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Global Investment Committee Outlook

2019 MIDYEAR UPDATE

Expect a tougher climb

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With trade and other geopolitical issues heating up, economic growth looking more uncertain and market volatility rising, it is indeed becoming a tougher climb for investors. And while we are turning more defensive in our investment approach, we still see opportunities for our clients.

Time for more defense

Jose Minaya
President and Chief Investment Officer

Nuveen's investment theme in 2019 has been *Expect a tougher climb*. A straightforward declaration, but one with nuance and range: For the first half of the year, the emphasis was still on "climb." Recently, however, the "tougher" part has been getting the upper hand. That was certainly the case at the midyear meeting of Nuveen's Global Investment Committee, where we debated what's been happening in the markets, where we might be headed and, of course, what it all means for our clients' portfolios. As you'll see in this outlook, we don't think we're at the end of the current economic cycle, but we do think it makes sense for most investors to look for more defensive positioning while staying invested — and to rely on the benefits of a flexible and nimble, active management approach.

2019 has, so far, been a year of confusion and contradiction. We've all been intensely focused on issues such as the escalating global trade war, but up until relatively recently, markets have largely shrugged off these threats. And we're seeing broader political uncertainty in the form of growing populism (i.e., nationalism) that weighs on investors' minds even if it hasn't yet affected long-term values. At the same time, central bank policy (especially in the U.S.) took a sharp turn from hawkish to dovish without much really changing from a fundamental perspective.

This sort of confusion is exactly why we established the Nuveen Global Investment Committee. Increasingly, our conversations with our clients are much more about holistic portfolio construction and less about specific products we manage. We're talking to them about issues such as how to generate additional yield, how to better incorporate responsible investing practices into their portfolios, how to shift to a more defensive position without abandoning long-term goals, and how different asset classes and different investment types can work together to meet those goals.

So where did we land after these discussions? The headline: We think the second half of the year will be tougher than the first. At the start of the year, we pointed to a trade war escalation as the downside scenario. And now we need to acknowledge that this has come to pass. In addition, we're focusing on the possibility of a weaker economic environment over the coming months. And we don't think we have seen the end of downside corporate earnings revisions.

But we're not suggesting getting out of the markets. Far from it. All of our asset class leaders and portfolio managers remain committed to finding opportunities in their respective markets at all times — that's our job, after all. But we're also working to more actively mitigate possible downside by focusing on quality defensive growth stocks, identifying more resilient yield opportunities in fixed income and finding yield and diversification benefits throughout real assets, real estate and other alternatives.

And all members of the GIC agree now is a time to focus on selectivity, a theme that runs across all of the asset classes we manage. That means diligent research, focused risk management and careful portfolio construction. The good news is that this environment also plays into the benefits of Nuveen's broad, diverse and deep investment platform and our overall portfolio approach on behalf of our clients.

Is this still a tougher climb, or have we peaked?

Brian Nick
Chief Investment Strategist

- We see a few solid footholds for the global economy over the next six to 18 months.
- Income is likely to make up a larger percentage of total returns moving forward.
- We are growing cautious toward many global financial markets, but remember: Being defensively invested is not the same as being uninvested.

We expected 2019 to be a tougher climb for investors. That message seemed needlessly cautious in the first quarter, but reads more like an understatement for portions of the second quarter.

Earlier this month, I was enjoying a coffee in Edinburgh with several members of Nuveen's Global Investment Committee as we discussed the global economy and markets. If not for Scotland's characteristically overcast weather, we would literally have been sitting in the shadow of the statue of Adam Smith on the Royal Mile. Smith was famous for coining the term "invisible hand" to characterize the ability of free markets to generate efficient outcomes.

What would Smith think of the very visible hands that have intervened in global trade over the past 18 months? How much, if at all, will tariffs and the politics that triggered them affect the global economy and investors' returns over the balance of this year and into 2020? A tougher climb now seems baked in, but are we even still climbing?

Slower global growth…again

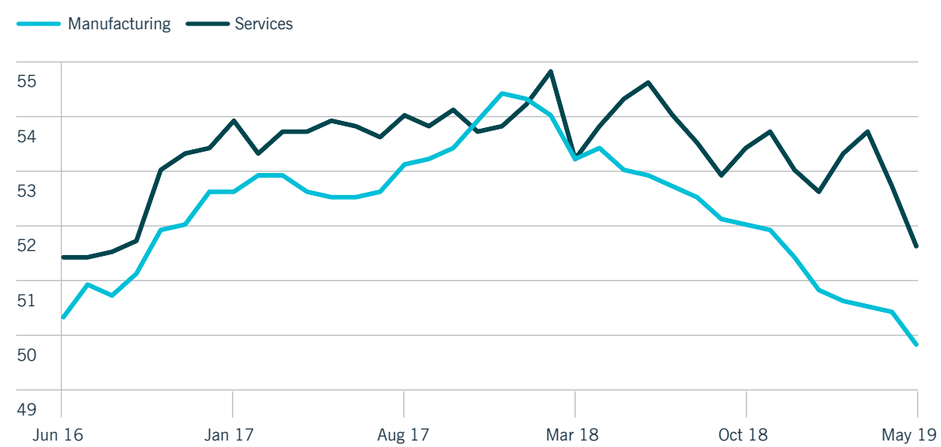
We expected most major economies to grow at a slower pace this year compared to last, but the abrupt nature of the deceleration caught us by surprise. Global business survey results plunged at the end of 2018 and seemed likely to bounce back this year. Most did, but the recovery generally hasn't lasted: Both global manufacturing and services sector businesses report weaker conditions today than at any time in the past three years (Figure 1). The boom in business investment in the U.S. has given way to more cautious deployment of capital as the benefits of tax reform fade and the effects of the trade war kick in.

Trade Wars: Episode II

Trade was by far the dominant policy issue for markets in the second quarter. An unexpected breakdown of talks between the U.S. and China was quickly followed by yet another layer of bilateral trade restrictions between the two economic behemoths. While we do not believe these new shots in the trade war will mortally wound the global expansion, we expect somewhat slower economic growth in both the U.S. and China than if even a small deal had been struck. Even before the May-June ramp-up in tariffs, China and the U.S. experienced weaker annual growth in imports and exports, both with one another and overall (Figure 2). Such deceleration is not necessarily the product of the trade war in isolation, as trade tends to shrink as a percent of global GDP when overall growth is weaker. But restriction is undoubtedly playing some part in disentangling the world's two largest economies. While the short-term implications are manageable, we have very few recent examples of what happens when globalization goes into reverse, even temporarily.

Figure 1 – Manufacturing and services are the weakest in three years

Global purchasing managers index (readings more than 50 indicate expansion)



Data source: Bloomberg, L.P., Markit, 1 Jun 2016 to 31 May 2019.

Figure 2 – The U.S. and China have seen little trade growth

Data source: Bloomberg, L.P., U.S. Census Bureau, China Customs General Administration, 01 Jan 1999 to 30 Apr 2019.

Policymakers to the rescue?

Slow global growth is not new to anyone who has been paying attention for the past 10 years. Policymakers have typically responded by lighting a fire under the economy: lower interest rates, lower reserve requirements for banks and greater liquidity through quantitative easing and other unconventional programs.

The trouble is, to one degree or another, major central banks face constraints to maintaining or reintroducing easy monetary policies. The U.S. Federal Reserve (Fed) risks its credibility lest it be seen as too responsive to markets and political pressure. The European Central Bank will welcome a new president later this year, making it hard for the current regime to use forward guidance to communicate its policy intentions. The Bank of England may have its hands full with the outcome of Brexit, depending on how messy things get in October. And China risks inviting a run on its currency, depending on which of the many available avenues for easing it chooses.

In short, while policymakers are unlikely to run out of ideas or ammunition to combat slower global growth, they may find themselves low on credibility, which threatens to substantially reduce their efficacy.

We expect trade wars and tariffs will negatively impact growth, but won't cause a recession.

And now the good news

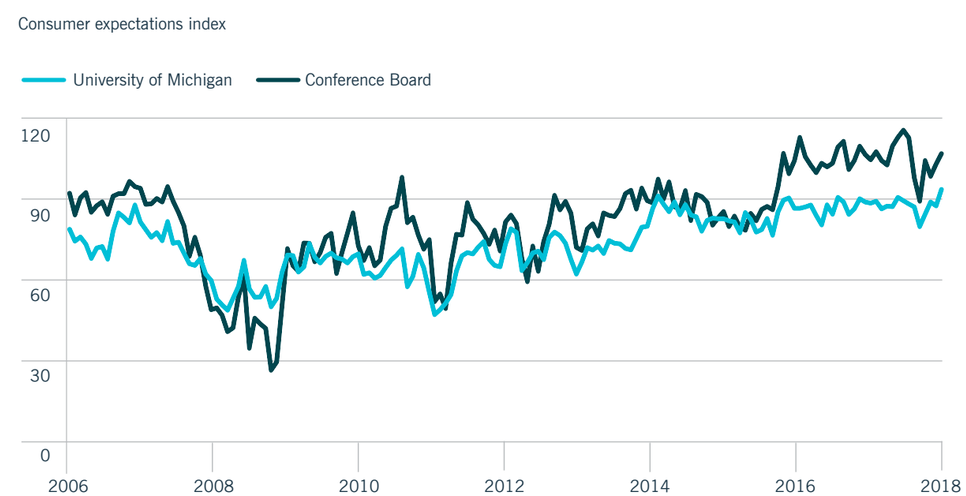
Descending from a summit can be just as treacherous as climbing up, but luckily we see a few solid footholds for the global economy over the next six to 18 months: Global consumers remain an important bright spot. Unemployment rates in most major economies are still quite low, and real wage growth has accelerated thanks to the lower supply of available workers and decreasing rates of inflation. In the U.S., both major monthly surveys of consumer confidence show continued optimism about the individual and collective economic outlooks (Figure 3). A broader mix of leading economic indicators remains pointed in a positive direction, even if the partially inverted U.S. Treasury curve is sending recession-predictor models into a tizzy.

We also do not discount China's political will to support growth while encouraging broader economic reforms. Policymakers have room to implement further stimulus — easing regulation, cutting taxes — in ways that do not cause global financial markets to panic like currency depreciation might. The recent drop in factory output implies that a combination of lower interest rates and more fiscal stimulus may be on its way, based on China's past behavior.

Finally, liberalizing economic reforms like those being attempted in Brazil, Spain and India — as well as the residual impact of the tax code changes in the U.S. — continue to light the way for global growth. Of course, some major economies appear to be heading in a less liberal direction, so much so that we are devoting our next section to this trend.

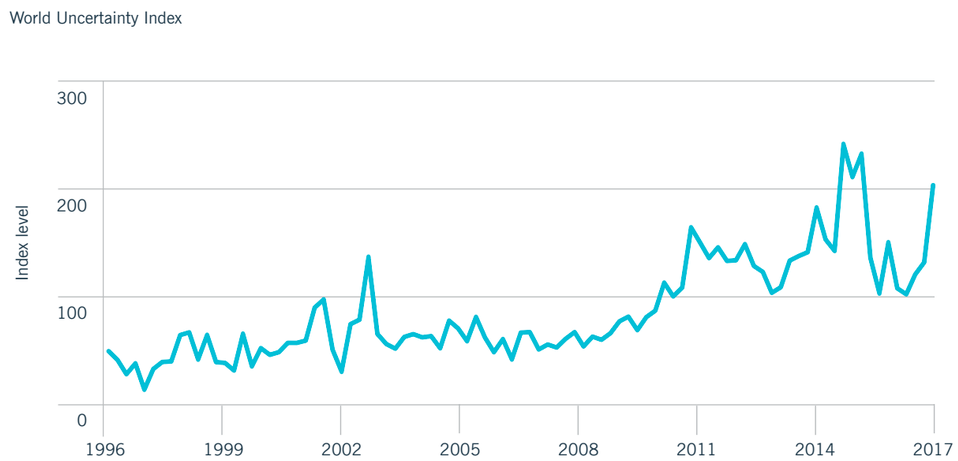
We think this is a good time for investors to adopt more defensive positions and seek out diversified sources of income.

Figure 3 – U.S. consumers remain upbeat



Data source: Bloomberg, L.P., University of Michigan, Conference Board, 01 Jan 2006 to 31 May 2019.

Figure 4 – Global uncertainty is back on the rise



Data source: Bloomberg, L.P., Ahir, Bloom and Furceri, *The World Uncertainty Index*, 31 Mar 1996 to 31 Mar 2019.

Global populism and its investing implications

With Nuveen's GIC holding its midyear meeting in the U.K., it was difficult to escape the topic of Brexit and the recent European parliamentary elections. European politics are fractured, and established political parties and politicians are losing ground to…well…something else. Just what to call that "something else" is hard to figure. Recent election results and opinion polls in developed and emerging markets countries alike seem to confirm the rise of some measure of economic populism. What, if anything, does this mean for investors and investment managers?

We draw a clear connection between economic populism and economic and market uncertainty. The elections of unconventional candidates or previously nonmainstream political parties often bring promises of sweeping changes to the status quo: institutions, personnel and attitudes toward markets.

The World Uncertainty Index by Ahir, Bloom and Furceri, uses data from the Economist Intelligence Unit to create a country-by-country measure of uncertainty that encompasses economic and political factors. The broad global index shows a clear, continuous rise in global uncertainty since just before the financial crisis, with a new spike in the first quarter of 2019 (Figure 4). The authors find that uncertainty today leads to higher volatility and lower output in the future. While lower output (i.e., growth) has certainly been a hallmark of the 2010s, higher volatility has not, nor have stagnant risk asset returns.

Why haven't rising economic and political uncertainty taken a more serious toll on markets? The answer: constraints. Even the most strident or charismatic politicians may find their honeymoons cut short by outside forces. Populist economic policies often entail temporary or permanent increases in budget deficits to promote stimulative (i.e., popular) economic policies. But these outcomes can be counteracted by an independent central bank, a rating agency or a community of international investors that moves its money to a more stable destination.

Before we worry about the implications of economic populism, we must first ask whether it can prevail as a practical governing philosophy. In many, though not all, cases (think of the Brexit frustrations or the Trump administration's difficulty appointing Federal Reserve Board Governors), the best grade we can give is an "incomplete." As such, we will surely return to this topic in future quarters.

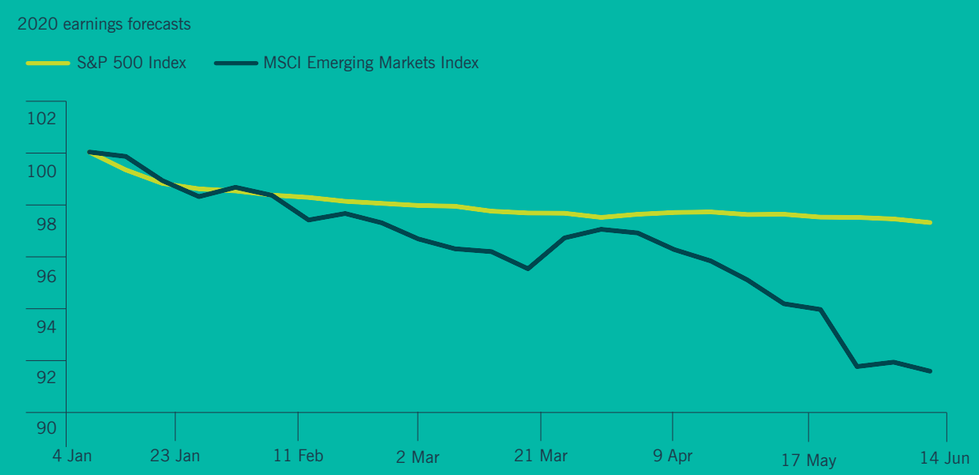
The right equipment for a downward climb

The world's economy is slowing down, whether due to higher tariffs, higher interest rates or higher vote totals for populist political parties. How should investors react over the balance of 2019 and into 2020? Nuveen's GIC proposes three clear themes for investors to keep in mind over the next several quarters:

- **Keep Fed expectations in check.** Markets currently believe the Fed will undertake a series of preemptive *and successful* interest rate cuts in the very near future. Both U.S. bond and stock markets rallied in early June, as economic data continued to disappoint to such an extent that investors saw the Fed's intervention as inevitable. But what happens if the Fed behaves more patiently than expected or if, heaven forbid, economic conditions improve and negate the need for such action? We don't think long periods of simultaneous rallies in stocks and bonds are sustainable. If the Fed disappoints in the next six months, we could see periods of rising interest rates and choppy or falling stock markets.
- **Focus on the trade war's real world impact.** Tariffs impact companies before consumers. Consensus 2020 earnings estimates for the S&P 500 and MSCI Emerging Markets Indexes have both fallen this year, but they've fallen by more in emerging markets (Figure 5). Analysts are not, to our mind, accounting for the impact that higher taxes and higher wages will have on U.S. profit margins over the next several quarters. Despite the more resilient earnings outlook in the U.S. compared to other markets, U.S. stocks have grown more expensive both in absolute P/E terms and against their emerging markets peers. Tariffs are more toxic for companies' bottom lines than for the economy as a whole. Investors would be well advised to consider that fact before rushing to buy every tariff-related dip.
- **Be prepared for the base case *and* the worst case.** Nearly every Nuveen GIC member used the word "defensive" to describe their portfolio management strategies. But being defensively invested is not the same as being uninvested. With income (interest or dividend payments) likely to be a larger percentage of total returns moving forward, investors should continue to diversify the sources of that income: corporate bonds, dividend-paying stocks and real assets have outperformed when the economy is stable but markets are jittery, as we expect them to be.

In the following sections of our outlook, you'll see specific asset class views and a discussion of risks from each member of Nuveen's GIC. As you'll see, we generally are approaching markets more defensively. And in the wrap-up, Nuveen's Solutions team pulls together all of our views and offers practical advice on applying them to portfolio construction. The bottom line is that we think investors will continue to experience a tougher climb, but it remains a climb all the same.

Figure 5 – U.S. companies' earnings expectations are holding up better than emerging markets'



Data source: Bloomberg, L.P., 04 Jan 2019 to 14 Jun 2019. 04 Jan 2019 = 100. **Past performance is no guarantee of future results.** Investors cannot invest in an index.

Asset class views

EQUITIES

Solid backdrop, but expect more volatility

Saira Malik

- The macro backdrop still looks reasonable for stocks. In the U.S., low unemployment, strong consumer sentiment and higher productivity should allow the economy to absorb the impact from higher tariffs. Globally, we think valuations look decent and don't believe we're heading for either an economic or earnings recession. But market volatility will likely continue to remain elevated until the trade situation becomes clearer.
- The concern is that downside risks appear to be growing — especially when it comes to the effects of tariffs on corporate and consumer demand. We are also concerned about weakening corporate earnings expectations. And should recession risks grow, equities as a whole would, of course, come under more pressure. The good news is that the Fed has signaled a willingness to cut interest rates if economic or financial conditions deteriorate.
- To some extent, this backdrop suggests that investors may want to consider more defensive positioning in equity markets. But traditional defensive areas look too expensive to us. Instead, we think a sort of "barbell" approach might make the most sense.
- About that barbell: We think some traditionally higher-risk areas of the market look like good opportunities, especially when it comes to emerging markets. This area of the global market is more attractive than it was six months ago and would benefit from a more dovish Fed. India looks especially attractive, as it should benefit from economic reforms. At the same time, we suggest a focus on reasonably priced, quality defensive growth areas such as health care services companies or those companies that can dominate their markets and establish pricing advantages. And a consistent theme for us is investments in companies that are truly focused on responsible environmental, social and governance factors that can add to their competitive advantages.
- On the private equity side, private markets have stabilized after the extreme market volatility in the public markets during the fourth quarter of 2018. Credit quality remains solid, with low historical default rates and generally good revenue growth in private equity owned businesses.

BEST IDEAS: *Emerging markets would likely benefit if the Fed remains dovish, since the dollar would likely weaken. We're looking at opportunities via reasonably priced, quality defensive growth areas such as health care. We also like income-producing assets with low correlation to the global equity market, such as U.S. consumer staples.*

FIXED INCOME

Yields and credit spreads are likely to remain volatile

Bill Martin

- Although the Fed has recently signaled a more dovish approach to monetary policy, we expect U.S. Treasury yields to remain largely range-bound. Economic growth is likely to remain moderate (despite fears over yield-curve inversions). But trade war rhetoric and complicated Brexit negotiations will likely mean that global interest rates and credit markets will experience continued volatility in the near term.
- Overall, we are biased toward what we would call "late-cycle, defensive positioning," while still looking for select opportunities to add yield to portfolios.
- The high yield sector performed quite well during the overall risk-on rebound in early 2019, and we continue to see opportunities in the asset class for longer-term investors. Nonetheless, we think spreads in some sectors (especially in select energy, retail and health care) could remain under pressure. We think many areas of the U.S. credit markets look stretched, leading us to favor increased diversification to non-U.S. investments, especially in emerging markets debt. Within the U.S., we also continue to like preferred securities and asset-backed areas of the market, particularly around themes supported by still-resilient household balance sheets.
- Private credit markets remain supported by healthy revenue growth, but middle-market high yield issuance is down significantly. We continue to see strong competition for deals across traditional private investment grade debt transactions with strong relative value and solid covenants; although broadly syndicated deals have been significantly over-subscribed and spreads are compressed.
- So what are some of the key risks on our minds? If the Fed doesn't match market expectations for rate cuts against stable employment and inflation data, credit sectors could underperform against a more hawkish outlook. Additionally, emerging markets could come under renewed pressure if trade rhetoric intensifies and the dollar strengthens.

BEST IDEAS: *Diversified income from flexible multi-sector strategies look well positioned to capitalize on near-term volatility. We have a particular focus on asset-backed securities and emerging markets debt, mainly in economies more insulated from tariff impacts.*

MUNICIPALS

Municipal technical imbalance could boost performance

John Miller

- The municipal market has shown solid performance so far in 2019, and we expect that trend to continue. The municipal-to-U.S. Treasury yield ratios have declined so far this year, and while municipal credit spreads have widened, that has been mainly due to new entrants into the municipal marketplace rather than rising default risks. Overall municipal credit quality also remains sound. Defaults remain low while credit upgrades are consistently exceeding downgrades, with numerous upside surprises to state-level revenue collections versus budget in the first quarter of 2019, including California, New York, Connecticut and Illinois.
- Even beyond these fundamental factors, municipal bonds look attractive from a technical perspective: Demand is strong and supply is tight. Municipal fund flows have remained strong so far in 2019, especially as investors have become more comfortable with longer-duration investments. New issue supply has been short of expectations, failing to keep pace with coupon payments, bond calls and maturing bonds. We expect this trend to continue and increase over the summer months. We also expect net negative new issuance for the year, which should further benefit municipals from a technical perspective.
- So what could go wrong? The biggest risks we see for municipals are the possibility of a more hawkish stance from the Fed and/or a rise in inflation. Either or both of these scenarios could cause municipal bonds to falter. Additionally, investors always need to be on the lookout for possible credit events (which is why we think an intense focus on credit research remains warranted). And finally, there is some concern that segments of the municipal market may be overvalued, but we think ample opportunities remain available, especially for those investors who can benefit from the after-tax advantages of municipals.

BEST IDEAS: *Longer-term municipals have outperformed this year, a trend we expect will continue. We also think high yield municipals look attractive. This area of the market may benefit from still-wide spreads and sector-specific factors such as opportunities in land-secured bonds, which look particularly appealing as active first-time buyers keep inventories low.*

REAL ASSETS

Late-cycle strategy focuses on defensive asset classes and finding value

Justin Ourso | Jay Rosenberg

- Heightened geopolitical risk has been the critical theme since March. Escalation in the U.S./China trade war, further upheaval in Venezuela and heightened tensions between U.S. and Iran are contributing to greater levels of uncertainty and volatility across public and private real assets. In the private space, U.S. row crop returns remain under pressure due to continued weak commodity pricing and tariff-related headwinds. U.S. timberland returns continue to lag, but growth in emerging markets is a bright spot. In public markets, areas less tied to economic activity across asset classes have been doing well, and we think that trend should persist. Overall, we have been focusing on defensive positioning and select value opportunities across public and private markets.
- In private markets, major agricultural commodities including wheat, soybeans and sugar continue to be pressured by plentiful supply driven by favorable growing conditions. While it varies by market, row crop farmland values across the U.S. remain weak. Soybeans have been pressured by the U.S./China trade war, and would stand to benefit on any resolution. Demand for wine from top-tier regions and land appreciation driven by Silicon Valley entrepreneurs has contributed to the continued strong performance for viticulture assets. The agribusiness sector continues to be underinvested, but should benefit from long-term consumer trends toward healthier eating and demand for healthy proteins.
- While U.S. returns continue to lag, timberland investments in emerging markets (or in regions that serve them) represent good opportunities. Increasing per capita income in middle-income countries will increasingly spur demand for wood products. As global markets grow more competitive, we continue to focus on low-cost pulp-producing regions such as Brazil and Uruguay.
- In public real assets, we're seeing good opportunities in defensive sectors, such as listed infrastructure, utilities and REITs. These areas are regaining favor following a period of underperformance as investors pursued more cyclical exposures. A more dovish interest-rate environment would further support these areas of the market. Within public real estate, fundamental demand for residential, office and industrial space remains strong, while the shift away from physical retail space continues, resulting in lower pricing power. Niche sectors with less cyclicality and consolidation opportunities such health care, waste and student housing all look like good options.
- In commodity markets, energy investments have benefited from heightened geopolitical risk experienced during 2019, but supply-side risks outside North America, particularly in Venezuela, Iran and Libya, have increased since 2018. Overall, commodities stand to benefit from an expanding global economy, but in the event of a slowdown in financial markets, we think they may provide better relative performance compared to traditional asset classes.
- Regarding risks to our outlook, a resurgence in economic growth could lead to higher rates, and would likely create a move away from certain real asset sectors, as real assets can be more vulnerable to interest rate spikes than broad markets. Surprise disinflation and broad U.S. dollar strength could also provide headwinds to commodities and international investments.

BEST IDEAS: *We think investments in the agriculture sector in the U.S. and globally appear well positioned and represent an attractive defensive investment. Alternative commodity markets using proprietary, trend-following strategies have possible advantages of capitalizing on pricing inefficiencies. In public markets, we favor U.S. waste investments given their strong fundamentals, defensive nature and outlook for growth, and also like Australian real assets as a defensive investment poised to benefit from a monetary policy tailwind.*

REAL ESTATE

Opportunity exists amid a more defensive stance

Mike Sales

- It is widely assumed that the real estate sector is in the later stages of the economic cycle. However, allocations to property sectors continue to grow, aided by continued geopolitical and financial market uncertainty. Amid such a backdrop, investors turn to real estate due to its overall stability, the strength of the income it produces, its diversification attributes and the ability to unlock and enhance value through active management.
- Buoyed by accommodative monetary policy, we expect slowing economic growth rather than a recession. This may transcend into cooling real estate valuations due to late-cycle dynamics, but importantly, the two main historic drivers of corrections in property valuations — over-supply and excessive debt — do not appear present as risks. So in a world starved of yield, we think income potential from real estate should remain an attractive prospect.
- That said, at this stage of an elongated cycle, we think it makes sense to focus on more defensive areas of the market. The retail sector faces structural challenges, but by embracing change and delivering quality, we think investors can still find good long-term opportunities. Commercial real estate debt also presents attractive risk-adjusted opportunities.
- Elsewhere, we continue to believe in the broad themes of sustainability, technological innovation and specific cities poised to benefit from evolving demographic and economic trends.
- We are also looking to capitalize on the evolving requirements of real estate tenants, such as the expansion of flexible working practices that are causing both disruption and opportunity.

BEST IDEAS: *We favor investing in a wide range of "global cities" that offer scale, growth, sustainability and resilience. In particular, we favor opportunities across all forms of housing driven by the long-term demand/supply dynamics of the sector, as well as investments in real estate debt.*

RESPONSIBLE INVESTING

Competitive advantages exist for both investors and issuers

Amy O'Brien

- Investor interest and global growth of professionally managed responsible assets continues to rise, with industry-wide investments focusing on environmental, social and governance (ESG) practices reaching $30.7 trillion by the start of 2018, a 34% increase since 2016. We have also seen strong growth in impact investing, which seeks to generate both a financial return and positive, measurable social and environmental impact, with assets under management now estimated at $500 billion across asset classes, according to the Global Sustainable Investment Alliance.
- ESG integration is about much more than aligning investments with values. In our view, ESG investing allows for a differentiated focus on producing investment returns. For example, we think investments in utility companies deploying strategies that reflect physical and transition climate risk factors have greater performance potential, and companies that have high-quality boards are better able to ensure long-term shareholder value creation for investors. And in the bond market, credit rating agencies continue to increase their ESG focus with Moody's, S&P and Fitch deploying new ESG-scoring methodologies.
- Scrutinizing ESG trends and generating actionable insights at the portfolio level requires focused and thoughtful research. And it should cover more than the specific companies, regions and countries that comprise specific investments. In our activities, for example, we also apply a broader stakeholder lens across companies' global operations. For example, as globalization continues, companies and consumers are increasingly focusing on the ESG components of global supply chains, including an emphasis on maintaining high standards of fairness, safety and inclusiveness in the workplace.
- Dedicated RI capabilities will remain a critically important component of portfolio positioning for the most successful investment managers.

BEST IDEAS: *We see opportunities in investing in sustainable food systems, highlighted by recent IPOs and sales in the plant-based "meat" industry. We also see good possibilities in climate resilience investments focused on physical assets such as real estate that are positioned to proactively manage climate risk.*

Portfolio construction views from the Nuveen Solutions team

Nuveen Solutions draws upon the Nuveen Global Investment Committee's investment outlook and asset class views to assess risk-adjusted return potential across asset classes for the next 6 to 12 months. These forward-looking views help drive positioning within diversified portfolios designed for common investor outcomes. Here, we discuss asset allocation views for a long-term growth investor and address how these views might shift for investors with different objectives or in different market environments.

Frank van Etten
Asset Allocation and Solutions

Asset allocation highlights for growth investors

Following are our broad views on growth investing for the next 6 to 12 months:

- **Favor a defensive stance within equities.** Higher-quality companies (those with higher return on equity and stable cash flow) should outperform in more volatile markets. We prefer U.S. large caps over developed non-U.S. markets and still prefer growth over value.
- **Look to higher quality in taxable fixed income.** Investment grade corporates look more attractive than high yield and loans. However, we believe municipal spreads have room to compress further, and we also have a favorable view toward high yield municipals.
- **Across sectors, stick with a neutral duration position.** We believe U.S. Treasury rates will remain range-bound, with a slight downside bias. Investors could consider shortening duration in taxable assets and lengthening in municipals.
- **Focus on debt over equity in emerging markets (EM).** While we see value in emerging markets equity over other global equity markets, we prefer EM debt over EM equities. EM equity benchmarks are more heavily weighted toward the Asia-Pacific region, which may continue to come under pressure caused by trade tensions. Hard currency EMD could benefit from trade conflicts.
- **Within alternatives, U.S. core real estate looks attractive for growth investors.** While real estate is perhaps fully valued, it still offers attractive income prospects. Manager selection remains critically important when it comes to alternatives, particularly in the latter stages of the economic cycle.

Asset allocation views for income investors

Here, we offer additional suggestions specific to investors focused on current income:

- **To increase portfolio yield, overweight emerging markets debt compared to high yield and loans.** EM debt enjoys better relative valuations, improving fundamentals and would benefit from U.S. dollar weakness.
- **Amid volatility, consider short-term fixed income.** Short-term fixed income looks attractive relative to longer-term Treasuries, given similar yield levels.
- **For higher tax-exempt yields, consider a focus on longer-dated municipals.** Although municipals have outperformed Treasuries so far in 2019, we think relative value still remains, especially at the longer end of the yield curve (including municipal high yield).
- **Harness the liquidity premium with private real estate.** Private real estate has the potential to offer stable cash flows with relatively low volatility. Such an investment could be paired with short-term bond allocations to provide needed liquidity.

Asset allocation views for different scenarios

The preceding are based on the views expressed in our midyear outlook. But what if we are wrong?

- **What if we experience a stronger "risk-on" environment?** In this scenario, cyclical sectors (U.S. small caps, U.S. large cap value) would be more likely to perform in-line with their defensive counterparts. We would also be less negative on U.S. credit and think longer-dated core plus fixed income sectors could outperform core strategies.
- **Conversely, what if we move toward a "risk-off" world?** For such a scenario, we would suggest increasing allocations to highly liquid, short-term fixed income investments (cash equivalents). Lower yields would make longer-dated Treasuries more attractive and we would expect high yield municipals to underperform. We would also suggest even more focus on defensive equity strategies, particularly those with healthy dividends.

Additional considerations:

- **Views for investors with ultra-long investment horizons who have little concern for intermediate liquidity:** Investors such as pension plans or insurance general accounts may want to increase their allocations to private equity relative to listed equity, and private credit relative to public credit. We also think investments in such asset classes as farmland make sense for these investors. We think the liquidity premium for such investments is worth the possible benefit of greater capital appreciation over time.

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 creation of published outlooks that offer 1) macro and asset class views where there is consensus among our investors 2) insights from thematic "deep dive" discussions by the GIC and guest experts (markets, risk, geopolitics, demographics, etc.) 3) guidance on how to turn our insights into action via commentary from Nuveen's Solutions, CIO and team.

For more information, please visit nuveen.com

Endnotes

Sources

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

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Glossary

S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure the performance of the broad domestic economy. **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

A word on risk

All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Equity investing involves risk. Foreign investments are also subject to political, currency and regulatory risks. These risks may be magnified in emerging markets. Diversification is a technique to help reduce risk. There is no guarantee that diversification will protect against a loss of income. Investing in municipal bonds involves risks such as interest rate risk, credit risk and market risk, including the possible loss of principal. The value of the portfolio will fluctuate based on the value of the underlying securities. There are special risks associated with investments in high yield bonds, hedging activities and the potential use of leverage. Portfolios that include lower rated municipal bonds, commonly referred to as "high yield" or "junk" bonds, which are considered to be speculative, the credit and investment risk is heightened for the portfolio. Credit ratings are subject to change. AAA, AA, A, and BBB are investment grade ratings; BB, B, CCC/CC/C and D are below-investment grade ratings. As an asset class, real assets are less developed, more illiquid, and less transparent compared to traditional asset classes. Investments will be subject to risks generally associated with the ownership of real estate-related assets and foreign investing, including changes in economic conditions, currency values, environmental risks, the cost of and ability to obtain insurance, and risks related to leasing of properties. Socially Responsible Investments are subject to Social Criteria Risk, namely the risk that because social criteria excludes securities of certain issuers for non-financial reasons, investors may forgo some market opportunities available to those that don't use these criteria. Investors should be aware that alternative investments including private equity and private debt are speculative, subject to substantial risks including the risks associated with limited liquidity, the use of leverage, short sales and concentrated investments and may involve complex tax structures and investment strategies. Alternative investments may be illiquid, there may be no liquid secondary market or ready purchasers for such securities, they may not be required to provide periodic pricing or valuation information to investors, there may be delays in distributing tax information to investors, they are not subject to the same regulatory requirements as other types of pooled investment vehicles, and they may be subject to high fees and expenses, which will reduce profits. Alternative investments are not suitable for all investors and should not constitute an entire investment program. Investors may lose all or substantially all of the capital invested. The historical returns achieved by alternative asset vehicles is not a prediction of future performance or a guarantee of future results, and there can be no assurance that comparable returns will be achieved by any strategy.

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