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CIO Weekly Commentary
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CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

U.S. equity earnings vs. escalating economic fears

Bottom line up top

Market volatility has been tempered… The Trump administration's tariff plans seem to have settled into a relatively steady state. This welcome reprieve helped U.S. equity and fixed income markets moderate their extreme price swings in holiday-shortened trading last week. The S&P 500 Index nonetheless finished down (-1.49%), while the 10-year U.S. Treasury yield settled 14 basis points (bps) lower, at 4.34%. There's still too much policy uncertainty surrounding global trade to expect a quick and full retracing of recent market losses. And the 10% baseline levy against almost all U.S. trading partners, though delayed by 90 days, still represents one of the largest tariff increases in history. Perhaps more importantly, the 90-day ceasefire doesn't apply to the burgeoning U.S./China trade war, which has its own volatile dynamics within the broader tariff showdown.

… but souring sentiment has not. U.S. companies still face the daunting task of forecasting future operations with little confidence or visibility into where they can source goods and materials, or how much they will cost. Small business optimism as measured by the National Federation of Independent Business (NFIB) survey, for example, fell to 97.4 in March — below the survey's 51-year average of 98 and lower than at any point during the first Trump administration (outside of Covid). Meanwhile, various gauges of consumer sentiment have also deteriorated. Last week's release of the Federal Reserve Bank of New York's monthly Consumer Expectations Survey for March reinforced the increasingly gloomy mood. The survey projected inflation will rise to 3.6% over the next 12 months, up from expectations of 3.1% in February. Respondents also anticipated slower income growth of

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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.

2.8%, down from the prior month's estimate of 3.1%. Pessimism extended to stock prices, seen as declining, and unemployment, expected to rise (Figure 1). It's worth noting that soft indicators like sentiment surveys are weakening even as hard data quantifying economic activity continue to show a generally stable U.S. economy. Perception could quickly become reality, however, if falling confidence leads to behaviors that hinder growth (e.g., companies cutting capital expenditures, consumers tightening purse strings). Given the fragile balance, this corporate earnings season may rank among the most challenging that equity markets have had to navigate in recent memory.

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FIGURE 1: CONSUMERS EXPECT STOCKS TO GO DOWN AND UNEMPLOYMENT UP

Data source: Survey of Consumer Expectations, © 2013-2025 Federal Reserve Bank of New York (FRBNY). **Performance data shown represents past performance and does not predict or guarantee future results.** The SCE data are available without charge at http://www.newyorkfed.org/microeconomics/sce and may be used subject to license terms posted there. FRBNY disclaims any responsibility or legal liability for this analysis and interpretation of Survey of Consumer Expectations data.

Portfolio considerations

Earnings season is off to a murky start. With just 12% of S&P 500 constituents having reported first-quarter earnings thus far, investor response to company financial results has been muted. However, management commentary and guidance may be under closer scrutiny given today's abnormally opaque outlook for U.S. and global economic growth. Companies that have already reported negative Q1 surprises have seen their stocks punished for these earnings misses, albeit less harshly compared to the five-year average. But even those reporting positive surprises have been punished in this nascent earnings season, according to FactSet.

At 71%, the observed percentage of companies that have beaten consensus expectations lags the longer-term average of 75%. Meanwhile, the blended earnings growth rate (combining actual results for companies that have reported and estimates for those that haven't) stands at 7.2% for the quarter — sharply lower than the 11.5% forecast from FactSet at the beginning of 2025. There have been few positive earnings revisions in this reporting cycle, with utilities, the lone S&P 500 sector for which earnings expectations have risen, joined by non-U.S. developed market equities (Figure 2). Given current macro conditions, we expect non-U.S. company earnings growth to remain stronger on a relative basis.

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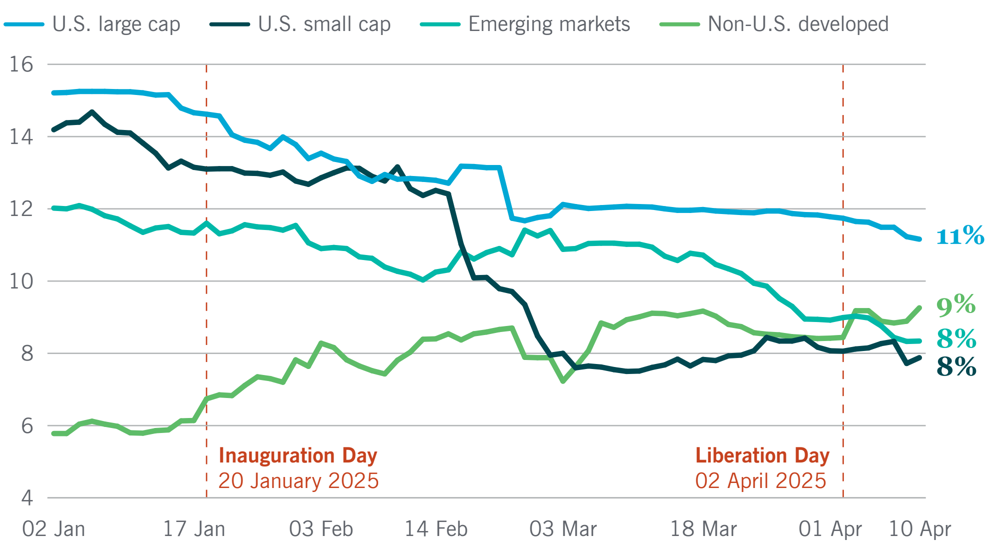
We also anticipate further market volatility in the U.S. as company guidance takes on a more critical role in determining the next leg up or down for equities. One notable S&P 500 constituent issued two sets of guidance last week —one for a more normalized economic backdrop and another for a potential recession. A profit warning from a high-profile, U.S.-based semiconductor manufacturer sent the S&P 500 and other U.S. equity benchmarks into a tailspin last Wednesday, after the company quantified its expected loss of revenue from U.S. restrictions on exports to China.

With volatile global trade policy, we think ongoing trends in equity market performance will continue. Investors may favor interest rate sensitive sectors (financials) and historically defensive areas of the market (consumer staples, health care and utilities). Certain industries within information technology — semiconductors and software, to name two — are likely to outperform as artificial intelligence (A.I.) proliferates the global economy.

FIGURE 2: U.S. EARNINGS EXPECTATIONS HAVE DECLINED SINCE INAUGURATION DAY

Blended forward 12M expected earnings growth (%)



Data source: Bloomberg, L.P., 10 Apr 2025. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: U.S. large cap:** S&P 500 Index; **U.S. small cap:** Russell 2000 Index; **non-U.S. developed:** MSCI EAFE Index; **emerging markets:** MSCI Emerging Markets Index.

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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

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Endnotes

Sources

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

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