

# Searching for alpha in an extended universe

Despite the challenges faced by active equity managers, compelling opportunities exist — often in markets currently shunned or overlooked by investors. Our analysis outlines some of Nuveen’s best ideas across global equities.

## Key takeaways

- In the U.S., we favor software companies that stand to capitalize on the AI revolution, particularly in infrastructure and cybersecurity.
- Among non-U.S. developed markets, European banks boast robust capital bases and healthy margins, bolstered by expectations for solid earnings, and Europe’s defense industry is poised to benefit from plans to significantly increase spending. Meanwhile, Japanese companies could capitalize on a weaker yen and AI advancements.
- We see favorable trends in emerging markets (EM), notably in China thanks to its “AI Plus” initiative, and in India amid our expectations for solid economic growth and consumer-friendly fiscal policies. At the same time, we’re cautious on South Korea, given its need for improved corporate governance, further unwinding of cross-shareholder structures and tax reform.



Willis Tsai  
Head of Global Equities

*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.*

## Discovery over complacency

What does a seasoned explorer have in common with a disciplined equity investor? Both understand that the most rewarding discoveries rarely come from familiar territory, and that the willingness to cast a wider net, guided by a rigorous process and hard-won perspective, can separate enduring success from the vagaries of luck and timing.

### *Angling for alpha*

As we navigate 2026, that spirit of disciplined exploration feels more relevant than ever. Global equity markets continue to evolve at a pace that rewards intellectual curiosity and punishes complacency. Volatility is a constant, geopolitical changes are reshaping trade relationships and supply chains, and AI is transforming business models and entire industries. Against this backdrop, we believe the global equity landscape, spanning more than 60 countries, thousands of companies and a rich diversity of sectors and growth profiles, offers a uniquely compelling opportunity set for active investors willing to look beyond the obvious to search for alpha.

U.S. large cap equities, still representing over 60% of the global MSCI All-Country World Index (ACWI) benchmark, remain anchored by a handful of mega cap technology firms whose dominance is real but whose valuations leave little room for disappointment. Nonetheless, we continue to find attractive stocks within this cohort, particularly in the semiconductor equipment segment, where oligopolistic structure and geopolitically driven capacity buildout create durable tailwinds. We're also targeting select names where the market's current narrative, in our view, has understated AI's longer-term earnings potential.

### *Taking the road less traveled*

Beyond U.S. borders, structural and durable market leadership is broadening. Specifically, we believe non-U.S. developed markets offer hidden gems at more attractive valuations with meaningful exposure to a global cyclical recovery. Emerging markets, led by India's compelling long-term demographic and consumer trends, represent access to the world's growth engines in ways that we believe patient investors should not overlook.

Uncovering such hidden gems is no simple task and comes with no guarantees. What we offer as active managers isn't certainty, but discipline, process and the conviction that a genuinely global perspective remains one of the most powerful advantages available to equity investors today.

**“[AI represents] an opportunity for active managers to shine by distinguishing between companies with durable strengths — including deep customer integration, unique data and pricing alignment — and those vulnerable to erosion from faster, AI-driven alternatives.”**

## Taking a hard look at U.S. software companies

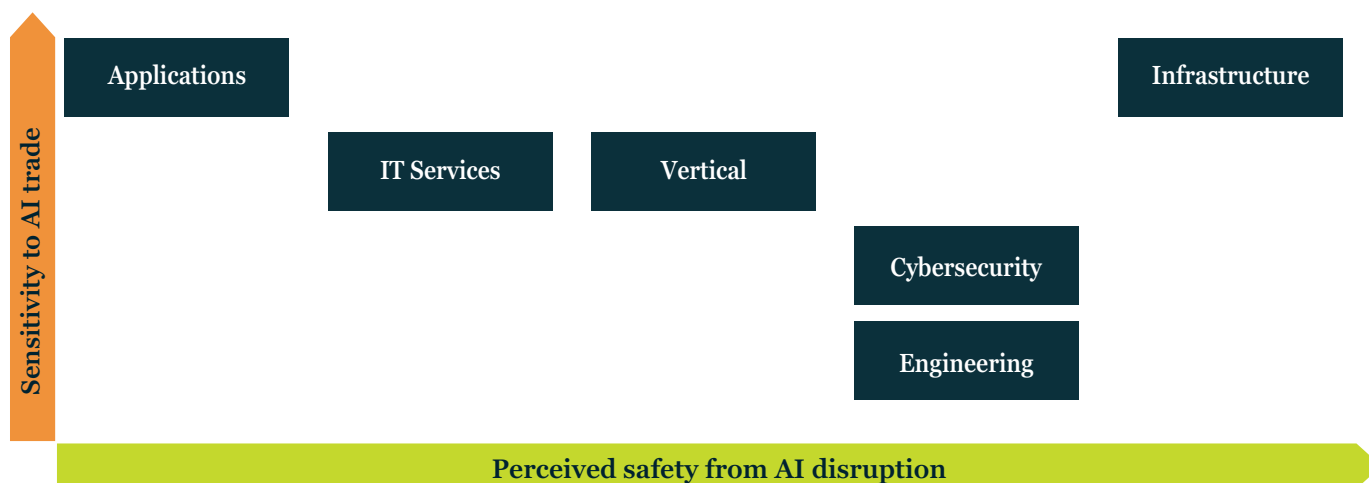
Some of today's growth stories stand precisely where recent sentiment has been most punishing. Enterprise software has shed hundreds of billions of dollars in market value as investors extrapolate AI's disruption to its most extreme conclusion. And while selectivity is essential, we believe the market is conflating cyclical headwinds with permanent impairment in ways that create real opportunities.

After peaking in September 2025, software stocks, once the darling of the tech sector, have plunged amid threats posed by AI. Driving the downturn is the fear that AI's ability to automate labor-intensive tasks in diverse fields such as law, finance and sales will weaken the competitive positioning of traditional SaaS (Software as a Service) companies and, in some cases, render their software obsolete. In early February 2026, for example, the release of new legal-focused AI plugins for Anthropic's Claude Cowork platform triggered a massive selloff in legal technology and SaaS stocks.

Despite these jitters, the current situation doesn't represent a "sell all software" moment, in our view. Rather, it's an opportunity for active managers to shine by distinguishing between companies with durable strengths — including deep customer integration, unique data and pricing alignment — and those vulnerable to erosion from faster, AI-driven alternatives.

**Figure 1: In the eyes of AI, not all software companies are created equal**

*AI disruption should create winners and losers across subsectors*



The views expressed here are those of Nuveen’s research analysts as of April 2026 and are subject to change based on market and other conditions. The exhibit represents a qualitative, forward-looking framework developed by Nuveen’s research analysts to assess the relative sensitivity of technology subsectors to artificial intelligence disruption. The positioning of sectors within this matrix reflects subjective judgment and is not based on a specific quantitative methodology or index. Sector classifications and perceived risk levels may change over time and actual outcomes may differ materially from those depicted. **Past performance does not predict or guarantee future results.** AI-related market developments are evolving rapidly, and the competitive dynamics described herein may shift in ways that are difficult to predict.

### *AI’s potential tailwinds and headwinds*

We believe that among the potential winners in this environment are companies specializing in infrastructure software, which stand to benefit from the AI revolution as they provide the technology backbone required to power the digital economy (Figure 1). Cybersecurity firms also appear well-positioned given the need to keep pace with hackers, who are increasingly using AI to launch more frequent and sophisticated attacks.

Other categories requiring high determinism and customization, such as engineering and vertical software, are also relatively defensible from AI’s disruption. (High determinism is the ability of a system to produce the same result when given identical input.) This is especially true for companies with business models boasting strong data gravity (meaning clients become more reliant on a platform as it accumulates additional data), adaptable pricing based on usage or outcomes and that are actively integrating AI into their products and services.

In contrast, categories that require low determinism and customization, or companies with weak business models, are at risk. Applications and IT services firms, to name two areas, could face pressure if they rely on per-user pricing or on “habit-based” clients who stay with a product simply because they’re used to the screen layout or interface.

### **Europe: Favoring “banks and tanks”**

European banks, last year’s top-performing subsector (+100.1% total return) in the MSCI Europe Index, rallied thanks to their robust capital bases and healthy profit margins. This profitability was bolstered by steep yield curves, which allowed lenders to maintain low deposit rates while lending at higher ones. Furthermore, the sector benefited from expanded mortgage lending — driven by improving real estate dynamics — and a surge in financing demand from businesses to fund AI-related capital expenditures.

These industry tailwinds largely remain in place and could be amplified by banks’ plans to use AI to jumpstart productivity amid investor pressure to increase returns on equity. Specifically, AI enables financial companies to improve their cost-to-income ratios, a key measure of efficiency. A December 2025 Morgan Stanley analysis reported by the Financial Times suggests AI will allow lenders to reduce staffing by around 200,000 positions (roughly 10% of the European banking workforce) by 2030, primarily in compliance, risk management and back-office functions.

Markets have yet to fully price in these efficiency catalysts. As of 31 March 2026, analysts increased their full-year 2026 and 2027 earnings growth expectations for European banks by 2.6 and 3.9 percentage points, respectively, far rosier revisions than those of their U.S. counterparts (see Figure 2).

**Figure 2: Bullish forecasts for European banks**

*Consensus earnings growth forecasts (%)*

CALENDAR YEAR	2026		2027	
	31 Dec 2025	31 Mar 2026	31 Dec 2025	31 Mar 2026
AS OF				
European banks	5.11	7.74	8.39	12.24
MSCI Europe	9.75	11.34	10.91	11.87
U.S. banks	13.06	13.64	12.21	13.35
S&P 500	13.12	16.91	11.36	16.45

Source: FactSet as of 31 Mar 2026. European banks are represented by the MSCI Europe Banks GICS Industry. U.S. Banks are represented by the S&P 500 Banks GICS Industry.

*Playing offense with defense*

We’re also constructive on European defense stocks. Following decades of underinvestment, the European defense industry is transitioning into a multiyear, structural rearmament supercycle amid shifts in the geopolitical relationship between the U.S. and Europe. To meet these pressing security needs, last summer European NATO members committed to spend 3.5% of their respective GDPs (up from the prior 2% target) on core defense by 2035, a total of approximately €1 trillion, according to McKinsey & Company. These investments are reinforced by Security Action for Europe (SAFE), a newly adopted financial facility providing support via low-interest loans.

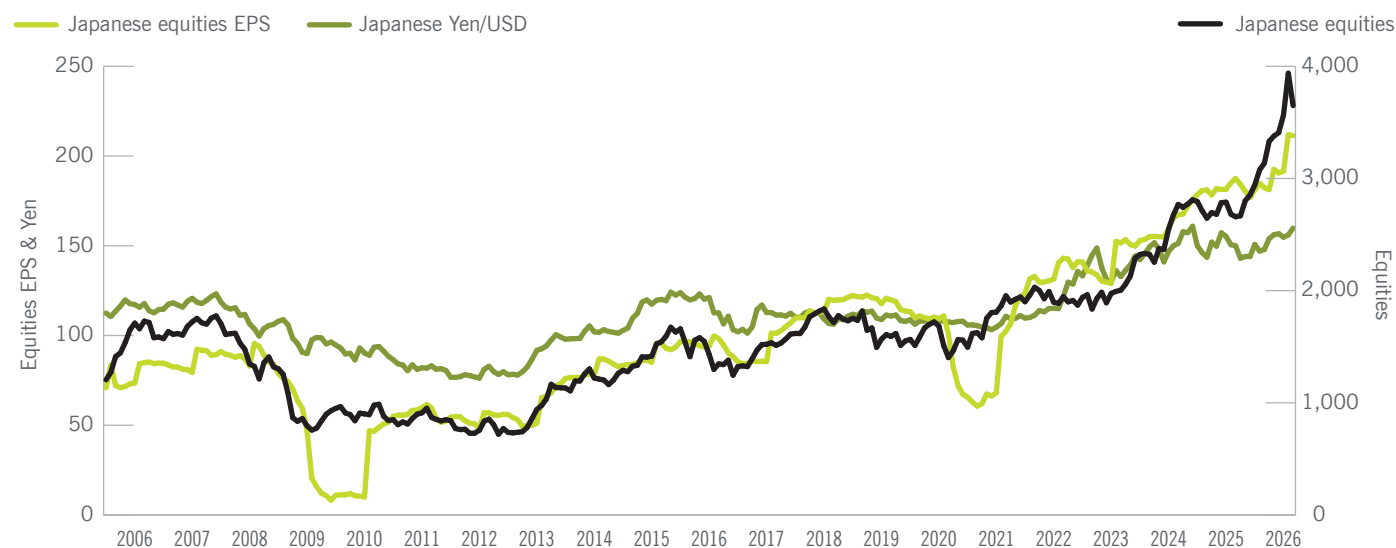
As a result, we see significant opportunities in select defense contractors. Ground combat equipment manufacturers are currently reporting record backlogs as they aggressively scale artillery production capacity. Aerospace contractors, which provide essential airlift and air-to-air refueling capabilities, are also increasingly in scope, especially as U.S. forces prioritize the Indo-Pacific.

**Japan: Land of rising earnings**

Although more than 90% of its oil imports come from the Middle East, Japan may stay relatively insulated from the recent spike in energy prices precipitated by the Iran war. Japan’s government has released some of its strategic emergency oil reserves and extended gasoline subsidies to reduce the burden on businesses and households. This potential resilience reinforces the long-term investment case for Japanese stocks. Looking ahead, Prime Minister Sanae Takaichi’s multiyear budget measures are designed to spur infrastructure investment and generate stable economic growth.

The performance of the broad Tokyo Stock Exchange Price Index (TOPIX) is driven by corporate earnings, as shown in Figure 3. In particular, Japanese exporters benefit from a weaker yen, as it makes their products more competitive in global markets and increases the value of their foreign earnings when converted back into yen. In response to

**Figure 3: A weaker yen boosts Japanese corporate earnings**



Source: Nuveen, Bloomberg, as of 26 March 2026. Representative indexes: Japanese equities (Tokyo Stock Exchange Price Index), Japanese equities EPS (Tokyo Stock Exchange Price Index EPS), Japanese yen (Japanese Yen Spot Index).

activist investor pressure, Japanese companies have begun unwinding their complex corporate cross-shareholdings, which are stocks of publicly traded companies owned by strategic partners, competitors and affiliates. This shift has helped increase share buybacks and shareholder returns.

Japan is also benefiting from investment in AI by other Asian countries. Taiwan Semiconductor Manufacturing Company, the world's leading producer of advanced AI chips, has committed to building a roughly ¥2.7 trillion (\$17 billion) manufacturing plant in Kyushu, Japan. This project supports the Takaichi government's goal of elevating Japan to the status of state-of-the-art semiconductor producer. Domestic firms Nippon Telegraph and Telephone and Softbank have planned significant investments of their own, which should boost demand for Japanese data center batteries, circuits and data storage devices.

## Emerging Markets: Looking beyond the Middle East conflict

While the jump in oil prices should aid the economies of Middle East exporters such as Saudi Arabia, Qatar, Kuwait and the United Arab Emirates, it may also pose challenges for them and other EM countries.

First, energy price shocks tend to be inflationary, which will likely temper the magnitude and probability of rate cuts from EM central banks in 2026. The Central Bank of Brazil (CBB) had been widely expected to ease policy aggressively this year. But citing uncertainty "due to the escalation of geopolitical conflicts in the Middle East," the CBB cut interest rates cautiously, by only 25 basis points (bps) in March, falling short of an anticipated 50 bps reduction.

For EM oil exporters, the after effects of Iran's attacks on energy infrastructure, combined with a slowdown in trade and high shipping costs, will almost certainly impact economic growth in the Middle East.

Lack of clarity around the ceasefire and an eventual long-term resolution means the region will likely remain a volatile environment for investors. Our continued underweight exposure to the Middle East should have little impact on portfolio returns given the region's small weighting (about 5%) in the MSCI EM Index.

### *Going against the grain within EM*

As for other EM opportunities, we remain constructive on China (+31.2% in 2025). We think 2026 is a pivotal year as it marks the beginning of the country's latest five-year economic plan, setting its strategic direction through 2030. We expect China to prioritize high-tech sectors through its "AI Plus" initiative given the technology's rapid evolution across China's education, health care, transportation, finance and manufacturing sectors.

India also remains a focus, despite underwhelming equity market performance (+2.6% in 2025). We anticipate a pickup in Indian equities, driven by strong economic growth, consumer-friendly fiscal policies and strategic investments in AI and semiconductor design.

Another contrarian play on our EM radar: underweighting South Korea, an investor favorite thanks to a red-hot technology sector that fueled a +100% return in 2025 for the MSCI Korea Index. We're cautious given Korea's need for improved corporate governance, the unwinding of cross-shareholder structures and tax reform. In particular, the country's steep inheritance tax has forced the sale of controlling stakes in companies, putting downward pressure on stock prices.

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