

## CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

# Real estate may provide a buffer amid volatility

## Bottom line up top

### **Escalating geopolitical tensions drive uncertainty higher.**

With the U.S. strike on Iran and Iran's threats of response, risks of the Israel/Iran conflict spreading into a wider regional war have escalated. We expect market volatility to remain elevated, and upward pressure on oil prices to persist, which could spark additional inflation concerns. While we are not altering our portfolio construction views, we will be closely monitoring the situation and resulting market impact.

**The Fed remains patient, for now.** Last Wednesday, the U.S. Federal Reserve left its target policy rate unchanged for the fourth consecutive meeting, cheering equity markets. The bloom came off the rose fairly quickly, though, with major U.S. indexes fading into the Juneteenth holiday as investors digested Fed Chair Jerome Powell's assessment that conditions were both "highly uncertain" and represented a "solid economy with decent growth."

Recent economic signals have, in fact, been mixed. May retail sales data showed consumers tightening their purse strings more than expected, while the most recent consumer and producer inflation prints were surprisingly benign. But gasoline prices look vulnerable to a spike amid geopolitical hostilities, which could lead consumers to pull back even more on discretionary spending.

A possible stagflationary combination of decelerating growth and reaccelerating inflation — two plausible results of the broad increase



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*On behalf of Nuveen's Global  
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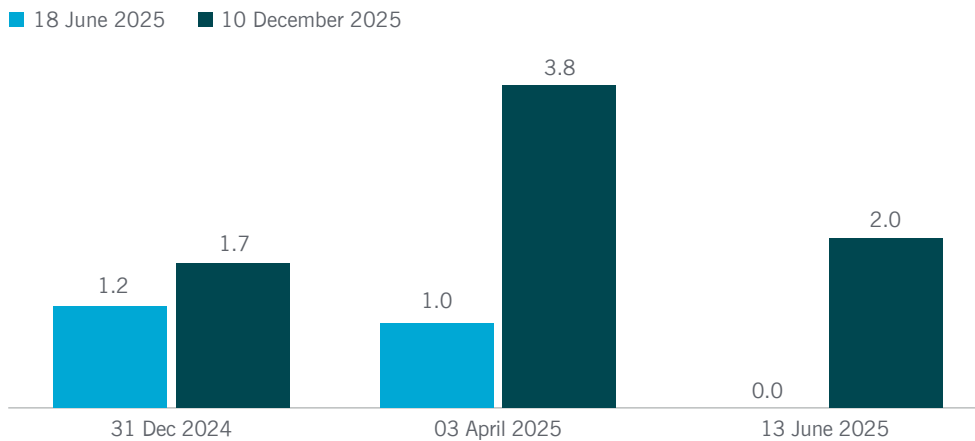
As Head of Equities and Fixed Income, Nuveen's CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she chairs Nuveen's Equities Investment Council and is a portfolio manager for several key investment strategies.

***Mixed economic growth and inflation risks are still keeping the Fed's rate-cutting on hold.***

in U.S. tariffs announced by the Trump administration this spring — is clearly on the Fed's mind, although expectations for future cuts have declined since the initial tariff announcements in April (Figure 1). So far, Fed policymakers have maintained their projection of two rate cuts in 2025, evidenced in their “dot plot” released last week and matching both current market odds and our own expectations, with the first of the two cuts likely coming in September.

In an environment prone to bouts of volatility driven by macroeconomic, geopolitical and policy uncertainty, investors may want to consider allocating to asset classes that historically have provided a smoother return profile and may be more insulated from the current market turbulence. Among the areas we favor is commercial real estate.

**FIGURE 1: 2025 MARKET EXPECTATIONS FOR FED CUTS CONTINUE TO BE PUSHED FURTHER OUT**



Data source: Bloomberg L.P., 13 June 2025. The legend reflects date for U.S. Federal Reserve meetings. The number of rate cuts is based on Fed Funds Futures and Overnight Index Swaps.

## Portfolio considerations

Following a two-year period of declines, **global private real estate** values have been positive for the past four quarters (Figure 2) 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 dropped substantially, boding 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

***Attractive value and solid fundamentals should remain tailwinds for real estate.***

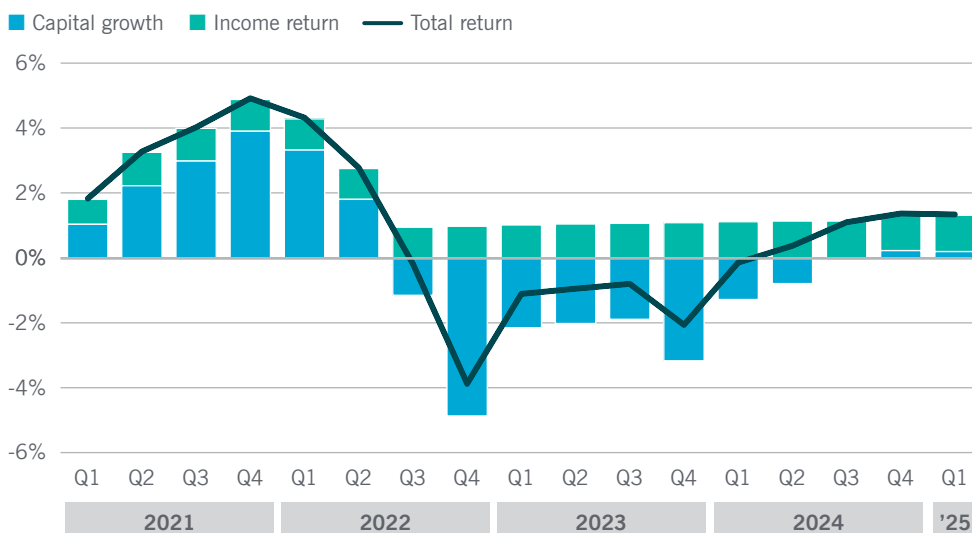
supply for the last three years, while consumer preferences for outpatient visits versus in-hospital care should continue to support demand.

Within retail, **grocery-anchored shopping centers** are particularly strong, as occupancy rates are high and new supply is nearly nonexistent. Groceries are part of the thriving “necessity retail” category, which provides goods and services like food, household staples, pharmacy and personal care items, and other everyday essentials. In 48 of the top 50 U.S. cities, vacancy rates for retail strip centers are below their historical average, according to Nuveen Real Estate Research. Moreover, we expect demographic waves of spending to further drive the retail renaissance: Middle-aged adults are the “big spenders,” and we see a significant opportunity to capture the spending power of this ascendant population over the next decade.

Within the **Asia Pacific** region, we’re focused on medium-term growth fundamentals and long-term structural trends. **Multifamily** is a highly defensive commercial property sector with an average occupancy rate of more than 97%. In **Japan**, the government’s decision to grant long-term residency to a wide range of skilled migrant workers will likely boost multifamily demand over the long haul. **Senior living** in Japan remains an undersupplied category, with a shortage of beds. Potential industry consolidation in this space could create off-market opportunities, providing additional alpha for investors. Lastly, **student housing** is poised to benefit from a growing Asian Pacific population of those between the ages of 15 and 19. **Australia** has experienced a strong influx of international students with diverse profiles.

## FIGURE 2: REAL ESTATE ON THE REBOUND

*Global unlevered quarterly returns (%)*



Data source: Bloomberg, L.P., Nuveen Real Estate Research, Q1 2025 data released 06 Jun 2025. Performance data shown represents past performance and does not predict or guarantee future results. Representative index: MSCI Global Quarterly Property Index.

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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

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### Endnotes

#### Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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