

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

For investors who prefer high quality and income

Bottom line up top

Earnings growth persists... Although consensus estimates for second quarter earnings growth were steadily lowered during the quarter — from +9.3% at the beginning of April to +4.9% at the end of June — actual earnings for S&P 500 Index companies have been surprising to the upside. With 90% (450 companies) having released their quarterly financial results as of 08 Aug, the blended earnings growth rate (combining actual earnings with estimates for those remaining) stood at +11.8% year-over-year. This positive showing comes despite weak sentiment and heightened volatility amid tariff-driven uncertainty. If the number holds or increases further, it would mark the third consecutive quarter of double-digit earnings growth. (Earnings data source: FactSet)

...but will economic resilience desist? Just as earnings have surprised to the upside in the face of the Trump administration's sharply higher tariffs, so too had the underlying U.S. economy until recently. However, last week's release of the ISM Services Purchasing Managers Index (PMI) for July showed the service sector of the economy barely expansionary at 50.1. (PMI readings below 50 indicate contraction.) This weakening in what has generally been resilient performance by service industries since the depths of COVID is a notable shift. In contrast, ISM's Manufacturing PMI has been below the 50 threshold in 31 of the past 33 months (Figure 1).

Slower manufacturing and service sector activity, along with a much softer-than-expected July jobs report (including shocking downward revisions to nonfarm payrolls for May and June) may be the clearest



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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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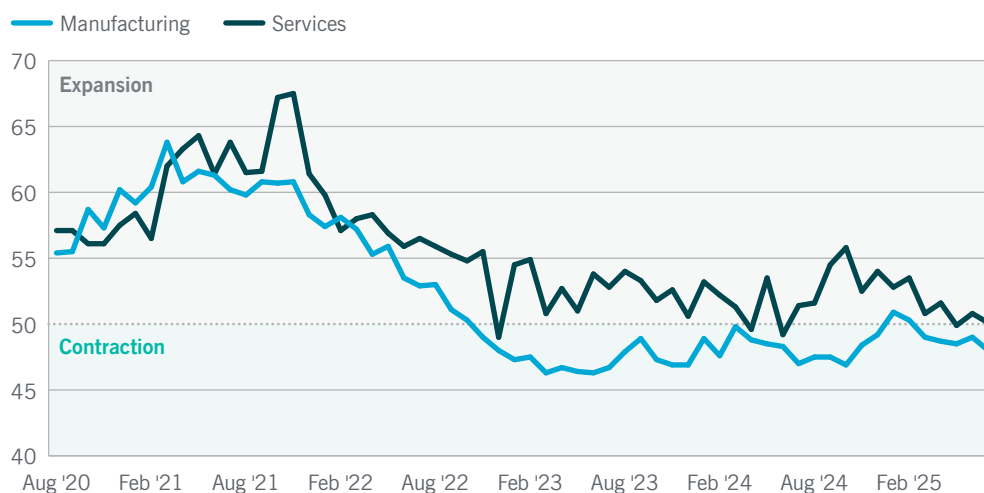
signals yet of a decelerating economy. The weaker data could potentially expedite U.S. Federal Reserve rate cuts, but markets are already worried that the lowered rates may turn out to be too little, too late to fend off an outright recession.

Investors concerned about narrow equity market leadership, stretched valuations and the prospect of recession may want to consider diversifying their portfolios by allocating to asset classes that have shown fortitude in prior economic slowdowns and could be positioned to benefit from a probable drop in rates.

Concerned investors may want to consider asset classes that could benefit from a drop in rates.

FIGURE 1: MANUFACTURING AND SERVICES SECTORS SHOW SIGNS OF STRAIN

Manufacturing and services PMI levels



Data source: Bloomberg, L.P., 31 Aug 2020 – 31 Jul 2025. Representative indexes: manufacturing: ISM Manufacturing PMI; services: ISM Services PMI.

Portfolio considerations

Currently, we like areas of fixed income with higher yields and shorter duration, providing a potential buffer against interest rate moves. While we expect interest rates to decline over time, the path to lower rates may be volatile. This environment looks well-suited to **preferred securities**, which may offer attractive levels of income. Moreover, preferreds are issued primarily by banks, where fundamentals are sound: Both U.S. and European institutions passed their 2025 stress tests with flying colors, and second quarter bank earnings were again robust. From a credit perspective, most issuers of preferred securities are investment grade at the senior level, and most preferred issues are BBB rated at the security level — making this a high quality asset class.

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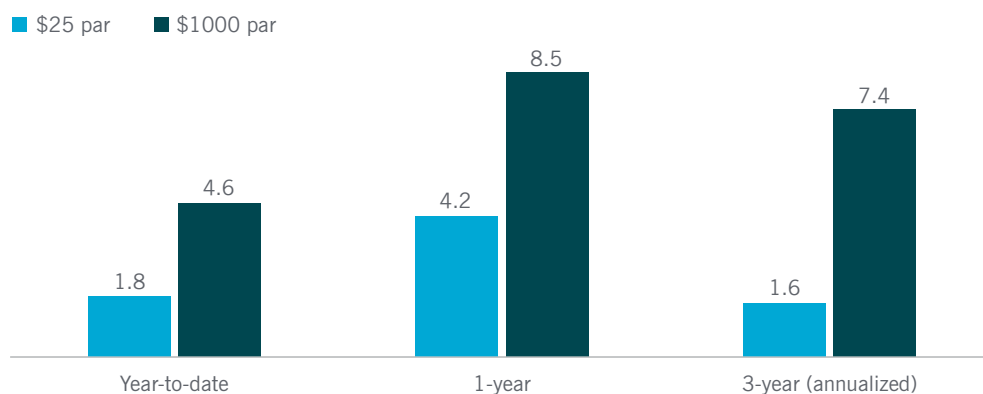
Year-to-date, total returns have been solid for all three segments of preferreds, with contingent capital securities (CoCos) up +6.6%, followed by \$1000 par securities (+4.6%) and \$25 par securities (+2.5%). While spreads across fixed income sectors are tight, preferred spreads remain above historic lows.

Within the preferreds market, we favor \$1000 par and CoCo securities. Both are more compelling on a risk-adjusted basis, with meaningful levels of income and lower duration compared to \$25 par preferreds, and they also offer better liquidity.

On balance, we think exposure to preferreds is best managed using an active rather than a passive approach. Some preferreds offer tax efficiency, as income may be considered qualified dividend income (QDI) and is taxed at 20% rather than at higher ordinary income tax rates. We anticipate continued strong investor demand for tax-efficient solutions. Active portfolio managers can emphasize both tax efficiency and larger allocations to the \$1000 par segment, which has significantly outperformed \$25 par, +7.4% versus +1.6% on a three-year basis as of 31 Jul (Figure 2).

FIGURE 2: \$1000 PAR PREFERREDS HAVE SUBSTANTIALLY OUTPERFORMED \$25 PAR SECURITIES

Total returns of \$1000 par and \$25 par preferred securities (%)



Data source: Bloomberg, L.P., 31 Jul 2025. Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: \$1000 par preferreds: ICE BofA U.S. Institutional Capital Securities Index; \$25 par preferreds: ICE BofA Core Plus Fixed Rate Preferred Index.

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.

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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Important information on risk

All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time.

Investing in preferred securities entails certain risks, including preferred security risk, interest rate risk, income risk, credit risk, non-U.S. securities risk and concentration/nondiversification risk, among others. There are special risks associated with investing in preferred securities, including generally an absence of voting rights with respect to the issuing company unless certain events occur. Also in certain circumstances, an issuer of preferred securities may redeem the securities prior to a specified date. As with call provisions, a redemption by the issuer may negatively impact the return of the security held by an account. In addition, preferred securities are subordinated to bonds and other debt instruments in a company's capital structure and therefore will be subject to greater credit risk than those debt instruments. Credit risk is the risk that an issuer of a security will be unable to make dividend, interest and principal payments when due. Interest rate risk is the risk that interest rates will rise, causing fixed income securities prices to fall. Income risk is the risk that the income will decline because of falling market interest rates. This can result when an account invests the proceeds from new share sales, or from matured or called fixed income securities, at market interest rates that are below the account's current earnings rate. An investment in foreign securities entails risks such as adverse economic, political, currency, social or regulatory developments in a country including government seizure of assets, lack of liquidity and differing legal or accounting standards (non-U.S. securities risk). Preferred security investments are generally invested in a high percentage of the securities of companies principally engaged in the financial services sector, which makes these investments more susceptible to adverse economic or regulatory occurrences affecting that sector concentration/nondiversification risk). It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

Nuveen, LLC provides investment services through its investment specialists.

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