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Second quarter 2025 outlook

Uncertainty grips global equity markets

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Global equities posted mixed results in the first quarter. Non-U.S. benchmarks generated gains, led by developed markets, with returns amplified by a weakening U.S. dollar. In contrast, U.S. equities delivered losses, hindered by concerns about the Trump administration's aggressive trade policies and their economic impact.

Monetary policy around the globe also diverged, with central banks reporting varying degrees of success in lowering inflation. Although the U.S. Federal Reserve and the People's Bank of China (PBoC) stood pat, the European Central Bank (ECB), Bank of England (BoE), and Reserve Bank of India cut rates, while the Bank of Japan (BoJ) and Central Bank of Brazil hiked.

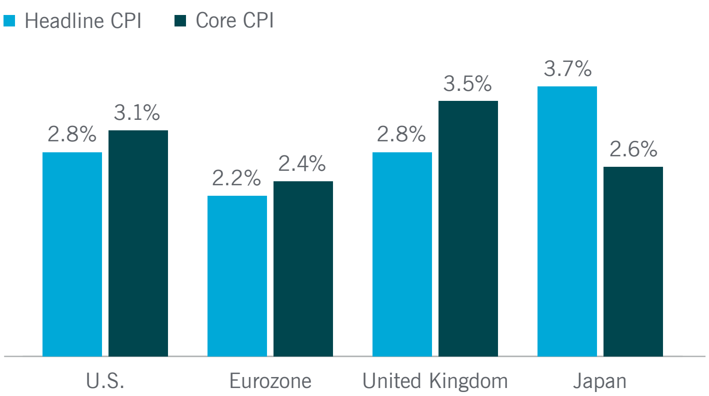
KEY TAKEAWAYS

- Central banks face numerous risks. The Fed must incorporate both the inflationary and growth-dampening potential of tariffs in its calculations. Meanwhile, the ECB is contending with sluggish, albeit improving, growth in the eurozone, the BoE has seen consumer prices remain stubbornly high and the PBoC continues to grapple with deflation and a still-struggling property sector.
- President Trump's "Liberation Day" tariff announcement on 2 April provided more specifics on the scope of U.S. tariffs but also sent shockwaves through markets. This volatility will likely remain in place as investors are forced to read the tariff tea leaves, focusing on a greater risk of stagflation, a dangerous mix of stagnant growth and high inflation.
- Overall, we remain broadly neutral on global equities. Among segments, we favor dividend growth stocks, thanks to their ability to generate free cash flow, and global infrastructure companies, given their ability historically to weather both sticky inflation and periods of decelerating economic growth. We're also constructive on U.S. small caps, which could benefit from certain anticipated policy changes, positive earnings revisions and market dynamics — putting them at or near an inflection point after a long period of underperformance.
- Outside the U.S., we have grown more positive toward developed markets, and Japan in particular, thanks to its government's focus on corporate governance reform and strong corporate earnings. Europe also merits consideration on the back of Germany's massive stimulus and economic growth potential.

CENTRAL BANKS AND THEIR BALANCING ACTS

Monetary policy diverged in the first quarter even as inflation remained above central bank targets.

Figure 1: Inflation stayed above central bank targets



Data source: Bloomberg, L.P., 31 Mar 2025. **Performance data shown represents past performance and does not predict or guarantee future results.**

Following three straight cuts (totaling 100 basis points, or bps) since September 2024, the **Fed** kept its target fed funds rate steady in a range of 4.25%-4.50% in the first quarter of 2025. In its March meeting, Chair Jerome Powell stated that although "the economy is strong overall," uncertainty is high due to the Trump administration's "significant" changes in trade and immigration policy. Given that uncertainty, Powell emphasized that "We do not need to be in a hurry to adjust our policy stance."

In its updated Summary of Economic Projections, the Fed lowered its 2025 forecast for GDP growth from +2.10% to +1.70%, while raising expectations for inflation from 2.50% to 2.80% by year-end, further above its 2% target. Powell noted that "clearly some of it, a good part" of the Fed's hotter inflation outlook was due to the Trump tariffs. Looking ahead, we anticipate three 25 bps cuts in 2025, taking the policy rate range to 3.50%-3.75%.

In contrast to the Fed, the **ECB** eased policy, reducing its benchmark deposit rate by 50 bps during the quarter, to 2.50%, but refusing to commit to further cuts or a particular rate path. Similar to the Fed, the ECB also increased its projection for year-end inflation (to 2.30%) and trimmed its annual 2025 GDP growth forecast (to +0.9%). Our base case calls for the ECB to lower rates to 2.0% by mid-year, but that could easily shift below 2.0% should tariff-led growth risks materialize.

Other developed market central banks headed in different directions:

After lowering rates in February, the **BoE** left them unchanged at 4.50%, as the U.K. economy contends with uncertainty around global trade and looming stagnation. In its policy statement, the BoE noted that "Monetary policy will need to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target... have dissipated further."

Facing rising wages and higher import prices, the **BoJ** raised interest rates to 0.5% in January – the highest level since 2008. But the BoJ refrained from adjusting rates in March as it assessed the potential impact of heightened global economic risks on Japan's fragile recovery.

Monetary policy in emerging markets (EM) was mixed:

The **Central Bank of Brazil** raised rates by 100 basis points in both January and March, to 14.25%, as it sought to lower inflation from its highest level (+5.10%) since September 2023. Meanwhile, February saw the **Reserve Bank of India's** first rate cut since May 2020, to 6.25%, in a bid to spur the economy and counter global trade uncertainty. In China, however, the **PBoC** remained on pause for the fifth straight month, seeking to ward off deflation and prop up growth amid mounting trade frictions.

FIRST-QUARTER MARKET PERFORMANCE AND DRIVERS

The S&P 500 gained 4% in the first three weeks of the new year as investors focused on strong corporate earnings growth, anticipated tax cuts and deregulation under the second Trump administration. However, the S&P 500 then gave back gains following the surfacing of Chinese tech startup DeepSeek.

A renewed rally in February was also short-lived. Declines for several of the Magnificent Seven mega cap growth companies (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla), a batch of bearish U.S. economic indicators and ongoing tariff tensions sent stocks lower for the month overall.

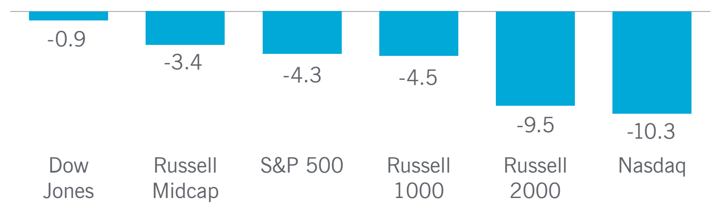
March proved particularly challenging for the S&P 500, which fell into correction territory (a decline of 10% or more from its most recent peak) as investors worried about economic fallout from Trump's trade policy and the possibility of stagflation. For the first quarter as a whole, the S&P 500 returned -4.30%, breaking its five-quarter winning streak and posting its worst quarterly result since 2022.

Other major U.S. equity benchmarks joined the S&P 500 in finishing the first quarter in the red (Figure 2). The tech-heavy Nasdaq Composite (-10.3%) was weighed down by the poor performance of big stocks like Apple (-11.2%), Microsoft (-10.8%) and Nvidia (-19.3%). The more economically sensitive small cap Russell 2000 Index (-9.5%) lagged its mid cap (-3.4%) and large cap counterparts (-4.5%).

Nuveen's Macro Market Monitor provides a quantitative snapshot of the state of the U.S. economy and markets. Our investment committees use this tool to evaluate periodic changes in conditions, prioritize research and stimulate discussions when developing portfolio strategies.

Figure 2: The Dow held up better than other U.S. benchmarks

Index returns (%)



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

NON-U.S. MARKETS HANDILY OUTPACE THE U.S.

Equity markets outside the U.S. performed well in the first quarter, aided by a weaker dollar (Figure 4). The greenback fell 4% against a basket of currencies (measured by the U.S. Dollar Index), as U.S. growth concerns increased the odds of the Fed lowering interest rates. (Interest rate movements are one of the key drivers of the dollar's relative value.) Based on non-U.S. MSCI benchmark indexes in U.S. dollar terms, EM equities delivered a 2.9% gain, while their developed market counterparts (+6.9%) bested the S&P 500 by more than 11 percentage points — the widest margin of outperformance since 2002.

Figure 3: Our Macro Market Monitor looks at the big picture

Category	Gauge	Current	Analysis
INFLATION	Long-term inflation expectations	2.2%	Trailing inflation and forward-looking inflation expectations remain above the Fed's 2% target.
U.S. MONETARY POLICY	Fed funds rate Financial conditions	4.5% 99.5	Generally restrictive given the current fed funds rate. Financial conditions are in-line with their long-term average.
U.S. EQUITY FUNDAMENTALS	S&P 500 forward price-to-earnings ratio S&P 500 forward expected earnings growth Revisions to expected earnings	19.4x 11.7% -4.2%	Index-level valuations have declined but still remain expensive compared to their long-term average.

Neutral   Negative

Data sources: Bloomberg, L.P., 31 Mar 2025, FactSet, 04 Apr 2025. **Performance data shown represents past performance and does not predict or guarantee future results.** The views above are for informational purposes only and do not reflect the experience or performance of any Nuveen product, strategy or service. Financial conditions are based on the Goldman Sachs Financial Conditions Index (GSFCI), a weighted average of riskless interest rates, exchange rates, equity valuations and credit spreads, with weights that correspond to the direct impact of each variable on GDP.

European markets rallied amid improving economic data, with business activity reaching a seven-month peak, boosting eurozone shares (+11.9%). Stocks in Germany (+15.6%), Europe's largest economy, shrugged off fears of looming U.S. tariffs as the government launched plans to ramp up borrowing to fund infrastructure and defense spending. In the U.K. (+9.7%), Europe's second-largest economy, service-sector output (representing about 80% of GDP) jumped to its highest level since August 2024. Elsewhere, Japan's Nikkei 225 Index performed poorly (-5.5%), with concerns about U.S. trade policy and a stronger yen brought on by higher Japanese interest rates weighing on the index's export-reliant constituents.

Also in Asia, Chinese equities, making up nearly a third of the market capitalization of the MSCI Emerging Markets Index, extended their 2024 gains with a +15% first-quarter rally. Heading into the new year, Chinese stocks were broadly expected to struggle under the threat of U.S. tariffs, however, Deepseek's breakthrough fueled interest in China's internet sector, which appears attractively valued compared to its long-term average.

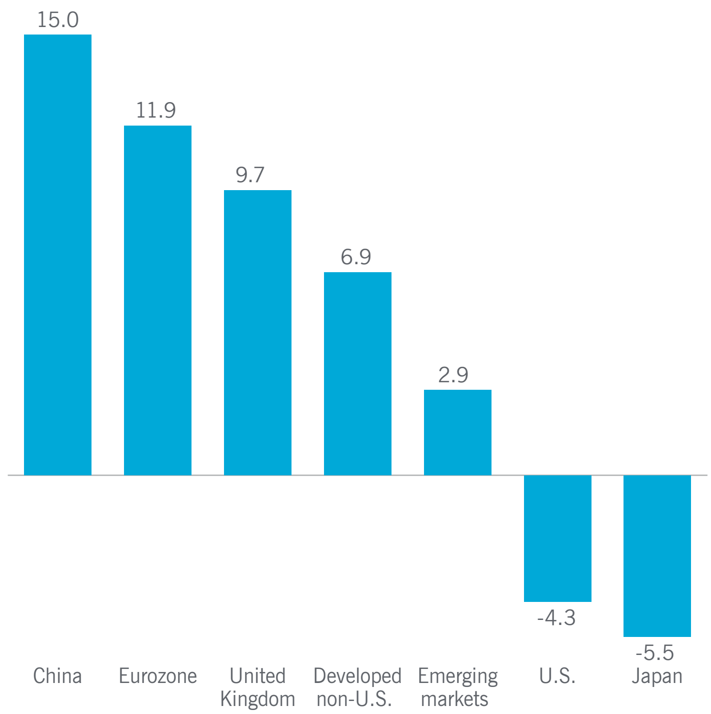
Results from other large EM countries were also impressive. Brazil (+14.1%) bounced back from a dismal fourth quarter, lifted by hopes for a slower pace of rate hikes and a pickup in investor sentiment. As the country's 2026 presidential election nears, markets are betting that President Luiz Inácio Lula da Silva — whose favorability rating plunged to 24% in mid-February — will be replaced by a reform-minded candidate deemed more capable of easing inflation and addressing the country's fiscal challenges. Meanwhile, in South Korea (+4.9%), robust performance from the market's technology sector overcame trade anxiety and a series of domestic political crises.

In contrast, India (-3%) lagged. Equity outflows remained a concern as investors fretted over steep valuations and slowing economic growth. Taiwan fared even worse (-12.6%) due to the underperformance of its technology stocks, by far the largest sector in the Taiwanese market.

On an EM regional basis, Europe (+16.8%), Latin America (+12.7%) and Africa (+14.2%), which includes a number of "frontier" markets, were standouts. Asia (+1.4%) trailed.

Figure 4: China leads in quarter dominated by non-U.S. markets

Index returns (%)



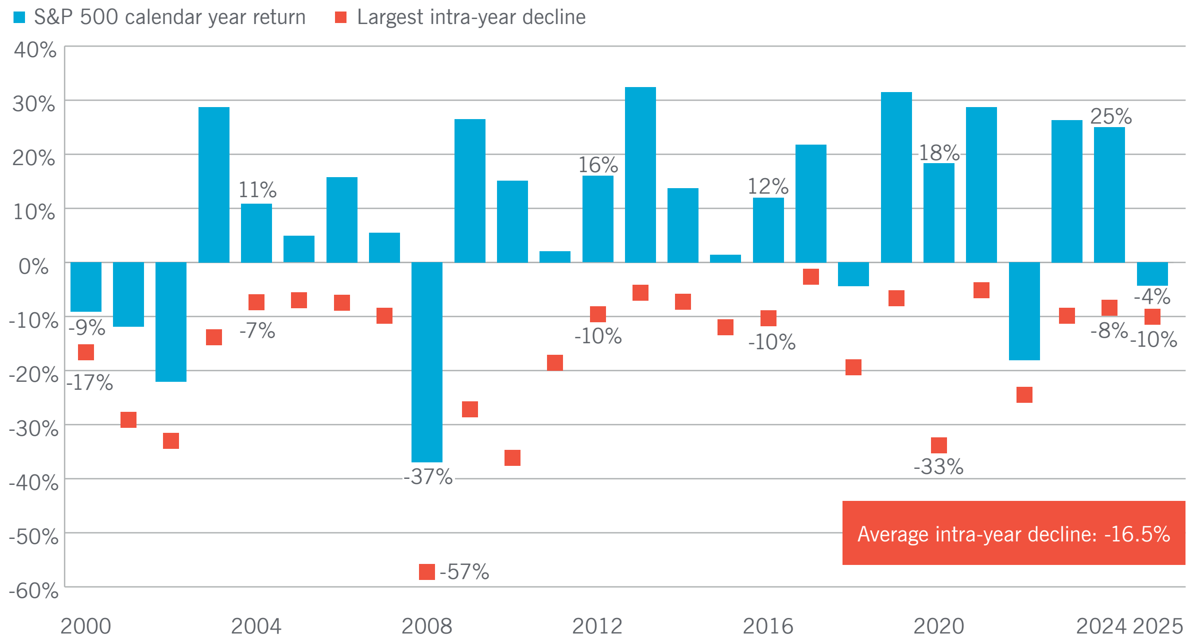
Data source: Morningstar Direct, 31 Mar 2025. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: Japan:** Nikkei 225 Index; **United States:** S&P 500 Index; **eurozone:** MSCI Euro Index; **developed non-U.S.:** MSCI EAFE Index; **United Kingdom:** MSCI United Kingdom Index; **emerging markets:** MSCI Emerging Markets Index; **China:** MSCI China Index. **It is not possible to invest directly in an index.**

OUTLOOK AND BEST INVESTMENT IDEAS

In 2023 and 2024, U.S. equity investors benefited from a benign combination of stellar returns (above +25% each year) and low volatility. Over that two-year period, including January and February of 2025, the CBOE Volatility Index (VIX), a measure of implied volatility of the S&P 500, stayed below its 10-year average of 18.3 on 74% of trading days. But in March, amid tariff and recession fears, the VIX exceeded that mark for 15 consecutive trading days, its longest stretch in two years.

It's no surprise that March was the S&P 500's worst month since December 2022. Still, its -10.1% tumble into correction territory from 19 February to 13 March — while painful for investors — was lower than its average drawdown of roughly -16% since 2000 (Figure 5).

Figure 5: March's drawdown was less dramatic than usual



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

A high-quality approach to equity portfolios

Against a backdrop of slowing economic growth and still-elevated interest rates, our view of equities as an asset class remains neutral. Becoming more optimistic would require catalysts that include:

- Earnings growth and upside surprises as the drivers of market gains
- Continued expansion of market breadth
- Diminished inflation risks
- Easier financial conditions, including more Fed rate cuts
- A lower cost of capital
- Implementation of growth-oriented tax and regulatory policies

We think it's wise to brace for further volatility this year given the various headwinds facing equity markets (as discussed in the "Risks to our outlook" section). With that in mind, we favor U.S. dividend growth and listed global infrastructure stocks, areas of the market that can help cushion downside risk and may be more resilient if tariffs deliver an upside shock to prices.

U.S. dividend growers benefit from capital flexibility and balance sheet strength that should help them mitigate inflationary cost pressures. Historically, companies that initiate or continue to raise dividends have generated higher annualized returns with lower annualized risk (standard deviation) — making these stocks well-suited to the current environment. Lastly, with many portfolios overweight U.S. large cap growth stocks, dividend growers provide potential diversification. Dividend growers have proven less correlated to the S&P 500 than large cap growth stocks, and that was the case in the first quarter, with the S&P 500 Dividend Aristocrats Index returning +3.2%.

Investors underweight non-U.S. equities may want to consider publicly listed global infrastructure equities. These companies own or operate assets that facilitate the movement of people, energy, goods and commodities — in short, the backbone of global economic activity. Their revenues are derived from long-term contracts or concessions for the use of their underlying portfolios of vital hard assets. This translates into a high degree of transparency and predictability of cash flows compared to more traditional investments. Global infrastructure companies are also bolstered by inelastic demand, which tends to make them less vulnerable to periods of economic weakness. Additionally, because regulatory frameworks allow these companies to pass through higher costs resulting from inflation, the asset class can also be an effective hedge against inflation.

Given these characteristics, it's not surprising that the S&P Global Infrastructure Index posted a healthy +4.6% gain in the first quarter. What's more, with its critical role in expanding the production and transmission of energy to meet exponential demand growth driven by AI, listed global infrastructure has become an attractively valued derivative of the AI trade.

Rising expectations for U.S. small caps

Our upgraded view of U.S. small caps in our previous outlook now looks premature, as these stocks underperformed in the first quarter. Nonetheless, given our expectation for the Fed to ease policy in 2025, we think the asset class has the potential to make up lost ground. Small companies tend to rely more on borrowing to finance growth, so a lower cost of capital should enable them to expand or invest less expensively. This, in turn, may buoy their stock prices.

We also believe the Trump administration's likely prioritization of domestic growth (through policies such as tax cuts and deregulation) could provide a tailwind for small caps, which are generally economically sensitive. The higher tariffs imposed by the U.S. could give them an edge over large caps, because small companies generate higher levels of revenue from within the U.S. Taken together, these market forces could fuel a new capital investment cycle for small caps, contributing to a substantially improved earnings forecast beginning in the second quarter of 2025 (Figure 6). From a valuation standpoint, after a long period of underperforming the broader market, small caps are trading at a significant discount, based on a price-to-earnings (P/E) ratio of 14.8x, versus 19.4x for large caps.

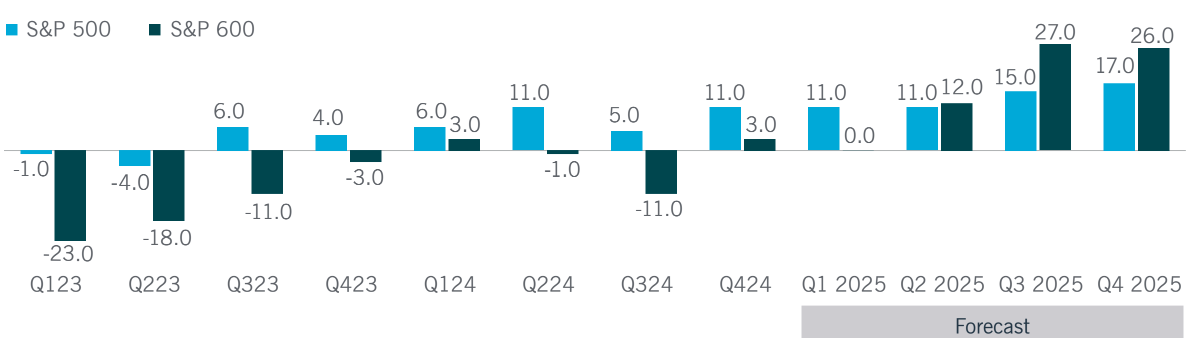
We see opportunities in Europe and Asia

Over the past 10 calendar years (2015-2024), European stocks, as represented by the MSCI Europe Index, have lagged the S&P 500 by an average of 1.83 percentage points per quarter. But in the first quarter of 2025, Europe trounced the U.S. by 14.8 percentage points, 10.5% to -4.3%. What drove this remarkable rebound?

Reinvigorated European shares have been bolstered by the German government's constitutional amendment to the "debt brake" — which previously had limited borrowing to just 0.35% of GDP. This move was designed to end years of domestic

Figure 6: Small cap earnings may surge this year

YoY earnings growth (%)



Data source: FactSet, 31 Mar 2025. **Performance data shown represents past performance and does not predict or guarantee future results.** 1Q25-4Q25 are forecasts. It is not possible to invest directly in an index.

economic stagnation at a critical time when the U.S. is pivoting away from its European allies. Germany has pledged to spend €500 billion on infrastructure and "green" projects while boosting military and civil defense manufacturing, cybersecurity investment and support for Ukraine. As a result of the proposed stimulus, economic forecasts for German GDP have improved dramatically. According to the DIW Berlin estimates, for example, GDP expansion in Germany could nearly double over the next 10 years, from 1.1% to 2%, a pace the country last reached in 2021.

On a sector basis in Europe, we favor defensive areas like health care, thanks to both the surge in demand of GLP-1 drugs for fighting obesity and diabetes, and attractive valuations for health care stocks. Telecommunications also merits consideration on the strength of consolidation within the industry and a regulatory stance that has increased pricing power for telecom companies. Among cyclical (i.e., more economically sensitive) industries, we continue to like banks, which should benefit from improved growth in Europe and higher long-term Treasury yields — which allow banks to lend at higher rates.

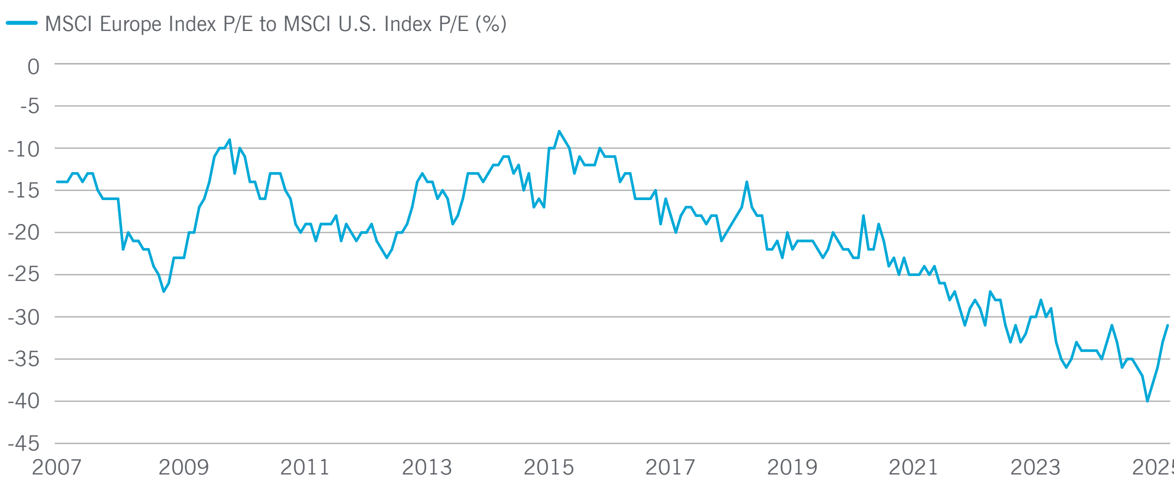
Whether Europe can continue outperforming the U.S. will depend in large part on Germany's commitment to increase infrastructure and defense spending. Lowering consumer energy costs is also crucial. Natural gas prices, for example, are about four times higher in Europe than in the U.S., according to Statista Research.

While this year's rally has lifted European equity valuations, they remained at a 30% discount to their U.S. counterparts as of quarter-end, with a P/E ratio of 13.7x versus 19.4x for the S&P 500 (Figure 7).

In addition to opportunities in Europe, we believe Japan offers an abundance of attractively valued growth companies. Although the Nikkei started slowly this year, fourth-quarter corporate earnings for Japanese companies overall were solid (+12.1% quarter over quarter, +13.5% year over year, according to Cornerstone Macro). While higher interest rate dynamics have translated to a stronger yen — making Japanese exports more expensive, potentially hindering earnings — the country's low unemployment and tight labor market could support wage growth and, in turn, personal consumption. In our view, the market's focus on corporate governance, coupled with global under-allocations to Japanese equities, adds to Japan's allure as an investment destination.

We believe China's domestically driven economy may be able to withstand U.S. tariffs without sustaining significant damage, although harsh trade rhetoric between the two countries has intensified. Total exports account for less than 20% of Chinese GDP, putting the country 128 out of 154 nations surveyed by the World Bank. Beijing appears

Figure 7: European shares trade at steep discount to the U.S.



Data source: Bloomberg, L.P., 31 Mar 2025. **Performance data shown represents past performance and does not predict or guarantee future results.**

determined to enhance households' capacity and willingness to consume through its new "special action plan," a multipronged stimulus with a focus on raising wages, supporting the stock market and building out the services sector.

Big losses make Mag 7 look more miserable than magnificent

In 2023 and 2024, the S&P 500's bull run was powered by the outsized gains of only a few stocks — notably the Magnificent Seven. In those two years, these mega cap technology names were responsible for 62% and 54% of the index's returns, respectively. But thus far in 2025, they have delivered their worst quarterly result (-16%) since 2022.

A sound investment approach supports our outlook

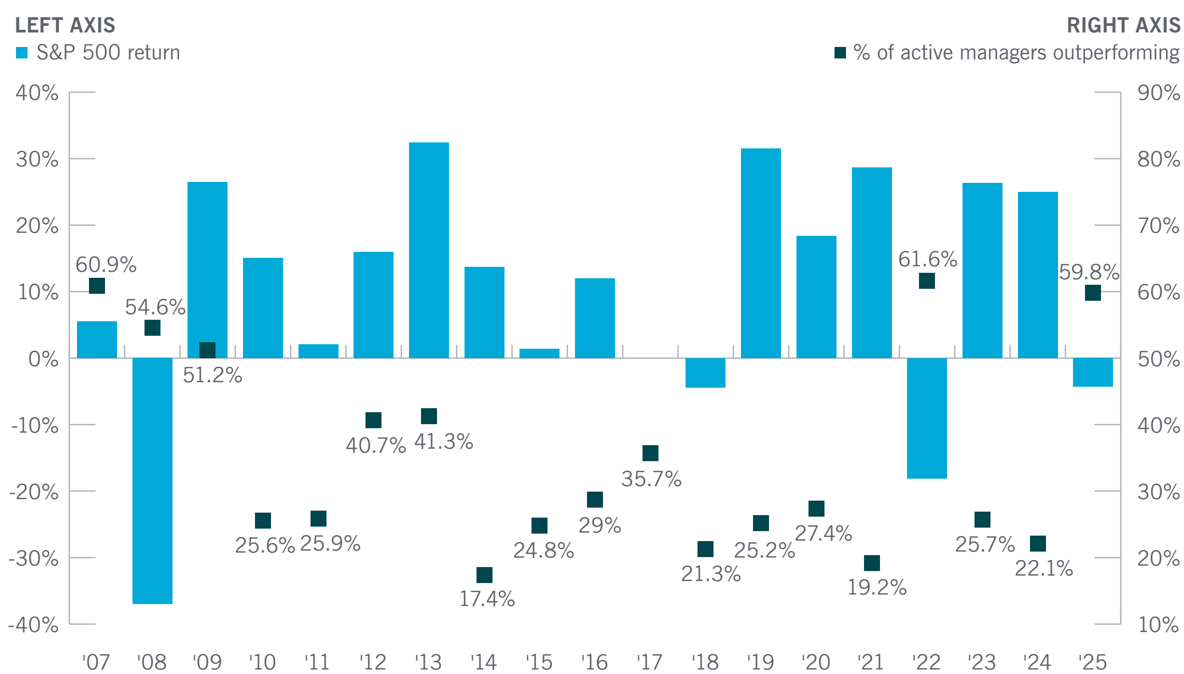
Volatility and uncertainty present challenges. But it is during these periods that investors may benefit most from a flexible investment approach supported by rigorous, bottom-up research, careful stock selection and thoughtful portfolio construction — which together can provide confidence and make a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

Active managers, for example, have the flexibility to adjust their portfolios based on their analysis of market conditions. This allows them to capitalize on opportunities during periods of high market concentration, volatility or economic downturns — environments when passive strategies may struggle. When stocks are not moving in tandem (that is, there is high dispersion), active managers have more opportunities to identify mispriced assets and potentially boost performance.

The first quarter presented such a backdrop, leading to almost 60% of active large-cap managers outperforming passive strategies (Figure 8). To illustrate: Growth stocks overall returned -10%, while value stocks gained 1.6%. Within the S&P 500, the more defensive consumer staples sector (+5.2%) dominated its more cyclical consumer discretionary counterpart (-13.8%), the quarter's worst-performing sector.

Our equity heat map provides perspective and detail on specific areas of the markets that we like

Figure 8: Active large-cap managers may be poised to outperform



Data source: Strategas as of 31 Mar 2025. **Performance data shown represents past performance and does not predict or guarantee future results.** It is not possible to invest directly in an index.

Figure 9: Equity style and geographic preferences heading into Q2 2025

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.

on a relative basis (Figure 9). 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?"

The earnings growth outlook: down but not out

Given market concerns over inflation and tariffs, as of 04 April, analysts had lowered their first-quarter earnings per share (EPS) growth estimates by 4.2%, above the 5- and 10-year averages of +3.3% and +3.2%, respectively, according to FactSet.

Year-over-year EPS growth estimates are still solid at +7.0%, albeit lower than they were (+11.7%) when the quarter began. If the current estimate is realized, it would mark the seventh straight quarter of year-over-year earnings growth for the S&P 500. Looking ahead, analysts also expect EPS growth to rise to +9.1% in the second quarter of 2025, +11.7% in the third and +11.2% in the fourth.

Meanwhile, the S&P 500's net profit margins are forecast at +12.1% for the first quarter, below the previous quarter's +12.6% but above the five-year average of +11.7%.

Although the S&P 500 is down for the year to date, we believe it can recoup losses if there is a change of course on the trade front (with concessions by the White House and U.S. trading partners) and/or tax cuts are enacted. We think this rebound will be supported by (1) a 10-year Treasury yield that we expect to remain range-bound, making equities relatively more attractive compared to the risk-free return on government securities; (2) continued gradual easing by the Fed and (3) solid EPS growth that should help keep a lid on the S&P 500's already stretched P/E ratio. As of 04 April, the forward 12-month P/E ratio for the S&P 500 stood at 19.4x, above its 10-year average of 18.3x.

RISKS TO OUR OUTLOOK

Equity market volatility will likely remain elevated in 2025. In particular, we're monitoring the impact of U.S. tariffs on economic data to determine if continued weaker consumer and business activity might be a prelude to a recession or period of stagflation. As of this writing, it's too soon to tell, although soft data, such as confidence and sentiment surveys, have plummeted. As long as investors remain deeply worried about the economy, equities will struggle.

The current global trade environment is fluid and unpredictable. Among the U.S. firms most likely to be hurt by the Trump administration's tariffs are those heavily involved in AI. These companies could encounter rising hardware costs because they rely on global suppliers such as Taiwan, which produces about 60% of the world's semiconductors, according to the Council on Foreign Relations. Although semiconductors have been temporarily spared from reciprocal tariffs (taxes designed to rectify trade imbalances), they're expected to be subject to Trump's baseline 10% levy.

Tariffs could also lead to higher inflation, which might limit the Fed's ability to lower interest rates (typically a tailwind for U.S. equities). Moreover, plans to deport immigrants from the U.S. could lead to labor shortages and upward price pressures in industries that depend on these workers.

Our outlook may also be challenged by:

Fiscal woes. Extending the individual income and estate tax provisions from the 2017 Tax Cuts and Jobs Act, which is scheduled to expire at the end of 2025, would add $3.9 trillion ($4.5 trillion with interest) to the U.S. budget deficit through 2035, according to the Committee for a Responsible Federal Budget. Worries about rising deficits could cause bond yields to spike, and, in turn, financial conditions to tighten— both of which are negatives for stocks.

Technology turbulence. Strong earnings growth and profit margins for tech firms are critical to the U.S. equity market, as the information technology sector constitutes one-third of the S&P 500 Index. With investments in AI expected to rise by 5.7% in 2025 — versus 1.8% for overall IT spending — 2025 could be a defining year as investors assess whether these expenditures will pay off.

Putting the April selloff in perspective

As the Trump Administration's Liberation Day tariff announcements roil U.S. and global stock markets, it's important for investors to resist knee-jerk reactions and instead take a breath before making changes to their portfolios. This is in keeping with our fundamental belief that even in — or especially in — periods of severe short-term market volatility, an individual's investment strategy should remain aligned with their long-term objectives, risk appetite and unique financial circumstances.

The Nuveen Equities Investment Council (EIC) includes the firm's senior equity portfolio managers, with an average of three decades of investing experience. The EIC brings global expertise across different equity styles and provides value-added insights to Nuveen's investment process by refining and delivering the firm's collective equity market outlook to clients.

For more information, please visit us at nuveen.com.

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