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CIO Weekly Commentary
23 September 2024

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Rebounds, rate reductions and infrastructure

Bottom line up top

The U.S. Federal Reserve's entry in "This day in history: 18 September." It might not rank alongside George Washington's laying the cornerstone of the U.S. Capitol building in 1793, but after a long period of speculation, fluctuating forecasts and investor impatience, the Fed finally pivoted to easier monetary policy last Wednesday. The announcement of a 50 basis points (bps) cut in the target fed funds rate, to a range of 4.75%-5.00%, came roughly two and a half years after the first hike in the historic tightening cycle that began in March 2022.

Last week's move was in line with market expectations heading into the meeting. It's also an aggressive first step in what is expected to be a series of rate reductions. Based on the Fed's dot plot of rate projections (Figure 1), markets can expect an additional 50 bps of cuts in 2024, lowering the fed funds rate to 4.25%-4.50% by year-end. The rate should then decrease by an additional 100 bps in 2025, with the potential for 50 bps of easing in 2026.

It's the economy (and unemployment and inflation)! In addition to signaling future rate levels, the Fed's *Summary of Economic Projections* now points to a tick down in real GDP growth this year (+2.0% versus +2.1% in the June 2024 forecast), moderately higher unemployment (4.4%, up from 4.0% previously) and further cooling of inflation (core PCE Index at 2.6%, down from the prior outlook's 2.8%). Bottom line: The Fed thinks a near-term recession is unlikely, expects inflation to continue falling toward the 2% target and believes further easing is warranted over the next two years.

Saira Malik, CFA
Head of Nuveen Equities and Fixed Income, Chief Investment Officer

On behalf of Nuveen's Global Investment Committee

As Head of Equities and Fixed Income, 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.

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Front-loading the rate-cutting cycle, as the Fed has done with its initial 50 bps move (with more to come next quarter), may improve the odds of achieving a soft landing for the economy, but brings with it the risk of reigniting inflation. Unforeseen economic and market events could potentially alter the Fed's current projections. In our view, this backdrop suggests positioning portfolios somewhat more defensively, while maintaining exposure to select risk assets.

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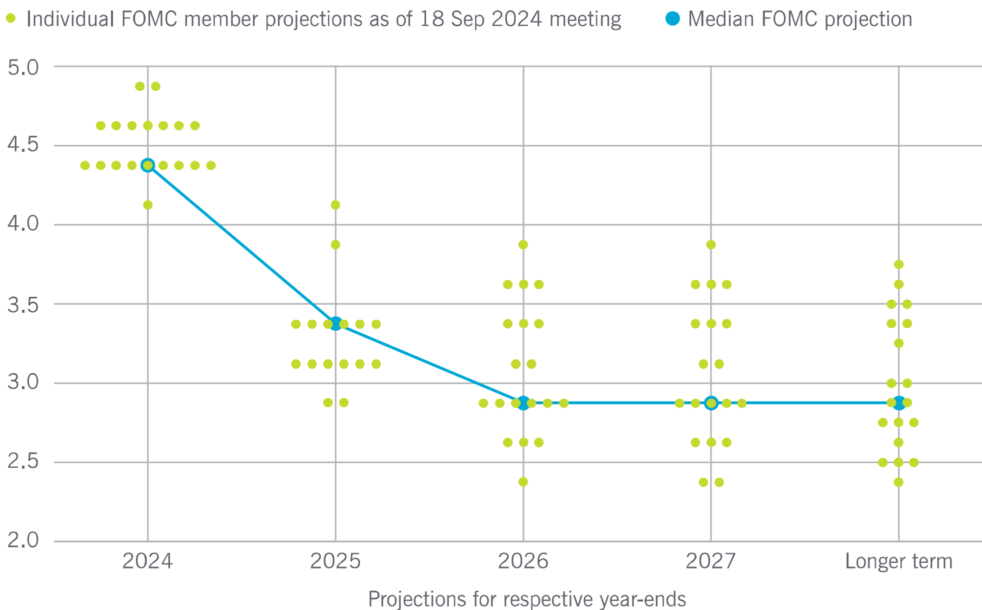
FIGURE 1: FED DOT PLOT SHOWS 50 BPS MORE CUTS IN 2024

Implied fed funds target rate (%)



Data source: U.S. Federal Reserve, 18 Sept 2024.

Portfolio considerations

It's no secret global equity markets have rebounded impressively since the end of the 2022 bear market — a downturn brought on by the beginning of the rate hiking cycle by the Fed and other central banks around the world. In the 18 months between 01 January 2023 and 30 June 2024, the MSCI All Country World Index returned nearly +23%. During the same timeframe, the S&P 500 Index gained +28.5%, driven by the world's largest technology stocks (the Magnificent Seven), which at times accounted for more than 100% of the overall index's total return.

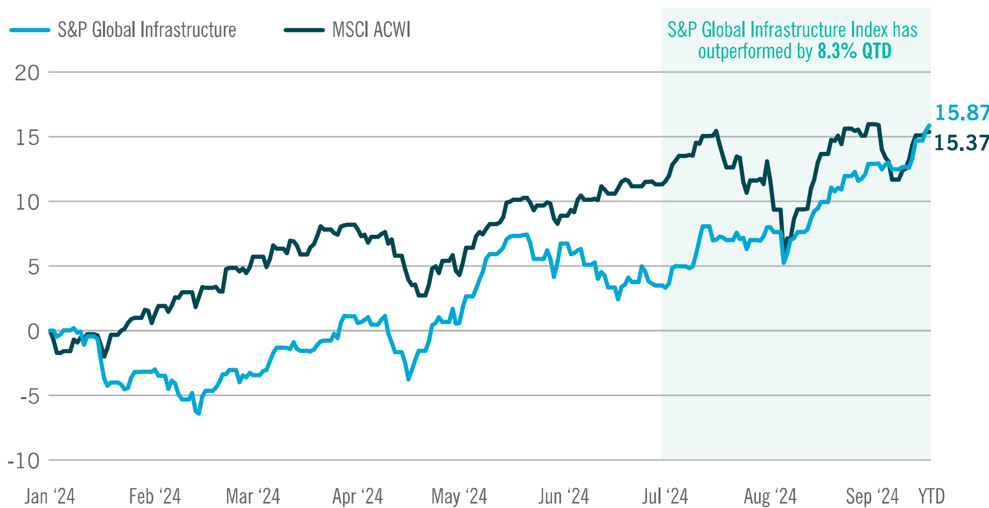
While euphoria surrounding artificial intelligence (AI) enabled the S&P 500's comeback, the economic and market backdrop looks considerably different today. The U.S. labor market began to cool significantly in the second half of 2024 after a long period of surprising strength. This led to heightened concern about the health of the broader economy and made last

week's Fed rate cut a foregone conclusion. Since midyear, top-performing tech stocks have also taken a back seat to more rate-sensitive and economically resilient areas of the market that had underperformed during most of the Fed's tightening cycle. Among those laggards that have now taken the lead is publicly listed **global infrastructure** (Figure 2), one of our most favored equity categories.

A confluence of economic and market developments has bolstered the rally in infrastructure equities and, in our view, should underpin its continued outperformance.

FIGURE 2: RATES AND A MURKIER ECONOMIC OUTLOOK ARE POWERING RETURNS WITHIN LISTED GLOBAL INFRASTRUCTURE

Listed global infrastructure vs. global stocks (%)



Data source: Morningstar Direct, 01 Jan 2024 - 17 Sept 2024. Daily net returns, in U.S. Dollars. **Performance data shown represents past performance and does not predict or guarantee future results.**

A confluence of economic and market developments has bolstered the rally in infrastructure equities and, in our view, should underpin its continued outperformance:

- The pause in the megacap tech rally has come at a time when valuations for infrastructure look quite attractive, relative to both broader markets and its own history.
- A falling (and lower) rate environment is likely to make capital-intensive sectors such as infrastructure look even more enticing to equity investors.
- Structural growth themes, including burgeoning demand for energy to support generative AI expansion and the onshoring/nearshoring of manufacturing operations by U.S.-based multinational companies, continue to offer compelling opportunities to invest in infrastructure.

Additionally, amid decelerating economic growth and the possibility of a recession, we like global infrastructure's historical resilience in down markets. This ability to weather challenging conditions is due largely to inelastic demand for the necessary functions and services provided by

several global infrastructure industries, including electric utilities, waste companies and data centers. Since its inception in December 2001, the S&P Global Infrastructure Index has generated a downside capture ratio of 80.5% versus the MSCI ACWI through 30 June 2024.

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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. Diversification is a technique to help reduce risk. There is no guarantee that diversification will protect against a loss of income. Equity investing involves risk. Investments are also subject to political, currency and regulatory risks. These risks may be magnified in emerging markets. Because infrastructure portfolios concentrate their investments in infrastructure-related securities, portfolios have greater exposure to adverse economic, regulatory, political, legal, and other changes affecting the issuers of such securities. Infrastructure-related businesses are subject to a variety of factors that may adversely affect their business or operations, including high interest costs in connection with capital construction programs, costs associated with environmental and other regulations, the effects of economic slowdown and surplus capacity, increased competition from other providers of services, uncertainties concerning the availability of fuel at reasonable prices, the effects of energy conservation policies and other factors. Additionally, infrastructure-related entities may be subject to regulation by various governmental authorities and may also be affected by governmental regulation of rates charged to customers, service interruption and/or legal challenges due to environmental, operational or other mishaps and the imposition of special tariffs and changes in tax laws, regulatory policies and accounting standards. There is also the risk that corruption may negatively affect publicly funded infrastructure projects, especially in emerging markets, resulting in delays and cost overruns. In addition, investing internationally presents certain risks not associated with investing solely in the U.S., such as currency fluctuation, political and economic change, social unrest, changes in government relations, differences in accounting and the lesser degree of accurate public information available, foreign company risk, market risk and correlation risk. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

Nuveen, LLC provides investment services through its investment specialists.

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

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