

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Buffer more, suffer less? Preferreds may help.

Bottom line up top

Israel/Iran conflict drives volatility. Market volatility increased following Israel's airstrike on Iranian nuclear facilities, Iran's drone attack response and threats of further action from both sides. Oil prices are likely to remain elevated, potentially leading to inflationary pressure. At this point we continue to suggest a balanced portfolio.

Tariff impact on inflation still looks limited — for now. Last week's release of the Consumer Price Index (CPI) for May showed further moderation, with both headline and core (ex-food and energy) CPI coming in cooler than expected for the month and compared to a year ago. Meanwhile, shelter inflation, one of the stickiest components of inflation in recent years, ticked down last month, and rent costs increased at their slowest pace in more than four years (Figure 1). The Producer Price Index (PPI), which measures wholesale price changes before they filter through to consumers, ticked up slightly year-over-year in May, to 2.6% from 2.5% in April. We doubt May's CPI and PPI results will alter the expected policy timeline for the U.S. Federal Reserve, and we continue to expect two rate cuts by year-end.

Improving sentiment indexes belie caution flags. The percentage of individual investors reporting a bullish perspective rose to near its long-term average of 37.5% in the latest AAII Investor Sentiment Survey (11 June), while the bearish percentage fell to 33.6%, from 41.4% the prior week. Similarly, the National Federation of Independent Business (NFIB) optimism index climbed three points in May to 98.8, the first increase since December. And the University of Michigan Consumer Sentiment Index moved higher for the first time in six months, according to the preliminary June reading.

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*On behalf of Nuveen's Global
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As Head of Equities and Fixed Income, Nuveen's CIO 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 chairs Nuveen's Equities Investment Council and is a portfolio manager for several key investment strategies.

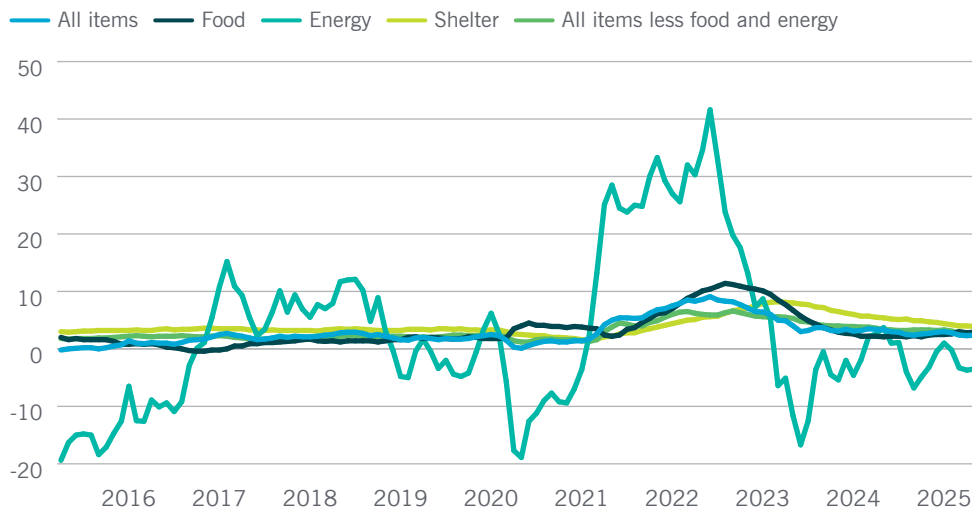
The mixed macro outlook leads us to favor portfolio allocations with higher yields and attractive risk profiles.

Despite last week's announcement of an agreed-upon framework for a U.S./China trade deal, the U.S. tariff rate on imported Chinese goods stands at a hefty 55%. And President Trump said he plans to notify trading partners of new (higher) tariff rates ahead of a self-declared 9 July deadline. Meanwhile, the legal status of Liberation Day tariffs is far from settled, with the levies remaining in place pending a federal appeals court ruling, in August at the earliest. On the employment front, initial jobless claims stayed elevated at 248,000, matching the prior week's total. Continuing claims jumped to 1.956 million, the highest level since November 2021.

The current lack of clarity leads us to favor portfolio allocations to select credit sectors such as preferred securities, which may offer higher yields and a lower risk profile compared to common stocks.

FIGURE 1: LOWER ENERGY AND SHELTER COSTS KEEP CPI STABLE DESPITE TARIFFS

Consumer Price Index, select categories, 12-month change (%)



Data source: U.S. Bureau of Labor Statistics, 11 Jun 2025. Data represents the 12-month change, not seasonally adjusted.

Portfolio considerations

With spreads recovering from April's widening, **preferred securities** were among the top-performing credit sectors in May. Total returns for the month were led by our favored segment, \$1000 par preferreds (+1.87%), followed closely by contingent capital securities (CoCos, +1.85%), with \$25 par preferreds lagging (-0.05%). Despite the rally, preferred spreads remain above historical lows. This, combined with continued robust fundamentals and a supportive technical backdrop, could make preferreds an attractive choice for diversifying portfolios in an unsettled macro environment.

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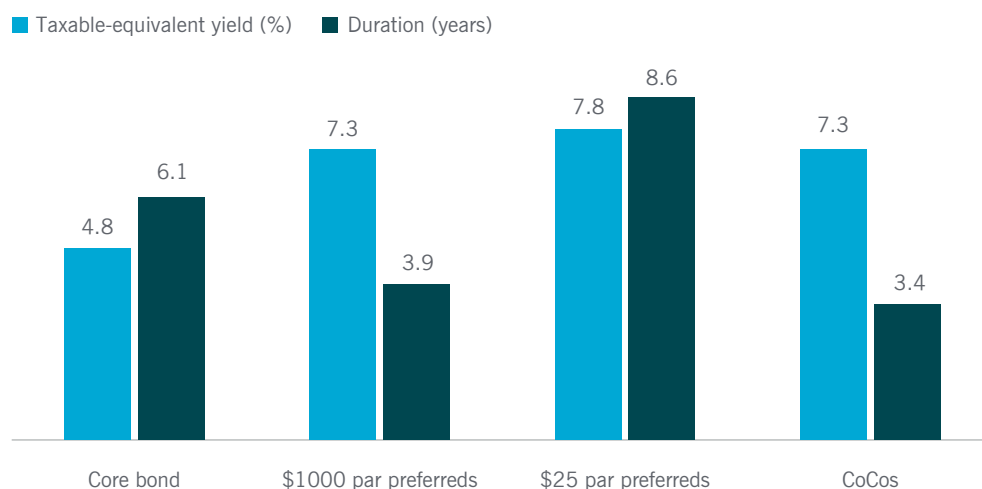
***Preferreds
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portfolios.***

Preferreds are issued primarily by banks, which have generally beaten earnings expectations in recent quarters and consistently passed the Fed's annual stress tests, which gauge capital strength. Most issuers are investment grade at the senior level, and most preferreds are BBB rated at the security level.

In addition to high quality, preferreds may also offer tax efficiency. Some pay qualified dividend income (QDI), which is taxed at 20% rather than at higher ordinary income tax rates. Moreover, preferreds' higher yields may provide a total return buffer against an unexpected increase in interest rates. Core bonds, for example, are yielding 4.8% with a duration of 6.1 years, while \$1000 par preferreds and CoCos provide a taxable-equivalent yield of 7.3% with a duration of under four years (Figure 2). For income-seeking investors, these advantages could potentially mean an allocation that's more defensive than leveraged finance credit sectors, helping sustain a positive demand dynamic for preferreds.

Those looking into preferred securities can consider \$1000 par preferreds and CoCos relative to \$25 par securities, as the former two segments look more compelling on a risk-adjusted basis and offer better liquidity. Despite its higher yield, the \$25 par category offers a less meaningful tax advantage (percentage of income that is QDI). Lastly, we emphasize active management for preferred securities, assessing the opportunity across all three segments and adjusting allocations as necessary.

FIGURE 2: PREFERRED OFFER ATTRACTIVE INCOME RELATIVE TO DURATION



Data source: Bloomberg, L.P., 10 Jun 2025. Performance data shown represents past performance and does not predict or guarantee future results. Representative Indexes: Core bond: Bloomberg U.S. Aggregate Bond Total Return Index; \$1000 par preferreds: ICE BofA U.S. Institutional Capital Securities Index; \$25 par preferreds: ICE BofA Core Plus Fixed Rate Preferred Index; CoCos: ICE BofA USD Contingent Capital Index. Taxable-equivalent yield (TEY) is the yield a taxable investment needs to possess (before taxes) for its yield to be equal to that of a tax-free investment. The yields shown are based on the highest individual marginal federal tax rate of 37%, plus the 3.8% Medicare tax on investment income. For preferreds, 80% of the income is assumed qualified dividend income, which is taxed at 20% plus the 3.8% Medicare tax. Individual tax rates may vary.

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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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