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GLOBAL INVESTMENT COMMITTEE 2021 OUTLOOK

Dark tunnel. Bright light.

Macro risks associated with the devastating coronavirus have loomed over global markets and economies for nearly a year, and will continue for at least several months. But beyond this dark tunnel, we see a more normalized environment driven by fundamentals. Nuveen's Global Investment Committee offers ways to navigate through the near-term challenges and position for the bright opportunities on the other side.

Global investment committee members

Bill Huffman *Head of Nuveen Equities and Fixed Income*

Nick Liolis *CIO, TIAA General Account*

Saira Malik *Equities*

John Miller *Municipals*

Brian Nick *Chief Investment Strategist*

Amy O'Brien *Responsible Investing*

Justin Ourso *Private Real Assets*

Anders Persson *Global Fixed Income*

Jay Rosenberg *Public Real Assets*

Mike Sales *CEO of Nuveen Real Estate and Real Assets*

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Income and inflation: Play to your strengths

Nick Liolis
CIO, TIAA General Account

As part of his participation in Nuveen's Global Investment Committee, Nick Liolis offers his views from the perspective of one of the world's largest institutional investors. Neither Nick nor any other member of the TIAA General Account team are involved in portfolio management decisions for any third-party Nuveen strategies.

For years, investors of all stripes, from the world's largest institutions to individuals, have focused on the risk of persistently low interest rates and the struggle to achieve income. But there's another potential risk on the horizon — with similarly damaging effects — that also demands focus: prospects for rising inflation and the erosion of purchasing power.

Inflation risks have been a point of discussion among investors for some time, yet they haven't materialized. But it does feel different now: Nuveen's Global Investment Committee believes that the extraordinarily easy monetary policy and expansive fiscal policy we have seen over the past year (and more spending to come) will likely increase inflation risks. We don't expect inflation to rise tomorrow. But when virtually every global policymaker is using every tool available (with more force than during the global financial crisis) to accelerate economic activity, the probability of significant inflation risk is rising.

Inflation affects all investors, but the problem can be particularly acute for the TIAA General Account (GA) and other institutions that are ultimately responsible for helping people fund their retirement. After all, inflation erodes the purchasing power of the income we pay to our participants. Because the GA is part of a U.S.-based insurance company, regulations require us to hold significant amounts of fixed income investments — and bonds are an asset class that can be hurt by rising inflation.

This leads us to the issue of portfolio construction in the current environment. Every investor has their particular risk tolerances, restrictions and goals, but we all also have our strengths. Investors should play to those strengths to manage their risks, including inflation. For the GA, two of our main strengths are our capital strength and ample current liquidity. Regular stress tests ensure our portfolio has more than enough liquidity to meet our spending needs, which allows us to invest a significant percentage of our overall assets into more illiquid private investments such as real estate and a variety of real assets including agriculture, timber, farmland and infrastructure. These investments have the dual advantage of providing solid yields in today's low inflation environment while also offering the potential of a natural inflation hedge.

Other investors will of course have varying strengths and risk tolerances. Traditional pension plans or individuals with less investment restrictions and higher risk tolerances often consider public equities or commodities to manage their inflation risks. Large institutional investors willing to invest globally could also benefit from the various rate differentials created by differing inflation expectations between countries around the world.

One final takeaway: It's important to avoid positioning for any one outcome, but rather construct a resilient portfolio designed for all economic scenarios. Sometimes that might mean sacrificing some returns to manage different risks, but ultimately it means playing to your strengths and taking on the risks you can afford in order to meet your return objectives.

Dark tunnel. Bright light.

Brian Nick
Chief Investment Strategist

- After sustaining an unprecedented shock from COVID-19 early in 2020, the global economy is ready to get back to normal in 2021 ... with the help of one or more vaccines.
- While the promise of a better 2021 is at least partially priced in, accommodative policy and a snap back to normal in distressed service industries can help investors earn solid returns in the coming year.
- For the first time in a while, we see more upside than downside risks to our moderately constructive outlook for next year, but very near-term risks skew to the downside.
- Our key takeaway for 2021: A bright light lies ahead for investors, but only at the end of a very dark tunnel.

Returning to a more normal environment

The year 2020 delivered a massive global health crisis and an economic calamity, but 2021 promises to offer an end to both. Save for a few very nervous weeks in the first quarter of 2020, investors saw excellent returns across nearly every asset class as policy stimulus boosted the economy and vaccine breakthroughs permitted greater optimism about the coming year. As we head into the new year, our investment outlook remains constructive. But, perhaps more importantly, the range of uncertainty around that outlook has been reduced by the U.S. election results and positive news on a number of COVID-19 vaccine candidates. Upside risks may outnumber downside risks as conditions return to normal. But the most immediate concern: How much more lasting damage will the virus do to the global population and its economy before vaccines bring it to a close?

Global economy still in the tunnel

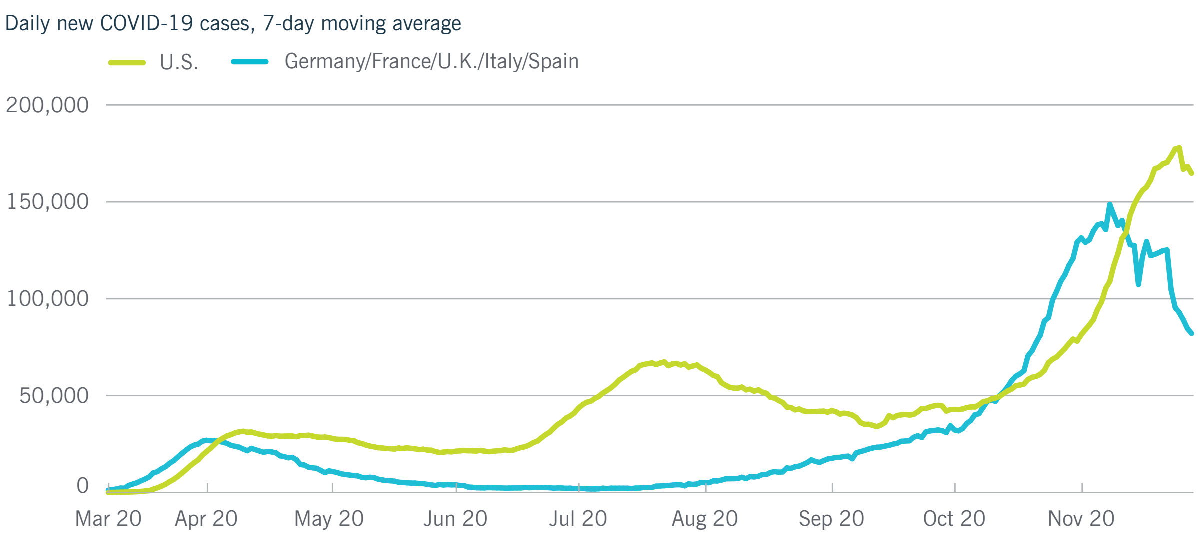
It's impossible to develop an outlook for the year ahead without first acknowledging the ongoing human and economic tragedy resulting from the pandemic. As we write this, COVID-19 cases, hospitalizations and fatalities are rising globally on a daily basis, even as multiple vaccines could be only weeks away from becoming publicly available. Figure 1 shows the recent parabolic growth of new cases in the fourth quarter across both Europe and the United States.

Mandatory business closures in Europe and the U.S. are less sweeping than during the initial wave last spring. However, for many businesses and whole industries, activity never returned to anywhere near normal even when the virus' severity temporarily subsided. The global economy will not be able to fully rebound until the pandemic has subsided for good.

At the same time, the parts of the global economy that *can* function during a pandemic are doing so. In fact, many are thriving. Global manufacturing has staged a V-shaped recovery, as has the U.S. housing market, thanks to shifting demographics, low interest rates and consumer preferences migrating toward the suburbs. China's recovery has already turned into a durable expansion, while Europe's post-lockdown bounce in the third quarter provides hope that it can recover swiftly from the current wave.

Most importantly, consumers are exhibiting considerable resilience. With limited spending options and financial aid from the federal government, household balance sheets have strengthened, on average. Savings rates remain unusually high and incomes have risen with the help of global fiscal policy stimulus, even in the U.S., where consumers tend to spend more of what they make each month (Figure 2).

Figure 1 – COVID-19 continues to disrupt society, and the global economy, while we wait for a vaccine



Source: Bloomberg, Johns Hopkins University, 01 Mar to 28 Nov 2020.

It's worth emphasizing how unusual it is to see higher savings rates, higher income growth and stronger spending growth, all happening at the same time, just six months removed from a deep recession. The pattern is similar in other large economies, implying that global growth is well positioned for a dramatic acceleration once the virus is contained.

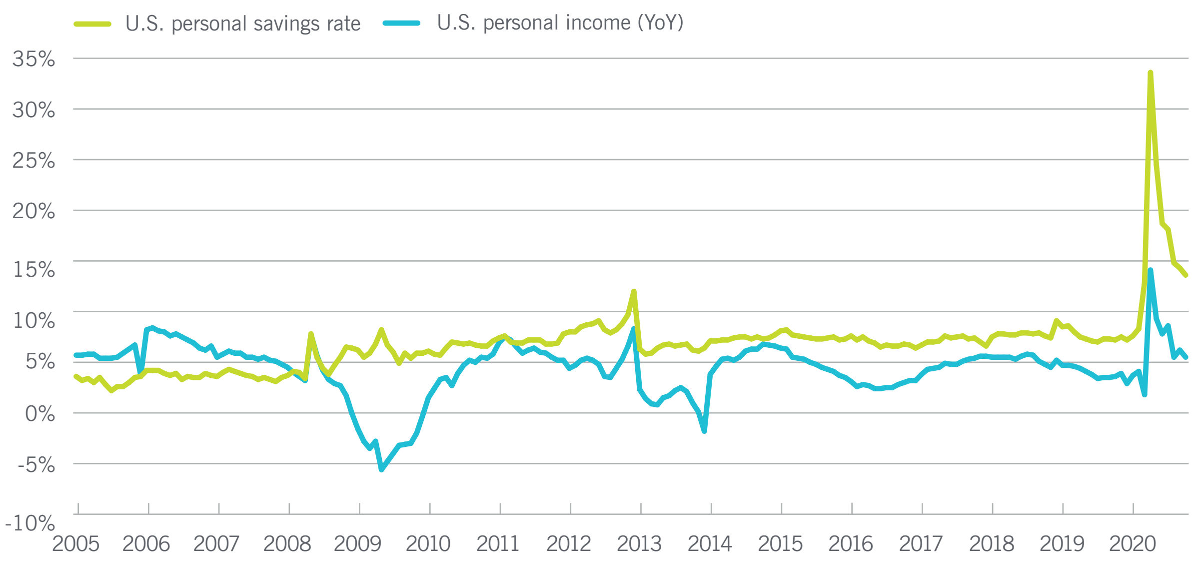
To ensure that the economy emerges from the pandemic intact, policymakers have enacted aggressive fiscal stimulus to support individual incomes and prevent businesses from going under due to lack of revenue. Government relief remains in place in most countries except the United States, where more fiscal aid may not be forthcoming until the new administration is in place in late January.

The better-than-expected cumulative economic recovery has been extremely supportive of global equity and credit markets. But that progress may not continue in a straight line, especially if the current wave of COVID-19 causes businesses to close and workers to lose their jobs. The global economy remains in a dark tunnel, but we expect it to emerge by the second half of 2021. If we're right, good things are in store for global growth, even if the virus and the lack of policy support provide setbacks along the way.

Markets are already seeing the light

An effective vaccine will eventually supply a much-needed boost to global GDP, but markets can react to tomorrow's good news today and have, in fact, already done so. While it's not unusual for equity valuations to rise just after a recession, it's rare for them to surge past their pre-recession levels so soon after the recovery begins. A combination of aggressive fiscal and monetary policy and progress on COVID-19 vaccines allowed investors to pull sunny expectations about 2021 into 2020's markets.

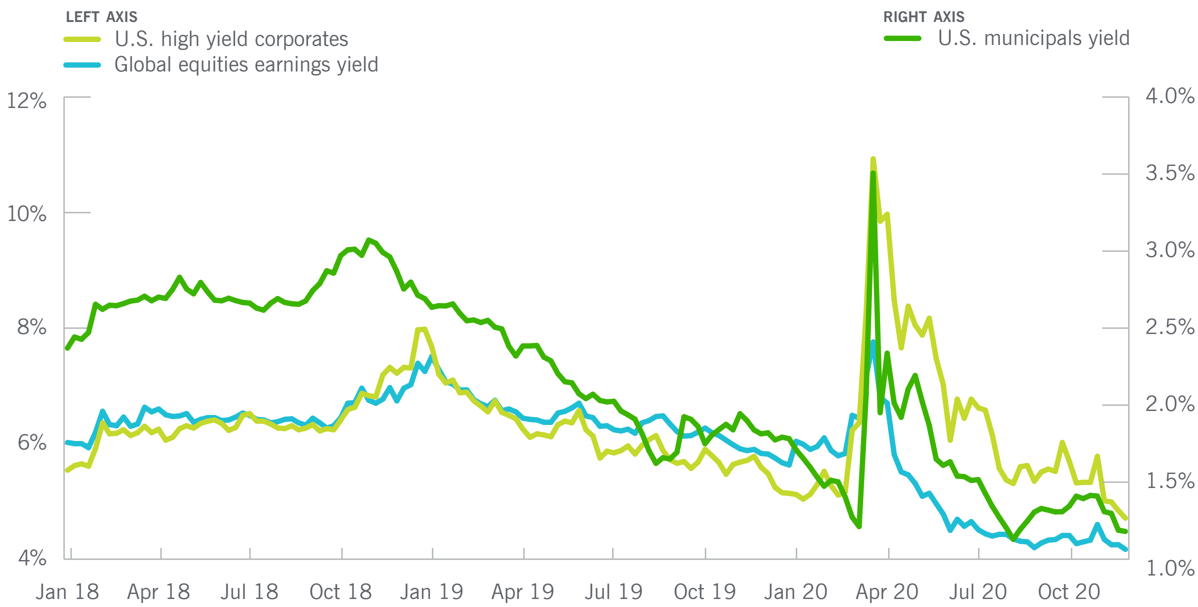
Figure 2 — High savings rates and growing incomes imply higher future spending



Source: Bloomberg, Bureau of Economic Analysis, Jan 2005 to Oct 2020.

The next few quarters may be bumpy, but we think 2021 will look more "normal" than 2020.

Figure 3 — Valuations across asset classes still look expensive despite the 2020 recession



Source: Bloomberg, 01 Jan 2018 to 27 Nov 2020. **Past performance is no guarantee of future results.** Representative indexes: **U.S. high yield corporates:** Bloomberg Barclays High Yield Corporate Bond Index; **global equities:** MSCI All Country World Index; **U.S. municipals**: Bloomberg Barclays Municipal Bond Index.

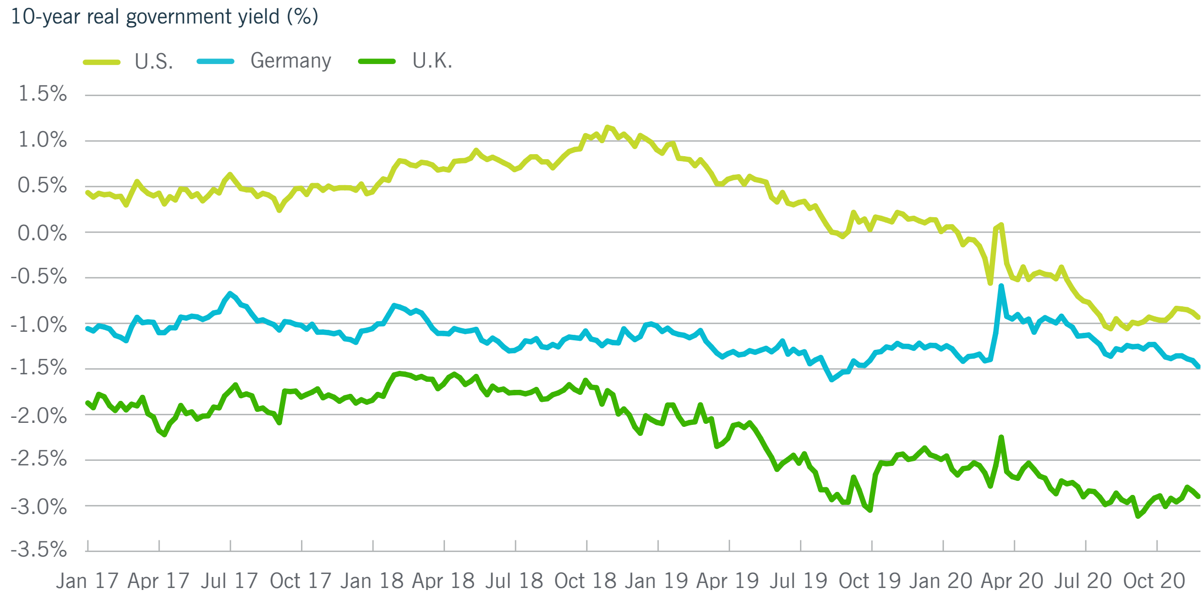
Even so, we believe both equity and credit risk will add to portfolios' performance in 2021. The expected earnings recovery — we see S&P 500 earnings up at least 25% next year — will ease pressure on valuations and still allow for reasonable returns on stocks. Corporate credit spreads have narrowed impressively, but could compress further given the very low level of underlying rates and the outlook for better growth by the second half of the year. Interest rates remain pinned at the short end of the curve by extremely vigilant central banks determined not to tighten policy too soon. Absent an unexpected burst of inflation next year, any rise in longer-term rates is likely to be gentle. Bond markets seem to recognize two truths: Central banks are intent on keeping rates low, and the likelihood of worryingly high inflation is minimal in 2021 — although we anticipate inflation could start to rise beyond that.

Two major events at the end of 2020 — the U.S. election and the success of multiple COVID-19 vaccine candidates — have greatly reduced uncertainty about the outlook for 2021. The U.S. election appears to have produced divided government, a welcome surprise to markets that prefer incremental — if any — change to public policy. And while investors were counting on vaccines to arrive eventually, the ones we know about so far are apparently more effective than expected and may be delivered ahead of schedule on a large scale. Lower uncertainty about U.S. public policy and the coming solution to the health crisis has contributed to lower volatility and high valuations for both global stocks and credit markets.

Investors will welcome lower volatility but not higher valuations. Readers of our 2020 outlook will recognize Figure 3. We're including it again this year because, remarkably, the pandemic, the recession and all of the other unprecedented happenings have left valuations barely changed, if not somewhat more expensive. Current yields on municipal bonds and high yield corporate credit remain historically low, while the earnings yield on global stocks — the inverse of their P/E ratio — likewise points to lower returns in the years ahead, even if 2021 delivers beyond our hopeful expectations.

How can investors navigate through this challenging return environment, one that is likely to last at least to the middle of this decade? Our best ideas follow in the coming section, but broadly speaking, the most obvious opportunities lie where normalization still hasn't been priced in. Cyclical parts of the global equity market performed better in the fourth quarter of

Figure 4 – Global inflation-linked bond yields are negative heading into 2021



Source: Bloomberg, 01 Jan 2017 to 27 Nov 2020.

2020, but have not recovered their underperformance against defensive sectors. With the significant shift to online commerce likely to persist beyond the end of the pandemic, industrial real estate should continue to benefit from demand for storage, shipping and logistics and greater localization of majority industries. And the weaker U.S. dollar, which we expect to fall further as the U.S. passes more stimulus and the Biden trade policy comes into focus, should support emerging markets fixed income, including both U.S. dollar and local-currency bonds.

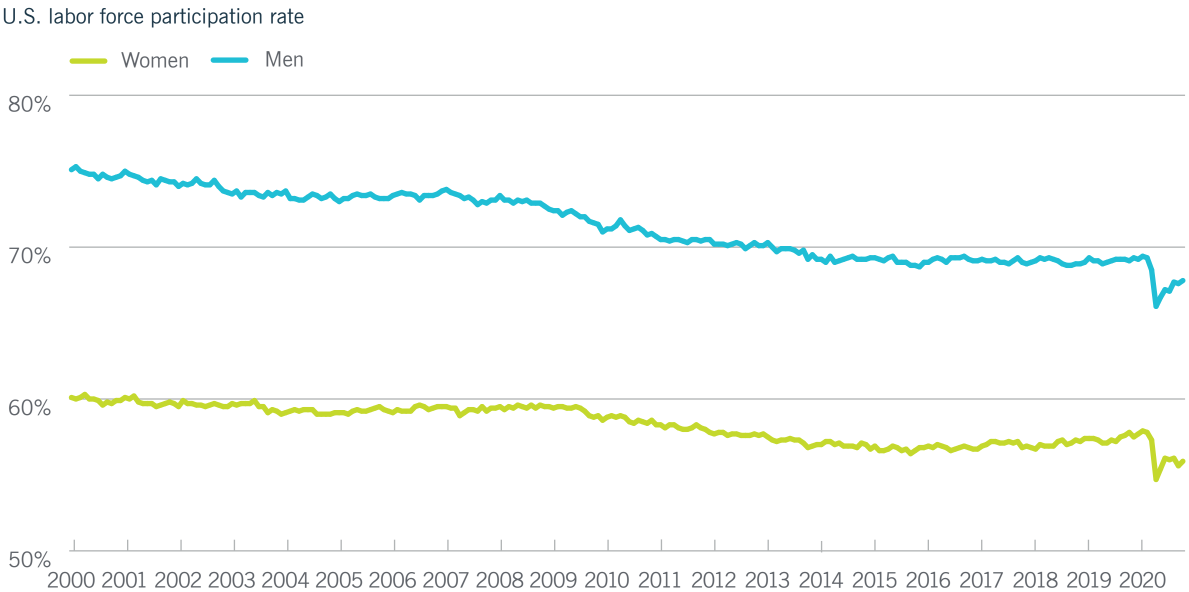
What if we're wrong?

The Nuveen GIC spent time at our last meeting debating what could go wrong in 2021, both for the global investing environment, broadly, and for our specific portfolio positioning. For the first time in a long time, we spent more time talking about upside risks to the outlook, which include an overheating economy that brings about higher inflation and an abrupt rise in interest rates. Even in a year that included a pandemic and the most closely followed U.S. election in history, investors' most common questions still center on government deficits and the sustainability of growing debt loads. This also plays into concerns about inflation in 2021 and beyond.

Part of our "upside" scenario involves a rise in inflation that effectively wipes out positive real returns — those left after inflation is netted out — on a wide swath of investments, including cash and many types of bonds. Negative real returns are already a way of life in the global markets for inflation-linked bonds, which protect against changes in inflation expectations but not always against inflation itself (Figure 4).

While a roaring economy by the second half of 2021 wouldn't leave too many investors complaining, it could potentially put the Fed and other central banks in a bind given their strong commitments to maintaining very low levels of interest rates. Even a hint that this commitment was wavering could cause interest rates to rise and the yield curve to steepen. But this risk would have less to do with concerns about debt sustainability and more to do with the core driver of inflation: too much demand met with too little supply. When both growth and inflation are accelerating from low levels, equities have traditionally performed well, as have real assets.

Figure 5 — U.S. labor force participation needs to rise for the recovery to be robust



Source: Bloomberg, Bureau of Labor Statistics, Jan 2000 to Oct 2020.

The main downside risk to our outlook — a failure to end the health crisis — looks less likely by the day as more vaccine candidates speed toward approval, production and mass distribution. But the global economy may sustain more damage before those doses arrive. In particular, unsupported U.S. small businesses are at greater risk of failure as states lock down or customers simply stay away. School closures are also affecting the labor market (Figure 5), with parents forced to choose between working and supervising at-home students. While headlines often focus on unemployment rates, the number of people, particularly women, leaving the labor force is alarming and could lead to a sluggish recovery as it did following the last recession. An economy too scarred to quickly recover following the end of the pandemic would produce flat yield curves and favor the shrinking number of higher growth assets in portfolios, particularly technology and consumer discretionary sectors.

Investing in 2021

The lesson of 2020 for investors is that staying invested and rebalancing is more often than not the right move, even when it seems like madness in the face of a hopeless outlook. That approach does not change simply because headwinds seem likely to turn into tailwinds in 2021. While the next few quarters may be bumpy, the probable end to the health crisis by summer should help distressed parts of the economy — and distressed assets — stage a strong recovery bolstered by unusually good household fundamentals. But as the twists of a dark tunnel give way to a brightening exit from COVID-19's dominance of daily life, investors confront a new risk: building portfolios that deliver durable income and total returns for the balance of the decade.

EQUITIES

Positioning for a more "normal" environment

Saira Malik

Opportunities and positioning

- The overall backdrop for equities appears favorable. We expect interest rates to remain relatively low, and global economic growth should pick up throughout 2021, especially once most of the world can access a reliable coronavirus vaccine.
- Equity markets were primarily driven by shifts in valuations in 2020. Going forward, we expect corporate earnings will play a bigger role. And based on the factors we just cited, prospects for earnings appear solid for 2021.
- Volatility will likely remain relatively high over the next few months as the coronavirus pandemic worsens. And a lack of clarity around additional U.S. fiscal stimulus could be a headwind for stocks. Looking ahead to the second half of 2021, we think conditions will generally return to a more normal and less volatile environment that should allow markets to climb more consistently.
- Overall, we are positioned for a modest risk-on market in 2021. We think receding volatility and slow-but-positive economic growth should be a tailwind for active managers. While growth and technology sectors dominated 2020 performance, we expect the market will broaden in 2021. In particular, we think U.S. small caps appear relatively undervalued and we also favor emerging market equities given the likelihood of a weaker dollar. We're not ready to call for a longer-term shift to value over growth, but expect less dispersion between the two styles in the year ahead.
- Companies focused on ESG criteria should continue to do well next year. In our view, ESG-focused companies tend to be higher quality and interest in ESG investing continues to grow.
- Regarding private equity markets, new deals remain scarce. For existing entities, we favor those that have been highly defensive — shoring up liquidity and strengthening balance sheets to be better positioned when the economic environment stabilizes.

Risks to our outlook

- As indicated previously, the next few months could remain challenging for investors. Continued high volatility and possible near-term market selloffs are likely. On the plus side, stock prices have been highly resilient in recent months and have recovered quickly from declines.
- Worse-than-expected economic growth would be a negative for our modest risk-on positioning. Likewise, the intense and sharp rallies in lower-quality stocks that we saw immediately after the U.S. election would be a risk, as we are looking for a more normalized trading environment.

BEST IDEAS: *Dividend-paying (and growing) companies appear attractively valued in an ongoing low-rate environment. We also think U.S. small caps offer value and we are favorable toward emerging markets equities. And across markets, our key investment theme centers on looking for quality across geographies, sectors and industries.*

FIXED INCOME

Modest risk overweight with a focus on credit

Anders Persson

BEST IDEAS: *We particularly favor middle market loans and junior capital lending opportunities. In public markets, our favorite sector is emerging markets debt. A combination of accommodative central bank policies, low rates, a weaker U.S. dollar and still-attractive valuations make EMD investments compelling.*

Opportunities and positioning

- We expect modest, if uneven, improvement in economic growth, low interest rates and ongoing monetary and fiscal policy support in 2021.
- The U.S. Federal Reserve and other global central banks have indicated they will keep interest rates extremely low for the foreseeable future. This pledge is improving liquidity and helping to keep the global economy afloat, but it also complicates the already difficult proposition of finding yield and income.
- Our portfolio positioning as we head into next year includes a modest risk overweight with a focus on credit sectors. We think it makes sense to underweight Treasuries and other government bond sectors, given that they appear relatively expensive. Instead, we prefer to focus on credit sectors — we are looking for credits with durable free cash flow and solid balance sheets across a variety of markets, including investment grade credit, non-agency mortgage-backed securities, preferred securities and select high yield and emerging markets bonds. In particular, we are focused on the mid-quality rating segments of the market, which appear to offer the best relative value.
- Focusing on ESG factors remains an important theme as we assess individual credits; we have long incorporated these factors into our investment selection process and believe investments that score highly on our internal ratings should be relatively advantaged.
- Private credit markets continue to generate tremendous interest and look attractive. Deal activity appears solid for investment grade and middle market loan issuers, and underwriting standards remain high.

Risks to our outlook

- The biggest risk to our outlook would be a return to a risk-off environment, similar to earlier this spring. Such an environment would cause a widening of credit spreads and a flight to quality that would work against our positioning.
- At the same time, a drastic shift to a more aggressive risk-on stance that favored highly distressed credits or areas most significantly hurt by the pandemic would also be a negative for our more modest approach.

MUNICIPALS

Resilient credits, low defaults, recovering demand

John Miller

Opportunities and positioning

- Following a challenging period in the spring, the municipal market continues to heal as U.S. economic growth recovers. At the same time, the Fed should maintain its zero-interest-rate policy into 2022 and will likely maintain its quantitative easing program to contain longer-term rates and support liquidity conditions across fixed income markets. All of these factors create tailwinds for municipal bonds.
- Municipal credits entered the pandemic historically strong, and have generally proven more stable than expected. While demand for municipal bonds dropped sharply in March and April, it has been recovering ever since, especially for investment grade credits.
- Additionally, defaults remain rare and concentrated in just a few esoteric sectors of the marketplace.
- Our bias remains toward long duration positioning, and we favor more credit sensitive areas to generate additional yield. But opportunities remain highly idiosyncratic, which speaks to the importance of diligent research and security selection.
- Investment grade municipal credit spreads have continued to tighten, and municipals should fare well as the economy recovers. Within high yield, spread widening has caused certain areas to underperform. We think high yield fundamentals remain intact, however, and recent widening has created pockets of undervalued areas.
- ESG factors remain important, and we see value in projects focused on clean water, recycling and food resourcing.

Risks to our outlook

- The main risk to our positioning would be a continued worsening of the coronavirus pandemic that could spark additional lockdowns and curbs on economic activity. We could see regional limitations, but national restrictions remain unlikely.
- Inflation is always a risk to municipal bond investors, but inflation pressures in 2021 should be modest enough to allow the Fed to maintain its interest rate positioning. We are watching for signals that the Fed might be winding down its QE programs (i.e., another "taper tantrum") that could cause risks to longer duration positioning.

BEST IDEAS: *Land-secured bonds remain an area of focus. We also see value in high yield municipals, especially those that could benefit from a more risk-on stance that favors leverage and credit exposure as conditions continue to improve.*

REAL ESTATE

Opportunities are growing more differentiated

Mike Sales

Opportunities and positioning

- The global economic recovery should continue, but it is growing more uneven across regions, cities, property types and sectors. In particular, Asian economies are improving more quickly than the U.S. or Europe, creating better opportunities in some places than others (e.g., we remain negative on U.S. retail and office space, but more positive on Asian housing and office properties).
- We expect easy central bank policies and still-strong capital flows will remain supportive for real estate. We believe monetary conditions will remain extremely loose for years, which will have broad-reaching implications across financial markets.
- The coronavirus pandemic is accelerating existing trends. Retail commerce is shifting more rapidly to online purchases, which favors industrial real estate over traditional retail. Likewise, demand for suburban real estate is exploding, especially in the U.S., creating demand for single family rentals.
- Health care spending is increasing, which has notable implications for real estate investing. Life science, senior housing and medical office investments all look attractive as the global population ages and more medical activity shifts from hospitals to more cost efficient medical offices.
- Additionally, we remain focused on investment issues such as how climate change is affecting real estate trends, including properties becoming more energy efficient and people changing where they choose to live.
- In the U.S., we expect price declines across some office and retail sectors could create value. Within the office space, we favor smaller boutique investments with an emphasis on environmentally sustainable properties.

Risks to our outlook

- In general, we favor alternative real estate investments such as medical and life science investments, multifamily housing and industrial properties. These investments can be difficult to source, so investment scarcity could become a risk.
- Related, we see some near-term pricing risks as capital floods into industrial, apartments and the alternative property types. The apartment sector could experience some pressure, but industrial pricing risk should be mitigated by increasingly strong tailwinds and alternative sectors should benefit from fewer investors being able to immediately access them.

BEST IDEAS: *We see opportunities in European debt investments, as the banking system is providing less financing than usual. We also like Asian housing, logistics and alternative real estate investments that are enjoying stronger relative growth. Finally, we continue to focus on "global cities" that are benefiting from demographic and technology advantages.*

PRIVATE AND PUBLIC REAL ASSETS

Resilience and relative safe havens

Justin Ourso

Jay Rosenberg

Opportunities and positioning

- Across public and private real assets, demand has increased for relatively safe-haven investments that have been resilient during times of broader financial market volatility and economic uncertainty. In particular, we see value in investments that feature reliable cash flows and may be more insulated from short-term market dislocations. In addition, we also are finding oversold opportunities in securities with stabilizing fundamentals with healthy balance sheets in some out-of-favor sectors that we expect will benefit when we see more economic normalization.
- Broadly speaking, an environment of lower interest rates remains a plus for most real assets. Additionally, inflation may become more of an issue in the coming years (although likely not in the short term) and real assets can be a valuable inflation hedge.
- In public real assets, a sharp differentiation exists between relative winners and losers, although we could see the performance gap narrow somewhat as the prospects improve for re-opening parts of the economy that have been most impacted by social distancing. In real estate, for example, traditional retail, office and hotel businesses have experienced a downturn given pandemic-related restrictions, but industrial, data centers and logistics continue to display stable to improving outlooks.
- Likewise, many infrastructure areas such as airports and toll roads continue to face pressure, but could begin a lengthy path towards normalization as the pandemic subsides. Conversely, technology, utilities and transmission investments show stable growth now that could improve even further based on changing consumer demand, workforce flexibility and preference for cleaner sources of energy.
- Private real asset investments across certain agriculture and timberland markets have been helped by rising demand and tighter supplies. Additionally, many of these investment areas have been relatively well insulated from the coronavirus-related economic upheaval given the essential nature of the industry and their relative illiquidity.
- Across all private real asset investments, we remain focused on sustainability, supply chain and distribution resiliency.
- Responsible investing has long been a critical part of our investment processes, and if anything is growing in importance. Opportunities to enhance risk/return profiles abound in areas such as utility companies lessening their carbon footprints, real estate investments offering better environmental health and companies focusing on responsible governance. Compelling opportunities in impact investing include areas such as affordable housing, resource efficiency and inclusive growth strategies.

Risks to our outlook

- Any combination of slower economic growth, rapidly rising interest rates without inflation or a stronger U.S. dollar would be a negative. Additionally, a significant tightening of credit conditions could cause yields to spike across markets.
- In general, we have been negative on listed real estate, infrastructure investments focused on the consumer sector and fossil-fuel-based energy infrastructure. This could change as prospects improve for a cessation of pandemic related demand destruction. As these outlooks improve in these beat up sectors, it could work against defensive growth oriented positioning.

BEST IDEAS: *We see opportunities in suburban and Sunbelt real estate and technology-driven infrastructure. We also favor utility investments focused on renewable power sources. Agriculture investments represent a particularly attractive opportunity due to their defensive characteristics and ability to capitalize on trends such as healthier diets. We also favor private impact investing in spaces such as affordable housing, resource efficiency, inclusive growth and renewable energy generation.*

Five portfolio construction themes

We're expecting financial markets to return to a (relatively) more normal environment in 2021. But getting there will be precarious, and "normal" will also bring with it the continued reality that yields will be low, valuations may be full and returns could be tough to come by. But, as always, investors' long-term plans, goals and needs remain unchanged. So how to build portfolios? Nuveen's Global Investment Committee offers a set of portfolio construction themes for our clients to consider.

1 Don't delay on decision-making

We hear it in almost every client conversation: There's always a reason to delay taking action. Whether it's an institutional investor having difficulty conducting due diligence meetings amid the pandemic or an individual investor waiting for a more attractive entry point, many investors are freezing assets, postponing rebalancing or delaying new allocations. Related, many investors are over-allocated to cash, reluctant to take action due to fears that the market may be overvalued.

We don't think these are winning strategies. For sure, all investors should hold some cash to meet spending needs, and prudence is always important. But if investors have cash to deploy, they should. If they have a long-term rebalancing plan, they should execute it. And if they believe funding a new allocation will help optimize portfolio construction, they should do it. We offered a range of specific ideas in earlier sections of our outlook, and the following themes help carry them through.

2 Find new ways to generate income

We've been hitting this point for a long time, but the basic message still holds true: With ultra-low yields across traditional fixed income asset classes, investors need to cast a wider net. And we also think investors will soon need to consider how inflation could be eroding their purchasing power. As such, we suggest exploring different areas of the fixed income landscape, dividend-paying equities and alternatives such as real estate, real assets and private credit.

But in doing so, it is critical to understand the types of risks this entails — and be deliberate in choosing those risks. To help in this process, we broadly categorize asset classes into buckets of interest rate risk, credit risk and equity risk. Each offers different yield and volatility profiles, and we suggest investors diversify across income opportunities and risks, as shown in Figure 6.

3 Focus on the bright light, but get through the tunnel

This is where our near-term/long-term views come into play. At our most recent GIC meeting, we spent time focusing on how immediate-term risks like the surging coronavirus pandemic and a lack of new U.S. fiscal stimulus could harm economic growth and financial markets. But we also talked about the light at the end of this very long tunnel, as we expect economic growth will improve, volatility will lessen and markets will be shaped more by fundamentals and less by macro risks as we progress through 2021.

As such, we think a balanced and modest risk-on portfolio stance makes sense in 2021. As reflected in our asset-class-specific views and the themes we've discussed throughout our outlook, we think more defensive areas of the equity market continue to look attractive, but it's also time to lean more toward some cyclical areas. And we prefer credit investments in the fixed income space, but not to extremes. Likewise, we think investors should take a hard look at private, illiquid investments and a wide variety of alternatives and real assets, both for their return potential and defensive and diversification characteristics.

At the same time, we think investors should continue to focus on environmental, social and governance factors across asset classes. ESG considerations can potentially help portfolios generate additional returns, help manage risk and increase portfolio efficiency.

4 Diversification remains our highest conviction trade

The days of the traditional 60% equities/40% fixed income portfolio are well in the past. The 60% part may prompt too much volatility for the return offered, and the 40% no longer provides either a portfolio ballast or sufficient yield.

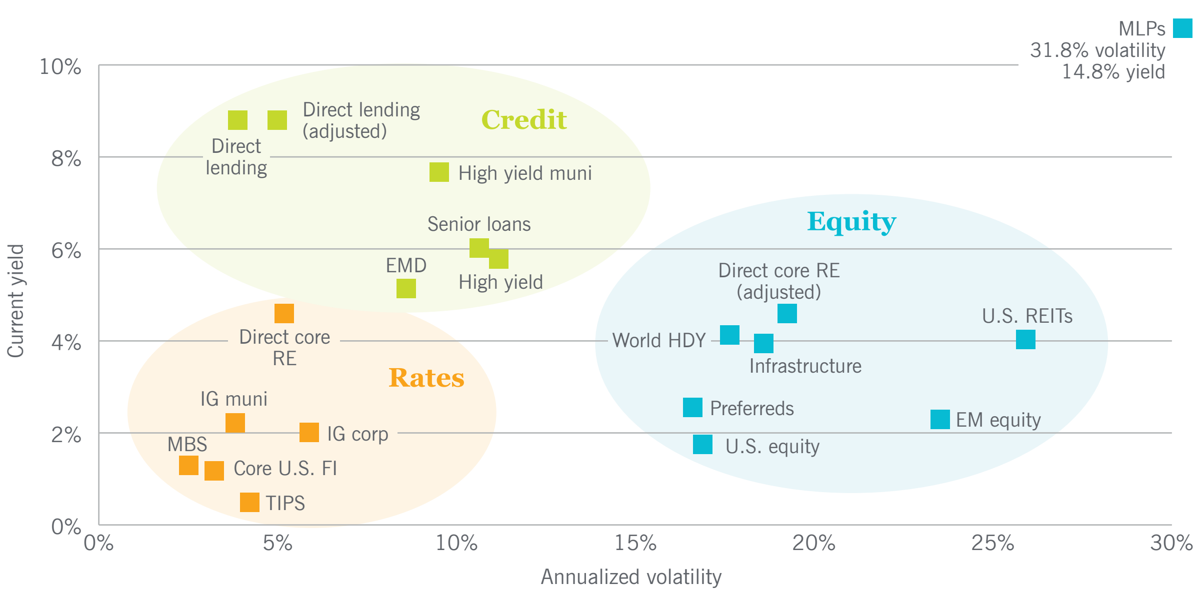
For sure, public equities and fixed income remain a critically important part of almost all asset allocation models. And we believe ample opportunities exist across those markets. But in reality, most investors are under allocated to alternative investments in general and illiquid markets in particular. Public alternatives — including long/short strategies, real estate and infrastructure — can provide valuable diversification. And long-term investments in private equity and private credit, as well as private real estate and real assets such as farmland and agriculture, can play a role in most portfolios.

5 Focus on selectivity and active management

This final theme may be the most important. Given current valuations, long-term returns across asset classes could be challenged. And without exception, all members of our Global Investment Committee and portfolio management teams are finding investment ideas that are highly idiosyncratic and fast-moving.

Selectivity, research, nimbleness and confidence can all make a difference.

Figure 6 — A broader reach can help achieve income goals



Source Bloomberg, L.P., 30 Sep 2020. **Past performance is no guarantee of future results.** Adjusted refers to desmoothed volatility. **Representative indexes: core U.S. fixed income:** Bloomberg Barclays U.S. Aggregate Bond Index; **U.S. TIPS:** Bloomberg Barclays U.S. TIP 1-10 year Index; **mortgage-backed securities:** Bloomberg Barclays U.S. Mortgage-Backed Securities Index; **investment grade corporates:** Bloomberg Barclays U.S. Corporate Bond Index; **investment grade municipals:** Bloomberg Barclays U.S. Municipal Bond Index; **U.S. equity:** S&P 500 Index; **world high dividend (HDY):** MSCI World High Dividend Yield Index; **U.S. REITs:** MSCI U.S. REIT Index; **emerging markets equity:** MSCI Emerging Market Index; **direct core real estate:** NCREIF Property Index; **emerging markets debt:** JPMorgan Monthly EMBI Index; **high yield municipals:** Bloomberg Barclays High Yield Municipal Index; **preferred securities:** ICE BofA Preferred Stock Fixed Rate Index; **senior loans:** Credit Suisse Leveraged Loan Index; **high yield corporates:** Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index; **infrastructure:** S&P Global Infrastructure Index; **direct lending:** CDLI Total Return Index. **MLPs**: Alerian MLP Total Return Index. Municipal bond yields are taxable equivalent at 37% + 3.8% ACA tax rates.

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Nuveen's Global Investment Committee (GIC) brings together the most senior investors from across our platform of core and specialist capabilities, including all public and private markets. Quarterly meetings of the GIC lead to published outlooks that offer 1) macro and asset class views that gain consensus among our investors 2) insights from thematic "deep dive" discussions by the GIC and guest experts (markets, risk, geopolitics, demographics, etc.) 3) guidance on how to turn our insights into action via regular commentary and communications.

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Endnotes

Sources

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

A word on risk

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