

A CIO's guide to long-term investing in a short-term world



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Institutional investors stand out, not by predicting every market twist and turn, but by preparing for and adapting thoughtfully to the long-term trends shaping the world. They invest with the knowledge that future generations and stakeholders will scrutinize the results of their decisions.

In an environment increasingly driven by swings in short-term sentiment, research from the TIAA Institute¹ (working with Nuveen) explored the long-term investment challenges and opportunities facing chief investment officers. Their findings point to the major intersecting trends that will determine how investors meet their long-term objectives.

Below highlights what a few of these themes could mean for institutional portfolios. They reinforce the need for discipline and diversification in our short-term world.

From globalization to fragmentation: diversification will be key

The post-World War II consensus that facilitated globalization is fragmenting into regional blocks and bilateral agreements. The imposition of tariffs, resulting retaliatory responses, localizing supply chains and other near-shoring initiatives are changing trade patterns. All of this is increasing market volatility, input costs and country-specific risks.

As fragmentation increases, the research tells us CIOs expect country risk premiums to become much more relevant, even for well-established developed markets. Portfolio resilience will then demand deeper, more nuanced research into geopolitics and local economic and market conditions. This includes reconsidering institutional safeguards for debt contracts and ownership rights to understand new risks and how they can be managed. The correlations and asset class behaviors derived from historic time series analysis may also no longer be applicable in this evolving landscape. Diversification across countries, regions and asset types will continue to be key to meeting long-term investment objectives, but investors should reassess models that rely on historically derived relationships.

Key takeaways from the TIAA Institute's report

1. A convergence of structural forces make the investment landscape more volatile and complex than in past decades.
2. Country risk has returned to developed markets as the post-war system of stable alliances erodes.
3. Private markets are now essential portfolio construction instruments.
4. The search for inflation protection with attractive returns has accelerated as a priority.
5. AI will be transformative, but no one knows who will capture the economic value.
6. Human judgment remains essential despite AI advances.
7. Sustainability integration has become pragmatic rather than ideological.
8. Institutional investors face increasing pressure to justify their value and their portfolio holdings to stakeholders.

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Inflation outlook increases the utility of real assets in portfolios

The rollback of globalization along with persistent fiscal debt burdens and the realities of supporting aging populations are likely to fuel inflation in many markets across the world. The potential for market-induced crises for government debt is very real, as recent experiences in the U.K. and France attest. Again, research and analytical insight will be needed as investors reconsider long-held assumptions about developed market government debt sustainability and as they reevaluate the meaning of the risk-free rate.

Anticipating higher inflation and more volatile markets, investors will need assets with attractive returns and inflation protection. Real assets, such as real estate and infrastructure that often have long-term contractual cash flows linked to inflation, are likely to play a greater role in portfolios. They do, however, come with their own risks and liquidity constraints.

Private markets go mainstream, broadening access and choice

Private markets are now considered essential tools by many CIOs for portfolios that need to be tailored to multidimensional risk exposures. Institutional investors can benefit by creating customized portfolios with private investments that combine targeted risk and return characteristics as well as managing exposure to a range of risks including geopolitics, the environment and technology. These types of portfolios can provide unique routes to finance the energy transition, digital infrastructure and other long-term investment trends.

As more capital is supplied through private markets, we can expect further innovation in terms of access, not just custom portfolios for institutional investors but collective investment vehicles for individual investors. As the investor base grows, however, regulatory scrutiny is likely to increase in the future.

The pros and cons of investing in and using AI

The consensus view from the CIOs is that the AI revolution is already starting to reshape the global economy and investment management practices, but the winners and losers are far from clear at this early stage. Some skepticism is warranted as empirical evidence of AI's productivity gains is sparse and the effects on the labor market and income distribution are uncertain. However, history warns us not to dismiss transformative technology because initial returns are elusive.

Investors need to be selective and diversify when backing AI and digital infrastructure projects. Given the risk of obsolescence with such fast-paced technology, they need to find the balance between providing long-term capital and investments that can adapt to changing tech requirements.

Within investment management, AI appears to be augmenting, not replacing human decision-making. Sophisticated investors are experimenting with AI, seeing its transformative potential in terms of enhancing data analysis, automating routine work and providing different perspectives. However, questions remain about responsibility, accountability and transparency with its use.



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Integration of sustainability despite diversity of views

Unsurprisingly, views on sustainability varied widely with clear geographical differences. But despite this, the majority of CIOs continue to embed sustainability criteria in portfolio decisions, considering it both an investment risk and an opportunity.

It is often used to assess regulatory, transition and physical climate risks and avoid stranded assets. However, many long-term investors think about sustainability in much broader terms. This more expansive framing can help protect portfolios against long-term risks. For example, it allows investors to consider geopolitical factors, such as the supply of natural resources; inequality, such as access to affordable housing; and social resilience, such as the provision of health care. By directing long-term capital to solve major societal challenges and support robust economies, investors are providing the foundations for future generations, but this does not come at the expense of returns.

The accountability imperative: not just for today

In discussing the value of institutional investing, CIOs acknowledged that accountability for their decisions is not just an issue for today but a long-term consideration. The ability to invest across decades places a responsibility on institutional investors to provide for future generations. This responsibility requires investors to be able to explain and justify allocation decisions to stakeholders, which includes not only clients, but potentially regulators, politicians and the general public. To reinforce trust and credibility, investors will likely need to enhance transparency and provide more communication about their actions.

DISCIPLINE AND DIVERSIFICATION ARE CONSTANTS IN A CHANGING WORLD

The main conclusion for me is how discipline and diversification, which have always been key for institutional investors, remain constant in our ever-changing world. Successful long-term investing requires a thoughtful approach that is structured but also flexible, to respond to newly emerging risks and opportunities.

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For those interested in exploring the research report, please visit tiaa.org/public/institute or contact your Nuveen relationship manager.

Endnotes

Sources

1 *Patient capital in impatient times*, The TIAA Institute, discusses the long-term goals and challenges of institutional investors. The institute researched and interviewed a diverse range of institutional investors globally (representing institutions such as insurance companies, sovereign wealth funds, pension funds and defined contribution retirement plans based in the U.S., Europe, Australia and Asia), academics and other subject matter experts.

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