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VIEWPOINTS FROM THE GLOBAL INVESTMENT COMMITTEE
2024 Q2 OUTLOOK

Adapting to high tide

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KEY TAKEAWAYS

1. Inflation and interest rates are likely to remain elevated, but ***currently high yields create compelling opportunities in bond markets.***

2. With recession risks pushed further out, ***balancing defensive positioning in equities with some risk-taking makes sense.***

3. We see opportunities across private markets and believe ***real estate is in a bottoming process.***

Adapting to high tide

Saira Malik
Chief Investment Officer

As 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.

Originally written and recorded by a Jamaican trio in 1967, "The Tide Is High" made its biggest splash with the now-classic 1980 cover version that topped the charts around the world. Thematically simple, the song's familiar chorus acknowledges challenging circumstances while expressing the narrator's resilience ("I'm holding on"). It's an apt soundtrack for today's investors as they acclimate to a high-tide environment of their own.

As we observed in our previous outlook, *Past the peak, but not downhill yet,* inflation and interest rates remain elevated. We see little reason to expect they'll recede much further from their recent high-water marks any time soon, although some potentially strong crosscurrents might roil the surf. Favorable economic growth trends, for example, could be countered by geopolitical escalations or an unwelcome return of broad inflationary pressures.

The key to successful investment outcomes when the tide is high is to maneuver with both feet firmly forward (to "hang ten" for surfers) instead of holding your breath in passive anticipation of being tossed randomly by the next big surge.

Amid the salt and spray of this kinetic seascape, our current outlook is focused on the following portfolio themes:

Keep your balance with bonds. The dramatic rise in yields during the past two years has created meaningful opportunities to capture value in fixed income assets, although the risk/reward tradeoffs vary widely across and within sectors. For the most part, we're eyeing higher-quality segments within non-investment grade categories, including high yield corporates, senior loans, municipal debt and private credit.

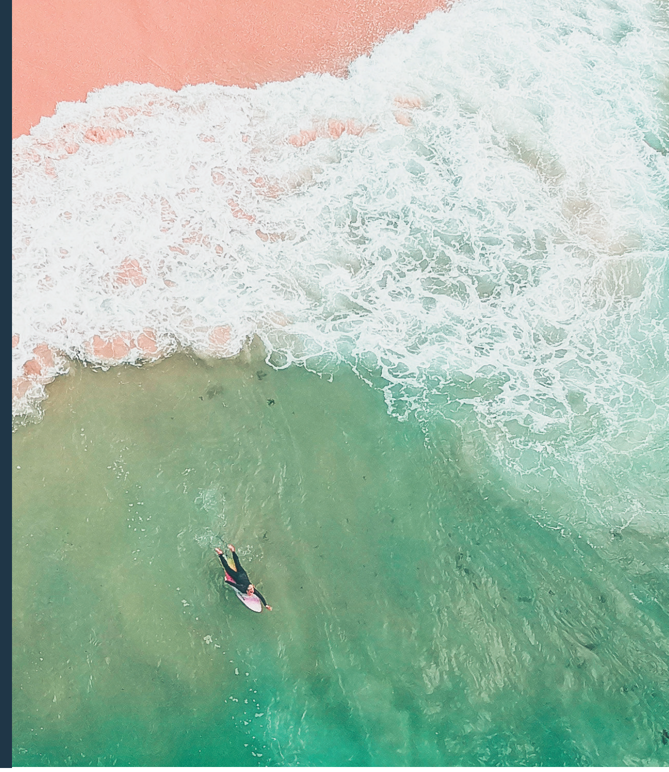
Beware swimming against the equity market currents. Even amid concerns that stock valuations continue to bubble up, it's difficult — and unnecessary — to avoid equities altogether. We don't advocate simply going with the flow, however. Rather, we see barbelled exposure to both defensive and higher-beta areas of the market as a way to help optimize the risk-adjusted performance of equity allocations.

Catch the next real estate wave. During 2023, we pegged private real estate as a modest "underweight" in our heat map, but have now upgraded our view to neutral as the asset class appears to be touching bottom. This shift does not represent an all-in endorsement, especially given sustained woes in the office property market. But we have taken note of a trend toward fair-to-inexpensive costs for new real estate transactions, improving investor appetites in the real estate space and a number of intriguing investment ideas in select sectors.

Whether the tide is high, low calm, or subject to rip currents and rogue waves, investing in an increasingly complex global environment can be increasingly turbulent. But diversified, long-term investors who adapt to changing conditions while staying focused on their long-term goals may find the rewards of "holding on" well worth the effort.

Portfolio construction themes

Like surfers bobbing in the ocean as they look for the perfect wave, many investors today believe better conditions will come if they just hold out long enough. But delaying too long could mean missing the ride entirely. Waiting for interest rate cuts, declining valuations or changing bond yields before taking action isn't likely to be a winning strategy. Rather, we suggest investors adapt to current markets amid potentially choppy conditions, aware of the risks while taking advantage of available opportunities. And to support this strategy, we have identified multiple ***portfolio construction themes and asset class ideas designed for portfolio growth and income generation.***



Asset class "heat map"

Our cross-asset class views indicate where we see the best relative opportunities within global financial markets. These are not intended to represent a specific portfolio, but rather to answer the question: "What are our highest conviction views when it comes to putting new money to work?" These views assume a U.S. dollar-based investor seeking long-term growth and represent a one-year time horizon.

The views above are for informational purposes only and relate 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 or service. Upgrades and downgrades reflect quarterly shifts in these views.

Key portfolio themes

Keep your balance with bonds. For the better part of a year, we have heard from many clients who remain overweight cash or are delaying policy rebalancing as they await clearer market signals that interest rates will decline. This approach, however, ignores the reality that yields have increased dramatically over the last couple of years, creating significant value across fixed income markets (Figure 1).

The combination of relatively high yields and attractive credit fundamentals means investors may capitalize on the advantages of fixed income even before accounting for the likely tailwind of declining rates we expect to begin in mid-2024.

But this requires carefully balancing the risk/return tradeoffs apparent in different fixed income categories. U.S. Treasuries and investment grade sectors currently offer less value than high yield (where higher-quality segments in particular offer compelling yield given credit fundamentals), senior loans (which continue to benefit from still-elevated rates), municipals (offering stellar fundamentals and a longer duration profile) and private credit (specifically, higher-quality middle market loans).

We continue to like the fundamentals of securitized assets, though recent strong appreciation in that sector leads us to shift to a neutral position. In contrast, we've become more positive toward preferred securities amid growing investor interest in this sector. We also see select opportunities in emerging markets (EM) debt, focusing on investments with fundamental strengths and attractive valuations.

Beware swimming against the equity market currents. Equities are definitely experiencing a high-tide moment: Share prices have continued to rise as recession fears are pushed off and investors anticipate the benefit of lower interest rates. Valuations look stretched, but it's hard to bet against equity momentum given the friendly macroeconomic environment and the beneficial AI-related structural tailwinds driving mega-cap technology stocks.

This doesn't mean throwing caution to the wind. Instead, we suggest diversifying equity exposures with a barbell approach that balances defensive areas of the market with positions that warrant taking on more risk. Among developed markets, we continue to favor the U.S. (especially large caps and dividend growers) for its more defensive characteristics and the buoyancy provided by a still-surprisingly resilient economy. We also see opportunities in Japan during its post-COVID economic recovery, but we remain wary of non-U.S. developed markets in general (particularly given that parts of Europe are already in a recession).

Regarding U.S. small caps, they have historically performed well when the U.S. is emerging from a recession, but it's too early to grow more optimistic about them on that basis. And while small caps offer attractive valuations, these are countered by earnings pressures. EM equities, in contrast, are an area where adding risk looks justified. We're identifying some green shoots in China and discovering good investment ideas in markets like Mexico and Brazil, which offer compelling valuations and better inflation trends.

Catch the next real estate wave. Perhaps the most notable change in our heat map this quarter is that we shifted our view on private real estate from underweight to neutral. Real estate has faced stiff technical headwinds for the last 18 months, but we believe those winds are fading. Pinpointing an exact bottom is a near-impossible task, but it seems clear to us that current redeemers are selling into a bottom.

Most global rate increases are in the rearview mirror, a plus for residential real estate. Additionally, costs for new real estate transactions range from fair to inexpensive, in our view. We also believe the pricing disconnect between public and private real estate has finally stabilized. Many investors are no longer overweight private real estate and are ready to explore new opportunities in this space.

Lastly, while the beleaguered office sector will remain challenged given high vacancy rates throughout the world, we see a range of attractive investment ideas across the residential, industrial and alternative real estate sectors.

In focus: Municipal bonds are acting like bonds again

After a volatile 2023, stability is returning to the municipal market, and we expect that muni bonds will behave more like they have in the past – producing compelling income, offering solid credit fundamentals and benefiting from a good technical backdrop as investors pour money back into this asset class.

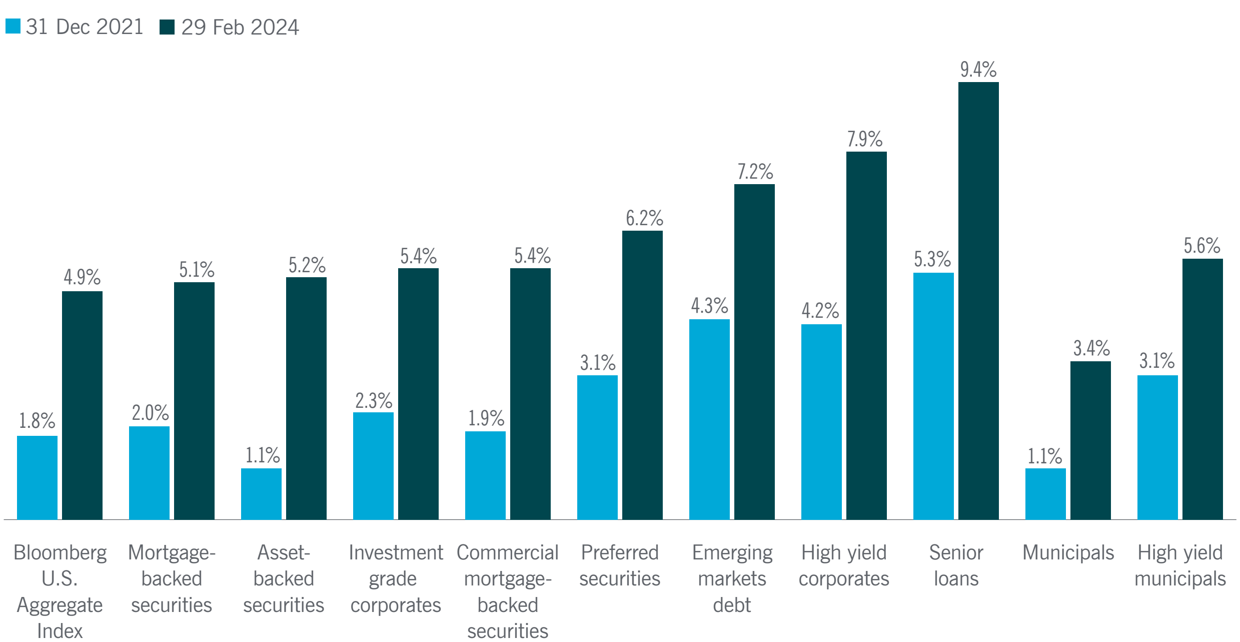
The shifting rates environment should lead to a steepening yield curve, providing opportunities for municipal bonds, which have a higher duration than other fixed income assets. Real yields are also quite attractive. Municipal bond yields started 2024 at their highest level since 2011. In this environment, investors may enjoy attractive total returns from income alone, a dynamic absent for almost 10 years. Municipals do not need a meaningful rate rally or dramatic spread compression to produce compelling returns.

While the benefits of municipal bonds have long been well known to U.S. investors for their relative tax advantages (particularly for those living in high-tax locations such as California and New York), their compelling yields, creditworthiness and long duration profiles also continue to make them attractive options for many institutional investors around the world.

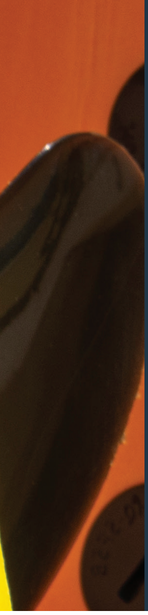
Our highest-conviction views

- **Private credit (+)** features strong demand and healthy fundamentals. We prefer more resilient areas such as health care, software and insurance brokers that are relatively well positioned to withstand economic downturns.
- **Infrastructure (+)** should hold up relatively well amid prospects for slowing economic growth. Both public and private infrastructure appear compelling, and we are especially partial to the public sphere.
- **Municipals (+)** should see ongoing tailwinds from high demand and solid fundamentals, with state and local governments benefitting from high cash balances.

Figure 1: Higher yields create compelling options across fixed income markets



Data source: Bloomberg, L.P., Credit Suisse. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: mortgage-backed securities:** Bloomberg U.S. Mortgage-Backed Securities Index; **asset-backed securities:** Bloomberg Asset Bond-Backed Index; **investment grade corporates:** Bloomberg U.S. Corporate Investment Grade Index; **commercial mortgage-backed securities:** Bloomberg Commercial Mortgage-Backed Securities Index; **preferred securities:** ICE BofA U.S. All Capital Securities Index; **emerging markets debt:** Bloomberg Emerging Markets USD Aggregate Index; **high yield corporates:** Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index; **senior loans:** Credit Suisse Leveraged Loan Index; **municipals:** Bloomberg Municipal Index; **high yield municipals:** Bloomberg High Yield Municipal Index. **For index descriptions, please access the glossary on nuveen.com.**



The economy and markets

Key points to know

Recession risk: destined, delayed or dropped.

The risks of a U.S. and global recession have receded considerably after appearing elevated last year. Despite expectations for a material slowdown in growth over the course of 2023, economic data broadly surprised to the upside. Instead of flatlining, the U.S. economy grew more than 3%, while China expanded by over 5%. Both results outpaced consensus expectations. European growth was barely in positive territory, but recent trends across all three major economies have improved. Surveys of business and consumer sentiment have rebounded, and job growth has re-accelerated.

China still faces headwinds from its property market overhang and continued policy uncertainty, and developed markets show signs of incipient weakness (including still-tight lending conditions and rising consumer delinquencies). However, the overall trend is positive and we have gained confidence in the economic outlook.

Inflation concerns linger.

While the improved economic growth outlook is good news for markets, it comes with a worsening inflation outlook. For example, the U.S. economy added an extremely robust 353,000 jobs in January, the largest monthly increase since January 2023. At the same time, core consumer prices rose 0.4% for the month, also the fastest pace in a year. Although labor markets have loosened versus their extremely tight levels earlier in the cycle, they historically remain very tight. This means that wage pressures should remain elevated moving forward, ultimately putting continued upward pressure on services and housing prices (Figure 2).

At the same time, several trends that have supported recent disinflation are fading. Oil prices, which fell more than 25% from their peak last year, are now up 15% from their lows. Durable goods price inflation is already back to its historical normal level near zero, so further disinflation is unlikely from that component. In contrast, recent data in Europe and China have been encouraging, with the latter experiencing outright deflation in consumer and producer prices. On balance, we expect further disinflation to materialize this year, but probably less than the consensus expects. And upside inflation surprises can't be ruled out entirely.

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The higher-for-longer interest rate environment is likely to persist.

Interest rates move from peak to plateau.

Ultimately, the economic data will drive the rates market, and we anticipate a modest decline this year rather than a sharp drop. We believe the U.S. Federal Reserve and other major central banks will begin cutting interest rates later this year, but by less than markets currently expect.

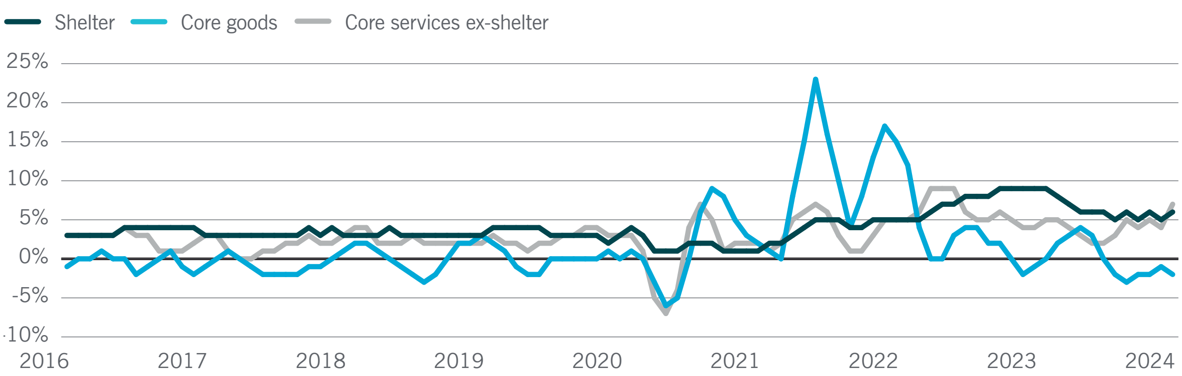
There are some caveats. The Bank of Japan bucked the global trend by actually hiking rates for the first time in 17 years in March. Meanwhile, because China is typically less inclined to use interest rate policy as a cyclical lever, the government will probably continue providing modest fiscal stimulus instead. Overall, though, the global monetary policy backdrop supports adding duration at current levels and positioning for modest rate cuts over the balance of the year.

Election and geopolitical uncertainty rise.

With the U.S., U.K., India and other countries holding national elections in 2024, the government policy outlook is more fluid than usual. Though it is too early to make firm predictions, current polling and betting odds suggest the U.S. race is close to a toss-up for both the presidency and control of Congress. With differing platforms on corporate taxes, income taxes, tariffs, defense, immigration and regulation, we could see material shifts in the fiscal and regulatory outlook.

At the same time, geopolitical uncertainty continues in Ukraine, Israel, the Red Sea and East Asia. The potential for fresh disruptions to global shipping and natural gas or oil supplies could put upward pressure on inflation via goods prices or commodities. These risks currently do not impact our base case, but they affect the tail risks in both directions and influence our portfolio allocation decisions in favor of increased diversification and caution across asset classes.

Figure 2: Inflation remains sticky, with U.S. core services prices reaccelerating



Data source: Bloomberg, L.P. and the Bureau of Labor Statistics, Jan 2016 to Jan 2024. Data reflects the three-month annualized percentage change of each component.

GIC Asset class outlooks

EQUITIES

Saira Malik

Investment positioning

- Stocks have enjoyed a strong rally, but despite (or perhaps because of) recent price increases, we retain an overall neutral view toward global equities. Continued strength in the global economy, and especially remarkable resilience in the U.S., provide a solid foundation for stocks. However, valuations have become stretched thanks to what we believe are overly dovish expectations for interest rate declines and monetary policy. We are also carefully watching earnings revisions patterns and expect volatility to pick up, which causes us to favor mostly defensive positioning combined with select risk taking.
- In addition to the themes covered in our portfolio construction discussion, our main areas of focus are identifying high-quality companies that offer a combination of attractive valuations and good earnings growth prospects, with the potential to grow and defend their margins during a potential economic slowdown. This leads us to favor global infrastructure companies and U.S. large cap dividend growers.
- U.S. mega-cap tech companies have been the primary driver of recent market gains. We appreciate the long-term structural tailwinds, solid business models and potential for AI-related innovation in this space, but we are wary about heightened valuations and lofty earnings expectations. Within the technology space, we are focused on the software and semiconductor industries that could benefit the most as we approach a slowdown or recession.
- Private equity markets continue to struggle, but we see increased interest in this space and expect deal activity to improve over the coming quarters.

BEST IDEAS: *As has been the case for some time, our most-favored area is dividend-growers, which tend to be high-quality companies that have strong free cash flow levels and solid profit margins. This area also offers consistent income and tends to be less susceptible to volatility.*

FIXED INCOME

Anders Persson

Investment positioning

- Inflation remains sticky but is slowly receding. And while interest rates are not declining as dramatically or quickly as many hoped at the start of the year, we expect a gradual decline to materialize over the course of 2024. Even if rates remain elevated for longer than expected, current yield levels across bond markets offer solid income prospects.
- For investors still positioned short in duration, we suggest extending duration to closer to neutral. Within the municipal bond market, we think it makes sense to adopt a longer-than-average duration stance now: The municipal bond curve is significantly steeper than the U.S. Treasury curve, offering potential for current income as well as total returns when and if rates decline.
- Our key theme is flexibility and diversification across credit sectors versus over- or under-allocating to any one area. Within that context, however, we see more opportunities in high yield (especially the higher quality areas), which offers strong credit profiles and attractive yields, and in senior loans, which should benefit from a continued higher-for-longer rate environment. We also see opportunities in the preferred space. Spreads are approaching historical averages, fundamentals are solid and investor demand appears quite strong.
- We also remain quite positive toward municipal bonds (including taxable municipals for non-U.S. investors). In addition to their longer-duration profiles, municipals offer attractive relative yields, solid fundamentals and compelling technical factors with high current demand and low new supply.
- We remain highly constructive toward private credit markets, especially if any economic slowdown proves to be shallow or mild, as we expect.

BEST IDEAS: *Our highest conviction themes center around a flexible and diversified multi-sector approach, with a view toward modestly extending duration and focusing on higher-quality credits. For municipal bonds, we particularly favor the high yield area, which offers compelling yields and appears attractively valued.*

REAL ESTATE

Carly Tripp

Investment positioning

- As discussed in our portfolio construction themes, we believe private real estate markets are experiencing a key inflection point, and headwinds have mostly faded. We continue to observe signs of distress, especially in the office sector. But we see more positive signals for the asset class as a whole: Most global rate increases are in the rearview mirror, property sales show signs of increasing, and private equity buyers have been reentering the market to take advantage of distressed opportunities. From a valuation perspective, prices have been declining for well over a year, and we think real estate is in a bottoming process.
- Two areas we highlight as particular opportunities are U.S. medical office and global senior housing properties. Medical offices enjoy low vacancy rates, a restrained supply pipeline and the demographic tailwinds of an aging population. Senior housing benefits from the same demographics, and we believe fundamentals are improving given the slow pace of new construction.
- We continue to favor real estate debt over equity, as the interest rate environment has stabilized, lenders have decent pricing power and rate cuts appear on the horizon.

BEST IDEAS: *In addition to the above, we remain focused on "global cities" experiencing growing, educated and diverse populations with a particular focus on the health care, industrial and housing sectors.*

REAL ASSETS

Justin Ourso

Jay Rosenberg

Investment positioning

- Public infrastructure has long been a favored asset class for the GIC. Our positive outlook stems from reasonable valuations along with predictable cash flow and the ability to withstand a potentially weaker economy and still-relatively-high inflation. We are especially positive on technology infrastructure such as data centers, which enjoy strong growth prospects from AI-related innovation; North American and European regulated utilities, which offer compelling valuations along with a generally constructive regulatory environment; and toll roads, which feature strong, durable fundamentals.
- Public real estate remains compelling as well, given generally positive fundamentals with a more constructive interest rate backdrop. We especially like data centers, an investment that overlaps infrastructure and real estate, senior housing investments that enjoy limited supply and favorable demographics, as well as shopping centers that are anchored by grocery or necessity stores that could withstand a slowdown in discretionary spending.
- Private real assets continue to benefit from many of the same trends as their public counterparts. Regarding infrastructure, we see digital and power infrastructure poised to take advantage of AI demand generation (data center development, renewable power needs, fiber facilitating deployment and connectivity). We continue to focus on energy-transition-related infrastructure globally as well, given the decarbonization objectives and need for private capital. We also see opportunities in agribusiness investments, such as contract manufacturing for the quick-serve restaurant sector, which is exhibiting durable growth trends.
- We remain generally positive toward farmland as a long-term investment. Relative yields may be slightly less appealing currently, but farmland still benefits from structurally higher inflation trends and growing food scarcity. In particular, we see compelling opportunities in U.S. row crops, which are experiencing high demand relative to supply.

BEST IDEAS: *In public markets, our best ideas include data centers, which benefit from above-average growth prospects and positive sentiment around AI, and waste management companies, which provide an essential service and attractive growth. In private markets, we continue to focus on investments that align with climate and digital transformations, such as clean energy generation and data centers, as well as strong global demand for protein and healthy foods.*

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. Quarterly 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.

Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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