



TIAA Wealth Management

# Q2 2026 CHARTBOOK

From the Wealth Management Chief  
Investment Office: A guide to  
interpreting the economy & markets





# WEALTH CHIEF INVESTMENT OFFICE

The Wealth Chief Investment Office is dedicated to helping our clients achieve financial wellness through the delivery of insightful thought leadership, disciplined management of high quality, diversified portfolios tailored to each client's needs and objectives, and differentiated Wealth Planning services.



# CONTENTS

01   CIO Overview	04
02   Market Recap	05
03   Key Themes	09
04   Macro Overview	26
05   Equities	52
06   Fixed Income	67
07   Alternative Investments	75
08   2026 U.S. Midterm Elections	78
09   Portfolio Strategy	81
10   The Long-Term Perspective	102

# CIO Overview

After opening the year on solid footing, markets turned volatile in the first quarter of 2026, amid heightened geopolitical tensions following the onset of the U.S.-Israel/Iran war and shifting interest rate expectations. The S&P 500 declined 4.3% for the quarter—its weakest quarterly performance since Q1 2022. Despite the pullback, markets demonstrated resilience, supported by constructive economic fundamentals and continued investor interest in long-term innovation themes, including artificial intelligence (AI).

Economic data sent mixed signals. Consumer spending remained supported by higher-income households, while lower-income consumers continued to show strain, reinforcing the "K-shaped" nature of the U.S. economy. Labor markets cooled modestly but remained historically tight, and inflation continued to trend lower, though progress was uneven across categories.

The Federal Reserve (Fed) held policy rates steady at both the January and March Federal Open Market Committee (FOMC) meetings, while signaling increased openness to easing later in the year, contingent on further evidence that inflation is moving sustainably toward target. Ongoing conflict in the Middle East added uncertainty to that outlook, contributing to a reassessment of market expectations for rate cuts in 2026.

Within equities, an early-quarter rotation away from mega-cap technology—combined with surging energy prices—helped value stocks decisively outperform growth stocks. Tech stocks faced a challenging quarter as new AI capabilities raised questions about the future profitability of the software-as-a-service sector. Emerging market equities finished slightly negative, at -0.2%, outperforming developed markets, which declined 1.2%, despite heightened pressure from Middle East developments spilling into global markets.

After posting modest gains through February, bond markets came under pressure in March as the Iran conflict drove energy prices higher, stoking renewed inflation concerns and pushing Treasury yields upward across the curve. The Bloomberg U.S. Aggregate Bond Index finished the quarter roughly flat, as yield increases more than offset income generation. The 10-year Treasury yield ended March near 4.3%, up from approximately 4.1% at the start of the year. Fixed income continued to provide meaningful diversification benefits during a period of elevated equity volatility, even as rising yields challenged returns.

While headlines and policy uncertainty drove periodic turbulence, the broader market narrative continues to be shaped by three themes likely to influence markets as the year unfolds.

- Geopolitics remain the primary source of uncertainty
- Policy continues to function as an active market variable
- Innovation is broadening beyond early adopters into wider segments of the economy

As we move further into 2026, navigating potential policy and rate shifts calls for a balanced approach—staying disciplined and committed to a strategic long-term asset allocation, while maintaining the tactical agility to adapt quickly to evolving market and economic conditions.



April 15, 2026

**Niladri 'Neel' Mukherjee**

Chief Investment Officer, TIAA Wealth Management

# 02

## Market Recap

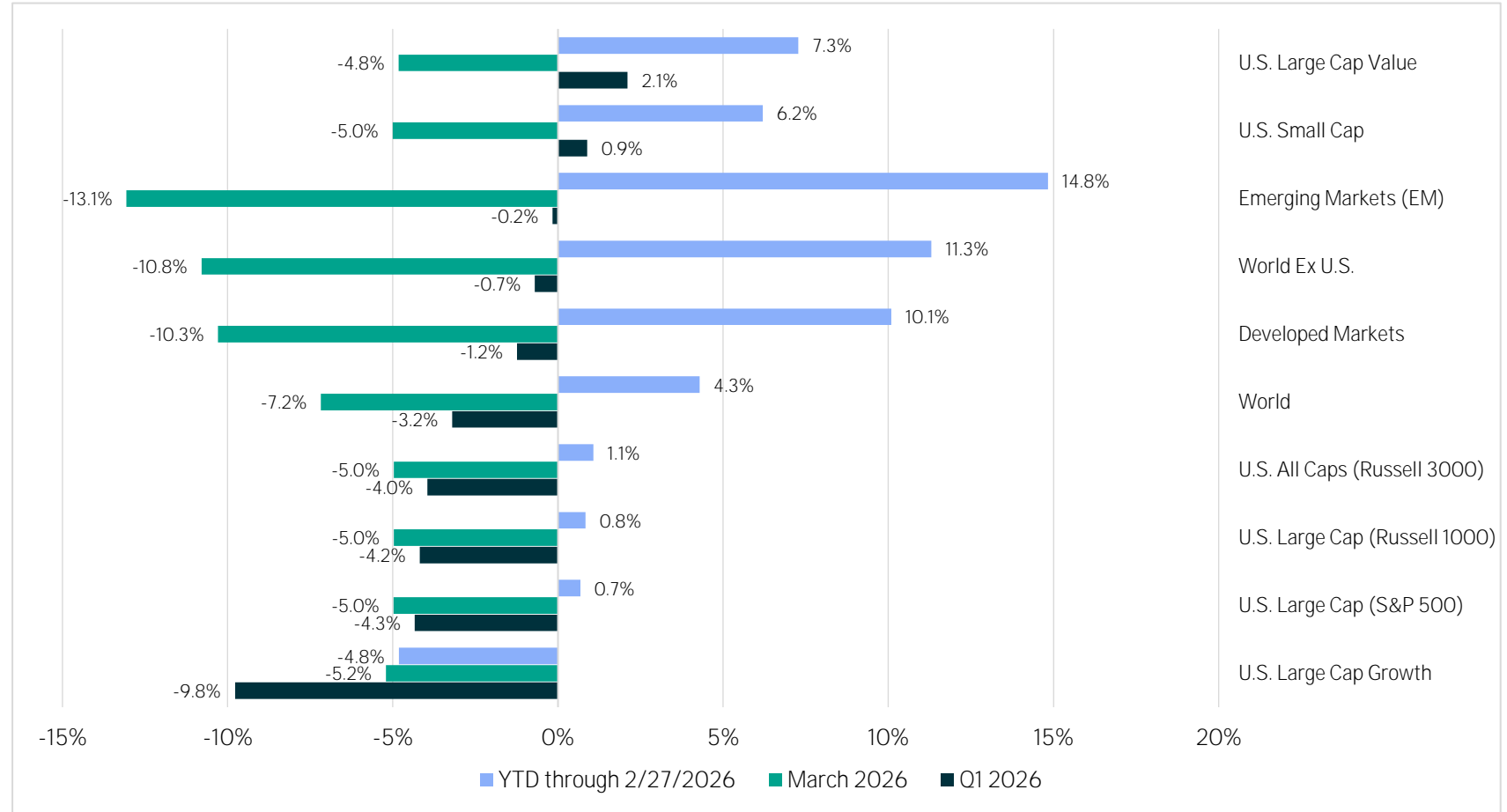
Q1 2026 was marked by pervasive uncertainty and bouts of volatility.



# Equities struggled in Q1 on geopolitical concerns<sup>1</sup>

- Prior to the onset of the war in late February 2026, the S&P 500 was up 0.7%, underperforming non-U.S. stocks (World ex U.S. ) by 1,000 basis points (bps).
- Pre-war (light blue bars), Q1 saw value outperform growth and small caps beat large caps as economic momentum broadened out beyond the Mag 7, which fell 8%; investor concern that AI would wipe out the software industry also weighed on stocks in January and February.
- From the start of the war in late February through the end of Q1 (light green), the S&P 500 fell 5%, non-U.S. stocks fell 11%, as Europe and Japan are more exposed to rising energy costs than the U.S. economy.
- During the month of March, value (led by the energy sector [+10%]) beat growth, while large caps and small caps were broadly similar, both down roughly 5%.
- For the quarter (dark green), only U.S. large cap value (+2%) and U.S. small caps (+1%) had a positive return.

War rattled equities in Q1; value stocks shined

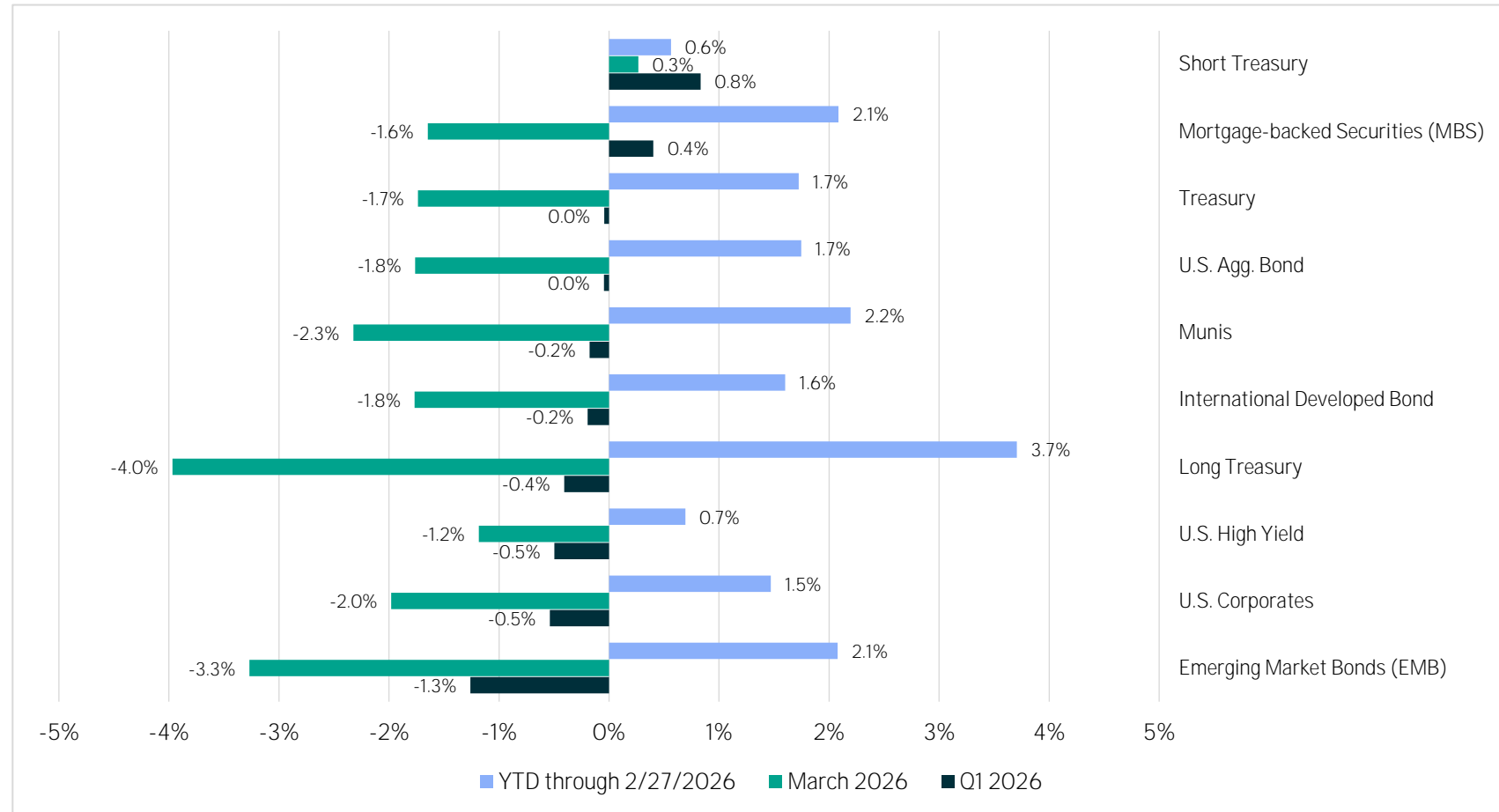


<sup>1</sup> Chart is sorted on most recent full quarter total return data. Source: Bloomberg, TIAA Wealth Chief Investment Office. Data through 3/31/2026.

# War's inflation shock upends fixed income market<sup>1</sup>

- In the first two months of Q1 2026 (light blue bar), fixed income markets built on their solid gains in 2025, bolstered by hopes of Fed rate cuts, with Treasuries benefitting from a slight flight to safety amid rising geopolitical tensions; stout corporate balance sheets aided the investment grade and high yield bond markets.
- However, once the conflict in Iran started in late February, the Treasury market viewed the sharp rise in energy prices as inflationary, and investors began to price in Fed rate hikes, not cuts, in 2026.
- Emerging market debt came under pressure from higher energy costs and fell 3% in March (light green bar).
- Meanwhile, rising recession fears (due to high energy prices) drove credit spreads wider.
- For the full quarter (dark green bar), MBS and short-term Treasuries (a proxy for cash) were the only winners, while emerging market debt gave back 1% of the 14% total return it made in 2025.

Stark difference between pre- and post-war returns

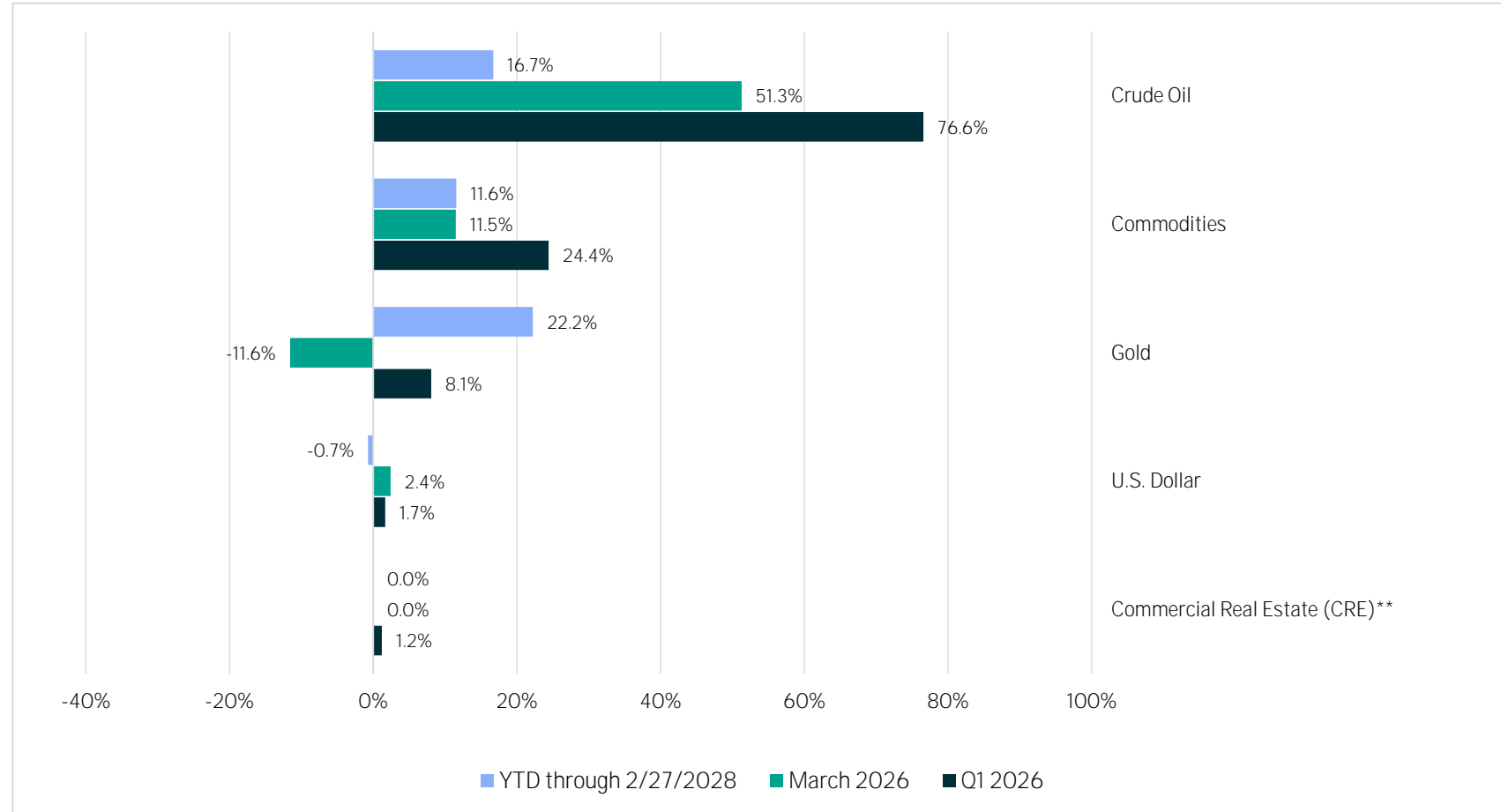


<sup>1</sup> Chart is sorted on most recent full quarter total return data. Source: Bloomberg, TIAA Wealth Chief Investment Office. Data through 3/31/2026.

# Oil surge dominates as war reshapes commodities<sup>1</sup>

- As tensions with Iran mounted in the first 2 months of the year (light blue bar), the price of West Texas intermediate crude oil climbed 17% to \$67 per barrel. Commodities outside of oil also rose in sympathy. Gold was the big winner in the pre-war months, and the U.S. dollar struggled.
- Oil prices surged another 51% in the month of March (light green bar), and the U.S. dollar rose 2% as investors flocked to the safety of the currency. Gold rose 22% from the beginning of the year to mid-March, but struggled in the second half of the month as investors pared back odds of a Fed rate cut in 2026.
- For the full quarter (dark green bar), oil was the big winner (+77%), followed by broad commodities (+24%), and then gold (+8%); the U.S. dollar managed a 2% gain.

Gold shines; dollar finds footing



<sup>1</sup> Chart is sorted on most recent full quarter total return data. Source: Bloomberg, TIAA Wealth Chief Investment Office.

\* Commodities are raw materials used to create the products consumers buy, from food to gasoline or petrol, to electronics and various consumer staples. Commodities include agricultural products such as wheat and cattle, energy products such as oil and natural gas, and metals such as gold, silver, and aluminum.

\*\* Quarterly return is from 4Q 2025 (10/1/2025 - 12/31/2025); Q1 2026 data not yet available.

# 03

## Key themes

Central ideas, priorities, and areas of focus that drove markets in Q1 and will continue to shape markets in 2026.



**Geopolitical and policy uncertainty persists**



**Economic and corporate fundamentals remain robust, but face risks**



**AI performance dispersion continues**



**Private credit should be monitored**

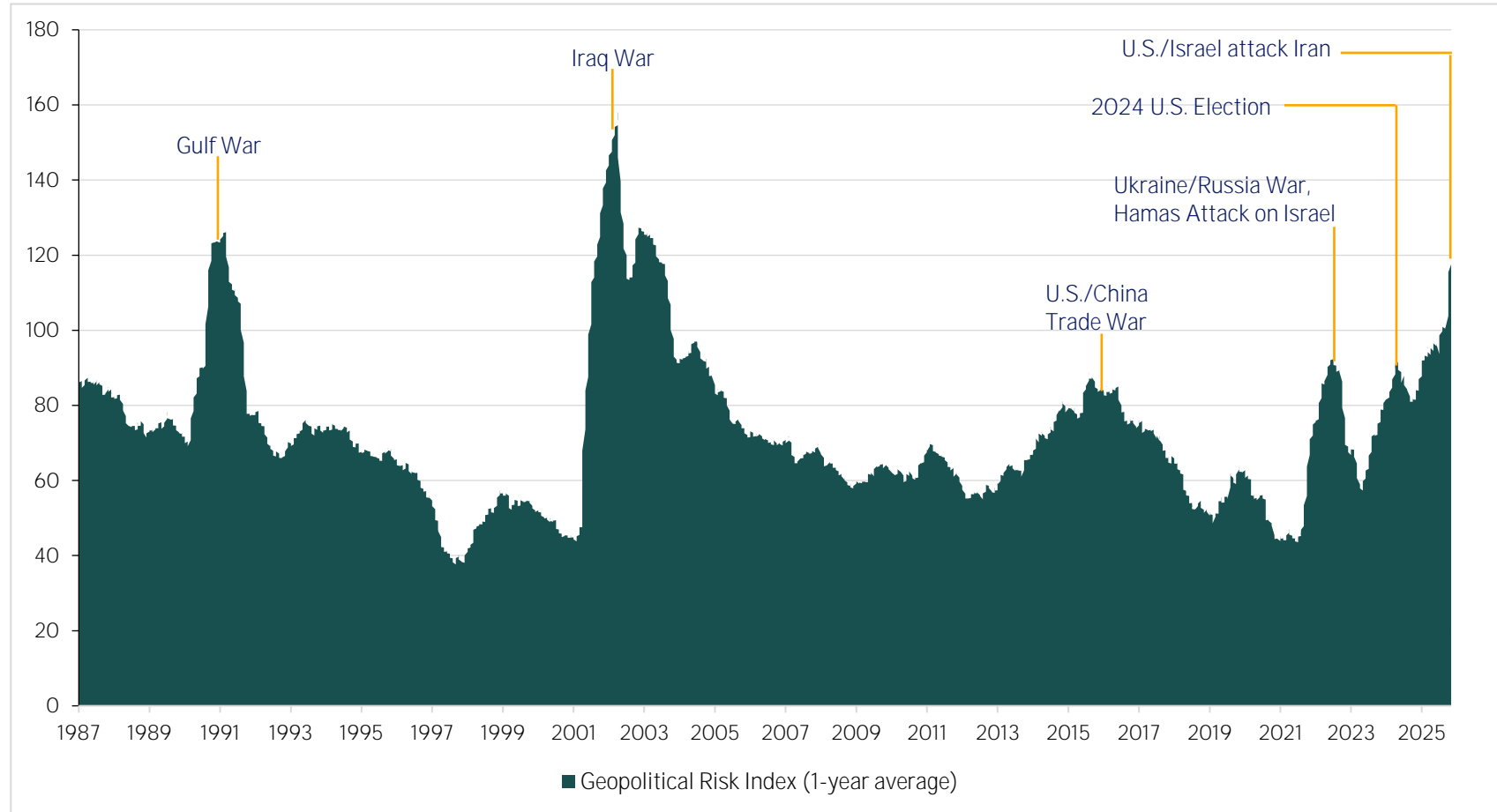
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Geopolitical and policy uncertainty  
persists

# The global geopolitical order continues to evolve

- Shifts in U.S. foreign policy doctrine carry meaningful implications for 2026. Heading into the current conflict in the Middle East, U.S. economic fundamentals were relatively sound, though the conflict has widened the range of potential economic outcomes—especially if global oil trade flows remain strained and prices remain high.
- The U.S.-China relationship also remains a critical fault line. A working framework appears to be limiting escalation around strategic inputs—rare earths and semiconductors—but strategic decoupling remains in motion, and the relationship will continue to ebb and flow with ongoing friction.
- In Europe, geopolitical vulnerability is translating into significant fiscal stimulus, and the push for economic and strategic independence is poised to remain a defining theme for international markets through 2026.
- Policy and geopolitical uncertainty may remain elevated ahead of the November midterm elections. The relationship with NATO allies could resurface suddenly, **given President Trump's recent threat** that a lack of cooperation during the war with Iran will lead to the U.S. leaving the alliance.

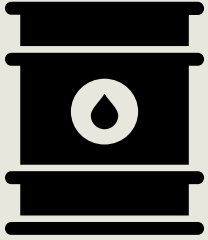
The Geopolitical Risk Index measures the frequency of news articles on adverse geopolitical events and associated risks



Source: Morningstar Direct, Bloomberg, TIAA Wealth Chief Investment Office. Data through 4/3/2026.

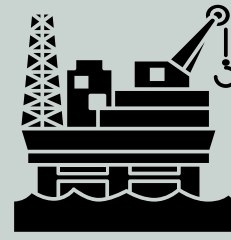
# Strait of Hormuz: Strategic & economic implications

## Why it matters



The Strait of Hormuz handles ~**25%** of global seaborne oil trade and **19%** of global LNG trade. Asia is the most exposed region—China receives ~**30%** of oil transiting through the strait, India **15%**, and the broader Asia-Pacific **44%**—while Western economies remain comparatively insulated.

## Impact on global oil supply



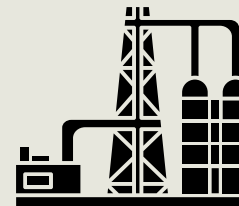
The ongoing Middle East conflict has disrupted ~**15%** of global oil exports transiting the Strait. As storage capacity fills and airstrikes damage production infrastructure, ~**11%** of global oil production is currently shut in.

## Mitigating factors



Several structural trends soften the blow. Global energy intensity has declined from **6.1** to **4.5** megajoules per dollar of GDP since 2000 (World Bank data). U.S. consumers allocate less than **2%** of spending to gasoline and energy goods. Renewable energy production and consumption have grown ~**110%** over the past 30 years (EIA data).

## Key economic risk

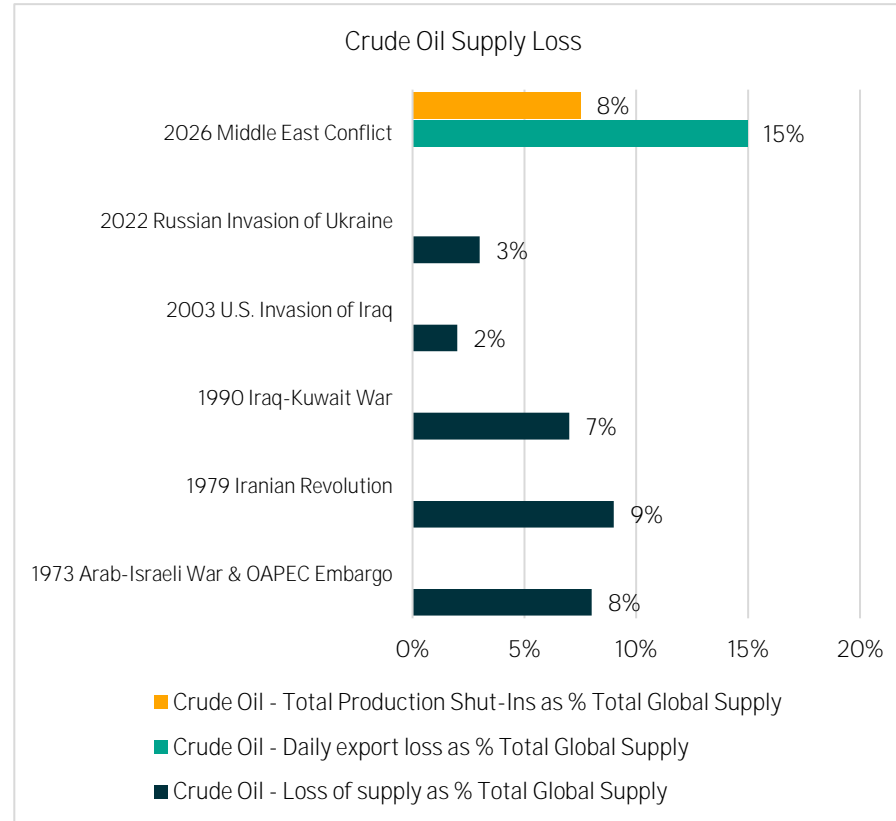


The primary concern is downstream price pass-through, not crude benchmarks. Since the conflict began\*, jet fuel is up ~**100%**, diesel **50%**, nitrogen fertilizers **50%**, gasoline ~**40%**, and containerized freight **35%**. Broadening spillovers across input costs pose a potentially significant economic risk.

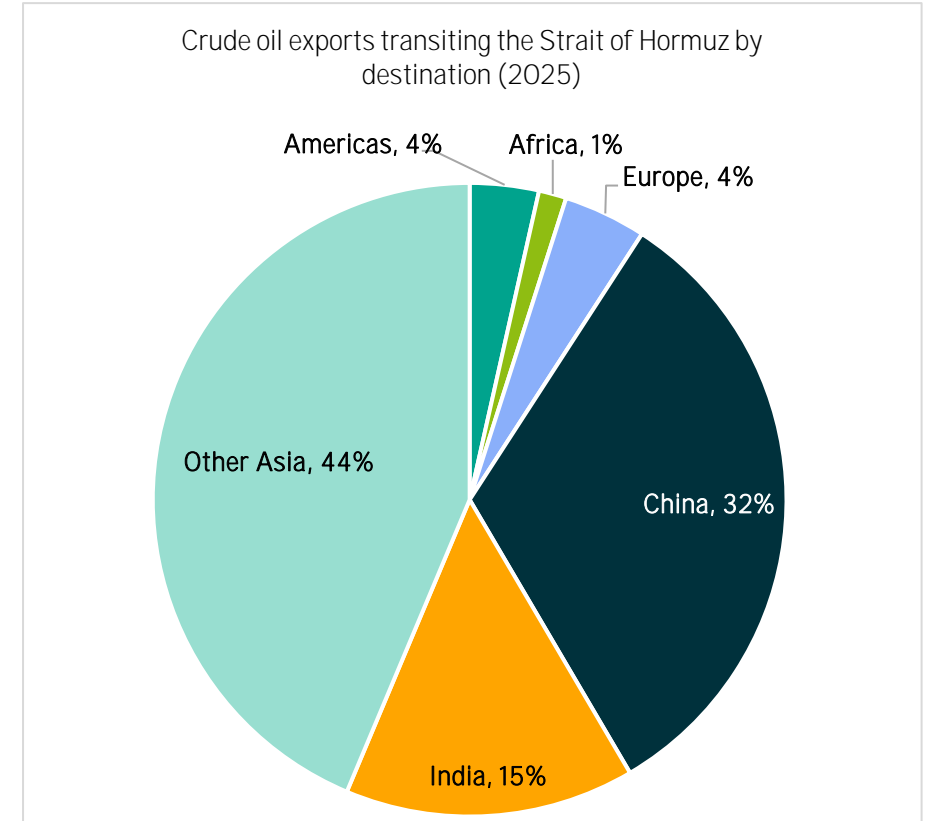
# Oil supply impact of Middle East conflict

- The loss of exports of crude oil and other refined products transiting through the Strait of Hormuz totaled ~15% of global supply as of the end of March (left panel).
- In addition, production shut-ins of global crude oil and refined products is worsening as storage fills and airstrikes damage extraction sites and refineries across the Middle East region.
- Asian economies (aqua green & dark green slices, right panel) are most exposed to disruptions to the flow and production of petrochemicals in the Middle East. Western economies (green & light blue slices) are relatively more insulated, although Europe is facing potential shortages of jet fuel and rising natural gas prices.
- The United States has been energy independent (i.e., net exporters of crude oil) since 2019 and is therefore unlikely to incur any shortages. That said, higher energy prices are a global phenomenon impacting the U.S. economy as well.

Oil supply shocks throughout history



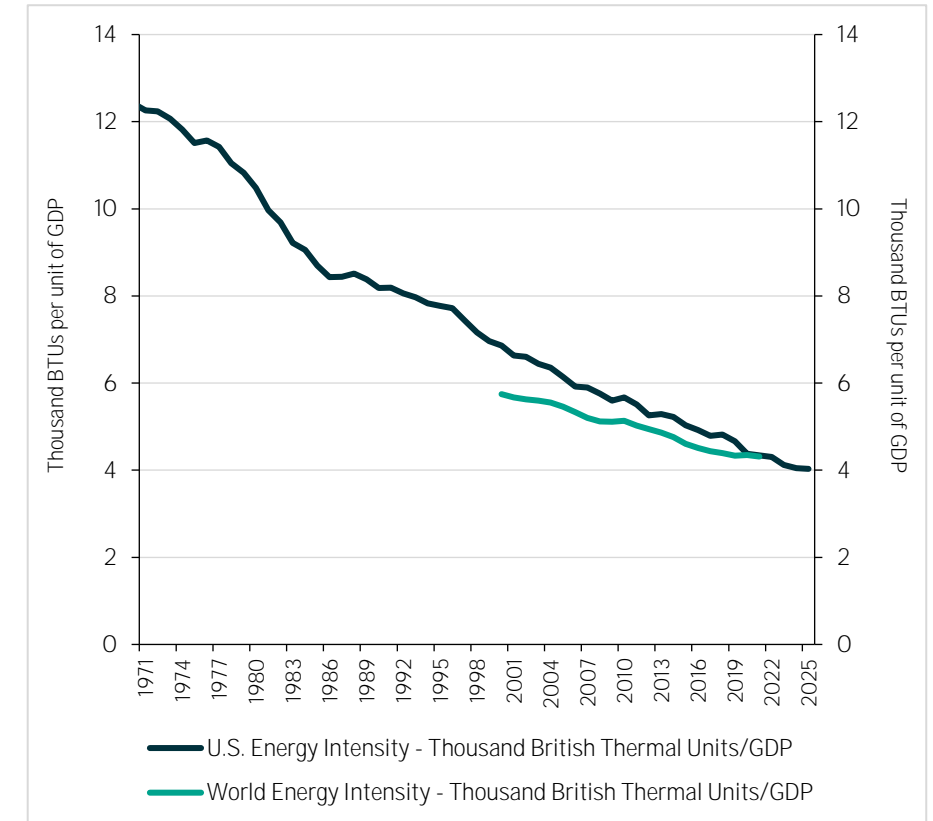
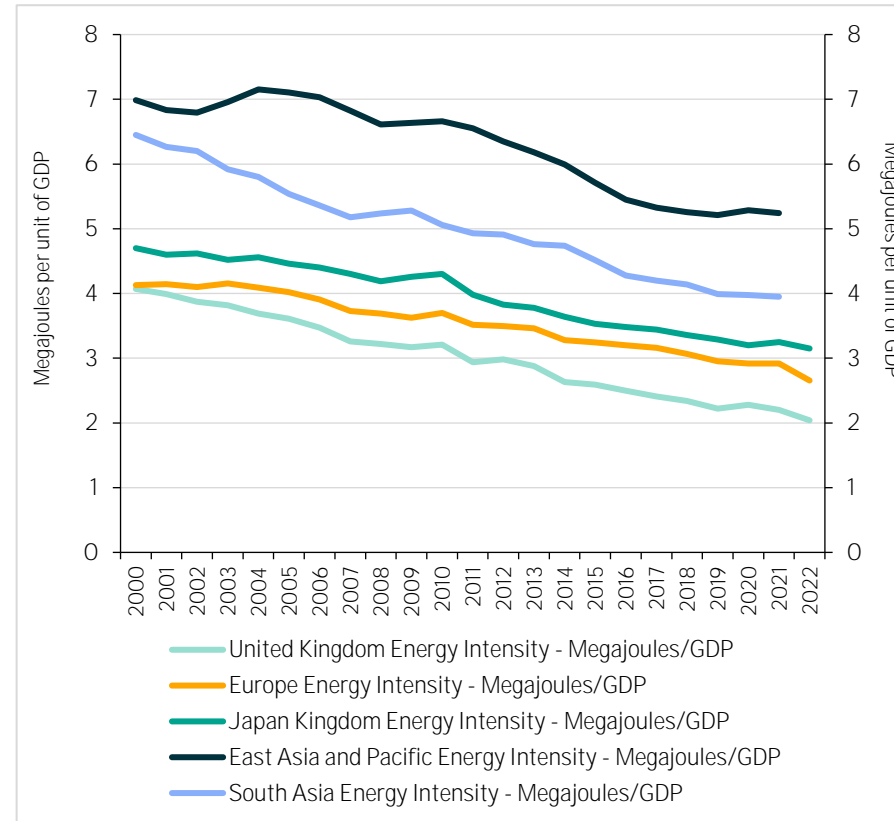
Strait of Hormuz oil exports flow mostly to Asian countries



# Energy intensity of GDP has been in decline for decades

- The global economy is less dependent on oil, with measures of energy intensity—or how much crude oil is required to generate one dollar of Gross Domestic Product (GDP)—trending significantly lower over the past 50 years.
- According to World Bank data, while 6.1 megajoules of energy were needed to produce one unit of global economic growth in 2000, 4.5 megajoules are needed today.
- Lower energy intensity reduces economic sensitivity to commodity supply shocks. As a result, the economy is better equipped to navigate a relatively short-term period of higher energy prices.
- That said, an extension of current disruptions into the summer could increase the risks facing the U.S. and global economies.

Energy intensity is an indication of how much energy is used to produce one unit of economic output

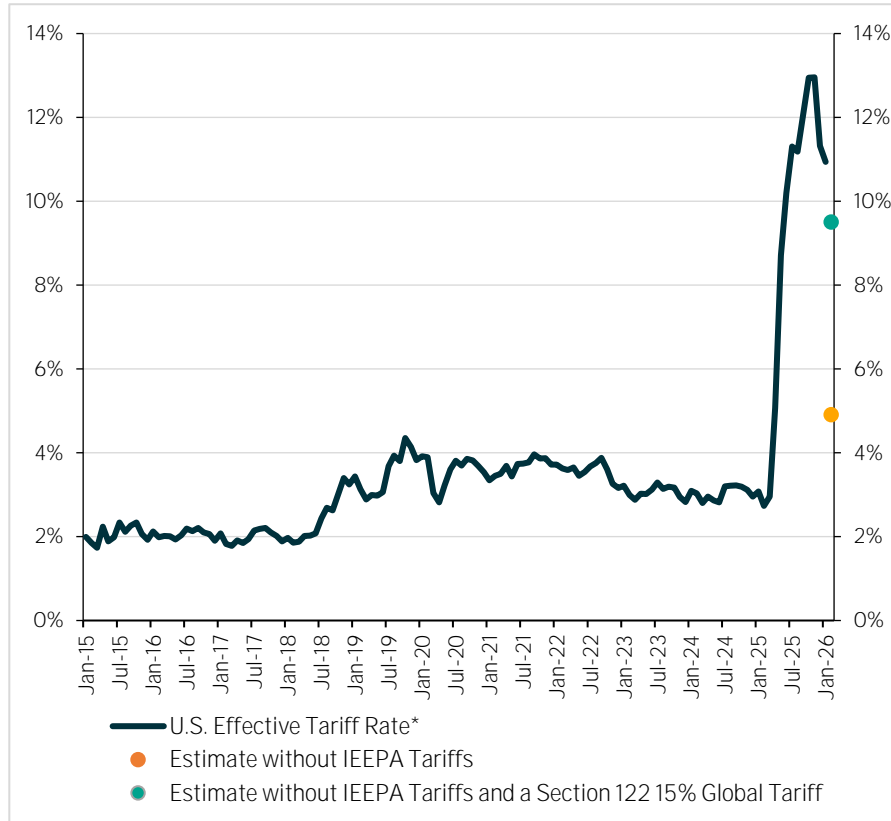


Source: TIAA Wealth Chief Investment Office. Data through 2021 and 2022 (left panel) and 2021 and 2025 (right panel).

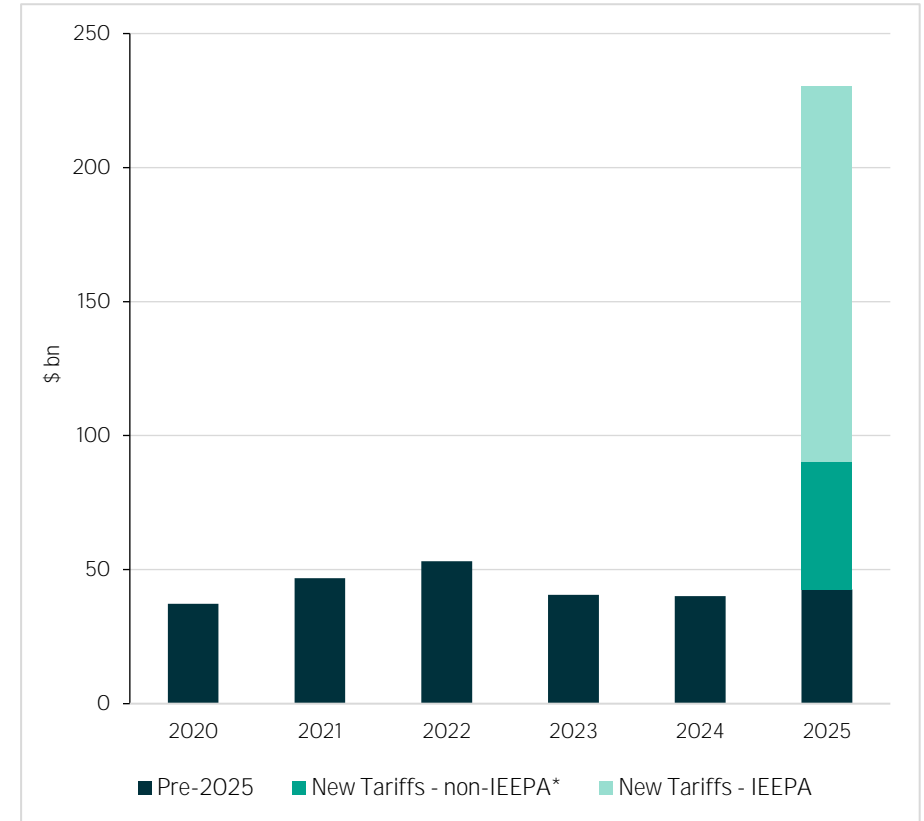
# Tariff timelines

- The chart on the left shows the frequent changes in the U.S. effective tariff rate since the start of 2025, and how actual duties paid by importers (as a percentage of total goods imports) are gradually converging towards the effective tariff rate. This convergence, in our view, signals that the tariff impact on consumers and businesses might intensify.
- Our view of President Trump’s trade policy has been informed by what looks like a three-fold set of (somewhat competing) objectives: drawing trade partners to the negotiating table, raising tax revenue to fund the administration’s tax cuts, and shrinking the U.S. goods trade deficit.
- Balancing these goals carries significant execution risks for the economy, given that higher tariffs are tantamount to a tax increase that weighs on households’ purchasing power and businesses’ profit margins.
- On Friday, February 20, 2026, the U.S. Supreme Court issued a ruling stating that the President does not have the authority to unilaterally impose reciprocal tariffs under the International Emergency Powers Act (IEEPA) of 1977.
- Over the next several months (through July 24, 2026), government agencies may initiate investigations under other trade laws, which could replicate IEEPA tariffs’ value. However, tariff replacement might be gradual or partial due to political considerations, balancing budget revenue needs and household affordability.

The on-again/off-again nature of the administration’s tariff plans is complicating efforts to anticipate the ultimate outcome



\* Calculated as the actual value of monthly custom taxes collected as a percentage of total monthly imports.



\* Sections 201 and 301 of the Trade Act of 1974, and Section 232 of the Trade Expansion Act of 1962

# U.S. presidential authority on tariffs

- President Trump can leverage a range of authorities to quickly reimpose sweeping tariffs. Following the SCOTUS ruling in February, President Trump confirmed that Section 122 of the Trade Act “will be used to replace rejected tariffs.”
- U.S. trade policy and rhetoric may continue to shift frequently, driven by:
  - Elevated uncertainty related to the likelihood of more product-specific tariffs.
  - The broad latitude at President Trump’s disposal to reimpose tariffs through other authorities.
  - Future rulings by the court of appeals and potentially the Supreme Court.
  - The risk that impacts on corporate profit margins and households’ purchasing power have yet to be fully felt.

Presidential Authority on Tariffs*	Details	Investigation required?	Requires Congressional approval?
Section 122 of the Trade Act of 1974	Authorizes the president of the United States to temporarily (150 days) increase tariffs on imports to as high as 15% on grounds of “significant balance-of-payments deficits.”	No formal investigation required.	Congressional approval is required for an extension past 150 days.
Section 301 of the Trade Act of 1974	Authorizes the U.S. government to address “unfair trade practices.” No limit on the level or duration of these tariffs.	Yes, likely would take a few months.	No
Section 201 of the Trade Act of 1974	Authorizes the U.S. president to impose tariffs (of up to 50% above the existing tariff rate) if the U.S. International Trade Commission finds that a surge in imports is threatening serious injury to a U.S. domestic industry. These tariffs are not meant to be permanent, and the statute requires that actions in place for longer than one year be phased down “at regular intervals.”	Yes, results required within 180 days, and actions to be taken within 60 days.	No
Section 232 of the Trade Expansion Act of 1962	Authorizes the U.S. president to impose tariffs on imports for national security reasons. Existing tariffs on autos, steel, and aluminum have already been imposed under this authority, and more investigations are ongoing.	Yes, likely would take a few months.	No
Section 338 of the Trade Act of 1930	Authorizes the U.S. president to levy tariffs of up to 50% on imports from countries that are deemed to impose unreasonable charges or restrictions on U.S. goods.	No formal investigation required.	No

\*These authorities would likely put tariffs on more solid legal ground. However, they could still be challenged in court.

# S&P 500 during wartime

- Across 21 major military interventions since World War II (including the current Iran war), the S&P 500 declined an average of 6% from initial impact to trough—and recovered to pre-event levels in an average of just 25 days. Notably, the duration of a conflict has historically had little bearing on market performance.
- The critical exception is oil. The three episodes tied to energy disruptions—the 1973 Yom Kippur War/Arab oil embargo, Iraq's 1990 invasion of Kuwait, and Russia's intervention in Ukraine—produced the steepest and most prolonged market declines.
- Heading into the current conflict in the Middle East, U.S. economic fundamentals were relatively sound—consumer spending, employment, and corporate earnings trends were all constructive—though we acknowledge that the conflict has widened the range of potential economic outcomes.
- Pullbacks of 5%–10% driven by geopolitical events are a normal feature of markets and should be viewed in context. The S&P 500 has declined 10% or more at some point in more than half of all years since 1980 (see pages 95 & 96) yet has historically gone on to deliver strong full-year returns.

S&amp;P 500 response to select military interventions and hostilities since WWII

Event	Military Conflict Start Date	S&P 500 Conflict Sell-off Start Date	S&P 500 Price at Start of Conflict	S&P 500 Conflict Sell-off End Date	S&P 500 Price at Conflict Trough	Trading Days from Start of Sell-off to Trough	S&P 500 % Change from Start of Conflict to Trough	Number of Trading Days back to Price at Start of Conflict
N. Korea invades S. Korea	6/25/1950	6/23/1950	19.14	7/17/1950	16.68	15	-12.9%	57
U.S. spy plane shot down in USSR	5/7/1960	5/6/1960	54.75	5/10/1960	54.42	2	-0.6%	4
Bay of Pigs invasion	4/15/1961	4/14/1961	66.37	4/24/1961	64.4	6	-3.0%	14
Cuban Missile Crisis	10/16/1962	10/16/1962	57.08	10/23/1962	53.49	5	-6.3%	12
Gulf of Tonkin Incident (Vietnam)	8/2/1964	7/31/1964	83.18	8/6/1964	81.34	4	-2.2%	28
Lead-up to Six-Day War (June 6)	5/14/1967	5/12/1967	93.48	6/5/1967	88.43	15	-5.4%	45
Tet Offensive (Vietnam)	1/29/1968	1/29/1968	93.35	3/5/1968	87.72	24	-6.0%	45
Cambodian Campaign (Vietnam)	5/1/1970	5/1/1970	81.44	5/26/1970	69.29	17	-14.9%	83
Yom Kippur War, Arab oil embargo	10/6/1973	10/5/1973	109.85	12/5/1973	92.16	42	-16.1%	6 years*
Soviet-Afghan War	12/24/1979	12/24/1979	107.66	1/3/1980	105.22	6	-2.3%	1
Intervention in Grenada	10/25/1983	10/25/1983	166.47	11/8/1983	161.76	10	-2.8%	14
Lead-up to intervention in Panama	12/15/1989	12/15/1989	350.06	12/19/1989	342.46	2	-2.2%	8
Iraq invades Kuwait, oilfields seized	8/2/1990	8/2/1990	351.48	10/11/1990	295.46	49	-15.9%	130
Lead-up to Gulf War (Desert Storm)	1/1/1991	12/31/1990	330.22	1/9/1991	311.49	7	-5.7%	13
Intervention in Yugoslavia (Balkans)	3/24/1999	3/24/1999	1268.59	3/29/1999	1310.17	3	3.3%	1
U.S. spy plane captured in China	4/1/2001	3/30/2001	1160.33	4/4/2001	1103.25	3	-4.9%	7
War in Afghanistan	10/7/2001	10/5/2001	1071.38	10/8/2001	1062.44	1	-0.8%	3
Lead-up to Iraq War	2/5/2003	2/5/2003	843.59	3/11/2003	800.73	23	-5.1%	8
Russia intervention in Ukraine**	2/11/2022	2/11/2022	4418.64	3/8/2022	4170.7	16	-5.6%	2
12-Day War (Israel/U.S. and Iran)	6/12/2025	6/12/2025	6045.26	6/20/2025	5967.84	5	-1.3%	6
Ongoing Iran War	2/28/2026	2/27/2026	6878.88	3/30/2026	6343.72	21	-7.8%	?
<b>Averages</b>						<b>13</b>	<b>-5.5%</b>	<b>25</b>

Those in green indicate events impacted by crude oil price spikes.

\* While the S&P 500 went up the day after the conflict started, the combination of the oil embargo and economic instability led to a prolonged bear market. According to a March 2, 2026 Morningstar article, "The dividend-adjusted S&P 500 did not recover to its pre-war October 1973 peak until late 1980, making it a 'six long and painful years' recovery period."

\*\* While Russia launched its full-scale invasion of Ukraine on February 24, 2022, dates attempt to capture any material pre-event impact.

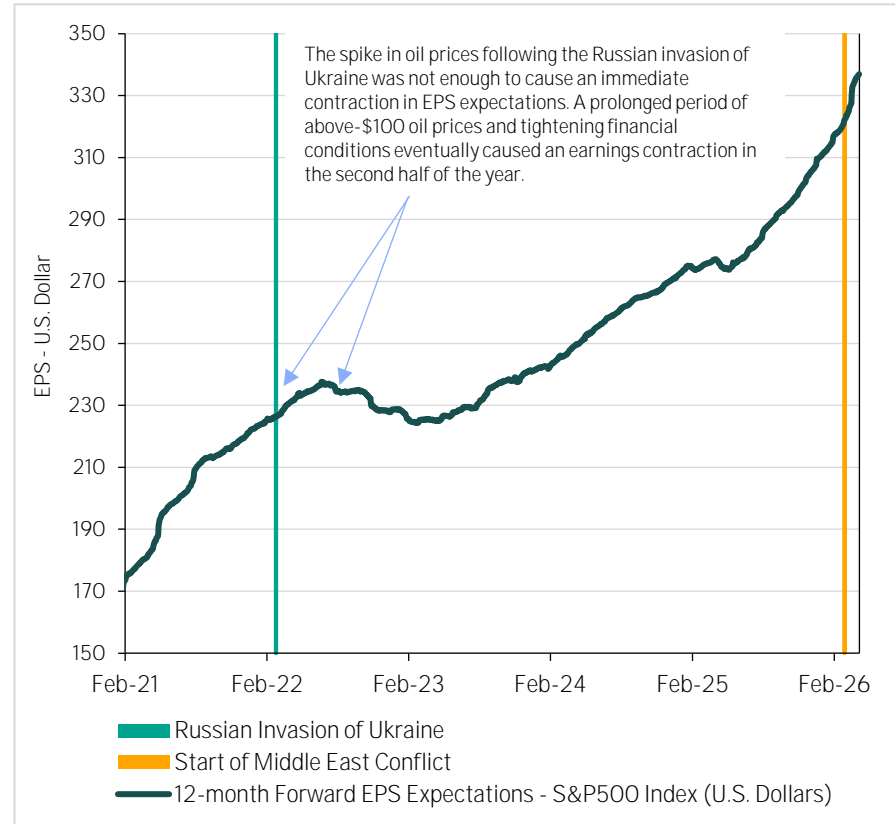
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Economic and corporate  
fundamentals remain robust, but  
face risks

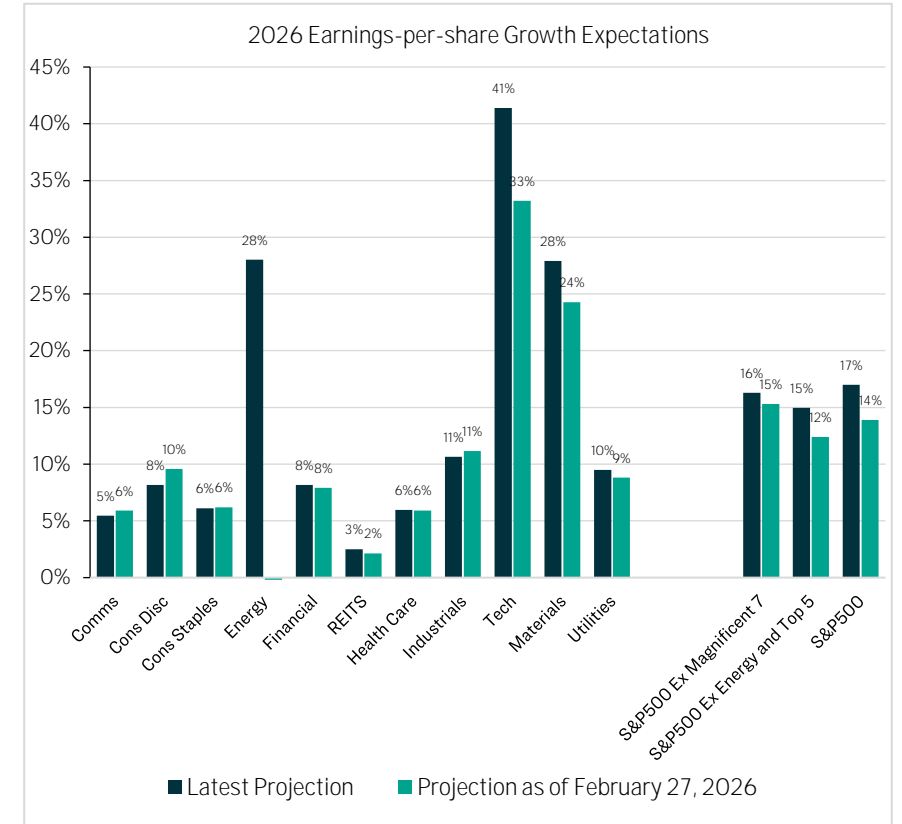
# The earnings picture remains robust, but faces risks

- Equity market volatility has remained relatively contained despite escalating geopolitical tensions. A key reason is the corporate earnings outlook.
- Between the start of the conflict and the end of March, S&P 500 earnings growth projections for 2026 have increased from 14% year-over-year (YoY) to 17% YoY.
- Upward revisions to earnings projections are partly due to an improving outlook for energy stocks, given higher energy prices. However, earnings momentum has remained broad, and projections have increased even after excluding the energy sector.
- A key risk to current consensus is posed by the duration of the ongoing energy shock. Following the Russian invasion of Ukraine in February 2022, earnings expectations continued to grow until June.
- Eventually, the persistence of higher oil prices and tighter financial conditions caused earnings growth to start falling in the summer of 2022, leading to more equity volatility in the second half of the year.

Earnings remain resilient, but face risks



Earnings growth is expected to be robust across sectors in 2026

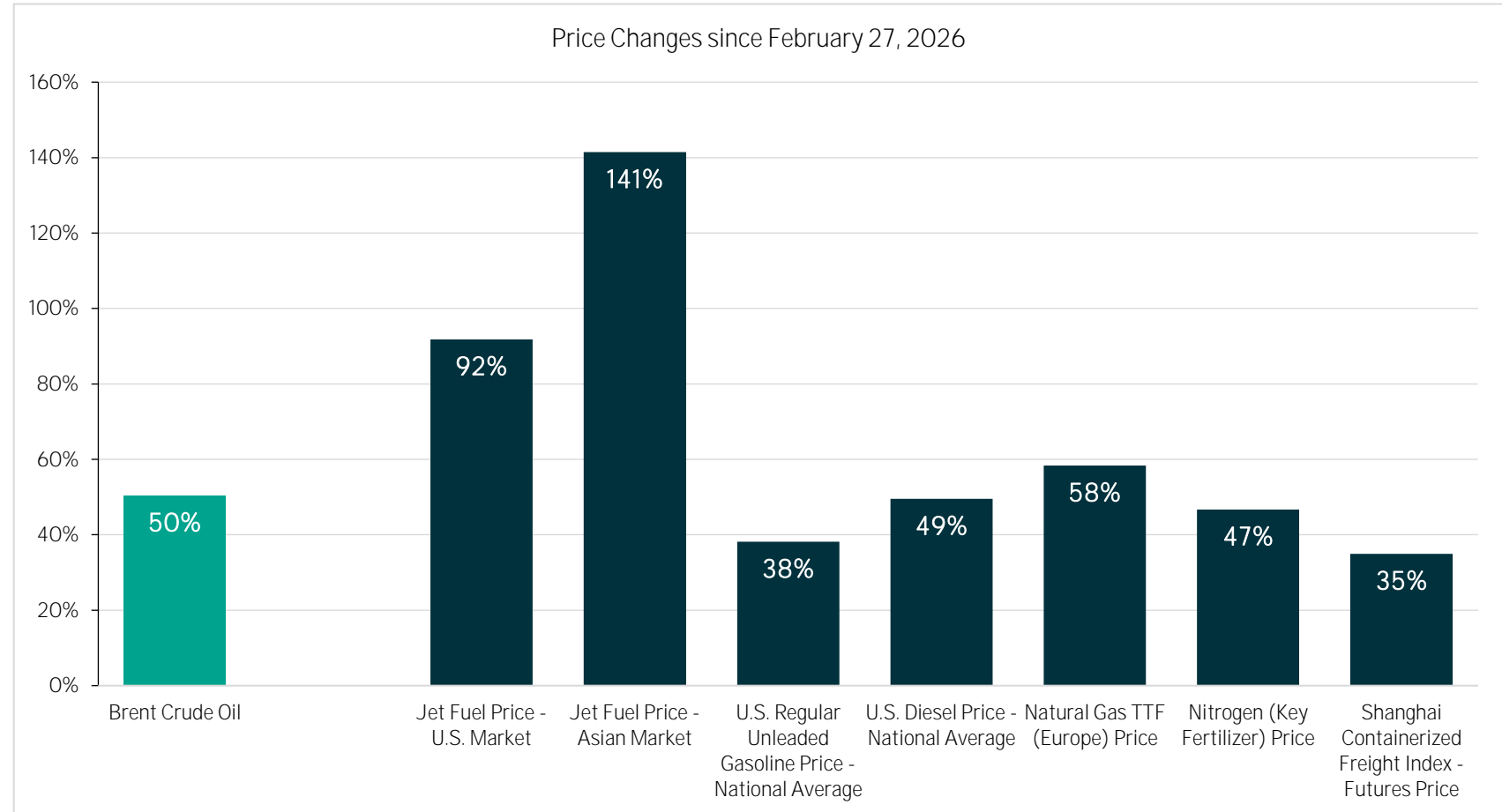


Source: Bloomberg, TIAA Wealth Chief Investment Office. Data through 4/6/2026.

# The downstream effects of higher energy prices

- The downstream impact of higher crude oil prices matters more for consumers than the price of crude oil itself.
- Since the start of the Middle East conflict in late February 2026, the price of refined products and other important input costs has risen significantly (data as of April 5, 2026).
- A sustained increase in critical input costs for businesses, as well as consumer prices, would raise the risk of a worsening and broadening economic impact
- While the U.S. economy remains supported by a range of stimulative dynamics—including OBBBA fiscal stimulus, robust wealth creation over the past few years, and the secular investment boom driven by the AI buildout—a prolonged geopolitical shock could offset or more than offset these tailwinds.

The impact of higher crude oil prices is being felt across a range of critical inputs



Source: Bloomberg, TIAA Wealth Chief Investment Office. Data through 4/5/2026.

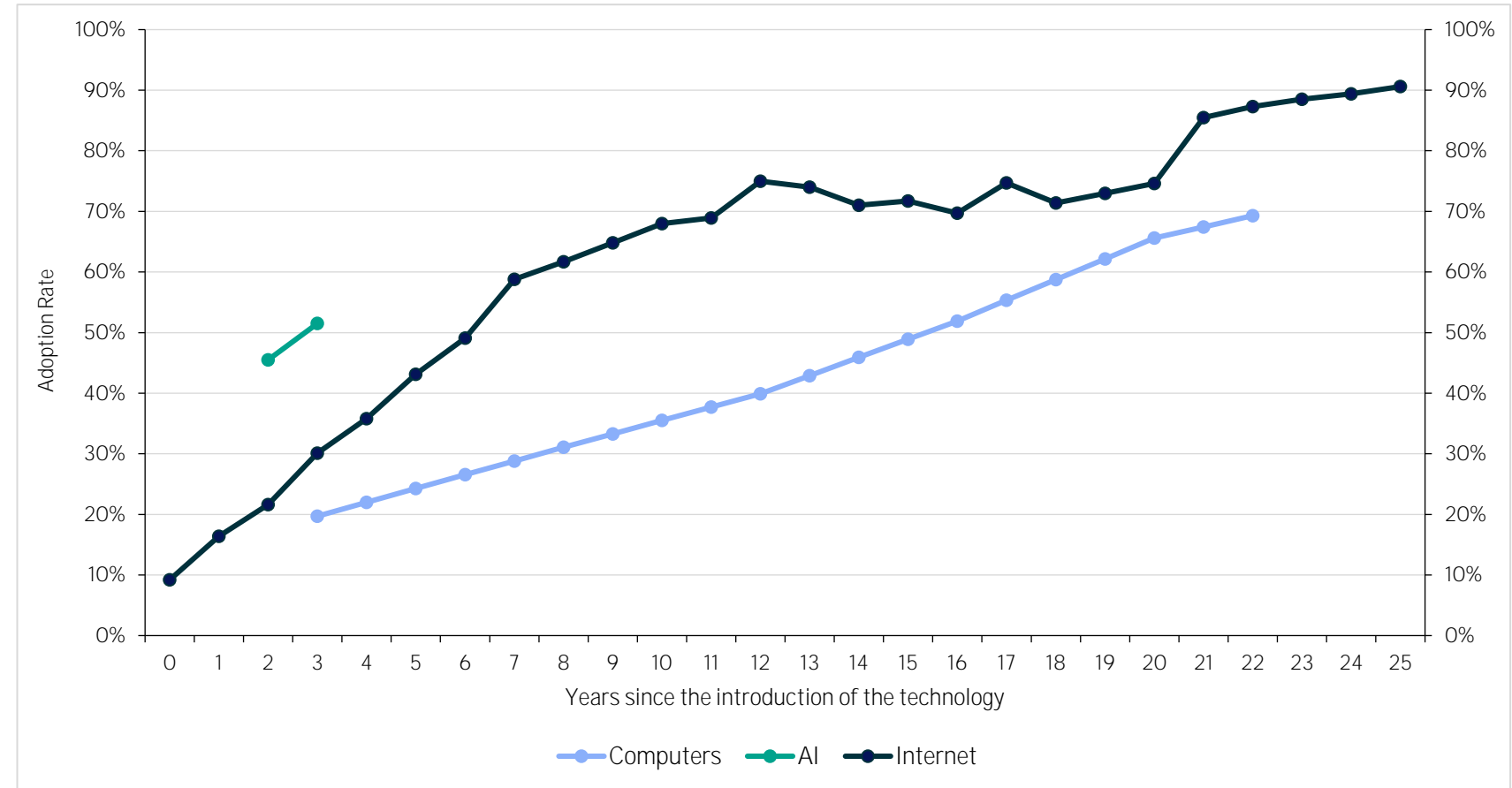
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AI performance dispersion  
continues

# Innovation accelerates and expands

- This chart tracks adoption rates for generative AI, computers, and the internet, indexed to years since each technology's first mass-market product. Even just three years in, generative AI's adoption trajectory has dramatically outpaced both predecessors.
- As AI moves from buildout to integration, we expect broader enterprise adoption and deeper embedding within corporate operations—driving meaningful productivity gains, with positive implications for both economic and earnings growth.
- The risks deserve equal attention, however. AI threatens to displace workers in more substitutable roles, and surging datacenter demand could exert upward pressure on electricity prices.

Adoption rates for AI have so far outpaced rates for other significant digital technologies<sup>1</sup>



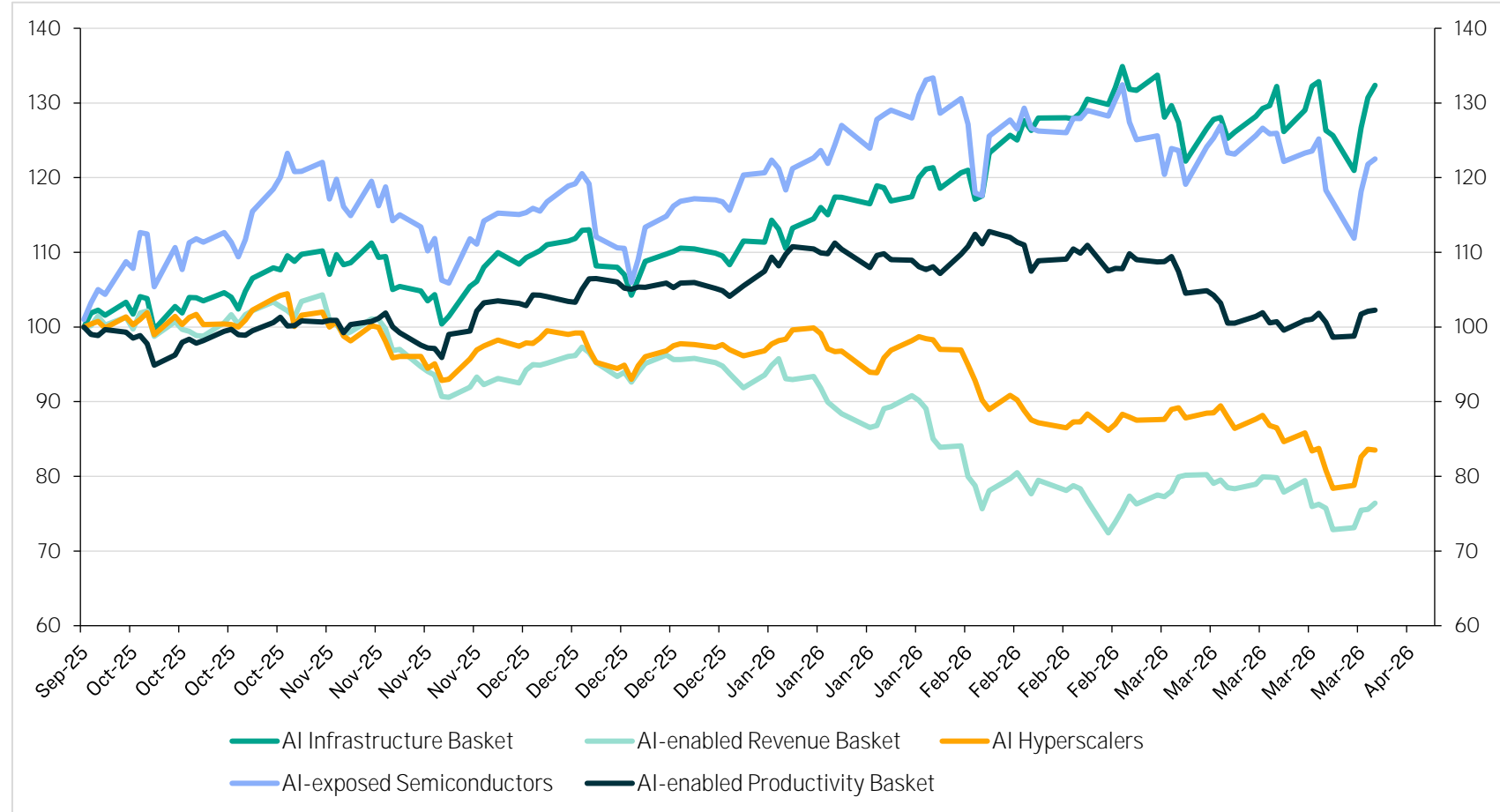
<sup>1</sup> We use 1981 as the introduction year for computers, which was the year the IBM PC was released. We use 1995 as the introduction year for the internet, which was the year that the National Science Foundation allowed the internet to carry commercial traffic. We use 2022 as the introduction year for genAI, which was the year ChatGPT was released. The data source for computers is 1984-2003, and the data source for the internet is 1995-2021.

Sources: St. Louis Fed, TIAA Wealth Chief Investment Office. Data through 8/31/2025.

# Investors now differentiating AI winners and losers

- Since September 2025, the relative performance of different AI-related equity baskets has diverged significantly, as investors focus on intensifying winners and losers.
- Businesses whose revenue streams are being challenged by potential AI “disintermediation” (software stocks, for example) have been penalized by investors. Similarly, hyperscalers have underperformed as concerns about overspending have increased (in 2026, the top 5 hyperscalers are projected to deploy ~\$650 billion to capital expenditures, ~90% of operating cash flow—slide 58).
- On the other hand, investors are rewarding businesses whose revenue stream is boosted by heavy AI spending, and those that exhibit a combination of balance sheet discipline, cost efficiencies, and signs of improving return on investment.

Investors are increasingly focused on intensifying winners and losers in the AI space



Sources: Source: Bloomberg, Goldman Sachs Equity Baskets, TIAA Wealth CIO. Data through 4/2/2026.

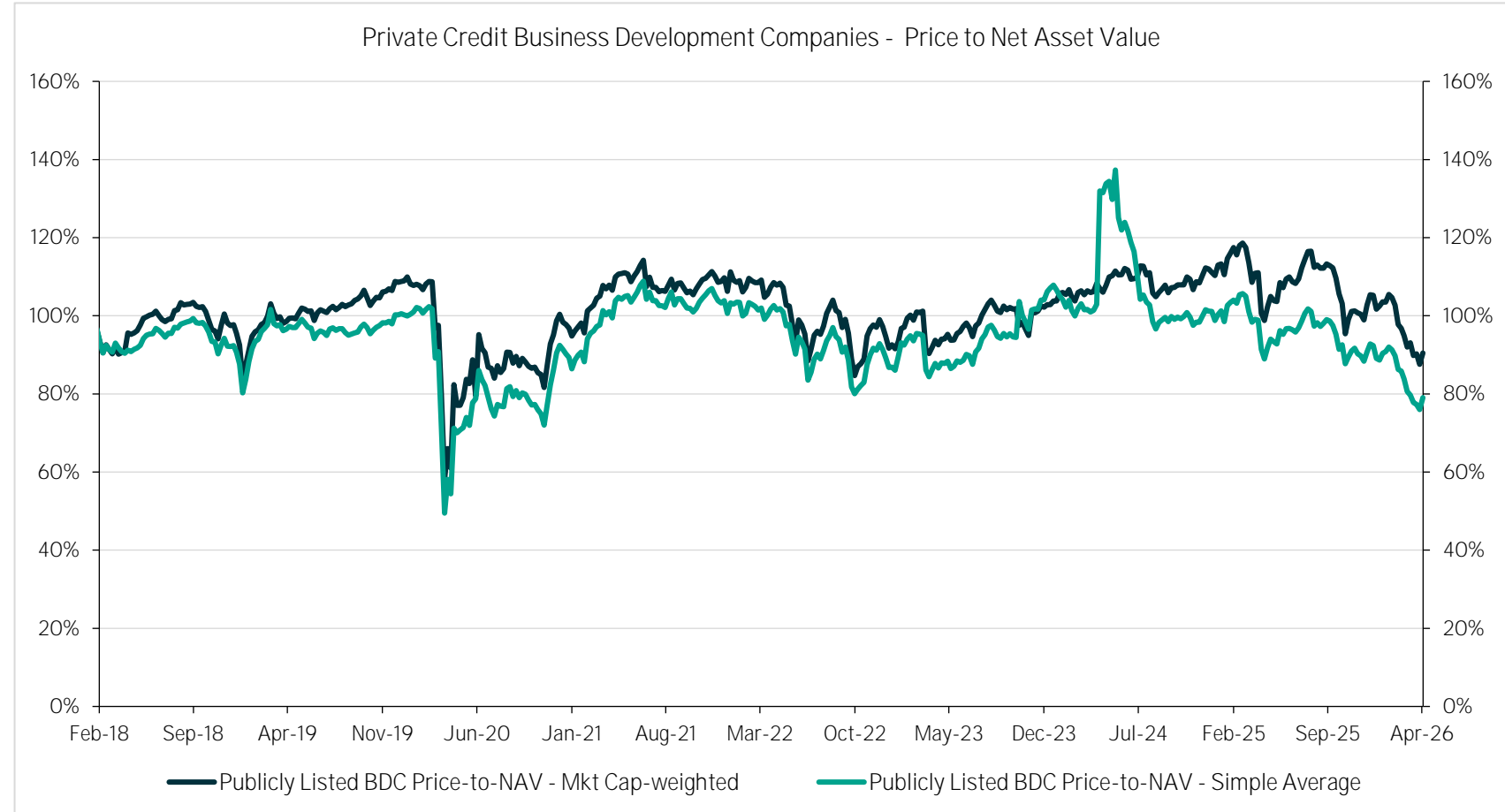
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Private credit should be monitored

# Assessing risks in private credit

- Business Development Companies (BDCs) are investment vehicles used to provide financing to private firms, especially small and medium. Net Asset Value (NAV) represents the value of a BDC's underlying assets, primarily loans, minus any liabilities such as investment debt. For publicly listed BDCs, market prices have been declining not just in absolute terms, but also as a percentage of NAV, implying that investors believe the reported NAV may be overstating the true worth of those underlying assets.
- While private credit issues are unlikely to represent a systemic risk comparable to the Great Financial Crisis, they nonetheless pose challenges to economic and market fundamentals.
- The first reason is that retail participation in the \$1.8 trillion private credit market has increased significantly over the past few years. Retail products allow less sophisticated investors to gain exposure to largely illiquid investments through vehicles that provide monthly or quarterly liquidity, therefore creating the potential for mismatches.
- The traditional banking sector has been a key provider of capital to the private credit industry over the past decade, therefore increasing the exposure to rising default rates.
- Finally, private credit firms have provided access to capital to small and medium businesses unable to secure financing through banks. This role as lender of last resort could be impaired in the near-term.

Investors are pricing in the risk that the net asset value of private credit investment vehicles could overstate the real value of underlying assets

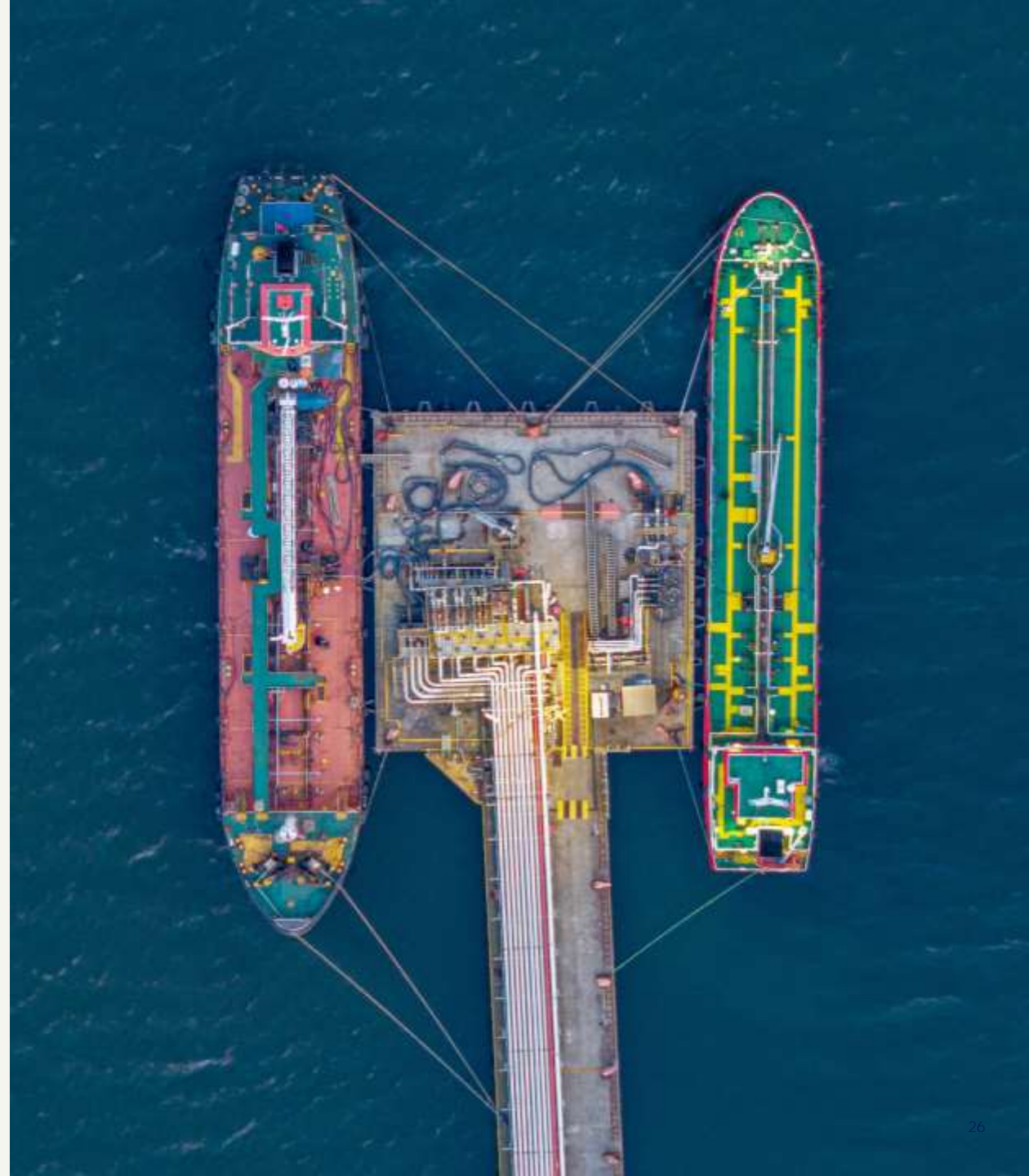


Source: Bloomberg, TIAA Wealth Chief Investment Office. Data through 4/3/2026.

# 04

## Macro overview

Monetary and fiscal policy, the U.S. dollar, inflation, the labor market, housing market, and consumer health.

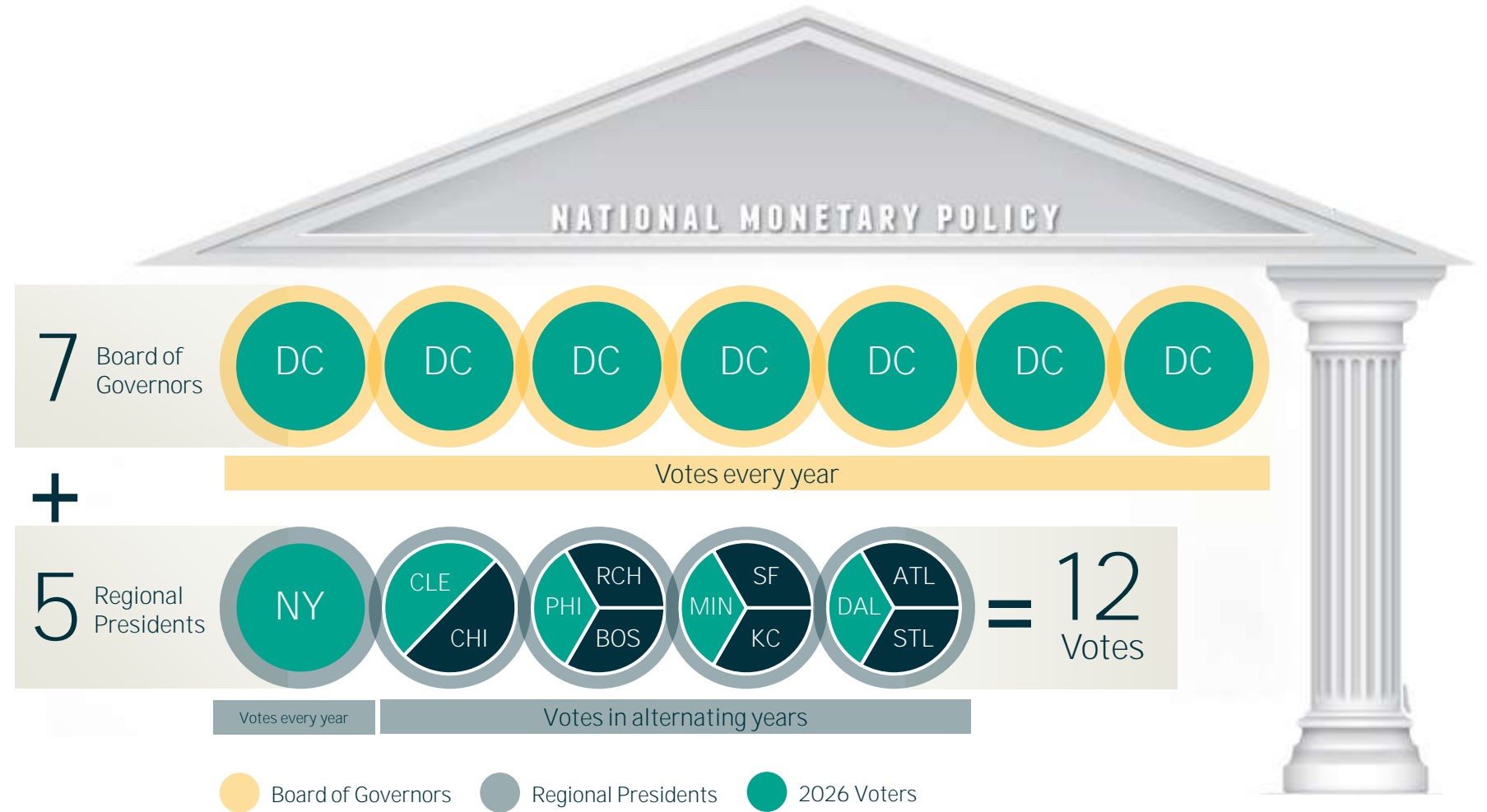


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# U.S. monetary policy

# How does the FOMC vote?

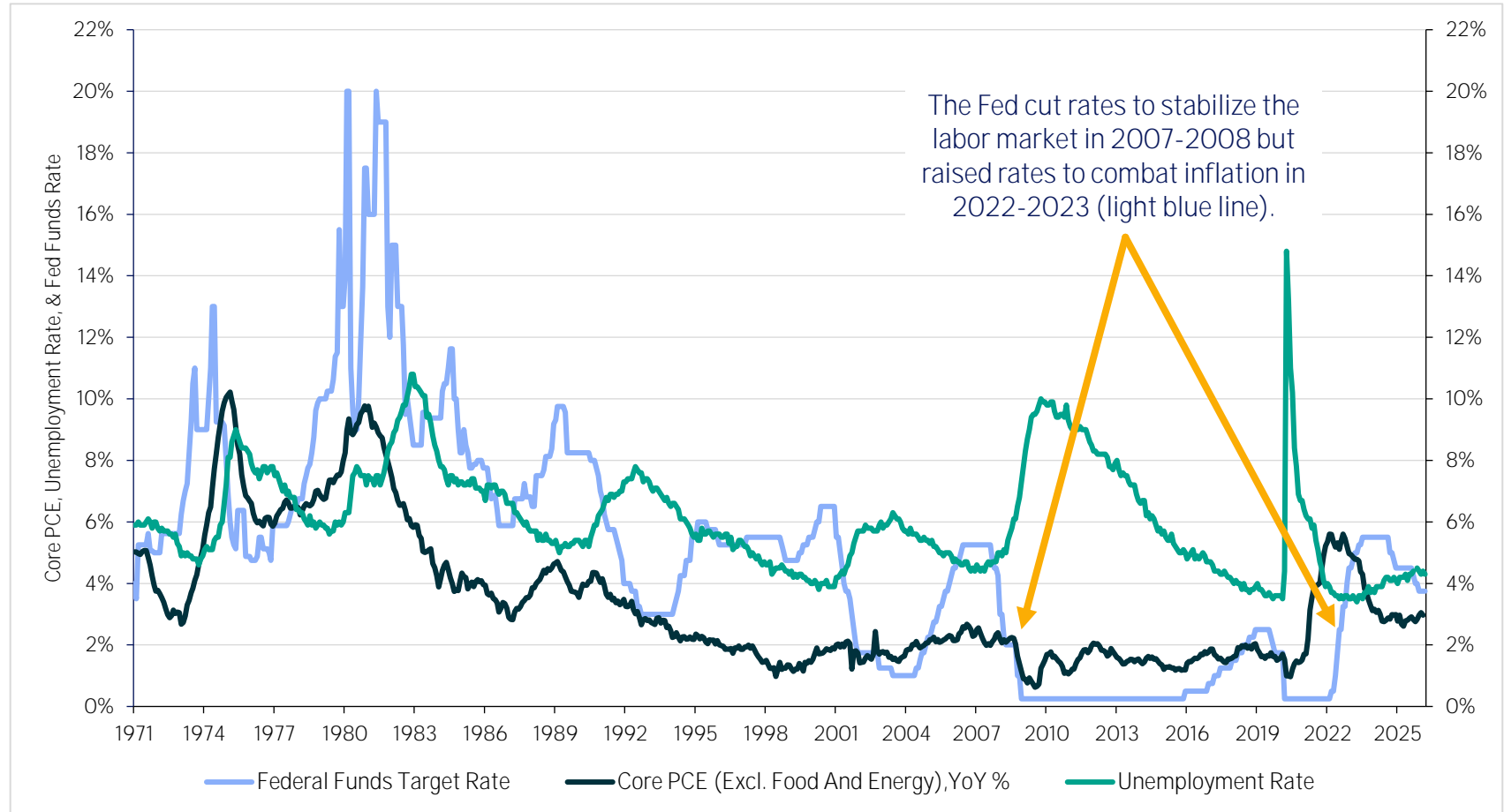
- The FOMC is the Fed's primary monetary policy body, comprising seven Board of Governors members, the New York Fed president, and four rotating Reserve Bank presidents—all meeting eight times annually in Washington, D.C., with additional meetings convened as conditions warrant.
- Armed with national, international, and regional economic data, the committee deliberates on policy options best suited to achieve its Congressional dual mandate of maximum employment and price stability.
- While the Fed Chair holds just one vote—equal to every other member—their influence over deliberations and outcomes is far greater in practice.



# The Fed's dual mandate

- The Fed is charged by Congress with maintaining full employment and low, stable inflation—and the chart illustrates how it has navigated that balance across two major cycles (one easing cycle and one tightening cycle).
- During the 2008 crisis, the unemployment rate (light green line) surged, while Core PCE (dark green line) fell, prompting the Fed to slash its target rate (light blue line) to protect the labor market.
- In 2020-2022, unemployment spiked briefly before inflation surged to a 40-year high, triggering an aggressive series of rate hikes.
- As inflation progress became more convincing through 2024, the Fed shifted focus back toward the labor market and began cutting rates—pausing briefly amid trade and policy uncertainty—before resuming cuts in late 2025 as labor market conditions softened, even with inflation concerns still lingering.
- Any further Fed rate cuts in this cycle depend on the duration and severity of the energy price shock caused by the war with Iran.

The Fed manages monetary policy to achieve the dual mandate of stable prices and full employment



# Macro context determines asset class performance after Fed rate cuts

- The table shows median asset class and S&P 500 sector returns 12 months before and 12 and 24 months after the first rate cut—distinguishing between cuts made to normalize policy versus those made ahead of recession.
- The distinction matters: market responses differ meaningfully depending on the Fed's motivation for cutting.
- The current cycle—which began in September 2024, paused through mid-2025, and resumed in response to a softening labor market—is tracking the historical normalization path rather than the recession path.
- The path of future cuts depends on the duration and severity of the sharp rise in energy prices due to the conflict with Iran on the economy and inflation.
- That said, no two cycles are identical, and inflation, valuations, and market sentiment all influence how returns ultimately unfold.

Benchmark/Index	Normalization Rate Cuts			Recessions Rate Cuts			Current Rate Cuts		
	All 12-Month Before (Median)	All 12-Month After (Median)	All 24-Month After (Median)	All 12-Month Before (Median)	All 12-Month After (Median)	All 24-Month After (Median)	12-Month Before	12-Month After	Maximum Period
<b>U.S. Stocks</b>									
S&P 500	25.3%	18.2%	28.2%	14.5%	-0.1%	-1.4%	28.3%	18.7%	11.5%
Russell 3000	25.4%	18.7%	27.2%	12.1%	0.5%	-0.7%	27.4%	18.7%	11.5%
Russell 1000	25.7%	19.2%	28.1%	13.1%	0.1%	-0.8%	27.8%	19.0%	11.5%
Russell 1000 Growth	28.1%	20.3%	26.9%	19.7%	-0.2%	1.5%	33.2%	27.1%	11.3%
Russell 1000 Value	22.4%	21.8%	30.5%	7.0%	2.2%	1.3%	21.1%	10.5%	11.4%
Russell 2000	21.0%	15.0%	18.4%	-0.6%	5.8%	0.5%	21.1%	11.5%	10.4%
<b>S&amp;P 500 Sectors</b>									
Communication Services	9.3%	22.2%	20.3%	15.9%	-5.8%	-4.4%	32.5%	45.9%	25.4%
Consumer Discretionary	13.9%	13.8%	18.4%	10.5%	2.0%	0.1%	15.5%	27.0%	9.3%
Consumer Staples	36.9%	30.9%	36.9%	11.1%	3.6%	7.8%	20.9%	1.2%	4.4%
Energy	18.3%	26.2%	33.3%	13.4%	-4.2%	-3.5%	-1.3%	7.3%	30.4%
Financials	21.4%	30.1%	46.3%	6.3%	-3.0%	3.9%	32.3%	21.9%	8.1%
Healthcare	43.7%	37.6%	46.6%	10.2%	-3.8%	4.2%	19.6%	-11.2%	-2.5%
Industrials	25.6%	27.1%	33.8%	5.5%	-0.3%	-4.8%	27.6%	16.9%	16.5%
Information Technology	79.7%	10.8%	34.7%	21.6%	-7.1%	-4.1%	42.9%	27.5%	14.2%
Materials	25.1%	7.0%	15.9%	5.8%	3.9%	5.5%	17.0%	0.0%	6.3%
Real Estate Investment Trusts (REITs)*				12.5%	-3.6%	-3.7%	26.6%	-4.2%	-2.1%
Utilities	23.1%	14.5%	12.7%	24.3%	-8.8%	-0.8%	26.0%	9.8%	13.8%
<b>Non-U.S. Stocks</b>									
MSCI ACWI Ex USA	5.8%	8.0%	6.6%	3.3%	-13.9%	-7.4%	17.0%	21.4%	17.0%
MSCI ACWI	12.4%	12.8%	12.3%	8.4%	-8.6%	-5.3%	24.0%	20.1%	13.5%
MSCI EAFE	8.7%	13.6%	13.4%	3.0%	-15.6%	-8.7%	18.0%	18.1%	14.3%
MSCI EM	24.7%	17.2%	16.0%	24.4%	4.7%	2.6%	13.9%	27.6%	20.7%
<b>Fixed Income</b>									
Bloomberg US Agg Bond	12.9%	9.1%	10.1%	9.6%	6.4%	7.6%	10.6%	2.4%	2.1%
Bloomberg US Treasury	11.0%	8.7%	10.3%	10.0%	7.6%	7.5%	9.2%	1.5%	1.3%
Bloomberg Short Treasury	5.9%	7.2%	7.2%	6.0%	4.3%	2.8%	13.0%	-5.3%	4.2%
Bloomberg US Treasury Long	13.6%	8.9%	9.9%	13.7%	5.3%	8.2%	5.6%	4.5%	-4.3%
Bloomberg US Corp Bond	9.4%	9.6%	11.7%	8.3%	5.0%	7.8%	13.0%	3.5%	2.2%
Bloomberg Municipal	8.8%	7.3%	8.7%	8.1%	3.3%	6.3%	7.4%	2.0%	2.0%
Bloomberg Global Agg ex-USD Hedged	16.6%	8.2%	10.2%	9.3%	4.3%	5.7%	13.8%	8.1%	5.8%
Bloomberg US Corporate High Yield	10.1%	12.1%	12.6%	2.7%	6.7%	4.4%	9.2%	3.0%	2.1%
JPM EMBI Global Diversified	13.7%	31.6%	33.9%	12.2%	-0.3%	6.7%	15.8%	9.4%	7.2%

Source: Morningstar Direct; S&P 500 Total Return Index; daily returns; 1/1/1983 - 3/31/2026. Normalization rate cut regimes include those beginning on 9/3/1984, 6/5/1989, and 7/6/1995. Recession rate cut regimes include those beginning on 7/13/1990, 1/3/2001, 9/18/2007, and 3/4/2020. Current rate cutting cycle began on 9/17/2024. The analysis for Normalization and Recession covers from September 1983 through March 2022, which is two years after the March 2020 rate cuts that were implemented to stave off recession, while the Current cycle runs through 3/31/2026.

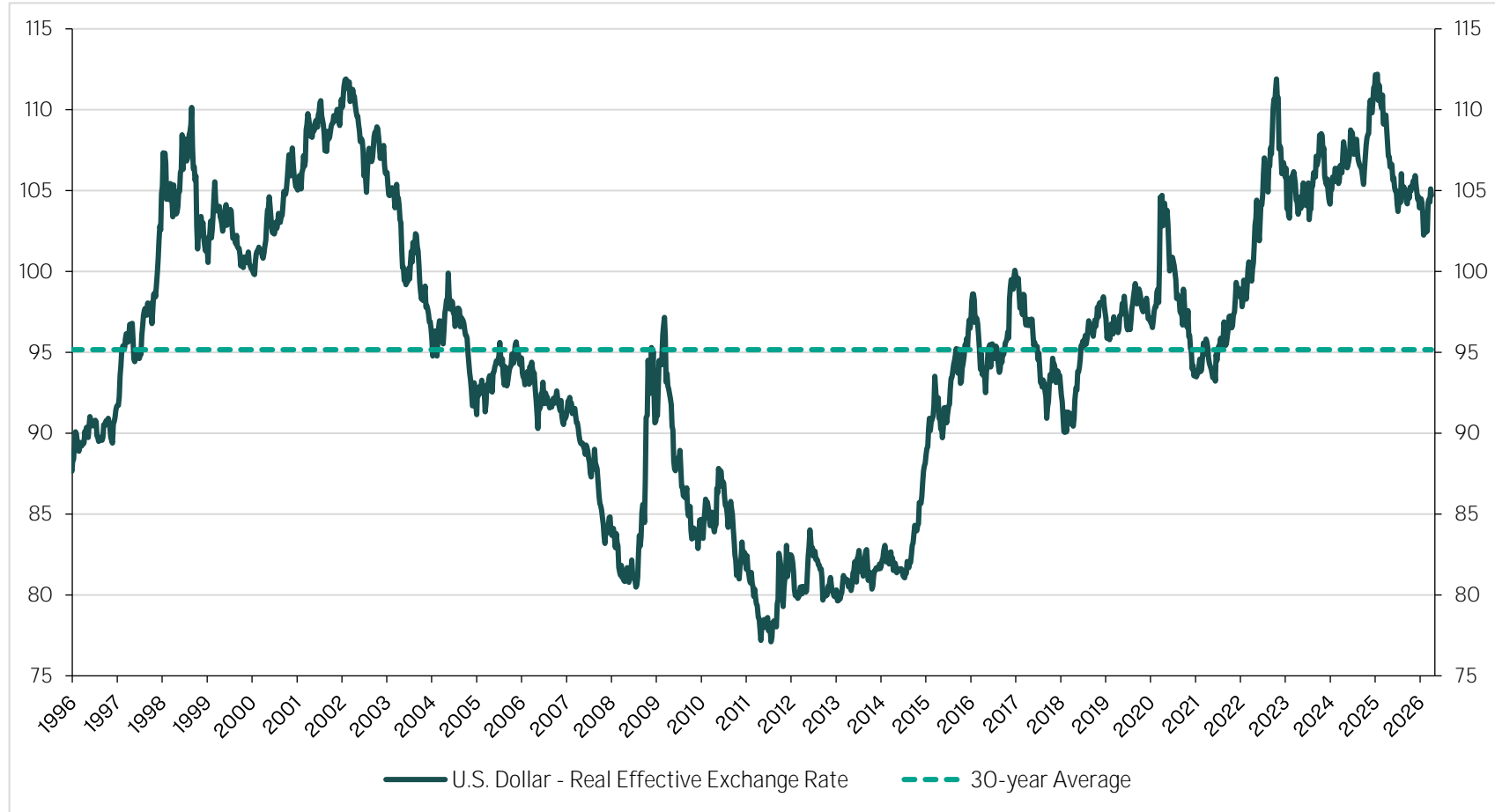
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U.S. Dollar

# U.S. Dollar stabilizing after a bruising 2025

- The trade-weighted U.S. dollar fell 9% in 2025—its worst year since 2017—as tariff impacts, global investor hedging, and narrowing growth differentials weighed heavily. With much of that repricing now absorbed, our base case for 2026 is a more range-bound dollar against most foreign currencies.
- The dollar held its ground during the first month of the war with Iran but did not break out of its recent range.
- Two risks cloud that outlook. First, any resurgence of concerns around Fed independence could reignite "fiscal dominance" narratives and accelerate outflows from U.S. assets—our bear case for the dollar. Second, growing unease over the sustainability of the U.S. budget deficit is already showing up in foreign investor behavior, with signs they are demanding higher yields and a weaker dollar as compensation for financing expanding Treasury issuance.
- Over the longer term, we continue to expect a still-overvalued dollar to gradually depreciate toward fair value.

The U.S. dollar appears historically overvalued

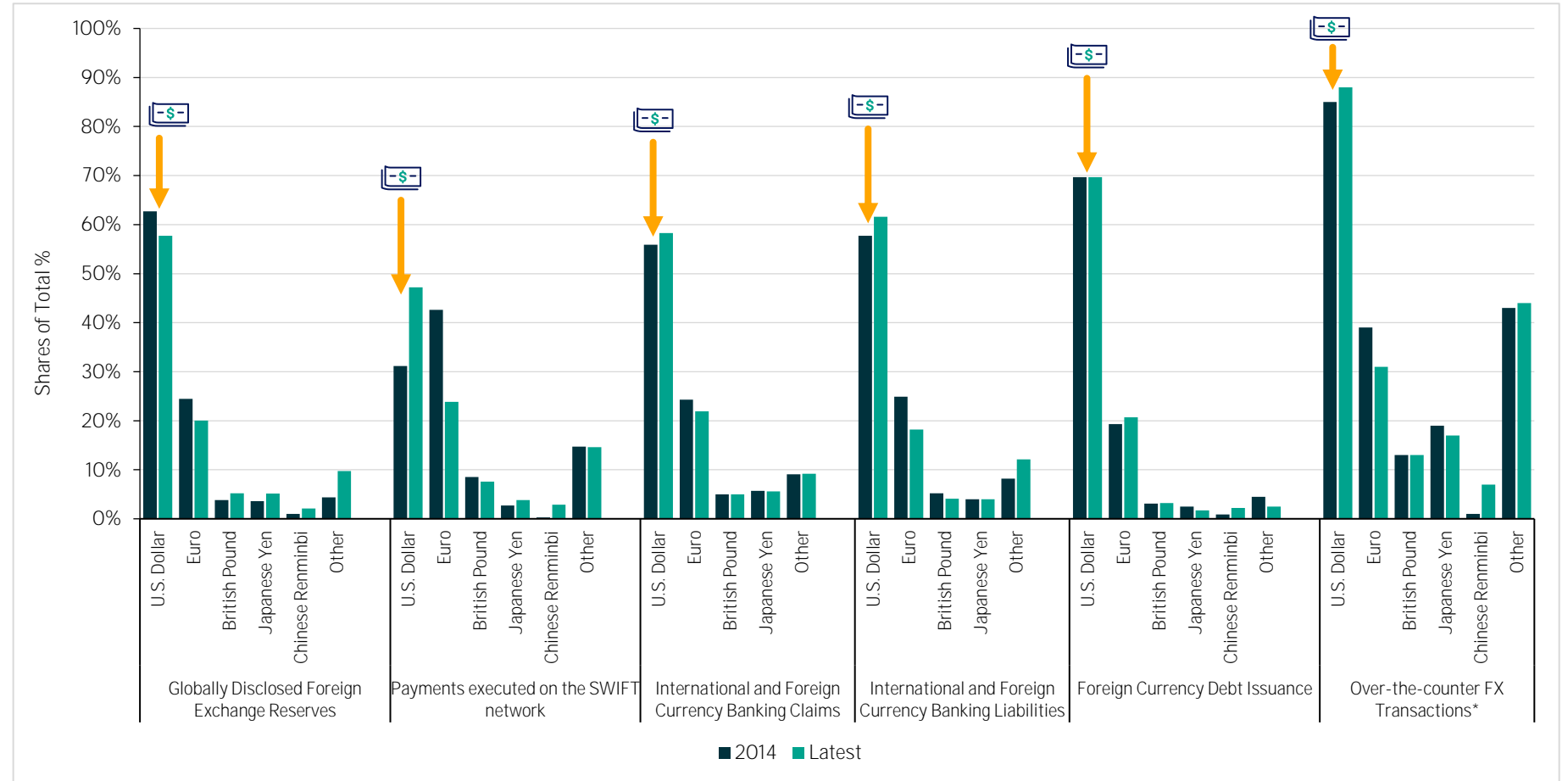


Source: U.S. Treasury, TIAA Wealth Chief Investment Office. Data through 4/3/2026.

# The Dollar's global reserve status: Resilient but facing headwinds

- While the dollar's share of global currency reserves has slipped from 63% in 2014 to 57% in Q3 2025, a broader view tells a more nuanced story—dollar usage across payment transactions, banking claims, and foreign currency debt issuance remains at least as prevalent as it was a decade ago.
- We expect the dollar to retain its dominant global role, underpinned by superior U.S. productivity growth, unrivaled capital market depth, and the absence of any viable alternative.
- That said, challenges to dollar primacy have been building for several years and notably intensified in 2025.
- For more, read our FocusPoint [“U.S. Dollar: Losing its luster?”](#)

Currency composition of different foreign exchange categories



Source: U.S. Treasury, TIAA Wealth Chief Investment Office. Data through 9/30/2025.

# Long-term drivers of the U.S. Dollar



## Inflation differentials

High inflation (especially if seen as structural and persistent) that erodes the purchasing power of consumers and businesses should lead to a weaker currency over time, while low and stable inflation should drive currency appreciation.



## Interest rate differentials

As a rule of thumb, developed market currencies (where historically interest rate differentials are mostly a reflection of economic growth differentials) feature a stronger positive correlation with interest rate differentials than emerging markets.



## Investment flows

Global investors are attracted to capital markets that are supported by stable inflation and attractive rates of return. In addition, economic and earnings growth potentials are key factors driving allocation decisions.



## Terms of trade

93% of U.S. imports are invoiced in U.S. dollars. This means that the relative value change between export and import prices is much less impactful for the U.S. dollar.



## Market sentiment

Some currencies (including the USD) have been historically positively correlated to market volatility, especially during times of large pullbacks in asset prices. This is because **investors seek shelter in “safe haven” assets, of which U.S. Treasuries are a predominant option.**



## Global reserve status

What allows the dollar to function effectively as the global reserve currency is its large, deep, and liquid capital markets. **As of Q1 '25, foreign investors held around 27% (\$7.6 trillion) of the \$28 trillion total marketable Treasury debt and 20% (\$18 trillion) of the \$90 trillion U.S. equity market.**

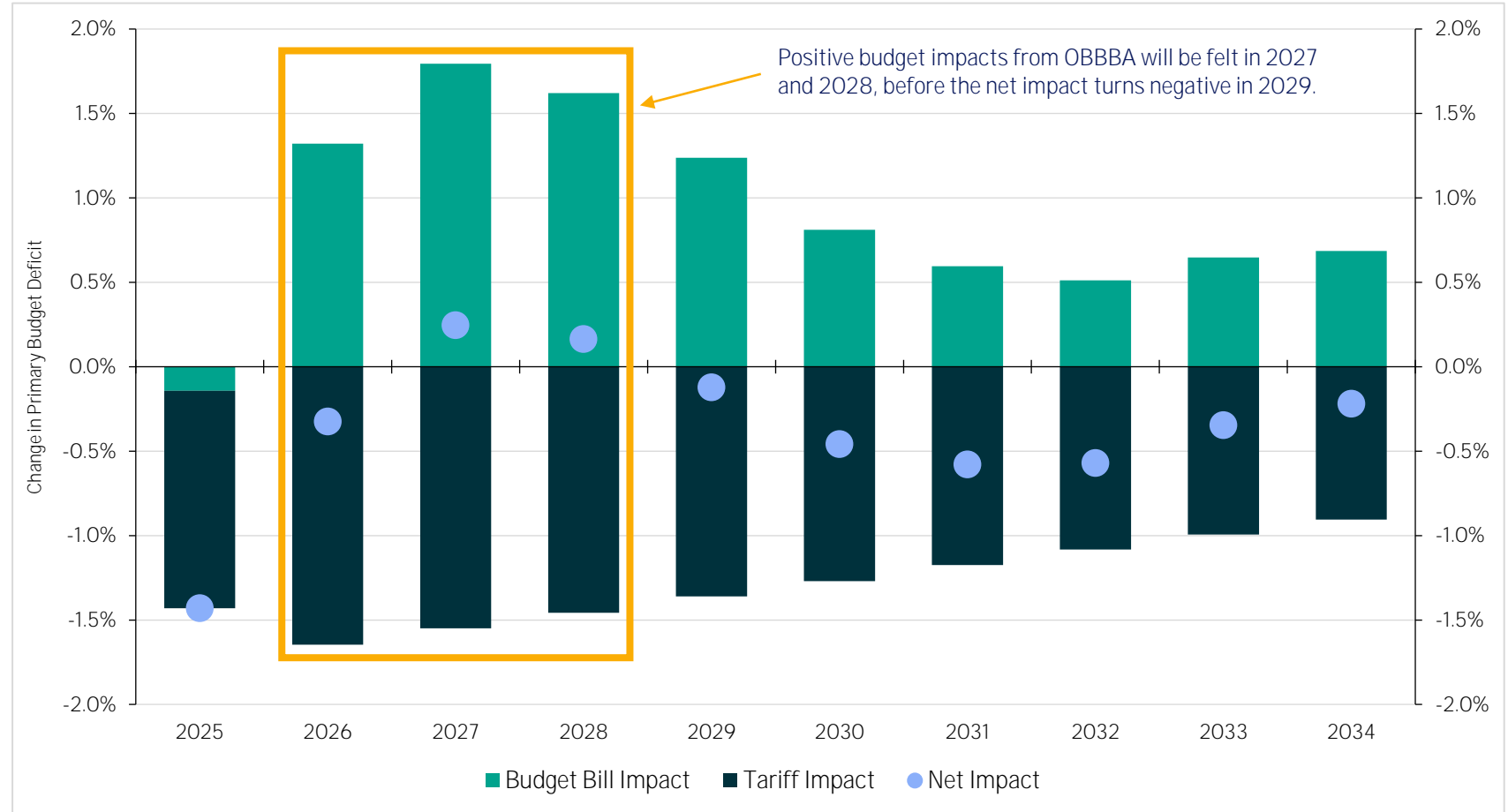
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# U.S. fiscal policy

# The One Big Beautiful Bill Act

- On July 4, 2025, President Trump signed the “One Big Beautiful Bill Act” (OBBBA) into law, following completion of the budget reconciliation process in both the House and Senate.
- Our assessment is that the Act does little to address the long-term sustainability of the U.S. fiscal position, and its aggregate impact on GDP growth could be rather modest, both in the short term and in the long term.
- The Act’s tax benefits must be measured against the backdrop of material cuts to crucial and widely used government programs, like Medicaid and SNAP. In the past, the CBO estimated that each dollar transferred by the federal government to individuals could produce as much as \$2.10 of additional spending into the U.S. economy, a multiplication effect greater than the one from individual and corporate tax cuts.
- Trade tariffs could remain a drag on consumer income and could largely offset any positive fiscal stimulus stemming from the Act. As the chart shows, the combined impulse (defined as the year-over-year change in the primary budget deficit) of tax cuts, spending cuts and tariff revenue is projected to be negative in 2025 and (to a lesser extent) in 2026.

The combined effect of tax cuts, spending cuts and tariff revenue is projected to reduce the primary budget deficit in 2025 and 2026

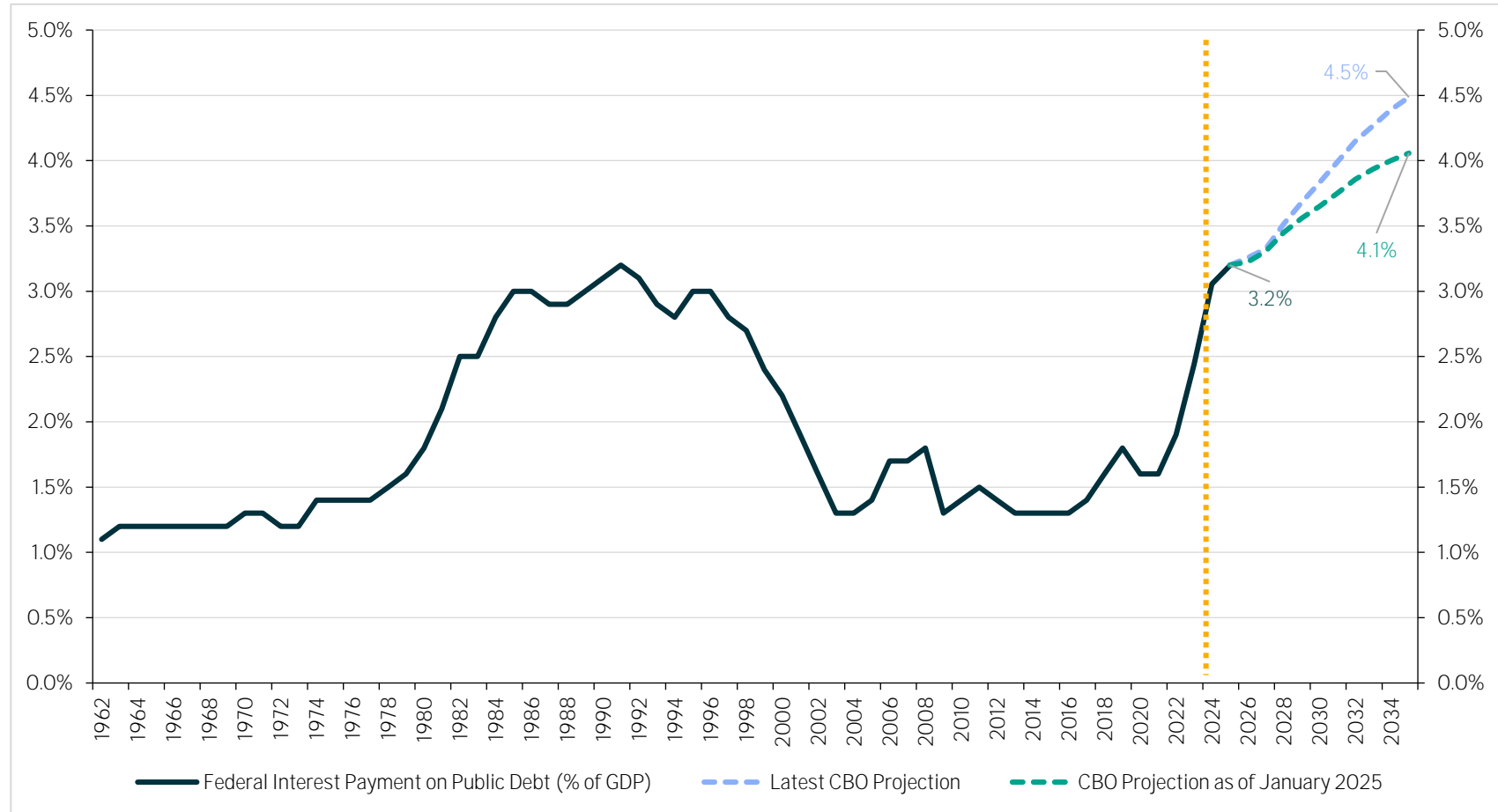


Source: CBO, Penn Wharton Budget Model, TIAA Wealth Chief Investment Office. Data as of 12/31/2025.

# U.S. deficit/debt: A structural challenge with long-term consequences

- U.S. interest payments on the national debt totaled 3.2% of GDP in fiscal year 2025. The Congressional Budget Office (CBO) projects that figure will rise to 4.1% by 2035 (light green line)—and to 4.5% under the OBBBA (light blue line)—as federal spending is expected to surge roughly 50% to over \$10 trillion, driven largely by soaring mandatory spending on Social Security and Medicare amid an aging population.
- The CBO has been explicit about the risks: high and rising debt as a percentage of GDP could slow economic growth, increase interest payments to foreign creditors, heighten fiscal crisis risk, constrain future policy flexibility, and leave the U.S. more vulnerable to interest rate increases.
- Rising deficits and the debt burden required to finance them represent one of the most consequential long-term risks to the economy, the financial system, and the post-WWII geopolitical order.

Interest payments by the federal government are projected to climb to more than 4% of GDP over the next decade

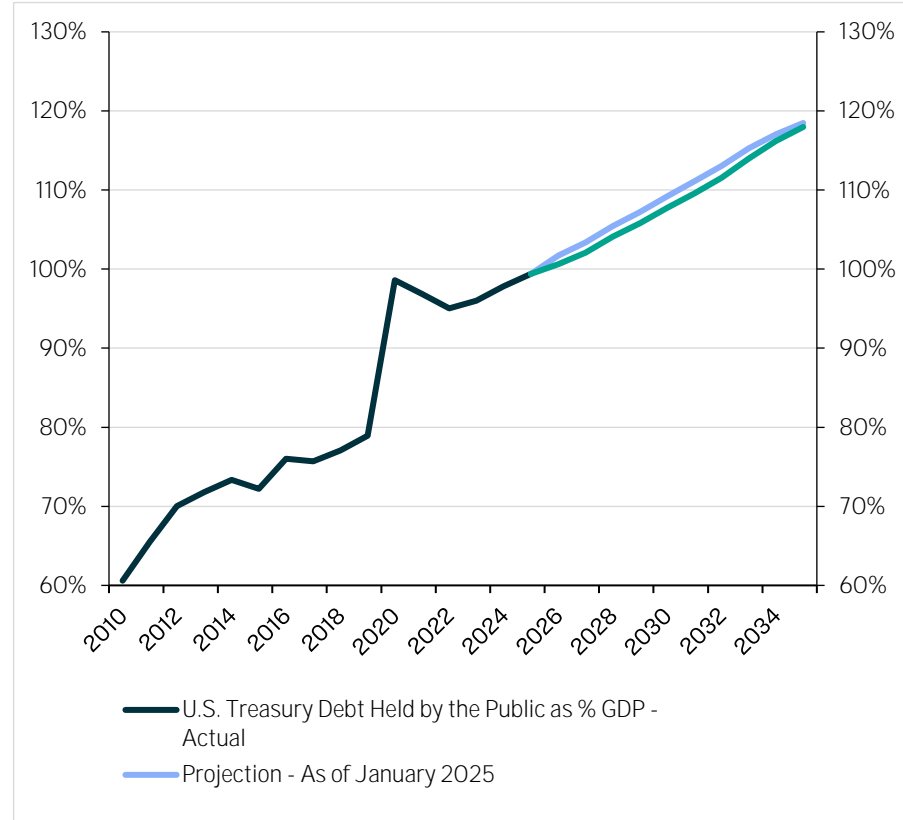


Source: FactSet Financial Data and Analytics, CBO, TIAA Wealth Chief Investment Office. Projections through 12/31/2035. CBO forecast data is right of the dotted line.

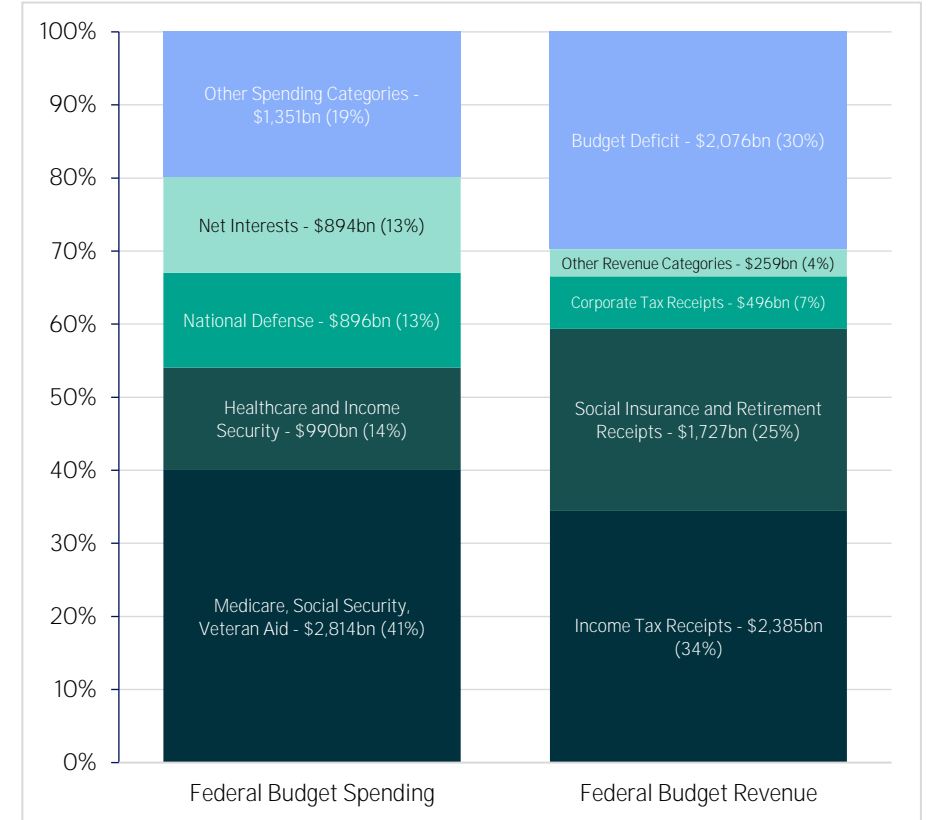
# Trajectory of federal budget spending and debt is unsustainable

- The CBO projects that, after the signing into law of the “One Big Beautiful Bill Act,” the ratio of marketable Treasury debt to U.S. nominal GDP will rise to ~118.5% by 2035, which is just about equal to their pre-OBBBA projection of 118.0% (left panel).
- Trade tariffs might provide a partial offset over time, although their impact and durability remain unclear.
- Besides this potential offset, there are little reasons to believe that the upward trajectory in the debt/GDP ratio will slow down without cuts involving mandatory spending (Social Security, Medicare, etc., right panel) or lower interest rates that would reduce annual interest payments.

U.S. Treasury debt held by the public as a percentage of GDP



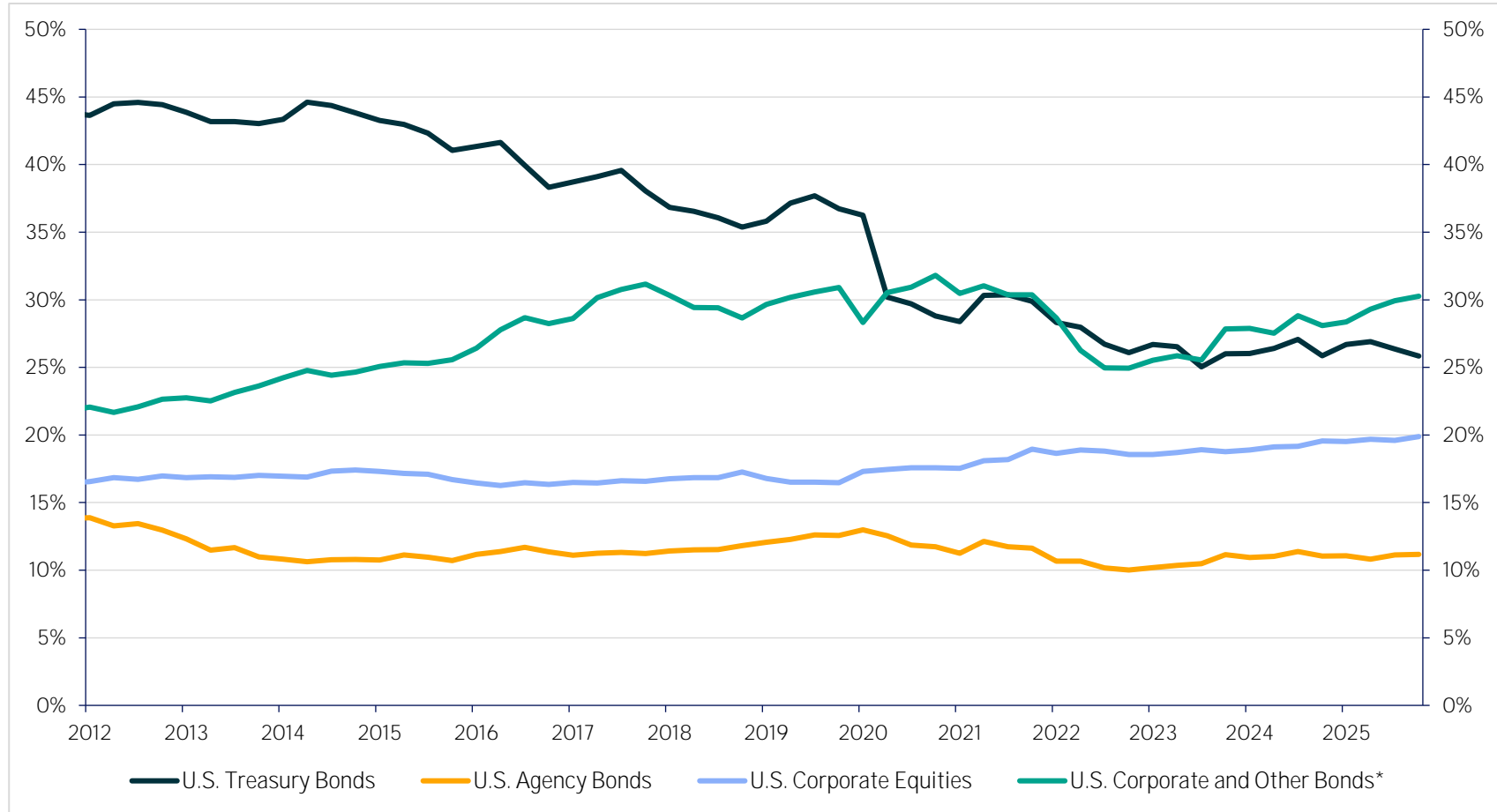
A large share of federal budget expenditures are very challenging to cut



# Foreign investors own a significant share of U.S. financial assets

- Foreign investors remain deeply embedded in U.S. markets—holding more than 25% of Treasuries (dark green line), 30% of corporate debt (light green line), 20% of equities (light blue line), and 11% of agency bonds.
- Though the Treasury share has declined from ~45% in 2014, the overall foreign footprint remains substantial.
- This creates meaningful leverage. Escalating U.S. fiscal concerns could prompt foreign investors to demand higher premiums—through lower valuations or a weaker U.S. dollar—to maintain their exposure.
- Meanwhile, a more protectionist U.S. posture risks accelerating integration abroad, potentially channeling significant fiscal stimulus and investment toward both Europe and China.

Foreign investors own a material share of U.S. financial assets, from stocks to corporate and U.S. Treasury bonds



\*Municipal bonds and securitized products.

Source: Federal Reserve, TIAA Wealth Chief Investment Office. Data through 12/31/2025.

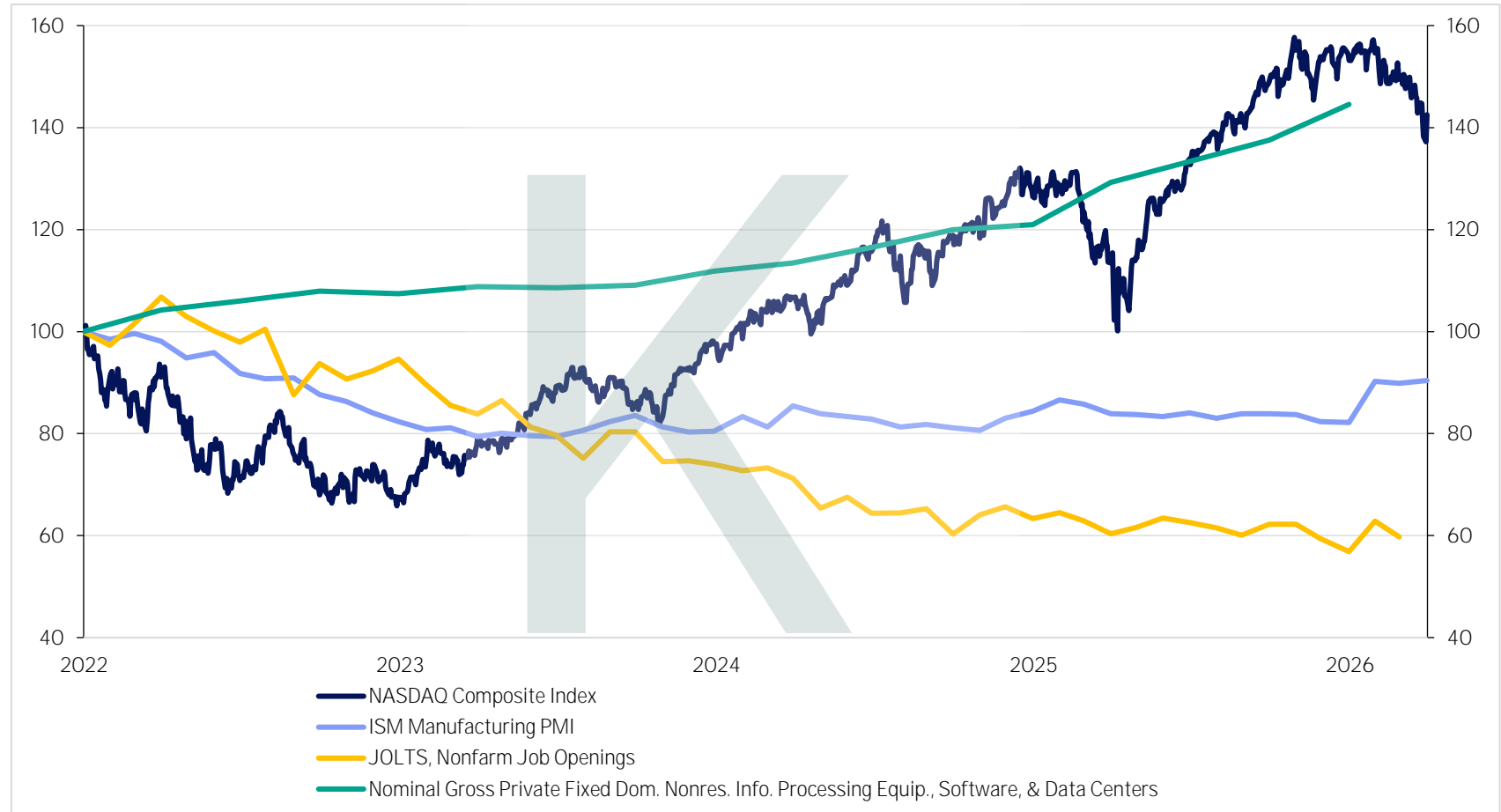
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Inflation, the labor market, housing market, and consumer health

# The K-shaped economy

- A K-shaped economy describes a recovery where different segments grow at starkly different rates—one arm rising, the other falling.
- The upward arm reflects high-income households and technology-driven sectors, as evidenced by NASDAQ gains and surging tech spending.
- The downward arm reflects the struggles of manufacturing and low-to middle-income consumers, captured in declining JOLTS and Manufacturing PMI data.
- In 2026, the degree of divergence will depend on three forces: AI's transition from buildout to broad adoption, the trajectory of inflation, and whether equity market strength continues to sustain spending among affluent households.

K-shaped economy implies an economy where wealth and economic growth diverge significantly between high-income and low-income groups

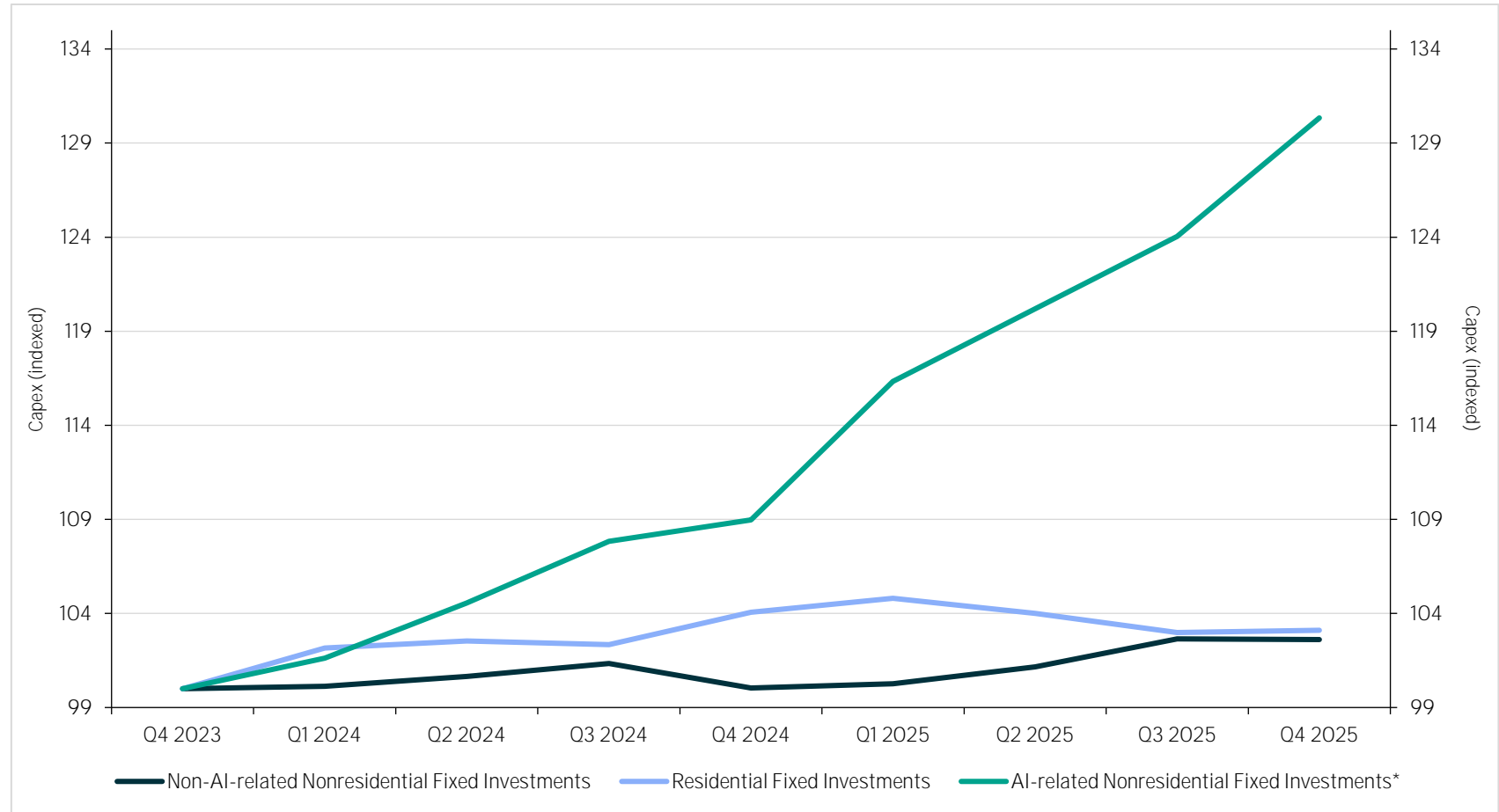


Source: Source: FactSet Financial Data Analytics, Bloomberg, TIAA Wealth Chief Investment Office. Data from 1/1/2022; frequency: NASDAQ: daily through 3/31/2026; JOLTS & Manufacturing PMI: monthly through 3/31/2026; Tech. spending: quarterly through 12/31/2025.

# Artificial intelligence has been a key driver of investment spending

- Capital expenditure (capex) remains a critical driver of economic growth. Since late 2023, AI-related fixed investment (light green line) has surged 20%, far outpacing non-AI fixed investment (dark green line) and residential investment (light blue line), up just 1% and 4%, respectively. Our base case anticipates further improvement in non-AI manufacturing investment, supported by the OBBBA and fading tariff uncertainty.
- The caveat is debt. Global debt has grown at \$3.8 trillion per quarter since Q1 2020—more than double the \$1.8 trillion quarterly pace of the prior decade. We expect this trajectory to persist through 2026, keeping the neutral interest rate<sup>1</sup> elevated and limiting meaningful declines in bond yields, absent a recession.
- The sharp rise in energy prices in Q1 is also a potential threat to capex.

AI-related fixed investments have far outpaced other categories since the end of 2023



\*Software, Information Processing Equipment, and Data Centers Fixed Investments.

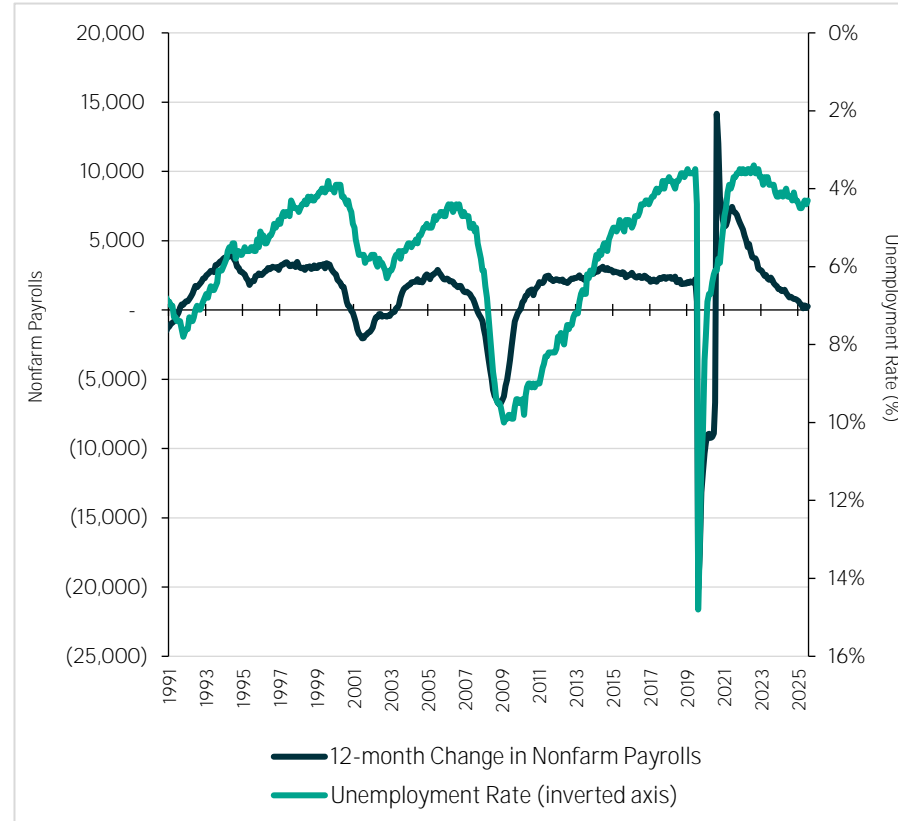
Source: BEA, TIAA Wealth Chief Investment Office. Data through 12/31/2025.

<sup>1</sup>The neutral interest rate is the theoretical level of the short-term interest rate that neither stimulates nor restricts economic growth, supporting full employment and stable inflation.

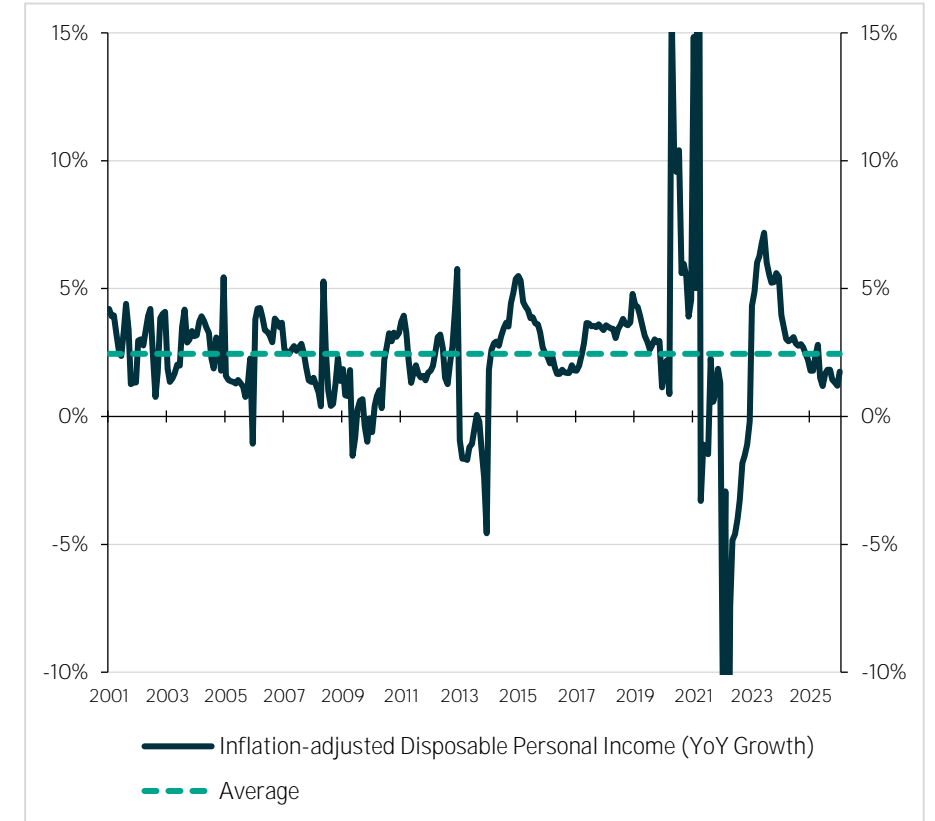
# Labor market conditions have weakened over the past two years

- Job creation has slowed materially, with nonfarm payrolls averaging just 68,000 new positions over the three months ending March 2026 (left panel, dark green line). While the unemployment rate dipped to 4.3% in March, continuing jobless claims have steadily climbed—signaling that displaced workers are taking longer to find new employment (left panel, light green line). Layoffs remain contained, but the trend bears watching.
- A sharp deceleration in immigration is also shrinking labor force growth, lowering the monthly job creation threshold needed to hold unemployment steady—adding further complexity to an already murky picture.
- On the income side, inflation-adjusted disposable personal income growth has increased to 1.8% year-over-year as of January 2026 (right panel, dark green line), up from 1.2% a year earlier but below the 2.5% long-term average (light green line). With wage growth slowing down and inflation perking up due to higher energy prices, we could see further deceleration in real disposable income growth.

Employment growth and unemployment rate



Inflation adjusted disposable personal income growth

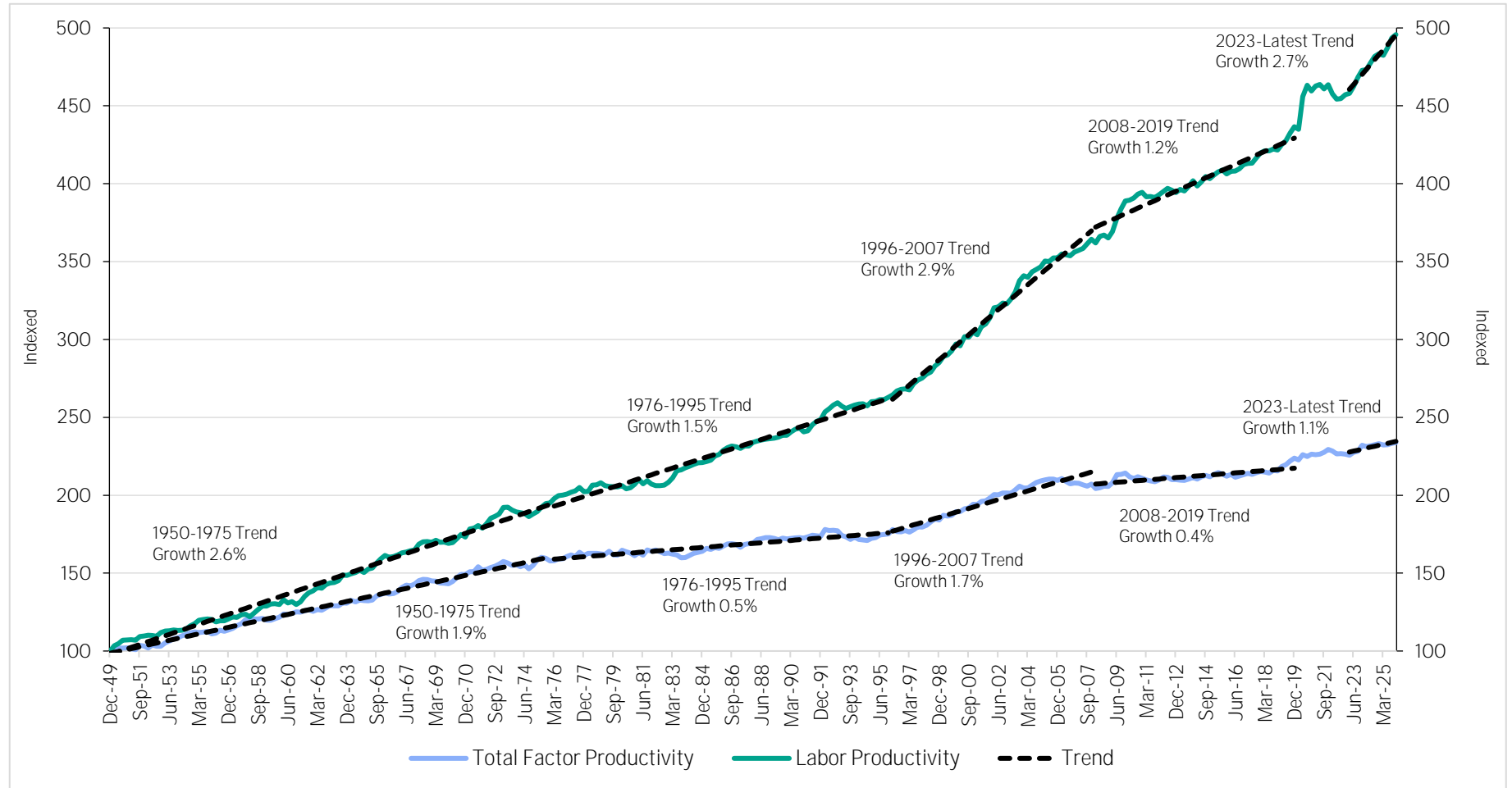


Source: Kansas City Federal Reserve, BLS, TIAA Wealth Chief Investment Office. Data through 3/31/2026 (left panel) and 1/31/26 (right panel).

# Wider adoption of AI needed to see more conclusive gains in productivity

- Labor productivity (light green line) is growing faster than usual, but the reasons matter. Since late 2022, productivity growth has jumped to 2.7%—well above the 75-year 2% trend. However, this boost appears to be driven mainly by businesses investing heavily in capital (like AI tools and technology) relative to the number of workers, not by the economy becoming fundamentally more efficient, yet (total factor productivity).
- While AI is driving a surge in business investment, there is no conclusive evidence yet that it is meaningfully raising total factor productivity (light blue line), which remains in line with the long-term trend (1.1%). This deeper, more transformative effect may still be ahead—but it will likely take time and wider adoption of AI technologies across industries.
- Given the slower expansion of the labor force—due to an aging population and smaller immigration flows—an acceleration in productivity growth is paramount to sustain above-trend economic growth.

Labor productivity has been accelerating, but a broader measure of economic productivity shows less progress so far

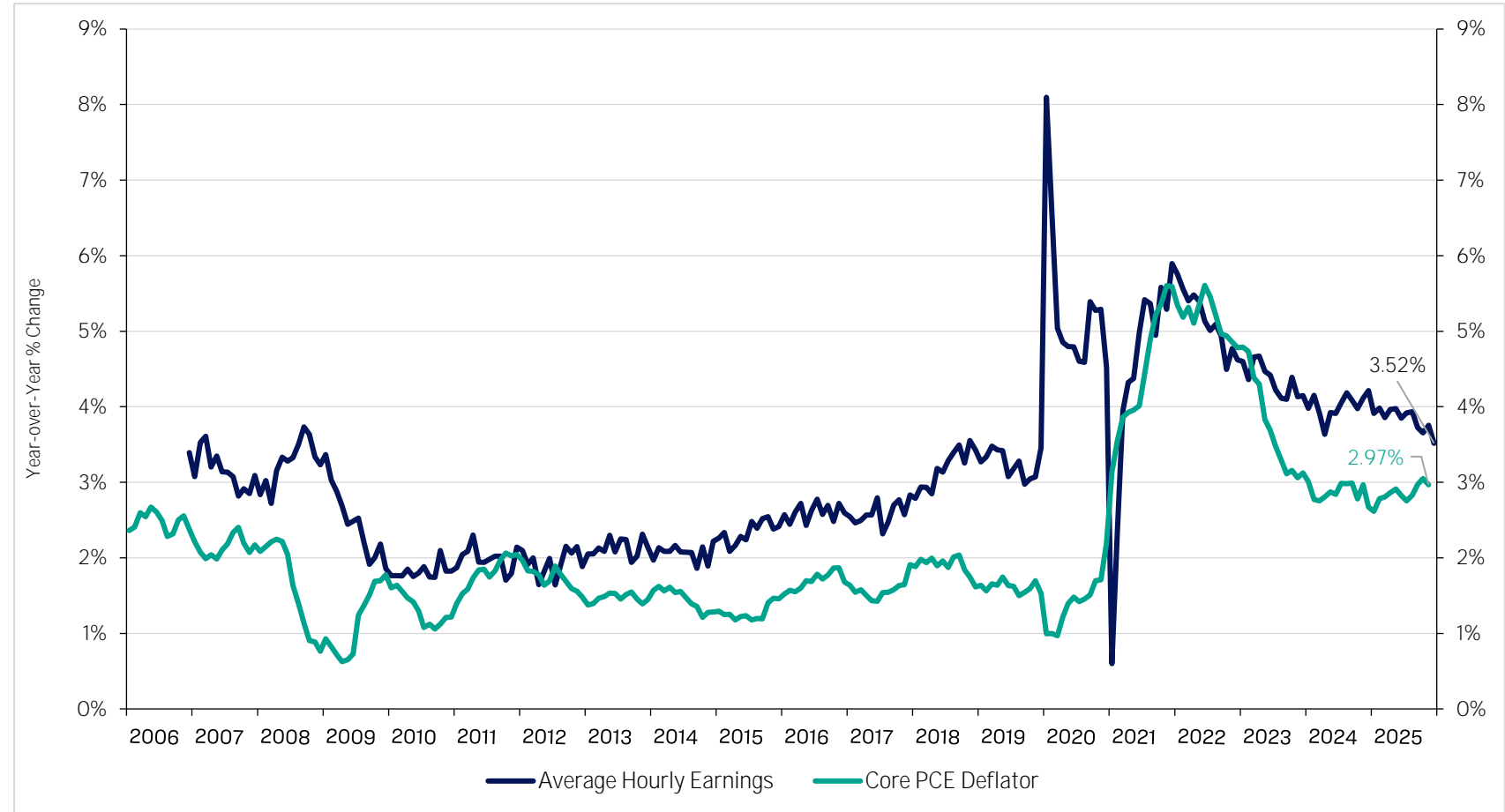


Source: Source: San Francisco Fed, Bureau of Labor Statistics, TIAA Wealth CIO. Data through 12/31/2025.

# Core and wage inflation have decelerated, but remain high

- Labor costs represent roughly two-thirds of business expenses, making wage inflation (dark green line) one of the most reliable leading indicators of broad price pressures —captured here by the Fed's preferred gauge, Core PCE (light green line).
- Historically, average hourly earnings growth of 2.5%–3.5% is consistent with the Fed's 2% inflation target. Wage growth cooled in 2025 but remains near 4%, still running hot by historical standards—unless sustained productivity growth of 2% or more helps bridge the gap.
- This leaves the Fed navigating a delicate balance: a dual mandate increasingly pulled in opposite directions by slowing employment growth on one side and still-elevated inflation on the other.
- The pass-through of higher energy prices stemming from the conflict in Iran will be key for inflation and the Fed.

Wage growth remains faster than it was on average before the pandemic, creating upside risks to inflation

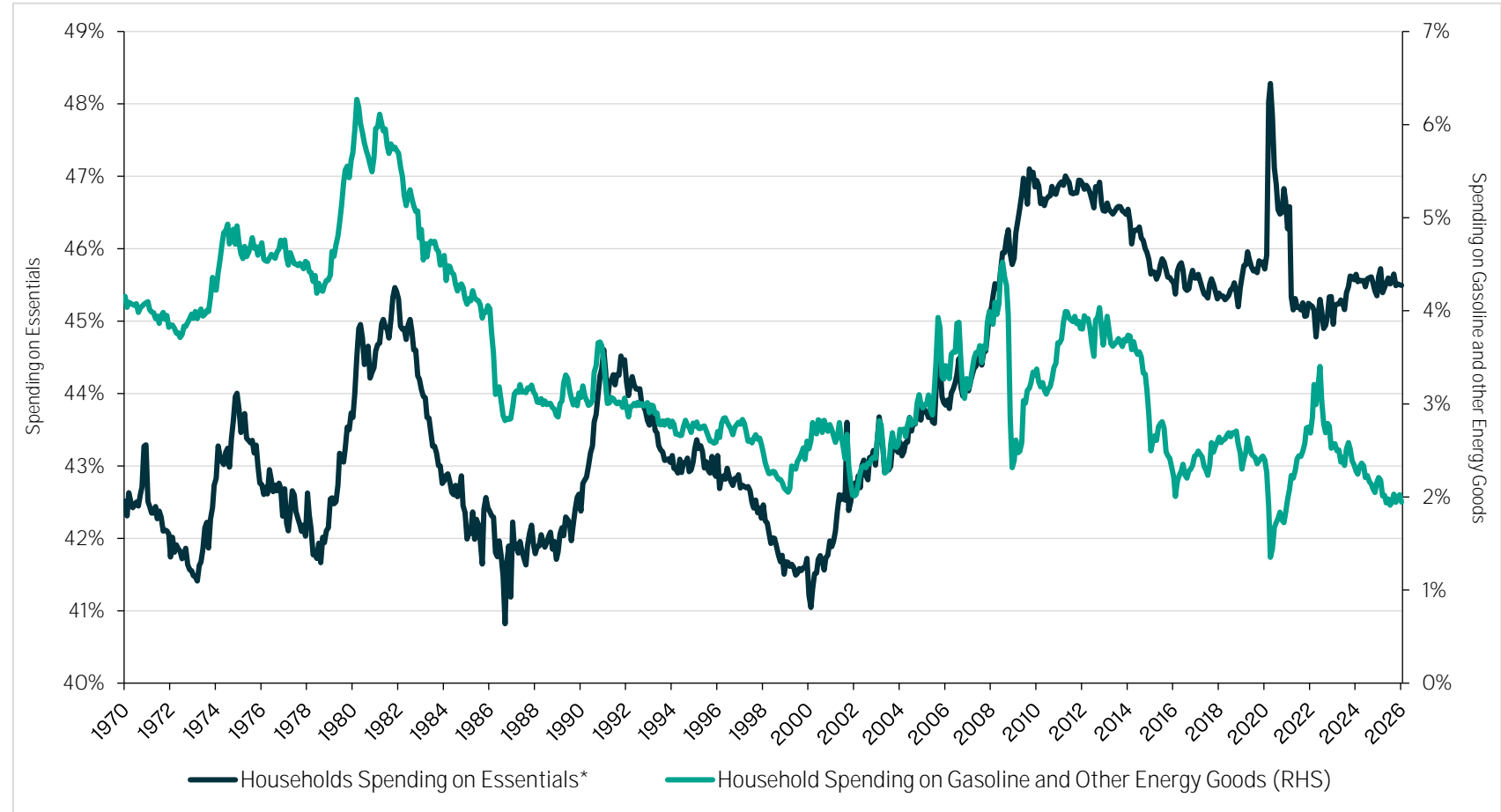


Source: FactSet Financial Data Analytics, TIAA Wealth Chief Investment Office. Data through: Core PCE through 2/27/2026; Average Hourly Earnings through 3/31/2026.

# The share of household budgets devoted to energy goods has moved lower

- Household spending on essentials (dark green line) has risen over the past 30 years, but the story is nuanced. The increase is driven by healthcare and housing costs, which have grown significantly as a share of household budgets. These are categories where consumers have limited ability to cut back.
- Meanwhile, energy spending is near its lowest point in 50 years (light green line). Despite occasional spikes, the share of household budgets devoted to energy goods has trended sharply lower over the long run.
- This reflects a combination of improved energy efficiency, technological advances, and structural shifts in how Americans consume energy.

U.S. households spend more on essentials, but less on energy goods

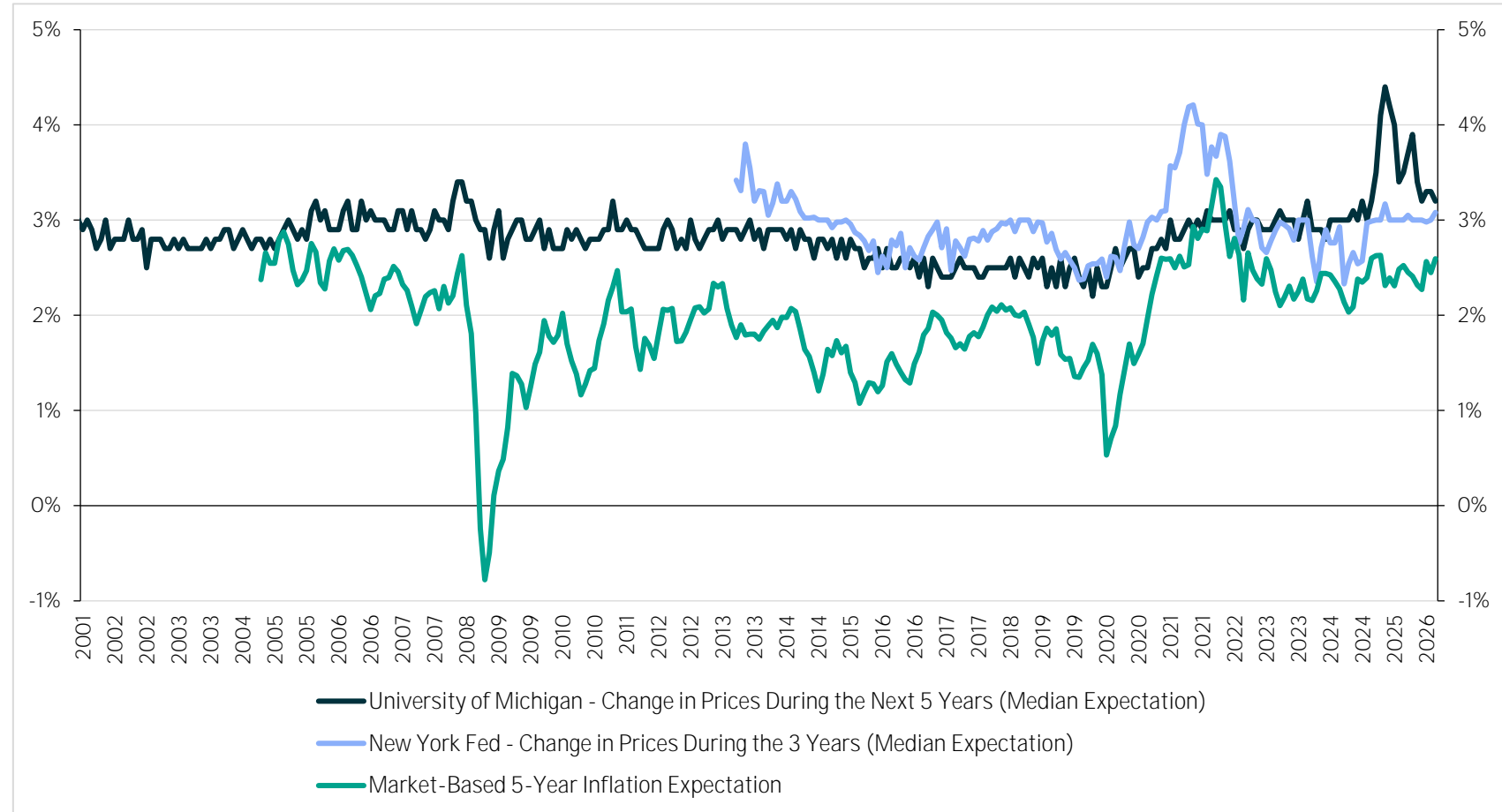


\*Groceries, Gasoline and other Energy Goods, Pharmaceuticals, Housing Costs, Healthcare.

# Inflation expectations

- Inflation expectations are a self-fulfilling force in the economy. When households and businesses expect prices to rise, they behave accordingly—workers demand higher wages, companies raise prices preemptively, and the cycle becomes difficult to break. This is why a shift in expectations can turn a temporary price shock into a lasting inflation problem.
- Well-anchored expectations give the Fed room to be patient. If inflation expectations remain contained, the Fed can afford to "look through" short-term energy price spikes without immediately raising rates—avoiding unnecessary drag on growth and employment when the underlying pressure may resolve on its own.
- Unanchored expectations can complicate the Fed's job significantly. If households and businesses stop trusting that inflation will return to target, price pressures can become self-reinforcing and harder to control. We saw a version of this dynamic in 2021-2022, when a combination of supply shocks and strong demand caused expectations to drift higher, ultimately requiring the most aggressive rate hiking cycle in decades to restore confidence. Keeping expectations anchored is therefore essential to avoiding that kind of disruptive policy response.

Inflation expectations remained contained despite the rise in energy prices

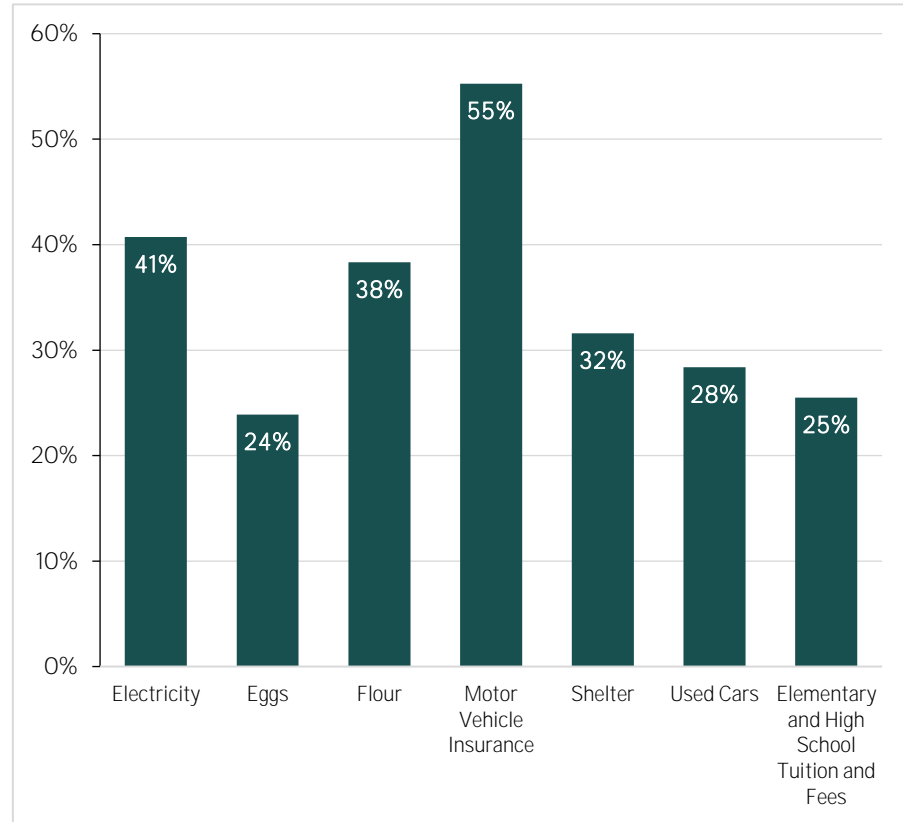


Source: BEA, TIAA Wealth Chief Investment Office. Data through 3/31/2026.

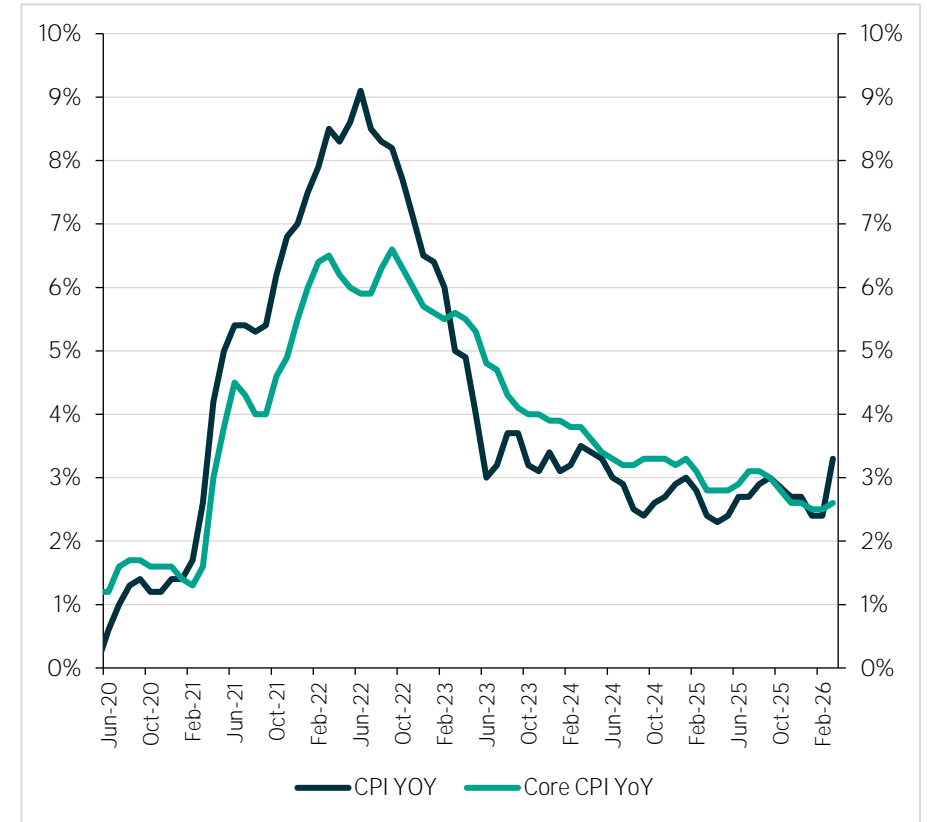
# Contributors impacting headline and core inflation

- Prices of common items like electricity, eggs, flour, used cars, motor vehicle insurance, etc. are still significantly higher than pre-pandemic levels, owing to disrupted supply chains, COVID dislocations, etc. (left panel).
- However, the pace at which prices are rising has slowed (right panel) due in part to the Fed's rate hikes and a return to normal for global supply chains, though tariffs now threaten this balance.
- Most recently, the rate of inflation has been broadly slowing/decelerating since Q2 2025 (right panel), but the war in Iran has pushed headline inflation higher again in Q1 2026.

Price increase for key goods & services since end of 2019



Core CPI Inflation

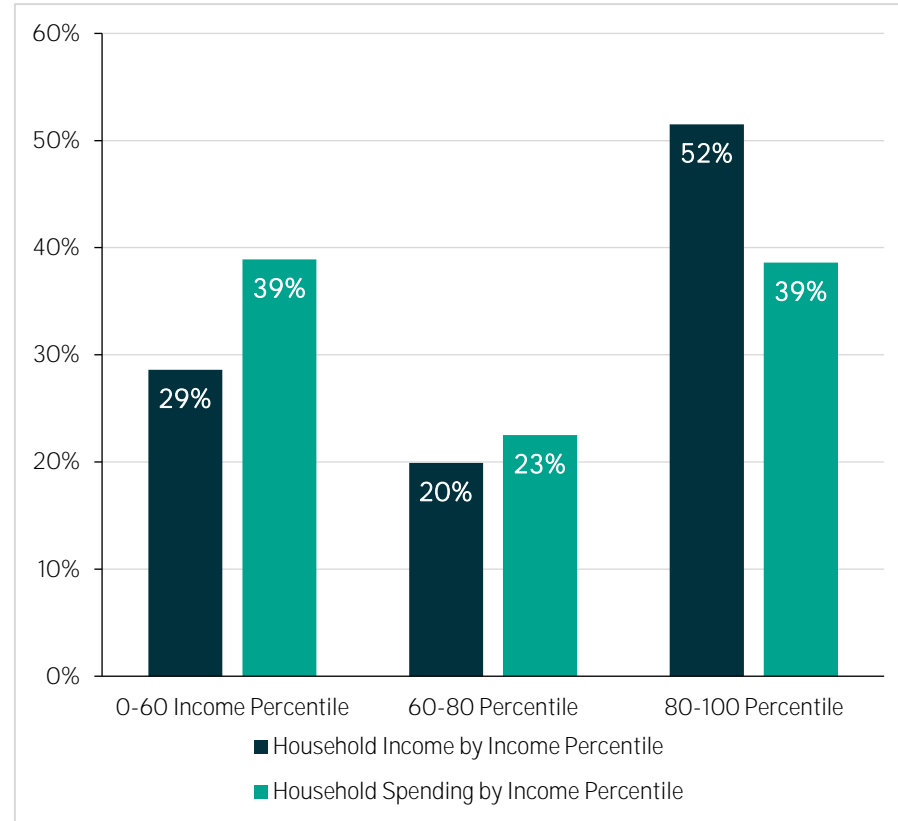


Source: BLS, TIAA Wealth Chief Investment Office. Data through 3/31/2026.

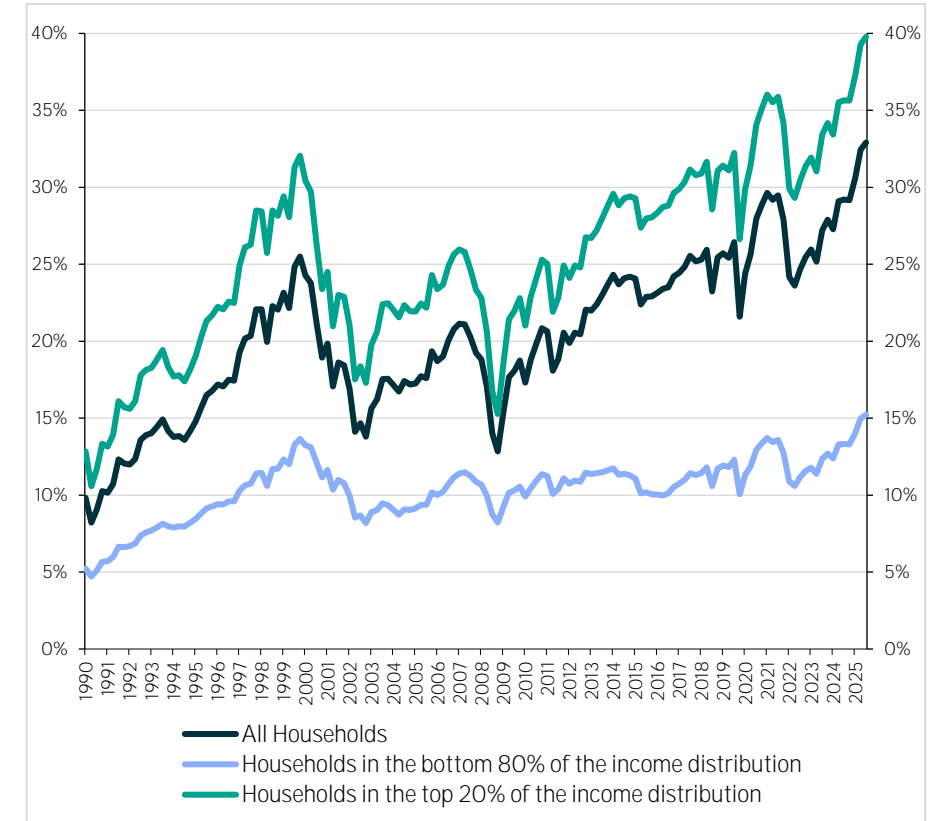
# Lower income households are struggling

- The financial resilience of lower-income households is eroding. Unlike their higher-income counterparts—who retain substantial pandemic-era liquidity buffers—lower-income consumers are showing cracks in spending behavior (left panel), with OBBBA likely to strain their finances further.
- The divide extends to financial markets. While ~33% of all households hold equities in some form (right panel, dark green line), ~40% of the top 20% of households have equity exposure (right panel, light green line) versus ~15 % for the remaining 80% (right panel, light blue line).
- This concentrates stock market sensitivity—and the wealth effects from daily market swings—squarely at the higher end of the income spectrum.

Household income and spending by percentile



Equity exposure as % of total net worth

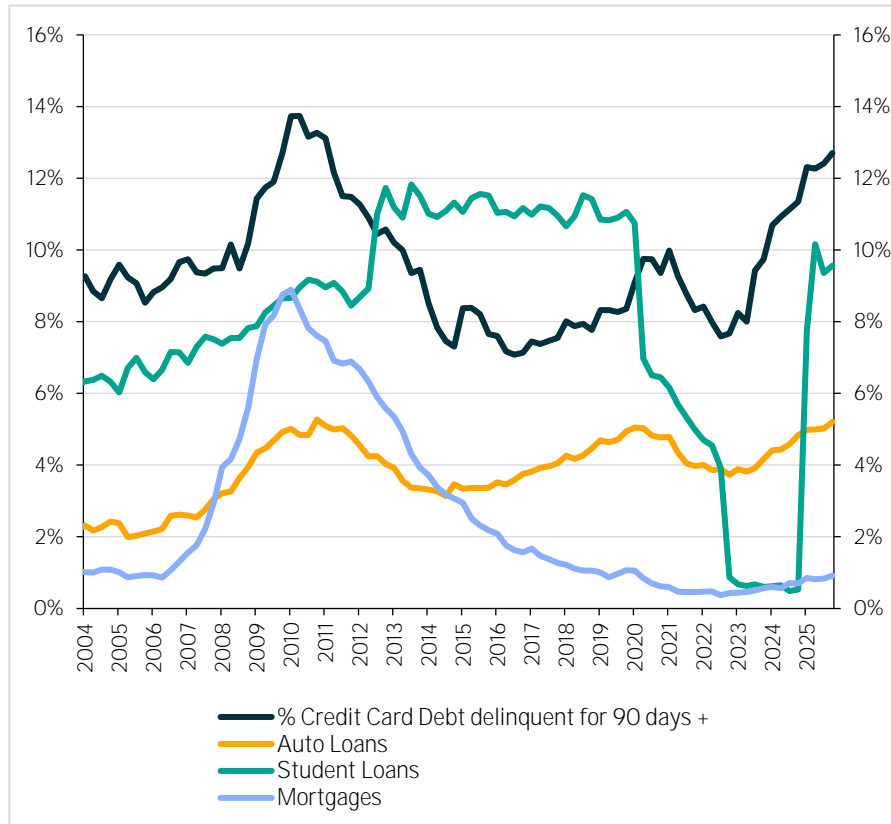


Source: BEA, BLS (Consumer Expenditures Survey), Federal Reserve, TIAA Wealth Chief Investment Office. Data through 12/31/2025.

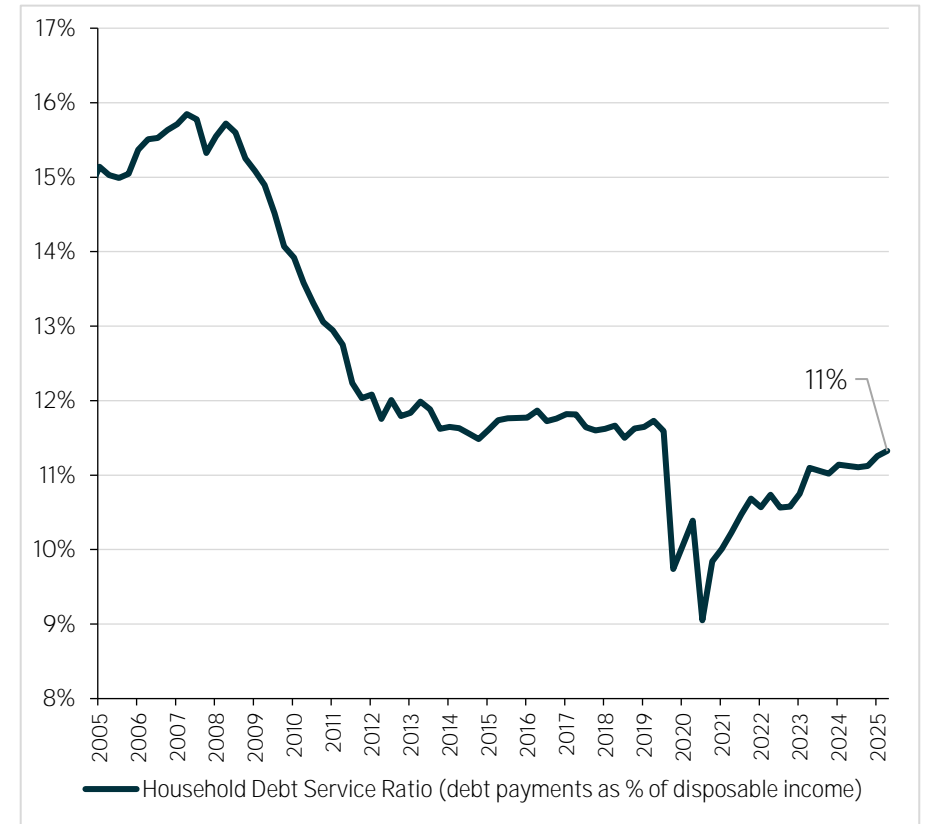
# Consumer health is beginning to feel stress, but it's not 2008

- Inflation's slow retreat toward the Fed's 2% target offers little relief to consumers already strained by a softening labor market. Lower-income households are increasingly leaning on credit cards to sustain spending, and delinquencies reflect the widening gap between rising living costs and stagnant purchasing power.
- A new pressure point emerged in Q1 2025, as Covid-era student loan relief expired—triggering a notable spike in student loan debt (left panel, light green line). A wave of defaults still looms, with affected borrowers facing wage garnishment and credit score damage.
- The saving grace: household debt service payments stand at ~11% of disposable personal income as of the end of 2025 (right panel)—elevated but meaningfully below the ~16% reached at the peak of the 2007–2009 financial crisis.

Flows into early delinquencies  
% of balance delinquent 90+ days through Q4 2025



Household debt service ratio  
Debt payments as a % of disposable personal income through Q4 2025, SA<sup>1</sup>

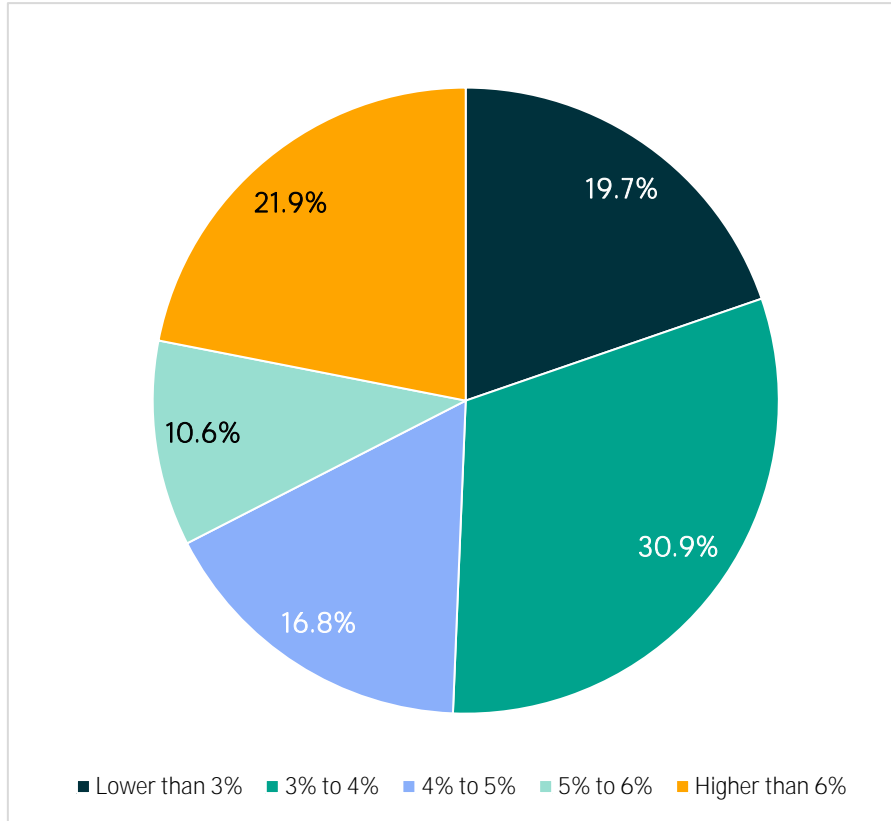


<sup>1</sup> Seasonally adjusted  
Source: Federal Reserve, BEA, TIAA Wealth Chief Investment Office. Data through 12/31/2025.

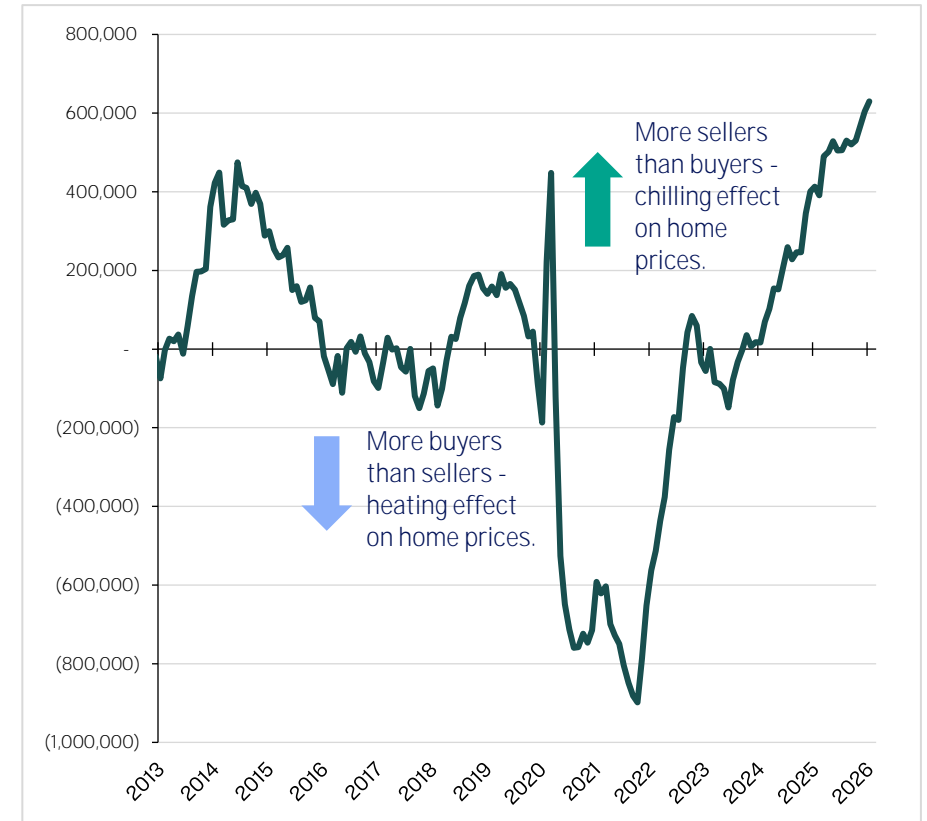
# The housing market remains under pressure due to several factors

- The housing market remains in a state of paralysis—trapped by historically poor affordability, limited supply, and stubbornly high mortgage rates. With roughly 70% of existing homeowners locked into mortgages at 5% or below (left panel), the incentive to sell remains minimal, keeping inventory constrained.
- Mortgage rates have declined by nearly 1% since early 2025 but remain elevated and tethered to a 10-year Treasury yield still pressured by inflation concerns and high budget deficits. Meanwhile, home prices—though softening in select major markets—remain out of reach for the median buyer (right panel). Near-term relief is unlikely.
- Home sellers outnumber buyers by ~630,000 (right panel)—up sharply from ~400,000 a year ago.

Outstanding mortgages by interest rate



Difference between estimated number of U.S. home sellers and buyers



# 05

## Equities

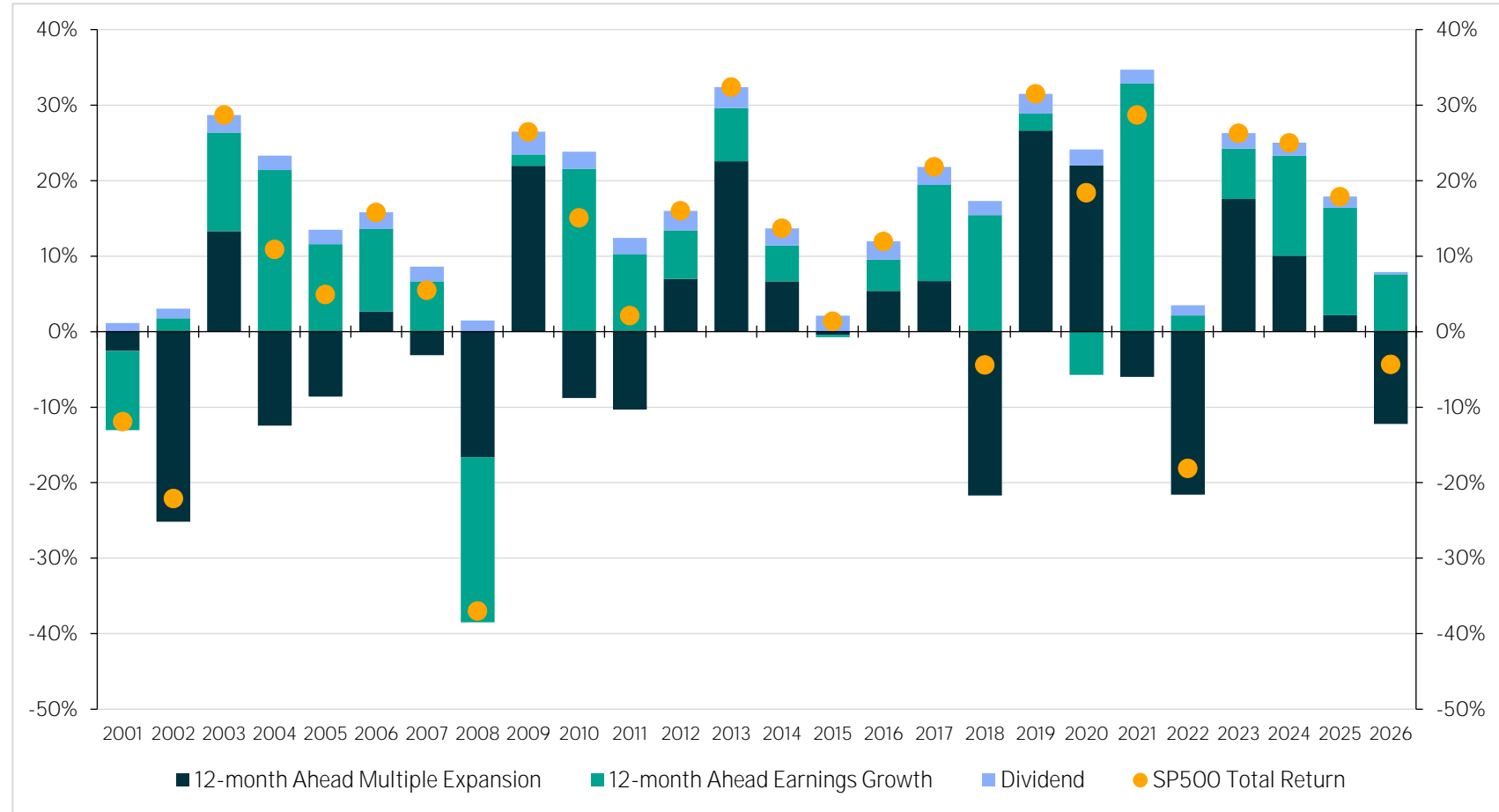
Equity investors remain focused on fundamentals amid geopolitical turbulence and the rise of AI.



# Drivers of equity returns

- In 2025, nearly all S&P 500 returns came from earnings (light green segment) and dividends (light blue segment), with multiple expansion (dark green segment) contributing just ~2%. This is consistent with long-term history—over the past 25 years, earnings growth has driven 60% of annual returns, dividends 18%, and multiple expansion just 22%.
- U.S. equity markets experienced a volatile Q1, with the S&P 500 declining by 4.3%, primarily driven by a sharp rise in oil prices following geopolitical tensions in the Middle East. Despite this, the underlying fundamentals of earnings growth and dividends remained strong.
- Of the S&P 500's 727% total return from 2000 to 2025, earnings growth accounted for 414%, dividends 310%, and multiple expansion a negligible 5%—reinforcing that sustainable equity performance is built on fundamentals, not valuation re-rating.

Equity returns are the byproduct of earnings growth, multiple expansion<sup>1</sup> and dividend payments

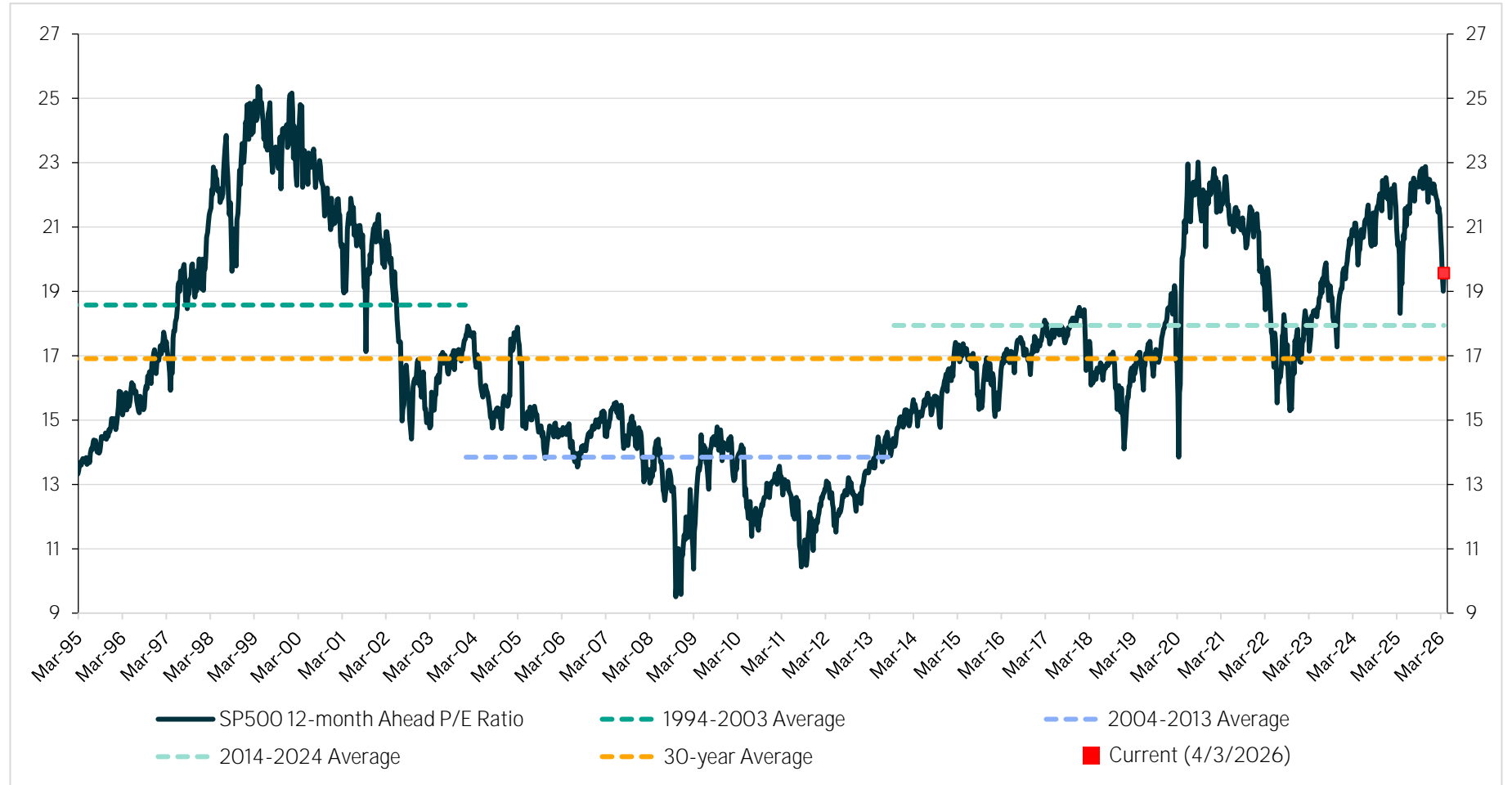


<sup>1</sup>Investors pay a "multiple" of a stock's earnings to own it (Price/Earnings ratio). When the multiple expands, it implies that investors are willing to pay more for the same amount of earnings.

# P/E ratio for S&P 500

- The S&P 500 is trading at ~19x forward earnings as of 4/3/ 2026 (red square), above both its 10-year average of ~18x (light green dashed line) and its long-term average of 17x (orange dashed line). U.S. AI leadership, relatively contained inflation, and the lingering effects of quantitative easing provide some justification for above-average multiples.
- With valuations already stretched, meaningful multiple expansion from here is unlikely—making earnings growth the primary driver of upside in 2026. Analysts are currently projecting ~17% S&P 500 EPS growth over the next 12 months, a bar that will need to be cleared to sustain the rally.
- The longer-term caution remains: above-average P/E ratios have historically foreshadowed below-average future returns.

The S&P 500's P/E ratio came under pressure in Q1 2026 amid the uncertainty of war

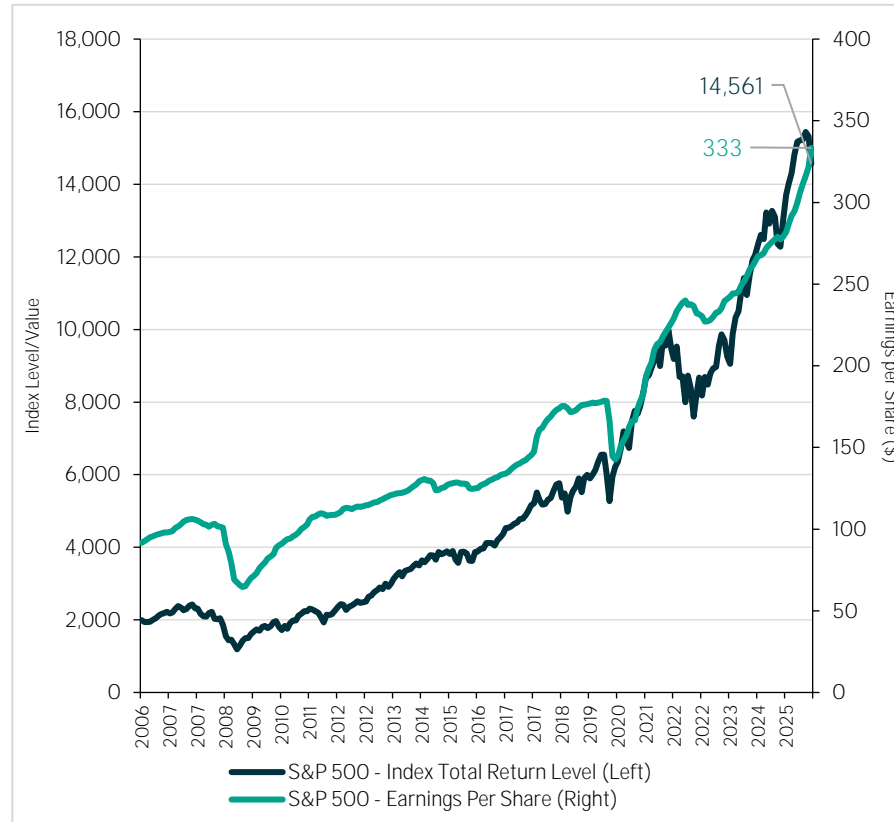


Source: Bloomberg, TIAA Wealth Chief Investment Office. Data through 4/3/2026.

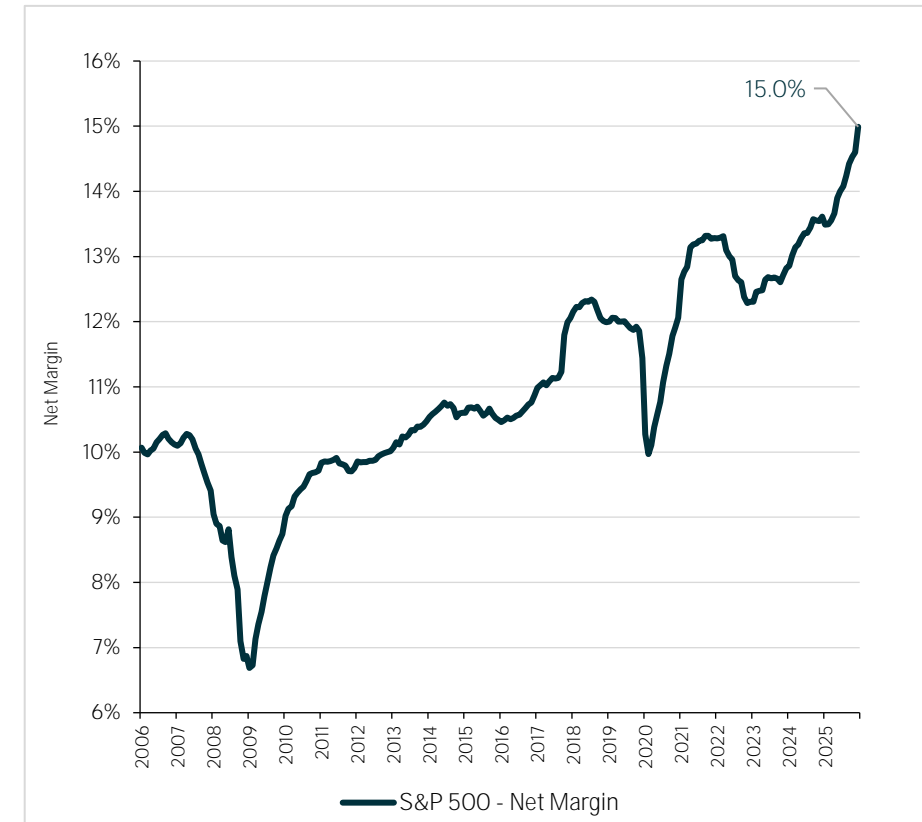
# Stock prices are driven by earnings, and profit margins are key

- Over the long term, earnings drive stock prices (left panel)—S&P 500 EPS has grown at an average of ~8% annually, closely tracking the index's 8–9% long-term total return.
- Current forward P/E of ~20x sits well above the 5-year average of 20x, 10-year average of 19x, and 20-year average of 16x, leaving limited room for multiple expansion.
- AI-driven productivity gains offer a credible path to above-average earnings growth and sustainably higher profit margins going forward.
- Margins tell an encouraging near-term story as well—after contracting in 2022–2023 under the weight of higher rates, labor, and input costs, corporate profit margins (right panel) continued expanding in 2025, supported by lower taxes and easing interest costs despite tariff-related pressures.
- S&P 500 net profit margins in 2026 are projected to reach record highs, expected to average around 13.9% for the full year, driven by AI integration and increased efficiency.

S&P 500 total return vs S&P 500 earnings per share (EPS)



S&P 500 net margin

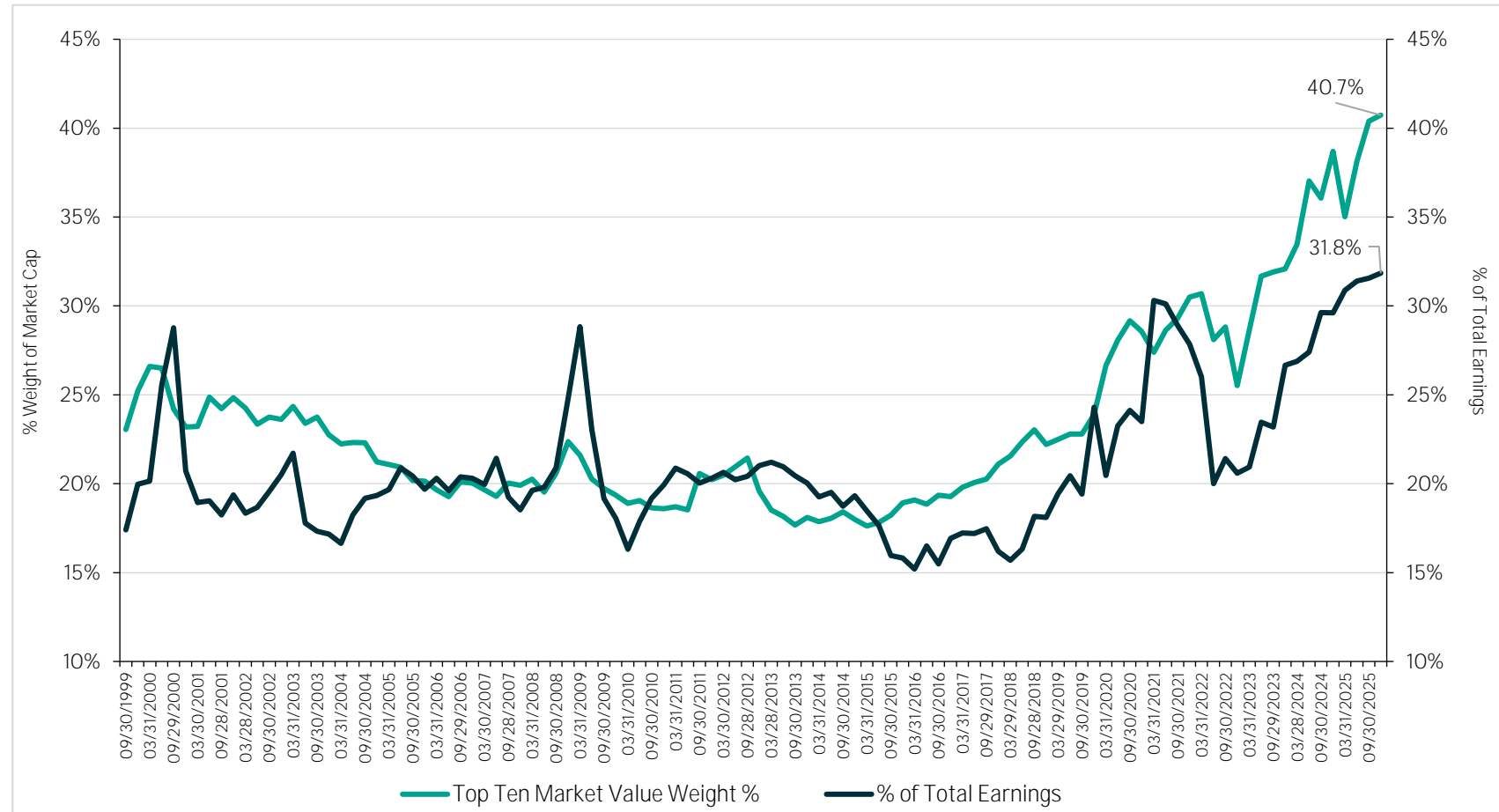


Source: FactSet Financial Data and Analytics, TIAA Wealth Chief Investment Office; monthly data for the 20-year period ending 3/31/2026.

# The S&P 500 has become increasingly concentrated

- AI-driven enthusiasm propelled the Magnificent 7—Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla—alongside Broadcom, Berkshire Hathaway, and Walmart to dominate S&P 500 returns in 2025.
- However, these names faltered in Q1 2026 amid the war with Iran.
- Rich valuations and narrow market breadth have drawn comparisons to the periods preceding the 2000 and 2008 crashes, but we caution against that parallel.
- The distinction is fundamental. The 2000 concentration was built on speculative tech with unproven business models; 2008 on financials and energy.
- Today's concentration is anchored by mega-cap tech companies delivering real earnings growth and strong profit margins—a meaningfully different foundation than prior cycles.

The S&P 500 has become increasingly concentrated; the top 10 stocks account for 40% of the total market capitalization and 32% of net income (earnings)

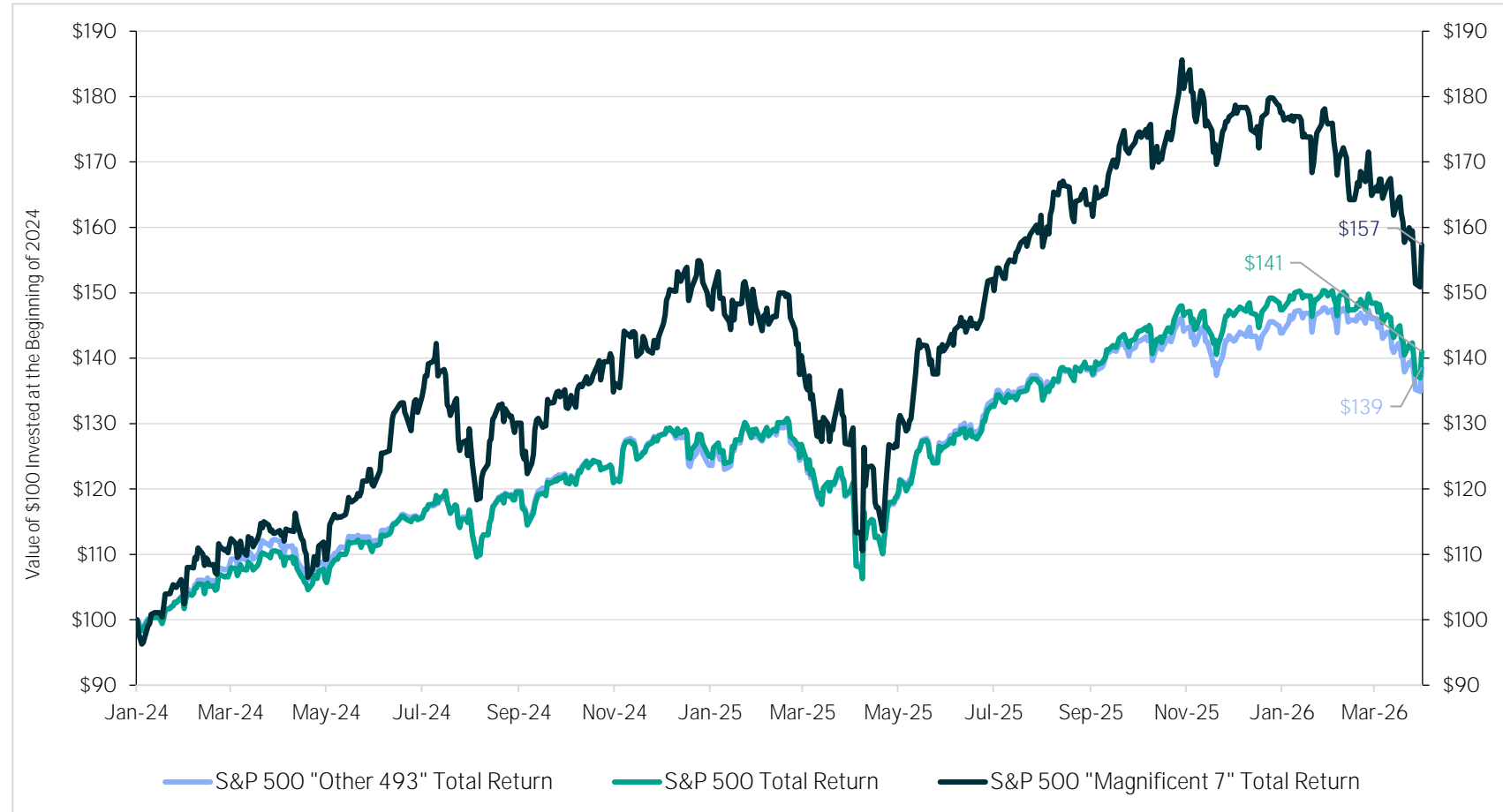


Source: FactSet Financial Data and Analytics, TIAA Wealth Chief Investment Office. Data is from 6/1/1999 - 12/31/2025.

# S&P 500 “Magnificent 7” vs. “Other 493” performance since start of 2024

- After accounting for more than 50% of S&P 500 returns in both 2023 and 2024, the Magnificent 7 had a turbulent 2025. Since January 1, 2024, the group returned 57% (dark green line), outpacing both the broader 493 stocks (light green line, +39%) and the S&P 500 (light blue line, +41%)—but the ride was far from smooth.
- In 2025, a weak start driven by moderating earnings, tariff threats, and DeepSeek-fueled concerns over AI profitability gave way to a mid-year recovery on strong earnings and renewed AI enthusiasm. Q4 brought fresh headwinds—heavy AI capex scrutiny, slowing growth fears, and macro uncertainty—and performance within the group diverged sharply. Only Nvidia and Alphabet ultimately outpaced the broader market for the full year.
- In early 2026, the Magnificent 7 stocks have shifted from market leaders to underperformers, dragging down the S&P 500 while the “S&P 493” (the rest of the index) shows resilience. By the end of the quarter, many of the seven have seen double-digit percentage declines from their highs, with Microsoft and Tesla experiencing significant downward pressure.

Since autumn of 2025, the Magnificent 7 have underperformed the broader S&P 500

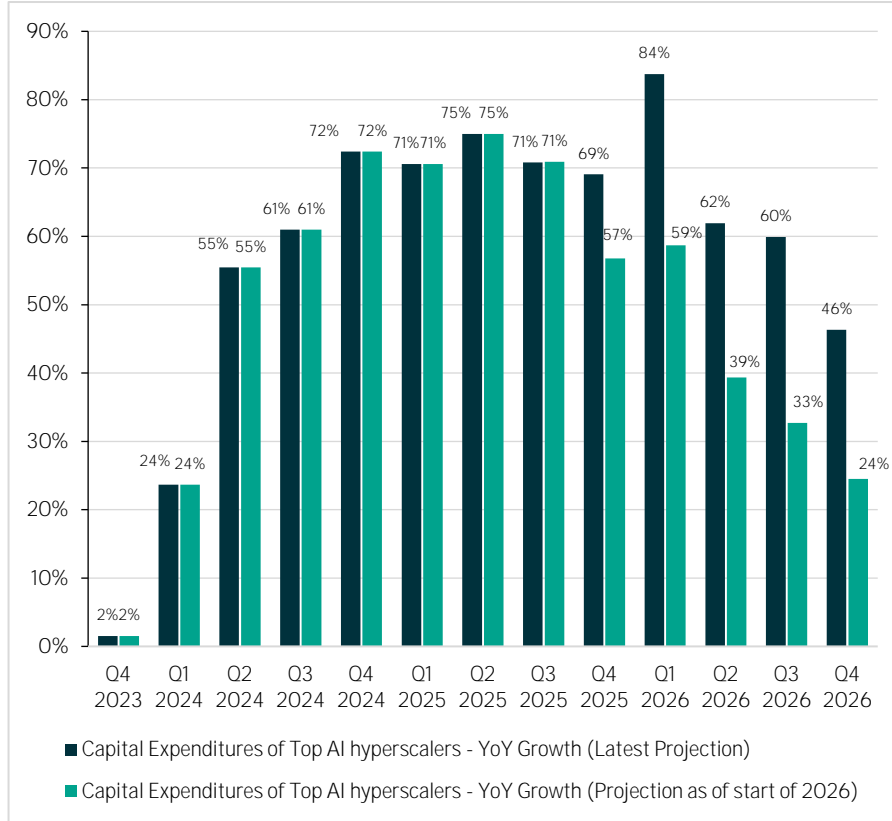


Source: FactSet Financial Data and Analytics, TIAA Wealth Chief Investment Office. Data through 3/31/2026.

# Spending on AI and related data centers may be peaking

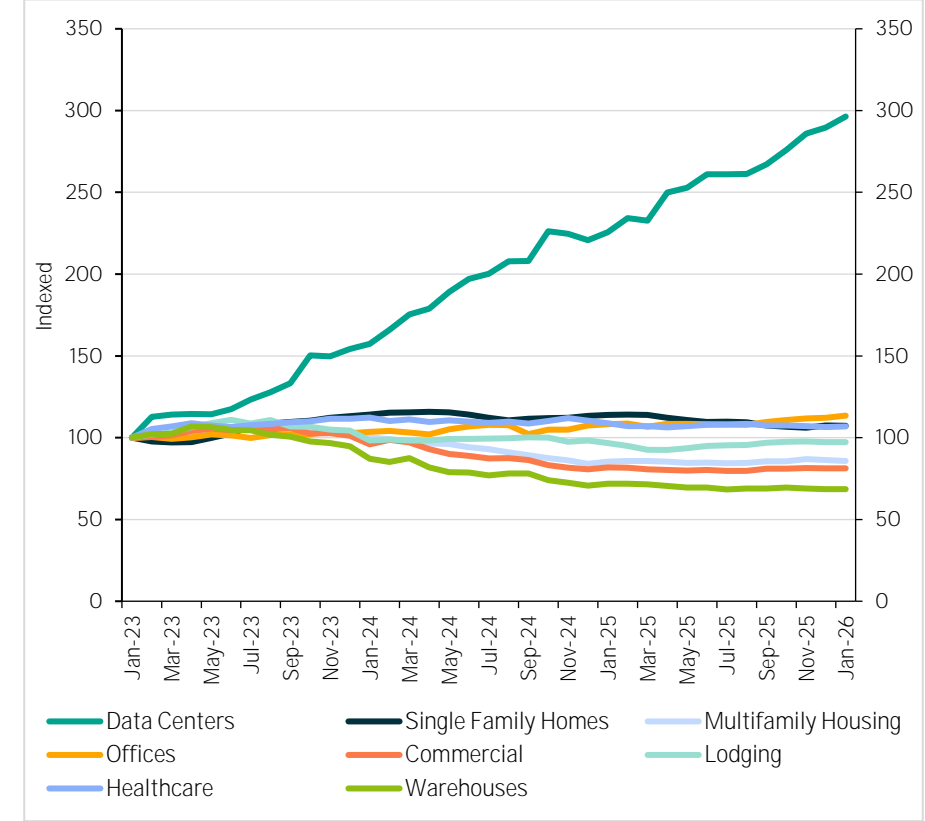
- Hyperscaler AI capital expenditure surged through 2025 and is expected to remain elevated into the first half of 2026—fueled by GPU procurement, data center construction, and agentic AI development—before decelerating in the second half (left panel).
- The data center buildout has been particularly striking, more than offsetting weakness across commercial, warehouse, and multi-family residential construction (right panel).

AI spending (year-over year % change) by top 7 spenders\*



\*Microsoft, Apple, Amazon, Meta, Google, Oracle

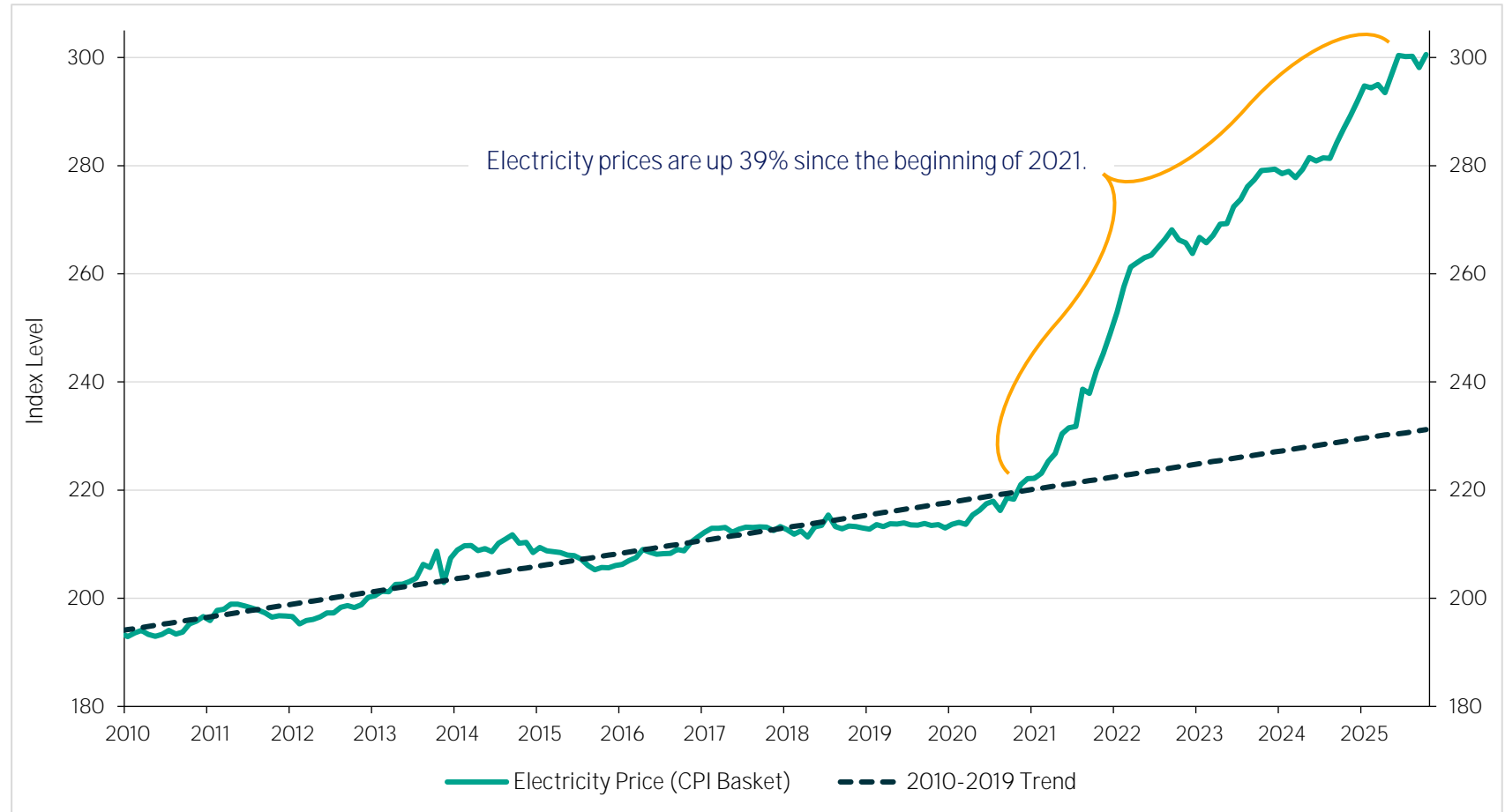
Annualized value of construction put in place



# Electricity prices are up 39% since the beginning of 2021

- AI has driven a significant increase in the demand for resources like electricity and investment capital.
- AI requires significant computer power, which in turn is generated by data centers. Data centers consume elevated quantities of electricity, putting upward pressure on electricity prices. Since the end of 2020, the electricity price component of the CPI basket has increased by 39%.
- This issue is unlikely to be resolved in the near term and requires an increase of the production of alternative sources of energy. By 2030, data centers globally are projected to consume more electricity than Japan.

AI demand for electricity has caused prices to surge over the last several years



Source: Bloomberg, TIAA Wealth Chief Investment Office. Data through 3/31/2026.

# Growth equities are outperforming, but broadening AI capabilities may benefit value equities in the longer term

- The chart shows the relative performance of U.S. large cap growth vs. large cap value from 1/1/1979 – 3/31/2026. Relative performance is calculated by dividing the closing index price of S&P 500 Growth by S&P 500 Value. A rising ratio/line indicates that growth is outperforming, while a falling ratio/line indicates growth is underperforming (i.e., value is outperforming).
- Growth stocks (such as, technology, consumer discretionary, and communication services) generally excel in low-interest-rate environments during economic expansions or bull markets, driven by rapid earnings potential in technology and innovation sectors. Conversely, value stocks (undervalued, mature firms, such as financials, energy, industrials, and utilities) typically outperform during economic recoveries, high inflation, and rising interest rates, often acting as a defensive cushion.
- While AI has been a powerful tailwind for growth stocks recently, and current valuations reflect that premium, both styles stand to benefit as AI capabilities broaden across the economy.
- Holding both growth and value stocks provides meaningful diversification, smoothing returns across varying market cycles by balancing risk and opportunity in a single portfolio.



Source: FactSet Financial Data and Analytics, TIAA Wealth Chief Investment Office. Data through 3/31/2026.

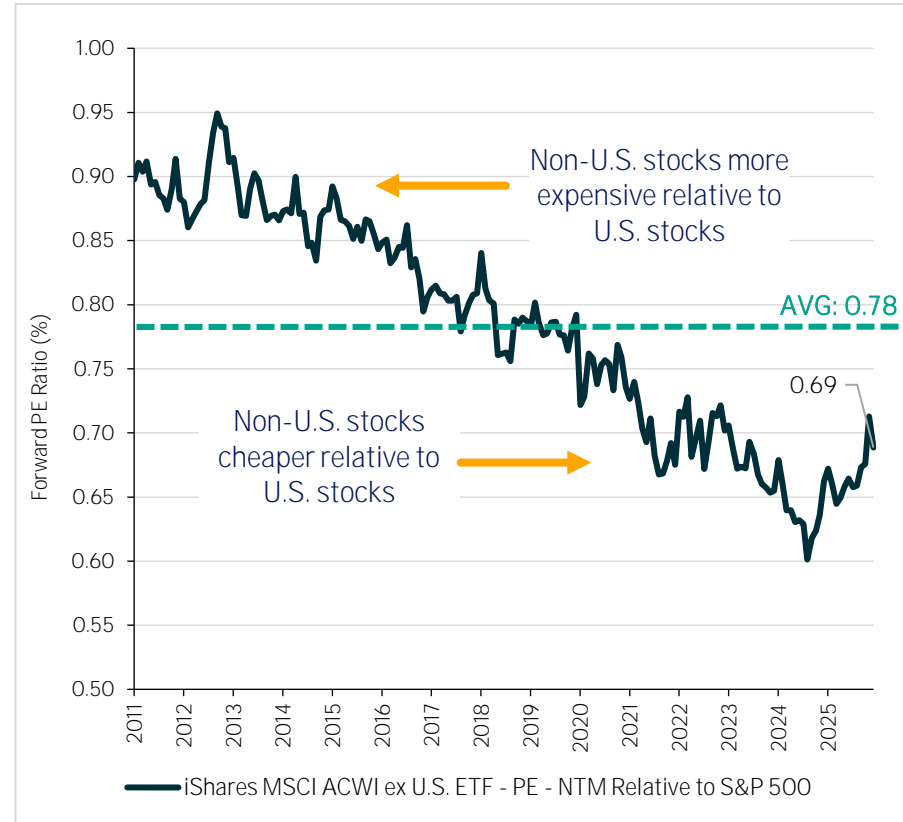
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# International equities

# Non-U.S. equities are cheap relative to U.S. equities

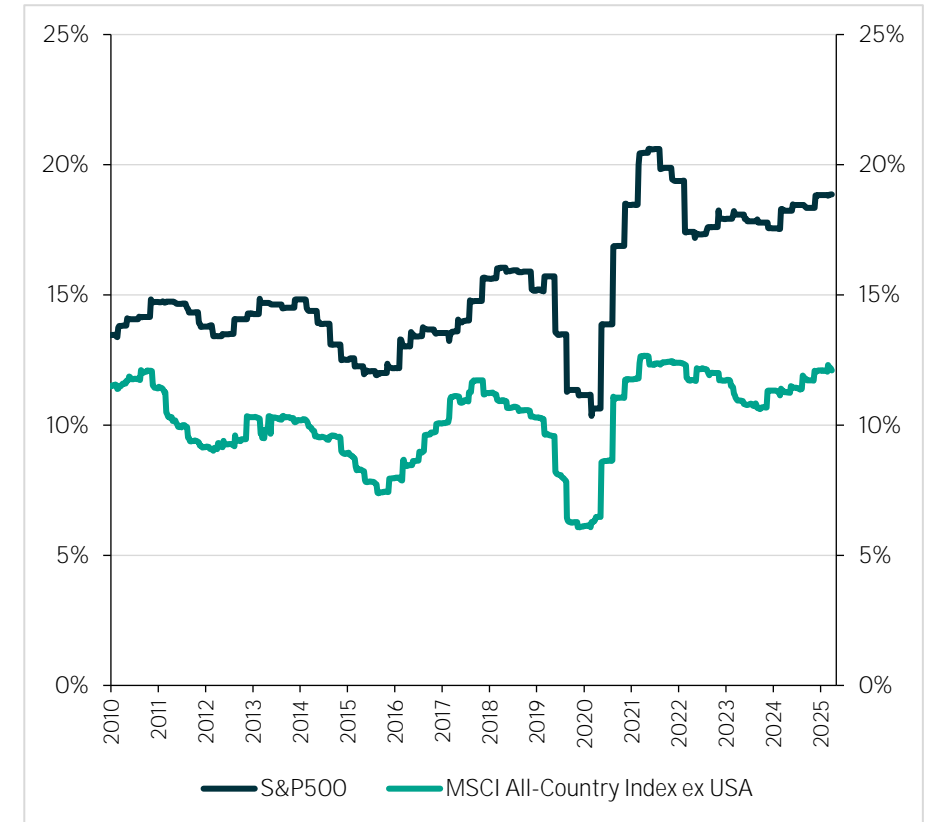
- After lagging U.S. equities through most of 2023 and 2024, international stocks have outperformed by a wide margin since late 2024—including in Q1 2026—driven by improving fundamentals, foreign currency appreciation against the dollar, and fading perceptions of U.S. economic exceptionalism, meaningfully narrowing the valuation gap (left panel).
- For global investors who remain significantly overweight U.S. equities, the case for rebalancing toward international exposure is growing. That said, superior U.S. corporate profitability continues to justify a valuation premium for domestic stocks (right panel), and we expect the gap to close gradually rather than abruptly.

U.S. large cap stocks (S&P 500) are trading at a high premium



\*NTM = Next Twelve Months

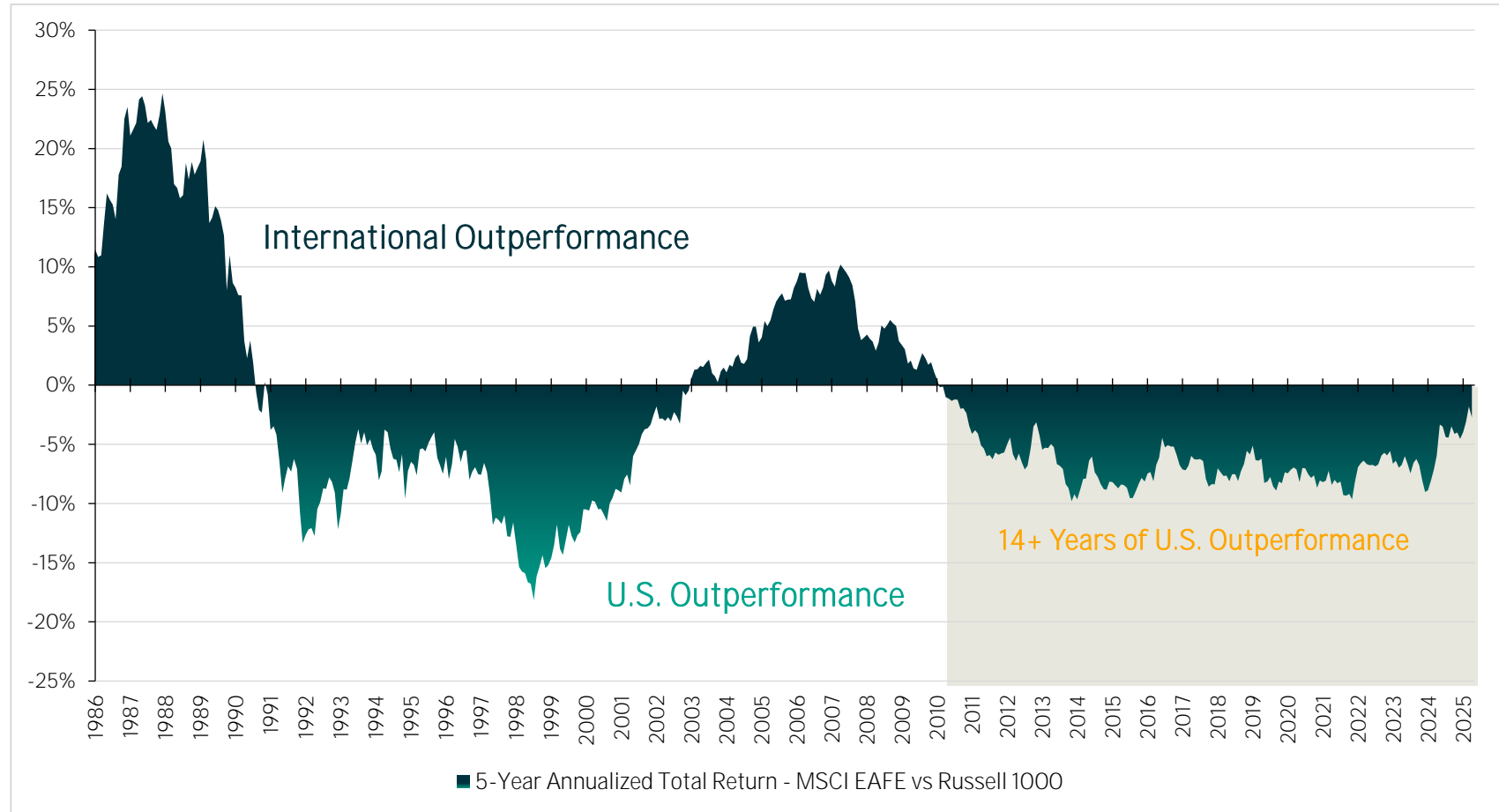
Return on equity



# U.S. vs. international equities over time

- Since the mid-1980s, the relative performance of international versus U.S. stocks has been cyclical, with U.S. dominance historically coinciding with transformative tech waves—the internet, mega-cap technology, and most recently AI—amplified by a significantly more stimulative U.S. fiscal stance over the past decade.
- That dynamic is shifting. More U.S. protectionism, slowing immigration, reduced domestic fiscal spending, growing international stimulus, and an increasingly competitive non-U.S. AI ecosystem have collectively fueled a rotation into international equities in 2025.
- Despite meaningful outperformance since the end of 2024, international developed stocks still trail U.S. equities by ~24% since the end of 2020—suggesting the rotation, if sustained, has meaningful room to run.

Geographical equity diversification allows investors to gain exposure to cyclical swings in U.S. vs. international equity relative performance



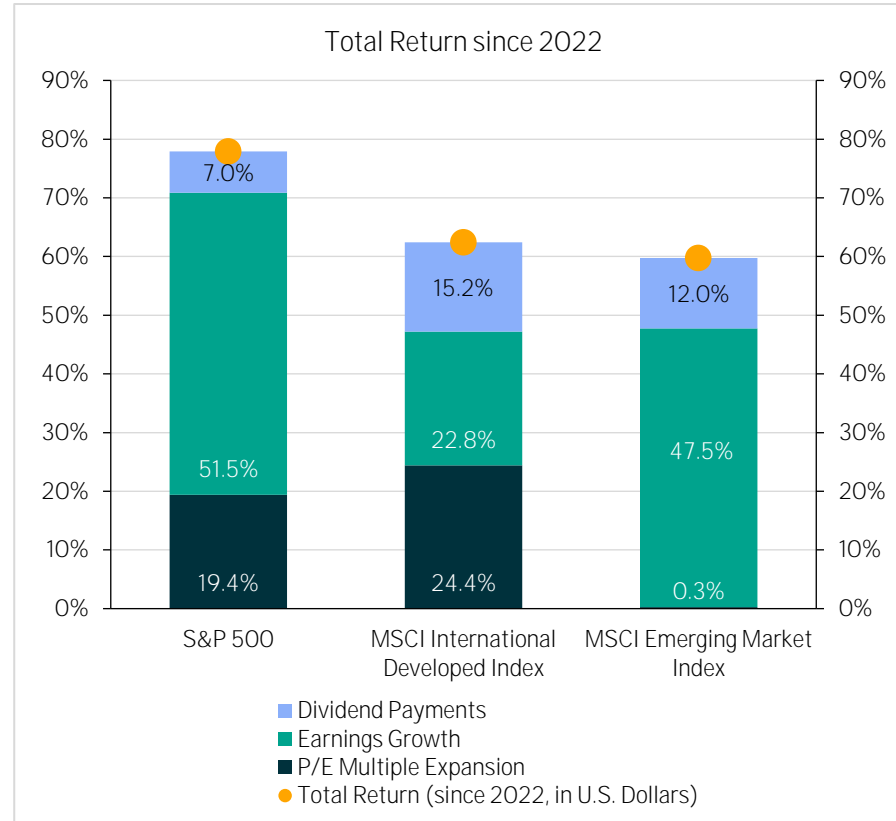
Source: Bloomberg, TIAA Wealth Chief Investment Office. Country returns are represented by MSCI EAFE and Russell 1000 Indexes. Data through 3/31/2026.

# Drivers of international equities performance

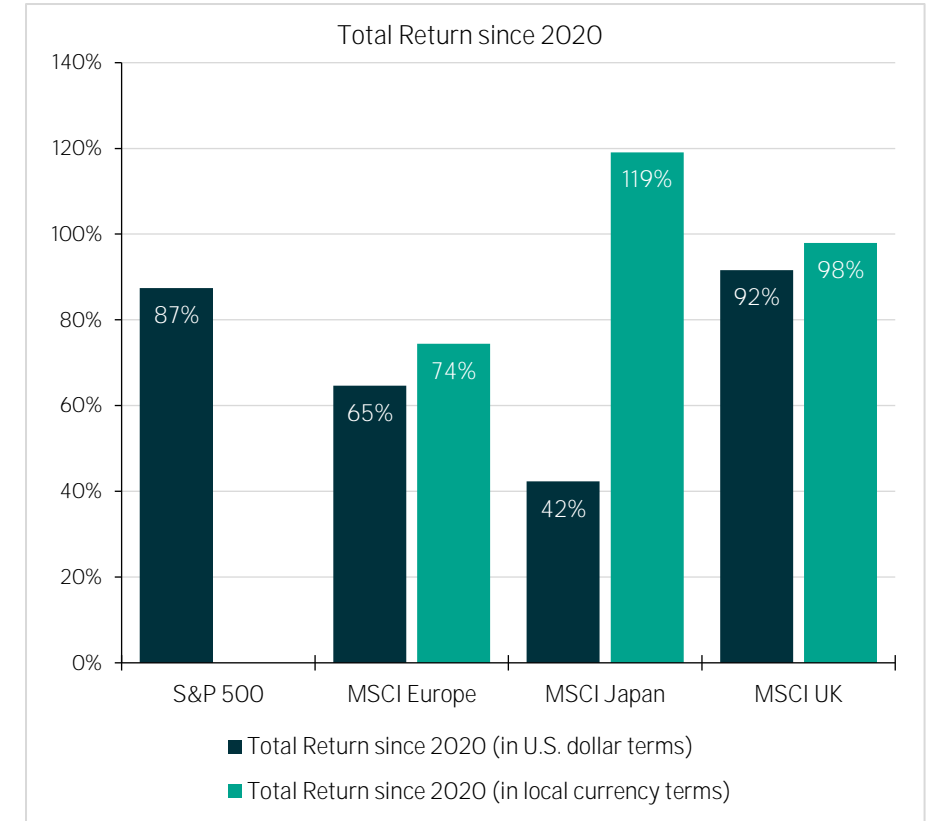
- U.S.-based investors should account for four distinct drivers of international equity performance:

- Multiple expansion** (left panel, dark green): The valuation gap between U.S. and non-U.S. stocks has widened materially over the past decade, with international equities trading at a significant discount.
- Earnings growth** (left panel, light green): Substantially stronger earnings growth has been the primary driver of U.S. equity outperformance, more than offsetting the valuation differential.
- Dividend payments** (left panel, light blue): Non-U.S. stocks—given their more value-oriented composition—pay higher dividends than U.S. counterparts on average, providing a meaningful return cushion.
- Currency performance** (right panel): Dollar appreciation erodes the total return of non-U.S. stocks for U.S.-based investors, making currency dynamics a critical variable in international allocation decisions.

Earnings growth has been the primary driver of U.S. outperformance



Currency fluctuations can have a significant impact on non-U.S. equity performance for U.S. investors



Source: Bloomberg, TIAA Wealth Chief Investment Office. Data through 3/31/2026.

# International equities are an important component of a well-diversified, long-term investment portfolio

- Broadly speaking, “international” stocks include those developed international markets such as Germany, England, Japan, and France, which have advanced economies, developed infrastructures, and a higher standard of living.
- Within those developed international markets, we invest in both large cap stocks (EAFE, left panel) and small caps (EAFE Small Cap, middle panel).
- The other group of non-U.S. stocks comes from emerging markets, such as China, India, Taiwan, and Brazil (right panel).
- Our fundamental approach is one of diversification, and international stocks are an important component of a well-diversified, long-term investment portfolio.

Top 10 countries in non-U.S. stocks indexes

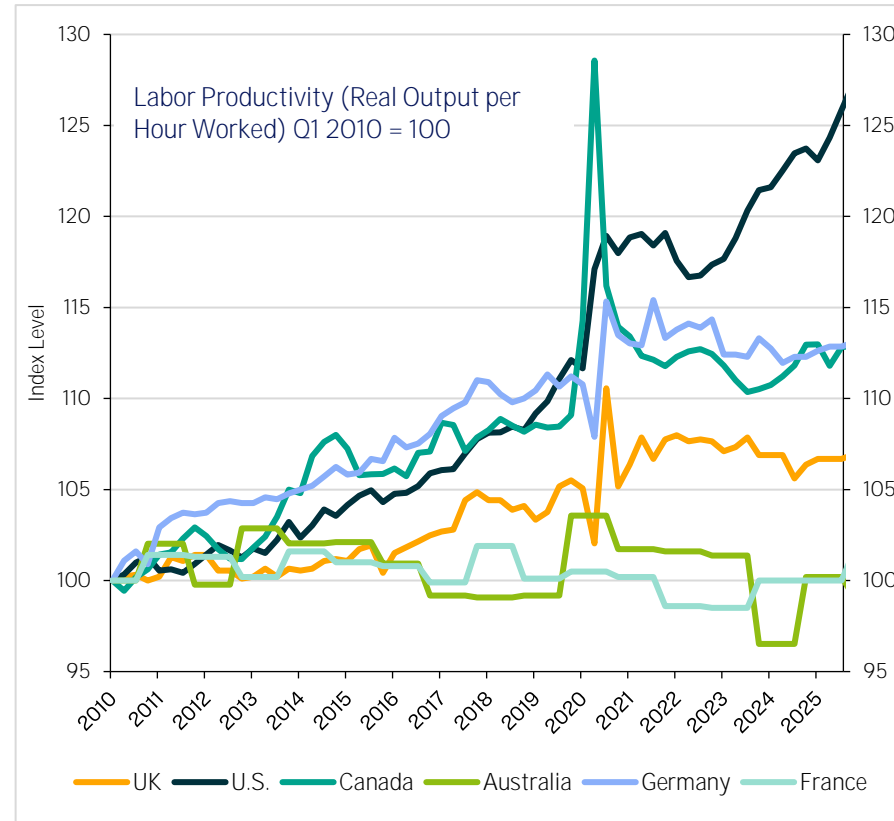
Top 10 Countries	MSCI EAFE Weight	Top 10 Countries	MSCI EAFE Small Cap Weight	Top 10 Countries	MSCI EM Weight
Japan	23%	Japan	37%	Taiwan	23%
Britain	14%	Britain	11%	China	19%
Switzerland	10%	Australia	11%	South Korea	17%
France	9%	Israel	5%	India	13%
Germany	9%	Sweden	5%	Brazil	5%
Australia	7%	Switzerland	4%	Hong Kong	3%
Netherlands	6%	Germany	4%	South Africa	3%
Spain	4%	France	4%	Saudi Arabia	3%
Sweden	4%	Italy	3%	Mexico	2%
Italy	3%	Singapore	2%	UAE	1%
Other	11%	Other	15%	Other	10%
Total	100%	Total	100%	Total	100%

Source: Bloomberg; data as of 3/31/2026. MSCI EAFE, MSCI EAFE Small Cap, and MSCI EM indexes are represented by iShares ETF tickers EFA US Equity, SCZ US Equity, and EEM US Equity, respectively.

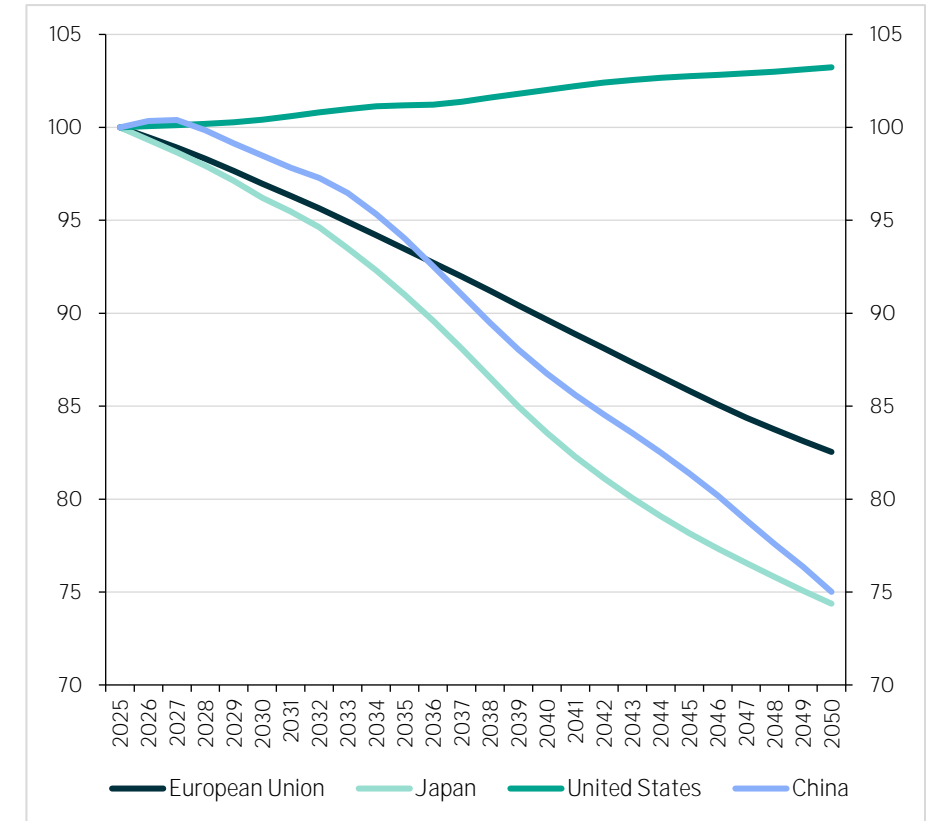
# U.S. exceptionalism: Cyclical pressures vs. structural strengths

- Near-term headwinds to U.S. exceptionalism are real—heightened geopolitical risks, stagflation risks from tariffs, and accelerating fiscal stimulus in Europe and China have collectively undermined the U.S.'s relative appeal and threaten to reduce foreign participation in U.S. equity and bond markets.
- Yet the two most critical drivers of long-term economic growth—productivity (left panel) and working-age population growth (right panel)—remain more favorable in the U.S. than abroad.
- How the current policy shift balances the drags of protectionism, reduced fiscal spending, and tighter immigration against the potential tailwinds of deregulation and AI-driven productivity is still an open and consequential question.

Labor productivity in the U.S. has outperformed since mid-2020



Working-age population projections favor the U.S.



Source: National statistical agencies, World Bank, TIAA Wealth Chief Investment Office. Data through 12/31/2025.

# 06

## Fixed income

Taxable bond market is stabilizing as inflation challenges wane.



# Diversified investment grade bonds: Calendar year performance (%)<sup>1</sup>

- Over the past 100 years, fixed income indexes have delivered negative returns in just 11 years—and in each instance (red text), investors who stayed the course were ultimately rewarded (orange boxes).
- The broad U.S. investment grade bond market returned ~7% in 2025 supported by strong corporate fundamentals, three Fed rate cuts, and contained inflation. This marks three consecutive years of gains following the sharp drawdowns of 2021 and 2022.
- Fixed income markets in Q1 2026 experienced a "tug of war," starting positive before suffering a selloff in March due to rising inflation concerns and geopolitical tensions in the Middle East.
- While the Bloomberg U.S. Aggregate Bond Index saw no gain for Q1, Treasury yields rose significantly, with the 10-year yield ending around 4.32%.

Over the past 100 years, fixed income indexes have delivered negative returns in just 11 years

Year	Total Return	Year	Total Return	Year	Total Return	Year	Total Return	Year	Total Return	Year	Total Return
1926	5.38	1942	1.94	1958	-1.29	1974	5.69	1991	16.00	2009	5.93
1927	4.52	1943	2.81	1959	-0.39	1975	7.83	1992	7.40	2010	6.54
1928	0.92	1944	1.80	1960	11.76	1976	15.60	1993	9.75	2011	7.84
1929	6.01	1945	2.22	1961	1.85	1977	3.04	1994	-2.92	2012	4.21
1930	6.72	1946	1.00	1962	5.56	1978	1.39	1995	18.47	2013	-2.02
1931	-2.32	1947	0.91	1963	1.64	1979	1.93	1996	3.63	2014	5.97
1932	8.81	1948	1.85	1964	4.04	1980	2.71	1997	9.65	2015	0.55
1933	1.83	1949	2.32	1965	1.02	1981	6.25	1998	8.69	2026	2.65
1934	9.00	1950	0.70	1966	4.69	1982	32.62	1999	-0.82	2017	3.54
1935	7.01	1951	0.36	1967	1.01	1983	8.36	2000	11.63	2018	0.01
1936	3.06	1952	1.63	1968	4.54	1984	15.15	2001	8.44	2019	8.72
1937	1.56	1953	3.23	1969	-0.74	1985	22.10	2002	10.26	2020	7.51
1938	6.23	1954	2.68	1970	16.86	1986	15.26	2003	4.10	2021	-1.54
1939	4.52	1955	-0.65	1971	8.72	1987	2.76	2004	4.34	2022	-13.01
1940	2.96	1956	-0.42	1972	5.16	1988	7.89	2005	2.43	2023	5.53
1941	0.50	1957	7.84	1973	4.61	1989	14.53	2006	4.33	2024	1.25
						1990	8.96	2007	6.97	2025	7.30
								2008	5.24	2026	-0.05

<sup>1</sup> U.S. Fixed Income: IA SBBI IT Govt Bonds TR USD from 1926-1975; Bloomberg U.S. Agg Bond from 1976 thereafter. Source: Morningstar Direct, TIAA Wealth Chief Investment Office. Data through 3/31/2026.

# Why did bond portfolios struggle in 2021 and 2022?

Drivers of bond market performance in 2021 and 2022

- Coming off a challenging year in 2021, the bond market experienced record negative performance in 2022 due to a confluence of factors including high inflation, aggressive monetary policy tightening, surging Federal budget deficits, and a resilient U.S. economy.
- While 2022 was a tough year, the bond market bounced back in late 2023, following the pattern that occurred during other negative years (see page 68).
- The Bloomberg Aggregate Bond index was up +5.5% by the end of 2023, and +1.3 at the end of 2024.
- In 2025, U.S. investment grade bonds returned 7.3%.
- So far in 2026, the investment grade bond market has held on to the gains made in 2023, 2024 and 2025.



## Drivers of Bond Returns

- Coupon, or interest payment
- Price
- Yield
- Credit spread valuation

## Start with 2021

- Bond coupon **All-time low**
- Bond prices **All-time high**
- Bond yield **Near all-time low**
- Credit spread **Near all-time low**

## Mix in

- Global pandemic
- Massive fiscal stimulus
- The Great Resignation
- Supply chain issues
- Significant monetary stimulus
- GDP growth at 6% (long-term average is 2%)

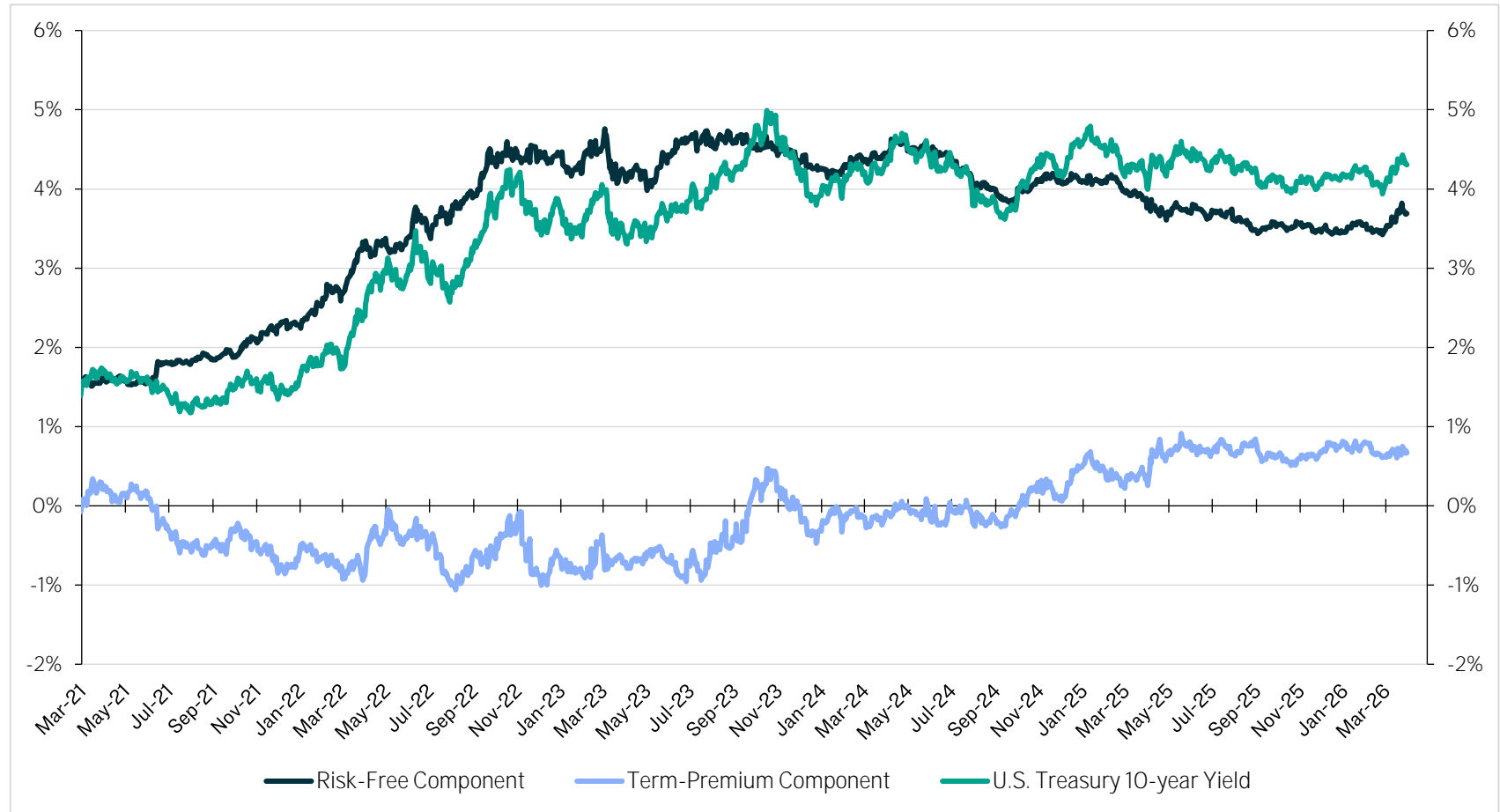
## Results in 2022

- The highest inflation in 40 years and...
- ... the most aggressive Fed rate hike campaign on record...
- ... leading to the worst bond market decline ever

# Understanding the drivers of long-term Treasury yields

- Beneath the surface of the 10-year Treasury yield (light green line), two opposing forces are at work.
- The risk-free component (dark green line) fell roughly 50 bps from the February 2025 equity market peak through year-end, reflecting growing expectations for Fed rate cuts and a flight toward safety amid policy uncertainty.
- Offsetting this, the term premium (light blue line)—the extra compensation investors demand to hold long-term bonds rather than rolling short-term debt—has risen approximately 42 bps since Q3 2024. This reflects investor demands for higher compensation against a backdrop of tariff-driven uncertainty, fiscal sustainability concerns, and persistently elevated inflation.

Factors influencing 10-Year Treasury Note

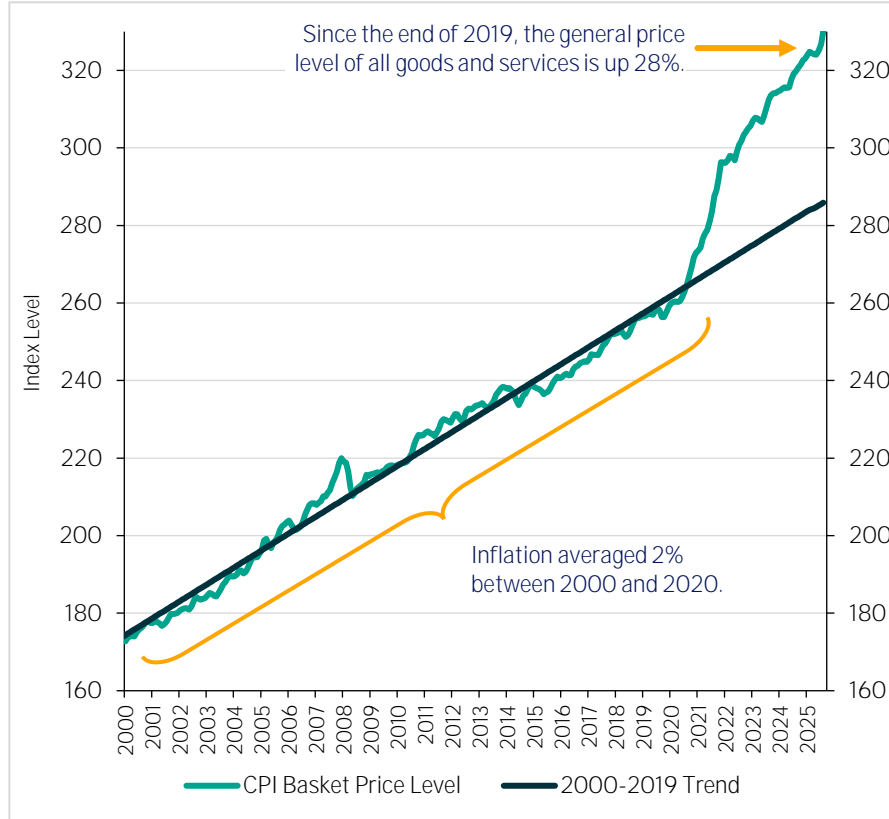


Source: Bloomberg, NY Fed, TIAA Wealth Chief Investment Office. Data through 4/3/2026.

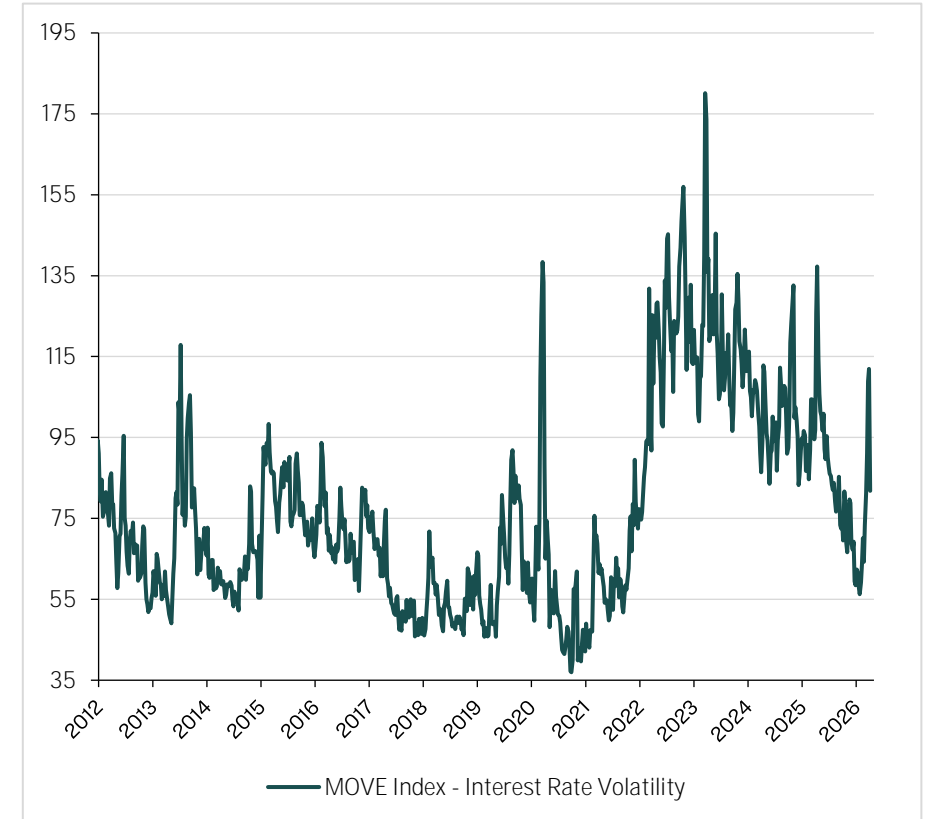
# Two-sided risks to inflation keep bond volatility high

- The consumer price index (CPI) measures the **general price level** of goods and services purchased by U.S. consumers.
- **Inflation** is the rate at which CPI is increasing (or decreasing).
- Inflation averaged 2% between 2000 and 2020.
- Since the end of 2019, the general price level of all goods and services households buy has risen by 28%, or more than 4% a year, which is double the long-term average of 2% (left panel).
- The Fed has targeted 2% inflation to fulfill its dual mandate of stable prices and maximum unemployment.
- Interest rates remain volatile to these expectations and sensitive to the need for higher Treasury issuances to fund future tax cuts and spending. Volatility in the bond market (MOVE Index) since 2020 reflects the uncertainty and distorting impacts from the pandemic years (right panel).

Inflation is coming down, but prices remain high



Bond market volatility peaked in 2023 but subsided in Q3

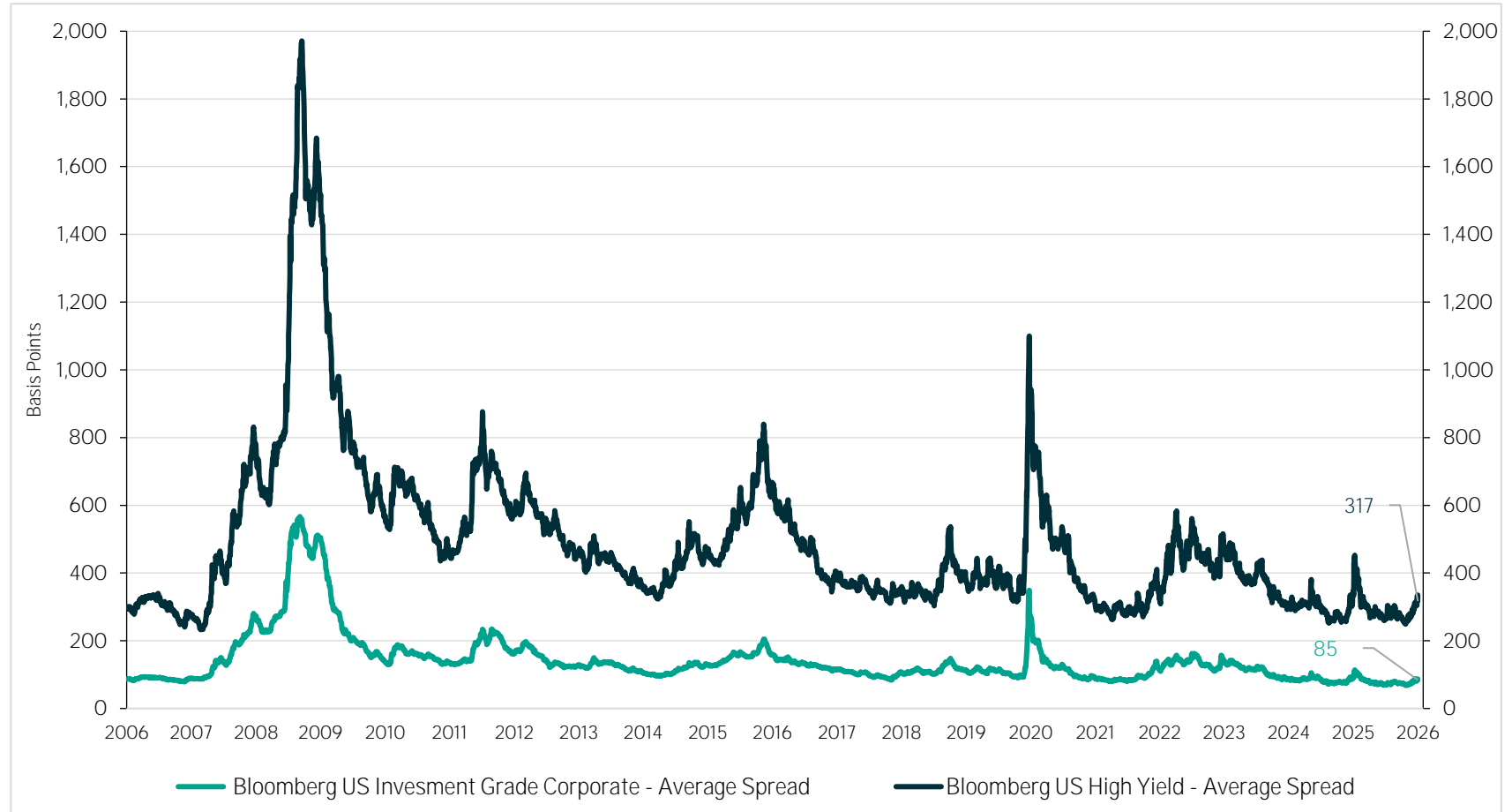


Source: Bloomberg, Bureau of Labor Statistics (BLS), TIAA Wealth Chief Investment Office. Data through 3/31/2026 (left panel) and 4/5/2026 (right panel).

# Corporate bond credit spreads are often a barometer of economic health

- Credit spreads serve as a reliable barometer of economic health—widening signals stress, tightening signals confidence.
- Despite a brief tariff-driven spike in April 2025 and a modest uptick in March 2026 due to the war in Iran, both investment grade (dark green line) and high yield (light green line) spreads have tightened significantly since late 2023, reaching some of their lowest levels in four decades—reflecting strong risk appetite and healthy corporate fundamentals.
- It is worth noting that spreads tend to widen sharply during economic downturns as investors flee to the safety of Treasuries, making them a valuable real-time gauge of overall market risk sentiment.

Spreads widened in late March from earlier lows due to macro volatility following the onset of conflict in the Middle East

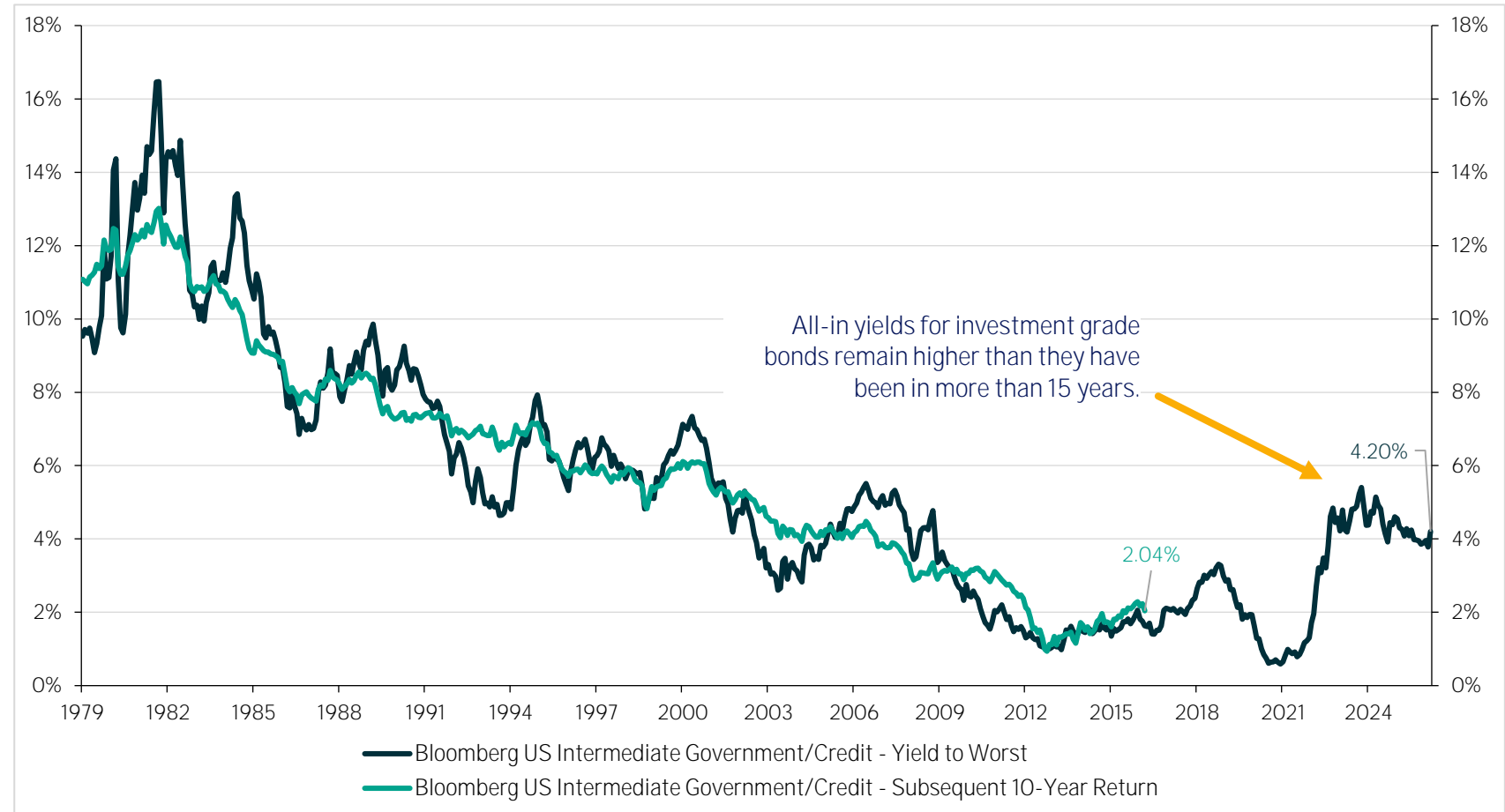


Source: FactSet Financial Data and Analytics, TIAA Wealth Chief Investment Office. Data through 3/31/2026.

# Current bond yields look attractive for long-term investors

- As of 3/31/2026, bond yields were ~4% (vs. 1% in late 2021) on the intermediate bond index (dark green line).
- This trend may be a good proxy for bond returns over the next 10 years (light green line).
- Our view is that bonds still have a place in a well-diversified 60/40 portfolio.
- The investment grade bond market continues to recover from the significant setbacks it experienced in 2021 and 2022, when the Fed raised rates aggressively to combat the worst inflation in 40 years.

Rising bond yields act as a drag on short-term fixed income performance, but boost the long-term attractiveness of bonds

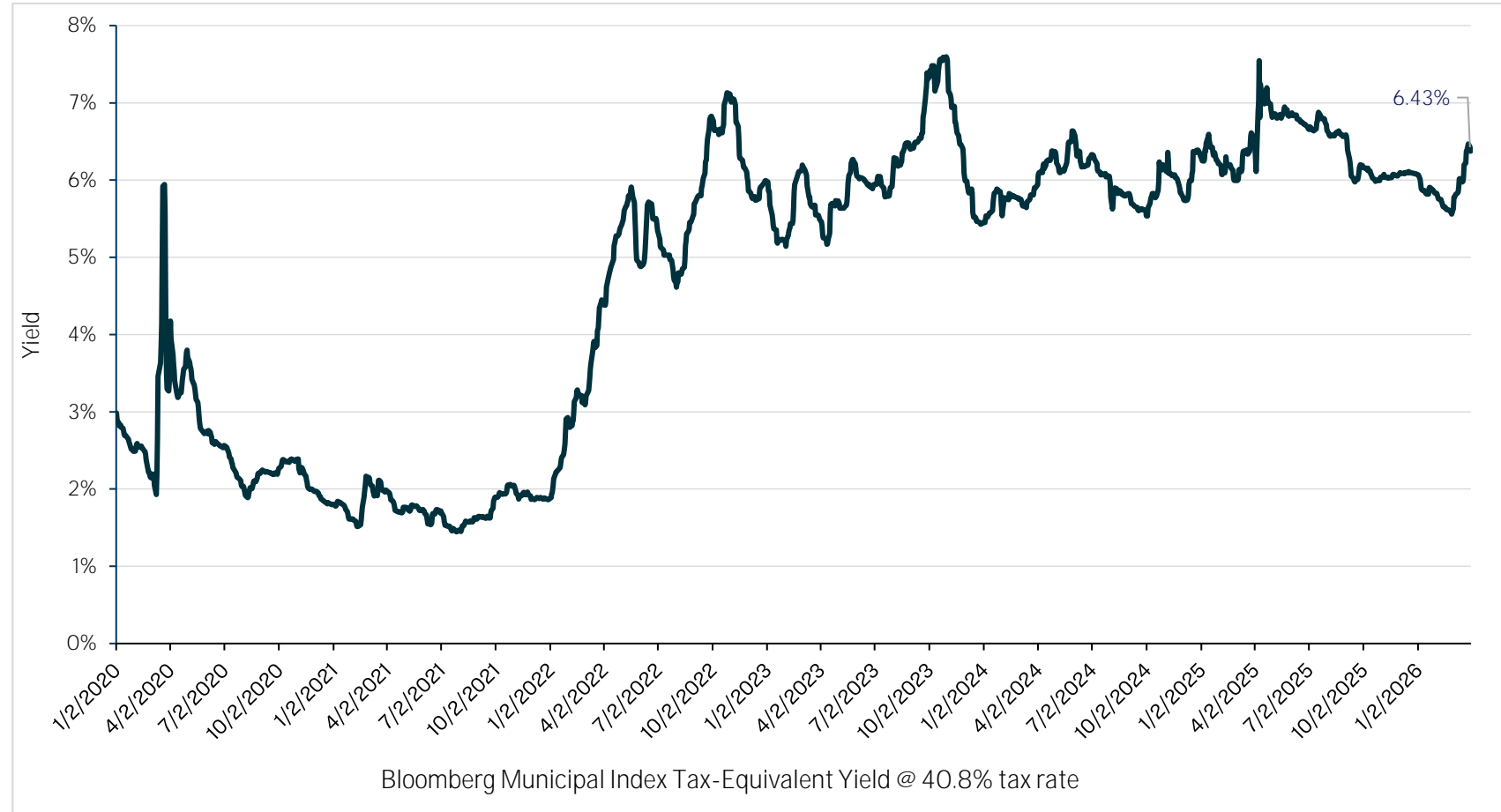


Source: FactSet Financial Data and Analytics, TIAA Wealth Chief Investment Office. Data through 3/31/2026.

# Municipal bond yields remain near their record highs

- Municipal bonds delivered solid gains in January and February, building on the momentum from late 2025, before a challenging March driven by geopolitical tensions and inflation concerns left the quarter with a return of -0.18%. Longer and shorter maturities held up relatively well, while intermediate bonds felt the most pressure during the quarter.
- Municipal bond valuations have become more attractive relative to Treasuries, particularly in the intermediate range, offering investors a better entry point than in recent quarters.
- New muni bond issuance remained robust, with supply running well above historical averages, particularly in the intermediate part of the market, which added to near-term price pressure.
- Volatility is expected to persist into the second quarter, though this presents an opportunity for investors with cash on the sidelines to put that capital to work at more attractive yield levels before seasonal demand historically reemerges in the summer months.

Municipal bond valuations have become more attractive relative to Treasuries



Source: Bloomberg, TIAA Wealth Chief Investment Office. Data through 3/31/2026.

# 07

## Alternative investments

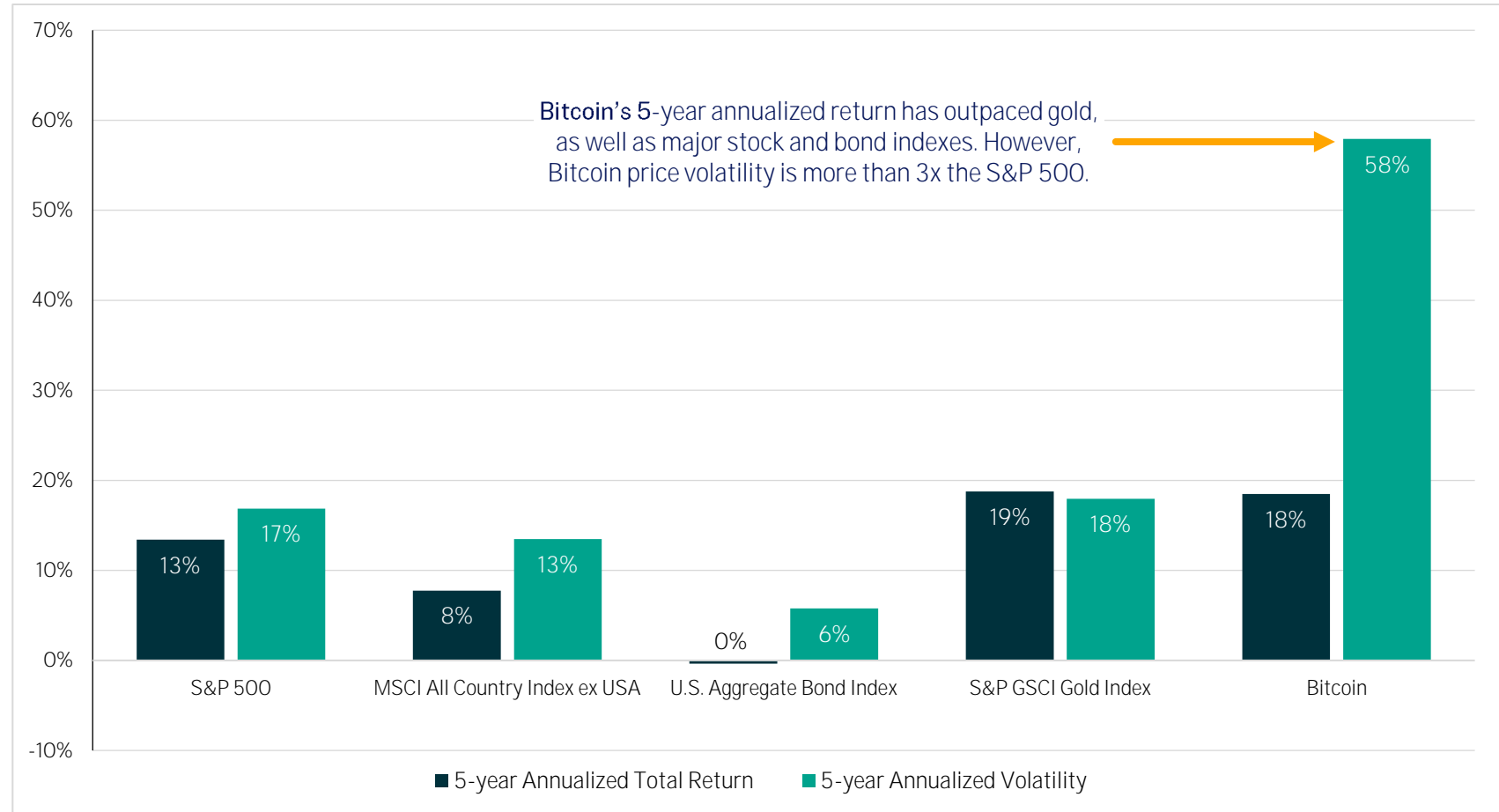
Bitcoin and gold were also volatile in Q1.



# Bitcoin returns have been significant, but so has its volatility

- Investor curiosity around cryptocurrencies and blockchain applications continues to grow, and the emergence of Bitcoin ETFs is an encouraging sign for the industry's maturation.
- However, the core challenges—absent cash flows, extreme volatility, and limited regulatory oversight—make it difficult to establish a reliable valuation framework and remain problematic for long-term investors who depend on portfolio income in retirement.
- While the long-term potential is real, the value drivers of cryptocurrencies are still evolving and not yet well understood.
- We continue to monitor developments closely before incorporating it as a strategic portfolio allocation.

Bitcoin exhibits significantly higher volatility than traditional stocks and bonds

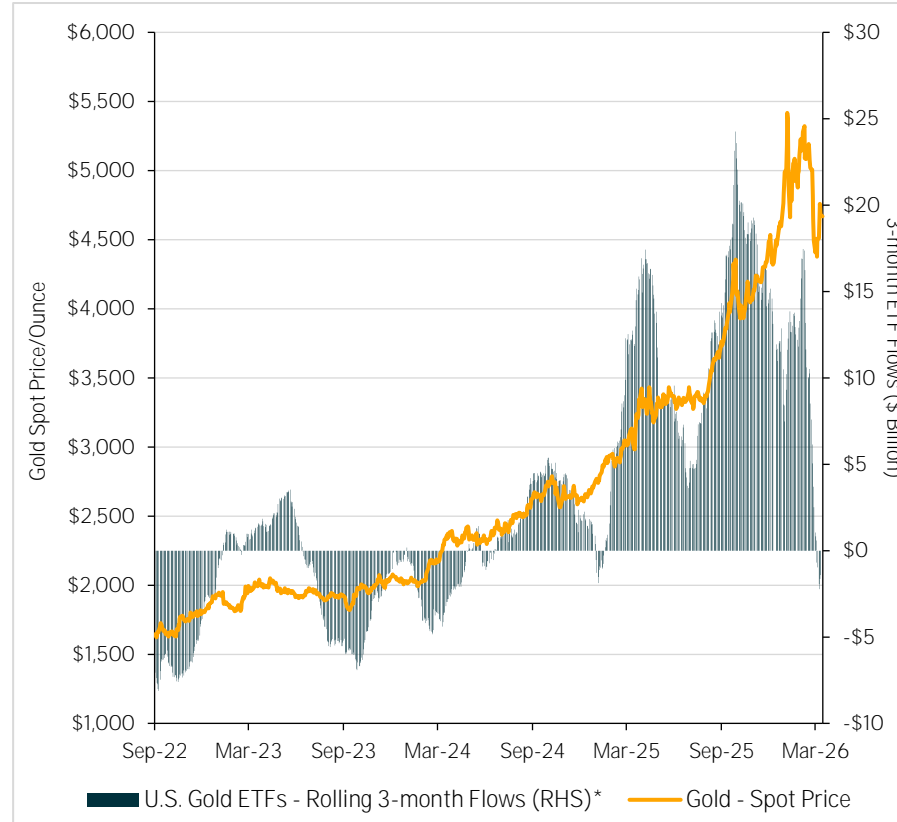


Source: Bloomberg, TIAA Wealth Chief Investment Office. Data through 3/31/2026.

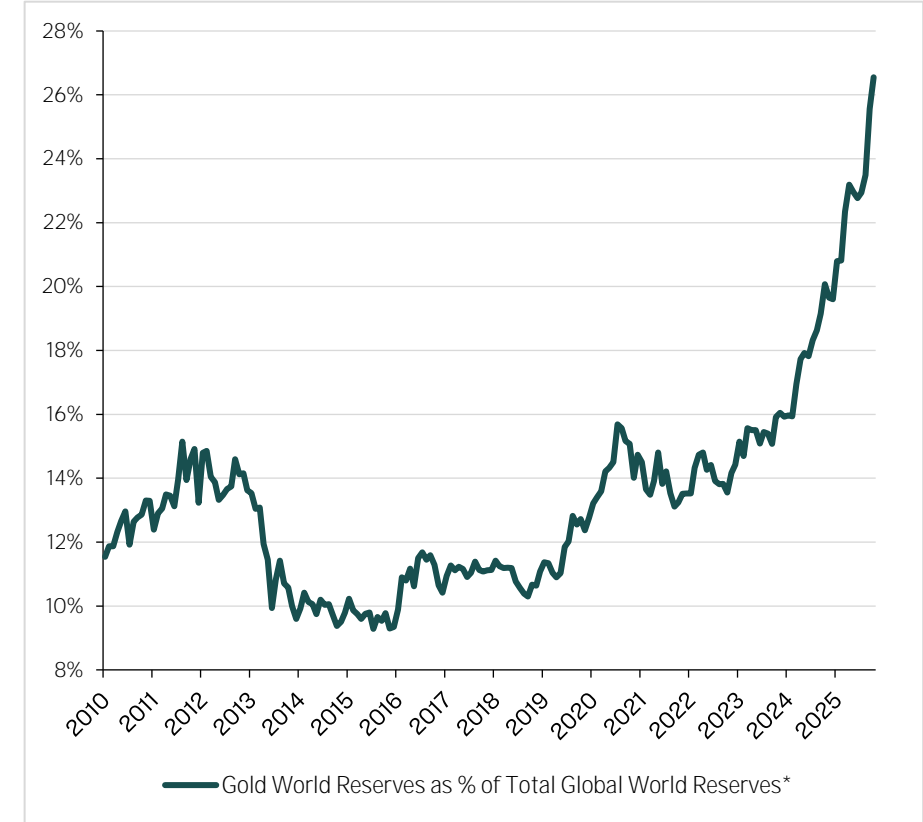
# Gold attracting investor attention amid elevated volatility

- Gold set new price records 53 times in 2025, drawing unprecedented capital into physically backed ETFs (left panel).
- The surge was fueled by three converging forces: safe-haven demand amid trade disputes and geopolitical tensions, momentum buying as prices climbed, and declining opportunity costs as Treasury yields fell and the dollar weakened.
- Central bank demand adds a durable structural dimension. Following significant net purchases in both 2024 and 2025, monetary institutions continue diversifying foreign exchange reserves into gold (right panel)—a longer-term, strategic buying pattern that underpins a more stable market structure going forward.
- Gold experienced a volatile first quarter in 2026, hitting record highs above \$5,500 in January before pulling back to \$4,500, yielding a modest year-to-date gain of ~8%. Driven by safe-haven demand amidst geopolitical uncertainty and central bank buying, it significantly outperformed a falling stock market.

Gold ETF flows surged in 2025



Central bank gold reserves have doubled since 2020



Source: Bloomberg, TIAA Wealth Chief Investment Office. Data through 4/6/2026 (left panel) and 10/31/2025 (right panel).

# 08

## 2026 U.S. midterm elections

Investors continue to consider new policies as they are sequenced ahead of elections in late 2026.



# Markets perform well across all political environments

- While the data since 1928 shows some performance variation across political configurations—with Democrats holding the White House for more total years than Republicans—the infographic doesn't tell the complete story.
- Markets have historically adapted and performed across all political environments as uncertainty gives way to clarity.
- The 2024 election delivered unified Republican control of the Presidency, House, and Senate, giving the GOP significant latitude to advance its agenda.
- Historical market returns for this configuration are highlighted in the orange box—a useful data point, but not a reliable predictor of future performance.

Historical data indicates that the market has often performed very well during periods of divided government

	Annual Returns			
	Large Cap Stocks (S&P 500) <sup>1</sup>	Fixed Income (Intermediate-term Bonds) <sup>2</sup>	60/40 Portfolio <sup>3</sup>	Number of Years <sup>4</sup>
Democratic President All Inauguration Years (from 1929) <sup>5</sup>	14.6%	3.3%	10.2%	52
Democratic House	11.6%	5.3%	9.1%	68
Democratic Senate	12.6%	4.2%	9.1%	64
Democratic Control (President, House, & Senate)	14.2%	2.5%	9.4%	37
Democratic President, Democratic Senate & Republican House	16.2%	2.4%	10.7%	6
Democratic President, Republican Senate & Republican House	15.9%	5.7%	11.8%	10

	Annual Returns			
	Large Cap Stocks (S&P 500) <sup>1</sup>	Fixed Income (Intermediate-term Bonds) <sup>2</sup>	60/40 Portfolio <sup>3</sup>	Number of Years <sup>4</sup>
Republican President All Inauguration Years (from 1929) <sup>5</sup>	6.2%	7.2%	6.8%	46*
Republican House	11.6%	4.8%	8.8%	30
Republican Senate	9.7%	7.1%	8.7%	34
Republican Control (President, House, & Senate)	5.4%	4.5%	4.9%	12
Republican President, Republican Senate & Democratic House	9.4%	12.2%	11.0%	10
Republican President, Democratic Senate & Democratic House	8.6%	6.8%	7.7%	22

<sup>1</sup> Large Cap Stocks: Ibbotson Associates (IA) SBBI Large Stock TR USD Ext from 1/1929 - 1/1970; S&P 500 TR USD thereafter.

<sup>2</sup> Fixed Income: IA SBBI IT Govt Bonds TR USD from 1929-1975; Bloomberg U.S. Agg Bond from 1976 thereafter.

<sup>3</sup> 60/40 Portfolio is rebalanced monthly.

<sup>4</sup> "Number of Years" = actual number of combined years the respective party presidents, senators, and house members are in office.

<sup>5</sup> For All Inaugurations, each presidential term runs from 1/1 of each election year through 1/31 of the next inauguration year.

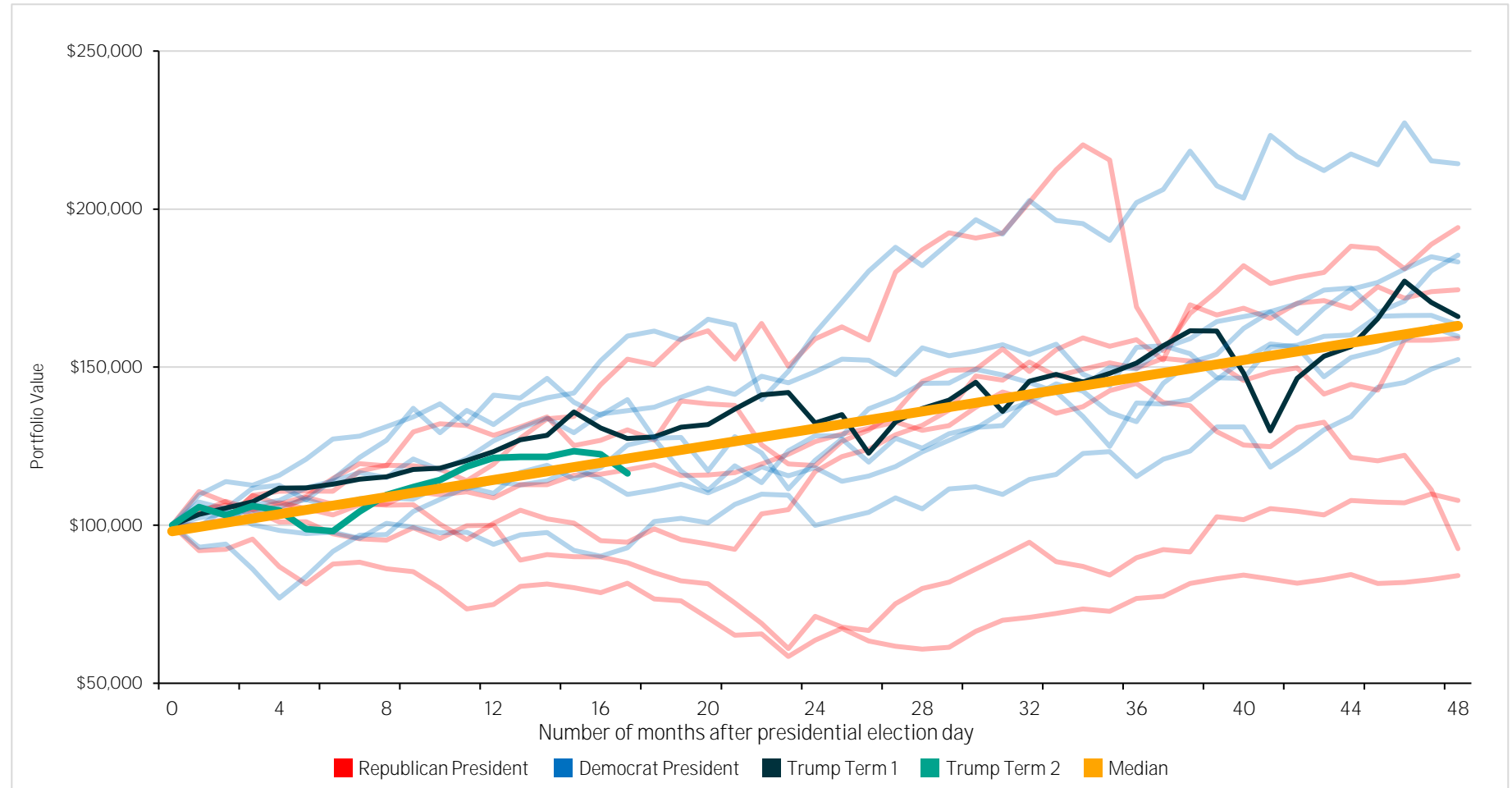
\* The current presidency covers from 1/1/2025 - 3/31/2026.

Source: Morningstar Direct, TIAA Wealth Chief Investment Office. Monthly returns from 1/1/1926 - 3/31/2026.

# U.S. presidential elections and value of \$100,000 invested in U.S. large cap equities over subsequent 48 months

- This chart tracks a hypothetical \$100,000 investment in the S&P 500 made the day before each presidential election since 1972, with Republican terms in red and Democrat terms in blue.
- While four-year returns vary dramatically across administrations, the median trendline (orange) smooths those peaks and valleys into a compelling long-term case for staying invested regardless of who occupies the White House.
- Through Q1 2026—Trump's first full year of his second term (light green line)—S&P 500 performance was tracking slightly below the median of all presidential terms since 1972.

Historical data makes a compelling long-term case for staying invested regardless of who occupies the White House



Source: Morningstar Direct, TIAA Wealth Chief Investment Office. Data for Trump's second term as of 3/31/2026.

# 09

## Portfolio strategy

Tuning out the noise, focusing on long-term goals.



# Near- and long-term investment views

## 12- to 18-month tactical views

- Macro forces we are focusing on:
  - **Economic and corporate fundamentals remain robust, but face risks**
    - Economic fundamentals remain supported by a range of stimulative dynamics, including OBBBA fiscal stimulus and the ongoing tailwinds provided by a positive wealth effect for consumers.
    - Earnings growth remains on an upward trajectory. However, risks are likely to intensify the longer the Middle East conflict continues.
  - **Geopolitical and policy uncertainty persists**
    - The Trump administration is likely to remain active on the foreign and domestic policy fronts ahead of the midterm elections.
  - **AI performance dispersion continues**
    - Investors may continue to reward businesses that show a combination of productivity gains, relative insulation from AI-related disruptions, and evidence of improving return on investment.
    - Artificial intelligence (AI)-related capital expenditures remain strong, providing a key source of support for the U.S. economy but also raising concerns about overspending and returns on invested capital.
  - **Private credit should be monitored**
    - Source of potential market and economic volatility due to larger retail investor participation, links to the traditional banking sector, and the growing role that private lending has played in providing financing to small and medium-sized businesses.

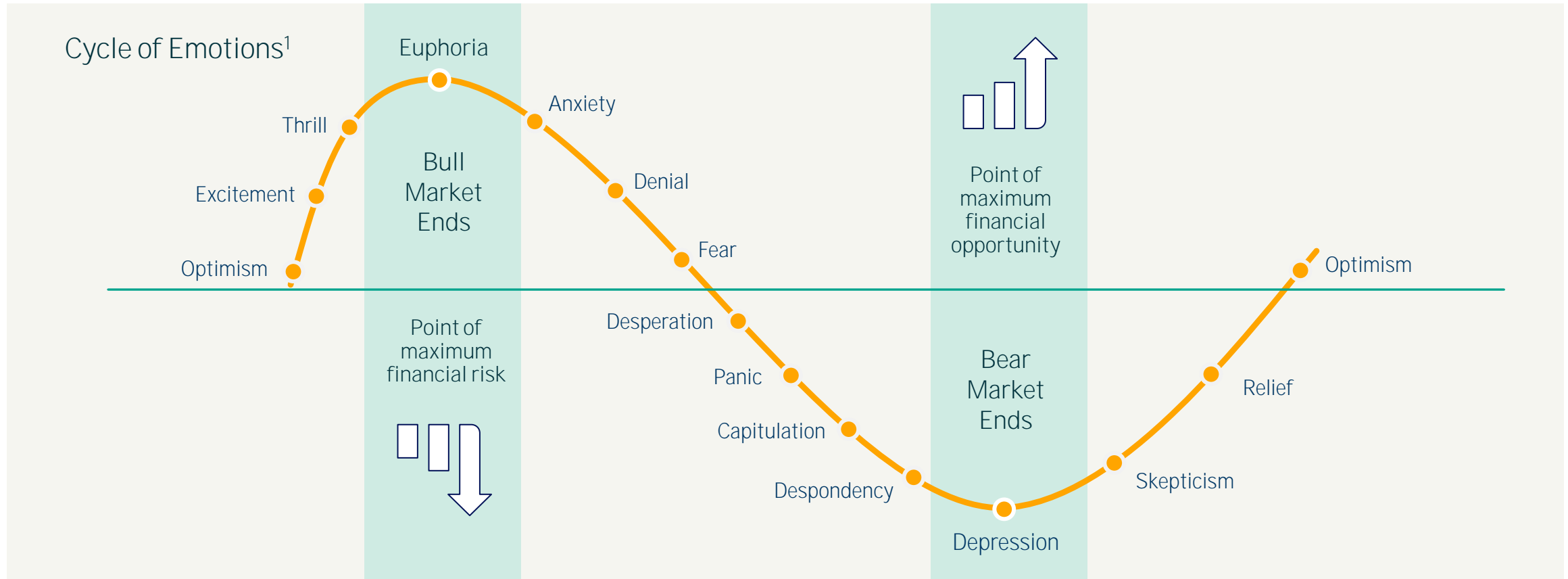
## Long-term secular views

- We believe that the U.S. economy is fundamentally strong from a long-term perspective and that markets over time will reflect this. In our view, the business cycle of the future will likely be driven by:
  - Accelerating innovation across all sectors of the economy, as AI and robotics become further embedded into business practices. This should drive an uptick in productivity growth broadly.
  - Geopolitical differences and national security concerns driving capital expenditures and government investment into higher value-added industries such as manufacturing, semiconductors, and healthcare supply chains.
  - The millennial generation aging into its prime years for earning, consuming, and investing.
  - Investments toward the transition to the new energy economy, including traditional and green commodities that are expected to be in deficit relative to projected long-term demand.

## 5 steps to stay on track toward your long-term investment goals



**Investors tend to see short-term volatility as extremely disruptive. This volatility can influence investor sentiment, which can sometimes drive investors to rush to judgement, then buy and sell assets at inappropriate times.**



<sup>1</sup>For illustrative purposes only

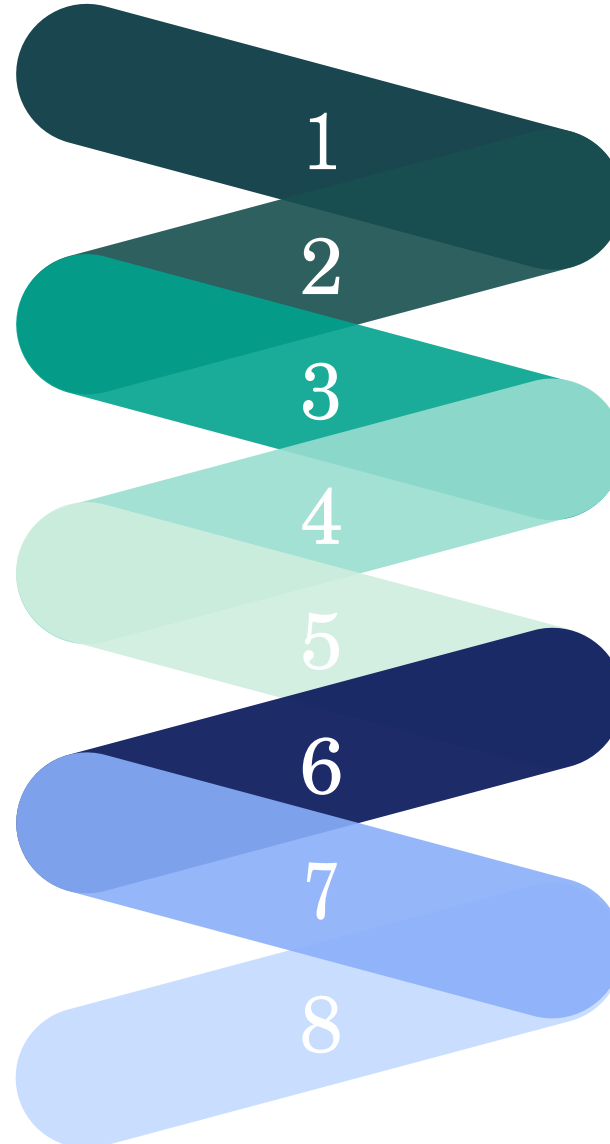
**Investors worried about short-term volatility who want to exit the market must make two correct decisions back-to-back: when to get out, and when to get back in. Can you make confident decisions based on answers to these important, related questions?**

1 Why am I worried, and what am I watching/reading to inform my decision making?

2 Who am I talking to about these concerns? Do they have the expertise to help?

3 When will I exit the market, and in which account(s)? 403(b)? Brokerage? Roth?

4 Which asset classes will I sell first, and why?



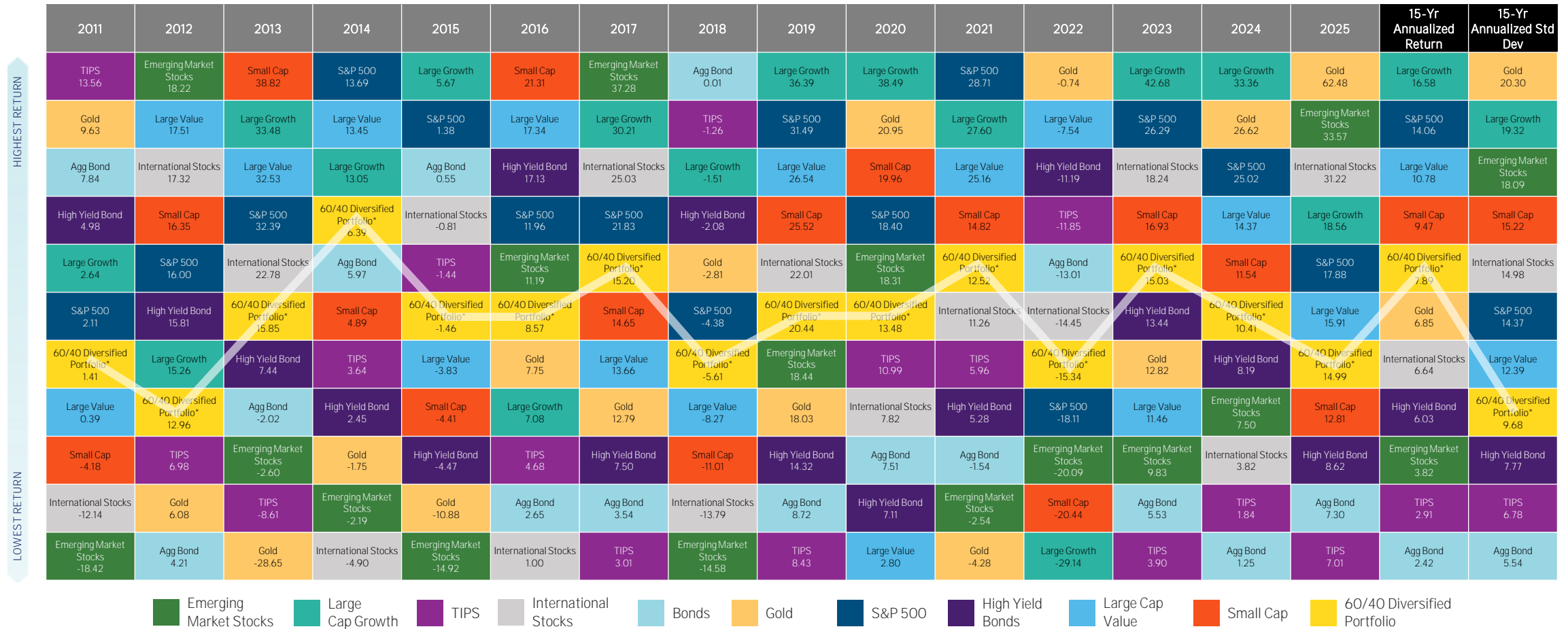
5 Where will I put the money, and how will I rebalance after I sell?

6 When will I get back in the market, and are these the same signals I used to exit?

7 What if I'm scared to get back in and too much time has passed?

8 What will I buy first (which asset classes, sectors, and how much of each)?

**A well-diversified portfolio improves the likelihood of more consistent outcomes. By holding a variety of investments, poor performance of any one investment can potentially be offset by the better performance of another, leading to a more consistent overall returns over time.**



Source: Data derived from Morningstar Direct. All data represents total returns for the stated period. Past performance does not guarantee future returns. This material is for informational or educational purposes only and does not constitute a recommendation or investment advice in connection with a distribution, transfer or rollover, a purchase or sale of securities or other investment property, or the management of securities or other investments, including the development of an investment strategy or retention of an investment manager or advisor. This material does not take into account any specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made in consultation with an investor's personal advisor based on the investor's own objectives and circumstances. The TIAA group of companies does not provide legal or tax advice. Please consult your independent legal or tax advisor for advice specific to your needs.

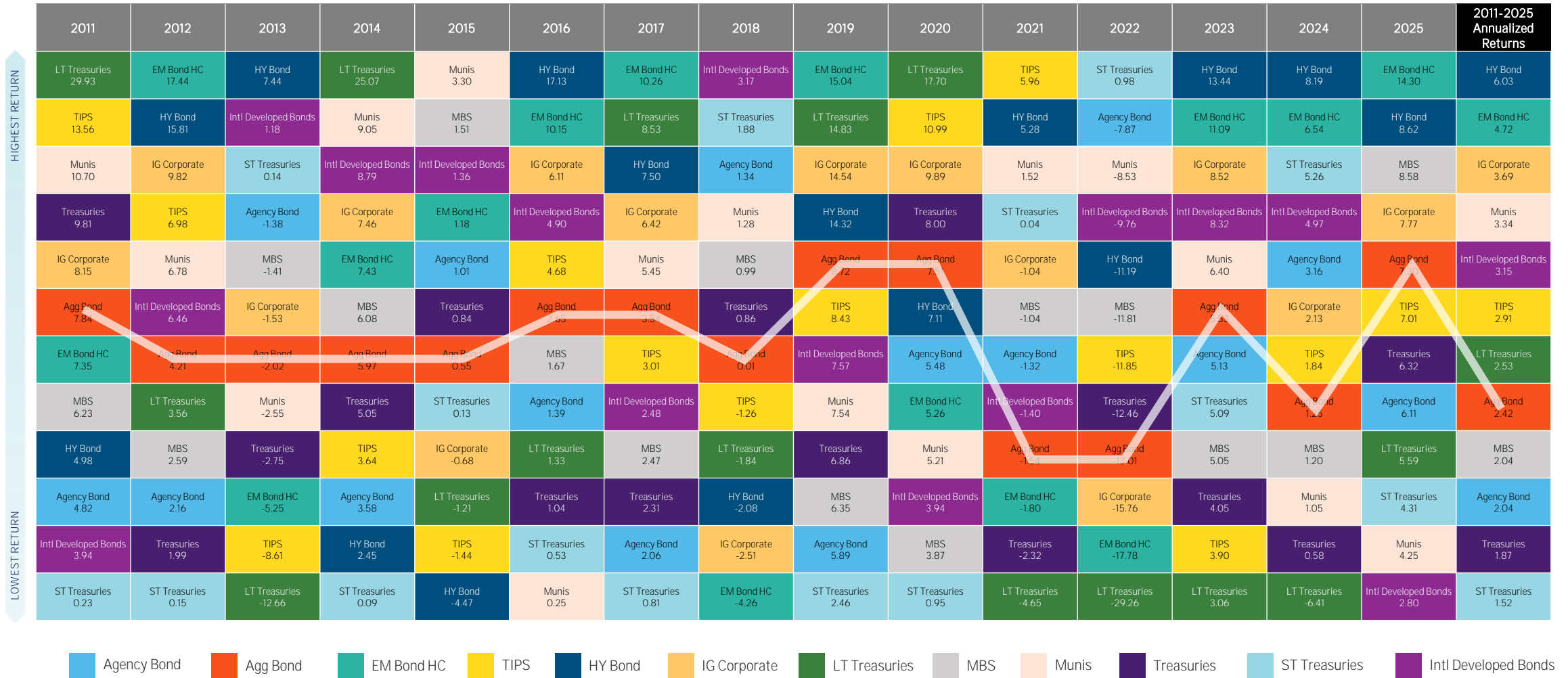
# S&P Global sector index performance 2016-2025

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	10-Year Annualized Return (1/1/2016 -12/31/2025)
HIGHEST RETURN	S&P Global 1200 Energy 28.87	S&P Global 1200 Information Tech 41.72	S&P Global 1200 Healthcare 3.66	S&P Global 1200 Information Tech 48.41	S&P Global 1200 Information Tech 44.45	S&P Global 1200 Energy 41.84	S&P Global 1200 Energy 48.55	S&P Global 1200 Information Tech 54.38	S&P Global 1200 Information Tech 32.85	S&P Global 1200 Communication Services 33.40	S&P Global 1200 Information Tech 23.03
	S&P Global 1200 Materials 24.11	S&P Global 1200 Materials 30.28	S&P Global 1200 Utilities 2.77	S&P Global 1200 Industrials 28.39	S&P Global 1200 Consumer Discretionary 28.67	S&P Global 1200 Information Tech 30.05	S&P Global 1200 Utilities -3.77	S&P Global 1200 Communication Services 40.28	S&P Global 1200 Communication Services 32.61	S&P Global 1200 Financials 29.27	S&P Global 1200 Industrials 12.37
	S&P Global 1200 Information Tech 14.25	S&P Global 1200 Industrials 25.65	S&P Global 1200 Information Tech -4.59	S&P Global 1200 Consumer Discretionary 27.28	S&P Global 1200 Materials 23.11	S&P Global 1200 Financials 25.91	S&P Global 1200 Healthcare -4.25	S&P Global 1200 Consumer Discretionary 30.72	S&P Global 1200 Financials 26.60	S&P Global 1200 Materials 27.54	S&P Global 1200 Financials 12.25
	S&P Global 1200 Industrials 13.54	S&P Global 1200 Financials 24.25	S&P Global 1200 Consumer Discretionary -5.72	S&P Global 1200 Communication Services 26.83	S&P Global 1200 Communication Services 22.41	S&P Global 1200 Healthcare 20.17	S&P Global 1200 Consumer Staples -5.24	S&P Global 1200 Industrials 22.13	S&P Global 1200 Consumer Discretionary 21.96	S&P Global 1200 Information Tech 27.49	S&P Global 1200 Materials 11.51
	S&P Global 1200 Financials 13.00	S&P Global 1200 Consumer Discretionary 23.48	S&P Global 1200 Consumer Staples -9.98	S&P Global 1200 Financials 25.16	S&P Global 1200 Healthcare 13.14	S&P Global 1200 Industrials 18.13	S&P Global 1200 Financials -8.14	S&P Global 1200 Financials 15.45	S&P Global 1200 Utilities 13.56	S&P Global 1200 Utilities 26.59	S&P Global 1200 Communication Services 11.12
	S&P Global 1200 Utilities 6.59	S&P Global 1200 Healthcare 21.23	S&P Global 1200 Communication Services -12.80	S&P Global 1200 Utilities 24.70	S&P Global 1200 Industrials 11.49	S&P Global 1200 Materials 15.93	S&P Global 1200 Materials -8.58	S&P Global 1200 Materials 15.02	S&P Global 1200 Industrials 13.39	S&P Global 1200 Industrials 26.14	S&P Global 1200 Consumer Discretionary 10.33
	S&P Global 1200 Communication Services 6.14	S&P Global 1200 Consumer Staples 18.26	S&P Global 1200 Industrials -13.76	S&P Global 1200 Healthcare 23.93	S&P Global 1200 Consumer Staples 8.14	S&P Global 1200 Communication Services 14.19	S&P Global 1200 Industrials -11.65	S&P Global 1200 Energy 4.68	S&P Global 1200 Consumer Staples 6.04	S&P Global 1200 Healthcare 15.31	S&P Global 1200 Utilities 10.00
	S&P Global 1200 Consumer Discretionary 3.44	S&P Global 1200 Utilities 15.54	S&P Global 1200 Energy -14.04	S&P Global 1200 Consumer Staples 23.83	S&P Global 1200 Utilities 5.72	S&P Global 1200 Consumer Staples 14.15	S&P Global 1200 Information Tech -29.48	S&P Global 1200 Healthcare 3.95	S&P Global 1200 Energy 2.51	S&P Global 1200 Energy 14.79	S&P Global 1200 Energy 9.14
	S&P Global 1200 Consumer Staples 1.72	S&P Global 1200 Communication Services 7.19	S&P Global 1200 Materials -15.13	S&P Global 1200 Materials 22.71	S&P Global 1200 Financials -2.37	S&P Global 1200 Consumer Discretionary 14.12	S&P Global 1200 Consumer Discretionary -31.97	S&P Global 1200 Consumer Staples 2.87	S&P Global 1200 Healthcare 1.12	S&P Global 1200 Consumer Discretionary 9.52	S&P Global 1200 Healthcare 8.76
LOWEST RETURN	S&P Global 1200 Healthcare -5.75	S&P Global 1200 Energy 6.10	S&P Global 1200 Financials -15.31	S&P Global 1200 Energy 12.66	S&P Global 1200 Energy -30.21	S&P Global 1200 Utilities 11.34	S&P Global 1200 Communication Services -34.26	S&P Global 1200 Utilities 0.98	S&P Global 1200 Materials -7.75	S&P Global 1200 Consumer Staples 9.40	S&P Global 1200 Consumer Staples 6.47



Source: Data derived from Morningstar Direct. Past performance does not guarantee future results. Index returns are for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. The S&P Global 1200 provides efficient exposure to the global equity market. Capturing approximately 70% of global market capitalization, it is constructed as a composite of seven headline indices, many of which are accepted leaders in their regions. These include the S&P 500®(US), S&P Europe 350, S&P TOPIX 150 (Japan), S&P/TSX 60 (Canada), S&P/ASX All Australian 50, S&P Asia 50, and S&P Latin America 40. Investing involves risk, including possible loss of principal. Investments primarily concentrated in one sector may be more volatile than those that diversify across many industry sectors and companies. Foreign investing involves risks not typically associated with U.S. investing, including currency fluctuations, political instability, uncertain economic conditions, different accounting standards, and other risks not associated with domestic investments. These risks may be magnified in emerging markets.

# Fixed income investments 2011-2025

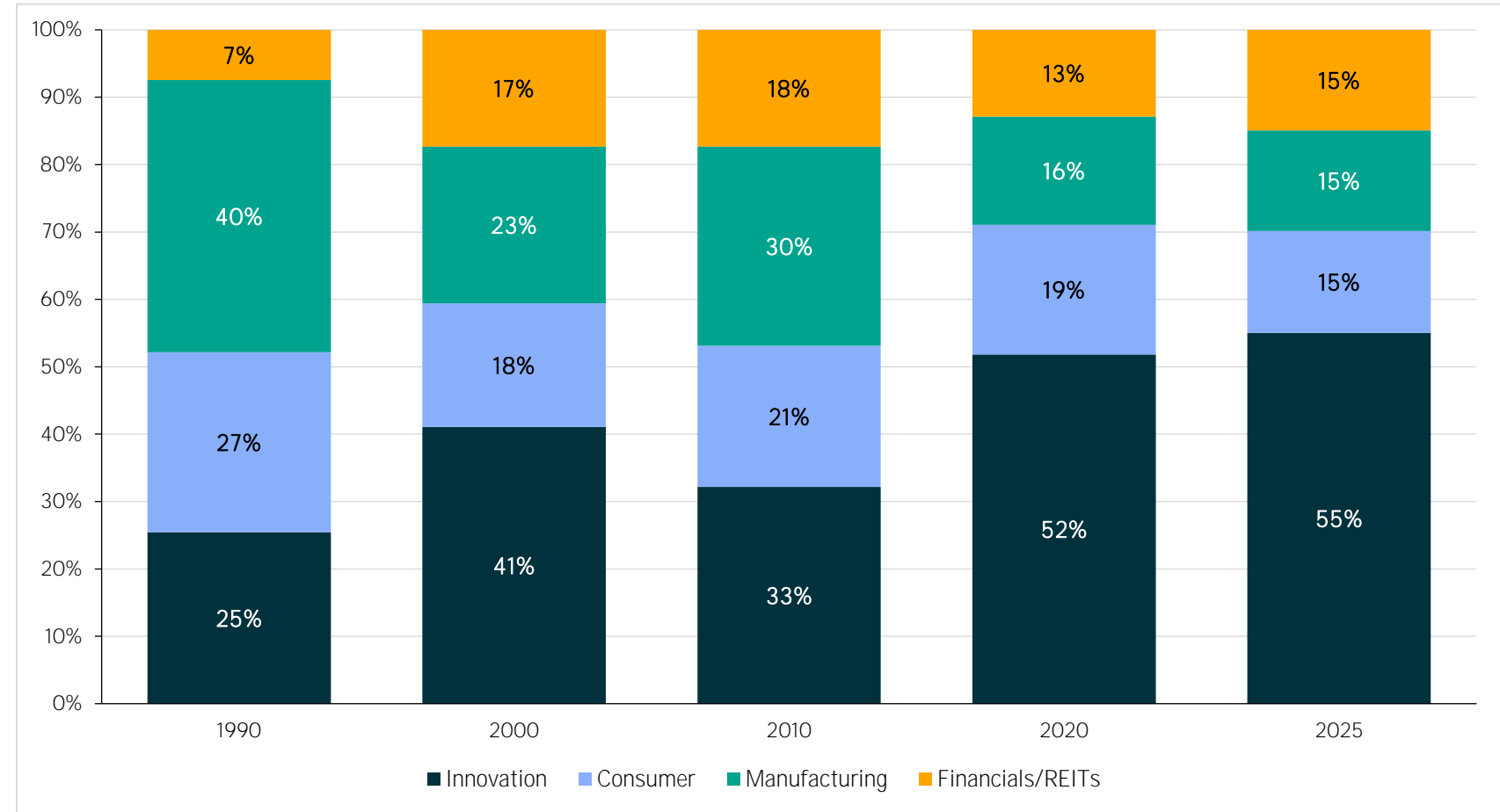


Source: Data derived from Morningstar Direct. Please note that equity returns have historically been higher than other asset classes but carry considerable risk of principal. Fixed-income returns have historically been less than equity returns, are subject to interest rate risk, but typically bring greater safety of principal. Indexes are unmanaged statistical composites that measure the various financial markets. An investment cannot be made into an index. All data represents total returns for the stated period. Past performance does not guarantee future returns. This material is for informational or educational purposes only and does not constitute a recommendation or investment advice in connection with a distribution, transfer or rollover, a purchase or sale of securities or other investment property, or the management of securities or other investments, including the development of an investment strategy or retention of an investment manager or advisor. This material does not take into account any specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made in consultation with an investor's personal advisor based on the investor's own objectives and circumstances. The TIAA group of companies does not provide legal or tax advice. Please consult your independent legal or tax advisor for advice specific to your needs.

# S&P 500 market cap by sector over time

- S&P 500 sector weightings have shifted dramatically over decades, reflecting the rise of technology and decline of traditional industries.
- Information technology (dark green) has grown from roughly 6% in 1990 to over 35% today, driven by the dominance of Apple, Microsoft, and Nvidia.
- Industrials and energy (light green) have declined substantially from historical peaks—industrials once represented one-third of the index in 1969, while energy has shrunk to one of the smallest weightings from its mid-2000s prominence.
- Sector weightings fluctuate with economic conditions; financials (yellow) peaked near 22% before the 2008 financial crisis, while health care and consumer staples tend to outperform during economic slowdowns.

Manufacturing dominated the index in 1990; today the index is dominated by innovation (i.e., tech + communications services & health care)



Source: FactSet Financial Data Analytics, TIAA Wealth Chief Investment Office; S&P 500 index sectors; 1/1/1989 – 12/31/2025. Innovation = Tech, Comm. Services & Health Care; Consumer = Cons. Staples & Discretionary; Manufacturing = Industrials, Materials, Energy, & Utilities.

# Correlation is a statistical measure that captures how two securities move in relation to each other

- Diversification—often called investing's only "free lunch"—works because portfolio risk depends not just on individual holdings, but on how they interact, a principle established by Harry Markowitz in 1952.
- This interaction is measured by correlation, a statistical coefficient capturing the direction (but not magnitude) of returns between two securities.
- A coefficient of 1 indicates securities move in lockstep; -1 indicates perfect inverse movement; 0 indicates no historical relationship.
- Combining asset classes with correlations below 1.0 reduces overall portfolio risk— the lower the correlation, the greater the volatility reduction and the better the potential risk-adjusted returns.
- The chart displays correlations across 16 asset classes over the past five years.

5-Year Correlation of various asset classes

Asset Class	Benchmark/Index	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
U.S. Large Cap	1 Russell 1000 TR USD	1.00															
U.S. Small Cap	2 Russell 2000 TR USD	0.84	1.00														
World Ex US	3 MSCI ACWI Ex USA GR USD	0.79	0.69	1.00													
Dev. Mkts. Small Cap	4 MSCI EAFE Small Cap GR USD	0.78	0.74	0.94	1.00												
EM	5 MSCI EM GR USD	0.59	0.51	0.86	0.71	1.00											
HY Bond	6 Bloomberg US Corporate High Yield TR USD	0.83	0.76	0.81	0.85	0.60	1.00										
EM Bond HC	7 JPM EMBI Global Diversified TR USD	0.76	0.63	0.87	0.83	0.78	0.83	1.00									
Intl Dev. Bonds	8 Bloomberg Gbl Agg Ex USD TR Hdg USD	0.67	0.52	0.61	0.62	0.47	0.76	0.73	1.00								
MBS	9 Bloomberg US MBS TR USD	0.62	0.57	0.75	0.75	0.63	0.76	0.80	0.81	1.00							
IG Corp. Bond	10 Bloomberg US Corp Bond TR USD	0.70	0.59	0.79	0.78	0.67	0.82	0.88	0.84	0.95	1.00						
U.S. Agg Bond	11 Bloomberg US Agg Bond TR USD	0.63	0.54	0.74	0.74	0.63	0.76	0.82	0.84	0.98	0.98	1.00					
Treasury	12 Bloomberg US Treasury TR USD(1972)	0.54	0.45	0.66	0.65	0.56	0.68	0.75	0.84	0.95	0.95	0.99	1.00				
Cash	13 ICE BofA US 3M Trsy Bill TR USD	0.13	0.09	0.22	0.19	0.26	0.26	0.37	0.34	0.22	0.28	0.27	0.27	1.00			
Commodity	14 Bloomberg Commodity TR USD	0.23	0.17	0.31	0.27	0.28	0.25	0.16	-0.11	0.07	0.07	0.03	-0.03	-0.25	1.00		
Gold	15 S&P GSCI Gold TR	0.12	0.03	0.40	0.36	0.40	0.20	0.35	0.30	0.34	0.37	0.39	0.42	0.30	0.17	1.00	
REITs	16 FTSE Nareit Equity REITs TR USD	0.84	0.78	0.75	0.78	0.51	0.77	0.72	0.61	0.68	0.70	0.67	0.60	-0.03	0.26	0.19	1.00

Source: Morningstar Direct; TIAA Wealth Chief Investment Office. Data from 2021 – 2025; monthly data.

# Correlations have increased over the past 30 years, particularly in the last decade

- Correlation coefficients shift over time, meaning past diversification benefits are not guaranteed to persist.
- Correlations between many assets tend to spike during market crises—precisely when diversification is needed most.
- The historically low or negative U.S. stock-bond correlation began eroding around 2010, turning positive in recent periods and undermining the traditional 60/40 portfolio as a reliable volatility buffer.
- During bear markets and periods of high volatility, correlations among traditional asset classes tend to rise dramatically, further reducing diversification benefits at the worst possible time.
- When correlations rise, investors should broaden diversification toward assets with truly low or negative correlations—such as real assets, commodities, or certain alternatives—and seek independent risk/return drivers to build portfolio resilience.

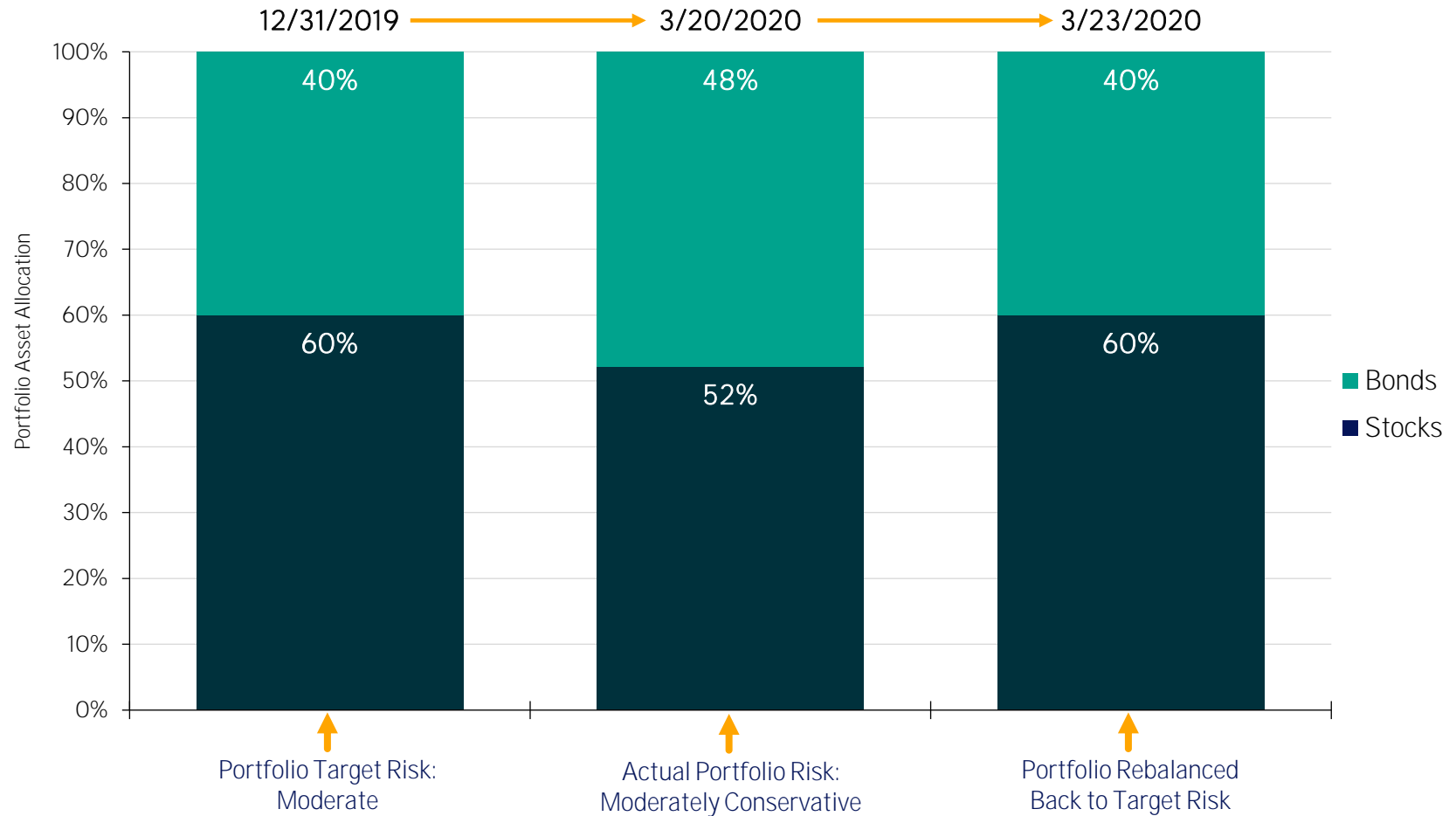
5-Year Correlation Trends vs. Russell 1000

Asset Class	Benchmark/Index	2001-2005	2006-2010	2011-2015	2016-2020	2021-2025
U.S. Large Cap	Russell 1000 TR USD	1.00	1.00	1.00	1.00	1.00
U.S. Small Cap	Russell 2000 TR USD	0.84	0.93	0.88	0.91	0.84
World Ex US	MSCI ACWI Ex USA GR USD	0.88	0.91	0.86	0.89	0.79
Dev. Mkts. Small Cap	MSCI EAFE Small Cap GR USD	0.70	0.86	0.81	0.89	0.78
EM	MSCI EM GR USD	0.81	0.83	0.73	0.77	0.58
HY Bond	Bloomberg US Corporate High Yield TR USD	0.52	0.74	0.77	0.78	0.84
EM Bond HC	JPM EMBI Global Diversified TR USD	0.39	0.63	0.54	0.58	0.76
Intl Dev. Bonds	Bloomberg Gbl Agg Ex USD TR Hdg USD	-0.33	-0.09	-0.07	0.04	0.67
MBS	Bloomberg US MBS TR USD	-0.32	-0.06	-0.09	-0.25	0.62
IG Corp. Bond	Bloomberg US Corp Bond TR USD	-0.12	0.43	0.13	0.50	0.70
U.S. Agg Bond	Bloomberg US Agg Bond TR USD	-0.33	0.16	-0.16	0.01	0.62
Treasury	Bloomberg US Treasury TR USD(1972)	-0.44	-0.23	-0.45	-0.39	0.53
Cash	ICE BofA US 3M Trsy Bill TR USD	0.02	-0.26	-0.27	-0.33	0.00
Commodity	Bloomberg Commodity TR USD	0.15	0.53	0.48	0.60	0.23
Gold	S&P GSCI Gold TR	-0.04	0.07	0.14	0.01	0.11
REITs	FTSE Nareit Equity REITs TR USD	0.39	0.81	0.59	0.74	0.84

Source: Morningstar Direct; TIAA Wealth Chief Investment Office. Data for each 5-year period listed above; monthly data; 2001 - 2025.

# Benefits of regular portfolio rebalancing

- Regular rebalancing keeps a portfolio aligned to its target asset allocation, reflecting each investor's unique risk tolerance, goals, and long-term financial plan.
- As markets shift, asset weightings drift from their targets, potentially resulting in a risk profile inconsistent with the investor's objectives.
- Without rebalancing, an initially conservative portfolio can become unintentionally aggressive—or vice versa—increasing exposure to unintended risk.
- The COVID pandemic offers a real-world example: a hypothetical 60/40 portfolio (far left) drifted to 52/48 (middle) as equity markets fell sharply in early 2020, shifting the portfolio to a more conservative posture than intended.
- Rebalancing restored the 60/40 target allocation (far right), keeping the portfolio aligned with the investor's long-term plan.



Source: TIAA Wealth Chief Investment Office.

# Benefits of tax-loss harvesting

- Tax-loss harvesting (TLH) is a proactive strategy that offsets capital gains taxes by deliberately selling investments at a loss, lowering current taxes owed.
- TLH allows investors to realize a tax benefit while maintaining market exposure; it applies only to taxable accounts and defers, rather than eliminates, taxes.
- TLH is commonly used to offset realized capital gains; when losses exceed gains, taxpayers may deduct up to \$3,000 in net capital losses against ordinary income annually for both single and joint filers.<sup>2</sup>
- TLH opportunities can be captured throughout the year on opportunistic capture dates.<sup>3</sup>

## Sample Tax-Loss Harvesting Strategy



<sup>1</sup> Capture dates are opportunities throughout the calendar year as described in the Portfolio Advisor ADV; the frequency is subject to change.

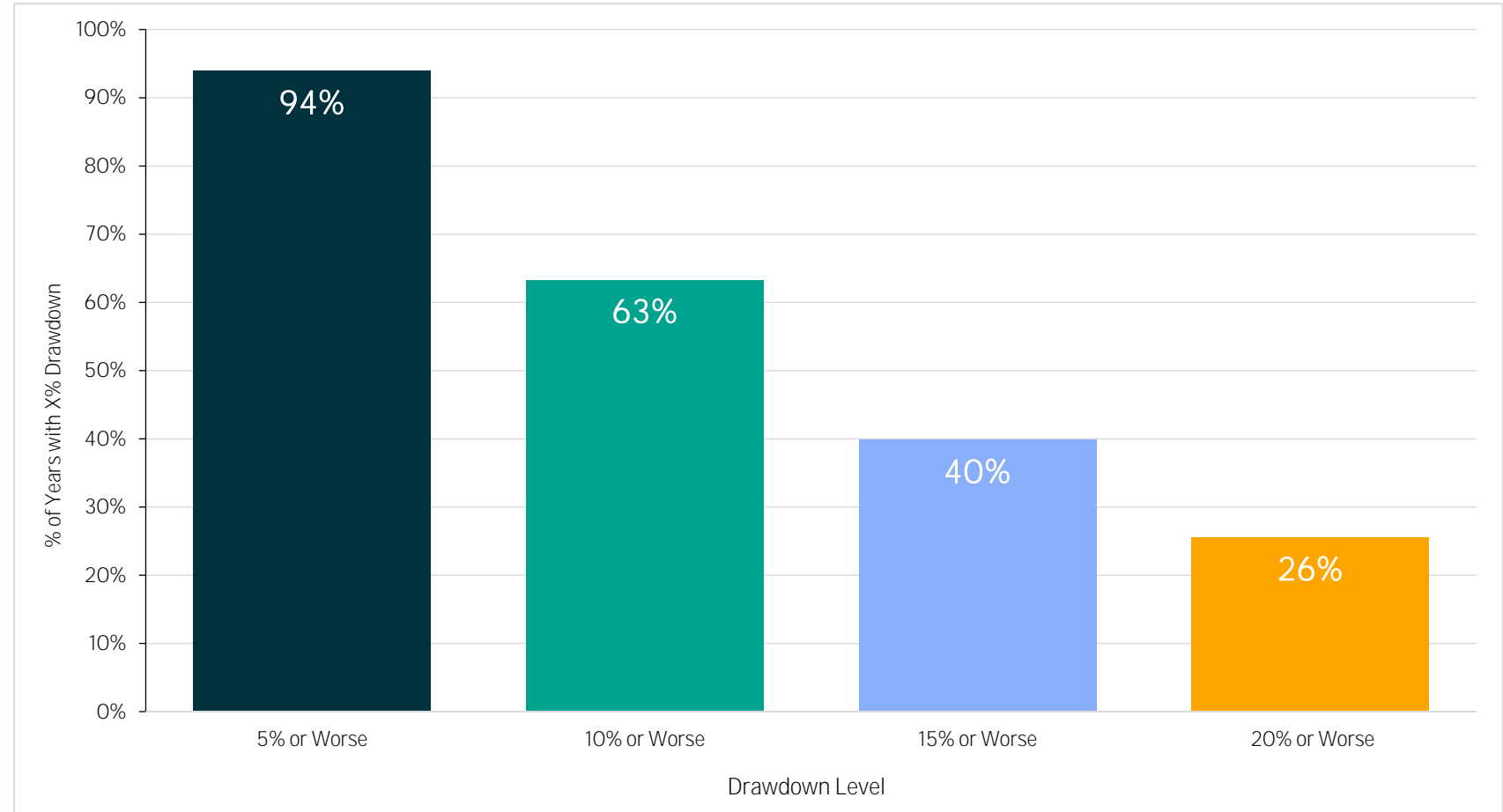
<sup>2</sup> TIAA does not provide tax advice. Please consult a tax advisor regarding your personal situation. IRS deductions are subject to change. Visit the IRS website for up-to-date information regarding deduction limits.

<sup>3</sup> A wash sale occurs when an investor purchases a security 30 days before or 30 days after selling an identical or similar security. The IRS instituted the wash sale rule to prevent taxpayers from using the practice to reduce their tax liability. Investors who sell a security at a loss cannot claim it if they have purchased the same or a similar security within 30 days (before or after) the sale.

# Annual stock drawdowns are common, and some years are worse than others

- In 2025, the S&P 500 experienced a 19% decline in April and a 5% drop in November.
- In Q1 2026, the S&P 500 experienced a ~4% decline.
- A maximum drawdown of 5% or more is common—occurring in 94% of years since 1928 (dark green bar); the last year without one was 2017.
- Maximum drawdowns over the past four years: 25% in 2022, 10% in 2023, 8% in 2024, and 19% in 2025.
- Double-digit drawdowns (10% or more) have occurred in roughly two-thirds of all years since 1928 (light green bar), with an average intra-year maximum drawdown of 16%.
- See page 97 for more on equity market pullbacks.

Double-digit drawdowns (10% or more) have occurred in roughly two-thirds of all years since 1928



Source: Morningstar Direct and TIAA Wealth Chief Investment Office; annual data from 1/1/1928 — 12/31/2025. Returns are based on the S&P 500 Price Return (PR) USD, daily returns. Maximum drawdown is defined as the largest market decline from a peak to a trough during the year.

## S&P 500 worst 10 years and subsequent 1-, 3-, and 5-year returns

- This table shows the 10 worst annual S&P 500 returns since 1926, along with subsequent 1-, 3-, and 5-year cumulative returns.
- The worst years share a common theme: market crashes, war, or broad economic upheaval.
- Near-term recovery is modest—the average return the following year was 7%, with only 6 of 10 instances posting positive results.
- Longer-term recoveries are significantly stronger—average cumulative returns were +40% over 3 years and +79% over 5 years following the worst annual drawdowns.
- Negative multi-year returns were rare: only one 3-year period posted negative returns (following the Great Depression), and every 5-year period was positive.

Patient investors are typically rewarded in the long term

Event	Year	S&P 500	Following Year	Cumulative Returns	
				3 Years After	5 Years After
Great Depression	1931	-43%	-8%	39%	176%
Great Financial Crisis	2008	-37%	26%	49%	128%
1937 Crash	1937	-35%	31%	18%	25%
1973-74 Bear Market	1974	-26%	37%	58%	100%
Great Depression	1930	-25%	-43%	-20%	17%
Residue from Dot-Com Crash, Corporate Accounting Scandals, Uncertainty Following 9/11	2002	-22%	29%	50%	83%
The Great Inflation	2022	-18%	26%	86%	N/A
1973-74 Bear Market	1973	-15%	-26%	25%	24%
Dot-Com Crash	2001	-12%	-22%	11%	35%
World War Two (WWII)	1941	-12%	20%	81%	128%
<b>Average</b>		-25%	7%	40%	79%

Source: Morningstar Direct and TIAA Wealth Chief Investment Office; data from 1/3/1926 — 12/31/2025, monthly returns; S&P 500 TR: Ibbotson Associates (IA) SBBI Large Stock TR USD Ext from 1926 -1/1970; S&P 500 TR USD thereafter. Chart is sorted on worst annual S&P 500 total return data.

# S&P 500 max drawdowns vs. recovery periods

- This table shows all S&P 500 drawdowns exceeding -10% from 1929 to present (~97 years), including duration and subsequent recovery periods.
- On average, drawdowns have lasted ~230 days with recoveries taking ~762 days.
- In early 2025, the 19% drawdown lasted just 35 days, with the market reclaiming its all-time high in only 58 days.
- Since 2015, drawdown cycles have been relatively short—with the exception of 2022—though three drawdowns exceeding 20% have occurred since 2018 alone.
- Short recovery periods should not be an invitation to take on more risk; investors should remain focused on a long-term strategy aligned with their risk tolerance and time horizon.
- Severe drawdowns are unsettling but often set the stage for healthier recoveries—hence the term "corrections."

Event	Maximum Drawdown* Start Date	Maximum Drawdown End Date	Maximum Drawdown during Period	Maximum Drawdown Period (Trading Days from Peak to Trough)	Recovery Period (Trading Days to get back to Peak)
1929 Crash & Great Depression	9/16/1929	6/1/1932	-86%	805	8148
Roosevelt recession	3/1/1937	3/31/1938	-54%	326	2868
Post-WWII bear market	5/30/1946	5/19/1947	-28%	243	799
Fed's restrictive monetary policy to control Inflation	8/3/1956	10/22/1957	-21%	307	241
1960 recession	8/4/1959	10/25/1960	-14%	311	67
Height of Cold War & Cuban Missile Crisis	12/13/1961	6/26/1962	-28%	135	310
Credit Crunch of 1966	2/10/1966	10/7/1966	-22%	167	145
Inflationary bear market	12/2/1968	5/26/1970	-36%	369	464
70s bear market (inflation, Vietnam, Watergate, oil embargo)	1/12/1973	10/3/1974	-48%	436	1507
Double-dip recession	12/1/1980	8/12/1982	-26%	430	49
Rising interest rates	10/11/1983	7/24/1984	-13%	199	124
87 Crash (Black Monday)	8/26/1987	12/4/1987	-33%	71	423
Iraq's invasion of Kuwait	7/17/1990	10/11/1990	-20%	62	87
Asian Financial Crisis	10/8/1997	10/27/1997	-10%	14	25
Fear of higher interest rates, trade deficit, falling U.S. Dollar	7/20/1998	8/31/1998	-19%	31	60
Y2K anxiety	7/19/1999	10/15/1999	-11%	64	22
Dot-com bubble	3/27/2000	10/9/2002	-49%	637	1203
Great Financial Crisis (GFC)	10/10/2007	3/9/2009	-57%	355	1048
Global market turbulence ( e.g., Brexit)	5/22/2015	2/11/2016	-14%	183	106
U.S. and China Trade War	9/21/2018	12/24/2018	-20%	65	86
COVID-19 Pandemic	2/20/2020	3/23/2020	-34%	23	102
Post-COVID inflation	1/4/2022	10/12/2022	-25%	195	332
Ongoing inflation, Mag 7 pullback, corporate earnings downgrades	7/31/2023	10/27/2023	-10%	64	25
Liberation Day (Tariffs)	2/19/2025	4/8/2025	-19%	35	58
		<b>Average</b>	<b>-29%</b>	<b>230</b>	<b>762</b>

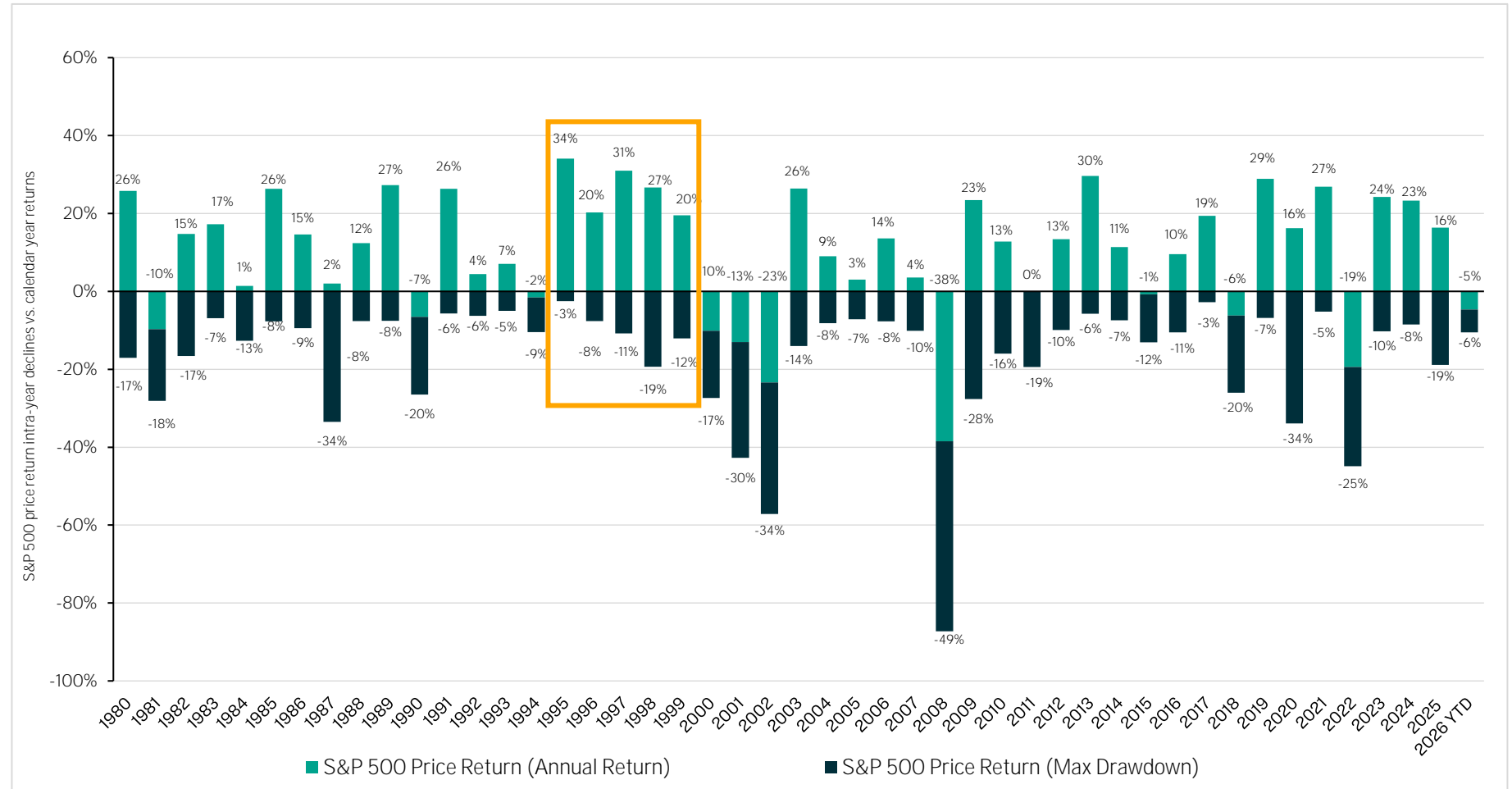
\*Maximum drawdown is defined as the peak through decline during a specified period.

Source: Bloomberg and TIAA Wealth Chief Investment Office; data from 9/16/1929 – 12/31/2025.

# Stocks: Investor discipline drives success more often than not

- History shows that investors who remain invested through market corrections are generally rewarded over the long run.
- The S&P 500 fell -25% intra-year in October 2022 (dark green bar), yet rebounded to post returns of +24%, +23%, and +16% over the following three years (light green bars).
- In 2025, despite a ~19% intra-year drawdown from its February peak, the index finished the year up nearly 18%.
- Even in positive return years, the average intra-year maximum drawdown is -12%—underscoring that volatility is a normal feature of investing.
- Investors who exited in 2022 and stayed on the sidelines risk locking in losses and missing subsequent rallies; a long-term 60/40 portfolio would follow similar—though less extreme—patterns.
- Five consecutive years of 20%+ gains have occurred only once before—the tech-driven run beginning in 1995 (orange box)—which culminated in the dot-com bubble bursting in early 2000.

Market corrections are not infrequent, but they rarely disrupt the long-term tendency of stocks to rise

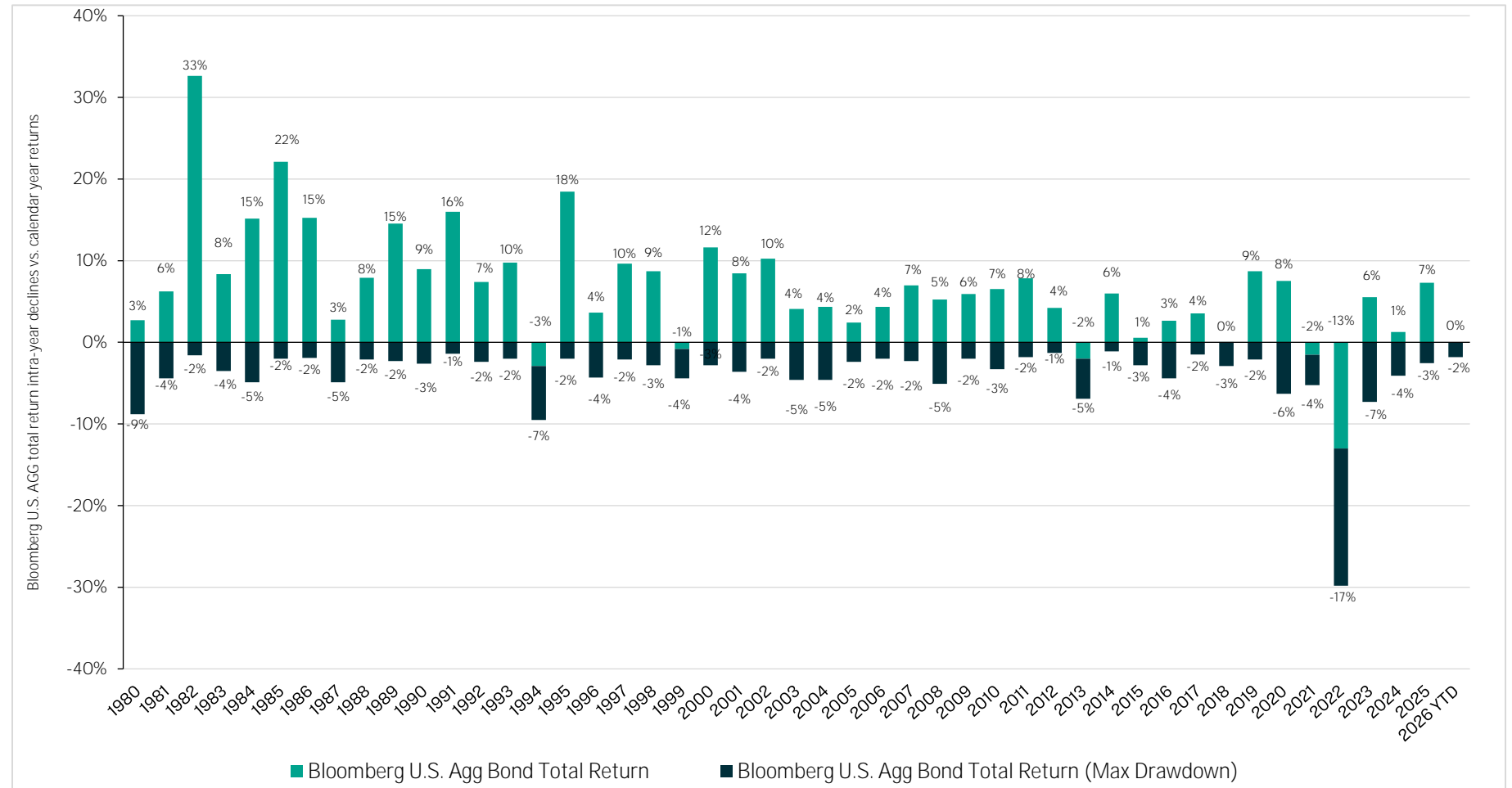


Source: Morningstar Direct, TIAA Wealth Chief Investment Office. Returns are based on the S&P 500 Price Return USD, daily returns, 1/1/1980 – 3/31/2026. Max drawdown is defined as the largest market decline from a peak to a trough during the year.

# Bonds: Investor discipline drives success more often than not

- History shows that investors who remain invested through market corrections are generally rewarded over the long run.
- The Bloomberg U.S. Aggregate Bond Index fell -17% intra-year in October 2022 (dark green bar) yet rebounded to finish 2023 up +6% (light green bar).
- Investors who exited in 2022 and stayed on the sidelines risk locking in significant losses and missing subsequent gains in both 2023 and 2024.
- Even in positive return years, the average intra-year maximum drawdown for bonds is -3%—modest relative to equities, though a 60/40 portfolio would experience greater volatility due to its equity exposure.

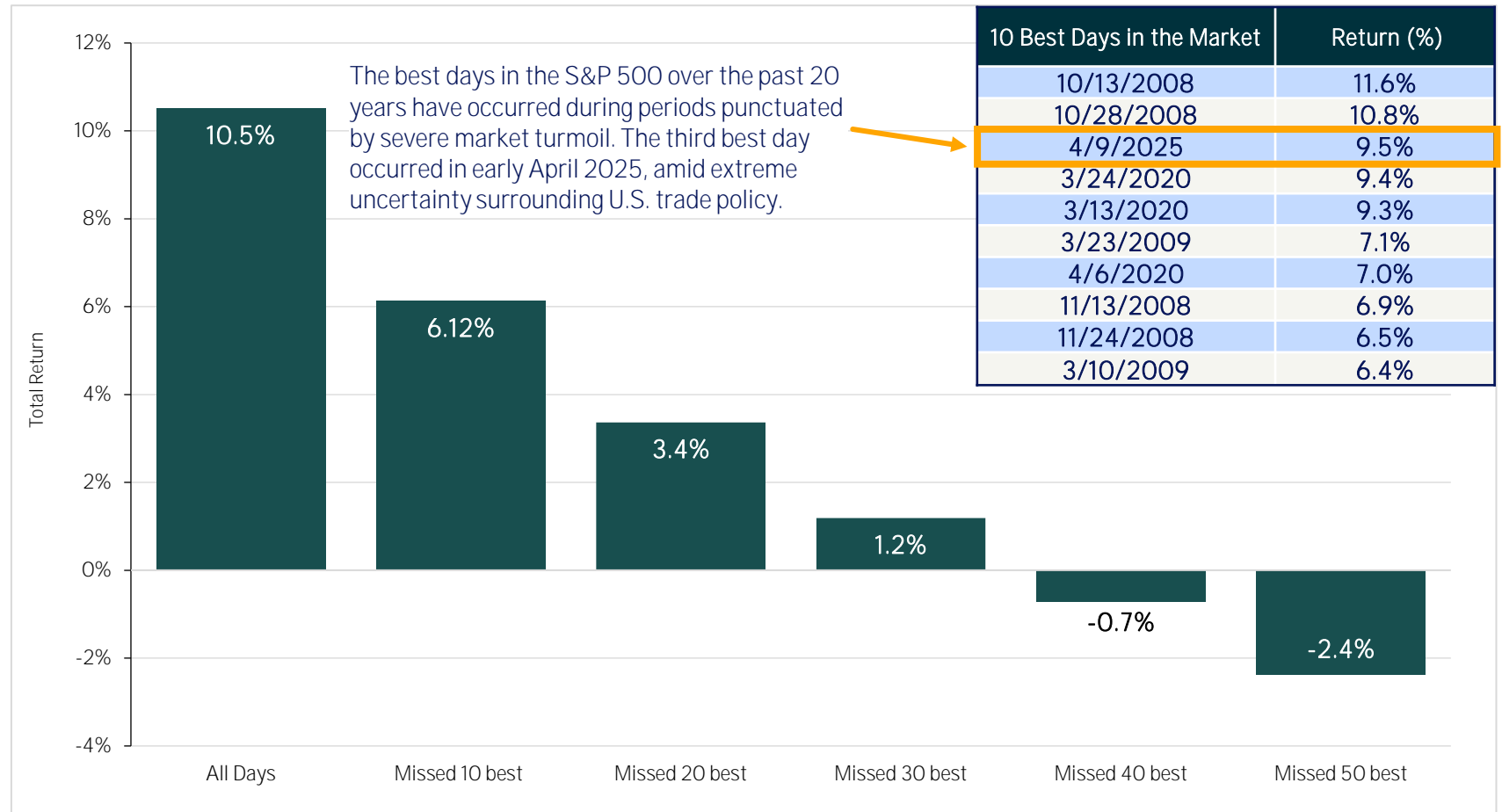
The reset of bond yields to more normal levels creates a better opportunity for long-term fixed income investors



Source: Morningstar Direct, TIAA Wealth Chief Investment Office. Returns are based on the Bloomberg U.S. AGG Total Return USD, daily returns, 1/1/1980 – 3/31/2026. Max drawdown is defined as the largest market decline from a peak to a trough during the year.

# Investors who attempt to avoid volatility by timing the market risk missing the best days

- Investors who attempt to time the market risk missing periods of exceptional returns, significantly reducing long-term portfolio value.
- While market timing is appealing in theory, executing it consistently is extremely difficult—and the more likely outcome is significant opportunity loss.
- Missing just the 50 best days over the long term would have turned a positive return into a -2.4% loss; investors who stayed the course were rewarded accordingly.
- Notably, all 10 of the S&P 500's best single days over the past 20 years occurred during periods of severe market turmoil—the 2008–2009 financial crisis, the COVID pandemic, and the 2025 tariff and trade uncertainty.

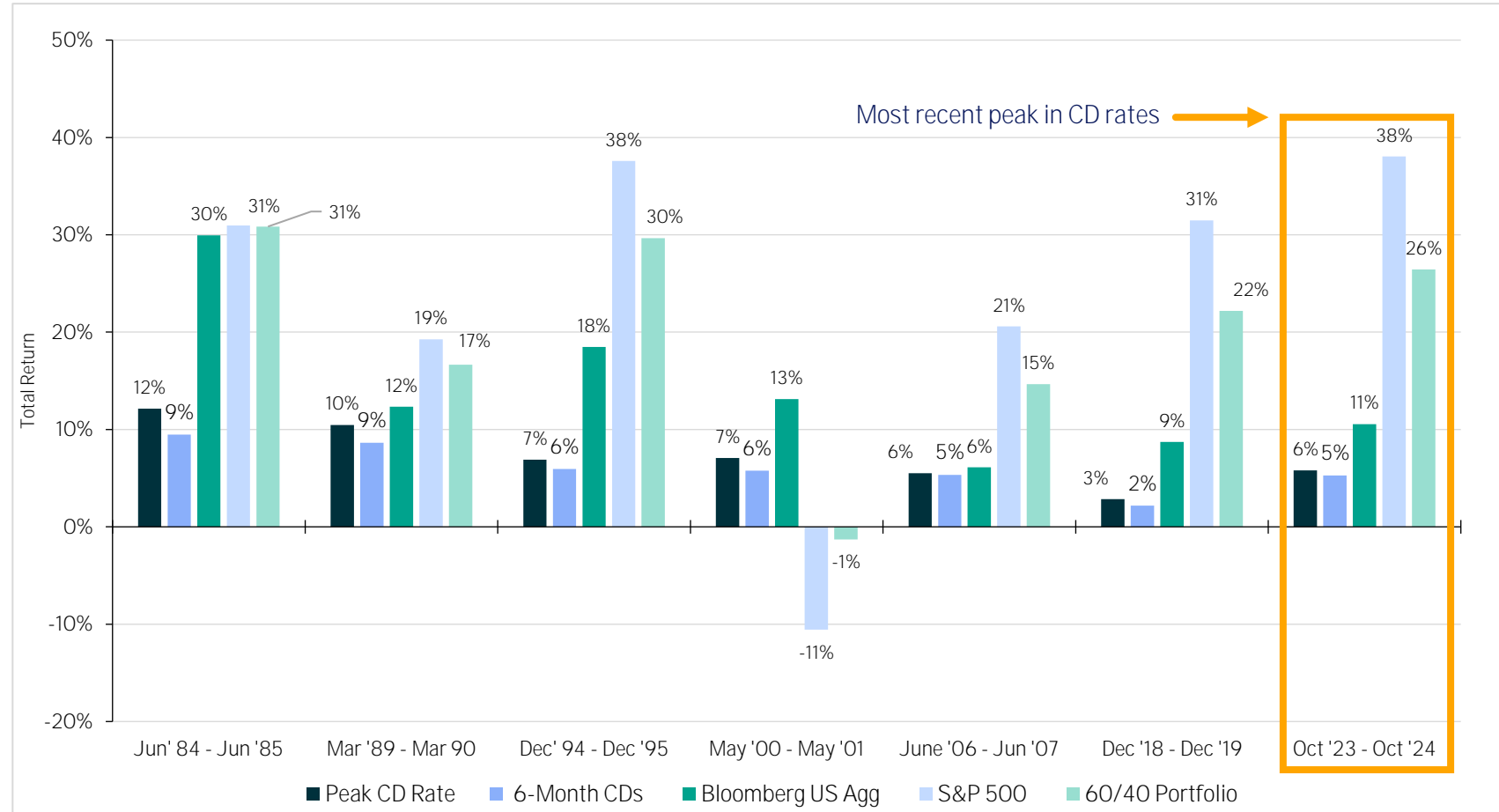


Source: Morningstar Direct; S&P 500 Total Return 20-year period 4/1/2006 — 3/31/2026, daily returns. The returns are the annual averages over the past 20 years. The bars represent what would have happened if you'd “missed” the best 10/20/30/40/50 days for the equity markets during that 20-year period. Past performance is no guarantee of future results. This is for illustrative purposes only. This is not indicative of any investment. An investment cannot be made directly in an index. The S&P 500 index is based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.

# CD rates and other investment opportunities

- This chart shows peak 6-month certificate of deposit (CD) rates during previous rate Fed hiking cycles and the subsequent 12-month returns for CDs, the Bloomberg U.S. Aggregate Bond Index, the S&P 500, and a 60/40 portfolio.
- The Fed's aggressive tightening in 2022–2023 pushed CD rates to a cycle peak of 6% in late 2023 (orange box).
- In the 12 months following that peak, the S&P 500 returned 38% and a 60/40 portfolio returned 26—significantly outpacing CD rates.
- With the Fed resuming rate cuts in September 2025 and additional cuts expected, cash yields appear to have peaked for this cycle.

For long-term investors, there may be better options for deploying excess capital outside of CDs

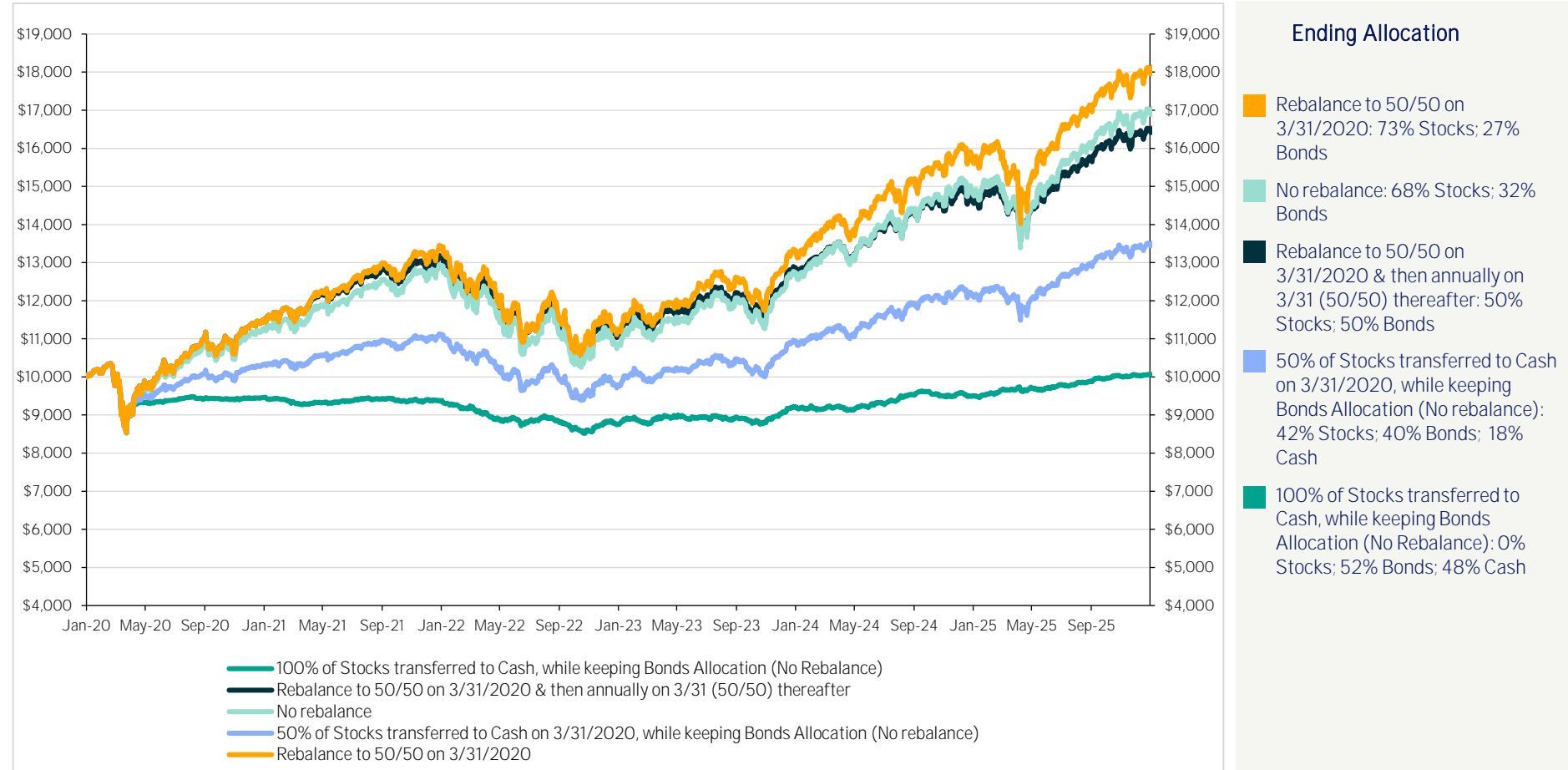


Source: 6-Month CDs: Combined series: 1/1/1980 - 6/30/2013 St. Louis Fed (FRED) 7/1/2013 - 12/31/2024 Bloomberg (Ticker USCDF Currency); all other data from Morningstar Direct, TIAA Wealth Chief Investment Office. 60/40 Portfolio: 60% S&P 500 TR USD and 40% Bloomberg U.S. Agg Bond TR USD; monthly rebalance.  
 \*Current cycle: month-end CD rate peaked on 10/31/2023. Returns for this period are calculated for the 12-month period from 10/1/2023 through 10/31/2024.

# Selling investments and moving to cash can knock investors off course

- Market rebounds following downturns highlight the significant opportunity cost of selling during a drawdown.
- This chart illustrates four hypothetical portfolio outcomes during the 2020 COVID-driven market decline.
- The worst outcome resulted from liquidating to cash in late March 2020 (light green line); the best outcome came from remaining invested and actively rebalancing on 3/31/2020 (orange line).
- The starting portfolio allocation was 50% stocks (S&P 500) and 50% bonds (Bloomberg U.S. Agg). Start date is 12/31/19 and the rebalance occurred on 3/31/20.

A long-term allocation to cash is likely to significantly underperform market returns



Source: Bloomberg, TIAA Wealth Chief Investment Office. Source: Bloomberg; data from 1/1/2020 - 3/31/2026; stocks is represented by S&P 500 Total Return index, while Bonds is represented by Bloomberg US Agg Bond index.

# 10

## Long-term perspective

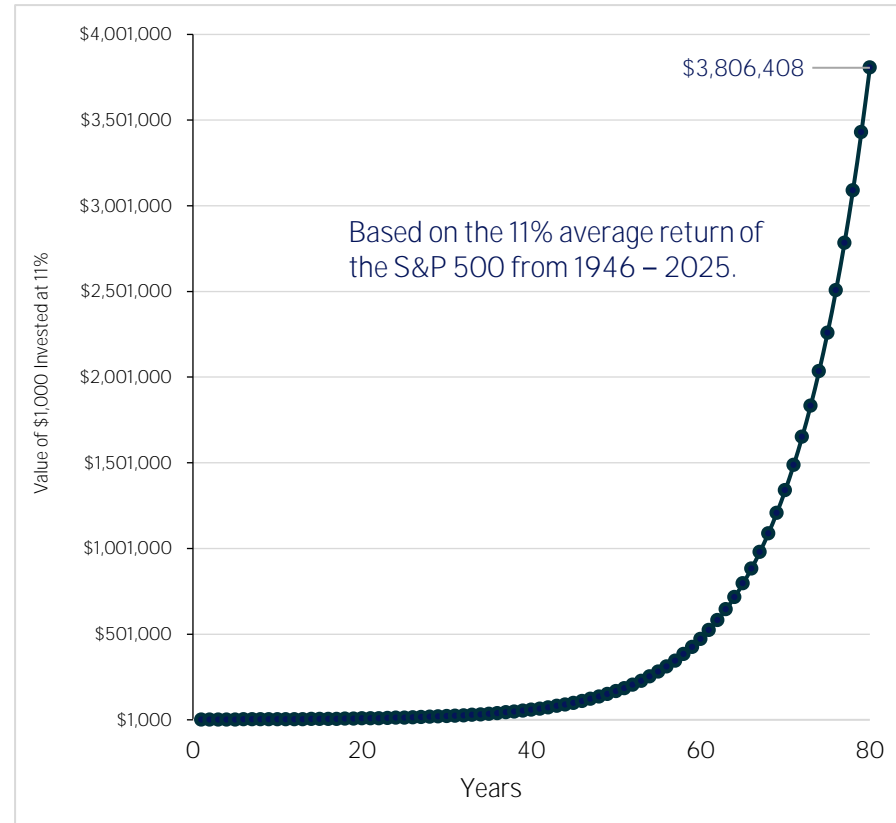
Sticking with your strategy over time is key.



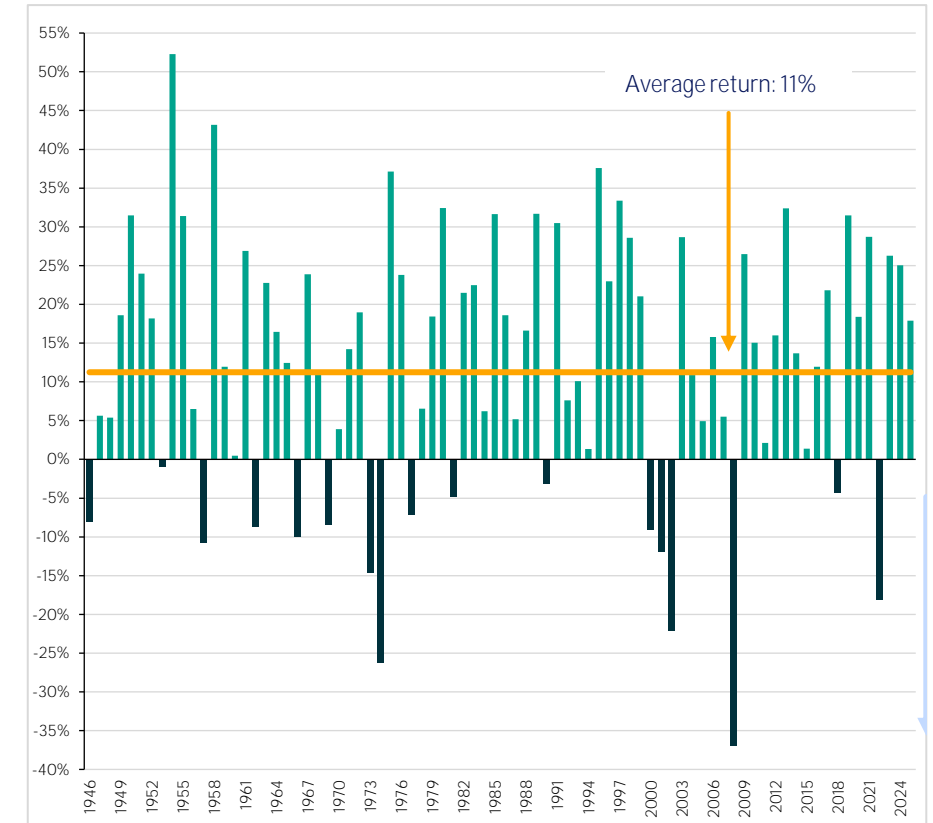
# Comparing constant average return vs. actual performance over time

- Average returns can significantly misrepresent true investment performance by obscuring year-to-year volatility.
- The left panel shows the ending value of a \$1,000 investment using the S&P 500's constant average return of ~11% (dark green line) over 1946–2025—useful for comparisons but blind to the impact of losses on future growth.
- The right panel shows actual S&P 500 annual returns over the same period (average ~11%, green horizontal line), capturing real volatility: 17 negative years out of 80, with returns ranging from -37% (2008) to +52% (1954).
- Because losses reduce the starting balance for subsequent periods, higher volatility causes average returns to overstate actual compounded returns—a critical distinction for long-term investors.

Ending value of a \$1K initial investment beginning in 1946

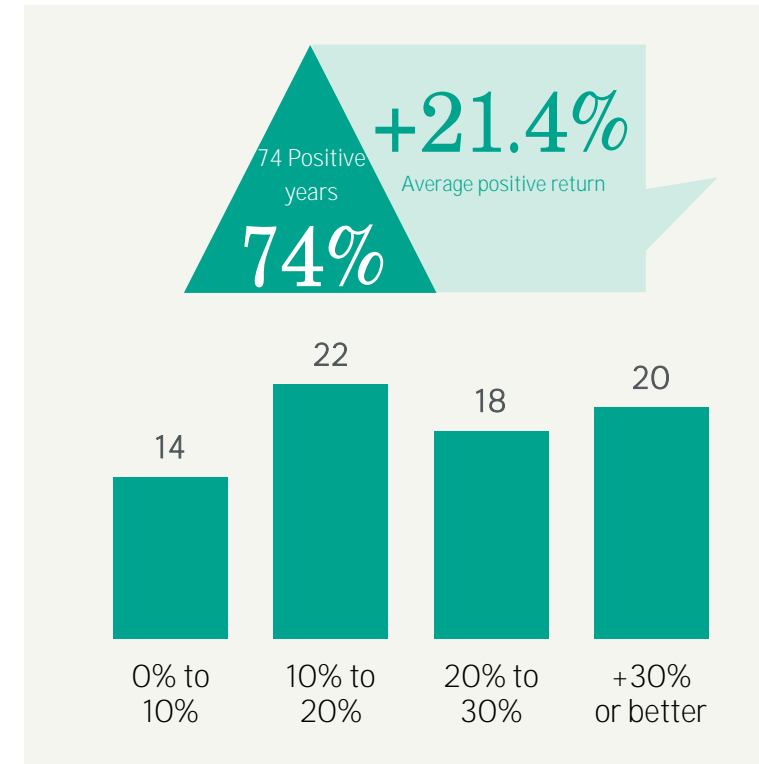


Actual S&P 500 total returns from 1946 – 2025



# U.S. equities total return (number of calendar years 1926 to 2025)

- This chart illustrates S&P 500 performance over 100 years, from 1926 through year-end 2025.
- Over that period, the index posted positive annual returns in 74 out of 100 years.
- Long-term wealth creation is achievable despite considerable volatility along the way.

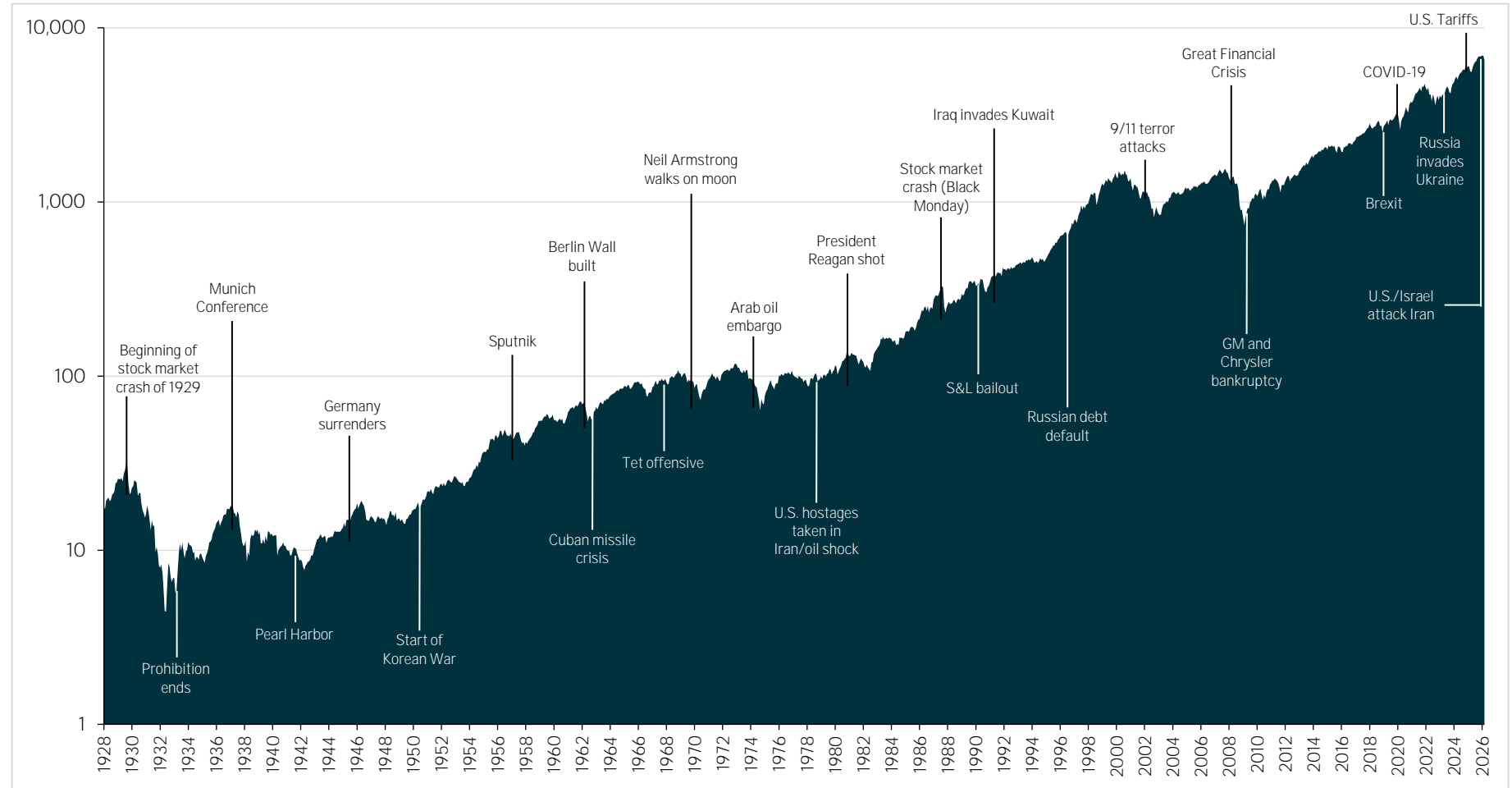


Source: Morningstar Direct, TIAA Wealth Chief Investment Office. Equity returns based on historical S&P 500 performance, 1926–2025; annual data.

# For long-term investors, historical perspective is important

- Market volatility is a fundamental and enduring feature of financial markets.
- Historically, the market experiences a correction (decline of 10% or more) approximately every two years, with some more severe than others.
- Despite periods of significant economic and geopolitical uncertainty, the S&P 500 has continued to grow since 1928.
- Note: the S&P 500 is displayed on a log scale to better illustrate market fluctuations over the past 97 years.

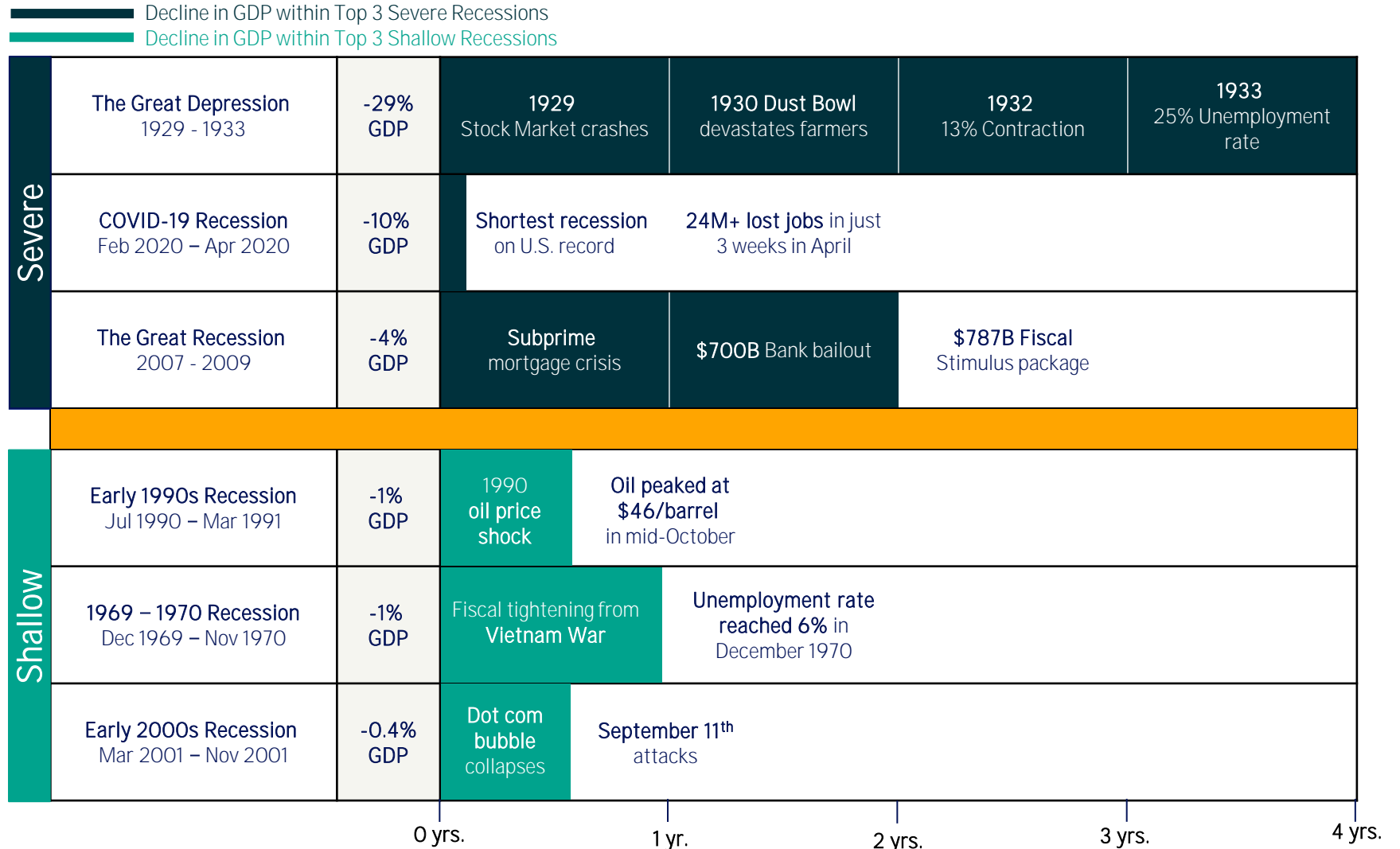
**Financial markets (S&P 500) generally climb a ‘wall of worry’ punctuated by peaks and valleys in performance**



Source: FactSet Financial Data Analytics, TIAA Wealth Chief Investment Office. S&P 500 Price index; monthly data from 1/1/1928 - 3/31/2026.

# Top 3 severe and shallow recessions in U.S. history

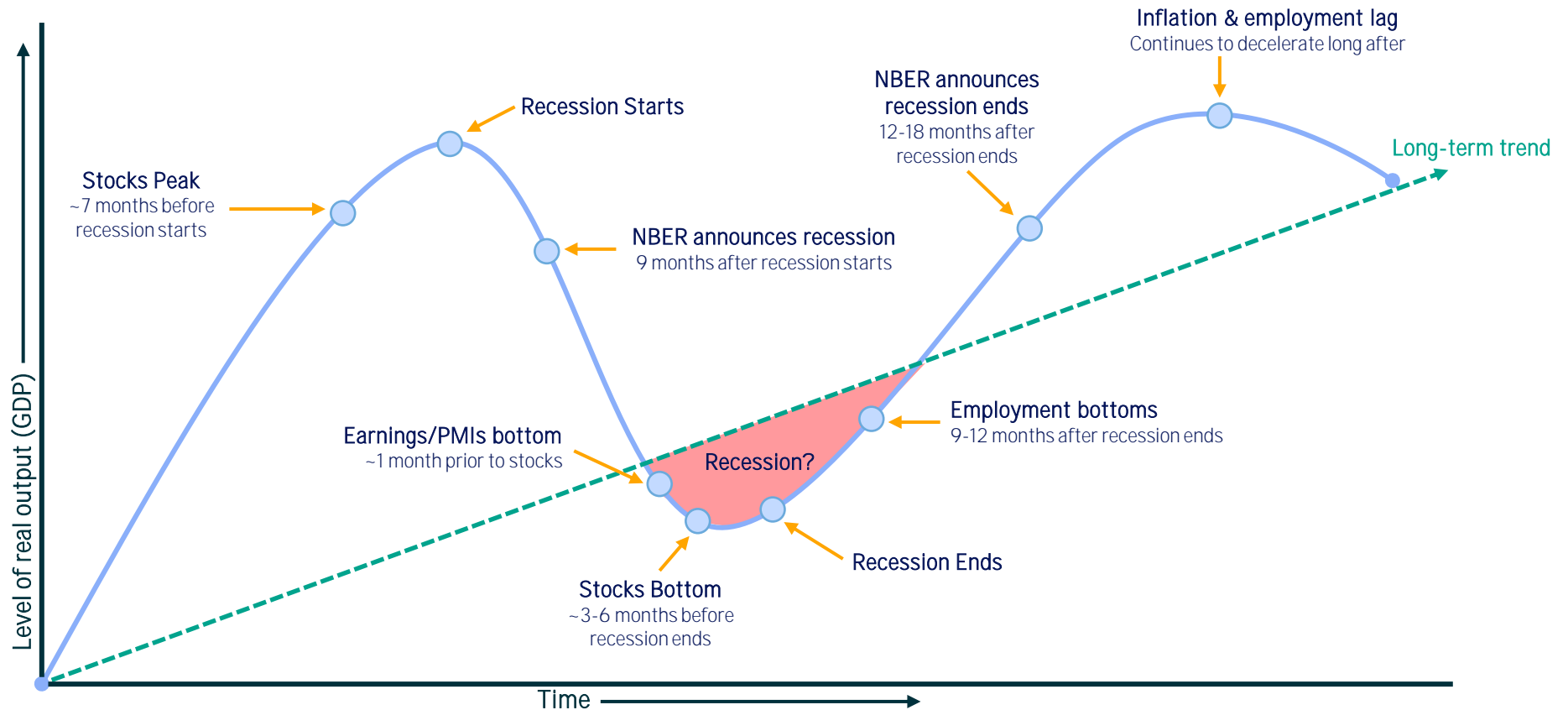
- The National Bureau of Economic Research (NBER) defines a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months."
- Recessions are characterized by three criteria — depth (severity), diffusion (breadth of economic impact), and duration (length).
- Common recession indicators include declining real GDP and income, rising unemployment, slowed industrial production and retail sales, and reduced consumer spending.
- Over the past 100 years, the U.S. has experienced 15 recessions, varying widely in severity and duration.



Source: NBER, FactSet, Bloomberg, TIAA Wealth Chief Investment Office. Data through 8/31/2022.

# The dynamics of a recession are complex

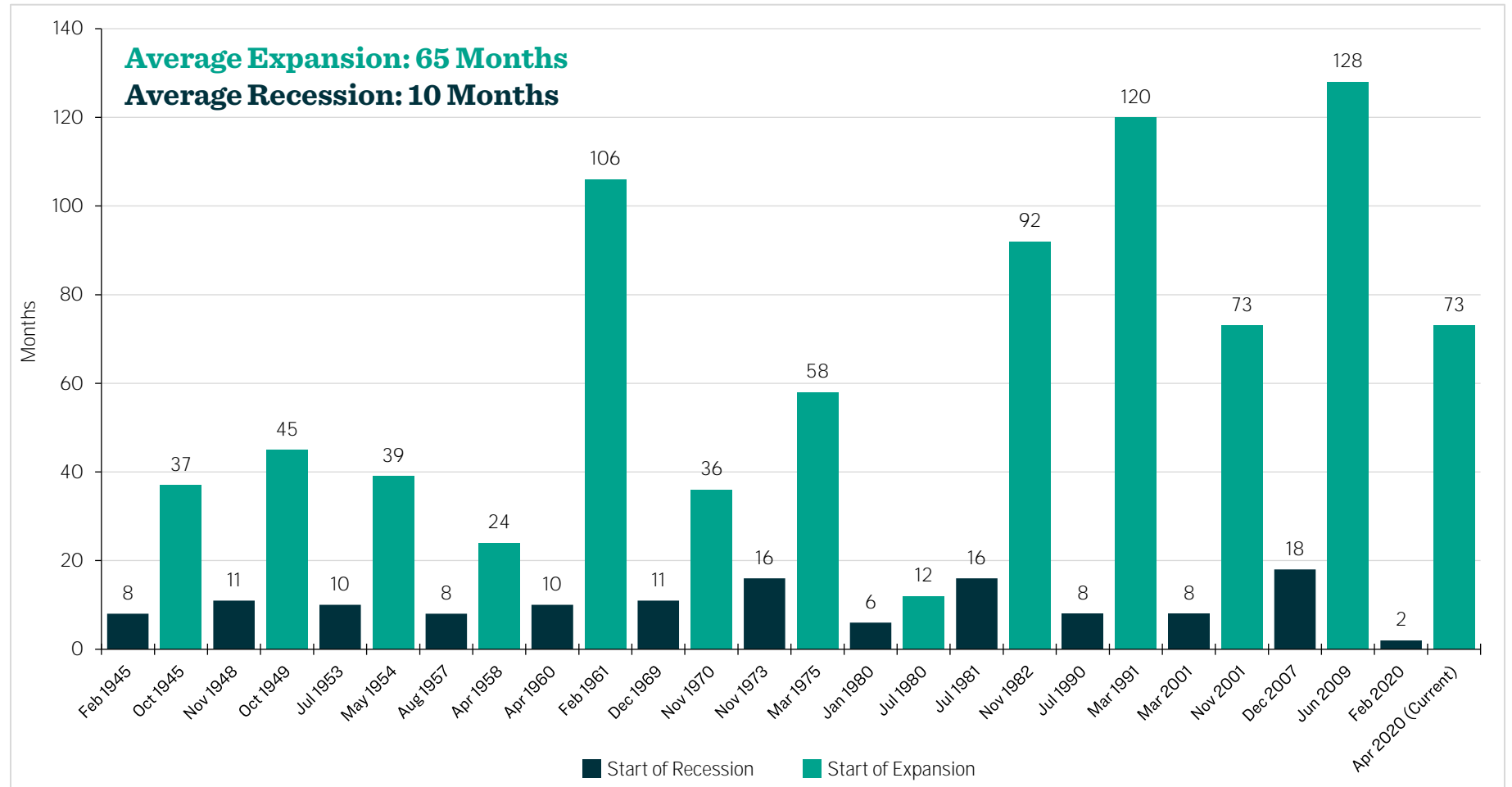
- A business cycle consists of alternating expansions and recessions; since WWII, expansions have averaged 65 months and recessions 10 months (see page 104).
- By the time the NBER officially declares a recession, it may be too late to anticipate and act on it.
- Stock markets generally bottom out 3–6 months before a recession ends, underscoring the risk of reactive decision-making.



\* This graphic is a hypothetical representation of the various stages of a recession. Not all recessions will follow the same trajectory, timeline, or order of events. Additionally, this graphic is a stylized depiction of a business cycle based on historical data of recession dates from the NBER and IMG's analysis of historical economic data around the NBER recession dates from the U. S. Commerce Department and the U.S. Department of Labor.

# Since 1945, periods of economic expansion last 6x longer than recessions<sup>1</sup>

- Since 1945, there have been 13 recessions; on average, expansions have been 6x longer than contractions.
- As of December 2025, the current expansion (73 months, begun in 2020) has surpassed the long-term average of 65 months.
- Expansions typically end not due to length, but due to economic imbalances driven by internal and external factors.
- Despite periodic contractions, disciplined long-term investors are generally rewarded over time.



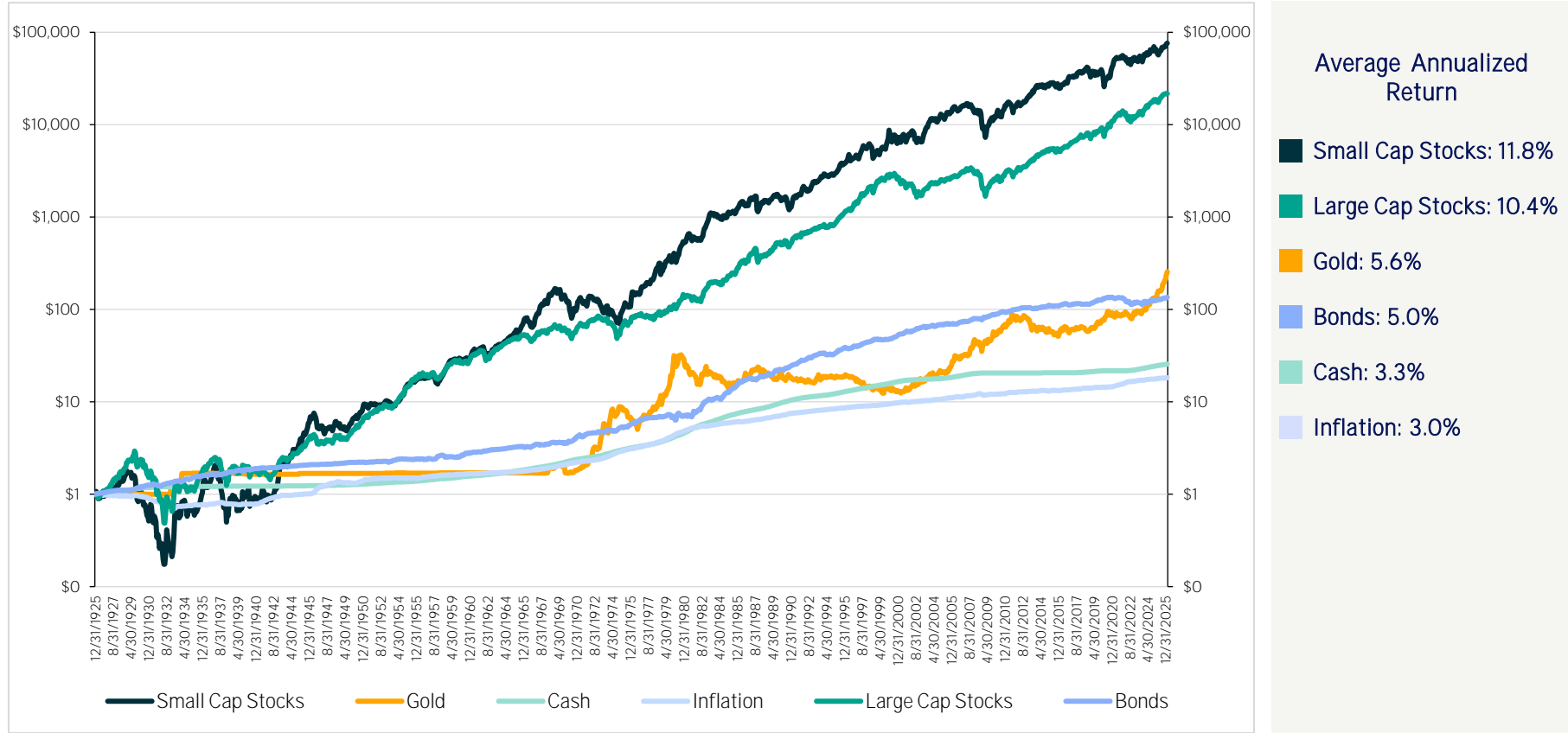
<sup>1</sup>Dates refer to start date of recession (dark green) and expansion (light green). Numbers refer to the number of months in each recession/expansion.

Source: Federal Reserve Board of Governors, Federal Reserve St. Louis, National Bureau of Economic Research, TIAA Wealth Chief Investment Office. Data through 3/31/2026.

# Value of \$1 invested over time

- Over the long term, stocks have historically outperformed bonds, cash, gold and inflation.
- Despite a century of national and international crises, staying invested in stocks has kept long-term investors on track to pursue their financial goals.

Historically, stocks have outperformed bonds, cash, and inflation over the long term

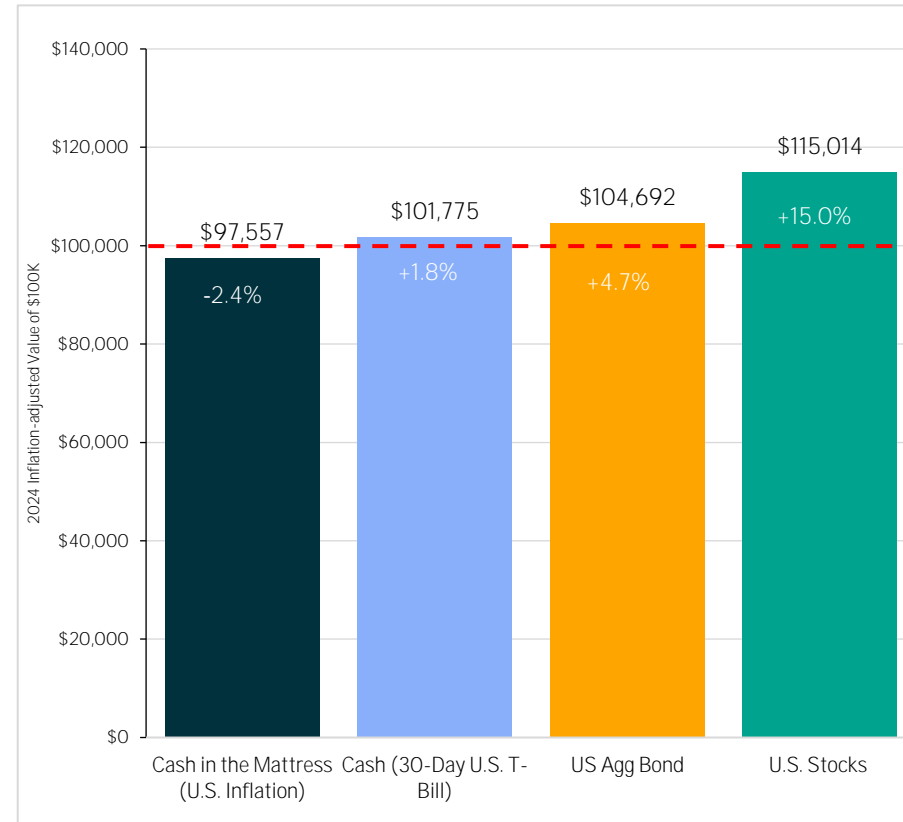


Source: Morningstar Direct; monthly data from 1/1/1926 - 3/31/2026. Small Cap Stocks: Ibbotson Associates (IA) SBBI U.S. Small Cap Stocks TR USD. Large Cap Stocks: IA SBBI U.S. Large Stock TR USD Ext from 1926-1970; S&P 500 TR USD thereafter. Bonds: IA SBBI IT Govt Bonds TR USD from 1926-1975; Bloomberg US Agg Bond from 1976 thereafter. Cash: IA SBBI US 30 Day Tbill TR USD from 1926 - 2024; Morningstar US 30 Day T-Bill GR USD thereafter. Inflation: IA SBBI U.S. Inflation. Gold: Bloomberg Gold Spot \$/OZ (XAU Currency); prior to 1969, Gold Spot was reported annually.

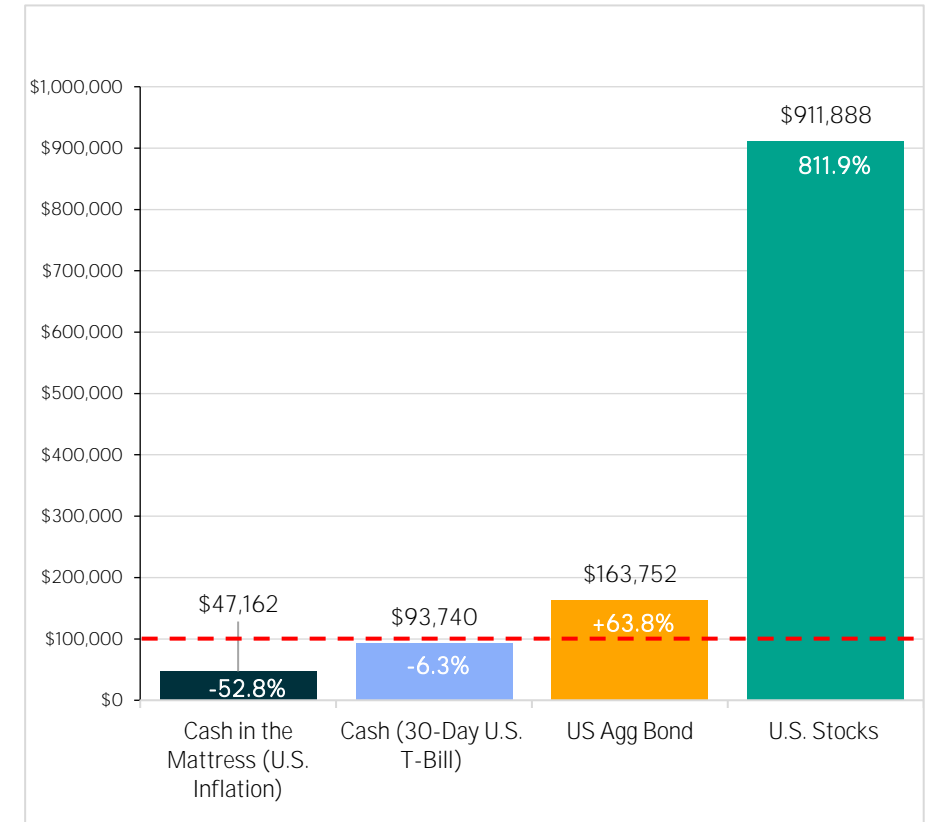
# Compound returns from stocks and bonds outpace cash over time

- Inflation is a critical factor when evaluating investment returns, as it erodes the purchasing power of nominal gains over time.
- Cash in savings accounts may offer a nominal return, but after inflation, the real return can turn negative (dark green columns)—meaning purchasing power is lost even with interest earned.
- Stocks have historically outpaced inflation over the long term (light green columns), making long-term investments more likely to generate positive inflation-adjusted returns than cash.
- Focusing solely on cash while ignoring inflation can be detrimental to long-term financial well-being; investing in assets with inflation-adjusted return potential is essential to preserving and growing wealth.

2025 inflation-adjusted value of \$100K



Inflation-adjusted value of \$100K for 30-year period

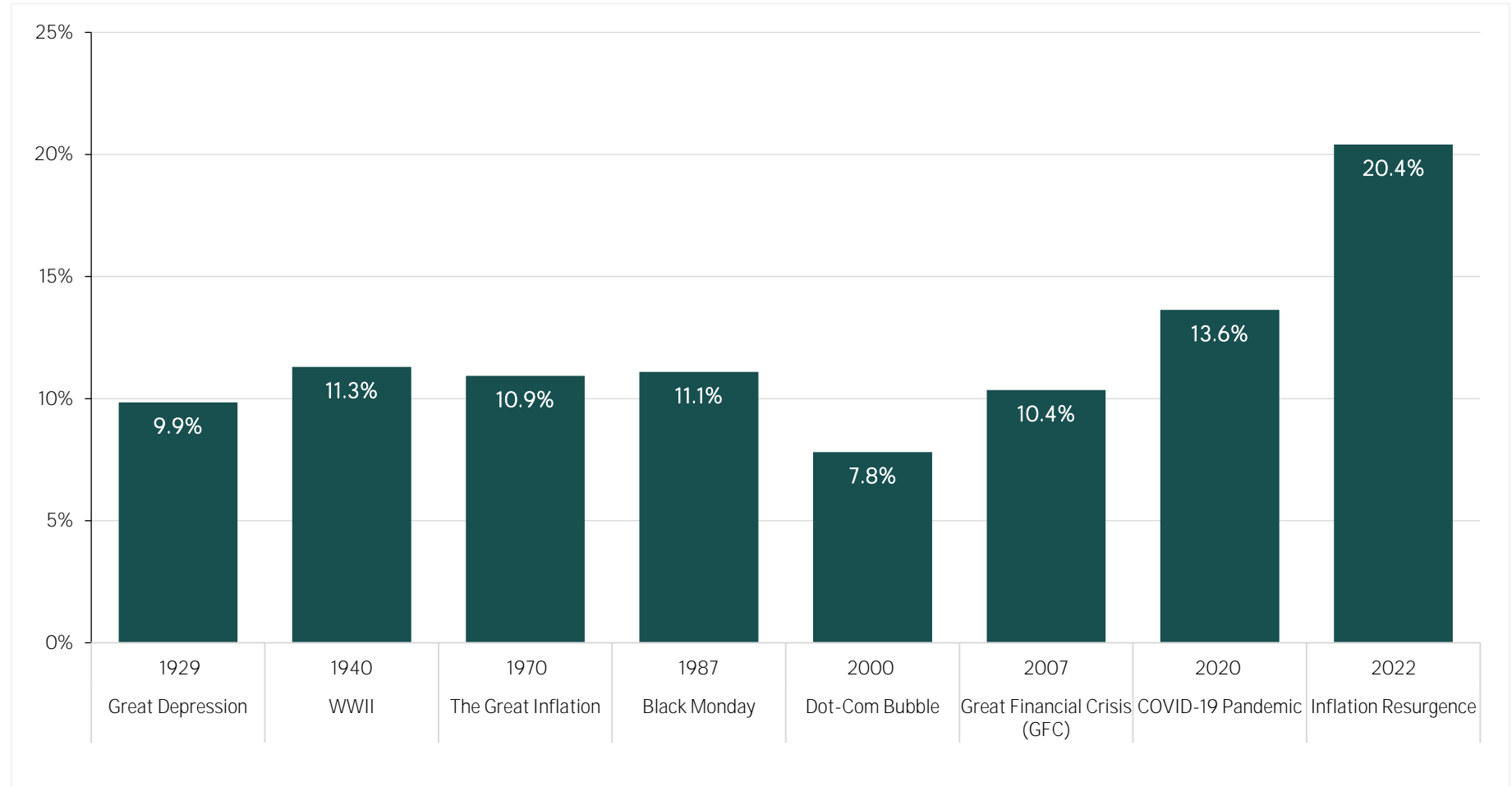


Left panel source: Morningstar Direct; monthly data: 1/1/2025 - 12/31/2025. Right panel source: Morningstar Direct; monthly data from 1/1/1996 - 12/31/2025 (30-year period). Cash in Mattress is derived by reducing Cash by U.S. Inflation; Cash is represented by U.S. 30-Day T-Bill; U.S. Bonds is represented by Bloomberg US Agg Bond; U.S. Stocks is represented by S&P 500.

# Investing at the worst times

- This chart shows historical S&P 500 returns starting from some of the worst moments in market history—including the Great Depression, WWII, Black Monday, the Dot-Com bubble, and COVID—through 12/31/2025.
- Average returns are measured from the start of each "bad" year through 12/31/2025; for example, the COVID-19 return runs from 1/1/2020 through 12/31/2025.
- Despite persistent concern that investors have "missed the party," the data consistently shows they never have.
- Corporate earnings have continued to grow through even the most challenging periods, driving significant long-term market recoveries.
- While the next 100 years may differ from the last, long-term investment in the stock market has proven consistently effective.

Average annualized return of S&P 500 if you invested at the beginning of each worst period

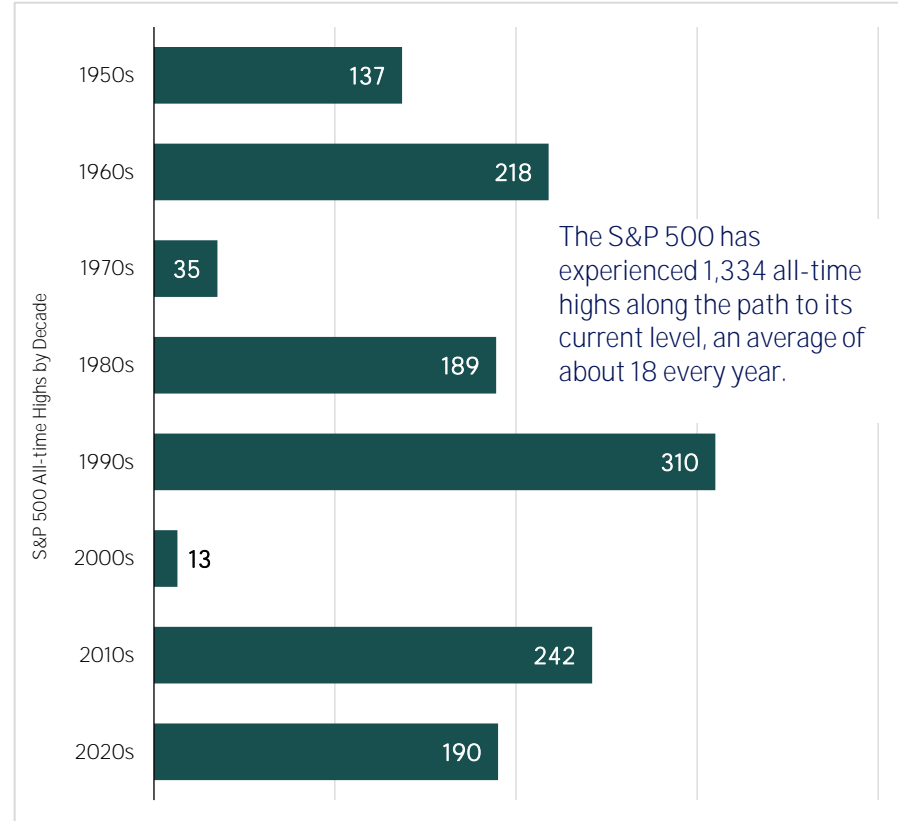


Source: Morningstar Direct, TIAA Wealth Chief Investment Office. S&P 500 TR USD index, daily return, from 1/1 /1929 - 3/31/2026. S&P 500 TR: IA SBBI U.S. Large Stock TR USD Ext from 1926-1970; S&P 500 TR USD thereafter.

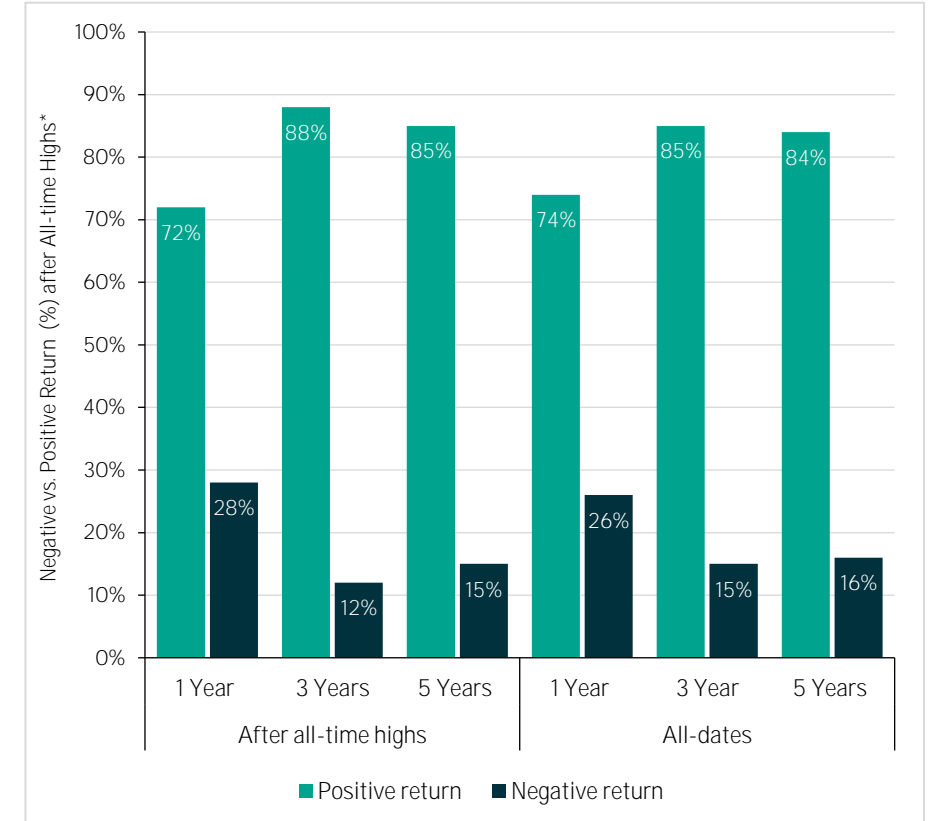
# Investing on days when S&P 500 is at all-time high

- All-time highs are not uncommon— since 1950, the S&P 500 has set 1,334 all-time highs, averaging roughly 18 per year (left panel).
- Investors who avoid deploying capital at market highs risk missing significant opportunity, as corrections from all-time highs have historically been rare.
- The right panel shows no significant evidence that investing at all-time highs yields worse long-term results than investing at any other point in time.
- New highs are a normal feature of long-term markets and do not reliably signal an impending correction

All-time highs are not uncommon



No significant evidence that investing at all-time-highs yields worse results than investing at any given time

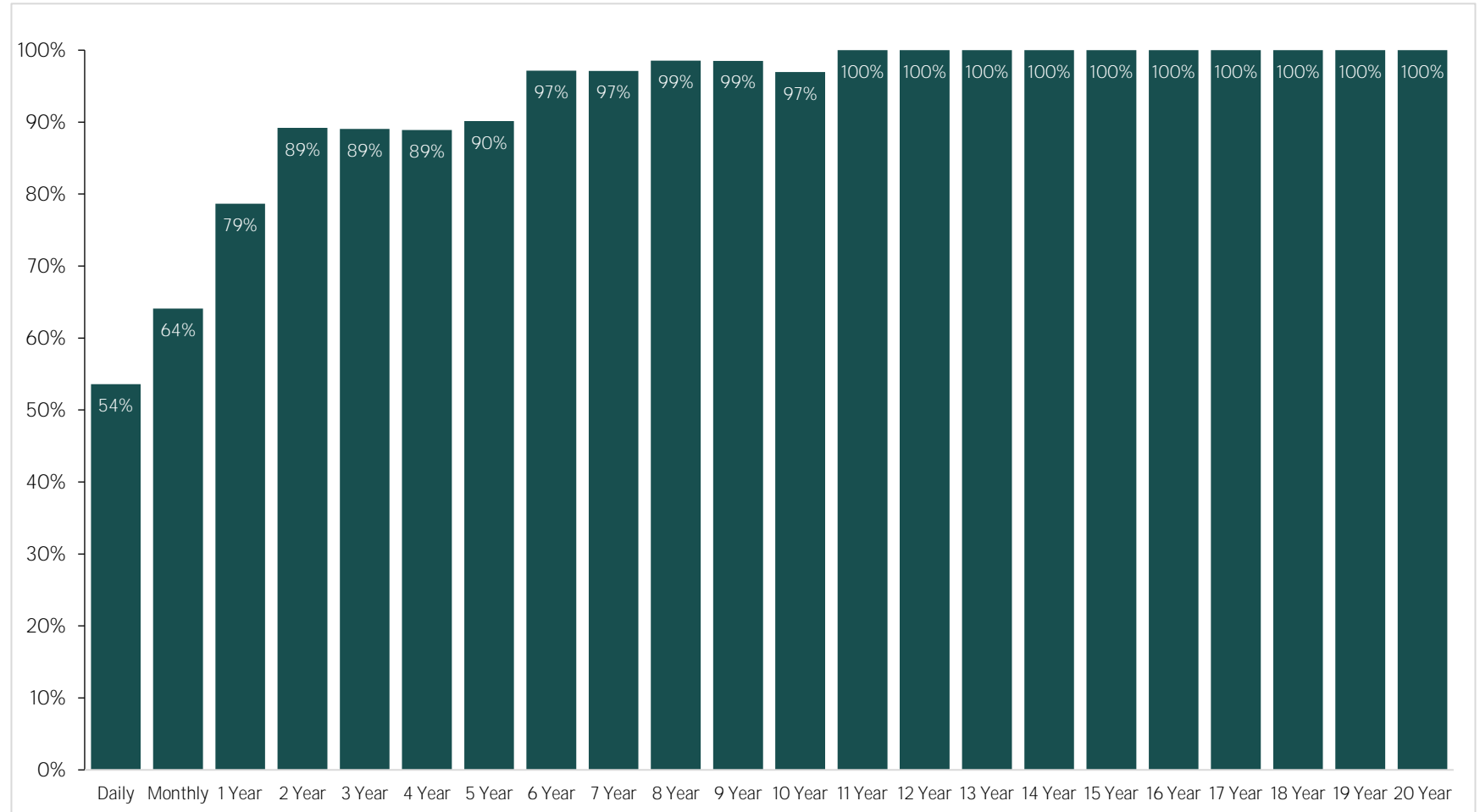


Source: Bloomberg and TIAA Wealth Chief Investment Office; data from 1/1/1950 — 12/31/2025, daily returns; S&P 500 Price Return.  
 \*This analysis does not consider today's valuations, which are rather elevated. Therefore, valuation levels could impact these results.

# Win rate by holding period

- For long-term investors, time *in* the market is far more important than timing the market—the longer the holding period, the greater the probability of positive returns.
- On a daily basis, gains and losses are roughly equivalent to a coin toss (1st bar); however, the probability of positive returns increases significantly with time.
- The S&P 500 has been positive 79% of the time over one-year holding periods (3rd bar), rising to 97% over six-year periods (8th bar) and 100% over holding periods of 11 years or more (13th bar).

Percent of time the S&P 500 is positive

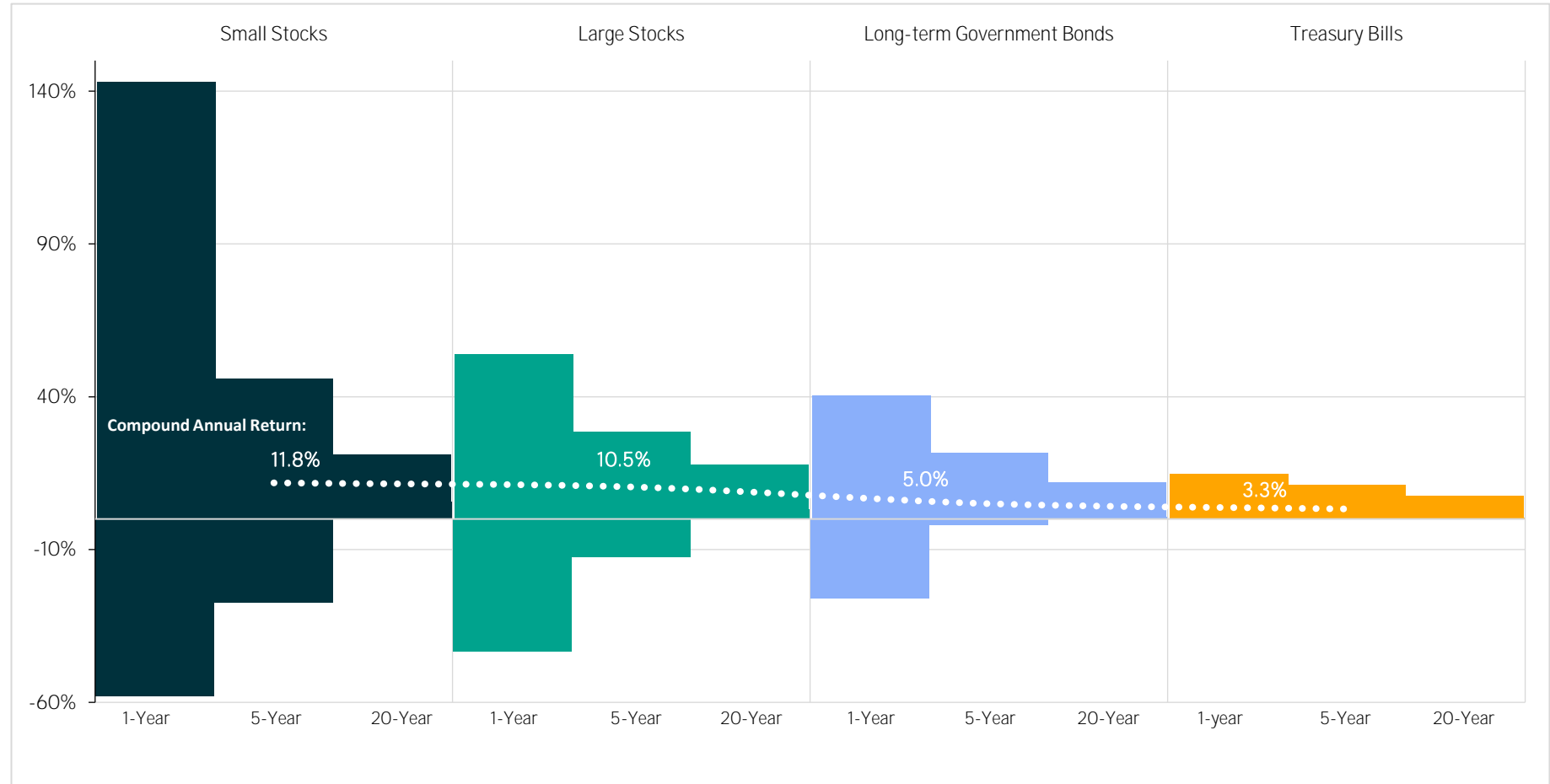


Source: Morningstar Direct, Bloomberg, TIAA Wealth Chief Investment Office. S&P 500 TR USD: IA SBBI U.S. Large Stock TR USD Ext from 1926-1970; S&P 500 TR USD thereafter. S&P 500 Price Return (PR). Daily data, from 1/1/1950 – 12/31/2025; daily, monthly and various annual holding periods.

# Reduction of risk over time

- Time reduces investment risk—stocks have historically performed well over longer horizons (20+ years), while smoothing out periods of temporary volatility.
- Over any 20-year holding period, stocks have never delivered a negative return.

Compound annual return; investment risk of these four asset classes diminishes with time



Source: Morningstar Direct, TIAA Wealth Chief Investment Office. Small Cap Stocks: Ibbotson Associates (IA) SBBI U.S. Small Cap Stocks TR USD. Large Cap Stocks: IA SBBI U.S. Large Stock TR USD Ext from 1926-1970; S&P 500 TR USD thereafter. LT Government Bonds: IA SBBI LT Govt TR USD from 1926-2024; Bloomberg US Treasury TR thereafter. Treasury Bills: IA SBBI US 30 Day Tbill TR USD from 1926-2004; Morningstar US 30 Day T-Bill GR USD thereafter. Annual data, 1/1/1926 - 12/31/2025.

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