

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Opportunity spreads in emerging markets debt

Bottom line up top

On a clear day you can see forever, but now — not so much.

Global equity markets traded with a cautious but generally resilient tone last week. In the U.S., investors weighed U.S./China trade tensions, the ongoing federal government shutdown and earnings growth for artificial intelligence (AI)-driven tech companies. AI enthusiasm helped keep non-U.S. equity markets generally buoyant as well.

U.S. Federal Reserve Chair Jerome Powell's latest public comments were also in the spotlight. Powell acknowledged that both labor supply and demand have waned — suggesting looser employment conditions after the tightness that fueled wage growth through 2024 (Figure 1). He added that while inflation remains “somewhat elevated,” risks to the labor market have come into sharper focus. Markets interpreted Powell's tone as balanced: dovish enough to support risk assets but wary of declaring victory over inflation.

However, the fiscal impasse in Washington is clouding the Fed's visibility into employment and inflation trends, as key economic data releases are delayed while the government is closed. Historically, shutdowns have lasted about 20 days, with minimal long-term impact. But risks to the economy could rise if furloughed federal workers face permanent layoffs. For now, the largest near-term effect is on the Fed's data-driven policy framework, rather than on corporate earnings.

Speaking of earnings... U.S. companies have begun reporting third quarter financial results, with consensus estimates calling for year-over-year earnings per share (EPS) growth of +8.5% for the S&P 500



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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.

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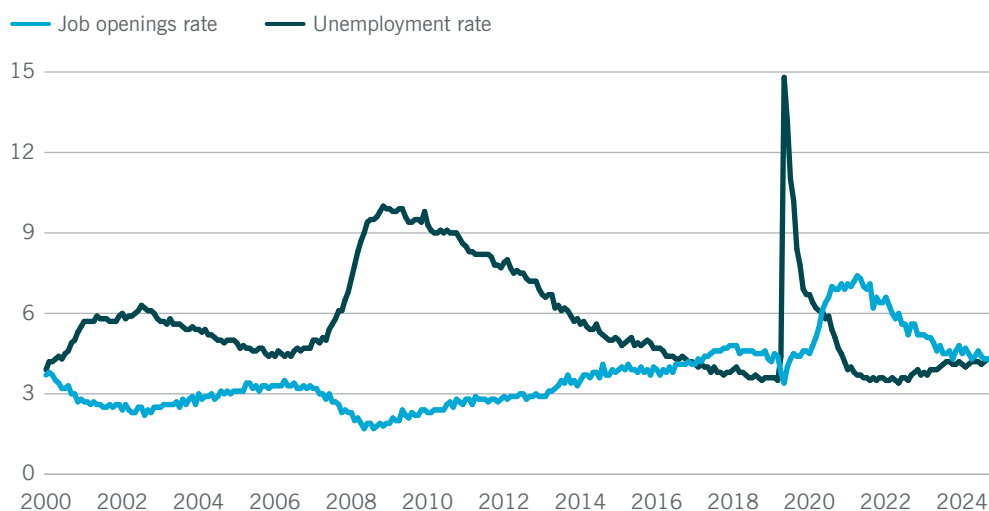
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Index, according to FactSet. This favorable forecast puts the emphasis on sound company fundamentals as a counterbalance to the uncertain macro backdrop. The information technology sector is anticipated to deliver the strongest EPS growth, driven by the Magnificent 7 mega-cap companies and sustained demand for artificial intelligence and related capital investments. We like large cap tech stocks, but valuations are elevated, so we also favor diversifying portfolios with allocations to other equity segments such as dividend growers and infrastructure. Additionally, we see value in various areas of fixed income, including emerging markets (EM) debt.

We see value in diversifying portfolios with allocations that include various areas of fixed income.

FIGURE 1: A CONCERNING CONVERGENCE?

Job openings and unemployment rate (seasonally adjusted, %)



Data source: Federal Reserve Bank of St. Louis, 15 Oct 2025.

Portfolio considerations

In fixed income markets, the bellwether 10-year U.S. Treasury yield has held near 4% as investors balance slower growth prospects against inflation that remains above the Fed's 2% target. Overall, spreads have stayed fairly tight, with markets still pricing in a soft economic landing. This environment presents opportunities in attractively valued fixed income asset classes that are supported by sound fundamentals with compelling yields. In that vein, our Global Investment Committee's recently published fourth quarter outlook includes an upgraded view on **emerging markets (EM) debt**. We believe there are five key reasons to consider this asset class:

1. As with most fixed income sectors, coupon and carry are the primary sources of return. The yield advantage for EM debt versus global

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We recently upgraded our view on emerging markets debt due to attractive yields and strong fundamentals.

peers averages nearly 100 basis points (bps) on a ratings-adjusted basis (Figure 2).

2. While tight, EM spreads look favorable relative to other fixed income sectors, and there are attractive spread opportunities, such as corporate-to-sovereign bonds, within the asset class as well.

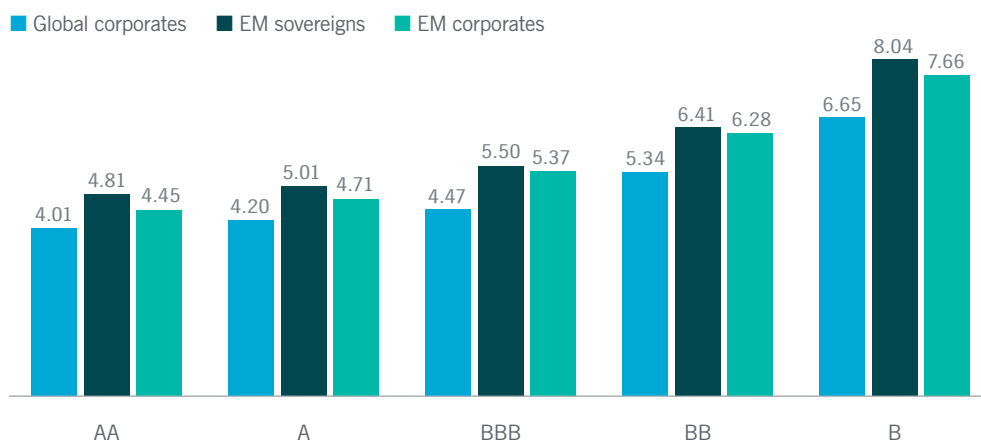
3. Many EM countries have proven adept at battling inflation and fiscal deficits, with their central banks ahead of the curve in terms of tightening or easing monetary policy depending on economic conditions. This has well positioned EM debt for what's expected to be a benign default cycle. EM fundamentals are strong after several years of high sovereign default rates. In fact, debt-to-GDP ratios are now much lower in EM than in the G7 developed countries (Canada, France, Germany, Italy, Japan, the United Kingdom and the U.S.). Moreover, corporate leverage in EM is substantially lower than in developed markets.

4. Waning U.S. exceptionalism is a key theme that we're monitoring. The U.S. dollar has depreciated meaningfully relative to both EM and developed market currencies year-to-date. We're also seeing heightened investor interest in diversifying away from U.S.-centric fixed income portfolios, a potential boon for EM debt.

5. Lastly, there's good news for investors who fear they may have missed the opportunity in EM debt following two (and what looks likely to be three) consecutive years of solid returns. EM fund flows are only now starting to turn positive after three straight years of outflows, signaling improved demand. If inflows continue to gain steam, as we anticipate, there's still plenty of room for the EM rally to run.

FIGURE 2: COUPONS OFFER A YIELD ADVANTAGE FOR EM DEBT

Yield premium for EM versus global counterparts (%)



Data source: Nuveen, J.P. Morgan, Bloomberg, L.P., 14 Oct 2025. Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: Global corporates: Bloomberg Global Corporates Index; EM sovereigns: J.P. Morgan EMBIG Diversified Credit Index; EM corporates: J.P. Morgan CEMBI Diversified Index.

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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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