

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Real estate beckons as rate hopes waver

Bottom line up top

Rate expectations slip as the Fed keeps a tight grip. Global equity markets extended their weekly winning streak to four, despite last Wednesday's U.S. Federal Reserve meeting that conveyed a more hawkish tone than investors expected or hoped. Even Friday's blowout nonfarm payrolls report for January, which would normally be a case of "good news for the economy is bad news for the market" because it signals higher-for-longer monetary policy, did little to impede equity market gains. Positive earnings results from several notable mega-cap tech companies helped fuel the week's rally. Bond markets, in contrast, suffered losses, with yields climbing on hotter-than-expected wage growth and fears of another U.S. regional bank mini-crisis. Fed Chair Jerome Powell's post-meeting comments cast significant doubt about a potential rate cut in March, as well as the overall number of rate cuts expected in 2024 (Figure 1). While markets still anticipate a dovish path for monetary policy this year, we think last week marked the first of several hawkish resets of monetary policy expectations. Inflation, though moderating, remains above the Fed's 2% target, and global economies (especially the U.S.) continue to prove resilient in the face of the higher-for-longer interest rate paradigm.

Are equities earning their premiums? Approaching the midway point of the fourth quarter earnings season, the blended earnings growth rate for S&P 500 companies sits just above 1.6% — well short of the high-single-digit pace forecasted by analysts in early October. The combination of lackluster earnings and previous equity market appreciation has made U.S. stocks expensive. Even with last week's modest pullback, the index is trading at a 10%-15% valuation premium relative to its 10-year average on a 12-month forward price/earnings (P/E) basis. With that in mind, we believe investors should remain vigilant with their portfolio allocations, investing incremental dollars into asset classes that stand to benefit from interest rate stability (even at elevated levels) and a more measured pace of rate cuts.



Saira Malik, CFA
Chief Investment Officer

On behalf of Nuveen's Global Investment Committee

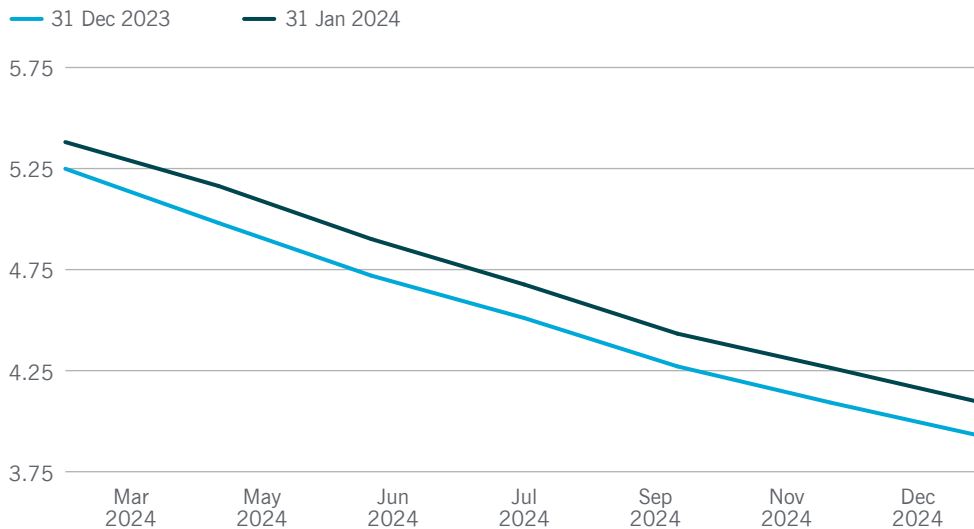
As Nuveen's CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she chairs Nuveen's Equities Investment Council and is a portfolio manager for several key investment strategies.

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FIGURE 1: MARKET EXPECTATIONS CALL FOR QUICKER FED RATE CUTS

Futures implied Fed funds rate (%)



Data sources: Bloomberg L.P., 31 Jan 2024.

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Portfolio considerations

Aggressive central bank rate-hiking policies have taken a toll on private real estate markets since late 2022. Driven by higher interest rates, real estate transaction volumes tumbled 48% in 2023 relative to 2022, and returns were negative in each of the past five quarters — resulting in a double-digit drawdown (-16.39%) over the full period (Figure 2). Negative headlines, particularly regarding office properties, have underscored poor sentiment for the broader asset class.

Real estate is languishing at the same time equity markets are hovering near all-time highs. However, there's plenty of dry powder on hand, and we expect transaction activity to pick up, as most central banks have reached their peak policy rates for this cycle and will likely pivot to rate cuts this year. This backdrop makes real estate's predictable, contractual cash flows an attractive source of diversified income for investors, potentially rekindling their appetite for the asset class and helping it recover over the coming quarters. We see opportunities in retail, housing and private real estate.

We believe that global retail is poised for outperformance in 2024. Within the U.S., grocery-anchored and necessity-based retail are seeing all-time low vacancies, and retailer expansions that have followed customers to suburban locales have been a plus for landlords. European grocery-anchored and convenience retail assets outside of urban cores are supported by healthy fundamentals and offer attractive investment opportunities. In Asia-Pacific markets, strong demand for retail is flowing through from tourism, while domestic consumption has benefited from a strong labor market. Necessity retail may provide downside protection in the face of a more fragile global economy in 2024, as consumers continue to require essential goods and services, trade down to lower-priced brands and stay local due to hybrid work arrangements.

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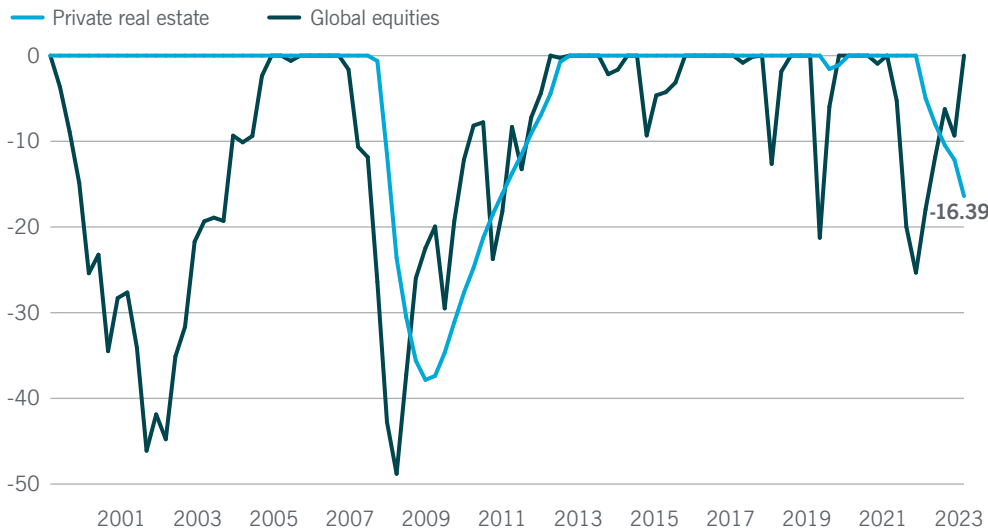
Across the globe, housing demand outweighs supply, resulting in sticker shock that prices out would-be homebuyers. The availability of affordable housing is an urgent need requiring solutions from strong private/public partnerships. For investors, this segment produces consistent income due to high occupancy rates and the safety of government-backed incentives. In the U.S., affordable housing has tended to outperform during economic downturns, making it an appropriate choice as growth decelerates.

Lastly, private real estate as an asset class offers competitive yields relative to core fixed income, as well as historically negative correlations to stocks and bonds — making it a meaningful diversifying allocation within a portfolio.

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FIGURE 2: PRIVATE REAL ESTATE HAS EXPERIENCED FEWER AND LESS SEVERE DRAWDOWNS THAN EQUITIES

Private real estate vs. global equities max drawdowns (%)



Data sources: Nuveen, 29 Dec 2023. Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: private real estate: NCREIF ODCE Total Return Index; global equities: MSCI ACWI Total Return Index.

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Regular 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](https://www.nuveen.com).

Endnotes

Sources

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

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