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CIO WEEKLY COMMENTARY

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A securitized solution for insecure times

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On behalf of Nuveen's Global Investment Committee

As Nuveen's Chief Investment Officer 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 is a portfolio manager for several key investment strategies.

Bottom line up top

The new norm: filling in the blanks, reading between the lines. Last week, Federal Reserve Chair Kevin Warsh offered markets few clues on the policy path ahead — a new standard operating procedure, and one investors are still getting used to. Warsh did, however, strike a notably hawkish tone while emphasizing that the Fed's "just the facts" policy statement was intentionally free from forward guidance. He also reiterated there is "no soft inflation target," only 2%, and argued that markets should focus on incoming data rather than trying to divine the Fed's next move. Investors, he stated, should be "playing the ball, not the referee." As for the unusually public debate among committee members, Warsh described the three dissents favoring a rate hike instead of the majority's vote for a continued pause as a healthy "family fight" that should ultimately produce better policy.

Last week's economic data releases provided a mixed backdrop. Second-quarter U.S. GDP came in at an annualized rate of +1.5%, below the consensus +2.1% forecast, but that miss was mitigated by healthy underlying demand, as consumer spending grew +3.2%. On the inflation front, the Personal Consumption Expenditures (PCE) Price Index for June showed further moderation, with the headline print of 3.7%, roughly in line with expectations and below May's 4.1%.

Warsh has cautioned against declaring victory against inflation prematurely, arguing that the Fed's credibility depends on durable price stability. Interestingly, while the Fed historically has preferred core PCE as its inflation barometer, Warsh favors a different gauge: the Dallas Fed Trimmed-Mean PCE. Unlike the headline CPI and PCE indexes, which can be subject to volatile moves in energy, food and travel prices, the trimmed-mean calculation removes the most extreme monthly swings, thereby reducing temporary noise and producing a smoother measure of underlying inflation. Over the past three years, this less-volatile measure has declined steadily but remains notably above the Fed's 2% inflation target, suggesting that underlying pressures have eased more gradually than implied by the more familiar headline metrics (Figure 1). Although the trimmed-mean approach has merit as a statistical filter and analytical tool, the resulting data doesn't necessarily represent the definitive measure of inflation. By stripping out the largest price movements each month, the data may mute genuine inflation shifts. Investors should therefore assess trimmed-mean inflation with a healthy skepticism, in our view.

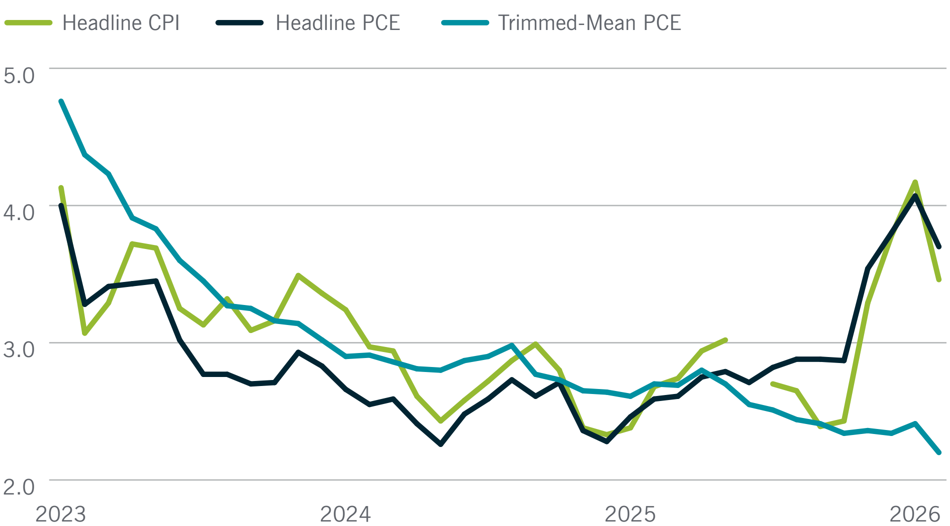
Treasuries are telling their own story. Perhaps the most important signal last week came not from the Fed, but from the U.S. Treasury market. Despite another decision to leave the policy rate unchanged, both the 10- and 30-year Treasury yields remain elevated near multiyear highs. Long-term rates at these levels increasingly suggest investors are demanding additional compensation for persistent above-target inflation, heavy Treasury issuance and doubts about the Fed's willingness to tighten policy further if inflation fails to moderate further. In other words, the bond market is flashing yellow as the Fed continues to take no action even as inflation remains uncomfortably warm.

> “
> **Although the Fed remained on hold last week, the bond market showed signs of impatience with the lack of action amid still-present inflation pressure.**

Figure 1

The Fed's search for a "Goldilocks" inflation metric

Year-over-year Headline CPI, Headline PCE and Trimmed-Mean PCE inflation (%)



Data source: Federal Reserve Economic Data, May 2023 to Jun 2026. Gaps in data reflect the U.S. federal government shutdown.

Portfolio considerations

One area of the fixed income market that we believe warrants a closer look amid the shifting rates environment: **commercial mortgage-backed securities (CMBS)**.

Commercial mortgage-backed securities are backed by pools of loans secured by commercial real estate — multifamily properties, industrial assets, office buildings, retail properties, hotels and data centers. The CMBS market is understandably diverse, spanning lower-yielding agency mortgages issued by Fannie Mae or Freddie Mac, as well as nonagency CMBS across a broad range of credit qualities issued by private financial institutions, with lower-quality tranches typically offering higher yields. CMBS may be structured as either single-property/singleborrower or conduit (multi-borrower) deals across multiple, diversified properties. In our view, the complexity of the CMBS market makes professional manager oversight essential for security selection and ongoing monitoring.

CMBS offer investors a number of potential advantages compared to more traditional fixed income investments. While much of the CMBS universe is rated AAA, we believe the nonagency CMBS category presents the most compelling yield opportunity over investment grade corporate bonds, for example (Figure 2). Well-underwritten A and BBB rated CMBS may add meaningfully to a diversified portfolio's income potential. Additionally, CMBS tend to carry shorter durations than investment grade corporates and have higher relative yields compared to corporates of similar quality — which can be helpful during periods of heightened rate volatility and shifting market expectations.

The CMBS market's breadth means return drivers tend to be idiosyncratic. These drivers include local property market conditions, occupant risk and property quality, all of which can meaningfully influence the performance of individual securities. This creates a rich landscape for active managers to add alpha via security selection and relative value analysis.

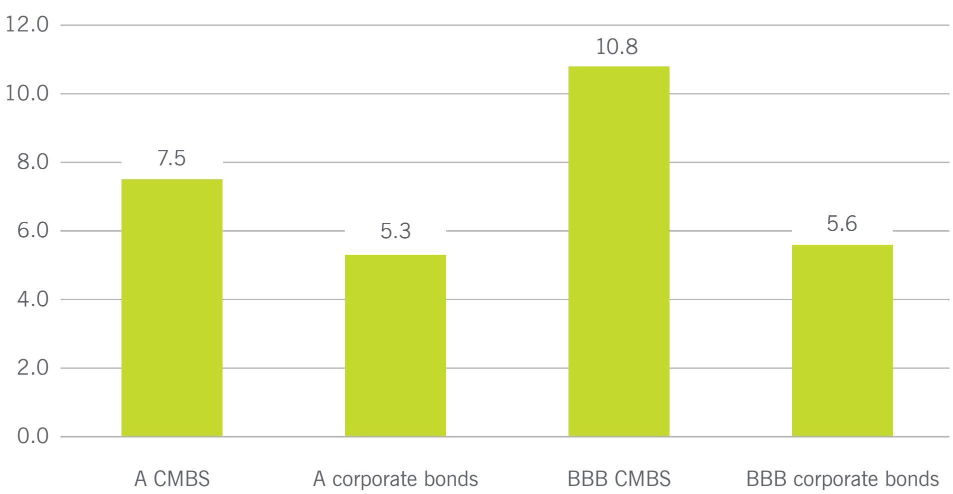
In our view, the combination of current dynamics in fixed income markets and commercial real estate assets supports a compelling entry point for CMBS today. Fixed income as a whole continues to offer elevated yields relative to history, while commercial real estate valuations, having reset from their post-pandemic highs, are showing signs of stabilization and recovery. The result is a CMBS environment in which patient, selective investors have access to attractive income potential with improving underlying collateral quality.

> **"CMBS provide a combination of income potential, only modest interest rate sensitivity and exposure to real estate risk factors that behave differently than corporate credit.**

Figure 2

CMBS yields outpace comparably rated corporate bonds

Yield (%)



Data source: Bloomberg, L.P., 27 Jul 2026. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes:** CMBS: Bloomberg Non-Agency IG CMBS A and BBB indexes; **corporate bonds:** Bloomberg Corporate A and BBB indexes.

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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