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CIO Weekly Commentary
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CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Tracking the bear market: will it bottom soon?

Bottom line up top:

Investors continue to bear the burden of this down market. After entering the year on a hopeful note, U.S. stocks quickly reversed course in the first quarter and went from bad to worse in the second. The S&P 500 Index officially entered bear-market territory on June 13 by ending that day's trading session more than 20% below the record high set in early January. All told, the first half of 2022 marked the S&P 500's worst six months to start a year since 1962.

Those looking to pinpoint exactly when the bear market will end should try a different tack. Just as we discourage investors from market timing in general, we also caution that it's extremely difficult to predict the bottom of a bear market with a high degree of precision. Attempts to define a projected or hoped-for inflection point to guide specific investment decisions are likely to produce disappointing results. That said, we believe there's value in analyzing current and historical data trends to inform our perspective on today's bear market.

Nuveen has developed a data-driven bear tracker for this purpose. There's no crystal ball to foretell how long a bear market will last, or how low stock prices will go before they hit an inflection point. But it is possible to assess the likelihood that an end to the U.S. equity bear market may be imminent. The tracker allows us to do this by monitoring six key factors: valuations, earnings, Fed policy, manufacturing activity, market breadth and bond spreads. We explain our tracker's methodology, as well as our current assessment, in the following section.

Saira Malik, CFA
Chief Investment Officer

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.

Introducing our bear market tracker

The Nuveen Bear Tracker is a guide that informs our discussions and debate around the unique dynamics of the current U.S. equity bear market, how it compares to those in the past and when it might be close to bottoming. While not an exhaustive list, the six data variables we analyze (see table below) have frequently shown turning points near the bottom of past bear markets. The colors in the right column are assigned based on our view of whether each variable is signaling that we are close to a bottom (green), further away (red) or that the picture is mixed (yellow).

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THE NUVEEN BEAR TRACKER

As of 05 Jul 2022			Signaling a near-term bottom?
VALUATIONS	***S&P 500 Index forward price/earnings ratio***		Rapid valuation adjustment, but yet to reach levels of past bear markets
	Level at start of '22 bear market	21.5	
	Current level	16.0	
	Change (%)	**-25%**	
EARNINGS	***S&P 500 Index forward earnings per share***		Yet to see significant negative EPS revisions
	Level at start of '22 bear market	$223	
	Current level	$239	
	Change (%)	**+7%**	
U.S. FEDERAL RESERVE POLICY	***Fed funds rate***		Yet to indicate a near-term pause in the hiking cycle
	Level at start of '22 bear market	0.25%	
	Current level	1.75%	
	Change (net)	**+1.5%**	
MANUFACTURING ACTIVITY	***ISM new orders index:***		Declining and yet to find a bottom
	Level at start of '22 bear market	61	
	Current level	49.2	
	Change (net)	**-11.8**	
MARKET BREADTH	***% of S&P 500 Index members above their 100 week moving average:***		Increasing from 6 June low of 30% indicates potential technical bottoming
	Level at start of '22 bear market	92%	
	Current level	39%	
	Change (net)	**-54%**	
BOND SPREADS	***Bloomberg U.S. high yield spread (bps)***		Narrow versus past bear markets, but yet to show signs of peaking
	Level at start of '22 bear market	278	
	Current level	583	
	Change (net)	**+305**	

Data source: Bloomberg L.P., 05 Jul 2022. Past performance does not predict or guarantee future results. Spreads represent Bloomberg U.S. Corporate High Yield Index option-adjusted spread to Treasuries. The views above are for informational purposes only and do not reflect the experience or performance of any Nuveen product, strategy or service.

For most investors, cash flow management, dollar-cost averaging and portfolio rebalancing are prudent bear market strategies.

Based on these six variables, can we calculate an aggregate "score" quantifying how close we are to the end of the bear market (the higher the score, the more imminent the bottom)? If each variable carries equal significance, and we assign zero points to every red cell, one point to every green cell and half a point to every yellow cell, today's score would be two out of six possible points. That indicates the bear is unlikely to go into hibernation any time soon.

A numerical score can be a helpful input, and we expect the Bear Tracker to add value to our analysis throughout this market cycle. But the humbling task of calling the market bottom is just as much art as it is science – so a more qualitative approach is warranted to complement the tracker's data monitoring.

For example, today's bear market is driven primarily by high inflation and the Fed's aggressive pace of tightening. Cooler inflation allowing at least a pause in Fed rate hikes would increase our optimism that the bear market is closer to ending, despite any other variables flashing red. Additionally, if the market has already bottomed without any drawdown in expected earnings, it would be the first such occurrence in any of the five bear markets going back to 2000.

For most investors, cash flow management to avoid being a forced seller, cash flow management, dollar-cost averaging and portfolio rebalancing are prudent bear market strategies.

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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Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. **Past performance does not predict or guarantee future results.** Investing involves risk; principal loss is possible. All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on nuveen.com. **Please note, it is not possible to invest directly in an index.**

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.

Nuveen provides investment advisory services through its investment specialists.

This information does not constitute investment research as defined under MiFID.