nuveen
A TIAA Company

BREAKING NEWS
30 July 2025

The Fed navigates economic crosscurrents amid tariffs

The U.S. Federal Reserve maintained its target policy rate at 4.25%-4.50% during its July meeting, acknowledging the dual challenges of slowing economic growth and tariff-related distortions. While headline GDP figures have oscillated dramatically, underlying growth continues its gradual deceleration during persistent uncertainty.

Tony Rodriguez
Head of Fixed Income Strategy

KEY TAKEAWAYS

- The Fed left policy unchanged, with the target policy rate range holding at 4.25%-4.50%.
- The Fed's policy statement included only minor changes, downgrading the language to reflect slower recent economic growth.
- Chair Powell leaned hawkish in his press conference, declining to strongly signal a rate cut at the next Fed meeting in September, which the market has been pricing.
- We see attractive investment opportunities in sectors that can be insulated from tariffs and have their own idiosyncratic tailwinds.
- Asset classes to consider include private real estate, municipal bonds and senior loans.

WHAT HAPPENED?

The Federal Reserve kept policy unchanged, leaving the target policy rate at 4.25-4.50%, as expected. The updated policy statement downgraded the language around economic activity, saying it "moderated in the first half of the year." Two Governors (Bowman and Waller) dissented in favor of a rate cut at this meeting, also as expected.

In his press conference, Chair Powell declined to send a strong signal about the near-term path of policy. When asked about a potential rate cut in September, he suggested that it will depend on the incoming data, with two jobs reports and two inflation reports between now and that meeting.

He was also asked about the current relevance of the dotplot of rate projections from June and said that he "wouldn't point to it six weeks later as expressing peoples' thoughts." Those comments leaned hawkish, signaling no change in overall tone but less urgency than expected to cut rates.

We still anticipate two 25 bps rate cuts this year, followed by two more cuts in 2026. These forecasts reflect our macroeconomic outlook, the expected path of fiscal policy and our baseline assumptions

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.
NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

for tariffs. If tariffs end up being higher than we currently expect and/or if growth slows more sharply, the risks would be skewed toward more Fed rate cuts than we currently forecast.

ECONOMIC GROWTH IS SLOWING, BUT THE ODDS OF A RECESSION REMAIN LOW

Economic growth has slowed more noticeably in 2025, though we still see relatively low chances of a recession. Tariffs remain the major wildcard. They distort incoming economic data, making it harder to accurately assess the economy's current strength, while also keeping uncertainty high, which weighs on economic activity.

Overall GDP growth illustrates this dynamic. On a headline basis, the economy contracted at a -0.5% annualized rate in the first quarter before rebounding to +3.0% in the second quarter. However, these figures were distorted by net exports (importers rushing purchases ahead of tariffs) and inventory fluctuations (the lag between purchases and GDP accounting). These distortions reduced Q1 growth by about -2.0 percentage points, then boosted Q2 growth by +1.8 points. Looking beyond this noise, the best measures of underlying growth show a steady slowdown from above 2.5% last year to below 2.0% in Q1, and down to approximately 1.0% in Q2.

Despite this slowdown in overall growth, the labor market remains healthy going into Friday's jobs report. Unemployment remains low at 4.1% and headline job creation has rebounded after a soft patch earlier this year. Other measures of labor market tightness are less encouraging, with jobless claims ticking higher and the number of openings declining. Overall, the backdrop remains consistent with a further slowdown in income growth, but not a collapse.

On the inflation front, recent data have been mixed. Services prices continue to decelerate, including in the housing sector. Meanwhile, tariffs are beginning to affect core goods, with some import-exposed categories showing higher prices. Tariffs are set to increase further and typically take several months to fully affect consumer prices, so we expect the peak impact on inflation data won't appear until around year-end.

We continue to expect growth to slow further, but the U.S. economy should avoid recession. We forecast core inflation at around 3.0% this year, which will compress real incomes and drag on growth. Fixed investment is likely to remain pressured by uncertainty. We forecast U.S. real GDP growth at around 1.0% this year and expect a rebound to around 1.8% next year as tariff headwinds fade.

WHAT DOES THIS MEAN FOR INVESTORS?

As the U.S. and global economies face continued uncertainty and gradual slowdown, we are focusing on asset classes with strong fundamentals that may offer some insulation from tariff impacts. Across each of our favored sectors, active management has the potential to boost returns while reducing volatility.

Following a two-year period of declines, global private **real estate** values have been positive for the past four quarters amid diminishing headwinds for the asset class. Attractive prices, solid fundamentals and the likelihood of lower interest rates have been tailwinds. With real estate at a turning point, in our view, we continue to favor a "global cities" approach that emphasizes growing markets with educated and diverse populations.

Within the U.S. market, new project starts have fallen substantially, which bodes well for future fundamentals as new supply becomes less of an obstacle. Among sectors, medical office and retail have the tightest vacancies. Medical outpatient demand has continued to outpace new supply for the last three years, while consumer preferences for outpatient visits versus in-hospital care should continue to support demand.

Within retail, grocery-anchored shopping centers show particular strength, with high occupancy rates and virtually no new supply. Groceries belong to the thriving necessity retail category, which provides

everyday essentials like food, household staples, pharmacy items and personal care products. In 48 of the top 50 U.S. cities, vacancy rates for retail strip centers are below their historical averages, according to Nuveen Real Estate Research.

In fixed income, **municipal bonds** remain attractive, offering compelling yield and income benefits. Current yields of 4.03% for investment grade munis (ICE BofA U.S. Municipal Securities Index) rank in the 95th percentile over the past decade, while high yield munis are yielding 5.72% (S&P Municipal High Yield Index). Income has historically been the primary driver of municipal total returns. Though market volatility will likely persist, municipal bonds remain well-positioned to deliver attractive income levels.

We also see value in **senior loans**, currently yielding 6.5%-8%. The opportunity extends further with a large cohort of loans ($225 billion in total) trading below $95, with a median price of around $85 and yield to maturity (3 years) of approximately 16%. These levels offer significant yield and price appreciation potential. To achieve positive outcomes with these investments, selectivity is essential, requiring disciplined credit underwriting and active credit risk management.

The 2024 theme of dispersion among sectors, subsectors and issuers has continued into 2025. And while the default rate for 2025 is expected to hover slightly above long-term averages, active managers may be able to both cushion against credit deterioration and go on the offensive when fundamental value is mispriced.

For more information, please visit us at nuveen.com.

Endnotes

Sources

Federal Reserve Statement, July 2025.

Bloomberg, L.P and S&P Markit.

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. 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.

Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, and income risk. As interest rates rise, bond prices fall. 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. Senior loans are subject to loan settlement risk due to the lack of established settlement standards or remedies for failure to settle. These investments are subject to credit risk and potentially limited liquidity, as well as interest rate risk, currency risk, prepayment and extension risk, and inflation risk.

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. Real estate investments are subject to additional risks associated with ownership of real estate-related assets, including fluctuations in property values, higher expenses or lower income than expected, and potential environmental problems.

Nuveen, LLC provides investment solutions through its investment specialists.

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

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

4661173