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VIEWPOINTS FROM THE GLOBAL INVESTMENT COMMITTEE
2025 Q2 OUTLOOK

Wheels down, elevation up:

Five themes for a new economic landing

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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KEY TAKEAWAYS

- **Still-high inflation and interest rates, combined with signs of slowing economic growth,** are creating a bumpy, higher-elevation environment.
- This backdrop requires a new approach to portfolio construction, detailed in our **five themes for 2025.**
- We suggest a focus on **credit selectivity**; see specific opportunities in **municipal bonds, real estate, infrastructure,** and **U.S. small caps**; and also offer our **best ideas across asset classes.**

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Wheels down, elevation up:

Five themes for a new economic landing



Saira Malik

Chief Investment Officer,
Head of Equities and
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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.

Our year-ahead outlook introduced the concept *Wheels down, elevation up: Five themes for a new economic landing*. The U.S. economy, we wrote, was poised to touch down in a way that didn't quite fit conventional definitions of a "hard" or "soft" landing, as inflation and policy rates were settling but remained structurally higher than their pre-Covid levels.

While we've experienced unanticipated bumps on the final approach to the runway in the form of increased policy uncertainty and market volatility, today's dynamics still point to the same or similar investment themes we saw at the start of the year.

We see these five key portfolio construction themes on our radar:

Relative spreads and credit selection, not risk-free rates, will drive returns in public and private debt markets. This has generally held true and should continue, as only modest U.S. rate cuts and a range bound Treasury market are expected this year. Focusing on relative spreads and credit sector selectivity rather than duration positioning seems like a better strategy for the coming year.

Municipals are still the borrower of choice for investors who are in it for the duration. Notwithstanding our broader de-emphasis of duration, it makes sense for some investors to consider a barbell approach, balancing shorter-to-intermediate duration in taxable credit sectors with longer-duration muni exposure. The muni yield curve is steeper than the U.S. Treasury curve, and municipal credit fundamentals remain solid.

Real estate reality: it's at a turning point. Real estate is on the rebound. Demand is rising as prices stabilize, fundamentals recover and liquidity improves. Real estate performance turned positive in the most recent two quarters, a trend historically associated with longer-term upcycles. In particular, we see opportunities in the industrial and alternative property sectors. We also like publicly listed real estate investment trusts (REITs).

Energy demand charges ahead of capacity, creating opportunities amid political changes. Artificial intelligence (AI), along with increased capital expenditures on power generation and transmission, is fueling a new energy boom. Power-related infrastructure investments, both public and private, may benefit more than pure AI-related plays. In the U.S., the Trump administration will likely bolster investments in traditional fossil fuel sources and pipelines. That said, we still expect the green energy transition to persist globally, especially in Europe.

Small caps are suiting up for the big leagues. Our prior upgrade of U.S. small cap equities now looks premature, as these stocks have underperformed. Nonetheless, we're optimistic that attractive relative valuations, positive earnings growth revisions, historical performance patterns and changed U.S. political priorities (lower corporate tax rates, less regulation and more protectionist trade policies) will create tailwinds for this asset class.

All told, investors will feel tension between countervailing forces in the coming year: slipstreams that help move the economy and markets forward, and crosswinds making it more difficult to land smoothly. The key is not to let fear of flying prevent you from reaching your destination, but rather to be prepared for risks and alert to opportunities.

The economy and markets

Key points to know

The U.S. steady slowdown continues

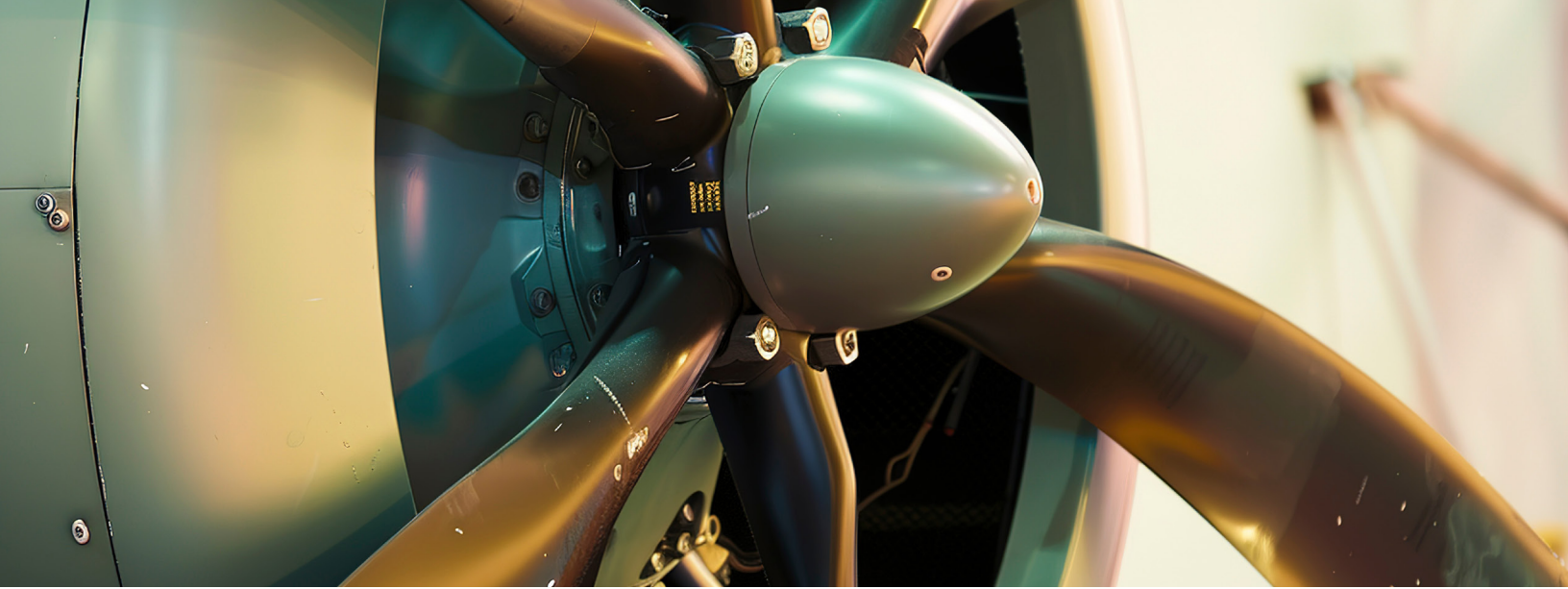
Entering 2025, headline U.S. economic growth had already slowed to 2.5% from 2024's blockbuster pace of 3.2%. We expect the U.S. economy will gradually decelerate to a cruising speed closer to 2.0% over the coming quarters (and may be on track to have a negative first quarter reading). Recent data have mostly corroborated that view. Job growth has remained healthy even as the unemployment rate has stalled above 4.0%. Consumer spending is slowing but remains strong at around 3% year-over-year. After flatlining earlier in the cycle, housing sector activity has improved over recent months. Altogether, the data indicate continued expansion, albeit at a slower pace than in recent years.

The rest of the world is closing the gap

If 2024 was the year of U.S. economic outperformance, 2025 is shaping up to present a narrower gap (Figure 1). In Europe, fiscal policy has turned sharply more supportive after recent progress to reform Germany's debt brake. The European Central Bank is easing its policy rate, with two rate cuts completed and at least one more likely. This combination of fiscal and monetary easing, along with signs of a rebound in consumption driven by improving real incomes, should support overall growth. In China, policymakers are targeting 5% growth in 2025, similar to last year's pace. We think that is achievable, as fiscal policy is also set to become more supportive. At the same time, the languishing property sector shows signs of bottoming after several years of contraction.

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Inflation and interest rates look to remain stubbornly sticky as U.S. economic growth decelerates slightly.



Policy uncertainty is rising

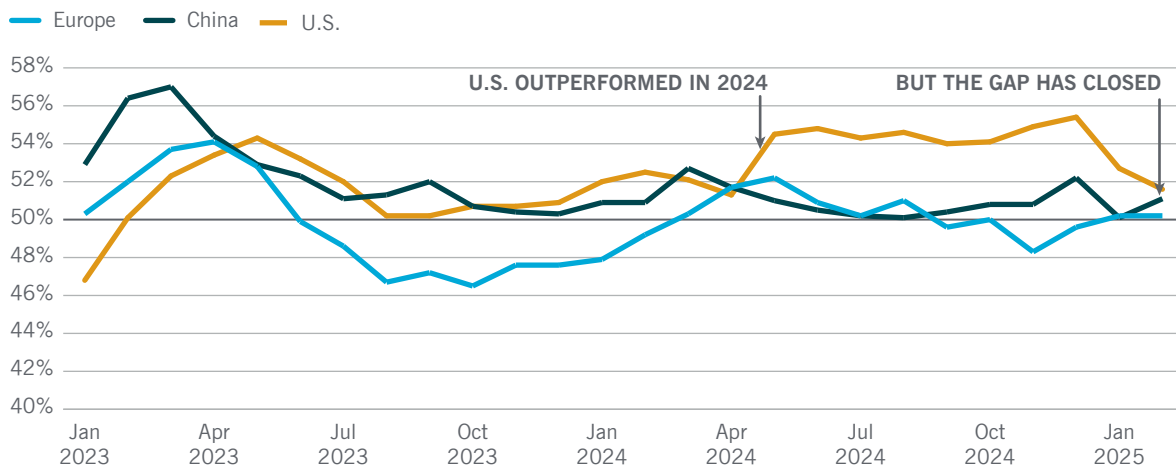
U.S. political and policy changes are happening across immigration, anti-trust, financial regulation, taxes, spending and tariffs, with varying economic implications. The scope of tariff targets and amounts seems to be an ever-moving target, and creates clear inflation risks. Immigration changes should reduce net immigration to pre-Covid levels of around one million per year. The Tax Cuts and Jobs Act will likely be renewed, possibly with small additional tax cuts including reform of the SALT deduction, a subsidy for domestic manufacturing and/or cuts to personal income taxes for tips or overtime. The effect of these combined measures on real growth may roughly balance out, but we estimate new tariffs will add around 0.3% to core inflation, with risks of as much as 1.0% more if tariffs are more extreme than we expect.

Treasury yields should remain range bound

We continue to expect the 10-year Treasury to trade in a 4.25% to 4.75% range this year. That view assumes two Federal Reserve interest rate cuts in 2025, reducing the policy rate to 3.75% to 4.00%. Several elements in our framework argue for lower yields: slower growth, moderating inflation and Fed rate cuts. However, we think these dynamics will be offset by factors that are currently boosting yields: uncertainty and upside risks to inflation, fiscal loosening and the term premium. Bond returns across markets this year are more likely to be driven by relative value, security selection and income, rather than major shifts in risk-free rates.

Figure 1: The global economic gap is closing

The U.S. economy slows while non-U.S. growth gains traction



Data source: Bloomberg, L.P., Composite Purchasing Manager Indexes monthly readings from 01 Jan 2023 to 28 Feb 2025. Over 50 indicates expansion.

Portfolio construction themes

*Weaker-than-expected economic data and tariff risks have clouded the outlook, triggering a stark decline in interest rates and erasing U.S. equities' post-election gains. But near-term uncertainty hasn't changed our investment themes; rather, it highlights the importance of a robust portfolio construction process to meet long-term investment goals. Our base case stands: Inflation and interest rates will remain elevated and volatile, economic growth moves to a slightly lower gear and political shifts and technological progress will fuel opportunities for returns. Below we return to the **key investment themes for investors to adapt their portfolios to this bumpy, higher-elevation environment.***

Asset class “heat map”

Our cross-asset class views indicate where we see the best relative opportunities within global financial markets. These are not intended to represent a specific portfolio, but rather to answer the question: “What are our highest conviction views when it comes to putting new money to work?” These views assume a U.S. dollar-based investor seeking long-term growth and represent a one-year time horizon.



The views above are for informational purposes only, and compare the relative merits of each asset class based on the collective assessment of Nuveen’s Global Investment Committee. They do not reflect the experience of any Nuveen product or service. Upgrades and downgrades reflect quarterly shifts in these views.

Five themes for 2025

1

Relative spreads and credit selection, not risk-free rates, will drive returns in public and private debt markets.

Given our expectation for modest U.S. rate cuts and a broadly range bound Treasury market, we think investors should focus less on timing duration positioning and more on generating alpha by emphasizing relative spreads and exercising selectivity among credit sectors, which look particularly attractive (Figure 2). For example, senior loans have posted positive monthly returns since November 2023 and offer yields north of 8% with minimal interest rate risk and credit upgrades outpacing downgrades.

So far, these views have mostly paid off. While credit spreads have widened, interest rates have declined, supporting global bond markets. We maintain our view that a diversified bond portfolio balancing rate and credit sensitivity will be resilient in a higher-for-longer rate environment. But selectivity is critical. For example, we are bullish on U.S. corporate credit (high yield and loans) but prefer relatively higher quality issuers. In the securitized space, we like off-benchmark issues such as data center asset-backed and non-agency commercial mortgage-backed securities that offer compelling risk-adjusted spreads. And we favor private credit in the middle market, particularly more conservative structures with lower leverage and stronger covenants.

2

Municipals are still the borrower of choice for investors in it for the duration.

Following on from our first theme, individual investors should consider barrelling their shorter-to-intermediate duration positioning in taxable sectors with longer duration municipals. Since the municipal yield curve is steeper than the Treasury curve and muni credit fundamentals remain solid, we think longer-duration municipal investors are well compensated for taking on greater rate sensitivity.

Municipal bonds have enjoyed a solid start to the year, and we believe municipal borrowing remains more compelling than U.S. government options. Municipalities enjoy strong credit health, and we anticipate growing demand for muni bonds as non-U.S. and institutional crossover investors add allocations. Sectors such as transportation (which is benefiting from massive spending on airport terminal expansion and modernization) and water/sewer utilities (which have healthy cash flows and ample capacity for increased debt) look particularly attractive.

3

Real estate reality: it's at a turning point.

Real estate is (finally) beginning a rebound, with investor demand rising as prices stabilize and both fundamentals and liquidity improve. Real estate performance turned positive in the most recent two quarters, a trend historically associated with longer-term positive turnarounds. While many headlines focus on high office vacancy rates (we agree the office sector will remain under pressure), we see ample opportunities across other segments, such as industrial and alternative. We also see value in publicly listed REITs, which offer good fundamentals and earnings growth.

With our positive view toward real estate, we also see opportunities in related asset classes. Mortgage- and commercial-mortgage-backed securities should be lifted by rising real estate markets. And we see growing opportunities in investments that fund energy upgrades through mechanisms such as Commercial Property Assessed Clean Energy (C-PACE) financing.



4

Energy demand charges ahead of capacity, creating opportunities amid political changes.

A new energy boom is being powered by the rise of AI, growing capital expenditures for power generation and increased spending on energy transmission. Power-related infrastructure investments should benefit from these trends across public and private markets (perhaps more than pure-AI related plays).

Regulatory and political shifts under the Trump administration in the U.S. are causing a reevaluation of the energy “winners and losers” in the years ahead. Overall, we expect the green energy transition to persist around the world (especially in Europe), but we think investments such as natural gas, pipelines and traditional energy will benefit from Trump administration policies. And with power demand outstripping current supply capacity from traditional sources, we could also see a boost to nuclear and geothermal energy generation. In contrast, areas such as U.S. wind power and electric vehicle charging infrastructure should look more challenged.

5

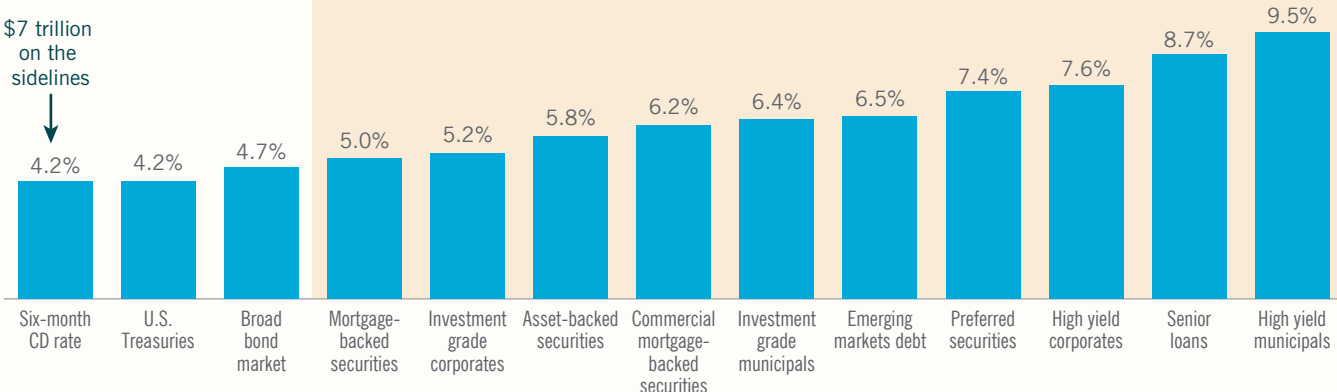
Small caps are suiting up for the big leagues.

This is our only theme that is off track, as small caps have been underperforming. Nevertheless, we hope that a combination of attractive relative valuations and the shifting U.S. political backdrop will support small caps. We expect President Trump and the Republican Congress will usher in an environment of lower corporate tax rates, less regulation and more protectionist trade policies. These trends should promote new capital investment cycles, which could create small-cap tailwinds.

Elsewhere in global equities, we are growing more positive toward non-U.S. developed markets. We remain bullish on Japan given rising earnings and pro-growth policies. Many observers (ourselves included) were probably too negative toward European markets earlier in the year. Attractive valuations, Germany’s massive fiscal stimulus plan and improving relative growth are causing us to move non-U.S. equities up a notch in our heat map.

Figure 2: Focus on attractive credit sectors

Taxable-equivalent yields (%)



Data source: Bloomberg, L.P., 14 Mar 2025. Performance data shown represents past performance and does not predict or guarantee future results. Representative yields and indexes: six-month CD: Marcus Goldman Sachs six-month CD yield; U.S. Treasuries: Bloomberg U.S. Treasury Index; broad bond market: Bloomberg U.S. Aggregate Index; mortgage-backed securities: Bloomberg U.S. Mortgage-Backed Securities Index; investment grade corporates: Bloomberg U.S. Corporate Investment Grade Index; asset-backed securities: ICE BofA Fixed Rate ABS AA-BBB Index; commercial mortgage-backed securities: ICE BofA Fixed Rate CMBS AA-BBB Index; investment grade municipals: Bloomberg Municipal Bond Index; emerging markets debt: Bloomberg Emerging Markets USD Aggregate Index; preferred securities: ICE BofA U.S. All Capital Securities Index; high yield corporates: Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index; senior loans: S&P UBS Leveraged Loan Index; high yield municipals: Bloomberg High Yield Muni Bond 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 municipal 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. Individual tax rates may vary. They do not take into account the effects of the federal alternative minimum tax (AMT) or capital gains taxes. For index descriptions, please access the glossary on nuveen.com.



EQUITIES

Saira Malik

Investment positioning

- Equities remain caught between positive and negative crosscurrents: elevated interest rates and inflation combined with softening economic growth. But despite elevated valuations (mostly due to narrow market leadership by megacap tech companies), areas of the global equity market remain attractive thanks to solid earnings and growth-oriented tax and regulatory policies in the U.S. Thus, we remain broadly neutral toward global stock markets, and we expect volatility will remain relatively elevated.
- Overall, we have a bias toward higher-quality stocks within higher-quality market segments, leaning toward industries and geographic regions that offer fundamental tailwinds. Likewise, we hold a less positive outlook toward areas with greater sensitivity to economic conditions or interest rate fluctuations. In the U.S., we expect market leadership will broaden from the recent megacap tech dominance. In particular, we remain favorable toward U.S. small caps that could benefit from shifts in tax policies, rising M&A activity and more protectionist trade practices.
- Outside the U.S., as mentioned in our portfolio construction themes, we are growing more positive toward developed markets. The likelihood of a stronger dollar and tariff trends remain risks, but we see more opportunities around the globe.
- Private equity markets remain under pressure, especially given a lack of fund distributions and still-high interest rates. But we expect M&A activity to increase, which should help with both fundraising and distributions.

BEST IDEAS: *We particularly favor dividend-growers, which tend to offer strong free cash flow levels and solid profit margins. We also like infrastructure companies that can weather both inflation and softer economic growth risks.*



FIXED INCOME

Anders Persson

Investment positioning

- Interest rates have been slow to decline, and inflation risks remain, but we believe the global macroeconomic backdrop favors fixed income investments. We expect rates will remain relatively elevated and largely range bound in 2025. As a result, current yields offer compelling income to investors.
- For now, we maintain our view that better relative value opportunities can be found through credit allocations rather than solely taking on duration risk. We prefer an overall neutral duration stance, although investors holding high levels of cash should consider slightly lengthening duration and increasing yield. We think credit fundamentals and the economic backdrop warrant taking on select credit risk, including in below investment grade areas of the market.
- Senior loans offer some of the market's best opportunities, in our view. Floating-rate investments look compelling given the rates backdrop, relatively high yields and potential for declining default rates. We also favor securitized assets (especially mortgage-related investments that offer attractive yields and solid credit risks) and high yield (spreads are tight but yields and fundamentals remain solid).
- We do not favor U.S. Treasuries (we see better opportunities elsewhere) and investment grade bonds (spreads are tight and the duration profile is longer than we prefer). Emerging markets debt has performed well lately, but the strong dollar and tariffs remain risks.
- Municipal bonds enjoy strong and stable credit quality; state and local governments have solid balance sheets and ample liquidity; and the market features attractive supply/demand dynamics. Valuations also look compelling, as performance has lagged over the last year. Municipals are one area where we think it makes sense to extend duration given the relative yield advantage and still-strong credit fundamentals of longer-dated assets.

- Private credit markets remain constructive, and we generally prefer more defensive and higher-quality areas of the market. Market growth has slowed but remains in positive territory.

BEST IDEAS: *Securitized assets and senior loans both offer solid value with lower duration risk. For municipal bonds, high yield munis continue to look attractive, and we think the performance difference between high yield and high grade will narrow in 2025.*



REAL ESTATE

Donald Hall

Investment positioning

- We upgraded private real estate in our year-ahead outlook, and we continue to believe this stance makes sense. Supply issues remain, and elevated interest rates could present challenges. But real estate rent and occupancy growth are healthy, and investor demand is returning for most sectors (the office sector remains troubled). The improving climate is driving increased competition for real estate deals, which is a positive indicator for the future.
- Health care and neighborhood retail are two sectors where we see particular opportunities. Outpatient medical buildings have extremely low vacancy rates as demand is far outstripping supply, and senior housing is benefiting from shifting demographics and limited new supply. Neighborhood retail may be an out-of-consensus area of focus, but we think low vacancy rates, limited new supply and attractive pricing should be tailwinds for this segment across the U.S., Europe and parts of Asia.
- We have a slight bias toward real estate debt over equity, given valuations and relatively wider spreads.

BEST IDEAS: *We remain focused on “global cities” experiencing growing, educated and diverse populations with a particular focus on the health care, industrial and housing sectors.*



REAL ASSETS

Justin Ourso

Investment positioning

- Both public and private infrastructure investments remain preferred areas. The massive growth in power demand should be a strong tailwind for years to come and is running ahead of available supply. This trend favors equity areas such as data centers, power-generating utilities, electric transmission owners, independent power producers, energy pipeline owners and battery and storage investments. We are somewhat less positive toward U.S. on- and offshore wind investments, given increased political and regulatory scrutiny, but European investments continue to look solid. Energy infrastructure credit investments also look compelling due to similar factors, and we see particular opportunities in debt investments centered around generative AI, data centers and energy storage.
- Public real estate markets offer solid fundamentals and earnings prospects. We have a particularly favorable view toward senior housing, with limited supply and growing demand.
- Farmland tends to be relatively insulated from macroeconomic factors and geopolitical risks. Row crop margins and profits have declined, but we see compelling investments in areas featuring stronger crop diversification, such as the U.S. Southeast and Pacific Northwest. We also see value in non-U.S. permanent crop investments such as citrus, avocados, cherries and table grapes, which enjoy rising demand.
- Agribusiness investments offer opportunities, including investments that focus on food ingredient processing that can reduce in-store labor at quick-serve restaurants (a growing area of the market).

BEST IDEAS: *In public markets, our best ideas include North American senior housing (demographic trends, plus opportunities for industry consolidation) and AI-related infrastructure, especially areas like electric utilities that have yet to fully realize potential benefits. Across private markets, we continue to focus on investments that align with climate and digital transformations, such as clean energy generation and data centers, as well as strong global demand for protein and healthy foods.*

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. Quarterly 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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