

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Lower rates could boost the case for real estate

Bottom line up top

While the scales may be tipped in favor of equity markets...

Strong second quarter earnings, optimism for a minimal impact of higher tariffs on consumer inflation and heightened expectations for U.S. Federal Reserve rate cuts helped power the S&P 500 Index to three record-high closes last week. If the +11.7% earnings growth rate (as of 13 Aug 2025) holds up, it would mark the third consecutive quarter of double-digit year-over-year earnings gains for the index — far exceeding forecasts of just +4.9% on 30 June, based on FactSet data. Further underscoring bullish sentiment, more than half of index stocks are trading above their 50- and 200-day moving averages. And fund manager allocations to global equities are at their largest overweight of the past six months, according to one industry survey. Despite genuine downside risks, including a possible reacceleration of inflation and a weakening labor market, along with a crowded artificial intelligence (AI) trade that has led to stretched valuations and narrow market leadership, investor euphoria continues to define the trajectory for equities.

...the Fed is compelled to maintain its balancing act. Investors were elated to see another monthly Consumer Price Index report showing little evidence of increased tariffs driving up inflation. Notably in July, shelter costs — one of the stickiest components of CPI — trended below 4% for the fifth month in a row. This is the first time it has held this level in approximately five years (Figure 1). The bloom came off the rose, however, after July's Producer Price Index was released the next day, with both headline and core PPI coming in much hotter than forecasts and sharply higher than the prior month's readings. PPI measures wholesale price movements, and some key components feed



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On behalf of Nuveen's Global Investment Committee

As Head of Equities and Fixed Income, Nuveen's CIO 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 chairs Nuveen's Equities Investment Council and is a portfolio manager for several key investment strategies.

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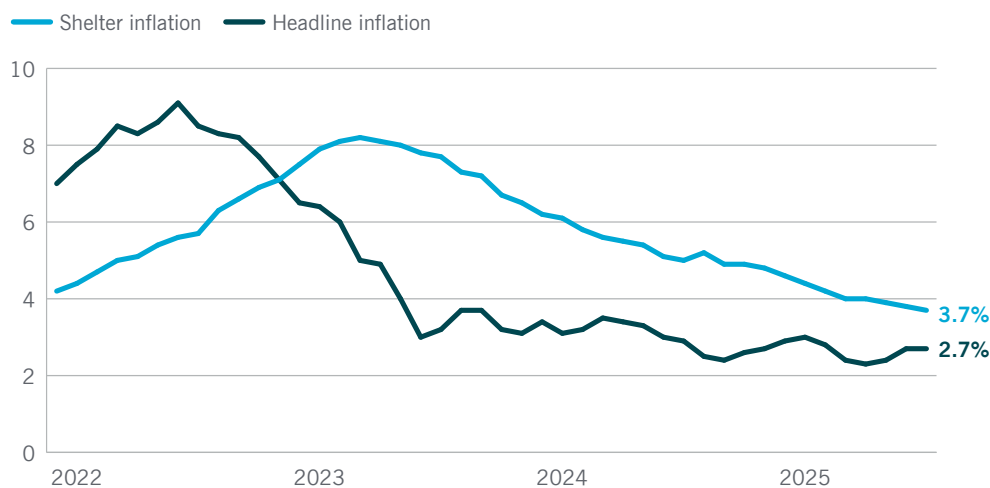
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Lower rates could bolster rate-sensitive sectors like commercial real estate.

into the Fed's preferred inflation barometer, the core Personal Consumption Expenditures (PCE) Price Index, due later this month. Amid a mixed inflation outlook and worsening employment data, markets now anticipate two, rather than three, Fed rate cuts of 25 basis points (bps) between now and the end of 2025, beginning in September. A combined 50 bps reduction in the target fed funds rate by year-end, to a range of 3.75%-4.0%, would put it at its lowest level since November 2022. This could bolster a rate-sensitive sector like commercial real estate, making it a worthy candidate for a potential portfolio allocation.

FIGURE 1: SHELTER INFLATION CONTINUES TO COOL, A COUNTERBALANCE TO TARIFF PRICE PRESSURES

Shelter inflation and headline inflation (year-over-year, %)



Data source: Bloomberg, L.P. 31 Dec 2021 - 31 Jul 2025. Representative indexes: shelter inflation: U.S. CPI Shelter YoY Index; headline inflation: U.S. CPI Urban Consumers YoY Index.

Portfolio considerations

Following two years of declines, **global private real estate** returns have been positive for the past four quarters, amid diminishing headwinds for the asset class. Rebounding real estate prices in most global markets, rising transaction volumes and a sharp drop in new-construction activity have all contributed. Transaction volume has exceeded \$1 trillion dollars over the past year, with stabilizing levels in the Asia Pacific region after a period of weakness, along with investment volume picking up in both the U.S. and Europe. With real estate at a turning point, in our view, we continue to favor a global cities approach that emphasizes growing markets with educated and diverse populations.

The next cycle has seemingly begun for U.S. real estate. In the history of the U.S. core open-end real estate fund industry, there have been three major cycles, each of which lasted 12+ years and generated

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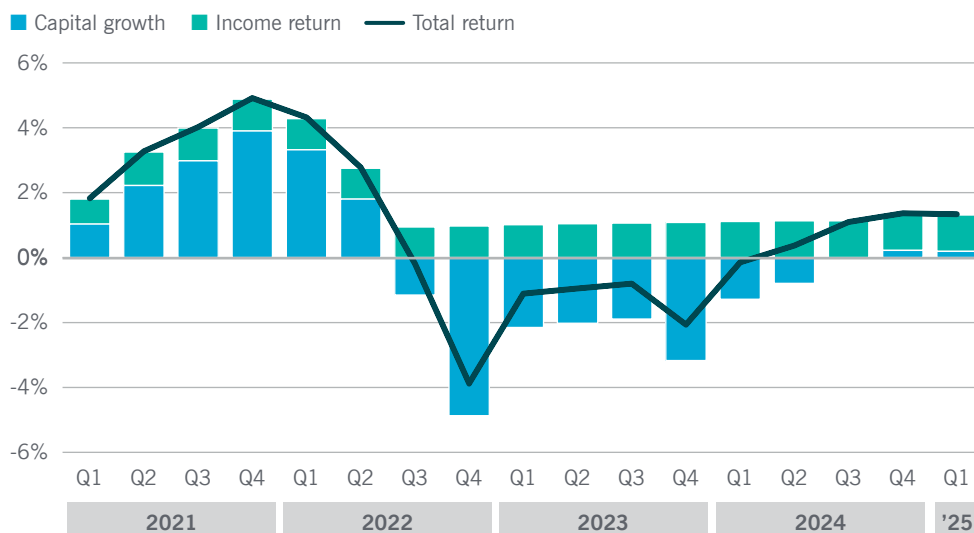
total returns of 10%+ annually (based on the NCREIF Fund Index – Open-End Diversified Core Equity). Historically, two consecutive quarters of positive total returns have indicated the start of the next cycle. Core real estate has now produced four (Figure 2). Additionally, in this cycle the number of new projects has dropped significantly across property sectors, and next year deliveries are expected to be at their lowest level in more than a decade. These dynamics bode well for future real estate fundamentals.

Within the U.S. market, we continue to favor the medical office and retail sectors. Medical office occupancy is at a cyclical high of 93%, with demand outpacing supply for 17 straight quarters. Construction starts are at just 53% of peak levels, setting up a medical office supply shortage in the coming years. Within retail, grocery-anchored shopping centers are particularly strong, as occupancy rates are elevated and new supply is nearly nonexistent. Prospects for future growth remain favorable and may surprise to the upside as vacancies remain below their historical average.

Asia Pacific: Medium-term growth fundamentals and long-term structural trends. In Tokyo, multifamily rents are expected to stay on an upward trajectory, underpinned not only by sustained leasing demand, but also by constrained new supply. South Korea continues to emerge as a potential market for rental housing opportunities. A shift in residential leasing practices should be a positive going forward. In Australia, grocery-anchored neighborhood shopping centers look attractive, supported by attractive initial yields, the country's long-term population growth and a tight retail supply pipeline.

FIGURE 2: REAL ESTATE ON THE REBOUND

Global unlevered quarterly returns (%)



Data source: Bloomberg, L.P., Nuveen Real Estate Research, Q1 2025 data released 06 Jun 2025. Performance data shown represents past performance and does not predict or guarantee future results. Representative index: MSCI Global Quarterly Property Index.

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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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All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Equity investing involves risk. Investments are also subject to political, currency and regulatory risks.

These risks may be magnified in emerging markets. The use of derivatives involves additional risk and transaction costs. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager. Real estate investments are subject to various risks associated with ownership of real estate-related assets, including fluctuations in property values, higher expenses or lower income than expected, potential environmental problems and liability, and risks related to leasing of properties.

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