INSIDER

www.insider.com September 25, 2022

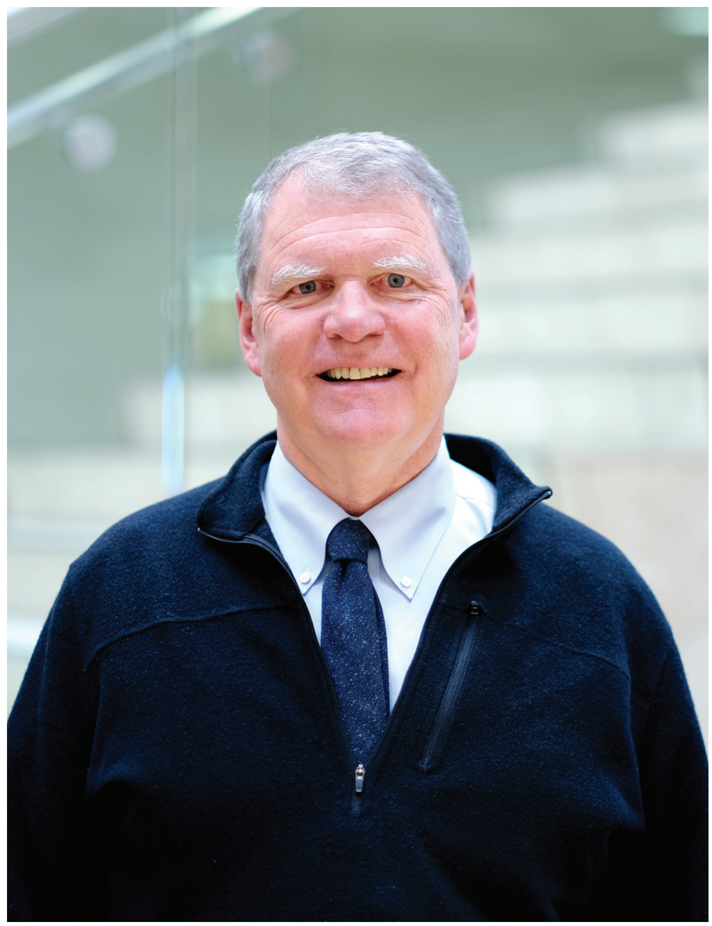
PREMIUM

MARKETS

The chief investment strategist at a $42 billion firm shares 9 stocks that can weather a recession while boosting income

Lisa Kailai Han

- **In the face of a potential recession, Thornburg's Brian McMahon is targeting robust companies.**
- **To build a steady flow of income, he's focusing on firms with high dividends and cash generation.**
- **McMahon shared 9 stocks that are both recession-resistant and can boost income streams.**



THORNBURG INVESTMENT MANAGEMENT

Thornburg's Brian McMahon says focusing on resilient stocks with pricing power will pay dividends — literally.

In the latest move in the ongoing and high-stakes fight against inflation, the Federal Reserve raised interest rates by another 75 basis points at Wednesday's FOMC meeting. While some investors have responded to Fed Chair Powell's hawkish sentiments with pessimism, others have welcomed the rate hikes as a necessary — and long-overdue — remedy for inflation raging at decades-high levels.

"It's going to be a tough, tough battle to get inflation down below 3%," said Brian McMahon, chief investment strategist at Thornburg Investment Management, which manages $42 billion in assets. "The Fed did too little, too long."

At upcoming meetings, McMahon predicts the central bank will continue to hike rates, and agrees with the general Wall Street consensus that rate cuts are unlikely to appear until at least late 2023 or early 2024. "So far it looks like a safe landing shaping up, but it just looks kind of bumpy," he told Insider in a recent interview.

Invest in resilient companies with high dividends

McMahon has overseen the Thornburg Investment Income Builder Fund (TIBIX) — which currently holds around $11 billion in assets — since its inception two decades ago. Because this fund aims to deliver a consistent stream of income to its investors, McMahon particularly emphasizes investing in high-quality fixed income assets and dividend-paying equities. In a macroeconomic environment like this, he's targeting robust firms that are able to withstand a potential downturn.

"On the stock side, we're pretty focused on companies that we think have some resilience, some pricing power, and balance sheets that are strong enough to withstand a storm," he explained.

McMahon is also focused on investing in firms that not only are able to pay a dividend, but have previously demonstrated a willingness to raise those dividends. "Hopefully a dividend that will grow over time, so you need to have a good cash-generative business," he said.

According to McMahon, companies with strong fundamentals that generally operate with enough steady cash flow to pay out attractive dividends often fall into the **large telecommunications**, **pharmaceuticals**, and **technology sectors**.

McMahon shared nine stocks for investors to consider that are both recession-resistant and can boost income streams. Those stocks are listed below, along with each company's ticker, market capitalization, and McMahon's commentary.

1. Roche

MARKETS INSIDER

Ticker: RHHVF

Market cap: $265 billion

Commentary: “Roche is the global market leader in targeted cancer therapies and in-vitro diagnostics. Driven by Genentech’s R&D expertise, it is in the process of transitioning from its historical ‘big three’ cancer antibodies Rituxan, Herceptin and Avastin, into a new era of immuno-oncology and HER2 breast cancer drugs.”

“Roche is successfully navigating a period of heavy erosion of its legacy drugs, with strong growth from its newer assets and Diagnostics division. The Street expects the overall group to deliver mid-single-digit top-line growth in the medium term, just below the sector average. Shares are valued at 15.5x 2023 P/E versus an EU sector average of 17.3x. On EV/NPV, Roche trades at 0.86x, below peers at 1.02x.”

2. Orange

MARKETS INSIDER

Ticker: ORAN

Market cap: $26 billion

Commentary: “We’ve owned Orange since 2016 and think it’s an undervalued telecommunications company that falls into our consistent-earner bucket. The earnings stream doesn’t vary very much throughout an economic cycle. We have added to our position during the pandemic because of the growing importance of digital connectivity.”

3. ENEL

MARKETS INSIDER

Ticker: ESOCF

Market cap: $48 billion

Commentary: “ENEL is one of Europe’s largest utilities and is among the largest global players in renewable energy generation. The company is fully integrated in the electricity value chain and mainly operates in Italy (c. 40% of its EV), Iberia (c. 20%), and LatAm (c. 25%). ENEL has the largest installed generation capacity from renewable sources (54GW) in the world. Enel’s Italian networks business is both fully inflation-linked and well-positioned for future growth, as the networks require additional capex in order to support the energy transition. ENEL has a solid vertically integrated business model which has proven to be effective during the Russia/Ukraine crisis and will cope with the energy transition in the next decade.”

“Enel is currently trading on 8x P/E for 2023 and yields nearly 9.5% — close to GFC levels (the company now has a much more solid B/S, a higher quality portfolio (more renewables and grids) and features much higher growth prospects).”

4. Nestlé

MARKETS INSIDER

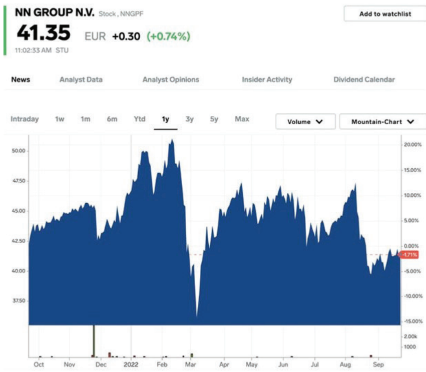
Ticker: NSRGF

Market cap: $302 billion

Commentary: “Nestlé is the largest food company globally and the 13th-largest company in the world by market cap. Through a combination of sharpened execution, innovation agility, category tailwinds and portfolio management, the company was able to produce a strong H1 result, increasing its full-year guidance to 7% to 8%, up from around 5% previously.”

“Nestlé is regarded as a quality defensive growth asset, which has contributed to a multiple that is above the sector average (roughly 26x P/E). During the last Fed interest rate cycle, between 2017 and 2019, Nestlé’s 12M forward consensus P/E did not change.”

5. NN Group NV



MARKETS INSIDER

Ticker: NNGPF

Market cap: $13 billion

Commentary: "Well-capitalized and resilient cash-generative insurer. High-quality asset to own in rate hike cycle because cash flows remain tightly matched but they also remain sensitive to interest rates going forward."

6. Citigroup

MARKETS INSIDER

Ticker: C

Market cap: $88 billion

Commentary: "Cheap: shares are trading on 6.5x 2023E EPS. Ample opportunity for dividend to increase in the near-term as they bring their payout to near pre-pandemic levels."

7. AstraZeneca

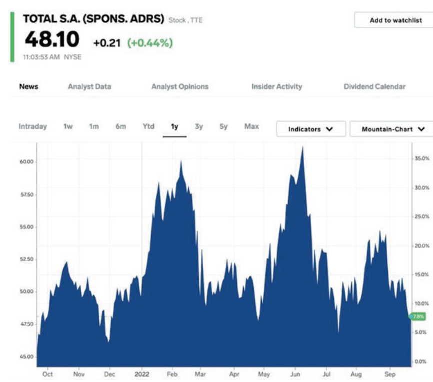
MARKETS INSIDER

Ticker: AZN

Market cap: $174 billion

Commentary: "Double-digit sales growth improving cash flow generation for a relatively attractive valuation."

8. TotalEnergiesSE



MARKETS INSIDER

Ticker: TTE

Market cap: $128 billion

Commentary: "TotalEnergies maintained their dividend in 2020 thanks to a conservative capital structure. They anticipate the cyclicality of their business with a relatively unlevered balance sheet and diverse sources of cash flow. They are regarded as a leading green energy transition player."

9. CME Group

MARKETS INSIDER

Ticker: CME

Market cap: $66 billion

Commentary: "A steady dividend payer, they also usually pay an end-of-year special dividend. With volumes up 22% so far, the end of year cash flow could be interesting."

Annualized Total Returns as of September 30, 2022	1-YR	3-YR	5-YR	10-YR	SINCE INCEP.
Thornburg Investment Income Builder Fund, Class I Shares	-11.61%	1.07%	2.72%	5.15%	8.15%
Investment Income Builder Blend	-18.22%	2.85%	4.14%	6.45%	6.78%

Class I shares date of inception: 11/3/03

Thornburg Investment Income Builder Fund's Blended Index is composed of 25% Bloomberg U.S. Aggregate Total Return Value USD and 75% MSCI World Net Total Return USD Index, rebalanced monthly.

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate so shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than quoted.

The total annual fund operating expenses are as follows: A shares, 1.18%, I shares, 0.94%. The maximum sales charge for the equity funds' A shares is 4.50%. There is no up-front sales charge for class I shares.

Top 10 holdings as of 8/31/22: TotalEnergies SE, 4.4%; Orange S.A., 3.8%; Broadcom, Inc., 3.2%; Vodafone Group plc, 3.1%; CME Group, Inc., 3.1%; Taiwan Semiconductor Manufacturing Co. Ltd., 3.1%; BNP Paribas S.A., 2.9%; Pfizer, Inc., 2.8%; Samsung Electronics Co. Ltd., 2.6%; Tesco plc, 2.5%.

Important Information

The views expressed are subject to change and do not necessarily reflect the views of Thornburg Investment Management, Inc. This information should not be relied upon as a recommendation or investment advice and is not intended to predict the performance of any investment or market.

Investments carry risks, including possible loss of principal. Additional risks may be associated with investments outside the United States, especially in emerging markets, including currency fluctuations, illiquidity, volatility, and political and economic risks. Investments in small- and mid-capitalization companies may increase the risk of greater price fluctuations. Portfolios investing in bonds have the same interest rate, inflation, and credit risks that are associated with the underlying bonds. The value of bonds will fluctuate relative to changes in interest rates, decreasing when interest rates rise.

Investments in the Fund are not FDIC insured, nor are they bank deposits or guaranteed by a bank or any entity.

Portfolio attributes and holdings can and do vary.

Neither the payment of, or increase in, dividends is guaranteed.

Class I shares may not be available to all investors. Minimum investments for the I share class may be higher than those for other classes. Class R shares are limited to retirement platforms only.

Thornburg Investment Income Builder Fund's Blended Index is composed of 25% Bloomberg U.S. Aggregate Total Return Value USD and 75% MSCI World Net Total Return USD Index, rebalanced monthly. The MSCI World Net Total Return USD Index is an unmanaged market-weighted index that consists of securities traded in 23 of the world's most developed countries. The Bloomberg US Aggregate Total Return Value USD is composed of approximately 8,000 publicly traded bonds. The index is weighted by the market value of the bonds included in the index. Indices do not take into account fees and expenses. Investors cannot make direct investments in an index.

Source: Bloomberg Index Services Limited. "Bloomberg®" and the Bloomberg index(es) mentioned in this piece are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by Thornburg Investment Management.

Bloomberg is not affiliated with Thornburg, and Bloomberg does not approve, endorse, review, or recommend Thornburg. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to Thornburg.

Before investing, carefully consider the Fund's investment goals, risks, charges and expenses. For a prospectus or summary prospectus containing this and other information, contact your financial advisor or visit thornburg.com. Read it carefully before investing.

Thornburg

Thornburg Securities Corporation, Distributor | 2300 North Ridgetop Road | Santa Fe, New Mexico 87506 | 877.215.1330 | www.thornburg.com

10/19/22
TH5006