nuveen
A TIAA Company

First quarter 2025 outlook

Bulls and bears jockey for position as global equities enter 2025

Saira Malik, CFA
Chief Investment Officer

Following a broad third-quarter rally, global equity markets generally struggled in the fourth quarter. Investors weighed the prospect of fewer rate cuts by the U.S. Federal Reserve and potentially inflationary policies under the incoming Trump administration against the earnings growth ability of technology stocks and expectations for lower corporate taxes and looser regulations in a politically transformed Washington, D.C.

Although core inflation stayed sticky, monetary policy around the globe varied considerably. The Fed, European Central Bank (ECB) and Bank of England (BoE) cut rates, while the Bank of Japan (BoJ) and People's Bank of China (PBoC) stood pat, and the Central Bank of Brazil hiked. Non-U.S. equity markets, both emerging and developed, recorded losses that were amplified by a strengthening U.S. dollar during the quarter. In the U.S., the S&P 500 Index posted a modest gain.

KEY TAKEAWAYS

- Central banks face a variety of risks heading into 2025. The Fed remains vigilant against the possibility of inflation reigniting in 2025, as the "last mile" in its battle against higher prices has proved challenging. Meanwhile, the ECB must contend with sluggish growth in the eurozone, and the PBoC has pledged looser policy to ward off deflation in China.
- Although we believe U.S. inflation could moderate more thanks to declining housing and core services costs, it's likely to remain higher than the Fed's 2% target in 2025. U.S. GDP growth looks set to slow but should hover above pre-Covid levels, supported by rising incomes and strong consumer spending.
- Geographically, we still think U.S. stocks offer the best combination of defensive characteristics and growth opportunities. Within the U.S., we're becoming more positive toward small caps and infrastructure, two sectors that may benefit from shifts in tax policies and more protectionist trade practices.
- Outside the U.S., we are increasingly cautious about both developed and emerging markets (EM) based on expectations for weaker economic expansion and the likelihood of a stronger U.S. dollar. Europe offers select opportunities, particularly in the health care and energy sectors.

CENTRAL BANKS DIVERGED AMID CHALLENGING BACKDROPS

The Fed lowered the federal funds rate by 25 basis points (bps) in both November and December, bringing the rate down to a range of 4.25%-4.50%. Fed watchers deemed the central bank's December dot plot hawkish, as it projected only 50 bps of cuts for 2025, compared to 100 bps in the Fed's September outlook. In addition, the Fed's forecast for its preferred inflation barometer, the core Personal Consumption Expenditures (PCE) Price Index, showed the index would finish 2025 at 2.5%, a less optimistic view than the 2.2% level projected in September. Chair Jerome Powell stated that the December decision was a "closer call" than prior cuts and suggested it will be "appropriate to move cautiously" when considering additional rate reductions.

We still expect the Fed to cut rates twice more during this cycle, taking its policy rate range to 3.75%-4.00% by year-end 2025. The exact timing of these cuts will depend on incoming economic data (such as the trajectory of inflation and the health of the labor market), as well as the potential impact of immigration, trade and tax policies that the new administration has proposed.

The ECB lowered its key policy rate by 25 bps in both October and December, to finish the year at 3.0%. Although ECB President Christine Lagarde and her fellow policymakers had raised doubts as recently as September that further rate reductions would be needed, they continued to lower rates in the fourth quarter, noting that risks to economic growth were "tilted to the downside." On a more positive note, they stated that inflation was "really on track, in terms of reaching our 2% target in the medium term."

However, other developed market central banks headed in different directions. Amid stagnant growth, rising inflation and slumping employment in the United Kingdom, the BoE kept its bank rate unchanged at 4.75% in December, following a 25 bps cut in November. BoE Governor Andrew Bailey adopted a wait-and-see approach to future policy: "We think a gradual approach to future interest-rate cuts remains right," he stated, "but with heightened uncertainty in the economy, we can't commit to when or by how much we will cut rates in the coming year."

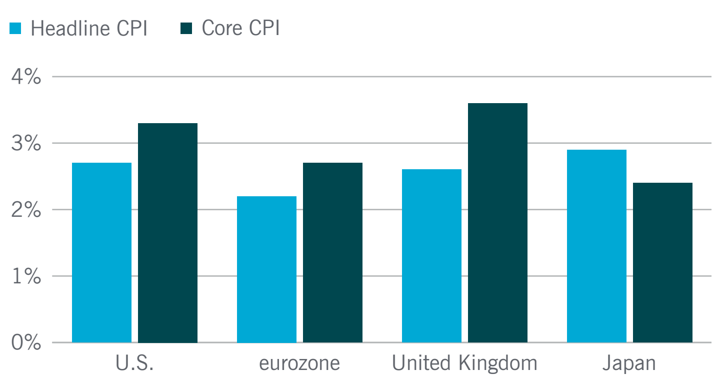
The BoJ, which ended negative rates in Japan last March and hiked once more during the summer, held firm at its October and December meetings, citing "high uncertainties surrounding Japan's economic activity and prices." Although the December decision to remain on pause was largely expected, markets were surprised that the BoJ did not telegraph a rate hike for January 2025, an omission that sent the yen tumbling against the U.S. dollar.

Finally, EM monetary policy was mixed. The Central Bank of Brazil raised rates in December and signaled the likelihood of more hikes in an effort to help cool the country's hot inflation. Brazil's deteriorating fiscal outlook complicated the picture and prompted the central bank to intervene in currency markets to stem a slide in the Brazilian real, one of the world's worst-performing currencies in 2024 relative to the U.S. dollar.

Meanwhile, the Reserve Bank of India kept rates unchanged for the 11th consecutive meeting in December but cut the cash reserve ratio for banks, effectively easing monetary conditions as third-quarter economic growth slowed.

The PBoC also decided to stand pat, while pledging to ease policy in the future to ward off deflationary pressures and jump-start the Chinese economy, which remained pressured by a prolonged property market downturn.

Figure 1: Core inflation remains sticky



Data source: FactSet, 30 Nov 2024.

FOURTH-QUARTER MARKET PERFORMANCE AND DRIVERS

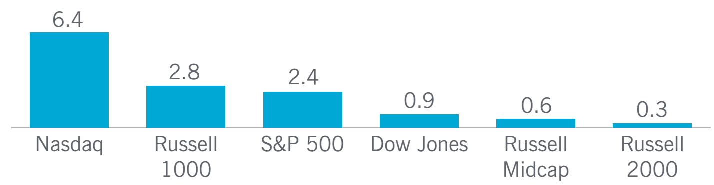
The S&P 500 Index got off to a weak start, losing ground in October. Strong economic data released during the month drove up bond yields, making equities relatively less attractive. The 10-year U.S. Treasury yield surged +50 basis points, to 4.28% — its biggest one-month increase since September 2022. In addition, given the U.S. economy's continued resilience, investors fretted about the possibility of fewer rate cuts from the Fed. Political uncertainty around the U.S. presidential race added to market jitters.

Stocks rebounded in November in the wake of Donald Trump's election victory. Investors cheered the Trump agenda of lower taxes and fewer regulations, helping the S&P 500 advance +5.9% for the month. Premium equity valuations and Trump's pledges to impose tariffs on key trading partners — which could have significant inflationary consequences — didn't deter investors from funneling $115 billion into U.S. equity funds in December, the highest one-month total since 2021, according to Morningstar.

The U.S. rally stalled in December, due in large part to the S&P 500's outsized single-day decline (-3%) on 18 December, when the Fed dialed back its expected pace of 2025 rate cuts. Adding to the market malaise was the absence of a seasonal "Santa rally" (a bump in stock prices that often occurs between Christmas and New Year's Day), which left the index in the red for the month. For the full year, however, the S&P 500 returned a stellar +25.0%, nearly matching its 2023 gain of +26.3% and cementing the index's best two-year stretch since 1997-1998.

Figure 2: Tech-heavy Nasdaq tops the quarter

Index returns (%)



Data source: Morningstar Direct, 31 Dec 2024. **Performance data shown represents past performance and does not predict or guarantee future results. It is not possible to invest in an index.**

Major U.S. equity benchmarks delivered fourth-quarter gains ranging from incremental to impressive. The Nasdaq Composite (+6.4%) led the pack, propelled to record highs by the robust performance of technology stocks, which make up about 60% of the index by market capitalization. Large caps also capped off a solid year, with the Russell 1000 Index (+2.8% for the quarter) handily outperforming its mid cap (+0.6%) and small cap (+0.3%) counterparts. The S&P 500 delivered a similar gain (+2.4%). Meanwhile, the Dow Jones Industrial Average (+0.9%) lagged, hampered by a 10-day losing streak in December.

Nuveen's Macro Market Monitor provides a quantitative snapshot of the state of the U.S. economy and markets (Figure 3). Our investment committees use this tool to evaluate periodic changes in conditions, prioritize research and stimulate discussions when developing portfolio strategies.

Figure 3: Our Macro Market Monitor looks at the big picture

Category	Gauge	Current	Analysis
INFLATION	Long-term inflation expectations	2.3%	Trailing inflation and forward-looking inflation expectations remain above the Fed's 2% target.
U.S. MONETARY POLICY	Fed funds rate	4.5%	Generally restrictive given the current fed funds rate. Financial conditions have tightened with the increase in yields.
	Financial conditions	99.3	
U.S. EQUITY FUNDAMENTALS	S&P 500 forward price-to-earnings ratio	21.4x	Index-level valuations remain expensive compared to their long-term average.
	S&P 500 forward expected earnings growth	11.9%	
	Revisions to expected earnings	-2.6%	

Positive Neutral Negative

Data source: Bloomberg L.P., 31 Dec 2024. **Performance data shown represent past performance and do not predict or guarantee future results**. The views above are for informational purposes only and do not reflect the experience or performance of any Nuveen product, strategy or service. Financial conditions are based on the Goldman Sachs Financial Conditions Index (GSFCI), a weighted average of riskless interest rates, exchange rates, equity valuations and credit spreads, with weights that correspond to the direct impact of each variable on GDP. A higher number implies tighter conditions, which are worse for the economic outlook. At 99.3, the GSFCI is at the 34th percentile compared to levels over the past 20 years, according to Bloomberg.

LITTLE CAUSE CELEBRATION IN NON-U.S. MARKETS

Equity markets outside the U.S. performed poorly in the fourth quarter, hindered by the strength of the U.S. dollar, which hit a more than two-year peak against a basket of currencies, as measured by the Wall Street Journal Dollar Index. The firm dollar, driven by the health of the U.S. economy and the likelihood of a higher-for-longer interest rate environment, weighed heavily on non-U.S. market returns when translated into dollars. Based on non-U.S. MSCI benchmark indexes in U.S. dollar terms, both EM equities (-8.0%) and their developed market peers (-8.1%) tU.S. S&P 500 by more than 1,000 bps (or 10 percentage points).

European markets struggled amid sluggish economic data. On the continent, eurozone shares (-9.4%) slumped as business activity remained in contraction territory, while in the U.K. (-6.8%) business and consumer confidence softened markedly. Elsewhere, Japanese stocks were especially vulnerable to currency moves. For example, the Nikkei 225 Index performed well in local terms, as the export-oriented companies that make up the majority of its constituents benefited from a weak yen (which makes exports cheaper in non-Japanese markets and helped boost corporate earnings for exporters during the quarter). But yen weakness is a double-edged sword, with the Nikkei's +5.3% gain in local currency converted to a -4.1% loss in U.S. dollars.

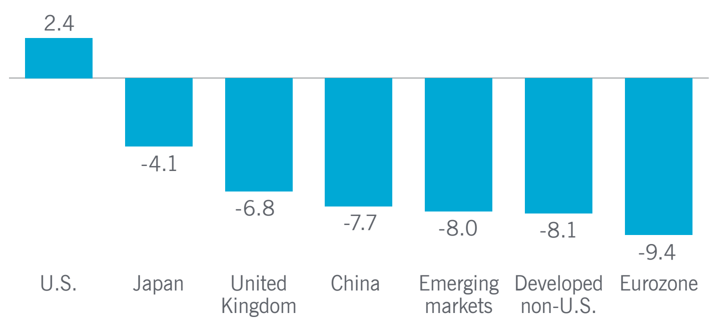
Also in Asia, Chinese equities — accounting for 28% of the market capitalization of the MSCI Emerging Markets Index — fell -7.7% despite the government's pledge to implement a more proactive fiscal policy and moderately looser monetary policy to stimulate domestic demand and consumption.

Results from other large EM countries were even worse. Brazilian shares (-19.4%) plunged on fiscal fears, with investors doubting the government's ability to rein in spending, and on rising domestic interest rates, as Brazil's central bank aggressively tightened policy to combat rising inflation. South Korea (-19.2%) was close behind, hamstrung by a slowing semiconductor industry, one of the country's key economic drivers. Also taking a toll was anxiety over the Trump administration's anticipated tariff policies, as well as a series of domestic political crises, including President Yoon Suk Yeol's failed martial law attempt and subsequent impeachment. Meanwhile, stocks in India suffered a -11.3% decline as foreign investors pulled out of the market due to rich equity valuations, weak corporate profits and signs of an economic slowdown. In contrast, Taiwan (+3.3%) was one of the few EM countries to notch equity market gains, thanks to outperformance by technology stocks, by far the largest sector in the Taiwanese market.

On an EM regional basis, returns for Europe (-6.6%) and Asia (-7.9%) were negative, but better than the double-digit losses posted by Latin America (-15.8%) and Africa (-11.1%), which includes a number of frontier markets.

Figure 4: The S&P 500 prevails in a challenging quarter for global equities

Index returns (%)



Data source: Morningstar Direct, 31 Dec 2024. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: Japan:** Nikkei 225 Index; **U.S.:** S&P 500 Index; **eurozone:** MSCI Euro Index; **developed non-U.S.**: MSCI EAFE Index; **United Kingdom:** FTSE 100 Index; **emerging markets:** MSCI Emerging Markets Index; **China:** MSCI China Index. **It is not possible to invest directly in an index.**

OUTLOOK AND BEST INVESTMENT IDEAS

Will American stocks follow a potential watershed in American football in 2025? As of this writing, the Kansas City Chiefs are set to begin their quest to win a third straight Super Bowl — a feat that no NFL team has ever accomplished. The difficulty of "three-peating" is also evident in other sports: No country has won three consecutive men's or women's World Cup soccer championships, and only Australia has been a sequential triple winner of the Cricket World Cup.

Figure 5: Potential 2025 outcomes for the S&P 500 Index

BASE CASE

Modest economic growth with improved business confidence and deregulation

- Probability = 55%
- S&P 500 = 6,800
- 10-year U.S. Treasury yield = 4.50%
- Assumes 12% EPS growth and the P/E remains at 22x
- Federal Reserve continues to reduce interest rates while being mindful of adverse effects from tariffs and geopolitical conflicts.

BULL CASE

Strong economic growth with no significant rebound in inflation

- Probability = 20%
- S&P 500 = 7,200
- 10-year U.S. Treasury yield = 5.00%
- Assumes 14% EPS growth and the P/E increases to 23x
- Federal Reserve continues to reduce interest rates
- AI stocks continue to drive market

BEAR CASE (MILD RECESSION)

Mild recession due to labor market challenges and reduced consumer spending

- Probability = 15%
- S&P 500 = 4,700
- 10-year U.S. Treasury yield = 3.00%
- Assumes 10% EPS decline and the P/E decreases to 19x
- Federal Reserve continues to reduce interest rates; inflation cools as weak consumer spending offsets the impacts from tariffs

BEAR CASE (TARIFFS)

Broad tariffs with retaliations fuel hotter inflation

- Probability = 10%
- S&P 500 = 5,200
- 10-year U.S. Treasury yield = 5.00%
- Assumes 5% EPS decline and the P/E decreases to 20
- Amid rising inflation, Federal Reserve keeps rates steady

Data source: Nuveen, 31 Dec 2024. Certain statements may be deemed forward-looking statements. Please note that any such statements are not guarantees or intended to constitute a prediction of any future performance; actual results or developments may differ materially from those projected.

While there are no formal championships in stock market performance, the S&P 500 Index is on pace for its own record: a third straight calendar year of 20% gains in 2025. Our bull market scenario foresees a 20% chance of the index doing just that (Figure 5).

Our base case for this year isn't quite as bullish, although it still calls for the index to advance +15.6% based on three factors: (1) a 10-year Treasury yield that we expect to remain range-bound, making equities relatively more attractive compared to the risk-free return on government securities; (2) solid earnings per share (EPS) growth that will likely be above the long-term average of 7.2%, helping to keep a lid on the S&P 500's already high price/earnings (P/E) ratio; and (3) continued easing by the Fed.

However, accounting for each scenario's probability of occurring, we're targeting a year-end close of around 6,400 for the index, representing a gain of almost 9%.

A high-quality approach to equity portfolios

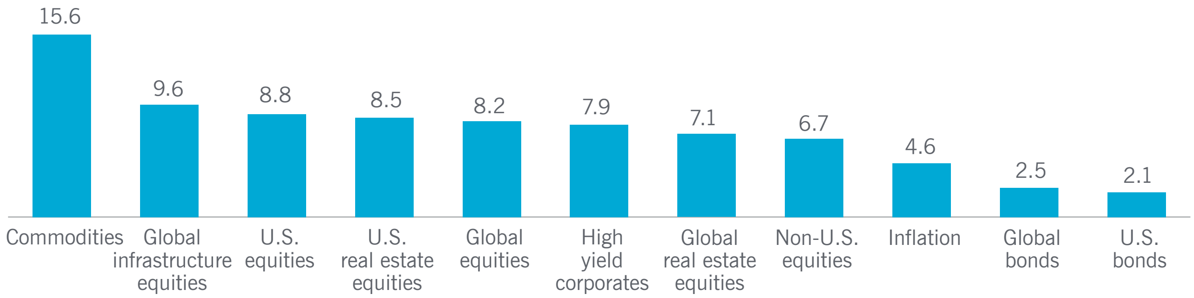
Against a backdrop of economic resilience, still-elevated interest rates and geopolitical challenges, we're modestly positive toward equities as an asset class (Figure 9). Becoming more optimistic would require catalysts that include:

- Earnings growth and upside surprises, rather than multiple expansion, as the drivers of market gains
- Expanding market breadth
- Further disinflation
- Easier financial conditions, including more Fed rate cuts
- A lower cost of capital
- The ability of companies focused on artificial intelligence (AI) to continue driving the market

In the meantime, our primary emphasis is on high-quality names that offer a combination of attractive valuations and good earnings growth prospects. These include software companies that benefit from resilient business models and enterprise- versus consumer-driven revenue flows. Global infrastructure companies also merit consideration, as these firms may be able to produce favorable investment results across a variety of market environments, due to the inherently essential functions, services or resources they provide.

Figure 6: Global infrastructure: A top performer when inflation heats up

Annualized performance during months with positive inflation 01 Jan 2002 – 30 Sep 2024 (%).



Data source: Morningstar Direct, Nuveen, 30 Sep 2024. **Performance data shown represents past performance and does not predict or guarantee future results.** **Commodities:** S&P GSCI Index, **Global infrastructure equities:** S&P Global Infrastructure Index, **High yield corporates:** Bloomberg US Corporate High Yield Index, **U.S. real estate equities:** MSCI US REIT Index, **Global real estate equities:** FTSE EPRA Nareit Developed Index, **Non-U.S. equities:** MSCI ACWI Ex USA Index, **U.S. equities:** S&P 500 Index, **Global equities:** MSCI World Index, **Global bonds:** Bloomberg Global Aggregate Index, **Inflation:** US BLS CPI All Urban NSA 1982-1984, **U.S. bonds:** Bloomberg U.S. Aggregate Bond Index. Calculated using annualized returns from months with positive inflation (US BLS CPI All Urban NSA 1982-1984). It is not possible to invest in an index.

Looking ahead, we believe listed infrastructure equities offer potential in the context of both (1) anticipated policy changes such as tax cuts, higher fiscal deficits and increased tariffs that could lead to stickier inflation and (2) global mega themes associated with AI and the corresponding growth in demand for power generation to support data centers.

Moreover, infrastructure tends to offer diversification and attractive income generation, while outperforming many major asset classes during periods of inflation (Figure 6).

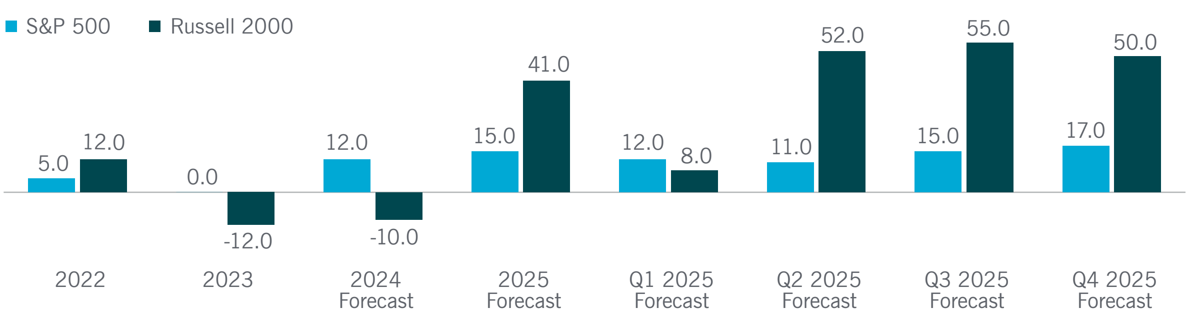
Rising expectations for U.S. small caps

The higher rate environments of recent quarters kept us cautious about U.S. small caps, and they consistently lagged their larger cap counterparts. However, given our expectation for the Fed to continue easing policy gradually in 2025, we think the asset class can outperform this year. Because small companies tend to rely more on borrowing to finance growth, a lower cost of capital enables them to expand or invest less expensively which, in turn, can help increase their stock prices.

We also believe the Trump administration's likely prioritization of domestic growth (through policies such as tax cuts and deregulation) could provide a tailwind for small caps, which are generally economically sensitive. Higher tariffs, if implemented, would also give them an edge over large caps, because small companies generate higher levels of revenue from within the U.S. Taken together, these market forces could fuel a new capital investment cycle for small caps, contributing to a substantially improved earnings

Figure 7: Small cap earnings may soar

Earnings growth (% year-over-year)



Data source: FactSet, as of 31 Dec 2024.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

forecast beginning in the second quarter of 2025 (Figure 7). From a valuation standpoint, after a long period of underperforming the broader market, small caps (16.4x) are trading at a significant discount to large caps (21.4x).

Seeking opportunities in Europe

Europe is struggling in the shadows of U.S. exceptionalism as it faces the headwinds of fiscal and trade policy uncertainty as well as structural growth challenges. While there are few catalysts to spur broad upside for European equities in 2025, we see select equity opportunities amid compelling valuations.

European stocks are trading at a steep discount to their U.S. peers, with a valuation gap near multi-decade highs: as of year-end, the P/E ratio of the MSCI Europe stood at around 13x versus 21.4x for the S&P 500 (Figure 8).

From electrification of energy grids to GLP-1 (weight loss) drugs and semiconductors, European equities are a compilation of idiosyncratic themes. The health care and technology-related sectors are poised to benefit from secular trends of aging demographics and AI. Meanwhile, the energy sector offers both attractive valuations and significant potential thanks to the aggressive environment, climate and sustainability goals set under the European Green Deal for 2030 and 2050. And with those objectives in mind, according to the latest data available from the European Environment Agency, the European Union's share of renewable energy has grown from 10% in 2005 to an estimated 24% by 2023, while greenhouse gas emissions have decreased to 37% below 1990 levels.

The U.S. market continues to concentrate

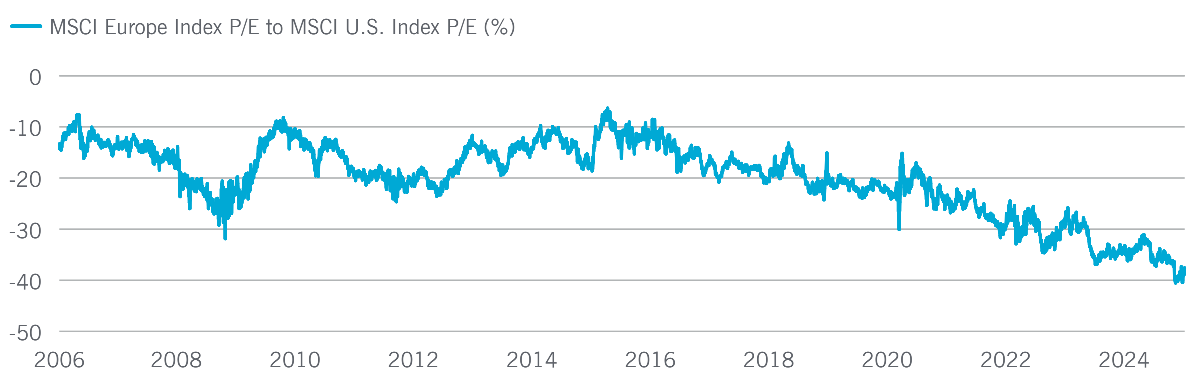
Although the S&P 500's 2024 performance was impressive on its face, a closer look reveals some caveats.

More than half (54%) of the index's 25.0% calendar-year gain was due to the returns of only a few stocks — notably the mega cap "Magnificent 7" (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla). This skewed result was also the case in 2023, when these companies generated 62% of the index's 26.3% rise.

From an earnings perspective, the 2024 result was also lopsided: The Magnificent 7's collective earnings grew by a remarkable 36%, versus just 3% for the rest of the S&P 500, according to FactSet.

In 2025, analysts expect earnings for the Magnificent 7 to decelerate, to a still-superior 21%, while earnings growth for the "S&P 493" is estimated at 13%, per FactSet. A more balanced outcome such as this could make the U.S. equity market less vulnerable to a pullback if the handful of companies that have propped up the S&P 500 over the past two years are unable to produce such exceptional earnings growth.

Figure 8: European shares trade at steep discounts to the U.S.



Data source: Bloomberg, L.P., 07 Jan 2025.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Figure 9: Equity style and geographic preferences heading into Q1 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.

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 can provide confidence and have a favorable impact on long-term financial goals. Our equity heat map (Figure 9) 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 outlook: Cautiously optimistic

Currently, fourth-quarter EPS estimates for the S&P 500 are strong (+11.9% year-over-year), albeit lower than they were when the quarter began (+14.5%). If the current estimate is realized, it would mark the highest year-over-year earnings growth for the index since the fourth quarter of 2021, according to FactSet. Looking further ahead, analysts expect EPS growth to remain in double digits (+11.9%) in the first quarter of 2025 as well as in the second (+11.6%) and third quarters (+15.2%).

Meanwhile, the S&P 500's net profit margins are forecast at +12.0% for the fourth quarter, just below the previous quarter's +12.2% but above the five-year average of +11.6%.

Given these earnings expectations, analysts predict S&P 500 price gains of +14.6% over the next 12 months, a healthy result. Among sectors, materials (estimated +25.8% price gain) and health care (+23.0%) are expected to lead, with consumer discretionary (+4.1%) lagging.

We're cautiously optimistic about this performance outlook. Our view is tempered by valuations, which have become less attractive during the 2024 rally. As of 03 January, the forward 12-month P/E ratio for the S&P 500 stood at 21.4x, well north of its 5-year (19.7x) and 10-year (18.2x) averages. In addition, the U.S. economy faces potential headwinds, including reduced consumer spending (due to depleted household savings and increased use of credit) and a listless housing market (still plagued by steep home prices).

RISKS TO OUR OUTLOOK

Although the CBOE Volatility Index (VIX), a measure of implied volatility of the S&P 500, dipped in the weeks following the U.S. presidential election, it quickly reversed course after the Fed's December meeting. In our view, market volatility will remain high in 2025, with U.S. and global economies still in the process of recovering from decades-high levels of inflation and historic rate hikes, and central banks engaged in the delicate balancing act of taming inflation while nurturing growth. Headwinds may also emerge due to:

> *In our view, market volatility will remain high in 2025, with U.S. and global economies still in the process of recovering from decades-high levels of inflation and historic rate hikes"*

Trump's tariffs. The Trump administration has threatened to impose tariffs on exports from U.S. trading partners, most notably China, Canada, Mexico and the European Union, with proposals ranging from 10%-20% on all exports, at least 60% on Chinese exports and 25%-100% on Mexican exports. According to the Tax Foundation, "At least a dozen estimates on Trump's proposed tariffs show they will have a harmful effect on the American economy, supporting the standard view among economists that tariffs reduce trade and distort production, leading to lower standards of living."

Among the U.S. firms most likely to be hurt by the tariffs are those that are heavily involved in AI. These companies could encounter rising hardware costs because they rely on global suppliers such as Taiwan, which produces about 60% of the world's semiconductors, according to the Council on Foreign Relations. Although Taiwan is currently exempt from import levies, any changes to its status could undermine the growth of the AI industry. Additionally, Taiwanese chipmaker Foxconn is planning to build one of the world's largest AI semiconductor assembly plants for Nvidia in Mexico — a country in Trump's tariff crosshairs.

Tariffs could also lead to higher inflation. According to the Congressional Budget Office, the administration's proposed export levies would lift the PCE Price Index by 0.4%-1.0% by 2026. Such an increase might limit the Fed's ability to lower interest rates, which is already a major concern for the U.S. equity market. Moreover, Trump's plans to deport immigrants could lead to labor shortages and upward price pressures in industries that depend on these workers.

Fiscal woes. Extending the individual income and estate tax provisions from the 2017 Tax Cuts and Jobs Act, scheduled to expire at the end of 2025, would add $3.9 trillion ($4.5 trillion with interest) to the U.S. budget deficit through 2035, according to the 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. Strong earnings growth/profit margins for tech firms are critical to the U.S. equity market, as the information technology sector constitutes one-third of the S&P 500 Index. And with investments in AI expected to rise by 5.7% in 2025 — versus 1.8% for overall IT spending — 2025 could be a defining year as investors assess whether these expenditures will pay off.

Worldwide worries. The global economy and financial markets have generally remained resilient despite wars in Ukraine and the Middle East. These hot spots remain on our radar, particularly given the deployment of North Korean troops by Russia and the spread of the Israel-Hamas conflict into Lebanon and Syria. Additionally, heightened threat levels in the South China Sea could disrupt global supply chains, fueling inflation and souring investor sentiment.

The Nuveen Equities Investment Council (EIC) includes the firm's senior equity portfolio managers, with an average of three decades of investing experience. The EIC brings global expertise across different equity styles and provides value-added insights to Nuveen's investment process by refining and delivering the firm's collective equity market outlook to clients.

For more information, please visit us at nuveen.com.

Endnotes

Sources

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her advisors.

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain "forward-looking" information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. **Performance data shown represents past performance and does not predict or guarantee future results.** Investing involves risk; principal loss is possible.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on nuveen.com. **Please note, it is not possible to invest directly in an index.**

Dividend yield is one component of performance and should not be the only consideration for investment. Dividends are not guaranteed and will fluctuate. This report should not be regarded by the recipients as a substitute for the exercise of their own judgment. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager

Because infrastructure portfolios concentrate their investments in infrastructure-related securities, portfolios have greater exposure to adverse economic, regulatory, political, legal, and other changes affecting the issuers of such securities. Infrastructure-related businesses are subject to a variety of factors that may adversely affect their business or operations, including high interest costs in connection with capital construction programs, costs associated with environmental and other regulations, the effects of economic slowdown and surplus capacity, increased competition from other providers of services, uncertainties concerning the availability of fuel at reasonable prices, the effects of energy conservation policies and other factors. Additionally, infrastructure-related entities may be subject to regulation by various governmental authorities and may also be affected by governmental regulation of rates charged to customers, service interruption and/or legal challenges due to environmental, operational or other mishaps and the imposition of special tariffs and changes in tax laws, regulatory policies and accounting standards. There is also the risk that corruption may negatively affect publicly funded infrastructure projects, especially in emerging markets, resulting in delays and cost overruns. In addition, investing internationally presents certain risks not associated with investing solely in the U.S., such as currency fluctuation, political and economic change, social unrest, changes in government relations, differences in accounting and the lesser degree of accurate public information available, foreign company risk, market risk and correlation risk. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

Important information on risk

All investments carry a certain degree of risk, including possible loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. Equity investments are subject to market risk or the risk that stocks will decline in response to such factors as adverse company news or industry developments or a general economic decline. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, and income risk. As interest rates rise, bond prices fall. Non-U.S. investments involve risks such as currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks are magnified in emerging markets. This report should not be regarded by the recipients as a substitute for the exercise of their own judgment. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

Nuveen, LLC provides investment solutions through its investment specialists.

This information does not constitute investment research as defined under MiFID.

4145005-0726 2001086

nuveen
A TIAA Company