

# Global equities forge ahead



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*Global equities capped a stellar year with healthy fourth-quarter gains, led by non-U.S. developed markets, with emerging markets (EM) performing nearly as well. Both topped the S&P 500 Index by double digits in 2025, the first calendar year that's happened since 2006. Despite rich valuations and concerns about narrow market leadership by a small group of mega cap technology names tied to AI, the S&P 500 Index posted its eighth consecutive positive month on hopes for continued U.S. Federal Reserve easing and strong corporate earnings. Monetary policy worldwide continued to diverge as central banks sought to nurture economic growth while remaining alert to a possible resurgence of inflation.*

## KEY TAKEAWAYS

- While the European Central Bank (ECB) left rates unchanged during the quarter, the Fed cut twice amid signs of a cooling labor market. In contrast, the Bank of Japan (BoJ) tightened policy as core inflation remained well above its 2% target.
- Modest economic growth, slowly declining interest rates and positive earnings momentum remain tailwinds for global equity markets. Though valuations for AI-focused stocks look expensive, we believe they're largely justified based on the earnings growth generated by dominant U.S. technology companies.
- We anticipate periods of volatility in equity markets in 2026. This suggests investors may be well-served by balancing more aggressive holdings with allocations such as global infrastructure and dividend-growing companies, areas that offer potential resilience in downturns, a degree of inflation protection and/or opportunities for stable growth.

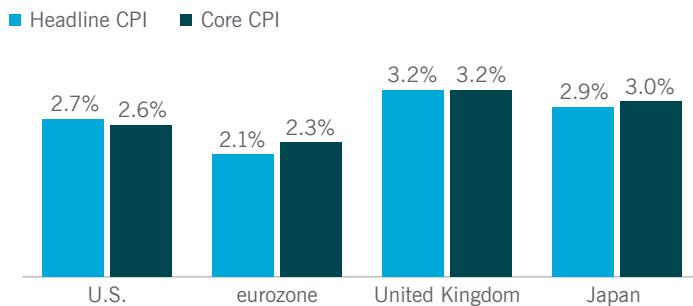
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## CENTRAL BANKS GO THEIR OWN WAY

Monetary policy diverged during the period as policymakers monitored inflation while looking to support economic growth (Figure 1).

**Figure 1: Inflation generally remains above central bank targets of 2%**



Data source: Bloomberg, 31 Dec 2025.

With two 25 basis points (bps) rate reductions from the Fed in October and December, following one in September, the target federal funds rate ended 2025 in a range of 3.50%-3.75%. Despite the easier policy, rhetoric accompanying the final decision of the year leaned hawkish, and the Fed's heavily scrutinized "dot plot" projected just one 25 bps cut in 2026 — which would put the rate at about 3.4% by year-end. (We anticipate two such rate cuts for the year.) Chair Jerome Powell, whose tenure as Fed chair ends in May, described the prevailing monetary backdrop as "very challenging," adding that the central bank will continue to "wait and see how the economy evolves."

Across the Atlantic, the Bank of England (BoE) also trimmed rates by 25 bps in December, to 3.75%. The BoE struck a cautious tone regarding further cuts, however, warning that future decisions would be a "closer call," even as data pointed to cooling inflation, softer economic growth and a weakening U.K. labor market.

Meanwhile, the more hawkish BoJ increased its benchmark interest rate to 0.75% in December as Japanese core inflation stayed above its 2% target.

And though borrowing costs in Japan are at a 30-year high, they remain far below those in other major economies, reflecting the BoJ's decades-long use of near-zero rates to battle deflation.

The ECB took the middle road in December by keeping rates at 2% for the fourth straight meeting. ECB President Christine Lagarde noted that the outlook for inflation "continues to be more uncertain than usual on account of the still-volatile international environment."

## U.S. STOCKS RISE IN Q4, EXTEND 2025 GAINS

The quarter started on a strong note for U.S. equities. Investors accentuated the positive in October, focusing on advancements in AI and solid third-quarter corporate earnings, rather than on the U.S. government shutdown, elevated valuations and the relative lack of market breadth as the biggest gains remained concentrated in high-flying tech shares.

But risk appetite receded in early November as markets downgraded the odds of a near-term Fed rate cut given sticky inflation and as worries of corporate overspending on AI mounted. By month-end, however, U.S. stocks had erased their losses, supported by continued healthy earnings and renewed confidence in the prospect of Fed easing as the U.S. labor market softened.

In December, the S&P 500's performance was a study in contrasts: the index both hit its 38th record high of the year and suffered a downturn between Christmas and New Year's Eve, missing out on a hoped-for "Santa Claus" rally and barely eking out a +0.1% return for the month. For the fourth quarter as a whole, the S&P 500 gained +2.7%, lifting its 2025 total return to 17.9%.

Other major U.S. equity benchmarks also performed well (Figure 2), led by the Dow Jones Industrial Average (+4.0%).

## Figure 2: The Dow delivers

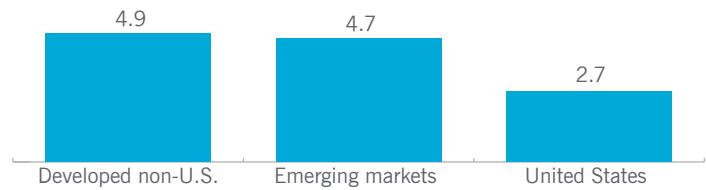
Index returns (%)



Data source: Morningstar Direct, 31 Dec 2025. Performance data shown represents past performance and does not predict or guarantee future results. It is not possible to invest in an index.

## Figure 3: Non-U.S. stocks lead the global pack

Total returns (%)



Data source: Morningstar Direct, 31 Dec 2025. Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: United States: S&P 500 Index; developed non-U.S.: MSCI EAFE Index; emerging markets: MSCI Emerging Markets Index. It is not possible to invest directly in an index.

## NON-U.S. MARKETS REMAIN IN RALLY MODE

Based on MSCI benchmark indexes in U.S. dollar terms, non-U.S. developed equity markets were the fourth quarter's star performers, edging their EM counterparts, 4.9% to 4.7% (Figure 3). For the 12 months ended 31 December, non-U.S. developed and EM shares bested the S&P 500 by more than 10 percentage points apiece — the first calendar year that's happened since 2006.

Within non-U.S. developed markets, the MSCI Euro Index (+5.2%) benefited from healthy gains for European banks and insurers, while Japan's Nikkei 225 Index (+5.7%) got a lift from technology stocks.

Tech also drove the +27.3% surge of South Korea's equity market (representing 13% of the MSCI EM index by market capitalization). At the other end of the EM performance spectrum were Chinese stocks (-7.4%, 28% of the EM Index),

which struggled amid falling business optimism, stagnant manufacturing activity and sluggish domestic demand.

## OUTLOOK AND BEST INVESTMENT IDEAS

Could 2026 bring bad news for the bears? Maybe. According to the S&P Global Investment Manager Index, which tracks the views of about 300 participants managing about \$3.5 trillion (as of 09 December 2025), sentiment hit a one-year peak as the year wound down, buoyed by supportive worldwide monetary policy and brightening economic growth prospects. Meanwhile, the CBOE Volatility Index (VIX), a closely watched measure of the S&P 500's implied volatility, dipped to a one-year low in late December.

Although we're calling for the S&P 500 to advance roughly 10% in 2026 (from 6,845 to around 7,500, Figure 4) this gain will probably be accompanied by volatile patches as described in "Risks to our outlook" on page 7.

## WILL THE AI TRADE BUBBLE OVER?

AI has emerged as a transformative force across nearly every major industry, including health care, manufacturing, finance and transportation. And given AI's potential for reshaping the economy, hyperscalers Amazon, Meta, Microsoft and Alphabet are estimated to have spent a combined \$347 billion in 2025 on building the necessary infrastructure such as data centers and the energy sources to fuel them. As shown in Figure 5, capital expenditures (capex) for the "Magnificent 7" tech names compared to spending by the other 493 companies in the S&P 500 have been steadily rising and, in our view, will likely continue apace.

These unprecedented levels of investment have fueled optimism about future gains for mega-cap technology companies, boosting their price-to-earnings (P/E) multiples and prompting concerns of an AI bubble. As of year-end, forward P/E ratios for AI bellwethers Broadcom (34.2x), Meta

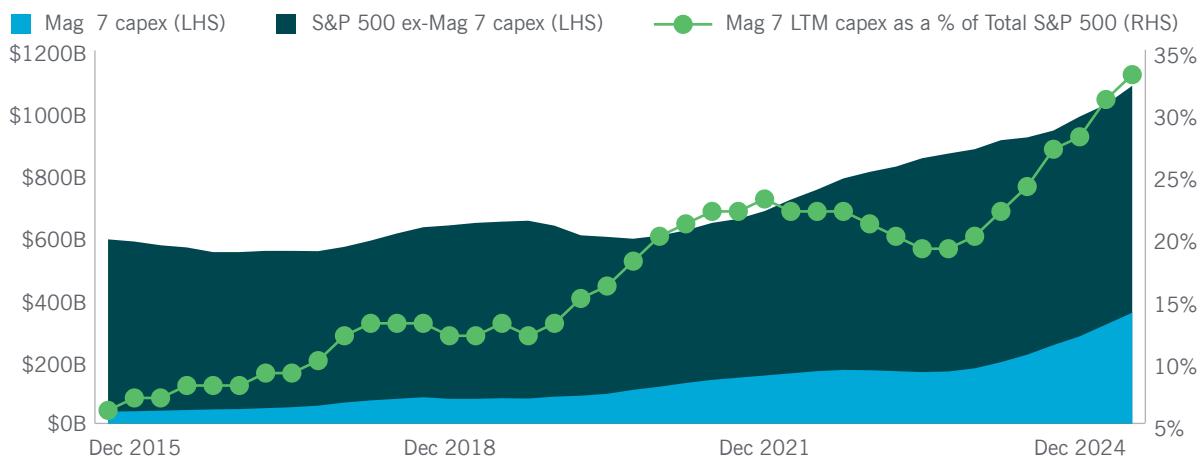
**Figure 4: Potential 2026 outcomes for the S&P 500 Index**

<b>Base case</b>	Resilient economic growth, controlled inflation, solid AI results drive corporate earnings	<b>Bull case</b>	Dovish Fed achieves soft economic landing; AI trade accelerates
	<ul style="list-style-type: none"> <li>Probability* = 55%</li> <li>S&amp;P 500 year-end close: 7,500</li> <li>10-year U.S. Treasury yield: 4.50%</li> <li>S&amp;P 500 EPS growth: 14.5% in 2026, 8.0% in 2027; P/E holds steady at 21.8x</li> <li>Fed reduces interest rates, remains cautious amid sticky inflation</li> </ul>		<ul style="list-style-type: none"> <li>Probability* = 20%</li> <li>S&amp;P 500 year-end close: 8,600</li> <li>10-year U.S. Treasury yield: 4.00%</li> <li>S&amp;P 500 EPS growth: 18.0% in 2026, 13.0% in 2027; P/E expands to 24.0x</li> <li>Fed continues to reduce interest rates, no tariff shocks, AI earnings outperform, capex increases</li> </ul>
<b>Bear case</b>	Growth reaccelerates due to fiscal expansion; inflation rises	<b>Bear case</b>	“Magnificent 7” equities correct due to AI disappointment
	<ul style="list-style-type: none"> <li>Probability* = 10%</li> <li>S&amp;P 500 year-end close: 6,450</li> <li>10-year U.S. Treasury yield: 5.00%</li> <li>S&amp;P 500 EPS growth: 8.0% in 2026, 6.0% in 2027; P/E contracts to 21.0x</li> <li>Fed pauses as inflation rises from already high levels</li> </ul>		<ul style="list-style-type: none"> <li>Probability* = 15%</li> <li>S&amp;P 500 year-end close: 5,000</li> <li>10-year U.S. Treasury yield: 3.50%</li> <li>S&amp;P 500 EPS contraction: 2.0% in 2026, 5.0% in 2027; P/E falls to 20.0x</li> <li>Fed cuts aggressively, but investors stay on sidelines and equity market does not rerate</li> </ul>

S&P 500 targets are not guaranteed. The targets above are derived from both quantitative and qualitative factors, including historical returns and market conditions and assumptions. The targets are presented to establish a benchmark for future evaluation of performance and to provide a measure to assist in assessing anticipated risk and reward characteristics. Any target data or other forecasts contained herein are based upon subjective estimates and assumptions; if any of the assumptions used do not prove to be true, results may vary substantially.

\* Views expressed are a combination of quantitative and qualitative analysis from the Equities Investment Council, based on a combination of earnings, valuations, and S&P 500 data. Scenario probabilities are opinions of Nuveen, and subject to change.

Certain statements may be deemed forward-looking statements. Please note that any such statements are not guarantees or intended to constitute a prediction of any future performance; actual results or developments may differ materially from those projected.

**Figure 5: Mag 7 expected to keep writing capex checks**

Data source: FactSet, Strategas, 30 Sep 2025. The Magnificent 7 companies consist of Alphabet, Apple, Amazon, Meta, Microsoft, Nvidia and Tesla.

(28.8x) and Alphabet (29.5x) were well above the S&P 500's 21.8x.

Adding to investor unease are questions about AI's ability to generate a meaningful return on investment. In one widely cited study, the Massachusetts Institute of Technology reported that 95% of the organizations surveyed achieved zero measurable financial benefit from their AI investments. (Critics of the study point to its small sample size, a lack of transparency in methodology and the failure to account for internal productivity gains, among other identified shortcomings.) There are other examples of skepticism regarding AI profitability. Global banking and financial services group HSBC estimates that OpenAI Group, PBC — the creator of ChatGPT and among the world's most valuable privately held companies at over \$800 billion (according to the Wall Street Journal) — will need to raise over \$200 billion to fund its growth plans, but doing so is unlikely to drive the firm's profitability before 2030. Other major AI players, including Anthropic and Stability AI, have also faced well-publicized financial challenges.

That said, our view is that current valuations for shares of tech/AI companies do not constitute a bubble. Crucially, these firms have generated substantial profits and cash flows that we believe support their rich multiples. Moreover, the Magnificent 7 (plus chip maker Broadcom, which make up the "Great 8") are collectively expected to grow earnings by around 24% this year, far more than the 15% forecast for the S&P 500 as a whole.

All told, while we're generally constructive on U.S. mega cap tech companies, we also think it makes sense to balance these holdings with allocations to segments such as global infrastructure and dividend-growth stocks, areas that offer potential resilience in downturns, a degree of inflation protection and/or opportunities for stable growth.

### Playing defense with dividend players

Dividend growth companies have yielded higher returns with lower risk than their market peers. In addition, dividend growers have typically outperformed non-dividend payers during periods of elevated volatility.

Dividends, and dividend growth, are not guaranteed, but they tend to be more predictable and consistent than earnings growth, helping mitigate the impact of market bumpiness.

Supporting the ability of dividend growers to provide such a cushion are businesses with relatively attractive fundamentals, healthy balance sheets, strong cash flow, a focus on maintaining and potentially expanding profit margins despite cost inflation, and management teams committed to returning capital to shareholders.

Regarding global infrastructure, surging energy demand, robust fundamentals and potential inflation-hedging combine to create a compelling case. Attractive valuations and infrastructure's essential service/defensive characteristics add to its appeal. In our view, the segment's best opportunities are in new data center buildouts, gas-powered generation and utilities positioned to capitalize on strong secular growth trends. As for geography, we're emphasizing the U.S., in particular states such as Louisiana and Texas, where increased investment in the construction of new data centers is likely to be concentrated.

### A sound investment approach supports our outlook

Volatility and uncertainty present challenges. But it is during these periods that investors may benefit most from a flexible investment approach backed by rigorous, bottom-up research, careful stock selection and thoughtful portfolio construction — which together can provide confidence and make a favorable impact on long-term financial goals.

Our equity heat map (Figure 6) provides perspective and detail on specific areas of the markets that we like on a relative basis. It isn't intended to represent a specific asset allocation, but rather to answer the question, "What are our highest-conviction equity views over the next 12 months?"

### Seeking opportunities outside the U.S.

Despite uncertain trade policy and geopolitical tensions, non-U.S. equities appear well-positioned to add to their 2025 gains, underpinned by:

**Figure 6: Equity style and geographic preferences heading into Q1 2026**

The views above are for informational purposes only and convey a comparison of the relative merits of each asset class based on the collective assessment of Nuveen's Global Investment Committee. These do not reflect the experience of any Nuveen product, strategy or service. Upgrades and downgrades reflect quarterly shifts in these views.

- **Resilient global growth.** According to the JPMorgan Global Composite PMI Index (which incorporates manufacturing and service-sector activity), the global economy maintained above trend GDP growth in December, bolstered by a modest pickup in business confidence. We expect this trend to continue as prior central bank rate cuts boost investment and consumer demand.
- **Easier monetary policy.** Although the policy easing cycle may be winding down for some non-U.S. central banks, those contemplating further rate reductions have greater scope to lean dovish thanks to the Fed's successive rate cuts, which have helped weaken the U.S. dollar. For countries importing dollar-priced goods and commodities, a softer greenback can reduce domestic inflation.
- **Massive fiscal stimulus.** Germany, Europe's largest economy, is planning to spend €500 billion over the next decade on a wide range of infrastructure and climate neutrality projects. More broadly, NATO countries have agreed to increase annual defense spending to 5% of GDP by 2035, a substantial jump from their current 2% guideline. This pivot should benefit European defense companies, many of which are trading at discounts compared to their U.S. counterparts.

And in November, Japan's government passed a ¥21 trillion (about \$135 billion) stimulus package, as Prime Minister Sanae Takaichi took aim at boosting economic growth by offering support to inflation-hit consumers and strengthening defense.

- **Solid earnings growth.** Bloomberg anticipates first-quarter 2026 earnings per share (EPS) growth of 9.4% for the MSCI EAFE Index and 16.1% for the MSCI EM Index. Europe's earnings are expected to be led by the financials, industrials and health care sectors. In EM, we're keeping a close eye on technology companies, notably those in offshore China, South Korea and Taiwan, as they seek to expand their footprints in the AI space.

## SMALL CAPS, BIG OPPORTUNITIES

After underperforming the S&P 500 by more than 25 percentage points from 2022-2024, a period marked by rising rates and recession concerns, small caps have shown signs of a resurgence. First, their earnings outlook looks bright: Consensus estimates not only show small caps' earnings growth accelerating in 2026 but also topping large

caps for the year. Additionally, while valuations for the S&P 500 sit above their long-term average, smaller companies are trading close to their 25-year average of 16.7x and at historic lows versus large caps. Lastly, small caps could benefit from further Fed easing because they tend to rely on debt to finance operations and fund growth initiatives more than their larger counterparts, and lower borrowing costs help boost profits. These potential tailwinds, along with what we believe will be a resilient U.S. economy, could drive small cap outperformance in 2026.

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## THE U.S. EARNINGS GROWTH OUTLOOK: UP

Thanks to more optimistic earnings forecasts, along with a historically high percentage of companies issuing positive EPS guidance, the estimated year-over-year fourth-quarter earnings growth rate for the S&P 500 Index was +8.3% as of 09 January, up from +7.2% as of 30 September, according to FactSet. On a per-share basis, EPS growth estimates for the quarter have increased by +0.5%, a far more bullish outlook compared to the 5- and 10-year average reductions of -1.6% and -3.1%, respectively. Looking ahead, analysts expect earnings growth rates of +12.6% in the first quarter of 2026 and +14.9% for 2026 as a whole.

## RISKS

While we maintain an overall constructive view on equities for the year, several material risks could challenge our baseline scenario for the S&P 500. Chief among them is the potential for higher consumer prices. Although the ECB believes it's "in a good place" with respect to inflation, the Fed appears to be less certain. Its preferred inflation barometer, the core Personal Consumption Expenditures (PCE) Price Index, registered 2.8% in September (the latest data available due to the U.S. government shutdown) — well above the 2% target. Hotter inflation would almost certainly force the Fed to remain on pause longer or even tighten policy sooner than markets currently anticipate, potentially triggering a selloff in risk assets.

Our outlook may also be challenged by:

- **A lagging U.S. labor market.** A more significant deterioration in employment conditions could undermine consumer spending, the primary engine of U.S. growth. We currently place recession odds at 30% over the next 12 months, though this probability could rise if labor dynamics weaken further.

- **U.S. foreign policy.** The U.S. action in Venezuela represents a fundamental shift in geopolitical strategy — using force to prevent China and Russia from expanding influence in Latin America. This signals heightened willingness to secure strategic assets and resources (including critical minerals for AI and defense) within the Western Hemisphere.

Because Venezuela currently produces less than 1% of global crude oil, we expect only modest movement in oil prices. However, investors may price in elevated and persistent geopolitical risk across asset classes, particularly in EM, with significant Chinese infrastructure investments, commodities exposed to critical mineral supply chains and regional Latin American assets. In our view, the use of military action (not just diplomacy or trade policy) to shape control of strategic assets represents a meaningful shift in the investment landscape.

- **Perceived lack of independence at the Fed.** The Trump administration's criticism of the Fed's decisions, if it continues or intensifies, could fundamentally alter how markets price long-term interest rates and inflation expectations, potentially leading to sharp declines in bond and stock prices.

- **Doubts about debt.** Rising U.S. federal deficits, along with forecasts for even greater levels of borrowing, could cause bond yields to spike, and in turn, financial conditions to tighten — both of which are negatives for stocks.

As always, investors should resist reflexive, dramatic portfolio changes in response to short-term market movements. We believe investment strategies tend to work best when they remain aligned with long-term objectives, risk tolerance and individual circumstances, especially during periods of heightened uncertainty.

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