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Views from the TIAA General Account
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Tactical changes, private markets and the energy transition: Investment themes in 2024

Many insurers are making tactical changes in 2024 – capitalising on opportunities to trade up in quality, lock in higher rates and extend duration – according to EQuilibrium, Nuveen's latest institutional investor survey.

Wen-Fu Wu
Deputy CIO and Head of Fixed Income, TIAA General Account

How does this resonate with the General Account's (GA's) actions?

With underlying base rates driving all-in yields higher, we're not stretching for yield. For 2024, we are favoring investment grade over high yield, and asset classes that we believe will perform well through economic cycles.

We generally prefer fixed-rate bonds to align with the long-duration nature of our liabilities. But we continue to include select floating-rate securities such as leveraged loans and direct lending in our allocation mix, where spreads are compelling. At these spreads, even if base rates reset lower, these assets should continue to generate an attractive income stream on a risk-adjusted basis.

Within investment grade (IG), we particularly like private credit as we can capture additional spread for illiquidity and complexity. Private credit, whether IG or high yield, also benefits from covenant protections that will lead to higher recoveries should a downturn hit.

Another theme from EQuilibrium is that alternatives (e.g. private credit, infrastructure and real estate) are still in demand. How is the GA using alternatives?

While investment-grade fixed income is the majority of our portfolio, alternatives help to provide higher, often uncorrelated, returns. And, in certain instances such as natural resources and infrastructure, they also add sector and geographic diversification.

The higher-returning nature of alternative investments comes, of course, with higher volatility. So we weigh the risk-taking against the capital base that we have and our desire to maintain a well-diversified portfolio. TIAA's large capital base allows us to add relatively more higher-yielding investments in our portfolio than most other insurance companies, all while still maintaining the highest ratings with three of the four major rating agencies. This serves as a distinct advantage in generating higher long-term returns, since we have the capital to weather short-term bouts of market volatility.

Deploying capital in alternatives, especially infrastructure, was a challenge for many institutional investors in 2023. How does the GA access these investments?

Access to these opportunities typically occurs in close collaboration with Nuveen, our wholly owned asset manager. Nuveen continues to develop and expand its platforms, helping us to deploy our capital and broadening our allocation choices. There is a natural alignment of interests as the GA seeks differentiated investment opportunities and Nuveen looks to grow both organically and via acquisition; oftentimes, the investment strategies of the GA align with areas Nuveen is looking to grow. Recent additions included private credit and renewable energy in Europe and energy infrastructure credit in the U.S.

As a global asset manager, Nuveen offers on-the-ground information in terms of opportunities and risks, and the GA works closely with them, relying on their expertise and underwriting capabilities to make our ultimate allocation decisions.

Alternative energy, new infrastructure projects and electrification are the top picks for those investing in the energy transition. Tell us about the motivations behind the GA's energy transition investments.

The GA's primary goal is to generate the best risk-adjusted returns possible, mindful of our liability structure, risk appetite and regulatory constraints. To do this, our job is to identify potential near-term and long-term trends in the market, and position the portfolio to take advantage of the opportunities and risks that arise from these trends.

The global transition toward more sustainable and renewable energy is one such trend. If the world is transitioning towards lower carbon emissions, then continuing to invest in companies that are not evolving consistent with that transition exposes the GA to risk. Our role – to find the best risk-adjusted returns – means we need to monitor where the world is moving toward and not be too late; rather, particularly in this regard, we would even err on the side of being slightly early.

What are the GA's views on the current macro environment?

We see strength in the U.S. economy given the tight labour market, healthy consumer spending levels and inflation trending towards the Federal Reserve's target. We entered 2024 with a slightly cautious view, but as the data releases have come out stronger and stronger, we think the underlying economic engine will steer us towards a soft landing.

But this trajectory could be derailed by a number of risks. Potential short-term headwinds we've been monitoring include any lagged effects of restrictive monetary policy, the high cost of debt on corporate balance sheets, and ongoing turbulence in the real estate market. Additionally, we believe that geopolitical risks – given uncertainties in November's U.S. election, the war in Ukraine, the situation in the Middle East and tensions between the U.S. and China – could be underpriced over the medium to long term.

Tell us about your role at TIAA.

My role has two parts. As deputy CIO, I support the CIO in overall portfolio strategy and portfolio oversight across the entire GA portfolio of nearly $300bn. As head of fixed income, I have direct oversight of the GA's more than $200bn of fixed income assets, spanning safe-haven US Treasuries and agency mortgage-backed securities, public and private investment-grade credit, structured credit, leveraged finance and private credit.

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Risks and other important considerations

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