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VIEWPOINTS FROM THE GLOBAL INVESTMENT COMMITTEE  
2024 Q4 OUTLOOK

# The race against recession

*Was the Fed too slow out of the gate?*

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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## KEY TAKEAWAYS

- Interest rates are falling, and economic growth is slowing, **but that's not a reason to move into a risk-off portfolio stance.**
- Our portfolio construction themes argue for a continued focus on **higher-quality equities, select credit risks in fixed income** and **capitalizing on real assets.**
- With the **U.S. elections in focus**, investors should prepare for additional volatility and a variety of policy changes, but should also **use the opportunity to move out of cash.**

## Global Investment Committee members

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# The race against recession

## *Was the Fed too slow out of the gate?*



### **Saira Malik**

*Chief Investment Officer,  
Head of Equities and  
Fixed Income*

*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.*

Perhaps the greatest innovation in track and field competition was the 1930s introduction of starting blocks, designed to ensure (literally) equal footing for all and prevent stumbles or false starts. Applied to the U.S. Federal Reserve in 2024, “starting block” takes on a different meaning — akin to writer’s block, except the blank page awaits policy decisions, not unpenned words.

Fortunately for the economy and investors, the Fed finally found inspiration to start lowering interest rates this year, given evidence that (1) core inflation had fallen to within striking distance of the central bank’s annualized 2% target, and (2) the economy, especially the labor market, had weakened enough to set off recession worries.

The Fed’s 50 basis points (bps) September cut certainly pleased financial markets, but we remain concerned that the Fed’s decision to turn the corner may be “too little, too late” to avert a recession. In this challenging environment, investors who need to adjust their portfolios but face their own version of “starting block” may discover their missing muse in the following themes.

**Find a happy medium between the tortoise and the hare.** It’s tempting to run a conservative race with an economic downturn looming. But being too “slow and steady” might pose a hurdle. On balance, we maintain a generally risk-on tone, with caveats. We think markets have priced in more policy easing than will actually materialize in the medium term. This view informs our fixed income preferences: a neutral duration stance overall, fixed- over floating-rate structures, higher-quality high yield bonds, and securitized assets. In equities, U.S. large caps offer a compelling mix of defense and offense. We also see opportunities in Japan. Investors comfortable taking on more risk can consider select emerging markets (EM) stocks over U.S. small caps. Other worthy diversifiers include alternatives, private markets and real assets.

**The private credit run isn’t over yet.** Private credit, a notable exception to our bias toward fixed-rate investments, is supported by strong investor demand, rising deal volumes and an expected increase in M&A activity. Additionally, falling interest rates could improve coverage ratios and make some transactions more compelling. Within private credit, our positioning leans defensive given recession prospects, but asset class fundamentals remain strong.

**Another race to consider: U.S. elections.** How will U.S. political outcomes affect financial markets and portfolio construction? Heightened market volatility leading up to (and beyond) the vote is likely, due to potential tax changes, debt ceiling debates, government shutdowns and any prospective U.S. role in global geopolitical conflicts. Prior election cycles show it’s wise to move out of cash and reallocate to fixed income and other asset classes. That’s not only a sound strategy as November nears, but also a step we’ve been advocating for the past several quarters.

The race against recession will require speed and strength, with the winner likely breaking the tape in a photo finish. Even if the Fed has indeed started too slow, the ensuing contraction may prove less severe and shorter than past declines. In the meantime, investors can take steps to help keep their portfolios on track. Runners, on your marks!



# Portfolio construction themes

*Markets started pricing in a likelihood of Fed rate cuts nearly one year ago. And now that central bank policy has finally shifted, investors are focusing on whether the U.S. and global economies are heading for a recession. At the same time, many wonder how the evolving rates environment will affect markets and the potential impact of the upcoming U.S. elections. To be sure, there are a lot of unknowns, but we still believe that there are also a number of strategies for investors to **construct portfolios that balance different risks, provide diversification and find opportunities as the global macroeconomic environment evolves.***



# Asset class “heat map”

Our cross-asset class views indicate where we see the best relative opportunities within global financial markets. These are not intended to represent a specific portfolio, but rather to answer the question: “What are our highest conviction views when it comes to putting new money to work?” These views assume a U.S. dollar-based investor seeking long-term growth and represent a one-year time horizon.



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



## Key portfolio themes

**Find a happy medium between the tortoise and the hare.** Markets started pricing in rate cuts at subsequent Fed meetings way back in December 2023. Investors who shifted investments to overly defensive areas they believed would benefit from falling rates have little to show for their efforts today.

Over the past year, we cautioned against attempting to time rates. Instead, we advocated taking advantage of historically high bond yields across credit investments, rebalancing back to strategic allocations and diversifying with real assets. Similarly, we now caution against becoming overly conservative in advance of a likely economic slowdown. Overall, as our heat map indicates, we continue to see value in a mostly risk-on positioning (with important caveats).

For fixed income, we believe markets have already priced in the new environment of rate cuts. As a result, we suggest overall neutral duration positioning and generally prefer fixed- over floating-rate areas of the market. Regarding specific credit sectors, we remain generally unfavorable toward investment grade corporates. Spreads look tight and duration profiles are longer than we prefer. In contrast, we upgraded our view of securitized assets, which offer compelling value and feature spreads wider than their historical average. While senior loans can perform well when rates are falling, their floating-rate nature makes them slightly less attractive than high yield

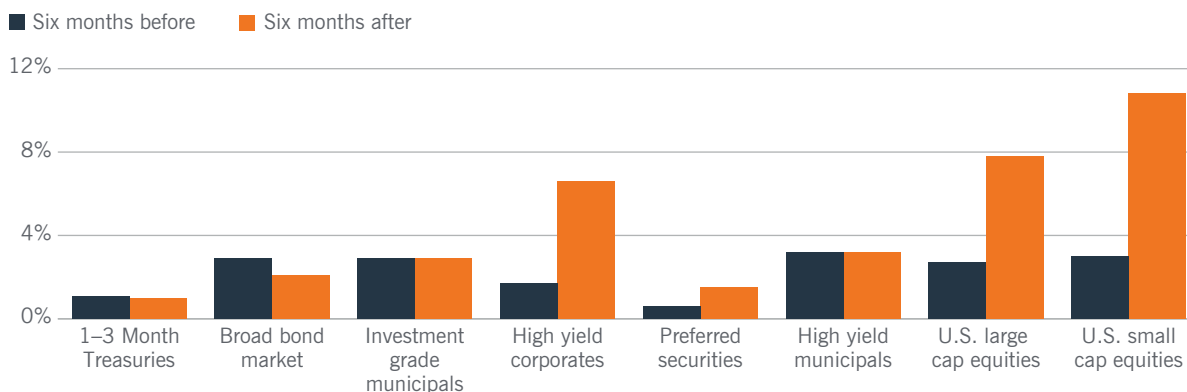
bonds (where investors can still lock in relatively high fixed rate yields).

When it comes to equities, we think U.S. large caps offer a good mix of defensive and growth characteristics, and among other developed markets we see opportunities in Japan. For investors looking to take on additional risk, we favor select emerging markets equities over U.S. small caps, which tend to underperform in advance of a recession. Additionally, we encourage investors to consider increased diversification across alternatives, private markets and real assets to broaden exposure to sources of risk. Public and private infrastructure and public real estate appear compelling. Private real estate looks to be on the rise, and we see opportunities in private credit and farmland.

**The private credit run isn't over yet.** The volume of assets pouring into private credit in recent years (as well as strong returns) has caused many investors to wonder if the run is over. Our short answer is no. While we generally prefer fixed rate investments at this point, private credit is a notable exception. Investor interest remains high, demand is strong, deal volume continues to rise and we expect M&A activity to increase, which should act as a continued tailwind. We also think some private credit transactions should be able to increase leverage ratios as interest rates decline, which could make these deals more compelling. Lower interest rates should also improve debt service coverage ratios of businesses.

**Figure 1: Regardless of outcome, risk assets have performed well following elections**

*Performance before and after presidential elections (%)*



Data source: Bloomberg, L.P., 1996 to 2020. Data represents the average return six-months before and after the past seven U.S. presidential elections. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: 1-3 month Treasuries:** Bloomberg U.S. Treasury Bills: 1-3 Months; **broad bond market:** Bloomberg U.S. Aggregate TR Index; **investment grade municipals:** Bloomberg Municipal Bond TR Index; **high yield corporates:** Bloomberg U.S. Corporate High Yield Bond TR Index; **preferred securities:** ICE BofA Fixed Rate Preferred Securities TR Index; **high yield municipals:** Bloomberg High Yield Municipal TR Index; **U.S. large cap equities:** S&P 500 Index; **U.S. small cap equities:** Russell 2000 Index. For term definitions and index descriptions, please access the glossary on nuveen.com.



Given our expectation of slowing global economic growth, we suggest focusing on more defensive positioning within private credit. We favor companies with strong cash flow generation and pricing power, and believe middle-market, service-oriented businesses represent a particular sweet spot. It is reasonable to be somewhat wary of private credit markets in advance of a likely recession, but we think market fundamentals can withstand a mild slowdown.

#### **Another race to consider: the U.S. elections.**

Investors around the world are wondering how the results of the U.S. presidential and congressional elections might affect financial markets and portfolio construction. While we believe investment fundamentals matter more than politics, we anticipate that election season and potential policy shifts could have several effects:

- Market volatility will likely remain elevated (perhaps even after the elections). During this current election cycle, we expect volatility to be exacerbated by the growth of misinformation (accelerated by the AI boom), as well as multiple military conflicts around the world that could rattle financial markets. Even after the election, ongoing uncertainty could continue due to geopolitical conflicts, the potential for tax policy changes, debates over fiscal policy and the debt ceiling and other lingering issues.
- Tax shifts are almost certain, with general increases likely. The pending expiration of many provisions of the 2017 Tax Cuts and Jobs Act in 2025 means that tax policy will be a focus. With a wide range of possible outcomes, we expect most U.S. individuals will face a steeper tax burden in the years ahead, which speaks to the importance of planning now.
- Election cycles suggest moving out of cash. Over the past several quarters, we argued that investors holding onto high levels of cash investments amid heightened uncertainty should consider reallocating into fixed income and other areas. The election season presents a further argument for moving out of cash and into more risk-on market segments. During the past seven U.S. election cycles, cash (1–3 month Treasuries) significantly underperformed a variety of fixed income credit sectors as well as equities (Figure 1).

We suggest reaching out to your Nuveen relationship manager for insights on additional election-related issues to consider.

## **In focus: Municipal bonds remain compelling**

There's a lot to like about municipal bonds: They offer compelling income (especially for investors capitalizing on after-tax returns), feature solid credit fundamentals and enjoy a strong technical backdrop.

As the year progresses, we expect short-term rates to fall slightly and the municipal yield curve to steepen — this speaks to the benefit of adopting a longer duration for munis. And even without the prospect of a tailwind from a shifting rates environment, municipal bond yields are historically high, meaning current income should help generate attractive returns even without declining rates or spread compression.

We also believe that taxable municipals appear attractive for non-U.S. investors, institutions or others focused on this market segment. Spreads are attractive compared to other areas of the global fixed income market, and fundamentals remain very healthy.

## **Our highest-conviction views**

- **Infrastructure (+)** offers the dual benefits of potentially holding up well amid prospects for slowing economic growth and weathering still-sticky inflation. Both public and private infrastructure look compelling, and we are especially fond of the public sphere.
- **Private credit (+)** continues to look attractive, as investor demand is high and investment fundamentals look strong. We continue to prefer more defensive segments that are relatively well positioned to withstand economic downturns.
- **Municipals (+)** continue to offer several benefits for U.S. individual investors seeking after-tax returns, as well as for crossover institutional and non-U.S. investors.



# The economy and markets

## Key points to know

### *The home stretch can be a winner*

Unlike a typical contest of speed, the economic race against recession has no pre-determined finish line. The shortest expansion in post-war U.S. history lasted just 12 months, from 1980 to 1981. The expansion that ended with the pandemic recession lasted a record 128 months. Since the last recession in April 2020, the U.S. economy has raced forward at an impressive pace. Spectators should now ask: Is the finish line approaching or is there ample runway? And what should we do about it?

We think a mild recession in 2025 is the base case for the U.S. and global economies. That means we're in the final stretch of the expansion, but it's still too early for investors to position aggressively for a risk-off scenario. Historically, equity markets have rallied until just two months before the onset of recession (Figure 2). While the economy is likely in the home stretch, the current macro environment warrants a healthy degree of risk exposure.

### *Labor market cracks are deepening*

As tight policy continues to bite, U.S. labor market cracks grow deeper and wider. Already, the pace of job creation has dropped below its pre-Covid trend, with unemployment also ticking higher. Part of the increase is due to positive, supply side dynamics, with prime-age labor force participation touching its highest level in more than 20 years. But it also reflects a negative deterioration in demand for labor. Hiring has slowed, and more people are spending longer periods of time unemployed. Some of the best leading indicators for future labor market conditions have softened, including the number of job openings and the rate at which people voluntarily leave their jobs. We expect unemployment to move higher in the quarters ahead, weighing on overall growth.

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**While the economy is likely in the home stretch, the current macro environment warrants a healthy degree of risk exposure.**



## Moving past inflation fears

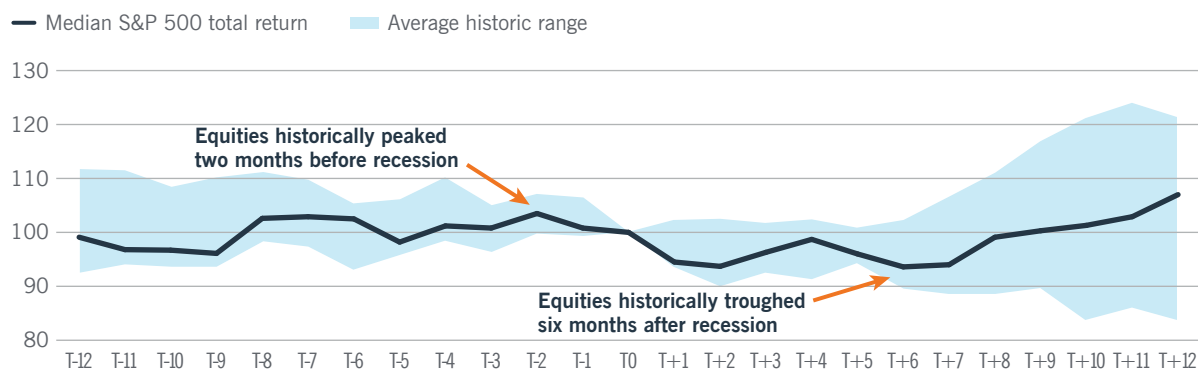
Overall core inflation is approaching the Fed's 2% target on a three-month annualized basis due to several dynamics. First, tight policy has put loosening pressure on the labor market. Wage inflation peaked around a 6% annualized rate and has now declined to around 4%, leading to softer core services prices. Second, though housing continues to run at an above-target pace, it has moderated substantially during this year, and leading indicators point to further improvements. Third, global growth has softened overall, with Europe expanding around 0.5% year-over-year and China posting its weakest growth since the 1990s (excluding the Covid-era lockdown). Finally, while geopolitical concerns remain a risk, they have not escalated in recent months, allowing global shipping prices to quietly drop around 40% from their December peak.

## A gradual, not rapid move for the Fed

With growth softening, inflation approaching target and recession risks rising, it makes sense that the Fed started cutting interest rates. However, markets may be too optimistic about future rate cuts, even after the strong 50 bps cut to start the cycle. Fed officials have indicated a preference to move steadily, which means they will likely cut 25 bps per meeting, while retaining the flexibility to accelerate or pause cuts. This allows time to gauge the impact of rate cuts as the central bank moves toward a neutral policy stance of around 3.25% to 3.50%. We expect the Fed to eventually get back to that level in the middle of next year.

**Figure 2: A pending recession doesn't mean leaving the markets**

Historical S&P 500 Index total return before and after U.S. recessions



Data source: Bloomberg, L.P. Data depicts the 12-month total return of the S&P 500 Index before and after each U.S. recession since 1953 excluding the Covid-induced recession. Returns are indexed to 100 at the start of each recession. The average historic range depicts the middle 50% (25% to 75%) of periods observed. Performance data shown represents past performance and does not predict or guarantee future results.





**EQUITIES**  
Saira Malik

### Investment positioning

- Equities have enjoyed strong gains so far in 2024 thanks to economic resilience earlier in the year and solid corporate earnings. However, volatility picked up over the summer due to weakening economic data. At the same time, valuations have become less favorable and interest rates remain relatively high. All told, these factors lead us to remain overall neutral toward global stock markets. For the most part, we favor a focus on higher-quality segments, leaning toward industries and geographic regions that offer both valuation and fundamental tailwinds. Likewise, we have a less positive view toward areas with a higher degree of economic or interest rate sensitivity.
- Geographically, we think U.S. equities offer the best combination of defensive characteristics and growth opportunities. AI growth trends remain a strong structural tailwind for the U.S. (even as tech stock prices have declined). In the U.S., we prefer large caps over small (which tend not to do as well when economic growth is slowing), and believe it makes sense to focus on defensive areas such as dividend growers and infrastructure.
- Outside of the U.S., Japanese equities look compelling given the country's emergence from deflation and solid real wage growth. And for investors with higher risk tolerances, we see opportunities across select emerging markets such as Brazil (which should also benefit from the AI acceleration).
- Private equity markets continue to struggle, but should benefit from lower interest rates. In particular, we are more favorable toward secondary private equity markets, where demand is stronger and should continue to grow.

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**BEST IDEAS:** *We are focused on higher-quality stocks with earnings efficiency. We particularly favor dividend growers, which tend to offer strong free cash flow levels and solid profit margins. We also like infrastructure companies that can weather both higher inflation and softer economic growth.*



**FIXED INCOME**  
Anders Persson

### Investment positioning

- We believe both the macroeconomic backdrop and market fundamentals favor fixed income investments. Inflation continues to slowly ease across most areas of the world, and the Fed finally joined other central banks in lowering interest rates, which should provide tailwinds for the global bond market. We are not forecasting dramatic declines in rates over the next year, but we believe yields should decline modestly over the course of 2025. Even if rates remain elevated, current yields still offer compelling income.
- Amid this backdrop, we think it makes sense to adopt a generally neutral duration stance (critically, investors still holding high levels of cash should consider lengthening duration). At this point, we believe markets have mostly priced in interest rate declines, which argues against longer duration. Note, however, that we think it makes sense to lengthen duration in municipals. The muni bond curve remains steeper than the U.S. Treasury curve, which provides the potential for current income as well as total returns when and if rates decline.
- As the interest rate environment shifts, we think (all else being equal) floating-rate debt looks less attractive than fixed rate. Broadly syndicated loans have historically performed well in Fed cutting cycles, but as of now we favor high yield, where investors can still lock in relatively high fixed rates. In particular, we are focused on higher quality areas of high yield (BB/B), which should hold up relatively well amid slowing economic growth. We also like securitized assets, which offer attractive valuations across the asset-backed and commercial mortgage-backed areas of the market.
- Municipal bonds enjoy strong and stable credit quality; state and local governments have solid balance sheets and ample liquidity; and the municipal market features attractive supply/demand dynamics. We see significant opportunities in taxable municipals for non-U.S. investors and are focused on the high yield and specialty- and property-tax-backed areas of the muni market.

- We also remain constructive toward private credit markets, especially if we only experience a mild slowdown or shallow recession.

**BEST IDEAS:** *Our highest conviction themes center around a flexible and diversified multisector approach, with a focus on finding attractive yields rather than looking for spread compression. For municipal bonds, we favor high yield municipals, which offer compelling yields and appear attractively valued.*



## REAL ESTATE

### Donald Hall

#### Investment positioning

- We believe private real estate continues to emerge from its bottoming process as technical headwinds fade. Falling interest rates should be a plus for real estate, and we are seeing increased investor demand. Competition for new deals is increasing among real estate investors, which is a healthy sign for the asset class.
- From a sector perspective, the office segment remains troubled, and we do not believe that vacancy rates have peaked. Eventually, office prices should fall to the point that they offer value, but we are not yet at that point. In contrast, we see broad opportunities across residential, industrial and alternative real estate. Areas like medical office and senior housing look compelling, as they should benefit from long-term demographic trends. We also favor data centers, which are enjoying strong demand from generative AI growth.
- We favor private real estate debt over equity due to a combination of falling interest rates and strong pricing power on the part of lenders.

**BEST IDEAS:** *We remain focused on “global cities” experiencing growing, educated and diverse populations, with a particular focus on the health care, industrial and housing sectors.*



## REAL ASSETS

### Justin Ourso

#### Investment positioning

- We continue to believe that public infrastructure investments occupy a sweet spot. They benefit from still-sticky levels of inflation and relatively high rates, and their essential-service nature positions them well in advance of a likely economic downturn. Our most favored areas include data centers (capitalizing on AI), North American utilities (compelling value and economic resiliency) and pipelines (with a focus on domestic energy security).
- For public real estate, we think fundamentals and earnings prospects look solid, and this area of the market should benefit amid falling interest rates. We see particular value in data centers (again playing on the AI trend) and Sunbelt industrial real estate that is benefitting from increased nearshoring.
- We also see compelling opportunities across private real assets. Our infrastructure investment themes are focused on ongoing digitization (such as AI-driven data centers) and clean energy transition (with a focus on electrification in the form of solar, battery storage and offshore wind). We see opportunities in agribusiness investments, including investments that focus on food ingredient processing that can reduce in-store labor at quick-serve restaurants (a growing area of the market).
- We remain positive toward farmland, which tends to be relatively insulated from macroeconomic factors and geopolitical risks. Row crop margins and profits have declined, but we see compelling investments in areas featuring stronger crop diversification such as the U.S. Pacific Northwest. We also see value in non-U.S. permanent crop investments such as citrus and avocados, which enjoy rising demand.

**BEST IDEAS:** *In public markets, our best ideas include North American senior housing (demographic trends, plus opportunities for industry consolidation) and AI-related infrastructure, especially areas like electric utilities that have yet to fully realize potential benefits. Across private markets, we continue to focus on investments that align with climate and digital transformations, such as clean energy generation and data centers, as well as strong global demand for protein and healthy foods.*



## 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. Quarterly 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](https://nuveen.com).**

### Endnotes

#### Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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