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CIO Weekly Commentary
04 August 2025

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Long week, shorter duration

Bottom line up top

With more than a dozen data releases, a U.S. Federal Reserve policy meeting and a scramble among U.S. trading partners to strike a tariff deal before the Trump administration's 01 Aug deadline, the last week of July was one of the more portentous periods financial markets have grappled with in some time.

Until Friday's unexpectedly anemic employment report, much of the incoming information was generally positive, from a rebound in consumer confidence to a big upside surprise in headline GDP growth to consensus-beating earnings reports for four of the Magnificent Seven mega cap tech names. Amid the data deluge, the S&P 500 Index spent most of its time treading water or edging lower instead of finding higher ground as it had done in the prior two weeks.

The decline in equities continued on news that the U.S. economy added only +73,000 jobs in July (versus the +115,000 consensus forecast), and that May and June payrolls were revised downward by a combined -258,000. The S&P 500 and other major benchmarks snapped a two-week winning streak as investors weighed the negative implications of a labor market that now looked considerably less resilient. Following the jobs report, markets fully priced in two Fed rate cuts for the remainder of the year, while the odds of only one cut decreased (Figure 1).

The outlook for rate cuts is complicated, however, by the prospect of higher inflation. Last week's release of the Personal Consumption Expenditures (PCE) Price Index for June showed core inflation coming in slightly hotter than expected, and at 2.8% year-over-year, still stubbornly

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On behalf of Nuveen's Global Investment Committee

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.

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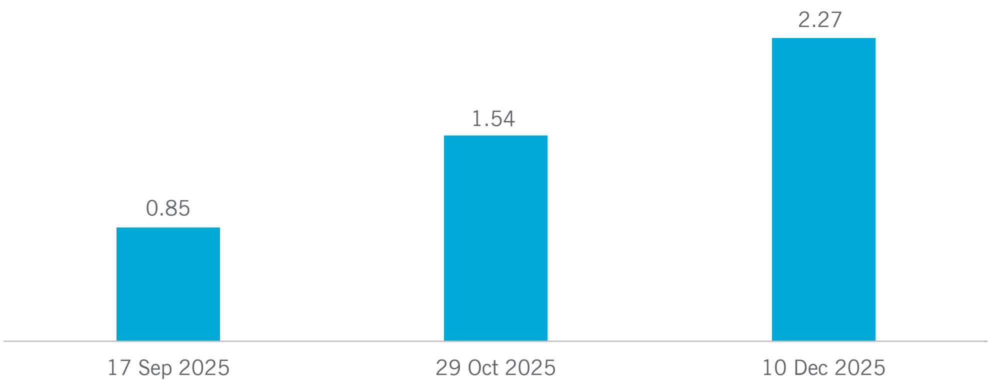
above the Fed's 2% target. And with definitively higher U.S. tariff rates now in place, upward pressure on inflation will likely increase. The Fed's decision to leave its policy rate unchanged at last Wednesday's meeting (accompanied by hawkish rhetoric from Chair Jerome Powell) underscores the delicate balance the central bank needs to strike between taming inflation and supporting the labor market. For now, a key takeaway from last week's messy mix of economic news is that higher-for-longer interest rates could remain a headwind for financial markets. Accordingly, investors may want to reassess how they approach duration in their portfolios.

FIGURE 1: MARKETS NOW MORE CONFIDENT OF TWO RATE CUTS THIS YEAR

Expected number of 25 bps rate cuts by Fed meeting date



Data source: Bloomberg, L.P., 01 Aug 2025. Based on fed funds futures contracts.

Portfolio considerations

Uncertainty has been the watchword of 2025. Ever since the Trump Administration began ramping up tough trade talk, companies have been grappling with on-again, off-again U.S. tariff announcements, bracing for trade deals and trying to figure out how the ultimate outcomes would affect their businesses. Our initial baseline estimate for the effective tariff rate the U.S. would levy on imports was 9.5% (Figure 2). We've bumped that baseline up to 12.3% to reflect specific trade deals announced between the U.S. and a number of its trading partners (the European Union, United Kingdom, Japan, Vietnam and others) over the past few weeks. While our new estimate is higher, it's well below Liberation Day levels that would have brought the effective tariff rate to 20.4%.

The impact of tariffs on inflation has so far has been limited, but we estimate core PCE inflation will end the year at 3.0%, a modest increase from current levels. And while we still expect a total of 50 basis points (bps) in rate cuts in 2025, we have lowered our 2026 forecast for 2026 from 75 bps to 50 bps — reflecting the risk of inflation remaining above the Fed's 2% target. As part of its dual mandate to support price stability and full employment, the Fed is also keeping a close eye on the labor market. The unemployment rate has held steady in a range of 4.0-4.2% over the past 14 months, but we anticipate it will end the year higher at 4.5%. Although an increase in unemployment isn't something to cheer in its own right, it will likely make the Fed more comfortable with rate cuts in the near future.

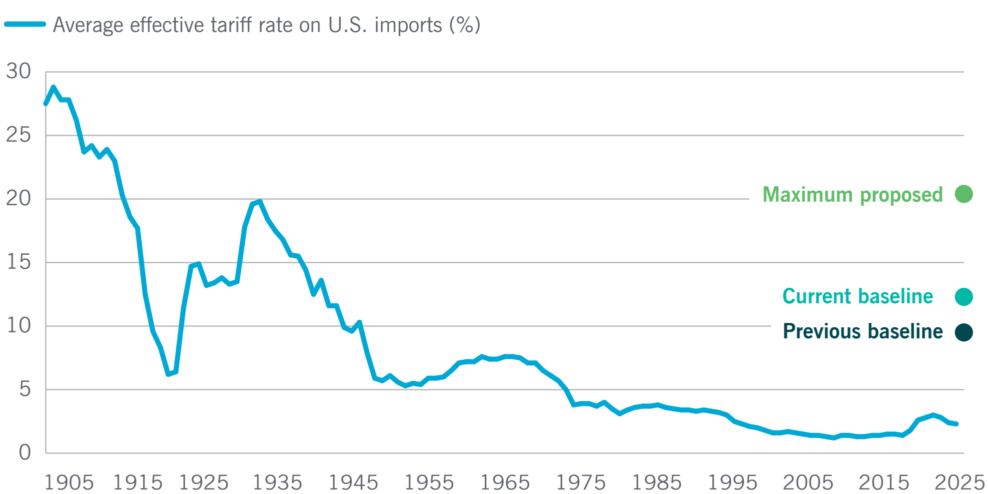
In taxable fixed income, we continue to favor shorter-duration sectors.

Lastly, despite a strong headline number in last week's initial estimate of second-quarter GDP growth (+3.0% annualized), a look under the hood reveals signs of economic weakness. Final sales to private domestic purchasers, a key metric of underlying demand, rose at its slowest pace (+1.2%) since 2022. And without a 5% contribution from net exports (due to a tariff-driven 30% decline in imports), Q2 GDP growth would have been -2%. We expect a broader economic slowdown in the pace of expansion, ending the year at a tepid +1.0%.

With upside risks to inflation and a growing U.S. fiscal deficit, intermediate- to longer-dated yields will likely remain elevated. This limits the positive impact of owning duration in taxable fixed income sectors on a portfolio. For that reason, in the taxable space we continue to favor shorter-duration sectors such as securitized assets (commercial mortgage-backed securities, for example) and senior loans. Both areas offer attractive levels of income, healthy fundamentals and limited exposure to interest rate risk.

FIGURE 2: TARIFFS EXCEED ESTIMATES BUT AVOID EXTREMES

Following recent trade agreements, we revised our tariff baseline upward to 12.3%



Data source: Bloomberg, L.P., Nuveen Macro Research, 29 Jul 2025. **Assumptions: maximum proposed:** 02 April initial tariffs, 35% on Canada, 30% on the European Union and Mexico; **current baseline:** 15% European Union, other country-specific deals announced, 02 April initial tariffs for rest of the countries; **previous baseline:** 10% universal, 40% China, Mexico and Canada exempt.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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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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