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CIO Weekly Commentary
10 March 2025

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

A solid foundation to protect against market swings

Bottom line up top

Tariff tumult sends U.S. equity markets reeling. Last week, after a month's delay, the Trump administration imposed 25% tariffs on a broad array of goods from neighboring trading partners Canada and Mexico, while also increasing those already implemented against China. A wave of retaliatory tariffs ensued, amping up the prospects of an all-out trade war and driving down the S&P 500 Index, which posted its third consecutive weekly loss and worst of 2025 so far. Although sporadic announcements of exemptions and further postponements have offered brief moments of relief for U.S. equity investors, volatility and bearish sentiment have spiked (Figure 1). Non-U.S. developed markets represented by the MSCI EAFE (Europe, Australasia and Far East) Index are providing a relative haven, outperforming the S&P 500 by more than 10 percentage points year to date.

Gauging the potential economic impact of tariffs. The Trump administration campaigned heavily on the use of tariffs as a powerful bargaining chip in global trade. Not surprisingly, markets have spent much of the four months since the election attempting to forecast the scope and speed of implementation of tariffs, and their possible effects on other macroeconomic variables such as inflation and interest rates. Our baseline expectation for roughly 20% increases on goods from China and something similar for Canada and Mexico remains intact. At such levels, we would expect to see modest upward pressure on inflation by the end of 2025, with the core Personal Consumption Expenditures (PCE) Price Index up 2.5% for the calendar year, versus

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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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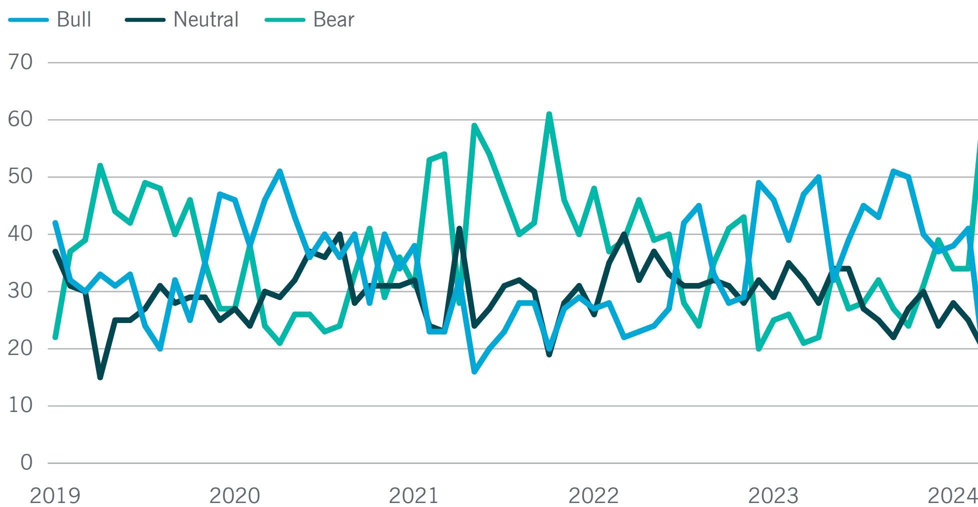
2.2% were tariffs not imposed. This would keep the U.S. Federal Reserve in a cautious stance, with no more than two rate cuts of 25 basis points (bps) each likely by year-end, lowering the target fed funds rate to a range of 3.75%-4.00%.

In the meantime, investors vexed by continued tariff troubles in U.S. equity markets may want to consider establishing or increasing exposure to other asset classes with currently attractive entry points and smoother return profiles to help dampen portfolio volatility.

With tariffs at forecast levels, we would expect to see modest upward pressure on inflation.

FIGURE 1: INVESTOR BEARISHNESS SPIKES

Investor sentiment indexes (%)



Data Source: Bloomberg L.P., 27 Feb 2025. **Representative indexes: Bull:** AAII US Investor Sentiment Bullish Readings Index; **Neutral:** AAII U.S. Investor Sentiment Neutral Readings Index; **Bear:** AAII U.S. Investor Sentiment Bearish Readings Index.

Portfolio considerations

Rising interest rates over the past few years took a toll on commercial and residential real estate values by increasing capitalization rates (net operating income divided by market value) and discount rates (the current value of future cash flows). Additionally, higher levels of construction in multiple markets led to lower occupancy rates and weaker rent growth. These combined factors resulted in the most challenging U.S. real estate market since the Global Financial Crisis, driving U.S. core real estate fund values down by 25% between June 2022 and September 2024.

In the current environment, with interest rates no longer rising and construction activity abating, real estate markets appear to be rebounding. Further, new supply could be limited by rising replacement costs, driven higher by tariffs. Core U.S. real estate funds have now produced two consecutive quarters of positive total returns. In the prior

three cycles, two quarters of gains following a downturn have reliably indicated the start of the next upcycle. What's more, the upturns each lasted more than 12 years, generating average returns of +11.5% or more for investors (Figure 2).

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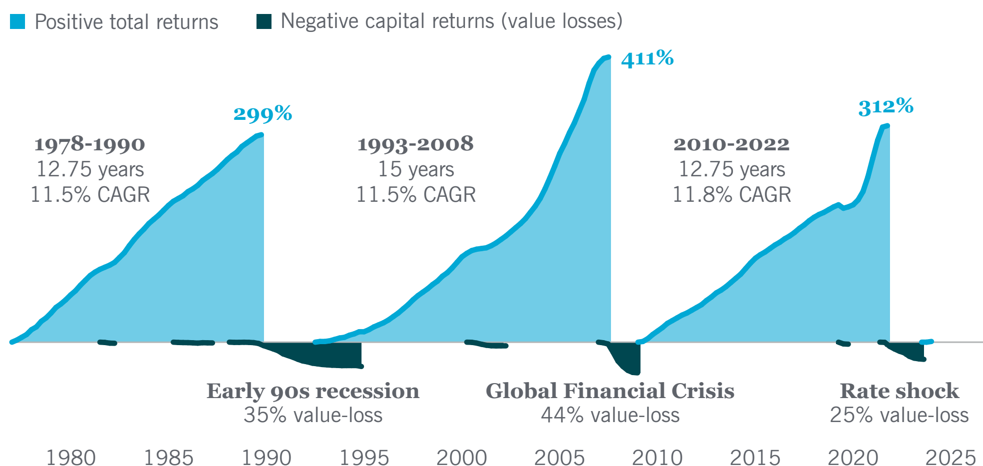
Within real estate, U.S. medical office (outpatient care) remains one of our favorite property sectors. Occupancy rates are at all-time highs, new supply is muted, and demand is strong due to the country's aging demographics and consumer preferences. And seniors spend three times more on health care than young adults, teeing up massive growth in health care spending over the next two decades.

We also like U.S. apartments, which stand to benefit from favorable supply and demand dynamics. On the supply front, new construction starts are at less than one-third of their peak levels in 2021, and the volume of square footage currently under construction has returned to pre-pandemic levels. Meanwhile, demand is well above the long-term average, and we expect rent growth to pick up gradually. Rent growth is currently strongest in lower-supply growth markets such as Chicago, Boston and Washington, D.C. Lastly, the 20% decline in apartment values since their peak in the first quarter of 2022, as estimated by the Green Street Commercial Property Price Index (CPPI), has created an attractive entry point and positive rent growth potential going forward.

FIGURE 2: SIGNS POINT TO A NEW EXPANSION CYCLE IN REAL ESTATE

Core U.S. real estate returns (%)



Data source: NCREIF ODCE; Nuveen Real Estate Research, 31 Dec 2024. **Performance data shown represents past performance and does not predict or guarantee future results.** This chart shows cumulative positive total returns until each cycle ended, identified by at least two quarters of negative total returns (ex: negative total return in Q2 2020 did not indicate the end of the cycle). Similarly, cumulative value-losses identify periods of sustained negative capital returns until values increased for at least two consecutive quarters. The most recent quarter of data (Q424) was the first quarter of positive capital returns this cycle (following nine quarters of value losses) and the second quarter of positive total returns. Total returns are comprised of capital returns (change in values) and income returns (i.e., rent and other income as a percent of asset value). Because income returns are generally positive and stable, total returns can be positive even in periods when values are moderately negative (ex: 1994-1995; "Tech-wreck" of 2001-2022; Q3 2024). Cycle 1: 01 Jan 1978 –30 Sep 1990; Cycle 2: 30 Jun 1993 –30 Jun 2008; Cycle 3: 01 Jan 2010 –30 Jun 2022. CAGR: compound annual growth rate.

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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