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CIO Weekly Commentary
28 April 2025

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Expressing a preference for preferreds

Bottom line up top

Whiplash ending, markets mending? In the first 78 trading days of 2025, the S&P 500 Index has recorded gains or losses of 2% or more in a single day on 10 occasions — including eight in April, and three in the last week alone. These jolts are not surprising given the disruptive uncertainty that has characterized U.S. trade policy and other headline risks, leading to sharp declines in business and consumer confidence. That said, after a springtime storm of announced tariff increases, reversals and pauses, the Trump administration last week signaled greater willingness to calm tensions between the U.S. and its global trading partners, most notably China.

Easier said than done: solidifying forecasts in a fluid environment. Projecting future scenarios is complicated by a number of uncertainties in the current economic and market landscape. Consumer and business confidence levels are down, for example, and company guidance has been tepid this earnings season. Challenges aside, we offer our outlook on U.S. economic growth, interest rates and inflation in Figure 1, and assess the year-to-date status of our major fixed income investment themes below:

1. **Yields continue to present the best entry point in a generation**, creating attractive income opportunities.
2. **Tariffs have offsetting impacts:** Inflation risk limits Fed cuts near-term; growth concerns outweigh inflation risks later this year.
3. **Investors would be well-advised to position for bouts of volatility** amid policy shifts and a slowing economy.

Saira Malik, CFA
Head of Nuveen Equities and Fixed Income, Chief Investment Officer

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.

We think the Fed will hesitate to cut rates in the near term due to inflation risk.

4. While **duration is poised to resume its role as a driver of performance** as the economy decelerates, **credit selection and relative spreads can still present compelling investment ideas**.

Our revised 2025 growth forecast calls for U.S. GDP to expand by +0.7%, versus +0.5% in our prior outlook, with an increased probability (39%) of a recession this year. We still expect two Fed rate cuts in 2025, but now anticipate three (up from two) in 2026. Additionally, we've adjusted our year-end forecast for the 10-year U.S. Treasury yield downward, from 4.5% to 4.0%. Lastly, on inflation, we have raised our core Personal Consumption Expenditures (PCE) Price Index forecast from 2.5% to 3.4%.

FIGURE 1: TARIFF POLICY CONTINUES TO DRIVE MACROECONOMIC UNCERTAINTY

Macroeconomic and rates forecasts (as of 09 April tariff rates)

	Current tariffs rest of the year (prob. = 60%)	…if tariffs decrease by half (prob. = 30%)	…if tariffs increase by 10% (prob. = 10%)	Nuveen's forecast
2025 GDP growth	0.5%	1.3%	0.4%	**0.7%**
2025 core PCE inflation	3.5%	3.0%	3.6%	**3.4%**
12-month recession probability	40%	35%	45%	**39%**
2025 number of Fed cuts	2	2	4	**2**
2026 number of Fed cuts	4	2	4	**3**
2025 year-end 10-year Treasury yield	4.00%	4.25%	3.00%	**4.00%**

Data source: Nuveen estimates and analysis as of 17 Apr 2025. Estimates are subject to change. Nuveen's forecast reflects a probability-weighted estimate using the three scenarios outlined to the left.

Portfolio considerations

Our expectations for slower growth, higher inflation and the increased probability of a recession in 2025 (though not our base case), lead to our favoring two key asset classes within investment grade fixed income:

Preferred securities benefit from strong fundamentals, attractive valuations and supportive technicals. First quarter earnings for banks — the largest issuer of preferreds — were strong, with most beating consensus estimates and none altering their loan loss expectations. Within preferreds, we especially like $1000 par securities. This segment offers a yield of 6.8% with a duration of 3.8 years, and its spreads have widened by 64 bps this year (as of 17 April), making valuations even more attractive (Figure 2).

We think it makes sense to search for individual opportunities across the various preferred segments ($1000 par, $25 par, and contingent capital securities, or CoCos) and adjust allocations based on fundamentals.

Additionally, certain preferreds pay qualified dividend income which is taxed at a lower rate of 20% compared to higher ordinary income taxes. Market technicals for preferreds are also positive, with robust demand as investors seek high-quality, tax-efficient income solutions.

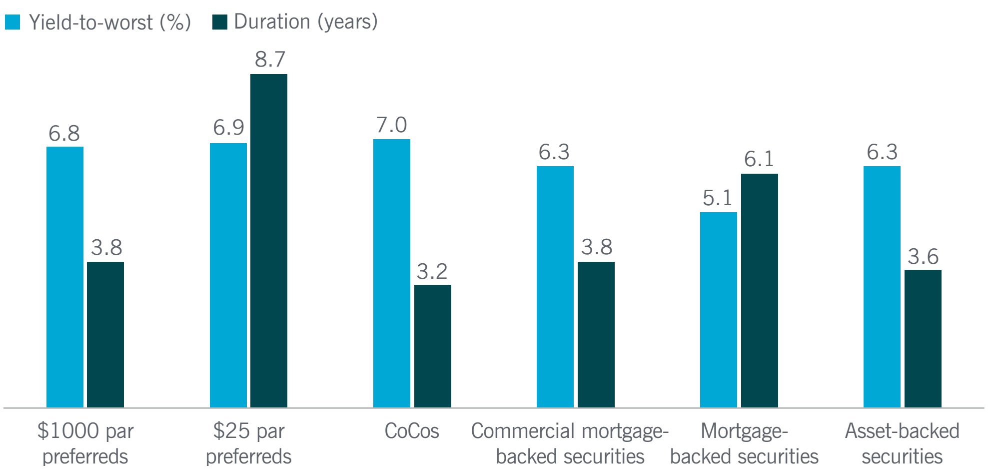
Another investment grade area we favor is **securitized assets**, which encompass sectors such as asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS). Careful credit selection in these categories has the potential to provide both attractive returns and healthy income.

While the Bloomberg U.S. Aggregate Bond Index (Agg), a broad-based investment grade benchmark, includes securitized assets in its universe, it allocates only to the largest issuances. By investing in smaller ABS and CMBS issues, investors can access yields that are currently 100+ bps higher than those available within the Agg. And though securitized sectors have a shorter duration relative to the Agg as a whole, it's long enough to benefit from falling interest rates, which we expect this year.

As for CMBS, we believe commercial real estate is on the upswing, offering an opportunity to identify undervalued properties and target the cheapest part of the capital structure through securitization. Seasoned (older) CMBS conduit deals look attractive, but we are less optimistic about fully valued single asset, single borrower (SASB) deals.

Given our view of slower growth, higher inflation and an increased probability of a recession, we favor preferred securities and secturitized assets.

FIGURE 2: PREFERRED SECURITIES AND SECURITIZED SECTORS OFFER ATTRACTIVE LEVELS OF INCOME



Data source: Bloomberg, L.P., 17 Apr 2025. **Performance data shown represents past performance and does not predict or guarantee future results. Yield to worst** is the lowest potential yield that can be received on a bond without the issuer actually defaulting. **Representative indexes: $1000 par preferreds**: ICE BofA U.S. Investment Grade Institutional Capital Securities Index; **$25 par preferreds**: ICE BofA Core Plus Fixed Rate Preferred Index; **CoCos**: ICE BofA USD Contingent Capital Index; **CMBS**: ICE BofA Fixed Rate CMBS AA-BBB Index; **MBS**: Bloomberg U.S. Mortgage-Backed Securities Index; **ABS**: ICE BofA AA-Fixed Rate Asset-Backed Securities BBB. For term definitions and index descriptions, please access the glossary on nuveen.com.

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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