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Converting uncertainty into opportunity

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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.

Bottom line up top

The caveat about halftime scores is that there's always a second half. Midway through 2026, investors taking shots on goal find themselves on a shifting and increasingly complex playing field. Renewed hostilities in Iran have reintroduced meaningful geopolitical risk across global markets, causing energy prices to spike just as they were returning to pre-conflict levels. The result: a sudden surge in demand for defensive positioning as markets seek clarity on the trajectory of interest rates, consumer spending and the durability of corporate earnings.

Another change is the recent unwinding of the AI momentum trade. Part of the drawdown reflects growing skepticism about massive hyperscaler capital expenditures and the long-term monetization path for AI, with investors reassessing lofty tech valuations that had far exceeded those of the broader market. The sharp and decisive unwinding has seen the Magnificent Seven mega cap growth stocks trail the Russell 1000 Value Index by more than 10 percentage points since the beginning of June — a meaningful rotation away from concentrated technology exposure (Figure 1).

Redefined frameworks, recalibrated portfolios. Alongside the unwinding is a structural reshaping of the U.S. equity benchmark landscape that has implications for how investors think about style allocations. The June 2026 reconstitution of the Russell indexes was not only vast in scale, but also historic in its reclassifications of key constituent companies. Several of the Mag 7 names now represent roughly 17% of the Russell 1000 Value Index's market capitalization, up from less than 7% previously, as companies like Amazon and Apple migrated into value benchmarks due to shifting valuation metrics.

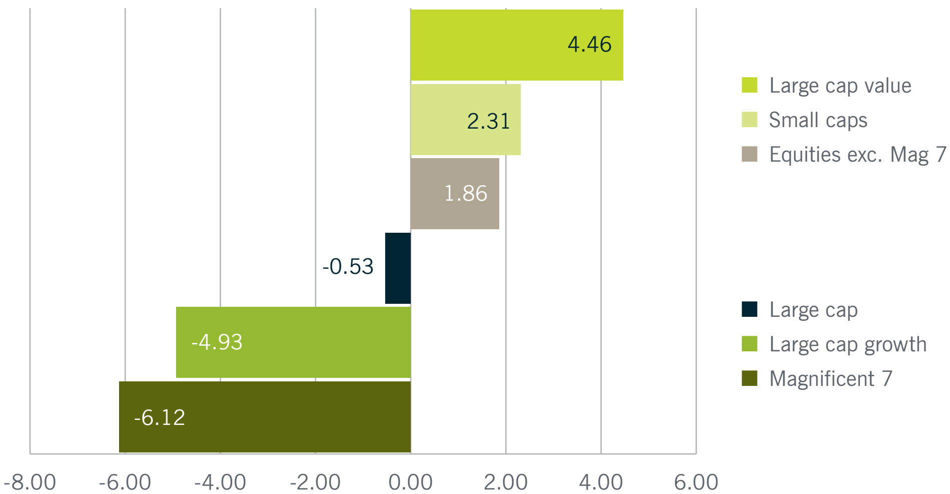
Such changes have material consequences for portfolio construction. Investors in value-oriented strategies may now carry meaningful, perhaps unintended, exposure to the very high-multiple technology names they sought to underweight. Active managers benchmarked to the Russell 1000 Growth Index face a separate challenge, as semiconductors now make up more than 31% of that index, creating potential conflicts with standard industry diversification guidelines.

We believe these dynamics will increasingly reward selectivity and fundamental quality over simple benchmark exposure. Going forward, successful equity performance will likely be defined by three factors: (1) a clear-eyed view of where and how AI is delivering a genuine return on investment, (2) disciplined valuation and (3) a portfolio construction process that accounts for the new realities embedded in today's reconstituted equity benchmarks.

Figure 1

The momentum trade in U.S. equity markets has reversed

U.S. equity returns since 01 Jun 2026 (%)



Data source: Morningstar Direct. 8 Jul 2026. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: Large cap value:** Russell 1000 Value; **Small caps:** Russell 2000; **Equities exc. Mag 7:** Bloomberg 500 ex Magnificent 7; **Large cap:** Russell 1000; **Large cap growth:** Russell 1000 Growth; **Magnificent 7:** Bloomberg Magnificent 7.

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Ongoing market dynamics should increasingly reward selectivity and fundamental quality over simple benchmark exposure.

Portfolio considerations

In this tumultuous environment, sophisticated allocators are increasingly asking the same question: how do we stay invested and generate returns without depending on rising markets? We believe the answer lies in a disciplined, integrated approach that combines strategies beyond traditional credit — **convertible arbitrage, long-short credit** and **opportunistic collateralized loan obligations (CLOs)** — dynamically allocated within a single framework.

Convertible arbitrage sits at the core of this approach. Convertible bonds possess a unique structural characteristic — their embedded optionality means they can benefit from volatility rather than suffer from it. As equity volatility spikes, the value of those embedded options tends to rise, improving returns precisely when traditional strategies face the most headwinds. Per Bank of America data, convertible arbitrage was the best-performing hedge fund strategy from 2023-2025. The global convertible market has reached $600 billion, with liquidity at record levels, providing a deep and diverse opportunity set (Figure 2).

Long-short credit adds a flexible, active dimension. By taking both long and short positions across high yield bonds and senior loans — including distressed situations and tactical hedges — this component can provide a powerful lever for alpha generation while actively managing downside risk. It is not a passive bet on credit spreads; it is a dynamic tool for navigating cyclical turns.

Opportunistic CLO debt and equity investing rounds out the framework. High-conviction positions in structured credit, deployed selectively when valuations are compelling, and can offer a differentiated return stream with low correlation to the other components of the approach — enhancing diversification within the overall portfolio.

Together, these three strategies are structurally designed to perform across market cycles with low volatility — potentially offering compelling risk-adjusted returns, meaningful downside mitigation, and genuine diversification from both equities and traditional credit. In our view, investors who embrace this kind of multi-strategy credit thinking are better positioned to turn today's uncertainty into tomorrow's results.

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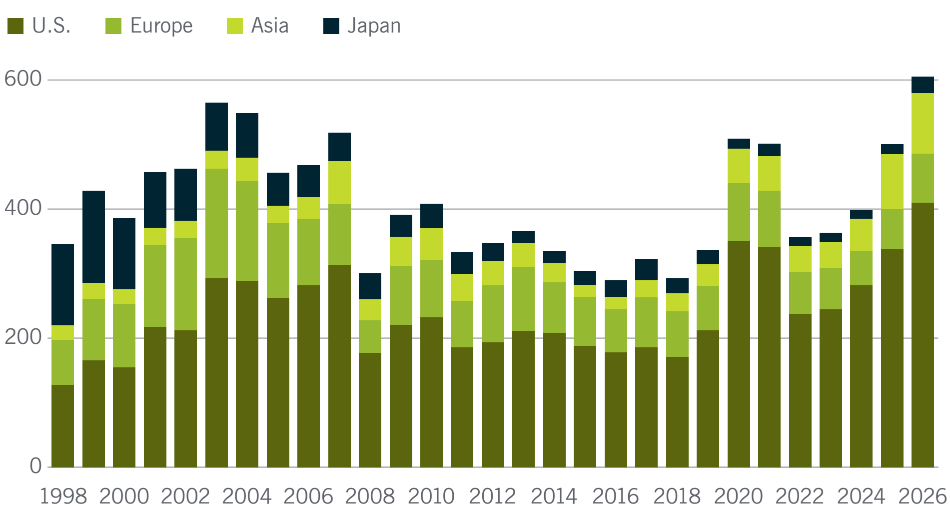
Strategies beyond traditional credit investing can outperform across market cycles with differentiated returns.

Figure 2

The convertibles market is growing rapidly again

Global convertibles market value ($ billions)



Data source: BofA Global Research, ICE Data Indices, LLC, 30 Jun 2026.

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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