

Global equities overcome obstacles, remain in rally mode

Global equities delivered solid results in the third quarter of 2025, adding to gains from the first half of the year. Non-U.S. benchmarks were led by emerging markets (EM), which posted their ninth consecutive positive month. U.S. shares continued to put April's tariff-driven selloff in the rearview mirror, supported by the S&P 500's best September — normally a bad month for stocks — since 2010. Monetary policy worldwide continued to diverge, with central banks balancing still-sticky inflation and economic growth concerns amid ongoing tariff uncertainty.

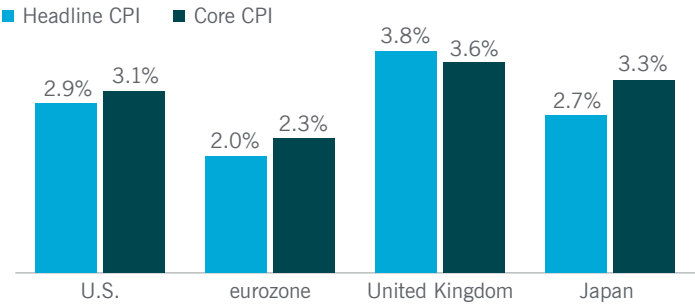
KEY TAKEAWAYS

- Although the European Central Bank (ECB) and Bank of Japan (BoJ) left rates unchanged during the quarter, the U.S. Federal Reserve cut them for the first time in 2025 as it sought to bolster the softening U.S. labor market.
- We maintain a broadly neutral stance toward equities, which continued to rally despite trade concerns, geopolitics and shifting earnings expectations. Although we are wary of elevated valuations in some pockets of the market, we've identified select opportunities for discerning investors.
- We favor balancing growth-oriented U.S. technology stocks benefiting from the artificial intelligence (AI) boom with more defensive positioning in dividend growers and global infrastructure, both of which offer attractive income and potentially lower volatility. Utilities also merit consideration, in our view, thanks to their low relative valuations, healthy dividend payouts and role in meeting rapidly expanding demand for energy and power generation.

CENTRAL BANKS AND THEIR
BALANCING ACTS

Most major central banks are in “wait and see” mode while still in various stages of the inflation fight (Figure 1).

Figure 1: Inflation generally remains above central bank targets of 2%



Data source: Bloomberg, L.P., 30 Sep 2025.

For the first time since December 2024, the Fed eased monetary policy, reducing the target fed funds rate to a range of 4.0%-4.25% in September. This carefully calibrated move was designed to stimulate flagging employment without reigniting inflation. Looking ahead, the Fed’s “dot plot” implies a total of 75 basis points (bps) of cuts for 2025, up from the 50 bps forecast at the July meeting.

In contrast, the ECB held its benchmark deposit rate at 2.0% in September. Eurozone inflation has remained under control, registering 2.3% or below in every month since February. Although growth in the region slumped in the second quarter, we don’t expect the ECB to lower rates in the near term unless growth declines rapidly enough to justify an “insurance cut.”

The BoJ also kept rates steady during the quarter, at 0.5% — the highest level since 2008. However, as part of its gradual policy normalization, in September the BoJ announced that it would begin selling its stockpile of exchange-traded funds and real estate investment trusts at a rate of about ¥330 billion (\$2.2 billion) and ¥5 billion (\$34 million), respectively, per month. The Bank of England held firm in September after reducing rates in August, to 4.0%.

THIRD-QUARTER MARKET
PERFORMANCE AND DRIVERS

U.S. stocks kicked off a successful quarter in July despite still-high bond yields and stretched equity valuations, focusing instead on resilient economic data, increased certainty regarding trade deals and optimism that AI would boost growth and productivity.

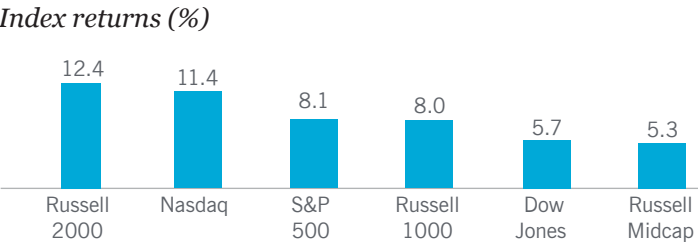
An inauspicious beginning to August reflected a much-weaker-than-expected July jobs report (and a massive downward revision to payrolls for the prior two months) and poor manufacturing data. By month-end, however, increasingly dovish Fed signals had lifted U.S. shares into positive territory for August.

The S&P 500 Index defied the so-called “September effect” that historically has made the month a negative one for U.S. stocks. Neither fears of a U.S. government shutdown nor waning optimism about near-term Fed easing prevented the index from notching its fifth straight monthly advance and ending the period just shy of its 22 September all-time high.

For the third quarter as a whole, the S&P 500 jumped +8.1%, raising its year-to date gain to +14.8%. Strong corporate earnings helped drive the quarter’s advance, with nine of 11 S&P 500 sectors beating consensus expectations for second-quarter earnings per share (EPS).

Other major U.S. equity benchmarks performed even better for the period (Figure 2), led by the more economically (and interest-rate) sensitive small cap category (+12.4%) and the tech-heavy Nasdaq Composite (+11.4%).

Figure 2: Small caps soar



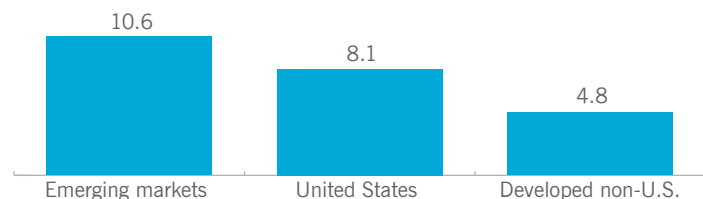
Data source: Morningstar Direct, 30 Sep 2025. Performance data shown represents past performance and does not predict or guarantee future results. It is not possible to invest in an index

NON-U.S. MARKETS SURGE PAST THE U.S.

EM equities were the third quarter's top performers (Figure 3). Based on MSCI benchmark indexes in U.S. dollar terms, EM stocks (+10.6%) bested both their non-U.S. developed market counterparts (+4.8%) and the S&P 500 (+8.1%). Overall, non-U.S. markets remained well ahead of the U.S. benchmark for the year to date through 30 September, with EM up +27.5% and non-U.S. developed shares rising +25.1%.

Figure 3: EM equities led the global pack

Total returns (%)



Data source: Morningstar Direct, 30 Sep 2025. Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: United States: S&P 500 Index; developed non-U.S.: MSCI EAFE Index; emerging markets: MSCI Emerging Markets Index. It is not possible to invest directly in an index.

Within non-U.S. developed markets, the MSCI Euro Index (+4.5%) got a lift from the eurozone's resilient economic data, while Japan's Nikkei 225 Index (+9.2%) surged on rising business confidence and a trade deal with the U.S.

Elsewhere, Chinese equities (+20.7%), making up more than 30% of the MSCI Emerging Markets Index by market capitalization, were buoyed by aggressive domestic stimulus measures and easing trade tensions with the U.S.

OUTLOOK AND BEST INVESTMENT IDEAS

Since bottoming in April on worrisome tariff headlines, the S&P 500 soared +35.1% through the end of September, shrugging off fears of a global slowdown and trade war, geopolitical turmoil and elevated equity valuations. Investors not only

enjoyed stellar returns during this period but also endured relatively little volatility along the way: The S&P 500 rose or fell by 1.5% or more in a single day 13 times (out of 120 trading days) and just twice during the third quarter. Fittingly, the implied risk of the S&P 500, as measured by the CBOE Volatility Index (VIX), stayed subdued, well below its long-term average of around 19 (Figure 4).

That said, against what is still a challenging backdrop, our view of equities as an asset class remains neutral (Figure 6). Becoming more optimistic would require catalysts that include:

- Continued earnings growth and upside surprises as the drivers of market gains
- Further 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
- Clarification of trade policy and tariff rates
- Increased confidence in the accuracy of economic data.

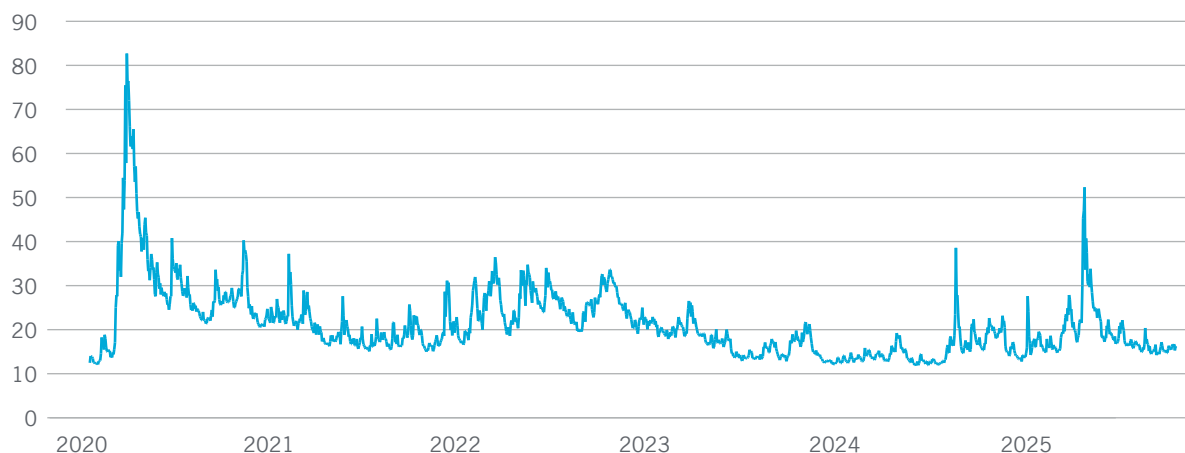
Finding utility in global infrastructure

We think it's wise to brace for volatility heading into year-end given the various headwinds facing equity markets. Among the equity segments we favor are listed global infrastructure, which may help cushion downside risk and prove more resilient if tariffs spur higher inflation, and U.S. dividend growth stocks.

Infrastructure is entering a new phase of secular growth as hyperscale data center expansion, driven by the rise of AI, creates a generational shift in electricity demand. In addition to this long-term growth opportunity, infrastructure assets offer attractive potential in the current environment of less-certain economic forecasts. Infrastructure's

Figure 4: Market calm prevailed in 3Q

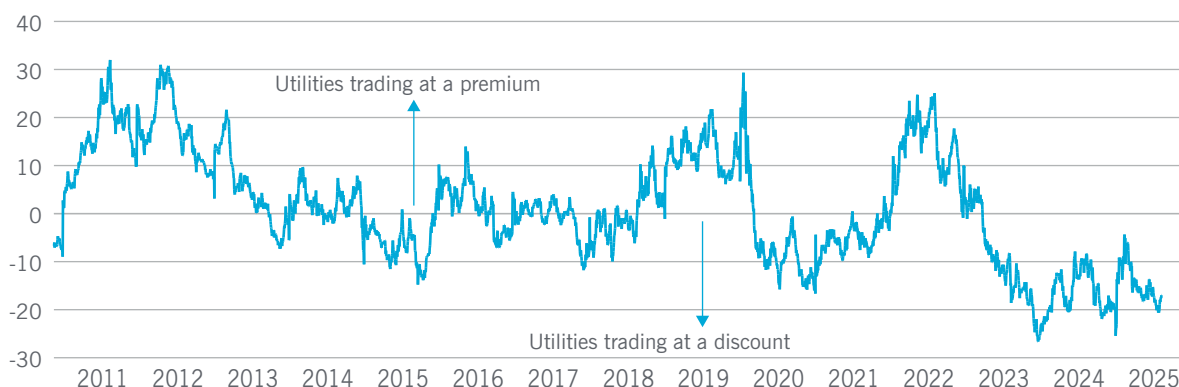
Daily volatility of the S&P 500 Index, CBOE Volatility Index



Data source: CBOE, 30 Sep 2025. Performance data shown represent past performance and do not predict or guarantee future results.

Figure 5: Low multiples can give utilities a spark

Utilities P/E premium and discount to the S&P 500 (%)



Data source: BloombergS&P L.P., 30 Sep. 2025. Utilities are represented by the XLU ETF, which invests primarily in companies that produce, generate, transmit or distribute electricity or natural gas. Performance data shown represent past performance and do not predict or guarantee future results

resilience derives from its unique role in providing essential services that are less sensitive to diminished demand that more discretionary sectors may face during economic slowdowns.

One of the most powerful catalysts of equity market appreciation has been the explosive growth of AI. Global AI spending is projected to increase at roughly 20% annually through the rest of the decade, with the U.S. capturing a large share of that growth. This surge is being fueled by increased

demand for computing power and electricity generation, transmission and distribution.

Against this backdrop, utilities look attractively valued relative to the broader equity market, especially considering the new wave of energy demand (Figure 5). The sector trades at a forward price-to earnings (P/E) ratio in the high teens, in line with historical averages, versus the approximately 22.5 P/E for the S&P 500 as a whole. This is one of the widest valuation discounts for utilities in years. Dividend yields add further

appeal: Utilities yield around 2.9%, far more than the roughly 1.5% for the overall index. With earnings growth poised to accelerate thanks to AI-driven demand, the combination of compelling yields, relative value and structural growth makes utilities a rare defensive sector with cyclical upside.

Protecting against market dips with dividend growers

Historically, companies that initiated or continued to increase dividends have generated higher annualized returns with lower annualized standard deviation versus the broader market in various environments. These attributes offer timeless appeal but can be particularly relevant when set against a turbulent investment environment.

The hallmarks of dividend-paying companies are attractive fundamentals, including healthy balance sheets and ample free cash flow to support sustainable growth, confidence in the ability to maintain and potentially expand profit margins despite cost inflation, and management teams committed to returning capital to shareholders. While dividends — and dividend growth — are not guaranteed, they tend to be more predictable and consistent than earnings growth, providing investors with a buffer against potential market volatility.

Artificial intelligence, real opportunity

AI continues to represent a transformative investment opportunity, with broad implications across technology and adjacent industries. Hyperscalers — a select group of cloud computing and data center companies that operate on an enormous scale — continue to lead the way in the AI space, backed by multibillion-dollar capital expenditures (capex) necessary to support large scale AI models.

Year to date, companies that have used cash for capex have generally outperformed those who have deployed it in other, more traditional ways (e.g., share buybacks, dividends, balance sheet

repair). This may help reassure investors who remain cautious about the near-term return on investment of such enormous capex spending. Over the long term, we believe productivity gains for such companies will be significant, enhancing profitability and pushing up their stock prices.

Ultimately, we think U.S. large cap technology names remain well positioned as AI expansion offers a rare opportunity to capture both cyclical and secular growth.

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.

Our equity heat map (Figure 6) provides perspective and detail on specific areas of the markets that we like on a relative basis. 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: up

Thanks to more optimistic earnings forecasts, along with a historically high percentage of companies issuing positive EPS guidance, the estimated year-over-year third-quarter earnings growth rate for the S&P 500 Index was +7.9% as of 26 September, up from +7.3% as of 30 June, according to FactSet. On a per-share basis, EPS growth estimates for the quarter have increased by +0.3%, a far more bullish outlook compared to the 5- and 10-year average reductions of -1.4% and -3.2%, respectively. Looking ahead, analysts expect earnings growth rates of +7.3% in the fourth quarter and +10.8% for 2025 as a whole, followed by +13.8% for 2026.

Figure 6: Equity style and geographic preferences heading into Q4 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.

RISKS TO OUR OUTLOOK

We think equity market volatility could pick up heading into year-end, driven by a slowing U.S. economy. Although consumer spending has remained solid, signs of a softer labor market have emerged, with job creation decelerating notably. With that in mind, we place recession odds at 35% over the next 12 months, with GDP expected to fall below 2% this year and next.

Ongoing trade tensions and lack of clarity around tariffs also remain key risks. Recent moves by the Trump administration, including new taxes on metals and technology imports, have added stress to supply chains and weighed on business confidence. These developments could push prices higher on select goods, complicating the Fed's efforts to manage inflation.

Our outlook may also be challenged by:

- **Doubts about U.S. debt.** Rising federal deficits, along with forecasts for even greater levels of borrowing, could cause bond yields to spike, and in turn, financial conditions to tighten — both of which are negatives for stocks. Additionally, concerns about the ability of the U.S. to pay its debt, evidenced by Moody's downgrade of the U.S. credit rating in May, could prompt borrowers to demand higher yields on U.S. securities.
- **Housing hurdles.** Declining home construction and slower mortgage activity — the result of still-high interest rates — has hurt the U.S. housing market, which historically has contributed 15%-18% to U.S. GDP.

- **Potential disruptions from the partial U.S. government shutdown.** While history suggests government shutdowns rarely have a major impact on stock market performance, key government functions were suspended the day after the third quarter ended, causing delays in the release of potentially market-moving economic data. As of this writing, we think the resulting uncertainty could dampen sentiment and possibly muddle the outlook for the trajectory of Fed policy, depending on when and how the impasse is resolved.

As always, 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 — volatile periods, 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](https://www.nuveen.com).

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