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On solid ground: foundations of real assets investing

Ranging from rail to regulated utility, senior housing to data centers, real assets across infrastructure and commercial real estate are the backbone for economic development – spurring growing global demand for these assets. Listed real assets may provide a multitude of benefits to an investor's portfolio, including diversification, inflation hedging and a nontraditional source of income.

WHAT ARE REAL ASSETS?

Broadly, real assets provide the framework and resources to facilitate everyday activity in the world economy. While numerous types of investments could be considered real assets, our definition includes:

- **Real estate,** including real estate investment trusts (REITs). Land and commercial properties including apartments, self-storage, warehouses, data centers, etc.
- **Infrastructure.** Assets and networks used to transport, store and distribute goods, energy, people and information, such as toll roads, pipelines, airports and cellphone towers.
- **Commodities.** Basic goods such as oil, natural gas, precious metals, gold, corn and soybeans.

Unlike conventional stocks and bonds, the value of listed real asset investments comes from the physical nature of their underlying assets. This direct link to hard assets means real assets often store long-term value better than more traditional investments. Their intrinsic value may increase due to higher utilization, greater demand or scarcity of supply.

Listed real assets offer enhanced income and a higher degree of earnings visibility than traditional public equities, which makes them an attractive way to extend portfolio duration when short-term yields are declining.

LISTED REAL ASSETS OFFER A MULTITUDE OF BENEFITS

While the inherent characteristics of each real asset can vary, they have several features in common, including improving diversification (Figure 1), hedging inflation (Figure 2) and generating income (Figure 3).

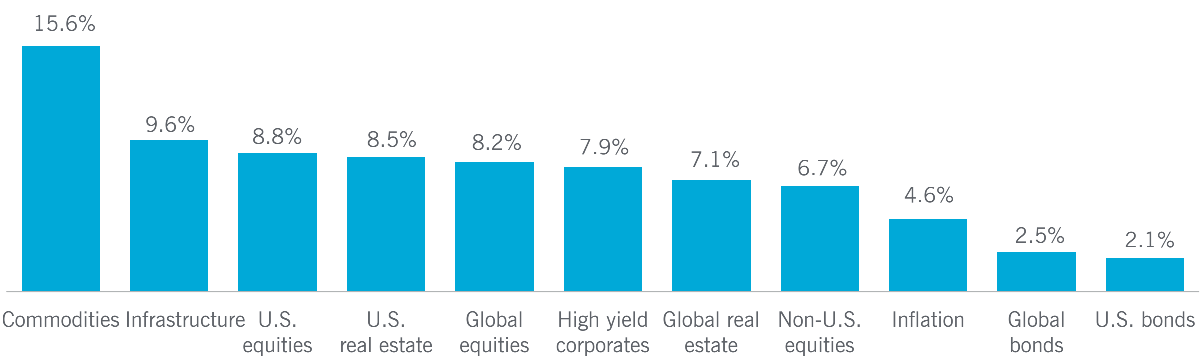
Figure 1: Real assets improve diversification due to low correlation

	Infrastructure	EM equities	Global RE	EM bonds	HY bonds	U.S. equities	Non-U.S. equities	Global bonds	Municipals	U.S. bonds	Commodities
Infrastructure	**1.00**										
EM equities	**0.76**	**1.00**									
Global RE	**0.83**	**0.72**	**1.00**								
EM bonds	**0.61**	0.63	**0.63**	**1.00**							
HY bonds	**0.68**	0.60	**0.70**	0.70	**1.00**						
U.S. equities	**0.79**	0.70	**0.80**	0.51	0.67	**1.00**					
Non-U.S. equities	**0.89**	0.91	**0.81**	0.62	0.68	0.81	**1.00**				
Global bonds	**0.37**	0.26	**0.35**	0.46	0.29	0.13	0.32	**1.00**			
Municipals	**0.25**	0.09	**0.25**	0.39	0.43	0.14	0.13	0.47	**1.00**		
U.S. bonds	**0.18**	0.06	**0.22**	0.46	0.27	0.01	0.08	0.76	0.59	**1.00**	
Commodities	**0.47**	**0.46**	**0.35**	**0.28**	**0.36**	**0.38**	**0.48**	**0.10**	**-0.01**	**-0.09**	**1.00**

Data source: Morningstar Direct, 20-year data from 01 Oct 2004 – 30 Sep 2024. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: infrastructure:** S&P Global Infrastructure Index; **emerging markets equities**: MSCI Emerging Markets Index; **global real estate**: FTSE EPRA Nareit Developed Index; **emerging markets bonds**: Bloomberg Emerging Markets Aggregate Index; **high yield corporate bonds**: Bloomberg U.S. Corporate High Yield Index; **U.S. equities**: S&P 500 Index; **non-U.S.** equities: MSCI ACWI Ex U.S. Index; **global bonds**: Bloomberg Global Aggregate Unhedged Bond Index; **municipal bonds**: Bloomberg Municipal Bond Index; **U.S. bonds**: Bloomberg U.S. Aggregate Bond Index; **commodities**: S&P GSCI Index.

Figure 2: Real assets offered stronger returns when inflation was rising

Annualized total return (%)

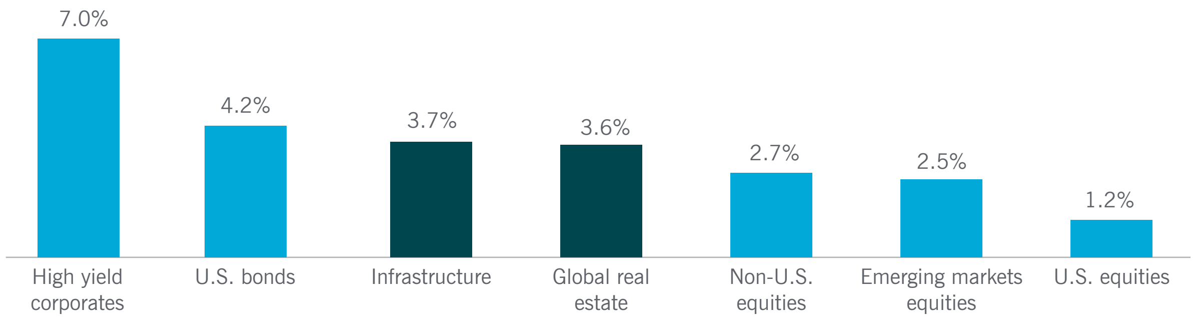


Data source: Morningstar Direct, 01 Jan 2002 – 30 Sep 2024. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: commodities**: S&P GSCI Index; **infrastructure:** S&P Global Infrastructure Index; **U.S. equities**: S&P 500 Index; **U.S. real estate**: MSCI U.S. REIT Index GR USD; **global equities:** MSCI World Index GR USD; **high yield corporates:** Bloomberg U.S. Corporate High Yield Index; **global real estate**: FTSE EPRA Nareit Developed Index; **non-U.S. equities**: MSCI ACWI Ex US Index; **inflation**: US BLS CPI All Urban NSA 1982-1984; **global bonds**: Bloomberg Global Aggregate Unhedged Bond Index; **U.S. bonds**: Bloomberg U.S. Aggregate Bond.

> ***Listed real assets*** *may provide diversification, inflation hedging and a nontraditional* ***source of income****.*

Figure 3: Real estate and infrastructure offer attractive yields

Yield (%)



Data source: FactSet, 30 Sep 2024. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: high yield corporates:** Bloomberg U.S. Corporate High Yield Index; **U.S. bonds:** Bloomberg U.S. Aggregate Bond Index; **infrastructure:** S&P Global Infrastructure Index; **global real estate:** FTSE EPRA Nareit Developed Index; **non-U.S. equities:** MSCI ACWI Ex US Index; **emerging markets equities:** MSCI Emerging Markets Index; **U.S. equities:** S&P 500 Index. **Yield-to-worst** is the lowest potential yield that can be received on a bond without the issuer actually defaulting. **Dividend yield** is the percentage of a company's share price paid out in dividends each year.

MACRO FACTORS AND MONETARY POLICY CREATE AN ATTRACTIVE ENTRY POINT

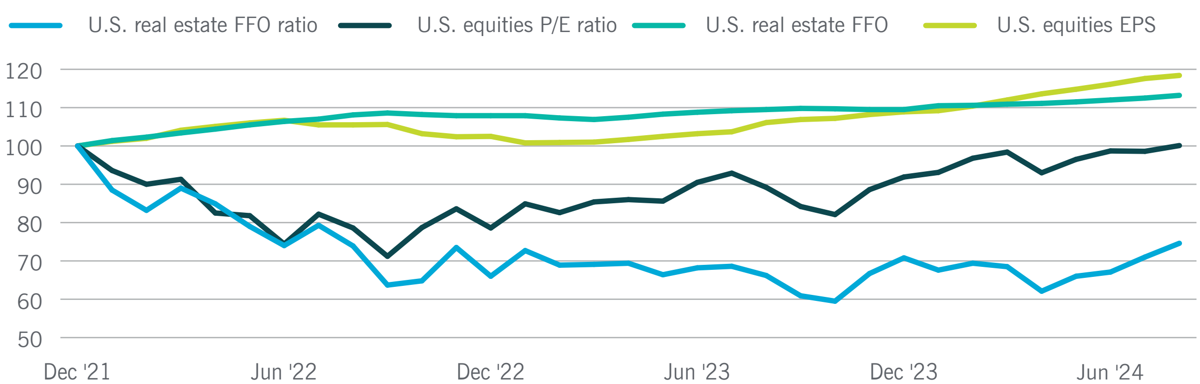
Pandemic-era economic lockdowns followed by a historically rapid central bank tightening cycle served as stiff headwinds for infrastructure and commercial real estate. This is due to the duration of their cash flows, higher use of leverage compared to broader equities, and growth that relies heavily on the physical movement of people.

While this environment was challenging, relative underperformance was driven largely by sentiment and multiple compression, as unwavering negative investor sentiment outweighed impressive earnings growth.

Furthermore, the attractive yields that had been a calling card for listed real assets investors were suddenly overlooked. Rising rates and an inverted yield curve made cash one of the most attractive risk-adjusted investment options of the past two years.

However, the challenging macro backdrop over the past five years set the stage for an attractive entry point into these asset classes (Figure 4).

Figure 4: Decoupling of valuations from earnings was more severe for listed REITs



Data source: Bloomberg, L.P., 31 Dec 2021 – 30 Aug 2024. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: U.S. real estate:** MSCI U.S. REIT Index GR USD; **U.S. equities**: S&P 500 Index. Data indexed to 100 as of 31 Dec 2021. REITs use **funds from operations** (FFO) to define the cash flow from their operations as a measurement of operating performance.

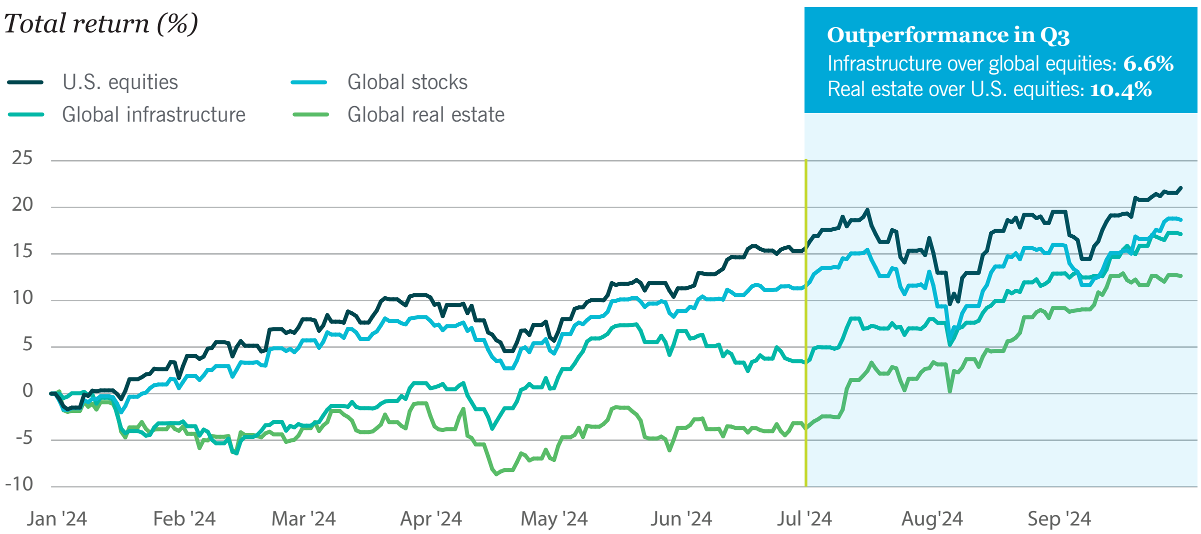
THE THIRD QUARTER SERVES AS A BLUEPRINT

History provides many examples to support this trend, most recently the third quarter of 2024. Market expectations for the direction of monetary policy shifted significantly, especially in the United States. The U.S. Federal Reserve kicked off its highly anticipated loosening cycle in September with an outsized 50 basis point cut to the target rate, due in part to downside surprises for U.S. labor markets.

However, before rate cuts started, markets began rewarding the relative laggards of the first half of 2024, namely interest rate sensitive and defensive areas of equity markets (Figure 5).

An inflection point for listed infrastructure and real estate securities occurred at the beginning of the third quarter. In fact, utilities and real estate were the top two performing GICS sectors in Q3. Similarly, these asset classes have shown competitive performance with most other equity groups over the last 20 years.

Figure 5: Listed global infrastructure and real estate returns have been powered by rates and a murkier economic outlook



Data source: Data source: Morningstar Direct, 01 Jan 2024 – 30 Sep 2024. Daily net returns in U.S. dollars. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: U.S. equities:** S&P 500 Index; **global stocks:** MSCI ACWI Ex U.S. Index; **global infrastructure:** S&P Global Infrastructure Index; **global real estate:** FTSE EPRA Nareit Developed Index.

A CLEAR PATH FORWARD

Listed real assets are uniquely positioned to continue their outperformance during this rate cutting cycle. Several factors bode well for the near- to intermediate-term outlook, including a history of strong returns through periods of falling rates, secular trends such as housing supply/affordability and the demand for energy.

Furthermore, broad positioning within listed real assets remains light. Paired with either attractive valuations or multiple expansion aided by lower rates (Figure 6), we believe now is an opportune time for investors to consider allocating to listed real assets.

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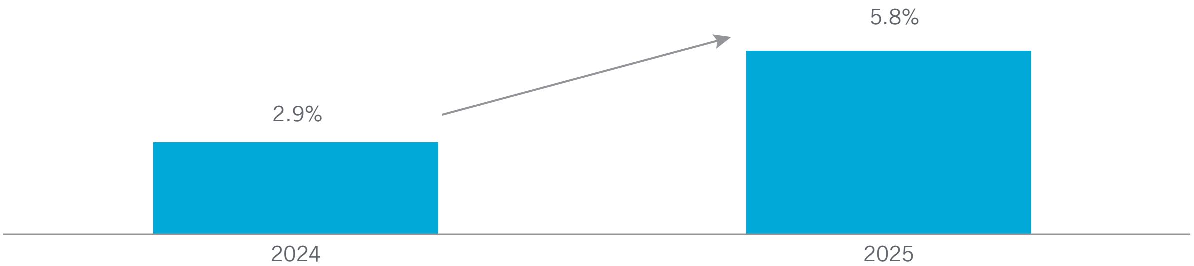
Figure 6: Listed REIT earnings growth may be set to shift

Funds from operations per share growth (year-over-year, %)



Data source: Bloomberg, L.P., 10 Oct 2024. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: MSCI U.S. REIT Index**. REITs use **funds from operations** (FFO) to define the cash flow from their operations as a measurement of operating performance.

CONSIDER INCOME-PRODUCING REAL ASSETS

Historically, income-producing real assets such as infrastructure and real estate have supplied competitive total return and positive inflation hedging effects, with lower correlations to more traditional stocks and bonds. These asset classes have also provided convincing yields, helping investors diversify their income sources. For these reasons, we feel income-producing real assets should be an important part of a balanced portfolio.

For more information, please visit nuveen.com.

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