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BREAKING NEWS
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The Fed holds the line, watching for policy signals

The U.S. Federal Reserve kept interest rates steady at its March meeting, remaining cautious due to elevated uncertainty. Officials seek greater clarity on inflation, labor markets and growth before considering future rate adjustments.

Tony Rodriguez
Head of Fixed Income Strategy

WHAT HAPPENED?

The Federal Reserve left policy unchanged today, with the target policy rate range at 4.25%-4.50%. The FOMC also opted to slow the pace of balance sheet runoff starting on 01 April.

The updated *Summary of Economic Projections* included notable changes to the macro outlook. The forecast for GDP growth was revised down by -0.4 percentage points to 1.7%, and the forecast for core inflation forecast was revised up by +0.3 percentage points to 2.8%. The unemployment forecast moved up +0.1 percentage point to 4.4%. These changes were mixed, as weaker growth and unemployment argue for lower rates, while higher inflation argues for higher rates. However, in a slightly dovish move, the median rate expectation remained at two rate cuts this year.

In his press conference, Chair Powell emphasized that policy and economic uncertainty is very elevated and said "we do not need to be in a hurry to adjust our policy stance." He noted, but downplayed, the recent deterioration in consumer sentiment and parallel increase in inflation expectations. Powell said that "the relationship between survey data and actual economic data has not been tight" and that "if you look out over five years, or five years forward, you will see that breakevens are flat or slightly down."

We continue to expect a slower, steady pace of rate cuts over the coming quarters. Uncertainty around the U.S. macroeconomic and fiscal policy outlooks has increased, complicating the Fed's path forward.

UNCERTAINTY HAS RISEN, THOUGH ECONOMIC EXPANSION CONTINUES

Since the last meeting in January, economic data has been mostly solid. However, downside risks have increased, especially in the context of highly uncertain trade and other government policies. The economy now has a wider range of feasible paths for 2025, though our base case of lower inflation and slightly slower growth remains unchanged.

First, the good news. The actual data over the last one to two months have been positive. Job growth continues at a healthy pace, similar to the pace of 2024. Unemployment stands at 4.1%, slightly below its peak from mid-2024. Consumption growth continues at a healthy pace, and inflation is still slowly moderating.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.
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Despite the healthy data, we believe downside risks have increased, mainly due to unfavorable tariff developments. We expect the most extreme tariff hikes to be watered down or deferred, including a 25% levy on imports from Canada and Mexico and a broad reciprocal tariff. But if implemented, they present upside risks to our inflation forecasts and downside risks to growth forecasts.

Although it is too early to see the impact of these potential tariffs in the data, we see warning signs that the impact could be coming. Measures of policy uncertainty based on newspaper verbiage have spiked, while consumer sentiment surveys have dropped sharply.

Moving forward, we maintain our expectation for a moderation in inflation toward 2.5% this year and a steady deceleration in growth to 2.0%. The risks to that forecast are skewed to the downside. Nevertheless, in the base case, the Fed should remain set to cut rates twice more this year.

WHAT DOES THIS MEAN FOR INVESTORS?

In the current environment – with heightened uncertainty, volatile markets and a continued easing bias from the Fed – we see increased opportunity for investors. Long-end Treasury yields have declined over recent weeks, reshuffling the relative value across asset classes. In particular, we see attractive opportunities in real estate, taxable fixed income and municipal bonds.

Moderating interest rates should benefit the real estate sector. Core U.S. real estate strategies have produced two consecutive quarters of positive total returns (as measured by the NFI-ODCE Index). In the prior three cycles, two quarters of gains following a downturn have reliably indicated the start of the next upcycle. What's more, the upturns each lasted more than 12 years, generating average returns of 11.5% or more for investors.

Within real estate, U.S. medical office (outpatient care) remains one of our favorite property sectors. Occupancy rates are at all-time highs, new supply is muted and demand is strong due to the country's aging demographics and consumer preferences.

We also like U.S. apartments, which stand to benefit from favorable supply and demand dynamics. On the supply front, new construction starts are less than one-third of their 2021 peak levels, and the volume of square footage under construction has returned to pre-pandemic levels. Meanwhile, demand is well above the long-term average, and we expect rent growth to pick up gradually.

In fixed income, we see attractive opportunities in both taxable and municipal bonds. Yields remain near cycle highs and default rates are benign, positioning certain sectors for positive income moving forward.

Senior loans should continue yielding upwards of 8%, even after the 50 bps of Fed rate cuts we anticipate this year. Preferred securities also offer attractive yields, and banks (the largest issuers of preferreds) may benefit from the Trump administration's push for deregulation. Certain securitized sectors – including commercial mortgage and asset-backed securities excluded from the Aggregate Index – may offer compelling returns and attractive portfolio income.

In municipal bonds, we remain confident in the high yield segment. These credit spreads have historically remained stable during prior equity market selloffs, especially compared to taxable high yield corporates. Additionally, muni default rates are a fraction of those for their taxable counterparts across both investment grade and high yield. At the index level, high yield municipals have a longer duration than investment grade munis. But actively managed strategies can offer shorter duration and take advantage of attractive interest rates in the short-to-intermediate part of the yield curve.

The municipal curve is positively sloped, rewarding investors for taking on duration exposure. Given the volatility of interest rates at the longer end of the curve, however, we believe a portfolio allocation to intermediate-term municipal credit is worth considering.

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

Endnotes

Sources

Federal Reserve Statement, March 2025.

Bloomberg, L.P.

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Important information on risk

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Equity investing involves risk. Investments are also subject to political, currency and regulatory risks. These risks may be magnified in emerging markets. There are specific risks associated with small company investments including higher volatility than large cap companies and limited resources. Concentration in infrastructure-related securities involves sector risk and concentration risk, particularly greater exposure to adverse economic, regulatory, political, legal, liquidity, and tax risks associated with MLPs and REITs.

Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, derivatives risk, dollar roll transaction risk and income risk. As interest rates rise, bond prices fall. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. Senior Loans have credit risk, which may be heightened for the portfolios that invest a substantial portion of their assets in "high yield" debt or loans with low credit ratings. These securities, while generally offering higher yields than investment-grade debt with similar maturities, involve greater risks, including the possibility of interest deferral, default or bankruptcy, and are regarded as predominantly speculative with respect to the issuer's capacity to pay dividends or interest and repay principal. Preferred securities are subordinate to bonds and other debt instruments in a company's capital structure and therefore are subject to greater credit risk. Certain types of preferred, hybrid or debt securities with special loss absorption provisions, may be or become so subordinated that they present risks equivalent to, or in some cases even greater than, the same company's common stock.

Real estate investments are subject to various risks associated with ownership of real estate-related assets, including fluctuations in property values, higher expenses or lower income than expected, potential environmental problems and liability, and risks related to leasing of properties.

Investors should contact a tax professional regarding the appropriateness of tax-exempt investments in their portfolio. If sold prior to maturity, municipal securities are subject to gain/losses based on the level of interest rates, market conditions and the credit quality of the issuer. Income may be subject to the alternative minimum tax (AMT) and/or state and local taxes, based on the state of residence. Income from municipal bonds held by a portfolio could be declared taxable because of unfavorable changes in tax laws, adverse interpretations by the Internal Revenue Service or state tax authorities, or noncompliant conduct of a bond issuer. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

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