noting that growth stocks may prove resilient in a mild recession.

Not all growth stocks are on equal footing. We're identifying compelling relative value among a narrow set of high-quality secular growth names that should benefit from long-term structural trends. We believe these are companies that are positioned to outperform in a decelerating economy, while simultaneously preparing for future growth.

FIGURE 1: GROWTH STOCK VALUATIONS HAVE DROPPED BELOW THEIR 5-YEAR AVERAGES

Next-12-month price-to-earnings, price-to-cash-flow ratios vs. 5-year averages



Data source: FactSet, 8 Jun 2022. Past performance does not predict or guarantee future results.

Portfolio considerations

Growth stocks are an important part of our balanced focus. Within global equities, we currently favor large cap stocks, particularly in the U.S., with a balanced focus on growth (given the slowing economy) and value (especially in the energy sector, due to favorable supply and demand dynamics). Ultimately, we are more interested in which sectors and companies have the right fundamentals in place. That perspective means not ignoring solid growth opportunities where we find them — including certain mega-cap software names whose valuations have compressed and are trading on reasonable earnings or cash flow multiples.

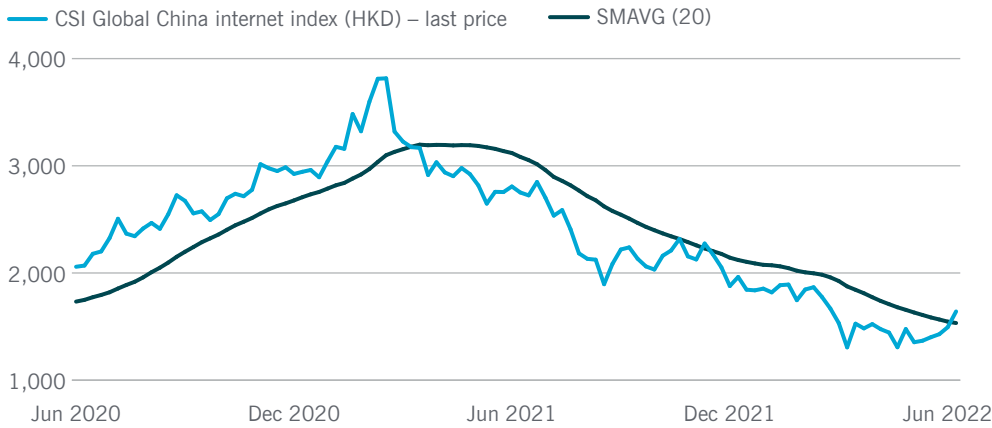
Investors with a high degree of confidence may want to explore select opportunities in emerging markets. After a challenging 2021 for Chinese internet stocks, we think their risk/reward profile is positively skewed today. The negative impact of COVID-19 lockdowns has given way to newly announced stimulus measures to boost economic activity and a more business-friendly regulatory environment. Against this backdrop, the CSI Global China Internet Index — which was valued at a price of over 6x revenues at its peak in 2021 and is now below 2.5x — recently broke above its 20-week moving average (Figure 2).

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

We're currently identifying compelling relative value among a narrow set of high-quality secular growth names that should continue to benefit from long-term structural trends.

FIGURE 2: A POSSIBLE TURNING POINT FOR CHINESE INTERNET STOCKS

Chinese internet stocks index performance

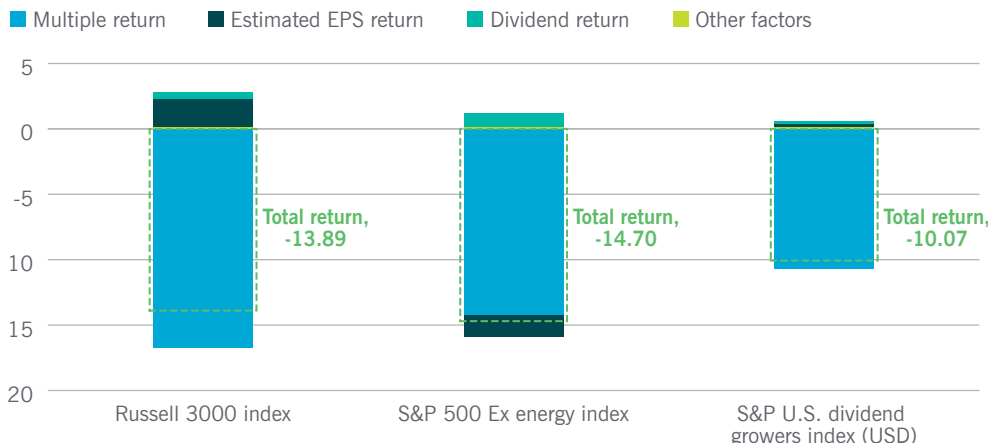


Data source: Bloomberg L.P., 8 Jun 2022. Past performance does not predict or guarantee future results.

We expect market volatility to persist over the near term. While our medium-term outlook remains cautiously optimistic, more wary investors might choose to emphasize dividend-growing companies with strong balance sheets that have been less affected by multiple compression relative to other U.S. stocks, especially large caps ex-energy (Figure 3).

FIGURE 3: DIVIDEND GROWERS: AN APPROPRIATE CHOICE FOR THE MORE RISK-AVERSE

Return drivers, year-to-date



Data source: Bloomberg L.P., 31 May 2022. Past performance does not predict or guarantee future results.

Ultimately, we are less concerned about one style beating the other and more interested in which sectors and companies have the right fundamentals in place.

About Nuveen's Global Investment Committee

Nuveen's Global Investment Committee (GIC) brings together the most senior investors from across our platform of core and specialist capabilities, including all public and private markets.

Regular meetings of the GIC lead to published outlooks that offer:

- macro and asset class views that gain consensus among our investors
- insights from thematic “deep dive” discussions by the GIC and guest experts (markets, risk, geopolitics, demographics, etc.)
- guidance on how to turn our insights into action via regular commentary and communications

For more information, please visit nuveen.com.

Endnotes

Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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Important information on risk

All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Equity investing

involves risk. Investments are also subject to political, currency and regulatory risks. These risks may be magnified in emerging markets. Diversification is a technique to help reduce risk. There is no guarantee that diversification will protect against a loss of income. Investing in municipal bonds involves risks such as interest rate risk, credit risk and market risk, including the possible loss of principal. The value of the portfolio will fluctuate based on the value of the underlying securities. There are special risks associated with investments in high yield bonds, hedging activities and the potential use of leverage. Portfolios that include lower rated municipal bonds, commonly referred to as “high yield” or “junk” bonds, which are considered to be speculative, the credit and investment risk is heightened for the portfolio. Credit ratings are subject to change. AAA, AA, A, and BBB are investment grade ratings; BB, B, CCC/CC/C and D are below-investment grade ratings. As an asset class, real assets are less developed, more illiquid, and less transparent compared to traditional asset classes. Investments will be subject to risks generally associated with the ownership of real estate-related assets and foreign investing, including changes in economic conditions, currency values, environmental risks, the cost of and ability to obtain insurance, and risks related to leasing of properties. Socially Responsible Investments are subject to Social Criteria Risk, namely the risk that because social criteria exclude securities of certain issuers for non-financial reasons, investors may forgo some market opportunities available to those that don't use these criteria. Investors should be aware that alternative investments including private equity and private debt are speculative, subject to substantial risks including the risks associated with limited liquidity, the use of leverage, short sales and concentrated investments and may involve complex tax structures and investment strategies. Alternative investments may be illiquid, there may be no liquid secondary market or ready purchasers for such securities, they may not be required to provide periodic pricing or valuation information to investors, there may be delays in distributing tax information to investors, they are not subject to the same regulatory requirements as other types of pooled investment vehicles, and they may be subject to high fees and expenses, which will reduce profits. Alternative investments are not appropriate for all investors and should not constitute an entire investment program. Investors may lose all or substantially all of the capital invested. The historical returns achieved by alternative asset vehicles is not a prediction of future performance or a guarantee of future results, and there can be no assurance that comparable returns will be achieved by any strategy.

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