

Commercial real estate recovery continues

Bottom line up top

Will inflation take a hike? Last week's big headline was the U.S. Federal Reserve's 25 basis points (bps) rate increase after months of will-they-or-won't-they speculation. But the more important boost may have been to market perceptions of the Fed's credibility and resolve. The unanimous decision to hike stood in sharp contrast to the dissents seen in July's vote to hold rates steady.

The policy statement announcing the move asserted that the rate hike will support a "timelier return" to the Fed's 2% inflation target — a level not seen since February 2021, when the core PCE Price Index (the Fed's preferred inflation barometer) fell to 1.9% during the depths of the pandemic.

In his press conference, Fed Chair Kevin Warsh struck an optimistic tone on economic growth and a hawkish tone on inflation, affirming the themes he emphasized in his recent Jackson Hole keynote address. The Fed's updated dot plot (Figure 1) implies one more 25 bps hike in 2026, with no further changes projected in 2027. If policy were to follow this trajectory, it would be a rare instance of a one-and-done hiking cycle (or two-and-through, including last week's increase).

That outlook is supported by the fading impact of tariff passthroughs, stable wage growth and other disinflationary signs. Moreover, the Bureau of Economic Analysis will revise its PCE Price Index methodology at the end of September, likely lowering historical core PCE levels going back to 2021. Against this backdrop, we expect the inflation-sensitive 10-year U.S. Treasury yield, which last week closed above 5%, to end the year at 4.75%, and then dip to 4.50% by year-end 2027. In our view, this trajectory increases the odds of a rate cut, rather than hike, in 2027.

This week's economic calendar is both light and (potentially) illuminating. After last week's August retail sales data showed U.S. consumers are still spending, Friday's University of Michigan consumer sentiment index deserves close scrutiny. It could indicate whether consumers continue to open their wallets despite downbeat expectations, or if the gap between sentiment and spending is starting to narrow. Also worth watching is Thursday's meeting between Donald Trump and Chinese President Xi Jinping, with trade, Taiwan and AI all in the spotlight.

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CIO WEEKLY
COMMENTARY

21 SEP 2026



Saira Malik, CFA®
Chief Investment Officer

*On behalf of
Nuveen's Global
Investment Committee*

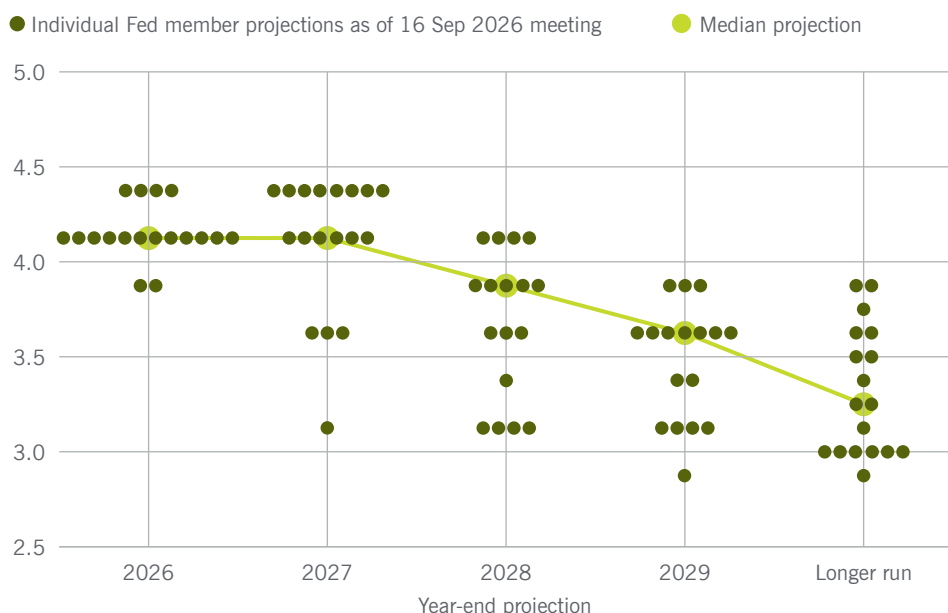
As Nuveen's Chief Investment Officer and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she is a portfolio manager for several key investment strategies.

Overall, the macro environment remains unsettled, but encouraging signs of potential disinflation and further economic resilience suggest there's value in allocating to real asset categories such as commercial real estate, where fundamentals are improving and a recovery in returns is underway.

Figure 1

Fed's dot plot shows one more hike in 2026, then holding steady through 2027

Implied federal funds target rate (%)



Data source: U.S. Federal Reserve, 16 Sep 2026.

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Despite the unsettled macro environment, investors may find value in sectors such as commercial real estate.

Portfolio considerations

Since mid-2022, commercial real estate values have corrected 20%-25% amid interest rate hikes, geopolitical disruption and tight liquidity conditions. That painful reset has created a rebased starting point that may offer compelling risk-adjusted returns for both debt and equity real estate investors.

The case for real estate debt: New loans are structured against lower valuations, giving lenders their widest equity cushion since 1989, able to withstand market-wide value declines of over 50% before principal erosion. Regulatory reforms enacted after the 2007-2009 global financial crisis helped lower the average senior loan-to-value (LTV) ratio from 80% to 55% by the end of 2024, while margins have expanded. Meanwhile, the probability of default on a three-year loan at 65% LTV is currently only about 4%, while the recovery rate for real estate debt from larger issuers averaged 82% between 2000 and 2023, far more favorable than the 66% recovery rate for small-enterprise private debt. Real estate debt also offers an attractive volatility profile, low correlation to public fixed income and a structural tailwind as values recover.

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The case for real estate equity:

Attractive value. U.S. commercial real estate values fell 21% from their 2022 peak to their 2024 trough, according to the Green Street Commercial Property Price Index (CPPI). Since then, commercial real estate has posted gains for seven consecutive quarters. This has allowed buyers to acquire quality assets at reasonable prices without needing to underwrite aggressive tenant rent growth or relying on rapid decline in rates.

Limited supply growth. A slowdown in construction across property sectors has kept supply tight. Industrial supply, for example, sits at an eight-year low. This scarcity strengthens pricing power for existing assets (Figure 2).

Upside capture. As income, leasing and exit values improve, incremental value accrues to equity holders, which is particularly valuable early in a recovery.

Asset control. Active owners can tailor leasing and capital plans rather than rely on a broad market rebound — thereby protecting cash flows through early renewals, repositioning assets toward resilient demand and preserving flexibility ahead of upcoming debt maturities.

Because both real estate debt and real estate equity are well-positioned, investors can consider allocating to either or both as part of a diversified portfolio, based on their individual needs, preferences and risk-return profiles. Regardless of their specific portfolio objectives, investors should monitor the potential impact of higher rates on real estate valuations.

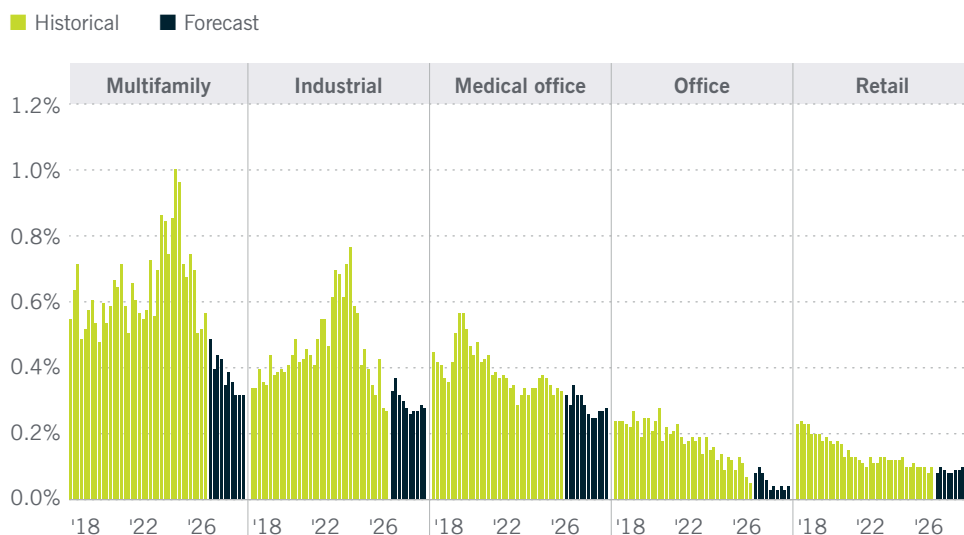
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A rebased starting point for commercial real estate may offer compelling risk-adjusted returns for both debt and equity investors.

Figure 2

Broad construction slowdowns support pricing power

Quarterly deliveries as a percent of existing supply (Q1 2017 – Q4 2028)



Data sources: CoStar (26Q2); Revista (26Q2); Nuveen Real Estate Research.

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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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