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VIEWPOINTS FROM THE GLOBAL INVESTMENT COMMITTEE
2025 OUTLOOK

Wheels down, elevation up:

Five themes for a new economic landing

KEY TAKEAWAYS

- The world is settling into a new normal where ***economic growth, inflation and interest rates are likely to be structurally higher.***
- This higher elevation is going to require a new approach to portfolio construction; Nuveen's Global Investment Committee offers ***five themes for 2025 to help guide investors' thinking.***

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Wheels down, elevation up:

Five themes for a new economic landing

Saira Malik
Chief Investment Officer, Head of Equities and Fixed Income

As Head of Equities and Fixed Income, 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.

"Ladies and gentlemen, we've begun our final descent." "Flight attendants, prepare for arrival, cross-check and stand by for all-call." Every airline passenger is familiar with these announcements. Likewise, investors are aware that the U.S. and global economies are in the process of touching down after encountering turbulence from decades-high inflation and historic rate hikes.

Whether this long-awaited economic dénouement is ultimately deemed a hard landing, a soft landing or even no landing remains to be seen. In the U.S., we expect it to be softish to the extent that growth remains resilient and inflation has broadly moderated. Yet the risk of a hard landing (recession) hasn't disappeared completely.

We think the economy is experiencing a different kind of landing that defies easy categorization. It's one in which inflation and monetary policy rates settle but stay structurally higher than they were pre-Covid. And while this landing may lack a label, it's replete with opportunity for investors willing to adjust their portfolio itineraries. We offer these thematic travel tips as a starting point:

1. Relative spreads and credit selection, not risk-free rates, will drive returns in debt markets. Interest rates will likely be lowered more slowly than previously anticipated. In fixed income, this calls for less emphasis on duration positioning and more on generating alpha via relative spreads and credit selectivity.

2. Real estate reality: it's already bottomed. Global interest rate increases and other headwinds are fading. Meanwhile, investor demand for commercial real estate is rebounding, and overall liquidity is improving. The office sector remains challenged, but we see compelling ideas in the industrial and alternative segments. We also like publicly listed REITs, where valuations, fundamentals and earnings appear favorable.

3. Energy demand charges ahead of capacity, creating opportunity for new infrastructure investments. Energy demand is growing exponentially, but supply and transmission aren't keeping pace. This imbalance suggests investing in green energy technologies, nuclear power and natural gas production to help fill the supply/demand gap as renewables ramp up. Other attractive infrastructure plays: local electricity transmission facilities and data centers powering the artificial intelligence (AI) boom.

4. Municipals are still the borrower of choice for investors in it for the duration. Our general preference for de-emphasizing duration has one notable exception: municipal bonds. The municipal yield curve is steeper than the Treasury curve, and with credit fundamentals looking solid, we think longer-duration positioning in municipals makes sense.

5. Small caps are suiting up for the big leagues. Lower corporate tax rates, less regulation and higher tariffs are among the policy changes expected under the second Trump administration. These shifts may result in new capital investment cycles, creating potential tailwinds for U.S. small cap stocks. And after a long period of underperforming the broader market, small caps are trading at a significant discount.

As investors, we're all frequent fliers on this economic plane. Arriving safely on financial terra firma will depend on how attentive we are to both the risks and potential rewards of flying — not just on the cusp of 2025, but every time we strap in.

Portfolio construction themes

Economic landing scenarios are subjective. And from our perspective, it feels like the post-pandemic global economy has fundamentally changed. Swings in consumer behavior, technological advancements, political shifts, global trade and capital flows have created a world where inflation and monetary policy rates have settled into a new, higher-than-2020 equilibrium. ***This new, higher landing zone has significant implications in 2025 and beyond for how investors approach portfolio construction and find opportunities across asset classes.***

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 compare the relative merits of each asset class based on the collective assessment of Nuveen’s Global Investment Committee. They do not reflect the experience of any Nuveen product or service. Upgrades and downgrades reflect quarterly shifts in these views.

5 themes for 2025

1

Relative spreads and credit selection, not risk-free rates, will drive returns in public and private debt markets.

It's true that the U.S. Federal Reserve and most other central banks are in easing mode. But we believe the pace of interest rate cuts will be slower and the terminal rate will be higher than previously expected, as the Fed contends with sticky inflation and looser fiscal policy. We think 2025 will end with a fed funds rate of around 3.75% to 4% and the 10-year Treasury yield close to 4.5%. This view means focusing less on duration positioning and more on generating alpha by concentrating on relative spreads and careful selectivity among credit sectors.

In this new environment, we think investors should diversify credit exposures through such areas as securitized assets (especially segments not included in broad market benchmarks) and senior loans, which should benefit from the higher-for-longer environment. More broadly, we are seeing solid opportunities across various credit sectors, especially compared to cash or Treasuries (Figure 1).

Private credit also remains key for income seekers. Investor interest remains high, demand is strong, deal volume continues to rise and we expect M&A activity to increase in 2025, which should provide a tailwind. We remain particularly favorable toward middle market loans and more defensive areas of the market.

2

Real estate reality: it's already bottomed.

One of the most significant shifts in our heat map for 2025 is moving private real estate to an overweight position given our belief that the market has already bottomed. The stiff technical headwinds that held the asset class back for an extended period appear to be fading. Most global rate increases are in the rearview mirror, which is a plus for private real estate. Additionally, there is more clarity around pricing, and the spot market has stabilized. At the same time, investor demand is rising: Commercial real estate lending is growing, and overall liquidity is improving.

While many headlines focus on high office vacancy rates (and we agree that the office sector will remain under pressure), we see ample opportunities across other areas of the market, including industrial and alternative segments. We also see value in publicly listed REITs, where valuations, fundamentals and earnings prospects all look fair to positive.

3

Energy demand charges ahead of capacity, creating opportunity for new infrastructure investments.

Thanks at least in part to the massive AI boom, energy demand is growing exponentially. But new energy production can't keep pace with demand. And equally critically, energy transmission is lagging demand. This is one reason we expect structural inflation to move higher, but it also creates investment opportunities.

In part, it favors ongoing investment in green energy, such as solar and wind infrastructure around the world, including the U.S. (despite political shifts, we expect capital to continue flowing toward profitable investments). Additionally, we anticipate demand will grow for nuclear energy, new local electricity transmission facilities, natural gas-related investments and rapid development of data centers.

Related, we also see growing opportunities in energy-related financing investments necessary to fund energy upgrades through mechanisms such as Commercial Property Assessed Clean Energy (C-PACE) financing.

4

Municipals are still the borrower of choice for investors in it for the duration.

Our first theme spelled out the reasons we are not focusing on lengthening duration, but there is an important exception: municipal bonds. The municipal yield curve is steeper than the Treasury yield curve, and with credit fundamentals looking solid, we think longer-duration positioning in municipal bonds makes sense.

Overall, municipal borrowing looks more compelling than U.S. government options. Significant federal fiscal reform remains a remote possibility, and deficit levels remain quite high. In contrast, municipal issuers are enjoying strong credit health. We also expect demand for and net issuance of municipal bonds will grow as the market continues to broaden and non-U.S. and institutional crossover investors add allocations to the asset class. Finally, related to our third theme, project-based financing should grow as a key mechanism for funding much-needed infrastructure spending, and tax-sensitive investors should remain willing to lend to these higher yielding issues.

5

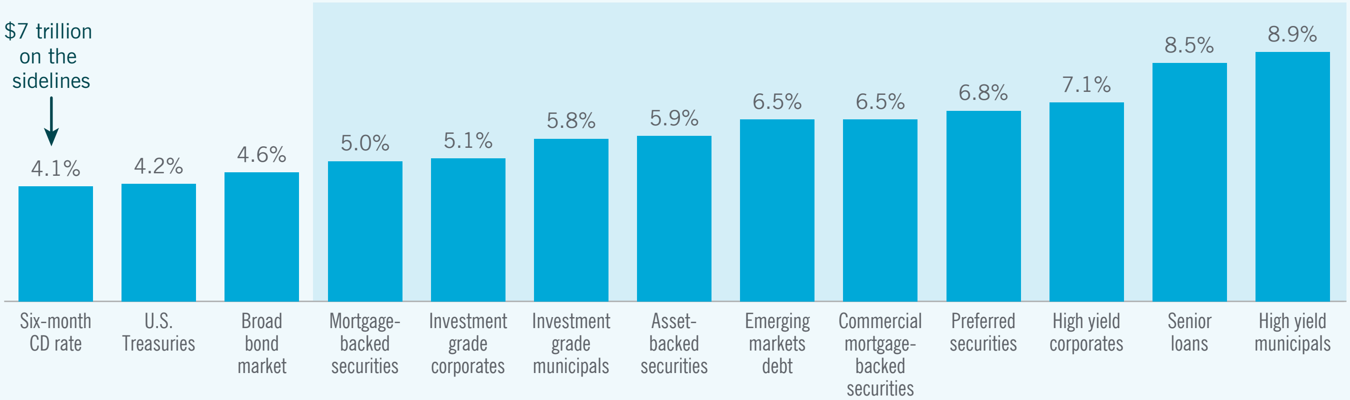
Small caps are suiting up for the big leagues.

Our last theme is based partially on the shifting U.S. political environment following the 2024 elections. All else being equal, we think the new political backdrop will result in lower corporate tax rates, less regulation and more protectionist trade policies. These trends should create tailwinds for U.S. small cap stocks, given they will likely result in new capital investment cycles.

It's probably too much of a stretch to hope for an earnings resurgence in U.S. small caps, but we see a strong valuation argument given that small caps have been lagging the broader market. Even if earnings remain relatively static, a good case can be made for valuation multiple expansion that could boost prices.

Figure 1: Focus on attractive credit sectors

Taxable-equivalent yields (%)



Data source: Bloomberg, L.P., 30 Nov 2024. **Performance data shown represents past performance and does not predict or guarantee future results. Representative yields and indexes: six-month CD** reflects the Marcus Goldman Sachs six-month CD yield; **U.S. Treasuries:** Bloomberg U.S. Treasury Index; **broad bond market:** Bloomberg U.S. Aggregate Index; **mortgage-backed securities:** Bloomberg U.S. Mortgage-Backed Securities Index; **investment grade corporates:** Bloomberg U.S. Corporate Investment Grade Index; **investment grade municipals:** Bloomberg Municipal Bond Index; **asset-backed securities:** ICE BofA Fixed Rate ABS AA-BBB Index; **emerging markets debt:** Bloomberg Emerging Market USD Aggregate Index; **commercial mortgage-backed securities:** ICE BofA Fixed Rate CMBS AA-BBB Index; **preferred securities:** ICE BofA U.S. All Capital Securities Index; **high yield corporates:** Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index; **senior loans:** Credit Suisse Leveraged Loan Index; **high yield municipals:** Bloomberg High Yield Muni Bond Index. **Taxable-equivalent yield (TEY)** is the yield a taxable investment needs to possess (before taxes) for its yield to be equal to that of a tax-free municipal investment. The yields shown are based on the highest individual marginal federal tax rate of 37%, plus the 3.8% Medicare tax on investment income. Individual tax rates may vary. They do not take into account the effects of the federal alternative minimum tax (AMT) or capital gains taxes. **For index descriptions, please access the glossary on nuveen.com.**

The economy and markets

Key points to know

Fundamental changes

As the global economy approaches the five-year anniversary of the pandemic, it is clear that fundamental conditions have changed. The pre-Covid world of low growth, low inflation and low interest rates is gone — and it is not coming back. Telecommuting and remote work have made labor markets more flexible. AI has driven a boom in tech investment and is transforming services sector jobs. Persistently high employment levels are spurring labor-saving investments. These trends are likely to boost potential growth. Policymakers, on both the fiscal and monetary sides, embraced more aggressive stimulus during the Covid downturn, driving higher inflation. Even as central banks have moved to offset these inflation pressures, fiscal policy remains extremely loose, skewing the risks toward persistently higher inflation.

A new economic regime

Already, these new dynamics are showing up in the economic data. Inflation (measured by annual core PCE) was below the Fed's 2% target in 116 of 120 months in the pre-Covid decade; it has now been running above-target for 43 straight months. Real U.S. GDP growth has averaged 2.3% over the last five years (which includes the sharp Covid contraction), a much higher level than the 2010 to 2019 period, which averaged around 1.8% (Figure 2). We do not think the economy is likely to return to its "old normal" — overall nominal growth is likely to be materially higher moving forward. With the shift in U.S. politics, we expect to see renewed and even expanded tax cuts, providing even more support for higher growth and inflation.

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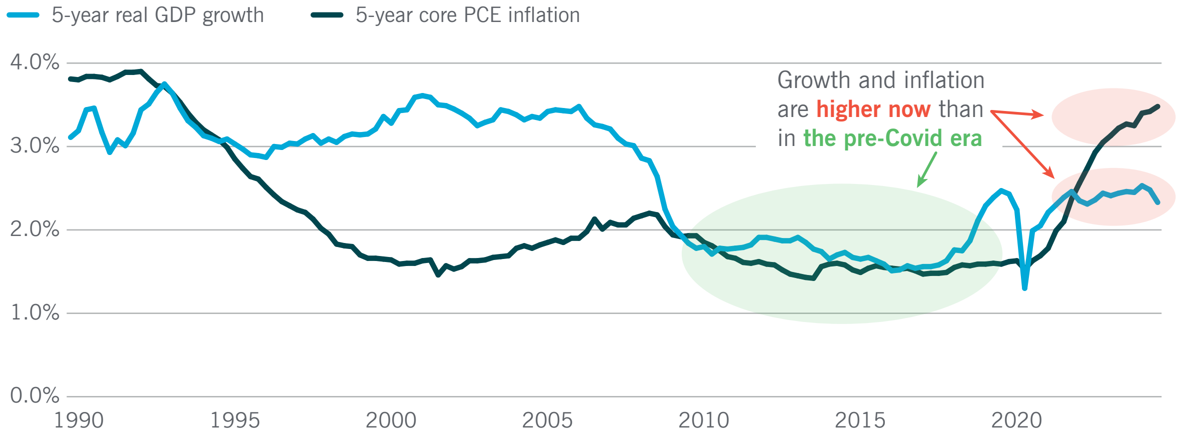
Where are we headed?

Many of these deep-rooted, secular trends are slow to materialize. While they frame our medium- and longer-term outlooks, they can easily be overtaken by short-run dynamics pushing the economy far from equilibrium. The good news is that we do not foresee notable near-term disruptions, and the next several quarters are likely to look a lot like the next several years. Inflation remains above target. And though we believe there is further disinflation in the pipeline from housing and other core services, overall inflation is likely to remain above the Fed's target. Growth is set to slow, but not drop to pre-Covid levels. Despite higher unemployment this year, income growth has remained strong, supporting a steady expansion in spending. That looks set to continue even as labor markets loosen further.

A higher nominal anchor

Ultimately, nominal growth is the principal driver of market performance. For equities, it determines overall earnings potential and it drives yield levels for fixed income. U.S. nominal growth performance versus the rest of the world also drives the U.S. dollar's valuation. We expect to settle in to a new normal of around 5% nominal growth, rather than the pre-Covid trend of sub-4%. This means that rates are unlikely to fall as much as many expect, and risk assets are likely to be supported. We expect the 10-year Treasury yield to remain mostly range-bound from here, and for Fed rate cuts to be both slower and smaller than many expect.

Figure 2: Long-term U.S. growth and inflation have moved structurally higher



Data source: Bloomberg, L.P., Dec 1989 to Sep 2024. Data represents five-year moving averages of quarterly growth and inflation readings.

Asset class outlooks

EQUITIES

Saira Malik

Investment positioning

- Despite relatively elevated volatility, equity markets powered ahead through much of 2024 thanks to resilient economic growth and solid (if weakening) corporate earnings. At the same time, valuations have become increasingly stretched and interest rates remain elevated. This combination leads us to remain broadly neutral toward global stock markets.
- We generally favor higher-quality segments, leaning toward industries and geographic regions that offer fundamental tailwinds. Likewise, we are less positive toward areas with a higher degree of economic or interest rate sensitivity.
- Geographically, we continue to believe U.S. stocks offer the best combination of defensive characteristics and growth opportunities, although we are seeing some shifts in relative opportunities. While the AI boom should remain a key U.S. growth driver, we believe investors should broaden their allocations. We are growing more positive toward U.S. small caps that could benefit from shifts in tax policies, rising M&A activity and more protectionist trade practices.
- Outside of the U.S., we are increasingly cautious toward both developed and emerging markets based on relative economic growth prospects and the likelihood of a stronger U.S. dollar. One exception is Japan, given the country's emergence from deflation and solid real wage growth.
- Private equity markets remain under some pressure (especially given still-high interest rates), but we do see value in secondary private equity markets, where demand is stronger and should continue to grow.

BEST IDEAS: *We are focused on higher-quality stocks with earnings efficiency. We particularly favor dividend-growers, which tend to offer strong free cash flow levels and solid profit margins. We also like infrastructure companies that can weather both inflation and softer economic growth risks.*

FIXED INCOME

Anders Persson

Investment positioning

- The global macroeconomic backdrop continues to favor fixed income investments. Most global central banks are in a slow easing mode. While inflation risks remain, they are less acute than earlier in the cycle. We expect long-end interest rates to remain relatively elevated and largely range-bound over the course of 2025. But, critically, even if rates remain elevated, current yields still offer compelling income.
- Given this backdrop, we think it makes sense to stick with an overall neutral duration stance (and investors still holding high levels of cash should consider lengthening duration). While the U.S. Federal Reserve and other central banks are cutting rates, we don't anticipate quick or dramatic declines. Note, however, that we think it makes sense to adopt a longer-duration stance in municipals given that the muni bond yield curve remains steeper than the U.S. Treasury curve.
- Consistent with our views on duration, we have a generally unfavorable view toward U.S. Treasuries (we see better value elsewhere) and investment-grade bonds (spreads are tight and the duration profile is longer than we prefer). In contrast, we favor high yield (especially higher quality segments that can weather slowing growth), securitized assets (where asset-backed and commercial mortgage-backed segments offer value) and senior loans (which look increasingly attractive given the higher-for-longer rates environment). We are moving toward a more neutral view on preferred securities given recent strong performance, although we see value in $1,000 par securities where spreads offer value.
- Municipal bonds enjoy strong and stable credit quality. State and local governments have solid balance sheets and ample liquidity; and the municipal market features attractive supply/demand dynamics. We see broad opportunities in tax-backed areas of the traditional tax-exempt market, as well as in taxable municipals for non-U.S. investors. We are focused on the high yield and specialty- and property-tax-backed areas.

- We remain constructive toward private credit markets, especially if we only experience a mild economic slowdown.

BEST IDEAS: *Securitized assets and senior loans both offer solid value while avoiding duration risks. For municipal bonds, we particularly favor high yield municipals, which offer compelling yields and appear attractively valued.*

REAL ESTATE

Donald Hall

Investment positioning

- As highlighted in our portfolio construction themes, we believe non-office-related private real estate has already bottomed, as the capital and financial headwinds facing landlords have faded. Rent and occupancy growth are healthy, and investor demand is returning for most sectors. The improving climate is driving increased competition for real estate deals, an indicator of an impending recovery for the asset class.
- From a sector perspective, the office segment remains troubled, and we do not believe vacancy rates have peaked yet. Eventually office prices should fall to the point where they offer value, but that does not yet appear to be the case. In contrast, we see broad opportunities across residential, industrial and especially non-traditional real estate sectors. Segments like medical office and senior housing in particular look compelling, as they should benefit from long-term demographic trends. We also favor data centers, which are enjoying unprecedented demand from generative AI growth.
- We have a slight bias toward real estate debt over equity, given strong pricing power on the part of lenders, but that difference is narrowing.

BEST IDEAS: *We remain focused on global cities experiencing growing, educated and diverse populations with a focus on the health care, industrial and housing sectors.*

REAL ASSETS

Justin Ourso

Investment positioning

- We see value in public infrastructure, but the combination of recent strong performance and the potential for changes in U.S. regulatory and tax policies cause us to approach this area with increased caution. Within infrastructure, we see significant opportunities in data centers and investments associated with electrification, given increased demand for power.
- For public real estate, we think fundamentals and earnings prospects look solid, and this area should benefit from still-solid economic growth. We see particular value in senior housing, where supply is limited and demand is growing.
- We also see compelling opportunities across private real assets. Our infrastructure investment themes remain focused on ongoing digitization (such as AI-driven data centers) and clean energy transition (with a focus on electrification in the form of solar, battery storage and offshore wind). We also see opportunities in agribusiness investments, including investments that focus on food ingredient processing that can reduce in-store labor at quick-serve restaurants (a growing area of the market).
- We are growing increasingly cautious toward commodity investments. The likelihood of a stronger U.S. dollar and prospects for higher tariffs are likely to be negatives for this area.

BEST IDEAS: *In public markets, our best ideas include North American senior housing (demographic trends, plus opportunities for industry consolidation) and AI-related infrastructure, especially areas like electric utilities that have yet to fully realize potential benefits. Across 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.

Endnotes

Sources

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

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