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CIO Weekly Commentary
29 August 2022

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Bullseye on a bear market rally

Bottom line up top:

Is being bullish back in season, or did market bears simply hibernate this summer? After starting the second half of the year in bear market territory, the S&P 500 rallied 17% this summer, providing a welcome reprieve to weary U.S. equity investors (Figure 1). However, with the rally now losing steam, investors have been left wondering if the continued direction is up or down. Considering weaker U.S. earnings growth (actually negative for the second quarter when excluding the energy sector), the increasing number of S&P 500 companies providing lower guidance (>50%) and a softening of manufacturing and service data we are in the camp that equities just experienced a textbook "bear market rally."

Does history suggest we hibernate during this bear market? We analyzed monthly returns for the S&P 500 going back to 1928 in order to obtain historical context (Figure 2). September, specifically, has been the worst month for U.S. equity market returns, even when adjusting for 9/11 and the GFC. The so-called September Effect is actually a global phenomenon. Some attribute the effect to an end of summer/back to work mentality, which ushers in higher trading volume and tax-loss harvesting. This technical data point, alongside an uncertain macro and fundamental backdrop, keeps us from chasing the recent rally and even using it as an opportunity to take profits.

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.

FIGURE 1: NEW BULL MARKET OR TEMPORARY BEAR RALLY?

S&P 500 Index

Data source: Bloomberg L.P., S&P 500 Index, daily prices, 21 Aug 2020 – 24 Aug 2022. **Past performance does not predict or guarantee future results.**

> ***This technical data point, alongside an uncertain macro and fundamental backdrop, keeps us from chasing the recent rally.***

FIGURE 2: U.S. EQUITIES OFTEN DECLINE IN SEPTEMBER

S&P 500 Index monthly total returns, January 1928 – December 2021

SECTOR	AVERAGE	10TH PERCENTILE	MEDIAN	90TH PERCENTILE
January	1.3%	-4.9%	1.5%	6.8%
February	0.0%	-3.9%	0.3%	5.0%
March	0.6%	-4.3%	1.0%	5.5%
April	1.5%	-4.2%	1.1%	7.8%
May	0.1%	-5.9%	1.1%	5.2%
June	0.9%	-5.0%	0.3%	5.2%
July	1.7%	-4.3%	1.6%	6.9%
August	0.8%	-5.7%	0.9%	5.7%
September	**-1.0%**	**-7.8%**	**-0.3%**	**4.2%**
October	0.6%	-6.9%	1.0%	7.3%
November	1.0%	-5.7%	1.5%	7.3%
December	1.5%	-2.6%	1.7%	5.2%
All Months	0.7%	-5.2%	1.0%	6.0%

Data source: Bloomberg L.P., 25 Aug 2022. **Past performance does not predict or guarantee future results.**

Portfolio considerations:

Sometimes quality is the best defense. Within Bloomberg's U.S. equity factor universe, the top three performing factors since the 16 June bear market low have been stocks with high expected volatility (implied by the options market), high beta and high trailing volatility. It's notable that these also happen to be three of the worst performing factors year-to-date. This summer whipsaw in factor performance shows how painful it can be when investors get overly defensive at the wrong time, just to watch the recent underperformers recover the majority of their losses.

For that reason, we don't think investors should hide out in defensive sectors that are trading at valuation premiums relative to the market. Instead, we recommend maintaining broad sector diversification with strategies that can identify higher quality names across sectors that have a track record of growing dividends. Infrastructure strategies that diversify across sectors, types of infrastructure and regions are also well positioned for what we believe will be a persistent inflation environment (even if June was not the year-over-year peak).

We recommend maintaining broad sector diversification with strategies that can identify higher quality names.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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.

Nuveen provides investment advisory services through its investment specialists.

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