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CIO Weekly Commentary
10 February 2025

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

An income fix amid tariff turbulence

Bottom line up top

Tariffs and tech keep markets guessing. Investors initially rattled by the Trump administration's opening salvos in its trade disputes against China, Mexico and Canada were later calmed by the news that U.S. tariffs on imported Canadian and Mexican goods would be delayed by one month to allow time for negotiation. However, anticipated talks between President Trump and Chinese leader Xi Jinping failed to materialize, and China announced retaliatory measures on U.S. fossil fuel imports (liquefied natural gas, coal and crude oil), pickup trucks, agricultural equipment and large, fuel-inefficient cars. The prospect of U.S. tariffs can weigh heavily on consumer and investor sentiment due to the potential impact on a broad swath of imported goods (Figure 1) and consumer inflation more broadly.

While tariff developments continue to unfold, financial markets are also assessing the latest corporate earnings results for mega cap technology. This includes those impacted by recent DeepSeek headlines that have questioned the need for massive capital expenditures on artificial intelligence (AI). This newfound market caution around AI spending comes as the Chinese government — in addition to hitting back on U.S. tariffs — is reviving investigations against several Magnificent Seven companies on antitrust or other grounds.

Labor market and other U.S. economic data remain resilient. Fortunately, these developments are happening when the U.S. economy appears strong enough to work through them. Last week's release of the JOLTS (Job Openings and Labor Turnover Survey) report for December showed a decrease in the number of open jobs, but even with the

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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.

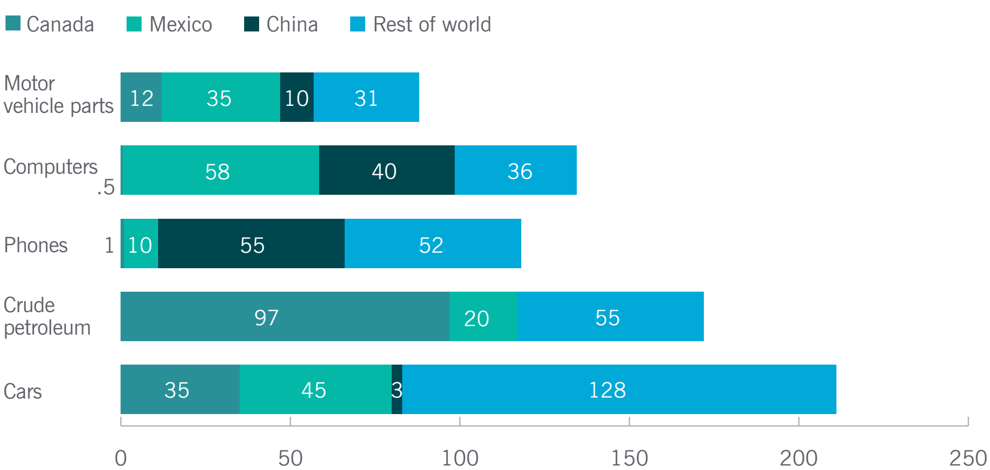
decline, demand for labor remains healthy. And the week was capped off by the monthly nonfarm payrolls report for January. The economy added a lower-than-expected but still-solid 143,000 jobs for the month, despite the still-higher-for-longer interest rate environment, severe winter weather and the Los Angeles wildfires. Job totals for December and November were revised upward by a combined 100,000. The Labor Department finalized its annual revision to benchmark data, showing that 589,000 fewer jobs than originally reported were created during the 12-month period ended March 2024 — a significant improvement over the 818,000 reduction in the preliminary revision. Meanwhile, wages grew +0.5% in January and +4.1% year-over-year — signaling that there's still work to be done to help lower inflation to the U.S. Federal Reserve's 2% annual target.

With labor market conditions and the unemployment rate having stabilized, investors may want to consider diversifying their portfolios beyond the volatile U.S. equity market and allocating into select areas of taxable fixed income.

Despite the DeepSeek-sparked selloff on Monday, we think new entrants to the AI space are a positive for the industry.

FIGURE 1: A RANGE OF PRODUCTS COULD BE IMPACTED BY TARIFFS

Top five U.S. import products by origin country ($B)



Data source: UN Comtrade via Council on Foreign Relations, 2023.

Portfolio considerations

Heightened equity market volatility in recent weeks was sparked by contentious trade disputes and concerns that AI euphoria has unduly inflated valuations for large cap growth stocks. This volatility is likely to continue as the economy and investors digest the impact tariffs may have on inflation. We believe tariffs could add an estimated 25 basis points (bps) to the core Personal Consumption Expenditures (PCE) Price Index in 2025, the Fed's preferred inflation barometer, although the effect could dissipate by 2026.

> ***We see value in diversifying beyond equities into various categories of taxable fixed income.***

Against this backdrop, we see value in diversifying beyond equities into various categories of **taxable fixed income,** where yields remain near cycle highs and default rates are benign.

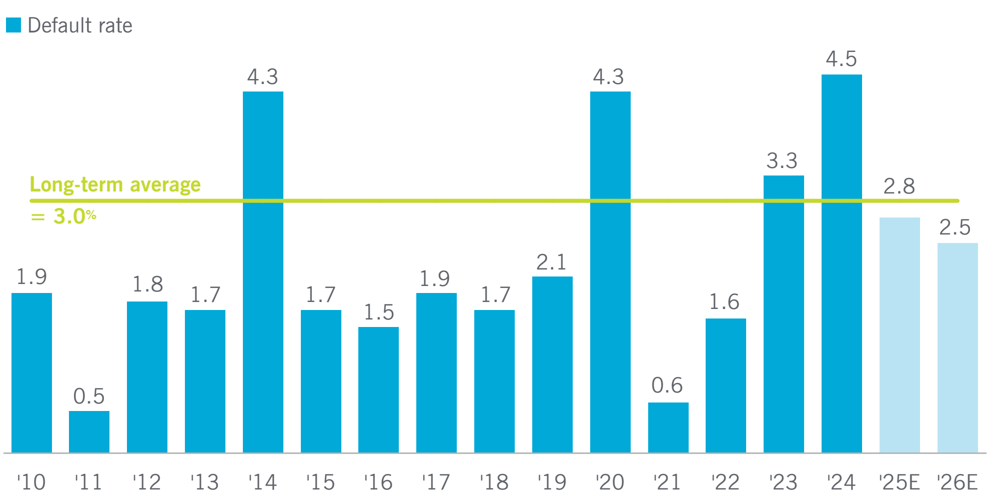
Senior loans: below investment grade with above-average yields. Floating-rate senior loans in our view offer compelling value. In fact, the asset class should still be yielding upwards of 8% even after the 50 bps in Fed rate cuts we anticipate this year. Loan fundamentals are sound, with refinancings continuing at a robust pace and borrowers pushing out their maturity walls. Additionally, strong technicals are reflected in healthy demand from collateralized loan obligations (CLOs), as well as institutional and retail investors. And while loan default rates were elevated at 4.5% in 2024, we believe they could drop below their long-term average in 2025, to 2.8% (Figure 2).

Preferred securities: well-positioned thanks to banks. Amid the Trump administration's expected push for financial deregulation, banks (the largest issuers of preferreds) continue to produce sturdy earnings and could potentially generate increased fees from a pickup in mergers and acquisitions (M&A). We favor $1000 par preferreds for their higher spread, prevalence of non-fixed-rate coupons and lower duration relative to $25 par securities.

Securitized sectors: attractively priced. For their higher yields, wider spreads and better performance potential, we like certain securitized assets outside the traditional constraints of the Bloomberg U.S. Aggregate Index universe. Credit selection within asset-backed and commercial mortgage-backed securities may provide both compelling returns and substantial portfolio income.

FIGURE 2: SENIOR LOAN DEFAULT RATES EXPECTED TO DECLINE IN 2025

Par-weighted default rate (%)



Data source: JP Morgan, 31 December 2024.

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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Equity investments are subject to market risk, active management risk, and growth stock risk; dividends are not guaranteed. Non-U.S. investments involve additional risks, including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks are 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. 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. 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. 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. Asset-backed and mortgage-backed securities are subject to additional risks such as prepayment risk, liquidity risk, default risk and adverse economic developments. 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. Investing in preferred securities entails certain risks, including preferred security risk, interest rate risk, income risk, credit risk, non-U.S. securities risk and concentration/nondiversification risk, among others. There are special risks associated with investing in preferred securities, including generally an absence of voting rights with respect to the issuing company unless certain events occur. Also in certain circumstances, an issuer of preferred securities may redeem the securities prior to a specified date. As with call provisions, a redemption by the issuer may negatively impact the return of the security held by an account. In addition, preferred securities are subordinated to bonds and other debt instruments in a company's capital structure and therefore will be subject to greater credit risk than those debt instruments. Credit risk is the risk that an issuer of a security will be unable to make dividend, interest and principal payments when due. Interest rate risk is the risk that interest rates will rise, causing fixed income securities prices to fall. Income risk is the risk that the income will decline because of falling market interest rates. This can result when an account invests the proceeds from new share sales, or from matured or called fixed income securities, at market interest rates that are below the account's current earnings rate. An investment in foreign securities entails risks such as adverse economic, political, currency, social or regulatory developments in a country including government seizure of assets, lack of liquidity and differing legal or accounting standards (non-U.S. securities risk). Preferred security investments are generally invested in a high percentage of the securities of companies principally engaged in the financial services sector, which makes these investments more susceptible to adverse economic or regulatory occurrences affecting that sector concentration/nondiversification risk). It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

Nuveen, LLC provides investment services through its investment specialists.

This information does not constitute investment research as defined under MiFID.

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