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CIO Weekly Commentary
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CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Good views from atop the capital stack

Bottom line up top

Equities grind higher on earnings and retail investor FOMO. Second quarter earnings season for the S&P 500 is off to an auspicious start. The blended earnings growth rate (combining actual results from the roughly 170 companies that have reported and estimates for the rest) reached +6.4% last week, surpassing the +4.9% projected on 30 Jun 2025, according to FactSet. So far, more companies (80%) have exceeded consensus expectations compared to the 10-year average (75%), albeit by a slightly narrower margin (+6.1% vs. +6.9%).

Solid earnings growth along with better-than-feared inflation and other economic data amid global trade and tariff turbulence has helped the S&P 500 hit a series of all-time highs. A recent influx of buying from retail investors — more than $50 billion over the past month, per Barclays — has also provided a boost. The market has seen a notable resurgence in growth and technology sectors, with Magnificent 7 mega-cap stocks rebounding +42% from their April lows and now constituting more than one-third of the S&P 500's total market capitalization (Figure 1).

Volatility won't vanish. However, we're mindful of potential drivers of volatility that could risk turning recent euphoria into something more like a midsummer night's scream. That's not our base case, but we think a degree of caution in an unpredictable environment is prudent.

Technical patterns suggest equity market momentum may be losing steam. In the third quarter to date the S&P 500 has gone 18 days without gaining +1% or more — in contrast to the second quarter, when

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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.

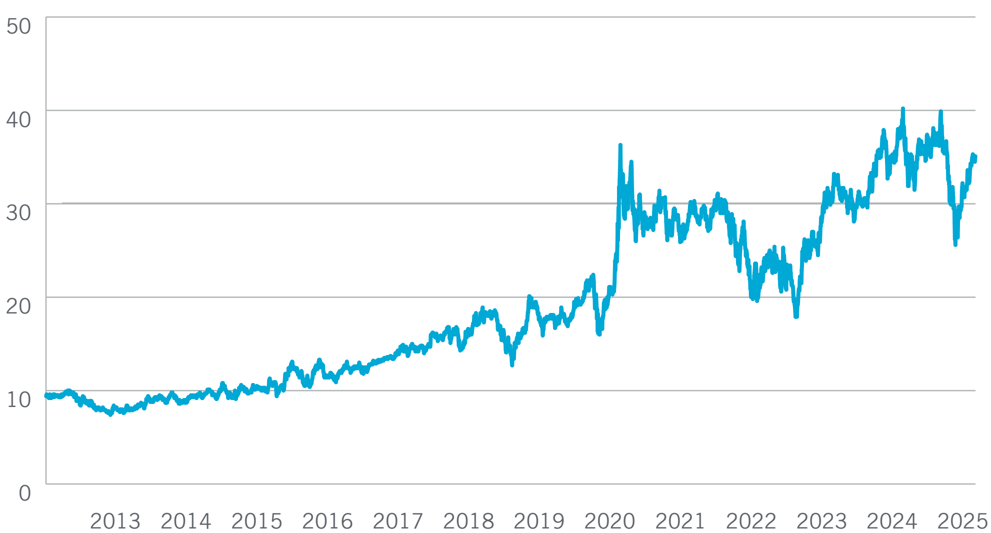
the index accomplished that feat in 10 of 62 trading sessions, or 16% of the time. Meanwhile, investors may face renewed market turbulence reminiscent of April's tariff-driven volatility through late summer, as the Trump administration has set an 01 August deadline for trading partners to secure agreements, with only a limited number of deals currently finalized.

There's enough uncertainty to warrant exploring fixed income opportunities where investors can take advantage of elevated yields and attractive total return potential with relatively low default rates.

Investors may want to explore fixed income opportunities to take advantage of elevated yields and attractive total return.

FIGURE 1: MAGNIFICENT 7 NOW MAKE UP OVER ONE-THIRD OF THE S&P 500

Market capitalization of the Magnificent 7 as a percentage of S&P 500 Index



Data source: Bloomberg, L.P., 22 Jul 2025.

Portfolio considerations

Among liquid taxable fixed income sectors, senior loans, also known as syndicated loans, are both the highest-yielding (7.93%) and least volatile, as measured by standard deviation of returns (Figure 2). Their floating rate structure makes them less susceptible to interest rate volatility, and thus a source of potentially attractive risk-adjusted returns. A strategic allocation to senior loans has historically proven beneficial to diversified portfolios. Based on positive fund flows into the asset class this year, investors are taking notice.

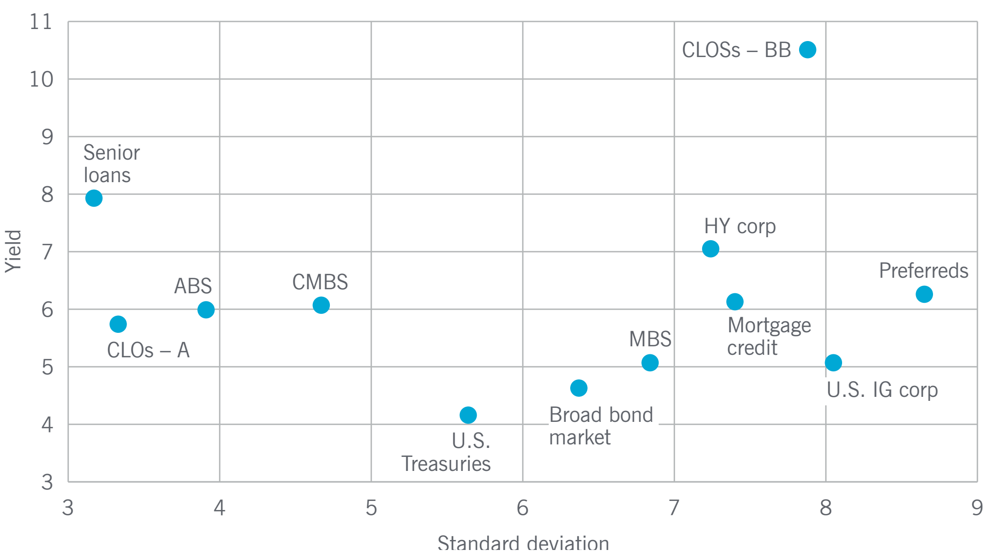
We continue to see value in higher-quality loans, which are currently yielding 6.5%-8%. But the opportunity doesn't stop there. A large cohort of loans ($225 billion in total) is trading below par at $95, with a median price of $85 and yield to maturity (3 years) of approximately 16%. These levels offer significant yield and price appreciation potential. Achieving positive outcomes for investors within this cohort requires selectivity, including a disciplined approach to credit underwriting and a focus on actively managing credit risk.

The 2024 theme of dispersion among sectors, subsectors and issuers has continued into 2025. And while the default rate for 2025 is expected to hover slightly above long-term averages, active managers may be able to both cushion against credit deterioration and go on the offensive when fundamental value is mispriced.

A strategic allocation to senior loans may offer significant yield for portfolios.

FIGURE 2: SENIOR LOANS PRESENT COMPELLING YIELD WITH A BALANCED RISK PROFILE

Yield and standard deviation of various fixed income asset classes (%)



Data sources: Bloomberg, L.P., 21 Jul 2025. Index yields: yield to worst, except senior loans, which is yield to three year; Standard deviation: five-year as of 30 Jun 2025, based on monthly returns. **Performance data shown represents past performance and does not predict or guarantee future results. It is not possible to invest directly in an index. Representative indexes: asset-backed securities (ABS):** ICE BofA AA-BBB US Fixed Rate ABS; **broad bond market**: Bloomberg U.S. Aggregate Index; **collateralized loan obligations:** JPM CLO A Index and JPM CLO BB Index; **commercial mortgage-backed securities (CMBS):** ICE BofA AA-BBB U.S. Fixed Rate CMBS; **high yield corporates:** Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index; **investment grade corporates:** Bloomberg U.S. Corporate Investment Grade Index; **mortgage-backed securities (MBS):** Bloomberg U.S. Mortgage-Backed Securities Index; **mortgage credit:** ICE BofA AA-BBB Home Equity Index; **preferred securities:** ICE BofA U.S. All Capital Securities Index; **senior loans:** S&P UBS Leveraged Loan Index; **U.S. Treasuries:** Bloomberg U.S. Treasury Index.

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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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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.

Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, and income risk. As interest rates rise, bond prices fall. Credit risk refers to an issuer's ability to make interest payments when due. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. Non-U.S. investments involve risks such as currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks are magnified in emerging markets. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager. The value and income generated by bonds and other debt securities will fluctuate based on interest rates. If rates rise, the value of these investments generally drops. Taxable fixed income securities are subject to credit risk, interest rate risk, foreign risk, and currency risk. Neither Nuveen nor any of its affiliates or their employees provide legal or tax advice. Please consult with your personal legal or tax advisor regarding your personal circumstances. Below investment grade or high yield debt securities are subject to heightened credit risk, liquidity risk and potential for default. The issuer of a debt security may be able to repay principal prior to the security's maturity, known as prepayment (call) risk, because of an improvement in its credit quality or falling interest rates. In this event, this principal may have to be reinvested in securities with lower interest rates than the original securities, reducing the potential for income. Senior loans may not be fully secured by collateral, generally do not trade on exchanges, and are typically issued by unrated or below-investment grade companies, and therefore are subject to greater liquidity and credit risk.

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