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VIEWPOINTS FROM THE GLOBAL INVESTMENT COMMITTEE
2024 MIDYEAR OUTLOOK

Widening cracks in the investment landscape

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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KEY TAKEAWAYS

- The investing landscape looks increasingly fractured given ***slowing growth, sticky inflation and still-high interest rates.***
- Amid these cracks, we suggest a focus on ***higher-quality equities,*** taking on ***selective credit risk in fixed income*** and ***leaning into real assets.***
- We also see opportunities in less-traveled areas such as ***floating rate investments*** and themes associated with ***clean energy transition.***

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Widening cracks in the investment landscape

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.

"Step on a crack, break your mother's back" conjures up images of children playfully jumping over gaps between sidewalk squares. As grownups, we can indulge such youthful superstitions as harmless. As investors, however, we recognize the very real risks posed by fissures and fault lines in the economic terrain — and the need to navigate them successfully. This is the challenge we're facing midway through 2024.

We've already seen signs of dangerous ground. U.S. labor market data, for example, has been anything but even. If rising unemployment claims and fewer job openings seem to be paving a path to lower inflation (and a more dovish U.S. Federal Reserve), an unexpectedly robust monthly payrolls report could easily disrupt the route. Overall growth in the U.S. and many other countries has either slowed, turned negative or been subject to greater instability amid a variety of economic obstacles. Divergent monetary policy around the globe, along with intensifying political (and geopolitical) divides, adds to the uncertain footing.

How might investors find their way around these cracks? In our view, the following portfolio themes point in the right direction.

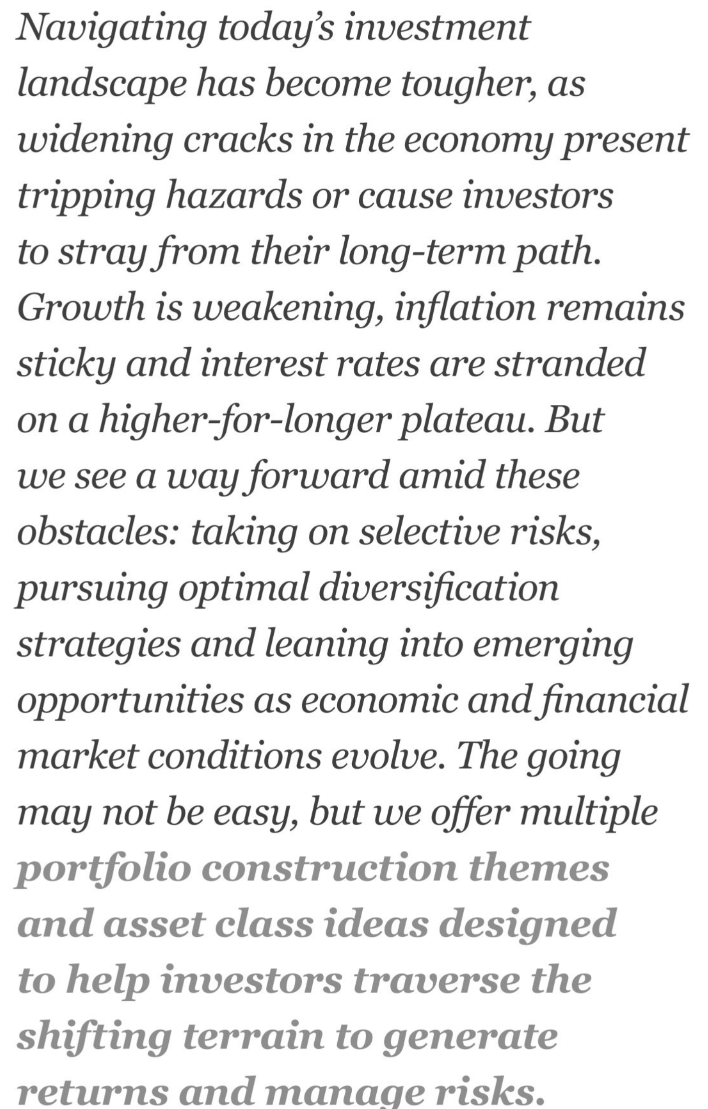
Step toward quality and scale back exposure to the ups and downs of the economic cycle. In equity markets, we're generally tilted toward higher quality and less cyclicality, given slowing economic growth and still-elevated inflation. U.S. large cap dividend growth stocks and infrastructure companies look especially attractive. We're also increasingly favorable toward select opportunities in non-U.S. developed markets, especially Japan. Our overall quality bias won't preclude us from considering a degree of measured risk-taking in some emerging markets, including China. In fixed income, we broadly favor adding credit risk while maintaining a neutral duration stance.

Take the path less traveled for alternative sources of yield and diversification. Today's environment is well-suited to floating-rate investments such as senior loans, which offer compelling yields and relatively strong fundamentals, as well as a positive supply and demand backdrop. We're also partial to private credit, whose solid foundation of attractive yields, healthy coverage ratios and ample liquidity has so far allowed it to sidestep potential stress fractures. Lastly, allocating to real assets provides investors with a more diversified source of risk factors.

Plug into the clean energy transition. The long-term trends toward electrification and renewable power appear unstoppable. Opportunities include direct investments in specific clean energy industries like solar and wind, complemented by exposure to more traditional energy sources (e.g., natural gas, nuclear power) that will still be needed to meet energy demand while alternative sources and technologies continue to mature.

From a practical standpoint, few investors can be full-time market seismologists, monitoring every danger zone and anticipating every aftershock before taking their next step. But informed awareness of the risks and opportunities shaping the current landscape may help them avoid cracks — and protect their portfolio's back.

Portfolio construction themes



Navigating today's investment landscape has become tougher, as widening cracks in the economy present tripping hazards or cause investors to stray from their long-term path. Growth is weakening, inflation remains sticky and interest rates are stranded on a higher-for-longer plateau. But we see a way forward amid these obstacles: taking on selective risks, pursuing optimal diversification strategies and leaning into emerging opportunities as economic and financial market conditions evolve. The going may not be easy, but we offer multiple ***portfolio construction themes and asset class ideas designed to help investors traverse the shifting terrain to generate returns and manage risks.***

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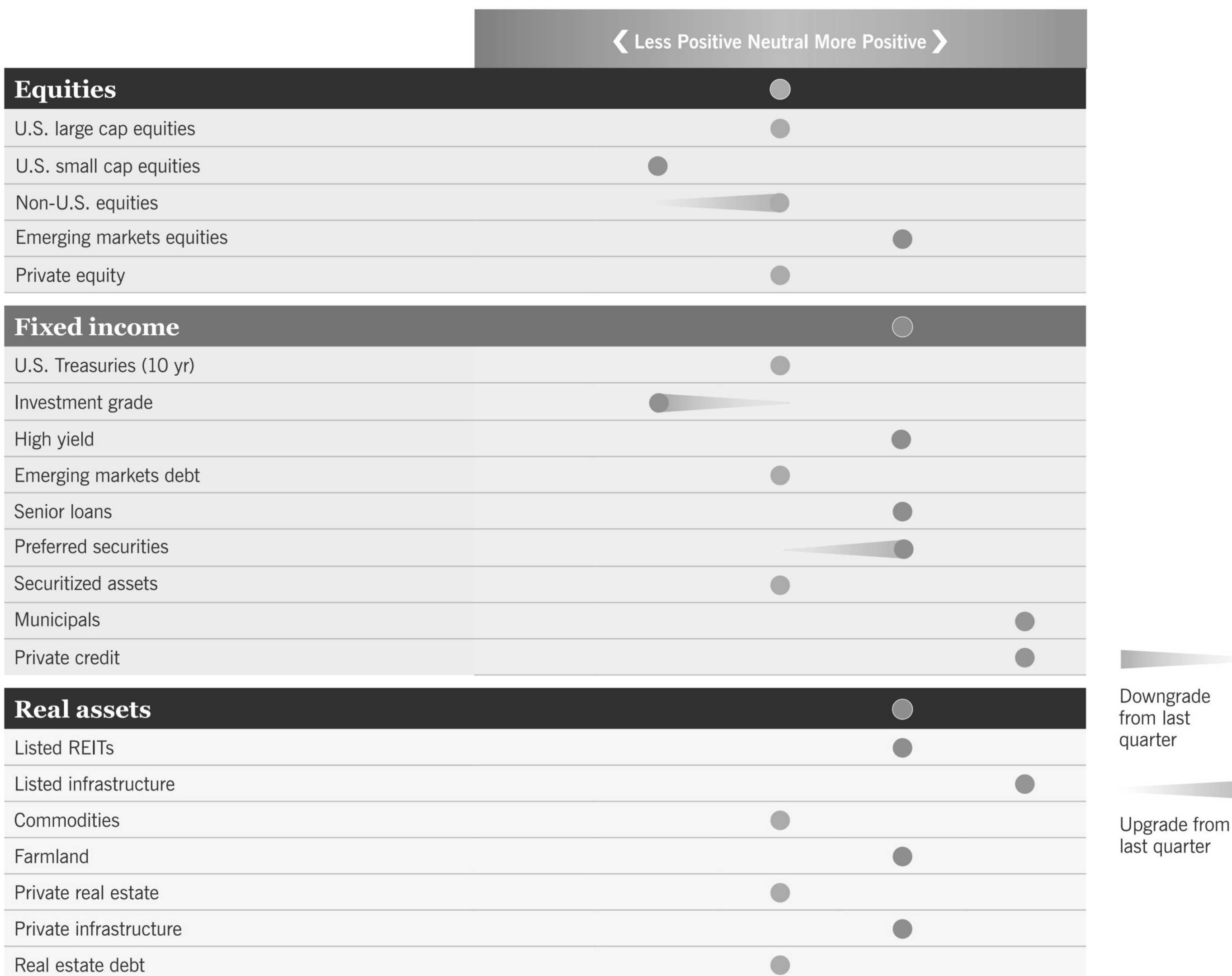
Asset class “heat map”

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.

Key portfolio themes

Step toward quality and scale back exposure to the ups and downs of the economic cycle.

In equity markets, an overall tilt toward higher quality and less cyclicality has been a sound strategy in the face of slowing economic growth. U.S. large cap dividend-growing stocks in particular have proved resilient during difficult economic environments, while offering potential for consistent income growth. Infrastructure companies tend to fare well in periods of relatively higher inflation and are supported by favorable trends like electrification and nearshoring of manufacturing supply chains.

Outside the U.S., we are upgrading developed markets to neutral as they are now offering higher-quality options — chiefly Japan (the world's second-largest developed market), whose apparent victory over deflation could be confirmed with additional Bank of Japan rate hikes this year. This quality bias may be balanced with measured risk-taking in select emerging markets. In China, first quarter GDP growth exceeded forecasts, and domestically produced electric vehicles account for more than half of global EV sales, thanks to surging European demand — and despite U.S. tariffs.

In fixed income, we favor adding credit risk while maintaining neutral duration. Investors who are short duration and/or holding excess cash may add to select credit sectors with an up-in-quality bias. Investors who wait for interest rate cuts may be unable to capitalize on the dramatic increase in yields (Figure 1).

Take the path less traveled for alternative sources of yield and diversification. We think today's environment creates a compelling case for floating-rate investments such as senior loans. Senior loans offer the potential for equity-like returns with lower volatility and downside risk — along with compelling relative yields. The technical backdrop is positive, thanks to ongoing formation of collateralized loan obligations (CLOs), the largest purchasers of senior loans. CLO fundamentals also appear solid, and loan prices have been rising. Institutional demand remains strong, and individual investors are showing increased interest. We are also growing more favorable toward preferred securities, which offer compelling yields and have historically been less subject to interest-rate risk. The issuer base (chiefly banks) is strong and poised to see rising earnings.

Private credit has long been a GIC favorite. Some wonder if the assets flowing into deals have diluted opportunities, and others ask if defaults are set to rise. Negative factors affecting private credit could materialize, but not yet: Yields remain compelling, coverage ratios are healthy and liquidity looks ample.

Lastly, increased diversification through real assets allows investors to gain exposure to a broader source of risk factors. Public real estate looks compelling, historically thriving during times of steady or declining rates. Meanwhile, we think private real estate has finally bottomed and appears poised for improvement. We also see significant opportunities in areas such as farmland and agribusiness.

Plug into the clean energy transition. For years, the shift from traditional sources of energy to clean and renewable power has accelerated. At the same time, the world is experiencing growing demand for electricity (driven in part by AI). We see multiple ways for investors to take advantage of these trends.

We expect rising energy prices to benefit utility investments (especially in less-regulated sectors and geographies with the ability to pass higher costs on to users). At the same time, demand for data center real estate and infrastructure is likely to increase, furthering the need for power generation. Direct investment in specific clean energy industries like solar and wind is on track for continued growth, as it is for battery storage. Additionally, farmland investing is well-positioned to benefit from these shifts, notably in areas like oilseed production.

More broadly, since the shift to renewable energy requires significant up-front costs, more traditional energy sources won't be disappearing any time soon, pointing to continued support for investments related to areas such as natural gas and nuclear power.

In focus: Municipal bonds look solid

There's a lot to like about municipal bonds: They offer compelling income (especially for investors capitalizing on after-tax returns), feature solid credit fundamentals and enjoy a strong technical backdrop.

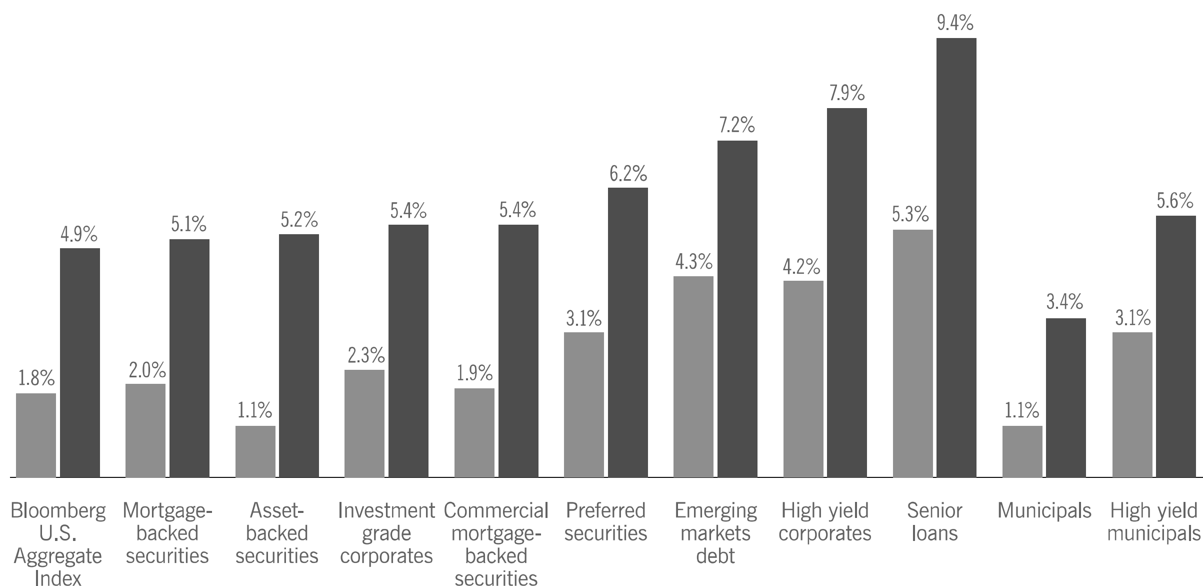
As the year progresses, we expect short-term rates to fall slightly and the municipal yield curve to steepen — this speaks to the benefit of adopting a longer duration for munis. And even without the prospect of a tailwind from a shifting rates environment, municipal bond yields are historically high, meaning current income should help generate attractive returns even without declining rates or spread compression.

We also believe that taxable municipals appear attractive for non-U.S. investors, institutions or others focused on this market segment. Spreads are attractive compared to other areas of the global fixed income market, and fundamentals remain very healthy.

Our highest-conviction views

- **Infrastructure (+)** offers the dual benefits of potentially holding up well amid prospects for slowing economic growth and weathering still-high inflation. Both public and private infrastructure look compelling, and we are especially fond of the public sphere.
- **Private credit (+)** continues to look attractive, with high investor demand and strong fundamentals. We continue to prefer more resilient areas such as health care, software and insurance brokers that are relatively well positioned to withstand economic downturns.
- **Municipals (+)** should see ongoing tailwinds from high demand and solid fundamentals. Munis have also recently been growing less expensive relative to Treasuries and their own history.

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. 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

Economic cracks are emerging.

The U.S. and global economies continue to expand at a healthy pace. We anticipate growth will start to decelerate over the balance of the year, and that dynamic is starting to play out in the data. After several consecutive quarters of upside surprises, key indicators are starting to show softness. Job creation has turned uneven, with a sharp deceleration in April followed by a resurgence in May. Other labor market data – including job openings, the quits rate and surveys of business sentiment – have been showing signs of weakness.

Meanwhile, the outlook elsewhere remains tepid. In Europe, conditions have improved but overall economic growth remains weak, with manufacturing facing fresh headwinds. Property sector woes and weak consumer sentiment are negatives in China, though growth has stabilized across emerging markets.

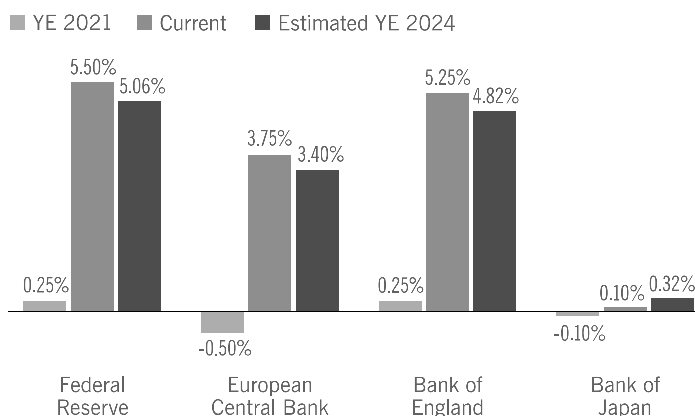
Sticky inflation? Yes. Stagflation? No.

After the first quarter U.S. GDP print showed disappointingly weak headline growth and surprisingly sticky inflation, investors faced the prospect of an unwelcome mix of weak growth and high inflation. However, we think both halves of the stagflation concern are overblown. Though real GDP grew at only a 1.3% annualized rate in the first quarter, that number is somewhat misleading, as growth was dragged down by a -1.3% hit from inventories and net exports. We're penciling in a slowdown to around 2% by year end, which still represents a decent level of growth.

On the inflation side, core services prices have proved sticky over recent months, as we expected. We anticipate some modest easing in key areas like housing over the balance of the year, but movement is likely to be slow and uneven. The progress has been better elsewhere in the world. Core inflation in Europe and Japan is down to annualized rates of 2.9% and 2.5%, respectively, while consumer prices have been overall flat in China.

Figure 2: Global interest rates should remain (mostly) high

Central bank policy rates (%)



Data source: Bloomberg, L.P., 12 Jun 2024. Estimated year-end rates are based on market-implied forecasts.

Global monetary policy divergence is back.

These varying economic and inflation outlooks across countries and regions translate into divergences in monetary policy. The European Central Bank and Bank of Canada cut rates in June (following earlier cuts in Switzerland and Sweden), and we expect additional cuts in the coming months. The U.S. Federal Reserve is likely to hold off in the near term, while the Bank of Japan should keep moving in the opposite direction, hiking rates again by year end (Figure 2).

We have not seen this degree of global monetary policy divergence since 2016. Historically, varying policy actions have resulted in increased volatility across economies and markets. Ultimately, central banks tend to resynchronize, with neither the most-hawkish nor most-dovish forecasts being correct. In the current context, we think the Fed is unlikely to completely buck the global trend toward lower rates, but it is also likely to move slower than many expect. If the Fed cuts once or twice this year the overall level of U.S. interest rates will remain quite elevated versus history.

Investors anxiously focus on election season.

The recent election results in Mexico and India serve as good reminders that politics can drive financial market risks (both the AMLO landslide in Mexico and the BJP party failing to win a clear majority in India elevate some legislative risks). The focus on the November U.S. presidential and congressional elections has been intensifying, as voters and investors alike wonder how different outcomes could shape the direction of the economy and markets.

Overall, we expect market volatility will rise as we approach the U.S. elections, but regardless of the outcome, the removal of uncertainty should eventually calm markets and possibly inject a modicum of risk-on sentiment. U.S. tax policy is of particular importance, given the scheduled expiration of the 2017 Trump-era tax cuts. If the results skew more Republican, those cuts are likely to be extended or made permanent. In contrast, clean energy tax credits would likely be expanded with a more Democratic result. Additionally, the U.S. must tackle rising debt levels, although we doubt significant spending cuts will occur regardless of the outcome. Health care and energy policy, the regulatory environment and trade issues are also very likely to evolve after November.

> **“The Fed will likely cut rates this year, but the pace of rate cuts may be slower than many expect.**

Asset class outlooks

EQUITIES

Saira Malik

Investment positioning

- A combination of global economic resilience and strong corporate earnings has propelled equity markets higher over the first half of 2024. This upward move has been accompanied by less favorable valuations, which (combined with uncertainty surrounding central bank policy) leads us to stick with a neutral view toward global stock markets. Overall, we favor a focus on higher-quality segments, leaning toward industries and geographic regions that offer both fundamental and valuation tailwinds. Likewise, we have a less positive view toward areas with a higher degree of economic or interest rate sensitivity.
- In the U.S., we prefer large caps over small (which tend not to do as well when economic growth is slowing). And we see particular opportunities in industries that can benefit from the AI boom. Our sector focus areas include energy (strong supply/demand dynamics) and technology (specifically software and semiconductors, which should be resilient amid slowing growth).
- Outside of the U.S., we think Japanese equities look compelling: Japan is finally emerging from its decades-long battle with deflation. And while the BOJ is slowly raising rates, Japanese monetary policy remains among the most accommodative in the world. Select emerging markets that feature relative value and improving earnings also look attractive, including China where the rebounding economy creates a tailwind.
- Private equity markets continue to struggle, but we still see investor interest that could drive more deal activity.

BEST IDEAS: *As part of our higher-quality bias, our most-favored area is dividend-growers, which tend to offer strong free cash flow levels and solid profit margins. We also favor infrastructure companies that can weather both higher inflation and softer economic growth.*

FIXED INCOME

Anders Persson

Investment positioning

- Fixed income markets overall appear very attractive. Inflation is slowly easing across most geographies, and global central banks are (for the most part) slowly moving toward more accommodative policy. We don't expect dramatic rate declines, but believe bond yields should move modestly lower throughout the second half of 2024. Importantly, even if rates remain elevated, current yields still offer compelling income.
- As the threats of higher inflation and interest rates wane, we think it makes sense to move closer to a neutral duration. If central banks start cutting rates more aggressively than we expect, investors may want to consider moving to a longer duration position, but we don't think that is likely near-term. Attractive yields and opportunities for additional total return as longer-term rates decline also mean that investors holding excess cash would do well to consider reallocating to fixed income.
- One important caveat to our view: We think it makes sense to adopt a longer-duration stance in municipals. The muni bond yield curve is significantly steeper than the U.S. Treasury curve, which provides the potential for current income as well as total returns when and if rates do decline.
- We have been advocating a focus on flexibility and diversification across credit sectors, as we see solid opportunities across global fixed income markets. Within that context, we are less positive toward investment grade bonds given recent strong performance and tight spreads. In contrast, we favor the relatively higher quality areas of senior loans and collateralized loan obligations, which feature strong fundamentals and should continue to benefit from the higher-for-longer theme. We also like preferred securities that benefit from a solid issuer base and emerging markets debt investments that feature improving credit quality.
- Municipal bonds feature strong fundamentals (solid credit ratings and high levels of cash) and attractive supply/demand dynamics. We see significant opportunities in taxable municipals for non-U.S. investors, and we are focused on the high yield and specialty- and property-tax-backed areas of the muni market.

- We also remain constructive toward private credit markets, especially if we only experience a mild slowdown or shallow recession.

BEST IDEAS: *Our highest conviction themes center around a flexible and diversified multi-sector approach, with a focus on finding attractive yields rather than looking for spread compression. For municipal bonds, we particularly favor the high yield area, which offers compelling yields and appears attractively valued.*

REAL ESTATE

Carly Tripp

Investment positioning

- We continue to see positive signals increase for private real estate. The stiff technical headwinds that have been holding the asset class back for an extended period are fading. Most global rate increases are in the rearview mirror, and rate cuts are on the horizon – 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, overall liquidity is improving and, in general, most investors are no longer overweight private real estate.
- The U.S. office sector will likely remain challenged given high vacancy rates, but we see broad opportunities across residential, industrial and alternative real estate. Areas like medical office and senior housing look compelling, as they should benefit from long-term demographic trends.
- A more stable rate environment (and prospects for cuts), as well as strong pricing power on the part of lenders, continues to support overweighting private real estate debt over equity; we would consider private real estate equity as a “hold” position.

BEST IDEAS: *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

Investment positioning

- Public infrastructure investments appear especially compelling, as they benefit from still-elevated inflation and have minimal sensitivity to interest rates. Additionally, the essential-service nature of these companies means they should be able to weather slowing growth. Our most favored areas include data centers (capitalizing on the AI boom), North American utilities (compelling value with highly visible growth) and energy (strong balance sheets and solid earnings prospects). In contrast, we see some risks in European utilities that could be hurt by potentially lower power prices.
- We also have a favorable view toward public real estate. Valuations, fundamentals and earnings prospects all look fair to positive, and we expect real estate will benefit when interest rates start to decline. We are seeing particular value in health care (specifically senior housing and medical office), data centers and select convenience retail and grocery-centered shopping complexes that should be able to withstand slower economic growth.
- We also see opportunities across private real assets. Within infrastructure, we are focused on capitalizing on two key trends: ongoing digitization, particularly the rapid growth of AI-driven data centers, and clean energy transition, with a focus on electrification. 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 also remain positive toward farmland as a long-term investment. Farmland tends to be relatively well insulated from both macroeconomic factors and geopolitical risks, which can create diversification benefits. While row crop margins and profits have been declining, they remain above their historic average, and land values continue to increase.

BEST IDEAS: *In public markets, our best ideas center around capitalizing on the growth of AI (data centers) and non-U.S. industrial real estate (modern logistics infrastructure is undersupplied). 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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