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Views from the TIAA General Account
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The upside of higher rates

Higher rates and economic uncertainty are challenging investors, even those focused on the long term. What's your view?

In my experience, there's never a market that isn't challenging. But it's worth pointing out that because the General Account (GA) is a yield-oriented investor, we're not entirely unhappy about the increase in rates!

We're able to take advantage of higher rates to add investments with attractive long-term yields to the portfolio. That's actually a huge relief after the multi-year near-zero rates world.

Our focus right now is on the direct and indirect effects of these higher rates on the portfolio's asset quality and on the resulting stresses. We're thinking about events like the risk of a moderate to severe recession or possible monetary policy mistakes.

In this higher rate environment and as liquid assets become more attractive, how does this affect the GA's asset allocation between liquid and illiquid assets?

We benefit from an incredibly strong financial position relative to the broader insurance industry and with a relatively illiquid liability structure, we are able to support a measure of illiquidity in our invested assets.

So long as we see the opportunity to capture attractive illiquidity and complexity premiums relative to comparable risks in public markets, we will continue, on balance, to favor private markets in our allocations. That said, we watch that relative value between public and private markets very carefully especially in light of higher rates, and we're prepared to pivot should we find that private premiums become less compelling.

How are you employing alternatives and private markets as part of the GA's portfolio strategy?

We incorporate private credit and real assets like infrastructure, timber, agriculture as well as venture capital in our alternatives portfolio. These assets provide the potential for uncorrelated risks to the rest of the portfolio, offering good diversification and often lower mark-to-market volatility than public markets.

Private markets (particularly private credit) remain a core allocation for the GA. They currently represent nearly a quarter of our invested assets, which is a level we're comfortable with.

Private credit has proven to be a defensive asset class, generating premiums for liquidity and complexity. And we generally experience higher recoveries in default situations. So the combination of those features make it a very attractive core allocation for us.

Emilia Wiener
CIO, TIAA General Account

As part of her participation in Nuveen's Global Investment Committee, Emilia Wiener offers her perspective as an institutional investor and asset allocator. Neither Emilia nor any other member of the TIAA General Account team are involved in portfolio management decisions for any third-party Nuveen strategies.

Where are you seeing the opportunities in private markets?

I think private markets are actually a beneficiary of all of the macro uncertainty, and we're seeing opportunities in both the U.S. and Europe.

Nuveen's recent acquisition of Arcmont has given us better insights into the European market and the potential for compelling risk-adjusted returns there. It's true that some of this is technical in nature because the macro environment has altered supply and demand relationships, and because liquid, high yield markets have been effectively closed for months. But we think private markets offer great value through the cycle. And sometimes, like now, they appear even more attractive.

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What signals are you looking for to indicate a better or worse outlook?

Clearly all eyes are on the U.S. Federal Reserve and whether or not there will be a policy mistake. As we're watching the inflation data come through, the risk of a more severe recession is starting to ameliorate. Our base case right now is that we might see a mild recession, possibly later in the year.

We're also watching consumer leverage and spending levels in the U.S., and banks' reluctance to lend into particular segments, particularly commercial real estate where we're already seeing weakening valuations due to limited liquidity currently. Default and recovery trends are other indicators we watch, as higher interest rates take a bite out of interest coverage levels and put pressure on companies that are highly levered.

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