

# How might Fed rate cuts affect an investment portfolio?

*With U.S. Federal Reserve expected to begin cutting interest rates, investors hoping for a significant duration tailwind may be disappointed. Instead, we suggest seeking return through income, taking advantage of attractive yields in a portfolio diversified across asset classes.*

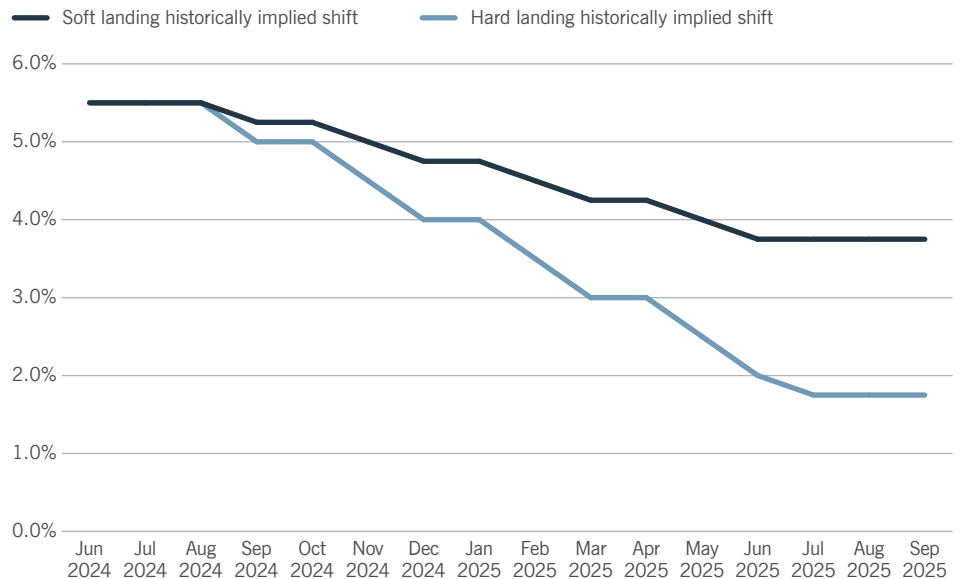
## Cash yields are set to decline

Short-term bond yields and the fed funds rate generally move uniformly over time. We expect a soft landing based on strong U.S. economic growth momentum and a still strong labor market.

While historically the shift in Fed policy has been smaller in a soft landing, cash yields will likely move meaningfully lower in either a hard or soft landing scenario.

### Cash rates should decline regardless of economic scenario

Fed funds target rate, upper bound (%)



Data source: Bloomberg, Fed Funds Futures as of 8/26/2024. Historical shifts reflects cutting cycles from 11/30/1966 – present, which represents the last 7 “cutting cycles.” Right: Bloomberg, Federal Reserve.

## Bonds are a yield game

The downward shift in the yield curve in a soft landing scenario has historically been quite modest, and may already be reflected in the broad rate declines in recent weeks. This trend challenges the conventional wisdom of a duration tailwind in the wake of Fed cuts.

Instead, investors may lock in attractive yields in higher income segments like public and private credit, high yield municipals and real estate. Note that cash already offers negative real yield (adjusted for taxes and inflation) even before the Fed starts cutting rates.

The market has already priced in cuts, pushing Treasury yields lower and potentially driving up bond prices in other segments, which puts pressure on yields. Investors will likely begin moving into bonds as a result.

## Nuveen can help with income generating opportunities to complement a diversified portfolio.

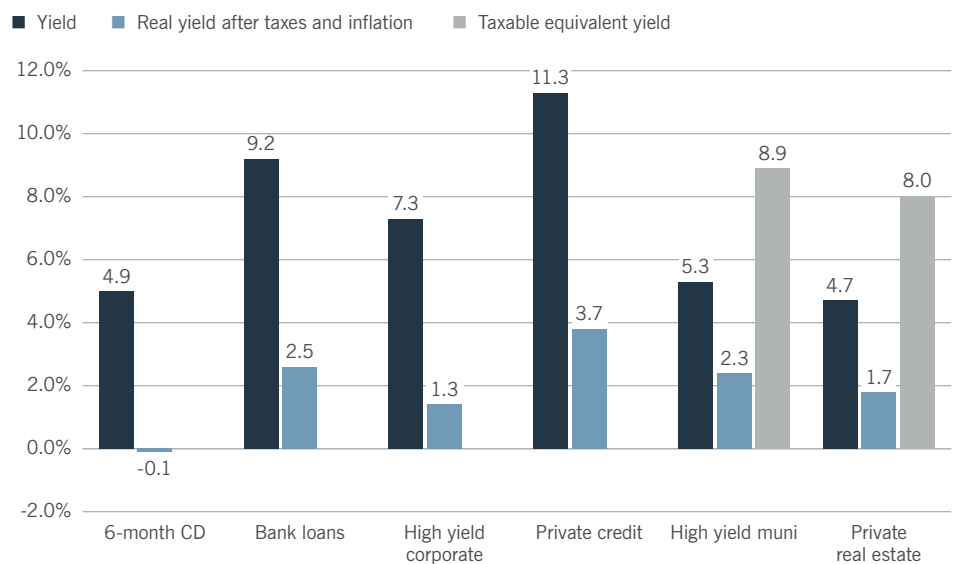
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### Consider credit, munis and private assets for attractive income potential



Data source: Bloomberg, L.P., 08 Jul 2024. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: 6-month CD:** Marcus by Goldman Sachs 6-month CD rate; **Bank loans:** Credit Suisse Leveraged Loan Index; **High yield corporates:** Bloomberg U.S. Corporate High Yield Bond Index; **Private credit:** Cliffwater Direct Lending Index; **High yield municipal bonds:** Bloomberg Municipal High Yield Index; **Private real estate:** NCREIF Open End Diversified Core Equity Index. Muni bond yields are based on the highest individual marginal federal tax rate of 37%, plus the 3.8% Medicare tax on investment income. Private real estate taxable-equivalent yield is based on 100% return on capital. Individual tax rates may vary. Inflation is based on U.S. CPI Urban Consumers YoY rate of 3.3%, 31 May 2024. Diversification does not assure a profit or protect against a loss.

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