

## CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

# Geopolitical risk dominating sentiment

## Bottom line up top

**Strikes on Iran add rattle global markets.** Saturday morning's U.S. and Israeli strikes on Iran have added more uncertainty to our forecasts. As of Monday morning, the impact on financial markets looks to be sharp. U.S. equity futures are pointing to a -1.1% move, following declines in Europe and Asia. Oil prices are set to spike around 8%, returning to the highs of June 2025, also the last time the U.S. struck Iran stoking fears that the Strait of Hormuz could close. Treasury yields surprisingly ticked higher, while gold climbed. We anticipate further volatility as this news develops, and the broad impact becomes clear. While oil price shocks may drive up inflation, we do not anticipate any near-term impact on U.S. Federal Reserve policy.

**Tariffs: slushy mess or crystal clarity?** Remnants of the winter storm that blanketed Washington, D.C. after the U.S. Supreme Court gave the cold shoulder to President Trump's tariffs have melted away. However, the administration quickly pivoting from the International Emergency Economic Powers Act (IEEPA) of 1977 to Section 122 of the Trade Act of 1974 to justify its broad tariffs.

Whether that shift survives legal scrutiny remains to be seen, but for now the effective U.S. tariff rate appears unlikely to change materially from current levels around 13% (Figure 1). The new 10% tariff, which went into effect for all countries on 24 February, is limited to 150 days, and raises questions about compatibility with existing bilateral agreements and equal treatment requirements for all trading partners.

**Inflation and consumer resilience still in focus.** While concerns about the impacts of tariffs may be largely behind us, broader inflation



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As Nuveen's Chief Investment Officer 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 is a portfolio manager for several key investment strategies.

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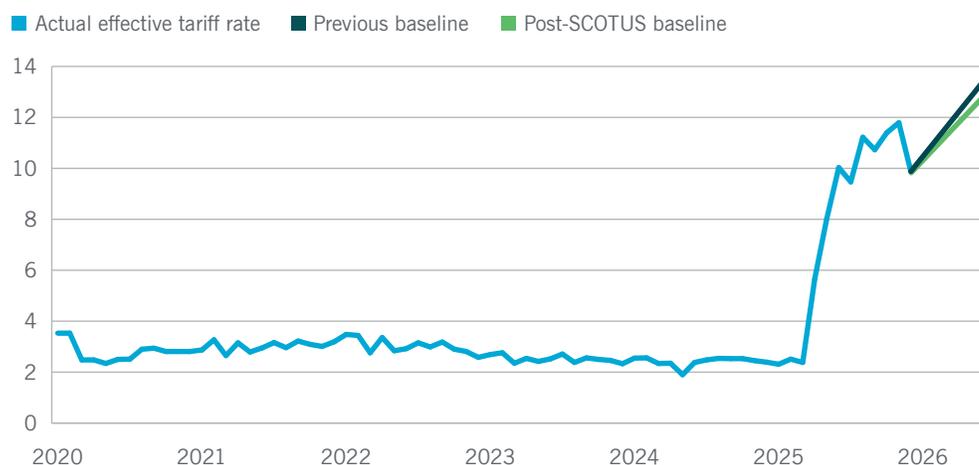
**Investors searching for yield with solid credit quality may consider an allocation to preferreds.**

and U.S. consumer financial health remain front and center for the Fed. Last week's release of the Producer Price Index, which captures price changes before they filter through to consumers, came in hotter than expected for January. Core PPI (which excludes volatile food and energy costs) was sharply higher month over month at 0.8% — well above the 0.3% consensus forecast — and jumped to 3.6% year over year. Headline PPI for the month was also an upside surprise at 0.5%. These elevated readings will likely reinforce Fed caution about sticky, above-target inflation.

On balance, our Fed policy outlook remains unchanged: We anticipate two 25 basis points (bps) rate cuts this year. We also see the 10-year U.S. Treasury yield staying relatively range-bound around 4.0%. Given this backdrop, a portfolio allocation to preferred securities may offer attractive yield potential above Treasuries, supported by sound credit fundamentals.

**FIGURE 1: MINIMAL CHANGE IN BASELINE TARIFFS EXPECTED AFTER SCOTUS RULING**

*Tariff rates (actual and forecast, %)*



Data source: Bloomberg, L.P., Nuveen. 25 Feb 2026.

## Portfolio considerations

Roughly 80% of **preferred securities** are issued by banks, insurance companies and utilities — companies that are subject to rigorous regulatory oversight. Additionally, all of these sectors currently have strong underlying fundamentals. Banks continue to beat earnings expectations and pass the Fed's annual stress tests, while insurance companies hold near-record levels of surplus capital and are seeing record-breaking annuity sales. Utilities are being lifted by structural tailwinds that include surging demand for power generation driven by AI data centers and the electrification of the economy.

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***Robust fundamentals and supportive technicals build the case for preferred securities.***

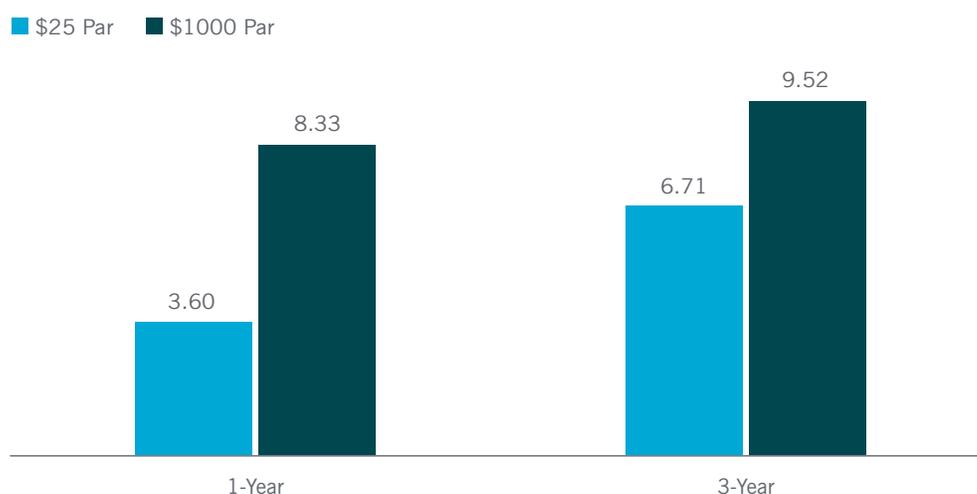
These fundamentals are complemented by supportive technicals, as net supply this year is expected to be roughly flat. U.S. bank issuance, in fact, may be negative, while supply from utilities and energy issuers will likely be higher due to AI infrastructure financing needs. However, because preferreds are considered hybrid securities (exhibiting characteristics of both equity and debt), they're generally eligible for inclusion in corporate bond indexes. This means the investor base for preferreds is quite broad, with supply likely to be absorbed by demand.

Among the preferred market segments, we tend to favor \$1,000 par securities over \$25 par. The \$1,000 par category is growing and offers shorter duration of just 4.2 years, versus 8.5 years for \$25 par preferreds. Moreover, the \$1,000 par market continues to outperform the \$25 market (Figure 2). Lastly, some preferred securities pay qualified dividend income (QDI), which is taxed at 20% rather than higher ordinary income tax rates. Compared to \$25 par securities, the \$1,000 par category offers more exposure to QDI as a percentage of income. Income-seeking investors may find this tax-efficient income potential particularly compelling.

We anticipate further yield curve steepening if the Fed resumes rate cuts later this year. A positively sloping curve is a plus for banks because it improves net interest margins. Lastly, U.S. mergers and acquisitions (M&A) activity has already jumped 68% year over year in 2026. We expect M&As and the initial public offering market to continue to gain steam, bolstering fee generation for banks.

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

*Returns of \$25 par vs. \$1000 par preferred securities (%)*



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

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## 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](http://nuveen.com).**

### Endnotes

#### Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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