nuveen
A TIAA Company

CIO Weekly Commentary
15 April 2024

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Earnings season: investment ideas

Bottom line up top

It's still early in the U.S. corporate earnings reporting season, but so far the overall tone remains positive. Analysts currently forecast earnings per share (EPS) growth of 0.9% for the first quarter, according to FactSet. For 2024 as a whole, analyst estimates call for EPS to grow 11.0%, improving to 13.4% in 2025.

We see caveats to this optimism in the macroeconomic backdrop:

Escalating geopolitical tensions: Stocks sank at the end of the week and yields rose as fears of a worsening and spreading conflict in the Middle East intensified. Oil prices also spiked as part of the broader risk-off move. Should the situation worsen, we would expect these trends to accelerate.

A potentially weaker U.S. consumer: Recent retail sales figures have been disappointing, while consumer credit defaults are rising.

Higher-for-even-longer interest rates: On the heels of another hot inflation print last week, Federal Reserve rate cuts in 2024 may be further away and fewer in number than markets anticipated as recently as the end of March. The extended pause poses a risk to earnings growth as elevated interest rates cut into spending by both consumers and businesses. A slower trajectory for earnings, whether feared or realized, could hamper equity market performance.

On balance, our asset allocation outlook remains neutral with respect to equities overall. Moving from cautious to higher-conviction optimism would depend on a number of potential catalysts coming to fruition:

- A sense that geopolitics won't trigger a broader and more extended risk-off move.

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.

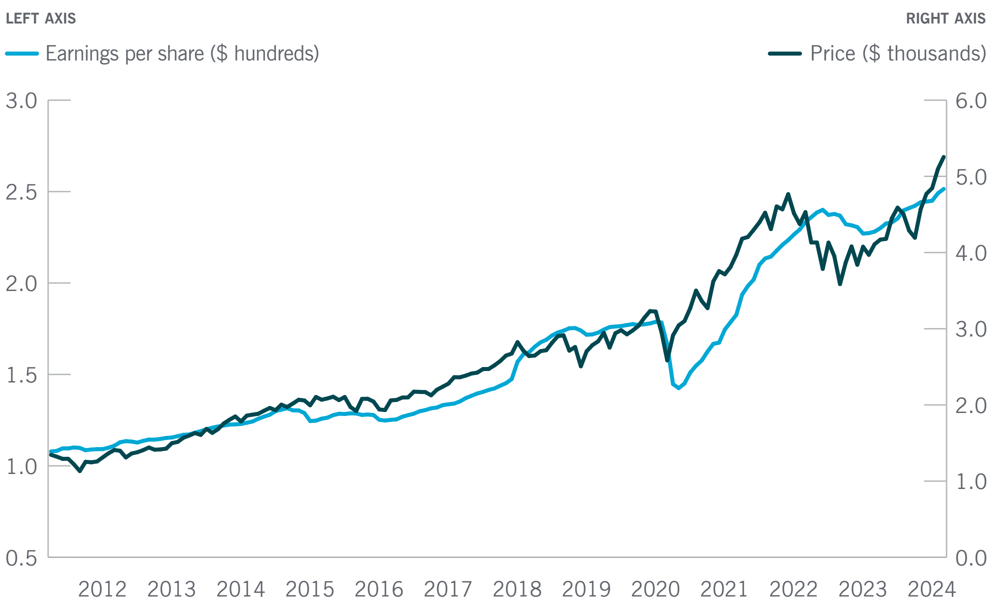
- Earnings growth, rather than multiple expansion, as the driver of market gains
- Further improvements in earnings growth and positive earnings revisions
- Increasing market breadth

With the S&P 500 still close to all-time highs (Figure 1), any deterioration in earnings will likely lead to more downside, and the continued effects of tight monetary policy may prompt derisking.

Higher interest rates could create a risk for corporate earnings — and for equity prices.

FIGURE 1: EARNINGS DETERIORATION COULD PRESENT A RISK TO MARKETS

S&P 500 Index EPS and price



Data sources: FactSet, 31 May 2011 – 31 Mar 2024. **Performance data shown represents past performance and does not predict or guarantee future results.**

Portfolio considerations

First-quarter earnings season has kicked off with the utilities and communication services sectors projected to deliver the strongest year-over-year EPS growth, while estimates for materials and energy are expected to decline the most. Our contrarian view, informed by fundamentals, ongoing geopolitical tensions and recent surprises in economic data, finds materials and energy attractive.

Manufacturing activity in the U.S. unexpectedly rebounded in March, with a sharp increase in production and overall demand based on the ISM Purchasing Managers Index (Figure 2). This suggests that the manufacturing sector — which had been contracting since September 2022 — has likely bottomed and could strengthen further in the coming months. The materials sector has historically performed well when PMIs have troughed and returned to expansion territory.

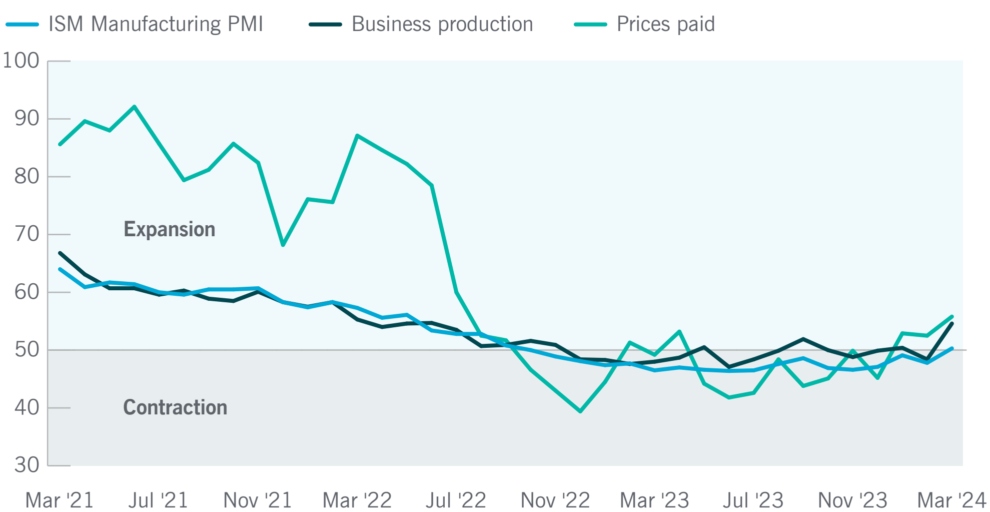
Despite negative predictions for earnings growth in materials and energy, we think both sectors look attractive.

Global PMI readings also offer encouraging news: For the first time in two years, the global new orders/inventory ratio recently broke above 1x, a level that is typically a favorable leading indicator of chemical volumes. U.S. chemical shipments have been positive over the past couple of years, while improved Chinese demand for chemicals during the first quarter could be another tailwind.

Geopolitical tensions, most notably fears that the conflict in the Middle East could escalate into a broader regional war as well as the effects of the protracted Russia-Ukraine war, have driven energy prices higher. Crude oil prices are up sharply, and continuing production cuts by OPEC+ nations are keeping global supply tight. That said, higher oil prices could benefit the energy sector by generating higher free cash flow growth. Last week's release of U.S. CPI data for March, confirming that inflation will likely remain elevated for some time, also augurs well for the energy sector, historically one of the best performers when inflation is high.

In contrast, we remain cautious about the consumer discretionary sector. Although the resilient U.S. economy continues to defy expectations, any material changes to employment warrant close monitoring. Additionally, a recent report from the New York Federal Reserve showed that higher-for-longer interest rates and inflation are causing anxiety for consumers, with one in eight (the most in four years) expected to miss an upcoming minimum debt payment.

FIGURE 2: A MANUFACTURING REVIVAL COULD SIGNAL GOOD NEWS FOR THE MATERIALS SECTOR



Data source: Bloomberg, L.P., Mar 2019 to Mar 2024. Data reflects the ISM Manufacturing Purchasing Managers Index, ISM Manufacturing Report on Business Production and ISM Manufacturing Report on Business Prices Index.

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.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professionals.

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain "forward-looking" information that is not purely historical in nature.

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. **Performance data shown represents past performance and 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. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, derivatives risk, dollar roll transaction risk and income risk. As interest rates rise, bond prices fall. Foreign investments involve additional risks, including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks may be magnified in emerging markets.

Nuveen, LLC provides investment services through its investment specialists.

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

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

1330829 GWP-3501998PG-E0424P