

# Global equities rally despite major headwinds



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*Global equities delivered strong results in the second quarter of 2025. Non-U.S. benchmarks generated double-digit gains, led by emerging markets (EM), with returns amplified by a weakening U.S. dollar. U.S. equities overcame a steep decline in early April following the Trump administration's Liberation Day announcement of tariffs on U.S. trading partners. Monetary policy worldwide diverged considerably amid the crosscurrents of inflationary and growth-dampening concerns in the face of tariffs and other disruptions to global trade. While the U.S. Federal Reserve and Bank of Japan (BoJ) stood pat, the European Central Bank (ECB) and Reserve Bank of India cut rates, and the Central Bank of Brazil (CBoB) hiked.*

## KEY TAKEAWAYS

- Central banks are in various stages in their inflation battle. The Fed has remained cautious about tariff-related inflationary pressures that could push consumer prices further above its 2% target. Across the Atlantic, the ECB has forecast that inflation, after eight rate cuts, would stay at or below 2% through 2027. Among EM central banks, the CBoB has seen inflation top 5% for four straight months, while the People's Bank of China (PBoC) continues to grapple with deflation amid sluggish domestic demand.
- In our view, the U.S. equity market's April plunge in the wake of Liberation Day represented peak tariff pain. In May and June, the S&P 500 Index rallied as investors cheered ongoing trade negotiations (even without many finalized agreements) and various exemptions from import levies. That said, we believe future market gains will be punctuated by periods of heightened volatility driven by economic, geopolitical and trade uncertainty.
- Overall, we remain broadly neutral on global equities. Among the segments we favor are dividend growth stocks, which generate free cash flow, and global infrastructure companies, given their ability historically to weather both sticky inflation and periods of decelerating economic growth.
- Outside the U.S., we think European equities could rally on the back of Germany's massive stimulus program. Japan also merits consideration, thanks to a focus on corporate governance reform and improving business sentiment.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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## CENTRAL BANKS AND THEIR BALANCING ACTS

Monetary policy diverged in the second quarter as taming inflation remained a challenge for central banks. (Figure 1).

The **Fed** kept its target federal funds rate steady in a range of 4.25%-4.50% during the quarter. In June, Chair Jerome Powell stated that the current environment represents “a solid economy with decent growth,” but that conditions were “highly uncertain” due to the Trump administration’s trade and immigration policies. Given that uncertainty, Powell emphasized that “the appropriate thing to do is hold where we are.”

In June’s updated Summary of Economic Projections, the Fed lowered its 2025 forecast for annualized GDP growth to +1.4% (from +1.7% in its March outlook), while raising expectations for core inflation from 2.8% to 3.1% by year-end. As to the central bank’s next move, its dot plot suggests two rate cuts of 25 basis points (bps) over the next four meetings in 2025, in line with our view. This would take the policy rate range to 3.75%-4.00%.

In contrast to the Fed, the **ECB** continued to ease policy, reducing its benchmark deposit rate by an additional 50 bps during the quarter, to 2.0%, but refusing to commit to further cuts or a particular rate path. At the same time, ECB President Christine Lagarde noted the ECB is “in a good position,” suggesting a pause in cutting rates is forthcoming, which is what we expect. The ECB’s

latest economic forecasts were little changed from March. Headline inflation is expected to register 2% by year-end, while annualized GDP growth is anticipated to hit +0.9%.

Other developed market central banks treaded carefully:

After lowering rates by 25 bps in May, to 4.25%, the **Bank of England** held firm in June as the U.K. economy contends with stagnant growth and still-sticky inflation (+3.4%). In its policy statement, the BoE left unchanged its belief that “monetary policy will need to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target...have dissipated further.”

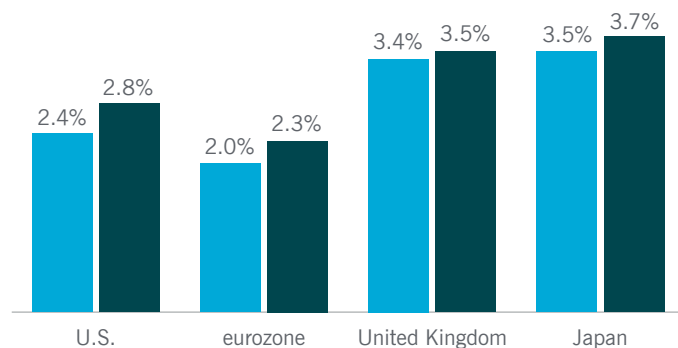
The BoJ also kept rates unchanged during the quarter, at 0.5% — the highest level since 2008. But as part of its gradual policy normalization, the BoJ reaffirmed its plans to cut Japanese government bond purchases by about ¥400 billion (roughly \$2.75 billion) each quarter through March 2026, and by ¥200 billion per calendar quarter beginning in April 2026.

EM monetary policy was mixed:

The CBoB hiked rates by 75 bps in the quarter, to 15%, as Brazil continued to battle high inflation (+5.3% in May). In contrast, the Reserve Bank of India lowered rates in May, to 5.50%, the lowest level since 2022, amid cooling inflation and uncertainty over global trade. In China, the PBoC remained on pause in June (after easing policy in May) as the economy appeared on track for reaching the Chinese government’s 2025 growth target of around +5% despite U.S tariffs.

**Figure 1: Inflation generally remained above central bank targets**

■ Headline CPI ■ Core CPI



Data source: Bureau of Labor Statistics (U.S., May 2025); Eurostat (eurozone, June 2025); Trading Economics (United Kingdom and Japan, May 2025)

## SECOND-QUARTER MARKET PERFORMANCE AND DRIVERS

The S&P 500 kicked off a volatile period by plunging more than 11% during the first six trading days of the quarter, hit hard by the Trump administration’s unveiling of broad increases to U.S. tariffs on its trading partners. In fact, the index narrowly missed falling into a bear market (a drop of -20% or more from the most recent peak), as it was down -19% from its 19 February all-time high through 08 April. But the S&P 500 roared back on 09 April, posting its highest one-day return

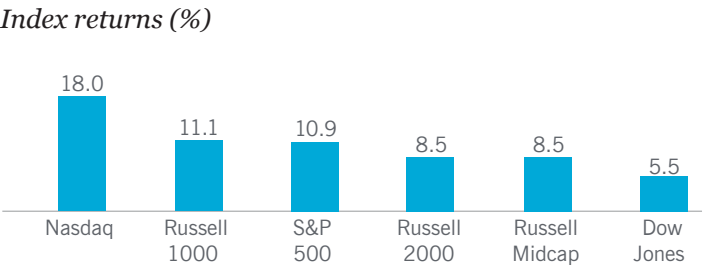
(+9.5%) since 2008 following the president’s abrupt decision to pause reciprocal tariffs on most countries for 90 days and exempt certain sectors (such as steel and aluminum) from the levies.

After April’s sluggish start, the index clawed back into positive territory for the year to date thanks to its best May in 35 years. A better-than-expected U.S. payrolls report early in the month helped alleviate concerns of an economic slowdown, and on 12 May, the U.S. and China agreed to dial back tariff tensions and continue negotiating a long-term deal.

U.S. shares completed their V-shaped recovery in June, with the S&P 500 surpassing its February peak as the quarter wound down. Investors shrugged off escalating hostilities in the Middle East, focusing instead on resilient economic data, progress on trade deals and hopes for Fed interest-rate cuts later this year. The technology sector, which accounts for roughly one-third of the S&P 500’s market capitalization, also drove stocks higher in June, gaining +9.8%. For the second quarter as a whole, the S&P 500 returned +10.9%, a major turnaround from its -4.3% first-quarter loss.

Other major U.S. equity benchmarks also rebounded (Figure 2), led by the tech-heavy Nasdaq Composite (+18%), which was bolstered by the stellar performance of stocks like Microsoft (+32.7%), Nvidia (+45.8%) and Meta (+28.2%). Those three stocks propelled the mega cap Magnificent Seven to an +18.6% gain for the second quarter following a -16% fall in the first. Based on respective Russell indexes, the more economically sensitive small cap and mid cap categories fared well (both up +8.5%) but lagged growthier large caps (+11.1%).

**Figure 2: Tech stocks steer the Nasdaq to a second-quarter lead**



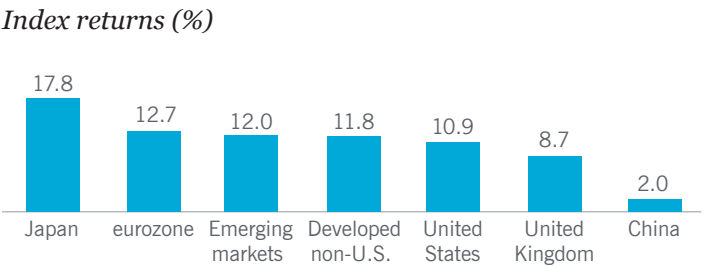
Data source: Morningstar Direct, 30 Jun 2025. Performance data shown represents past performance and does not predict or guarantee future results. It is not possible to invest in an index.

**NON-U.S. MARKETS SURGE PAST THE U.S.**

Non-U.S. equity market returns were significantly amplified by the plunging value of the U.S. dollar versus a basket of currencies, as measured by the U.S. Dollar Index. The greenback fell -10.7% – its worst first half of a year since 1973. The dollar’s decline reflected investor concern about projected ballooning U.S. deficits, geopolitical tensions due to President Trump’s trade policies and reduced confidence in the continued outperformance of U.S. assets.

Based on non-U.S. MSCI benchmark indexes in U.S. dollar terms, both EM (+12.0%) and developed markets (+11.8%) topped the S&P 500 for the quarter (Figure 3). For the year to date through 30 June, the MSCI EAFE Index outperformed U.S. stocks by +13.3 percentage points – the widest margin for the first half of a year since 1993 (Figure 4).

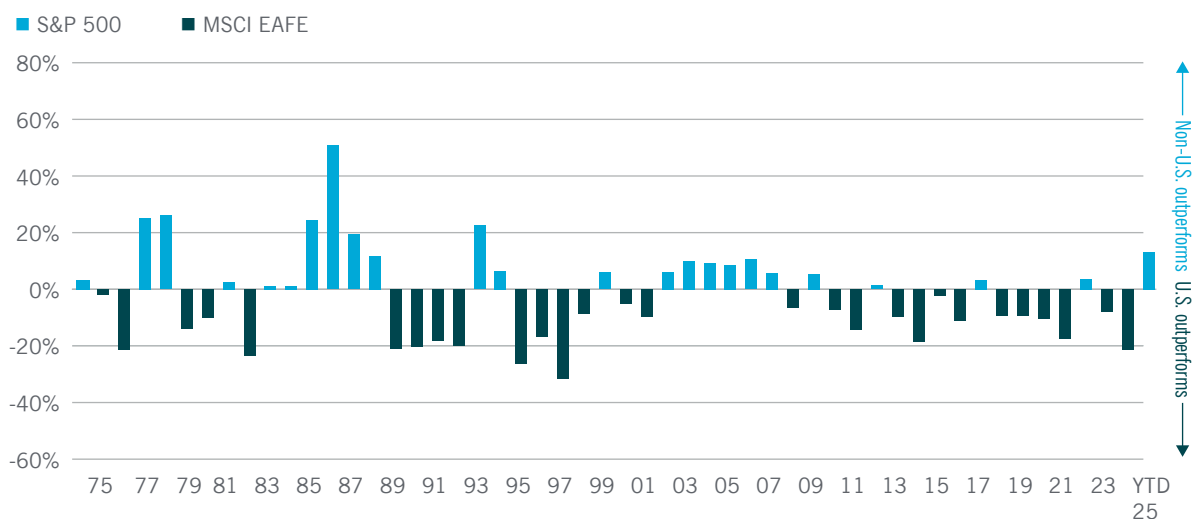
**Figure 3: Non-U.S. markets outpaced the U.S.**



Data source: Morningstar Direct, 30 Jun 2025. Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: Japan: Nikkei 225 Index; United States: S&P 500 Index; eurozone: MSCI Euro Index; developed non-U.S.: MSCI EAFE Index; United Kingdom: MSCI United Kingdom Index; emerging markets: MSCI Emerging Markets Index; China: MSCI China Index. It is not possible to invest directly in an index.

**Figure 4: After years of lagging, non-U.S. developed markets are leading**

Total return difference (%), non-U.S. stocks (MSCI EAFE) minus U.S. stocks (S&amp;P 500) (%)



Data source: Morningstar Direct, 30 Jun 2025. Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: United States: S&P 500 Index; non-U.S. developed: MSCI EAFE Index. It is not possible to invest directly in an index.

European markets rallied on improving economic data. On the continent, supportive monetary policy and benign inflation readings boosted eurozone shares (+12.7%). Stocks in Germany (+16.3%), Europe's largest economy, outperformed as economic sentiment rose to within earshot of March's three-year high. In the U.K. (+8.7%), Europe's second-largest economy, manufacturing and service-sector output topped forecasts and edged higher into expansion territory. Elsewhere, Japan's Nikkei 225 Index was a star performer (+17.8%), backed by strong consumer spending and a surge in fund flows from non-Japanese investors.

Chinese equities (+2%), making up nearly 30% of the market capitalization of the MSCI Emerging Markets Index, trailed the broad EM benchmark by a wide margin. Looking ahead, China and the U.S. appear to be working quietly on a more substantive trade deal, warming relations between the two countries and potentially setting up Chinese stocks for a solid second half of the year. We're especially interested in China's internet companies given their cheap valuations and importance in driving AI innovation.

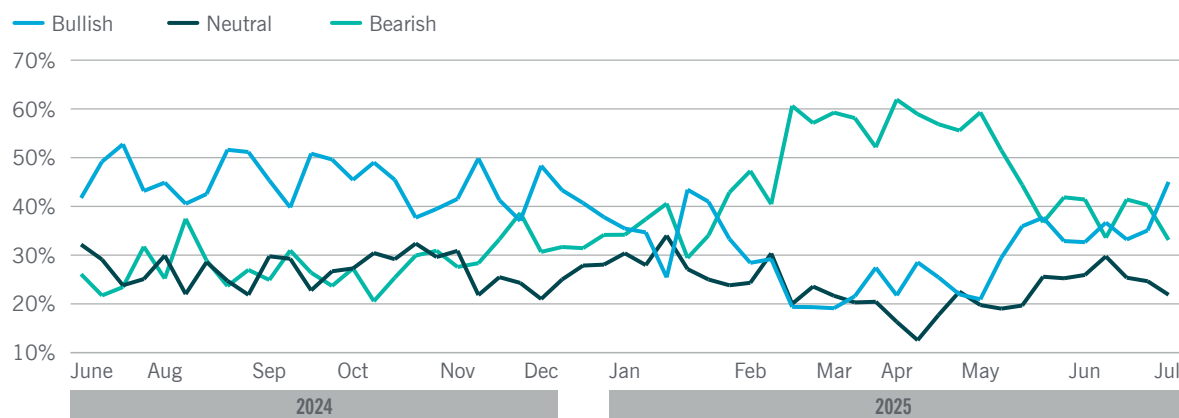
China aside, positive results for other large EM countries were impressive. Korea (+32.7% for the quarter) was the top performer, with sentiment

improving following the 03 June inauguration of President Lee Jae Myung, who has pledged to distribute stimulus checks to spur domestic demand. In addition, enthusiasm over digital assets pegged to Korea's currency, the won, fueled gains for Korean fintech companies. Taiwan (+26.1%) also rode a sharp rally in its technology sector, which is by far the largest in the MSCI Taiwan Index. India, despite a strong second-quarter advance (+9.2%), was a relative laggard amid the soaring double-digit gains of other EM countries.

On an EM regional basis, Europe (+16.5%), Latin America (+15.2%) and Africa (+13.2%), which includes a number of frontier markets, were standouts. They bested Asia (+12.4%), where the outsized returns of Korea and Taiwan were tempered by China's weaker showing.

## OUTLOOK AND BEST INVESTMENT IDEAS

Investor views of the U.S. stock market have fluctuated considerably this year, according to the American Association of Individual Investors' (AAII) weekly sentiment survey. In early April, amid trade uncertainty and slowing economic growth, 61.9% of survey respondents were bearish

**Figure 5: Bulls have been coming out of hibernation***AII sentiment survey (% of respondents)*

Data source: American Association of Individual Investors as of 03 Jul 2025.

Note: The weekly AII survey asks investors their expectation on the direction of the stock market over the coming six months.

— twice the historical average of 31% — while only 21.8% were bullish. But that gloom gradually turned to glee: Entering the third quarter, following the S&P 500's remarkable second-quarter rebound, the percentage of bears was nearly halved (to 33.1%) while the share of bulls more than doubled, to 45% — the most optimistic number since last December (Figure 5).

We believe the S&P 500 can hit new highs in the second half of 2025. We're still calling for the index to finish the year at around 6,400 (up from 5,882 as of 31 December 2024 and 6,205 as of the end of the second quarter of 2025). A move of that scope would result in a full-year advance of +9%. Our view is supported by (1) a 10-year Treasury yield that we expect to remain range-bound, making equities relatively attractive compared to the risk-free return on government bonds; (2) continued gradual easing by the Fed and (3) solid earnings per share (EPS) growth that should help keep a lid on the S&P 500's already stretched price to earnings (P/E) ratio. As of 27 June, the 12-month P/E ratio for the S&P 500 stood at 21.9x, higher (more expensive) than its 10-year average of 18.4x. In terms of sectors, we see select investment opportunities within information technology due to secular tailwinds in cloud computing and

semiconductor demand. Artificial intelligence (AI) is by far and away our most-favored subsegment, as we expect strong multi-year growth from this point on, resulting in significantly higher earnings revisions.

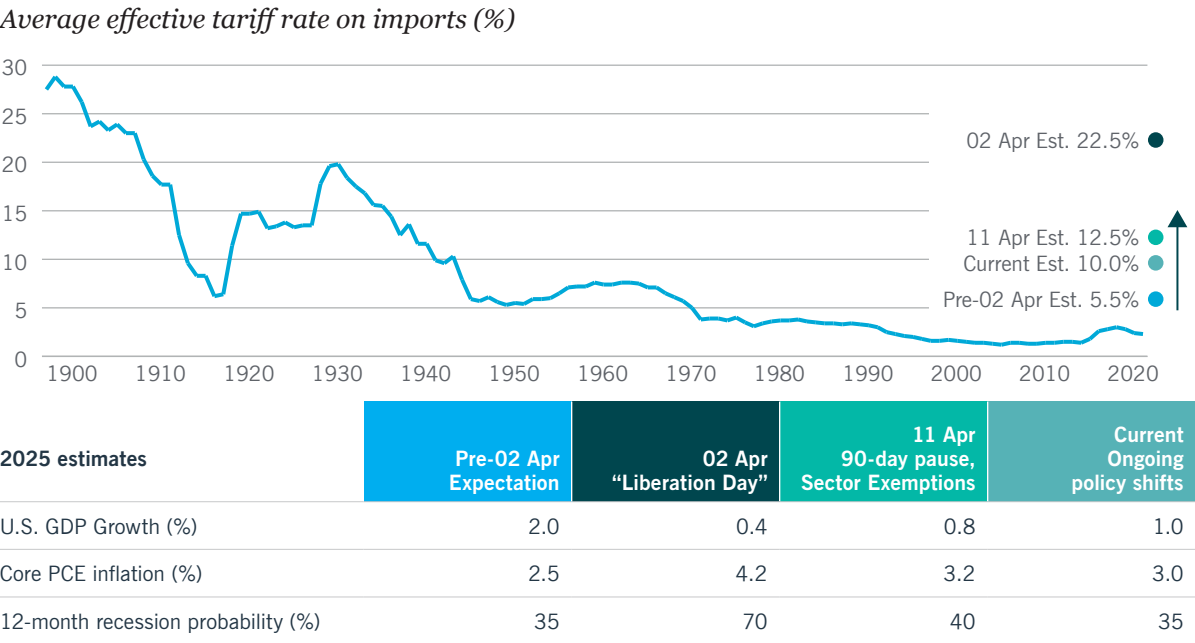
### A high-quality approach to equity portfolios

Against a backdrop of slowing economic growth and still-elevated interest rates, our view of equities as an asset class remains neutral (Figure 8). Becoming more optimistic would require catalysts that include:

- Earnings growth and upside surprises as the drivers of market gains
- Continued expansion of market breadth
- Diminished inflation risks
- Easier financial conditions, including more Fed rate cuts
- A lower cost of capital
- Implementation of growth-oriented tax and regulatory policies
- Clarification of trade policy and tariff rates



Figure 6: Higher tariffs could lead to slower growth and hotter inflation



Data source: Bloomberg, L.P., Nuveen Macro Research.

We think it’s wise to brace for further volatility this year given the various headwinds facing equity markets, including the possibility of slower economic growth and higher inflation (Figure 6). With that in mind, we favor U.S. dividend growth and listed global infrastructure stocks, areas of the market that can help cushion downside risk and may be more resilient if tariffs deliver an upside shock to prices.

U.S. dividend growers benefit from capital flexibility and balance sheet strength that should help them mitigate inflationary cost pressures. Historically, companies with persistent dividend growth that have initiated or continued to raise dividends during periods of high volatility have generated higher annualized returns versus the broader market — making these stocks well-suited to the current environment. And according to S&P Global as of 30 June, 190 companies within the S&P 500 have increased or initiated a dividend thus far in 2025 (187 increases, 3 initiations). This is especially noteworthy for long-term investors, as dividends have made up 39% of the S&P 500’s total return from 31 December 1929 through 30 June 2025, according to Ned Davis Research.

Infrastructure is another asset class known for its defensive characteristics. It also looks well-positioned to benefit from the AI boom and the continued electrification of the global economy. Indeed, some of the world’s giant tech names — Meta, Amazon, Alphabet and Microsoft — have announced plans to spend in excess of \$300 billion in 2025 on AI and the data centers necessary to support its expansion. In addition to data centers, areas of infrastructure such as midstream pipelines, gas and electric utilities, and electricity transmission are critical to generating and sustaining the energy necessary to power rapidly evolving technologies and to meet the needs of communities in which these systems and facilities are located.

We see catalysts in Europe and Asia

After lagging the S&P 500 by an average of 1.83 percentage points per quarter over the past 10 calendar years (2015-2024), European stocks, as represented by the MSCI Europe Index, turned the tables on their U.S. counterparts, outperforming them by 16.9 percentage points in the first half of 2025, 23.1% to 6.2%.

Rejuvenated European markets have been bolstered by Germany, where the government decided in March to relax the country's "debt brake," a constitutionally enshrined mechanism that limits government borrowing. After years of economic stagnation, Germany has pledged to issue new debt to boost defense and cybersecurity — a response to the Trump administration's plan to pivot away from Europe — while also earmarking €500 billion for infrastructure and green projects.

On a sector basis in Europe, we believe industrial information automation, which focuses on companies supplying computers, robots and technology in the manufacturing process, will be a beneficiary of the AI boom. Germany, in particular, uses automation not only in its auto factories, but also in its metals, chemicals and electronics industries.

Additionally, the European financials sector is attractively valued and offers healthy dividend yields, with some of the region's largest banks sporting P/E ratios below 10x (compared to 14.3x for the overall MSCI Europe Index) and dividends exceeding 4.5% (versus 3.1%). And with NATO leaders committed to ramping up defense spending "in the face of profound security threats and challenges" (according to the Hague Summit Declaration on 25 June 2025), defense stocks, which have risen sharply thus far in 2025, have further room to run, in our view.

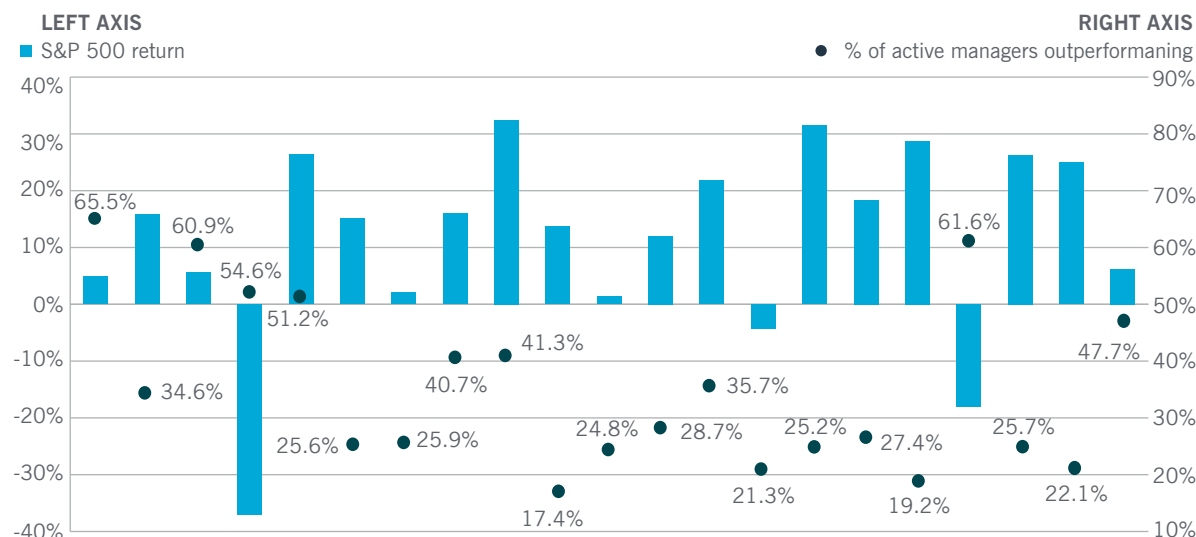
Can European equities maintain their lead over U.S. shares? We think so — although perhaps not to the same degree as in the first half of this year — as long as Germany follows through on its fiscal commitments. Lowering consumer energy costs in Europe will also be crucial, as natural gas prices, for example, were about four times higher than in the U.S. in 2024, according to Statista Research.

In addition to opportunities in Europe, we believe select Japanese companies are worth considering. After starting slowly this year, the Nikkei 225 has jumped despite a rise in Japanese Treasury yields and a firm yen, which makes Japanese exports more expensive, potentially hindering corporate earnings. Inflation is also a concern, as consumer prices rose 3.5% in May, well above the BoJ's 2% target. However, the BoJ has pledged to raise interest rates if it believes the Japanese economy is strong enough to withstand higher borrowing costs. Another potential positive: the country's low unemployment and tight labor market could support wage growth, and, in turn, personal consumption. Japan's focus on corporate governance and attractive valuations adds to the country's allure as an investment destination, in our view, with the Nikkei 225 trading at a P/E ratio of 15.5x.

### **A sound investment approach supports our outlook**

Volatility and uncertainty present challenges. But it is during these periods that investors may benefit most from a flexible investment approach supported by rigorous, bottom-up research, careful stock selection and thoughtful portfolio construction — which together may provide confidence and make a favorable impact on long-term financial goals.

Active managers, for example, have the flexibility to adjust their portfolios based on their analysis of market conditions. This allows them to capitalize on opportunities during periods of high market concentration, volatility or economic downturns — environments when passive strategies may struggle. When stocks are not moving in tandem (that is, there is high dispersion), active managers have more opportunities to identify mispriced assets and potentially boost performance.

**Figure 7: Active managers may be poised to outperform**

Data source: Strategas as of 30 Jun 2025. Performance data shown represents past performance and does not predict or guarantee future results. It is not possible to invest directly in an index.

The second quarter presented such a backdrop, leading to almost 50% of active managers outperforming passive strategies (Figure 7). To illustrate: Growth stocks overall returned +17.6%, handily outperforming their value counterparts (+3.8%). This was a stark reversal from the first quarter, when value (+1.6%) beat growth (-10%). Within the S&P 500, the information technology (+23.7%) and communication services (+18.5%) sectors dominated the more defensive health care (-7.2%) and consumer staples segments (+1.1%), offering additional opportunities to add alpha.

Our equity heat map (Figure 8) provides perspective and detail on specific areas of the markets that we like on a relative basis. It isn't intended to represent a specific asset allocation, but rather to answer the question, "What are our highest-conviction equity views over the next 12 months?"

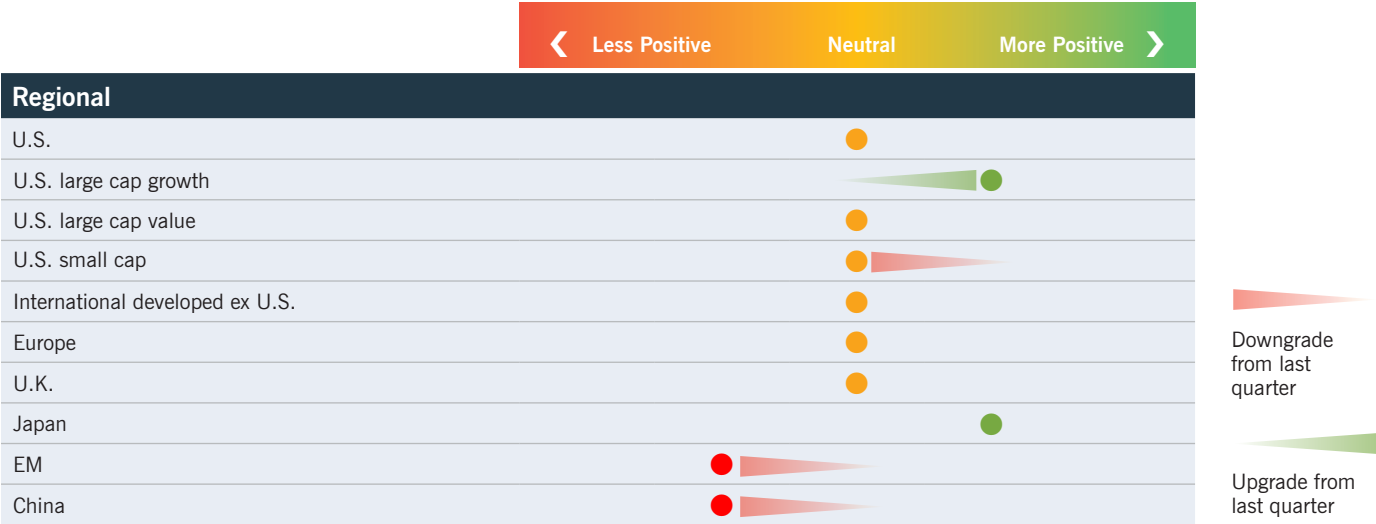
### The earnings growth outlook: down but not out

Due to downward revisions to earnings estimates by analysts and negative EPS guidance issued by many S&P 500 companies, the estimated (year-over-year) second-quarter earnings growth rate for the index is +5.0% as of 27 June, down from +9.4% as of 31 March, according to Fact Set. In addition, EPS growth estimates for the second quarter have been lowered by -4.1%, which is more than the 5- and 10-year average reductions of -3.0% and -3.1%, respectively. Looking ahead, analysts expect earnings growth rates of +7.3% in the third quarter and +6.4% in the fourth. For 2025 as a whole, year-over-year earnings growth is anticipated to hit a healthy +9.1%.

Meanwhile, FactSet reports that second-quarter EPS guidance from 110 of 500 index constituents as of the end of June has been fairly evenly split between negative (59 companies) and positive



Figure 8: Equity style and geographic preferences heading into Q3 2025



The views above are for informational purposes only and convey a comparison of the relative merits of each asset class based on the collective assessment of Nuveen's Global Investment Committee. These do not reflect the experience of any Nuveen product, strategy or service. Upgrades and downgrades reflect quarterly shifts in these views.  
Source: Strategas Securities, LLC., June 2025, Asset Allocation (S&P 500 Sectors Section).

(51 companies). Additionally, FactSet projects an overall S&P 500 net profit margin of +12.3% for the second quarter, modestly below the previous quarter's +12.7% but a tick higher than a year ago (+12.2%) and above the five-year average (+11.7%).

RISKS TO OUR OUTLOOK

Equity market volatility will likely remain elevated in the second half of 2025. In particular, we're monitoring the impact of U.S. tariffs on economic data to determine if continued weaker consumer and business activity, as well as potential supply chain disruptions, might be a prelude to a recession or period of stagflation.

Although stocks have rallied on the potential for favorable tariff outcomes between the U.S. and its trading partners, higher taxes on imports can hurt businesses and consumers, leading to reduced investment and spending. And while the tariffs have yet to push inflation higher, we think that could happen, albeit not dramatically, in the third quarter, potentially limiting the Fed's ability to lower interest rates (typically a tailwind for U.S. equities). Moreover, the deportation of immigrant

populations from the U.S. could lead to labor shortages and upward price pressures in industries that depend on these workers.

Our outlook may also be challenged by:

**Fiscal woes from the "One Big Beautiful Bill."** Extending the individual income and estate tax provisions from the 2017 Tax Cuts and Jobs Act, which had been scheduled to expire at the end of 2025, will add an estimated \$3.9 trillion (\$4.6 trillion with interest) to the U.S. debt through 2035, according to the nonpartisan Committee for a Responsible Federal Budget. Worries about rising deficits could cause bond yields to spike, and, in turn, financial conditions to tighten – both of which are negatives for stocks.

**Technology turbulence (or tailwind)?** Strong earnings growth and profit margins for technology firms are critical to the U.S. equity market, as the information technology sector constitutes one-third of the S&P 500 Index. With capital expenditures in AI expected to rise by 5.7% in 2025 – versus 1.8% for overall IT spending, according to one estimate – 2025 could be a defining year as investors assess whether such investments will actually increase productivity.

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