Nuveen's Griggs: In Turbulent Markets, Small Portfolio Tweaks Have Big Impacts

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Chuck Jaffe, in this episode of The NAVigator podcast interviews Brian Griggs, head of portfolio strategy and solutions at Nuveen. Brian says that investors have long had too much dependence on large-cap domestic stocks and an over-reliance on duration in fixed-income allocations, and he says that investors should address those pain points today to address macro-sensitivity caused by today's headlines. Using Nuveen's Nsights analytical tool – a proprietary system that examines how portfolio changes impact future portfolio performance – Griggs says that investors want to address their portfolio problems now, including holding too much cash, to make portfolios better prepared to ride out the bumpy times ahead.

The podcast can be found on AICA's website by clicking here: https://aicalliance.org/alliance-content/pod-cast/

CHUCK JAFFE: Brian Griggs, head of portfolio strategy and solutions at Nuveen is here, we're talking about the impact of potential portfolio moves you're considering now, this is The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization that represents the full spectrum of the closed-end fund business from investors and users to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. And today we're looking at asset allocation decisions and the impact of potential portfolio moves with Brian Griggs, who's head of portfolio strategy and solutions at Nuveen, and we're discussing "Nsights", think insights but drop the "I" so you start with the "N" of Nuveen, Nsights is the firm's proprietary analytical service that digs into portfolios to see how changing allocations shift risk and return outlooks, you can learn more at Nuveen.com. And if you want to learn more about closed-end funds, interval funds, and business-development companies generally, check out AICAlliance.org, the website for the Active Investment Company Alliance. Brian Griggs, welcome to The NAVigator.

BRIAN GRIGGS: Thanks, Chuck. It's great to be on.

CHUCK JAFFE: We are living through times that have people who do big, broad forecasts changing their outlooks, talking about potential for recession, being up and what people should be doing given tariff outlooks and all these other sorts of things, and of course there are people who say, "Just sit still," but when sit still is hard to do, well, the flip side of that is people want to make moves. So help us understand, if you're making little moves based on news and what's happening, et cetera, how much of a broad impact should you be afraid that you make a little move and it becomes much bigger for your portfolio? Because I know people who are worried about doing too much, but I also know people who do a little and don't necessarily understand how big it could be.

BRIAN GRIGGS: Well, Chuck, it goes without saying, but we always say in our group there's no crystal ball, right? We're not here to time the market or come up with some provocative statement about how the market is going to transpire over the next three to six months necessarily, we're really thinking longer term. How do we build well diversified portfolios for clients that really can weather the storm ahead and put their end client or the end beneficiary of those assets in the best probability to meet their long-term financial goals? We do that a few different ways, I think what really helps Nsights stand apart in what our team provides for Nuveen's clients is three-fold. One, we always say there's a reason that the windshield is bigger than the rear-view mirror, meaning that it's important to have tools that can help you evaluate forward-looking assumptions for returns and risk when building portfolios. Two, our platform is built to really not just help you allocate across public markets, but also incorporate private markets into your diversified allocation, to help kind of build a smoother ride in terms of risk adjusted-returns from portfolios. And lastly I would say we're embedded in the Nuveen investment organization, so our team of strategists is meeting with our CIO, our head of fixed income, our head of real estate, on a weekly basis, and kind of getting the color from our PMs across the firm, and we're incorporating that perspective into the 100 or so portfolio reviews that we do a month for investment advisors and wealth advisors alike.

CHUCK JAFFE: I'm curious, you do these evaluations on an ongoing basis, you're working with advisors, digging in and running various cases, representing by the way, billions of dollars that's actually been invested. And so if allocations are changing, where are they heading to or where should they be heading to? Because the expectation is that our money is flowing to the right places, but we know from at least how individual investors work, that they have a tendency to go to the wrong places at the wrong times.

BRIAN GRIGGS: That's right. I would say we've been doing this close to a decade now, and one overarching theme, even when we started the Nsights program, that we noticed in portfolios, is perhaps too much exposure to US large cap stocks on the equity side of the portfolio, and on the fixed-income side of the portfolio, too much of a reliance on interest rate sensitivity or duration in fixed-income allocations. Being able to address those two pain points today is even more important given all the volatility that we're seeing, macro uncertainty when just looking out over the next six to 12 months or so. Overall the three big trends that we're seeing in portfolio allocations, or the three pain points that advisors come to us with, start first on the equity side of the portfolio. So of course we had back to back years in 2023 and 2024 of 20+% gains on the S&P 500, that resulted in some equity allocations that were very heavily tilted towards US large cap equities, particularly the gross side of the portfolio; so one theme that we've really been approaching with those advisors is looking for opportunities to diversify the equity side of the portfolio into higher quality companies such as dividend growers, infrastructure stocks, international equities, which particularly today look attractive on a relative valuation basis, and for the first time in a while have some interesting earnings growth trajectories that we think should benefit them in the years ahead. The second main theme that I think a lot of advisors and their clients are wrestling with is a lot of cash on the sidelines. By some estimates if you look at money market funds, household deposits, we estimate the total cash pile out there today from high-net-worth investors is something close to $11 trillion, which is about 38% compared to the US GDP. That's high not just compared to history, but it's also high compared to some notable risk-off periods throughout history such as the Global Financial Crisis and the depths of Covid. Today in fixed income you don't have to be a hero on the rate side of things to generate an attractive yield, meaning you don't have to take on a whole lot of rate risk to generate attractive forward-looking risk-adjusted returns. Particularly for those high-tax individuals, I think today the opportunities in the municipal market are about as attractive as any point in my career. If you look at starting yields in municipals today, they're in about their 97th percentile over the last 10 years, and spreads are also fairly wide, so I think it's a good opportunity for those that have been sitting in money market funds to reorient their fixed-income allocation, take advantage of some of these yield opportunities that are out there right now. The third theme is the move into private markets, now not only is private markets been more front and center for investment advisors for the last few years as more firms have come to market with products, but clients are asking about them because over the last five to 10 years clients generally have gotten much more wealthy, wealthier clients tend to have less of a need for a large portion of their portfolio to be in daily liquid investments. I think on top of that, a lot of clients are looking at the equity market volatility, they're looking at starting equity valuations today that are north of 22X earnings, and they're asking the question, "How can I get that 7 to 10% return with part of my portfolio," which is more or less what the S&P 500 has done over the last 100 years, "In a way that exposes me to less daily marked to market volatility?" So we're having a lot of conversations, reorienting portfolios, taking advantage of some of the more income-oriented private market asset classes so they can help lower the volatility of the overall portfolio and also diversify what they're doing within traditional stocks and bonds.

CHUCK JAFFE: Is the goal for most people to be reaching a certain level of profits, is it to be consistent or is it to be protect against the downside? Because it doesn't sound like much of this is about stretching for yield, though it may be about improving an overall performance of a portfolio.

BRIAN GRIGGS: I think it's that holistic overall portfolio view, that's really what we've seen change in advisor behavior over the last 10-20 years. There's a point in the investment landscape where I think a lot of investors, allocators, advisors, looked at their portfolio as a list of line items, how are these different managers performing, who are my top performers, who are my bottom performers? That's changing, a lot of allocators now are looking at portfolios more like a large institution, where they realize that the sum of the parts is really what is going to move the needle for their clients. So to answer your question, I think the move into private markets, it's really more about building in that diversification with less downside risk potentially than the public equity market, but still being able to generate all-in a portfolio return that can outpace inflation and taxes over the long run. That's really what's driving that change of behavior and why we're seeing more advisors come to us for help with their private market allocations. With that said, Chuck, it's not as simple as your standard Markowitz exercise, where we're just looking to goose the risk-adjusted return, these private strategies, they are more complex, so they need help evaluating the risks of these different strategies, and more importantly, articulating the end benefit to their clients, so that their clients understand the game plan and they're more apt to stick with it when times are more volatile in markets.

CHUCK JAFFE: Private credit has been a subject that has drawn a tremendous amount of interest, and as you point out, people have exposure but maybe not enough. But I'm curious, in all of everything else that is going on, is there one particular asset class, or maybe one or two asset classes, they don't have to be something totally different but that you think people are overlooking? Is there a place where on the way out the door you just kind of wave and go, "Hey, don't forget about X"?

BRIAN GRIGGS: Yeah, absolutely. Now private credit, it's a broad term, there's a lot of different types of private credit out there. We think in particular right now, middle market direct lending, so loans to private equity-backed companies where you can generate high single-digit returns, that's an area of the market that has not only outperformed most fixed-income over the last three to five years, in some cases it's even outperformed private equity depending on the strategy. So we do think we're in the early innings there, but some other ideas that sometimes get overlooked, for those high-tax clients, looking at things like high-yield municipals in an interval fund wrapper, where you can get exposure to high-yield municipal bonds that are perhaps less liquid, that is an interesting area right now where you can get very attractive tax-equivalent yields if you're in the top tax bracket. So I guess that kind of also fits into the private credit discussion, but perhaps not how many firms are out there talking about private credit. I also think the one area of the private market universe that has really been marked down over the last three years and is poised for a comeback is commercial real estate. Now hear me out, because I think a lot of people hear real estate and think, well, big downtown offices, work from home, work remote, that's not an area I want to be right now. I would agree with you, and Nuveen would agree as well, but there's a lot of different types of real estate out there, and here's some interesting stats just to kind of highlight the opportunity. Real estate is all about supply and demand fundamentals, if you look back over the last 10 years at construction starts for commercial properties, apartment starts today are back to 2011 levels, industrial starts back to 2013 levels, it's been a very tough environment for new development given higher financing costs, higher construction costs, what have you, and I don't think that's going to change in the near term, but the good news is if there's less supply coming online, that sets up a nice dynamic for existing cash flow core properties. That's really where we think investors should be looking to build in diversification in their portfolios with real estate, looking at areas like industrial, medical office, some of those areas that might be overlooked when people just think of broad real estate, and we think that's one potential area that could be the comeback kid for this year when it comes to private markets.

CHUCK JAFFE: Brian, great stuff. Thanks for joining me on The NAVigator to talk about it, I look forward to doing this with you again down the line.

BRIAN GRIGGS: Thank you, Chuck, likewise.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and yeah, I'm Chuck Jaffe, I'd love it if you'd check out my hour-long weekday show by going to MoneyLifeShow.com or by searching on your favorite podcast app. To search for more information on closed-end funds, interval funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. Thanks to my guest Brian Griggs, he's head of portfolio strategy and solutions at Nuveen. Learn more about him, the firm, and Nsights, which is the firm's proprietary portfolio analytic service and the basis for this discussion here today, at Nuveen.com. The NAVigator podcast is new every Friday, make sure you don't miss an episode by subscribing or following along on your favorite podcast app, and if you liked this podcast, leave us a review and tell your friends, because that stuff really helps. We'll be back next week with more closed-end fund fun. Until then, happy investing, everybody.

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