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VIEWPOINTS FROM THE GLOBAL INVESTMENT COMMITTEE
Q4 2026 OUTLOOK

Fear vs. fundamentals:
Views for a maturing market

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Key takeaways

- Fear and uncertainty are keeping some investors on the sidelines, delaying capital deployment or holding excess cash. We don't believe this is a winning strategy, with **ample opportunities across public and private markets.**
- Inflation, high energy prices and interest rate uncertainty around the globe are fueling volatility, but **fundamentals look sound** across **private credit, municipals, real estate, infrastructure** and select **credit and equity markets.**
- **AI** remains a primary market driver, but **bifurcation within this trend** is growing, pushing us to seek diversification in new ways.

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Fear vs. fundamentals: Views for a maturing market

What's the ROI on fear?

This summer's most financially successful movie worldwide wasn't "The Odyssey" or the latest "Spider-Man" entry, but "Obsession" — an independent horror film made on a shoestring budget. While its box office gross (no pun intended) was dwarfed by the big blockbusters, its estimated return on investment was exponentially greater, at +68,800%. Two lessons learned: (1) higher profile doesn't always mean higher profit, and (2) focusing on fear can deliver powerful results.

In financial markets, fear has been playing out in various ways. Sometimes it's shown up as FOMO, as investors double down on the artificial intelligence (AI) narrative so as not to miss out on this dominant driver of market returns. Other times, the fear has been that the ROI on this year's nearly $1 trillion in AI-related corporate spending won't justify such a massive capital commitment.

Additional fears include concerns surrounding private credit markets, opaque valuations and exposure to the AI-threatened software sector. Meanwhile, soaring tech stocks have raised the specter of a bubble. And since FOMO gets its own acronym, why not one for the fear that's keeping trillions of dollars of cash on the sidelines? FOBI (Fear Of Being In) certainly has a ring to it.

The goal isn't simply to label these fears but to avoid their clutches, like a movie character at the top of the basement stairs who actually heeds the audience's cries of "Don't go down there!" To that end, we encourage building diversified portfolios that are less vulnerable to jump scares on the downside and less reliant on bandwagon adrenaline on the upside: portfolios allocated to asset classes with sound fundamentals.

You don't need a sixth sense to unearth these investment ideas, but you can't conjure them out of thin air either. Deep asset class expertise, rigorous bottom-up research and thoughtful risk analysis are all necessary to identify where fear-based narratives diverge from underlying reality.

As detailed in this quarter's "Five portfolio construction themes," we foresee no letup in AI capital expenditures (capex). But the dialogue around AI has grown more complicated, which should broaden the opportunity set while increasing the need for selectivity. In credit markets, our favored categories include senior loans, securitized assets, and U.S. and European core middle market direct lending, all featuring attractive fundamentals. U.S. municipal bonds remain compelling as well, bolstered by strong state and local finances. The budding recovery in private real estate, both debt and equity, appears intact. Major real estate equity benchmarks, for example, have delivered multiple consecutive quarters of positive returns yet still offer attractive entry points.

Given the many ways to put cash to work, investors whose FOBI keeps them on the sidelines risk having their long-term investment outcomes haunted by the ghost of missed opportunity.

It's natural to be jumpy when things go bump in the night — or in the markets. Our updated asset class heat map and senior investment leaders' best ideas provide insights that may help investors banish any phantoms lurking outside their portfolio door. At the end of the day, we believe illuminating the darkness works better than covering your eyes. Think of it as investing with the lights on.

SAIRA MALIK
Chief Investment Officer

As Nuveen's Chief Investment Officer 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 is a portfolio manager for several key investment strategies.

The economy and markets

Key points to know

AI continues to drive global growth. The global economy enters the final stretch of 2026 on firmer footing than expected. Growth has proved resilient as AI-related capital spending, fiscal support and steady household demand offset the drag from higher borrowing and energy costs. The U.S. continues to stand out: We expect growth to remain above 2.0% this year and unemployment steadying near 4.1%. Europe has also held up better than anticipated despite the energy shock. We anticipate euro area growth at around 1.0%, while emerging markets growth remains comparatively firm.

The AI investment cycle is a key tailwind to U.S. activity and for economies embedded in the technology supply chain, such as Taiwan and Korea. Productivity gains should prove substantial but may lag, while the buildout's energy and financing needs intensify competition for capital amid already elevated global yields.

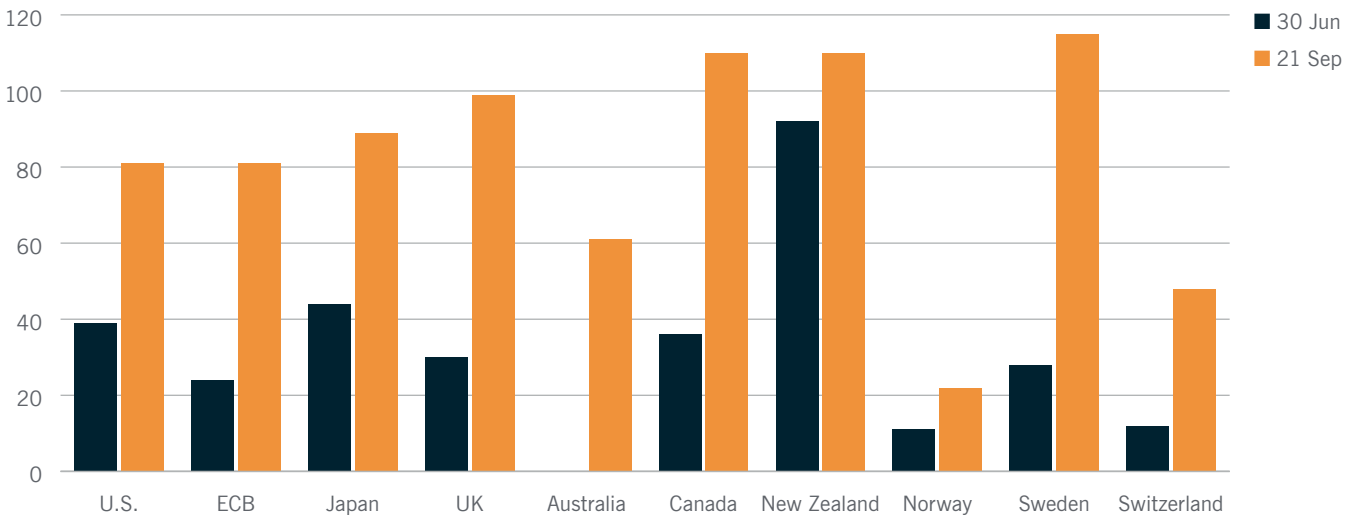
Inflation remains the principal challenge. Elevated energy prices stemming from the ongoing Middle East conflict have interrupted disinflation. In the U.S., core PCE inflation should stay above 3.0% this year before easing to 2.5% in 2027. Our base case assumes energy prices moderate as geopolitical tensions ease, allowing disinflation to resume. A more persistent oil shock, however, would increase the risk of second-round effects and keep inflation above policymakers' targets for longer.

The interest rate outlook remains uncertain, but points to still-high rates. Central bank policy paths hinge on how the energy shock evolves. We lean toward one further U.S. Federal Reserve hike by year-end, as near-term energy pressures risk feeding into underlying inflation. A meaningful drop in oil prices, however, could reduce that need. The European Central Bank faces similar upside risks, while the Bank of England confronts a difficult trade-off between sticky inflation and weak growth. The Bank of Japan looks set to keep removing accommodation gradually as wages and inflation anchor more firmly around its 2.0% target. Notably, all major global central banks have grown significantly more hawkish since midyear (Figure 1).

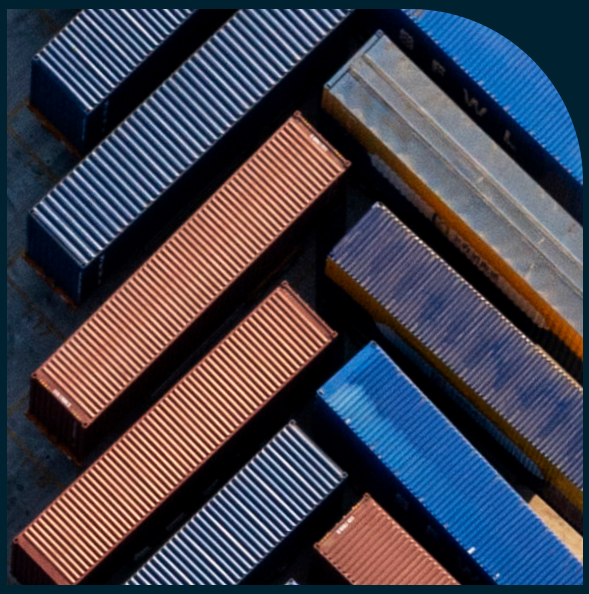
Geopolitics remain a wildcard. Energy price pressures are playing out unevenly across the globe, especially in emerging markets, where technology exporters and commodity producers are better placed than energy importers and highly indebted economies. Growth is holding up heading into 2027, even as renewed inflation pressures and tighter financial conditions leave policymakers less room for error. This volatility, combined with a cloudy outlook for the Middle East conflict and elections in the U.S. and elsewhere, could add further uncertainty in the months ahead.

Figure 1: Interest rate expectations have soared higher

12-month market projections for central bank interest rate increases (bps)



Data source: Bloomberg, L.P. Data depicts the market-implied 12-month expectations for increases in global central bank policy rates.



Portfolio construction themes

Investors face a swirl of competing economic and market themes: stubbornly high inflation, a shifting interest rate outlook, valuation concerns and, of course, the rapidly evolving AI boom with its worries over market concentration or bubbles. Many are approaching markets with caution, even fear, even as equities and other risk assets continue climbing. Some risks are indeed growing. But across public and private asset classes, we believe that fundamentals are compelling — if you know where to look.

How should investors navigate this landscape? How should portfolios capture shifting economic trends? Can investors capitalize on the AI boom while staying diversified? And where are the best opportunities across markets?

To help answer these questions, we present **five portfolio construction themes** along with our **best investment ideas** across asset classes — exploring differentiated areas of the markets, identifying undervalued or recovering sectors and highlighting overlooked opportunities.

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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.

Upgrade from last quarter

Downgrade from last quarter

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.

Five themes for 2026

1

From AI boom to AI bifurcation: knowing where to invest

Surging hyperscaler capital expenditures remain a primary market driver across asset classes. This shows up most visibly in equities, where many are rightfully concerned about growing index concentration, but AI-related debt financing is also a powerful tailwind across public and private fixed income markets. We see no signs of AI capex slowing; in fact, it is projected to grow strongly over the coming years (Figure 2).

But capex growth alone is not an investment theme, and we expect AI selectivity to grow in importance. We increasingly see opportunities extending beyond first-order beneficiaries into industrials, power equipment, infrastructure, health care and other AI-adjacent areas. We also see growing risk for companies that cannot demonstrate a credible path to monetizing AI. Increased AI infrastructure spending pressures margins and returns on invested capital when it doesn't translate into meaningful revenue growth.

Growing scrutiny, and hostility, around AI trends generally and data center buildout specifically is also clouding the outlook. For direct hyperscaler investments, we favor facilities that rely on sustainable power, avoid water stress issues and engage meaningfully with community feedback — all factors tied to longevity and profitability.

2

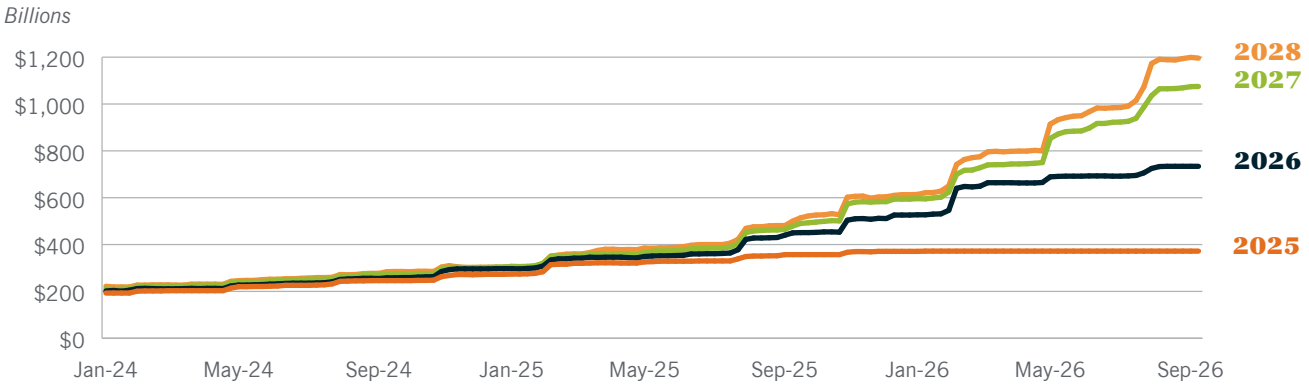
Cash isn't a strategy: putting sidelined capital to work

In conversations with clients, we're hearing that valuation concerns, worries about global economic and geopolitical trends and uneasiness about extending duration are pushing many individual investors toward high cash levels. Some institutional investors are delaying new capital commitments or extending due diligence timelines for similar reasons.

But in our view, the cost of waiting outweighs any potential benefit, and the need for sustainable income and long-term growth hasn't changed. Despite Treasuries starting to offer better relative value, we see ample opportunities to put cash to work. Rising yields have created challenges for bond markets, but they've also created better entry points, with senior loans and securitized assets looking particularly attractive. U.S. municipal bonds also stand out given their yields and fundamentals. We also see opportunity in customized long/short mandates and other de-risking strategies designed to manage volatility exposure.

Figure 2: Hyperscaler capex is on track to exceed $1 trillion in 2027

Actual and forecasted capital expenditures ($ billions)



Data source: Bloomberg, L.P. and the Bureau of Economic Analysis. Data depicts the monthly growth in capex for each year through 11 Sep. Forecasts reflect consensus expectations from Bloomberg. Hyperscalers are Alphabet, Amazon, Meta, Microsoft, Oracle and Nvidia. For illustrative purposes only. References to specific company stocks should not be construed as recommendations or investment advice.

3

Alternative credit and private markets: separating headlines from fundamentals

Negative headlines around private credit have faded in recent months, but concerns persist that the market is overbought or that deal structure quality is slipping. Some deals do rely on excess leverage or suffer from insufficient cash flows, which only reinforces the importance of deal structure, strong covenants and careful selectivity. We're also seeing more manager dispersion, which reflects these same trends.

Core middle market direct lending in the U.S. and Europe continues to show healthy fundamentals, including low default and non-accrual rates. We see particular opportunity in "old economy" lending, such as light manufacturing, building services and landscaping, which offers diversification away from AI themes. On the investment grade side, rising energy demand creates opportunities in utility operating companies, new power plants and expanding transmission infrastructure. We also see opportunity across other alternative credit segments, including collateralized loan obligations, real estate and infrastructure debt and C-PACE financing.

For private equity, investor interest appears to be growing, deal flow is picking up and overall market quality has improved over the last year. As with debt markets, selectivity remains critical; we see the best opportunities in equity secondaries, particularly single-asset deals.

4

Municipals: a technical and fundamental bright spot

Rising bond yields have pressured most global fixed income. But we see the rise in municipal yields as part of the broader macro dynamic around higher energy prices and inflation, not a reflection of municipal fundamentals, as state and local tax collections show continued growth over the last year. Demand for municipals has also been persistent, balancing still-elevated supply. As yields have increased and municipal valuations have cheapened, municipal yield curves are steeper than Treasuries, making this one area where taking on some duration risk may make sense.

5

The private real estate rebound continues to build

Private real estate continues to offer a compelling entry point following a reset in values and fundamentals that began around the start of last year. We think real estate credit looks particularly attractive. The MSCI Global Quarterly Property Index has now enjoyed nine consecutive quarters of positive total returns, with the last seven each notching modest value gains. Elevated interest rates could delay the return of more significant capital growth, but real estate is fundamentally an income-driven asset class. On the income side, a sharp slowdown in new supply is helping occupancies improve across property types, a pattern that has typically preceded stronger periods of rent growth. In the following section of our outlook, we offer specific areas within real estate markets where we see the best opportunities.

Our best investment ideas

EQUITIES
Willis Tsai

Best ideas: We remain constructive on companies benefiting from AI-driven revenue acceleration. We also favor businesses with durable earnings growth, strong free cash flow generation and disciplined capital allocation, which leads us to favor dividend growers.

Investment positioning

- Global equities continue to be shaped by the AI investment cycle, but the underlying earnings backdrop is stronger and broader than many investors appreciate. Earnings growth has expanded beyond the largest technology companies into areas benefiting from a constructive macro backdrop and company-specific tailwinds.
- Within AI, we believe the market is entering a new phase. The initial stage rewarded companies providing the infrastructure required to build AI capabilities. Investors are now looking for evidence that enormous capital investments are translating into tangible business outcomes. Many of the largest AI spenders are demonstrating accelerating revenue opportunities and growing operating leverage. As a result, we remain constructive on large-cap growth companies at the center of the AI ecosystem.
- We continue to favor a global and flexible approach centered on high-quality businesses with durable competitive advantages and resilient earnings growth. This continues to support an overweight to U.S. equities, where many of the world's leading innovators remain concentrated. Beyond the core AI beneficiaries, we see attractive opportunities among electrification, industrial automation, robotics, networking infrastructure and software companies that stand to benefit from broader adoption of AI technologies.
- We are less enthusiastic toward U.S. small caps. While the long-term opportunity remains appealing higher financing costs, greater economic sensitivity and lower earnings visibility are headwinds. Similarly, we have become somewhat more selective within emerging markets and are focusing on areas exhibiting structural growth, improving governance and differentiated earnings trajectories.

FIXED INCOME
Anders Persson

Best ideas: Senior loans offer attractive yields and good relative value against other areas with similar credit risk. Municipal bonds remain relatively insulated from geopolitical headwinds and offer compelling yields, especially on a taxable-equivalent basis.

Investment positioning

- With long-term interest rates remaining stubbornly high (and volatile) and the Fed turning more hawkish, we advocate neutral duration positioning. We expect Treasury yields to remain elevated in the near term given upward pressure on energy prices, and U.S. Treasuries are beginning to offer better relative value.
- Across credit sectors, we favor a barbell approach: generally favoring higher-quality segments, while also seeking income in "plus" fixed income areas such as senior loans, preferreds and emerging markets debt. Senior loans offer particularly attractive yields and should benefit from elevated rates. We also see better value in securitized assets, particularly in commercial mortgage-backed securities, while emerging markets debt enjoys strong demand and relatively low default rates.
- Investment grade public credit faces potential headwinds from tight credit spreads and extended duration. High yield fundamentals remain solid, and while preferred securities have had a strong run and look more fairly valued, they continue to feature strong issuer fundamentals.
- In private credit, both investment grade and below investment grade fundamentals appear attractive, and much of the headline noise around the asset class has faded in recent months. Selectivity, deal structure and strong covenants remain paramount.
- As discussed in our portfolio construction themes, municipal bonds stand out as one of our most favored sectors across global fixed income, supported by strong fundamentals and robust demand.

REAL ESTATE

Chad Phillips

Best ideas: *Across both private and public real estate, we favor sectors with durable income and supply/demand characteristics, including senior housing and medical office.*

Investment positioning

- We remain bullish on the private real estate recovery, though we favor defensive, income-oriented positioning. Elevated rates keep us favoring real estate debt over equity, even as we expect greater capital appreciation across sectors ahead.
- Health care remains our highest-conviction theme. Outpatient medical buildings and senior housing benefit from severely constrained new supply and the global demographic trend of aging populations.
- Neighborhood and grocery-anchored retail look like an attractive counter-consensus opportunity across the U.S., Europe and select Asian markets. Vacancies sit at all-time lows, new supply is nearly nonexistent, and investors are beginning to notice.
- We are less enamored of the U.S. multifamily apartment sector, where we think prices are generally too high as capital has flooded into the segment. We do expect the technical backdrop to improve over the coming quarters as supply gets absorbed and as the cost of home ownership continues to favor rentals.
- For public REITs, net asset values look fairly valued following a period of strong performance. This remains a stock-picker's market, with our current focus on senior housing, data centers and industrial real estate.

INFRASTRUCTURE & REAL ASSETS

Jessica Bailey

Best ideas: *In public markets, we favor electric utilities trading at a discount while delivering accelerating earnings growth. In private markets, we favor preferred tax equity structures, which have grown in demand given the sunsetting of renewable power tax credits, as well as high-leverage C-PACE financing.*

Investment positioning

- A number of persistent trends including the massive growth of AI, surging energy demand and expanding data center construction remain significant tailwinds for infrastructure across equity, debt, public and private markets. Our key investment themes focus on capitalizing on surging power demand, digitalization, electrification and the growing need for energy security.
- In private markets, our equity focus is on transportation and power & transmission given strong demand in these segments. We also see more opportunity in European investments given wider credit spreads and improving relative value. On the credit side, we favor energy and power infrastructure, emphasizing essential assets with defensive characteristics including contractual cash flows, collateral protection and consistent financial and operational covenants.
- We see solid demand growth for Commercial Property Assessed Clean Energy (C-PACE) financing, including in higher leverage structures, which offers attractive yields and long-dated amortization that provides predictability and potential resilience to interest rate volatility.
- In public markets, U.S. infrastructure fundamentals have been improving, and we see particular opportunity in electric utilities. Higher interest rates in Japan have made us less positive on that market, and we see political risk emerging in U.K. water utilities.
- Farmland remains a compelling long-term allocation for differentiated return potential and inflation hedging. However, row crop margins continue to moderate, particularly in the U.S., and remain below prior years' elevated levels. Higher fertilizer and fuel costs, along with supply-chain disruptions, present additional risks.

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.

Endnotes

Sources

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

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