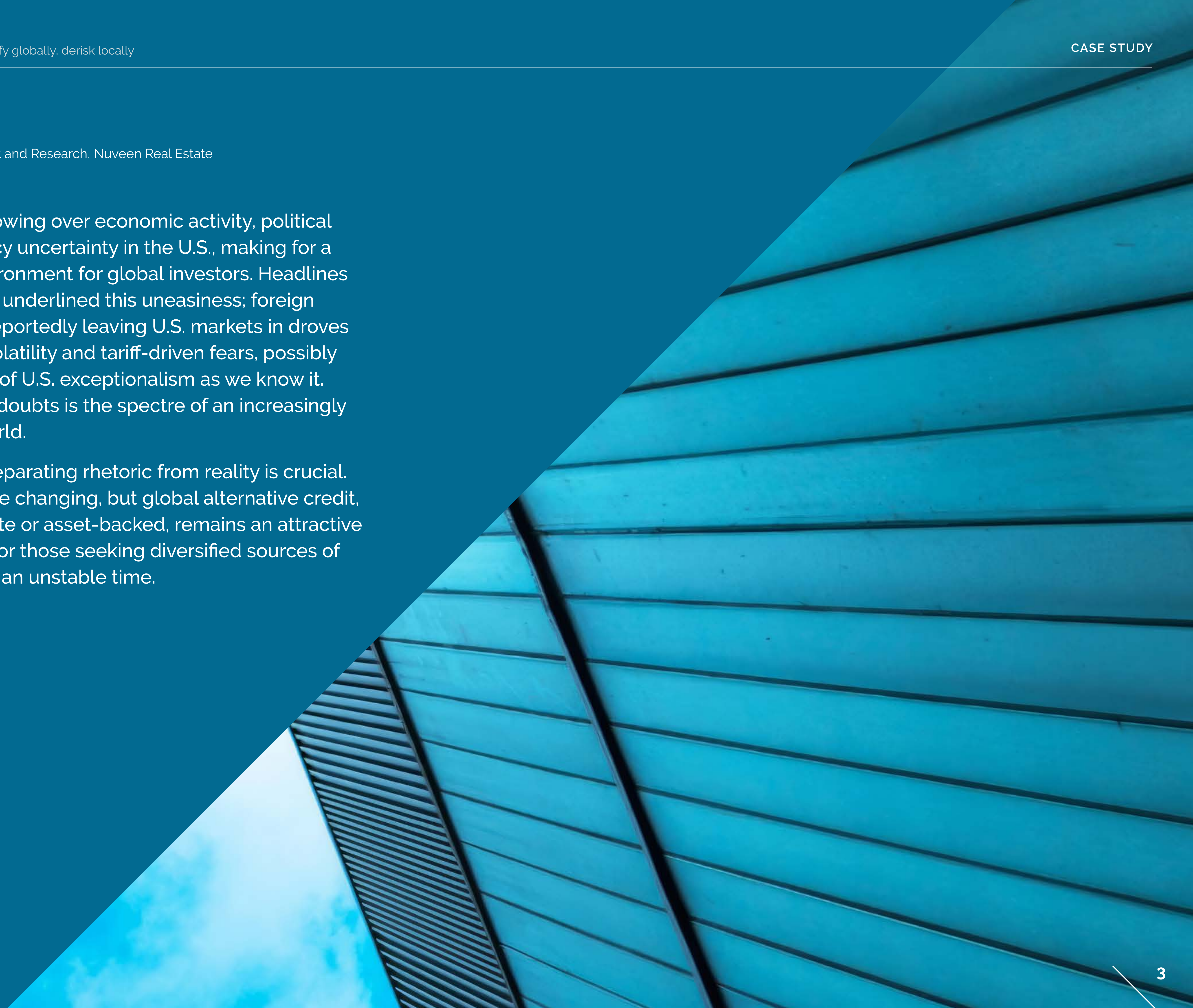
CASE STUDY

Nuveen Alternative Credit
diversify globally,
derisk locally

Author: Mohamed Ali
Director, Strategic Insight and Research, Nuveen Real Estate

Concerns are growing over economic activity, political tension and policy uncertainty in the U.S., making for a challenging environment for global investors. Headlines throughout 2025 underlined this uneasiness; foreign investors were reportedly leaving U.S. markets in droves amid currency volatility and tariff-driven fears, possibly spelling the end of U.S. exceptionalism as we know it. Adding to these doubts is the spectre of an increasingly deglobalised world.

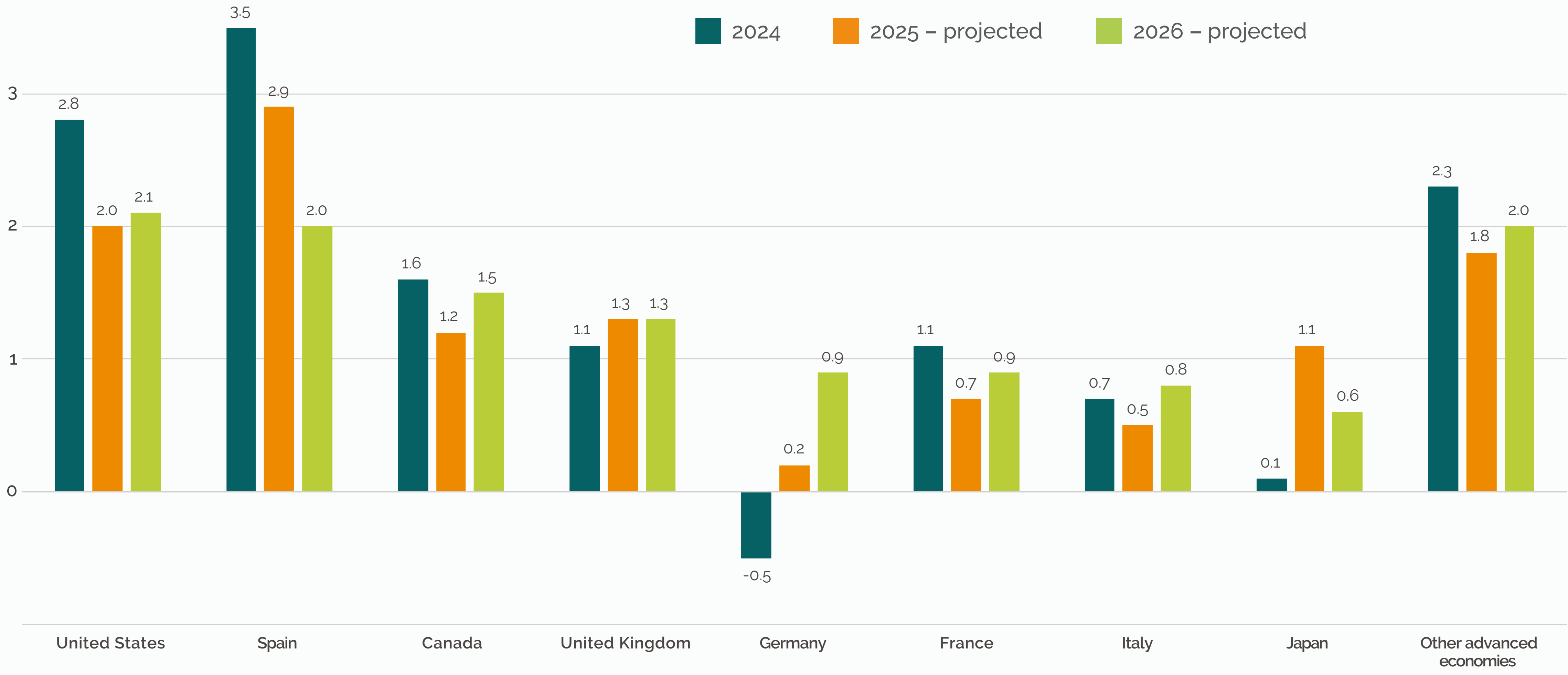
In this climate, separating rhetoric from reality is crucial. The world may be changing, but global alternative credit, whether corporate or asset-backed, remains an attractive opportunity set for those seeking diversified sources of stable income in an unstable time.



U.S. remains a rich source of opportunity despite new risks

Despite prolonged uncertainty running through the country, the U.S. economy has demonstrated its ability to withstand shocks and beat pessimistic forecasts. Recent fears of recession have given way to tangible optimism. U.S. GDP growth for 2026 is projected to outpace developed market peers, trailing only China globally (Figure 1). Corporate earnings remain robust, and default rates for U.S. credit, especially among higher-rated borrowers, remain overwhelmingly stable.[1] The U.S. dollar, while volatile, continues to anchor international portfolios, providing depth and liquidity that few global markets can match.

Figure 1:
U.S. GDP growth for 2026 is projected to outpace developed market peers



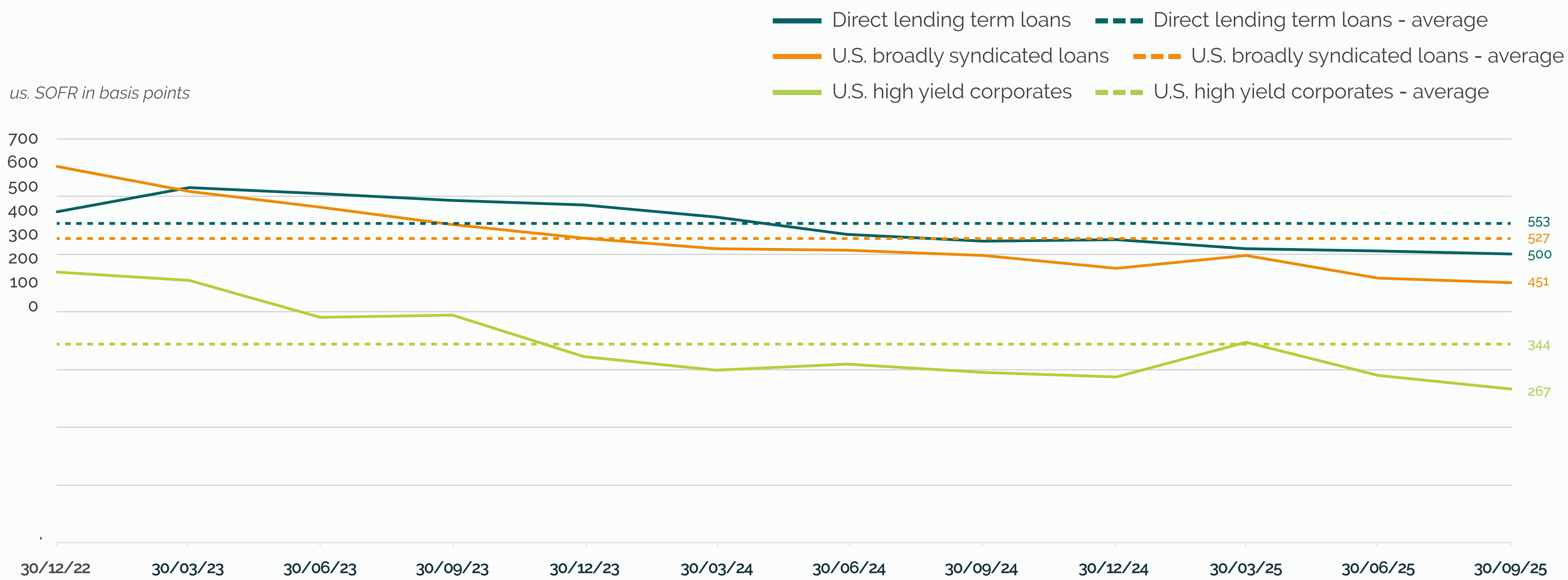
Source: International Monetary Fund, World Economic Outlook, October 2025

Within this environment, U.S.-based credit continues to play an increasingly important source of portfolio diversification. Investors are drawn by its strong fundamentals, attractive risk-adjusted yields and proven resilience.

While issues such as the First Brands' bankruptcy have cast a cloud over the condition of private credit, industry experts and allocators stress that these incidents remain isolated, driven by lax due diligence and underwriting, rather than broader economic malaise. Disciplined managers continue to demonstrate the importance of robust due diligence in an environment rich with opportunity but not without risk.

Credit spreads have tightened across public and private markets (Figure 2), and valuations reflect a healthy outlook for steady growth and low defaults. The influx of new capital has sparked concerns around manager performance, triggered by a rush to scale, which could expose investors to risk should underwriting standards decline. As this market continues to mature, the difference between experienced credit managers and those new to the space is more pronounced than ever.

***Figure 2:* Tighter spreads across U.S. public and private credit**



Source: Bloomberg and LSEG LPC as of 30 Sep 2025

Europe offers unique risk diversification exposure

For investors, the U.S. remains undeniably appealing, but the universe for alternative credit is broader than one market. Europe, though grappling with similar issues of slower economic growth and geopolitical fragmentation, offers pockets of long-term value.

Opportunities in Europe reflect the continent's geopolitics. A continued focus on energy infrastructure for both renewable energy and energy security, for example, demonstrates how structural changes are driving investments. These same factors are acting as catalysts for investment grade private credit, while real estate debt is tapping into this protectionist dynamic, one that will continue to create entry points across logistics.

The story of alternative credit is about building portfolios that blend U.S. scale and resilience with global diversification, reaching across borders and asset classes to capture income, risk mitigation and long-term value creation. The U.S. remains at the core of global alternative credit strategies, but just as importantly, looking beyond the U.S. has never been timelier.

Opportunities persist across alternative credit segments, and following a challenging period in recent years, real estate debt presents compelling conditions for investors seeking diversified income.

European real estate debt bounces back

The commercial real estate (CRE) landscape has transformed since mid-2022, creating investment opportunities for institutional investors. Rising interest rates and macroeconomic uncertainty have driven capital values down by approximately 20-25% across Europe and other developed markets, according to the CBRE Prime Capital Value Index.

One consequence of this is real estate debt is becoming an increasingly attractive proposition for sophisticated investors seeking stable, risk-adjusted returns with risk mitigation characteristics.

The current environment presents a combination of factors that make real estate debt particularly appealing: low valuations, conservative lending structures and portfolio diversification benefits.

Optimal entry point

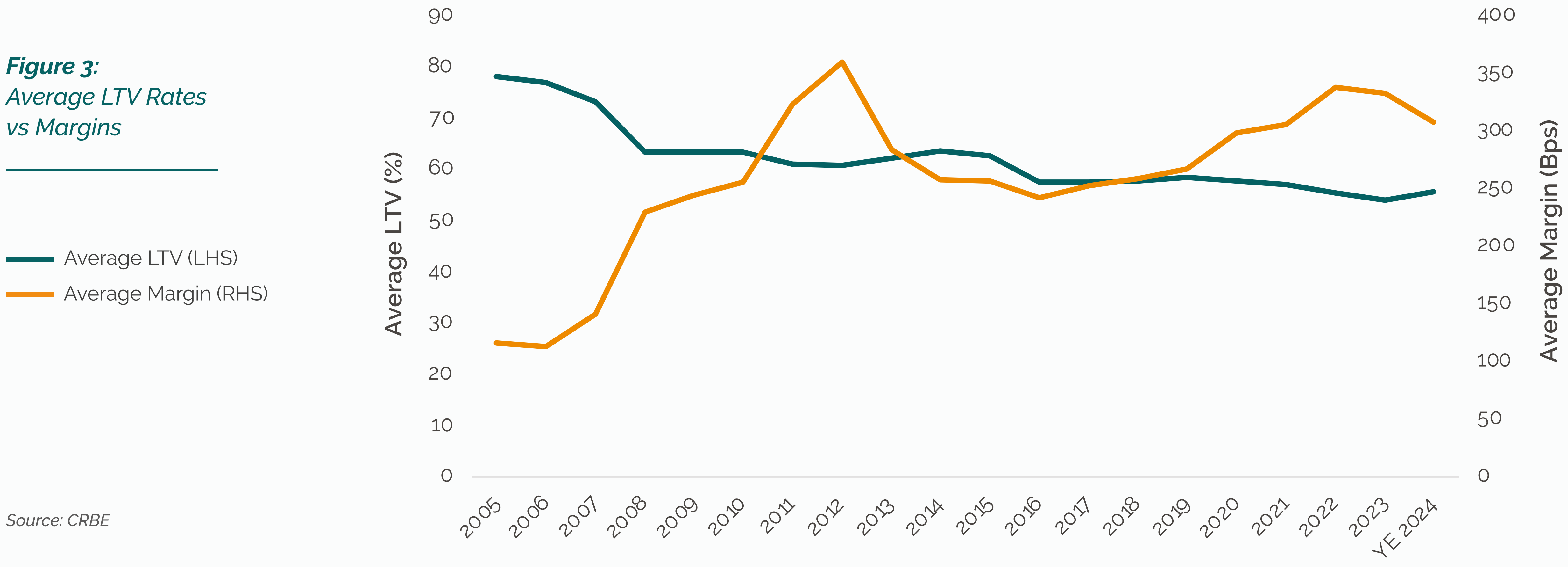
The commercial real estate market correction appears to be at an optimal entry point for new real estate debt investments. MSCI data shows most repricing appears to have already occurred, with early signs of stabilisation and even recovery emerging in some market segments. The current correction of 20-25% in European prime capital values, while significant, remains moderate compared to historical downturns such as the early 1990s recession (-36%) or the Global Financial Crisis (GFC) (-34%).

This valuation reset has coincided with significantly more conservative lending practices compared to pre-crisis standards, according to Bayes U.K. Lending Survey data. Average senior loan-to-value ratios tightened from approximately 80% before the GFC to around 55% by the end of 2024, providing lenders with substantial equity cushions.

While risk-free rates have risen since 2022, credit spreads in real estate debt have remained elevated, unlike liquid corporate credit markets where spreads have tightened. Senior real estate lending now offers yields comparable to, or even exceeding, high-yield corporate bonds, but with superior collateral backing and recovery prospects.

Interest coverage ratios, which faced downward pressure during the initial phase of interest rate increases, appear to have steadied during 2024, according to results from the Bayes U.K. Lending Survey. This stabilisation, supported by recent interest rate cuts and clearer monetary policy direction, suggests that borrowers maintain adequate cash flow coverage to service their debt obligations, reducing the likelihood of defaults driven by cash flow stress.

Figure 3:
Average LTV Rates vs Margins



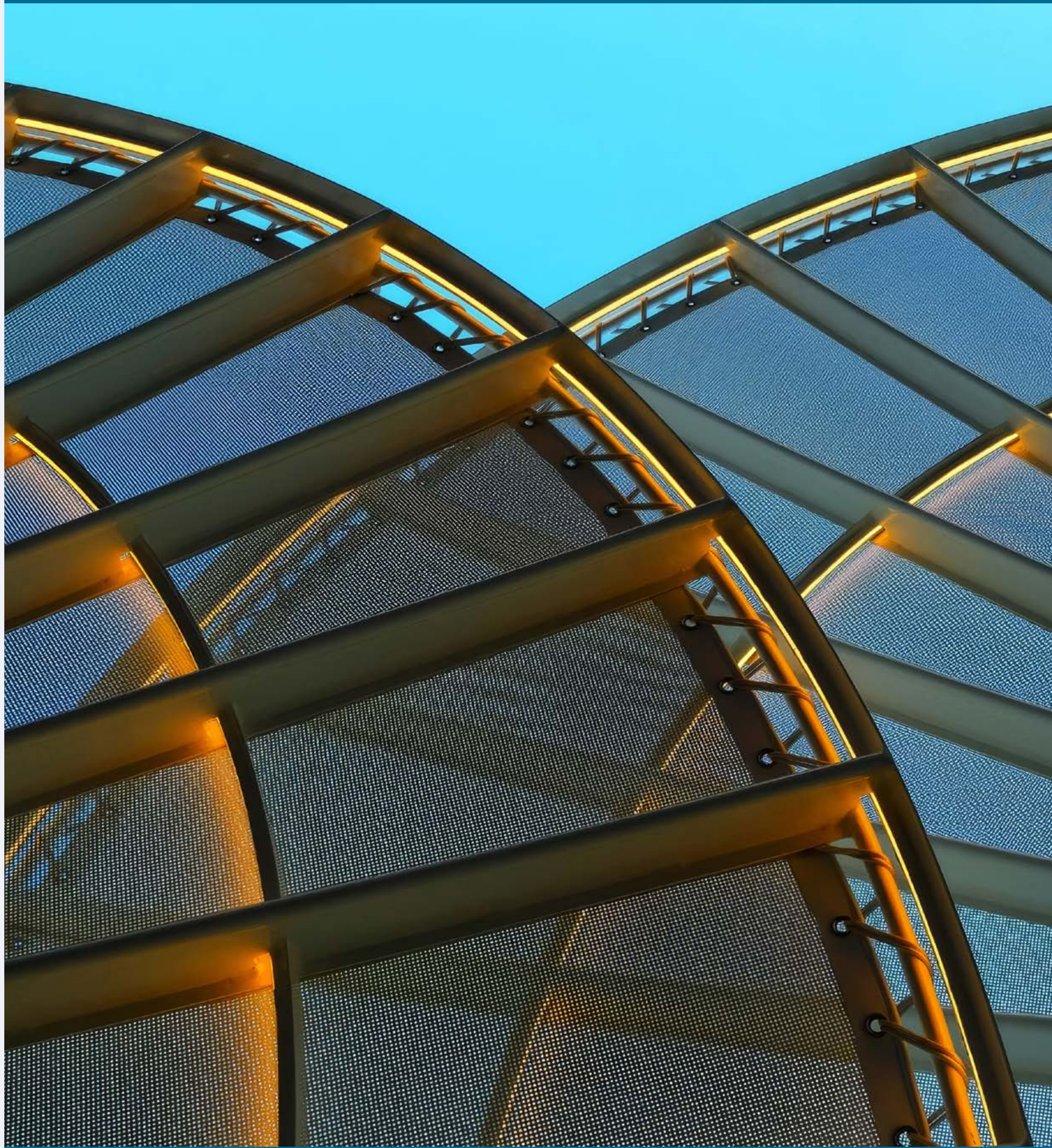
Source: CRBE

Structural evolution

The European commercial real estate lending landscape has undergone significant structural evolution since the GFC, creating opportunities for alternative lenders and more diverse financing markets. Regulatory reforms including Basel III/IV and Solvency II have increased capital requirements for banks and insurers, curtailing their appetite for higher-leverage and non-core commercial real estate lending.

This regulatory-driven retreat has created space for alternative lenders to establish meaningful market presence. Current estimates from Nuveen suggest that alternative lenders now provide approximately 40% of U.K. CRE lending, with growing market shares in France, Spain and Germany. Further growth is expected as Basel III Endgame implementation continues across European markets.

While banks still account for 84% of European commercial real estate lending overall, their declining market share is creating a more diverse, competitive and resilient lending ecosystem. This transition provides borrowers with a wider range of funding solutions across the capital stack while creating opportunities for institutional investors to access attractive risk-adjusted returns through direct lending strategies.



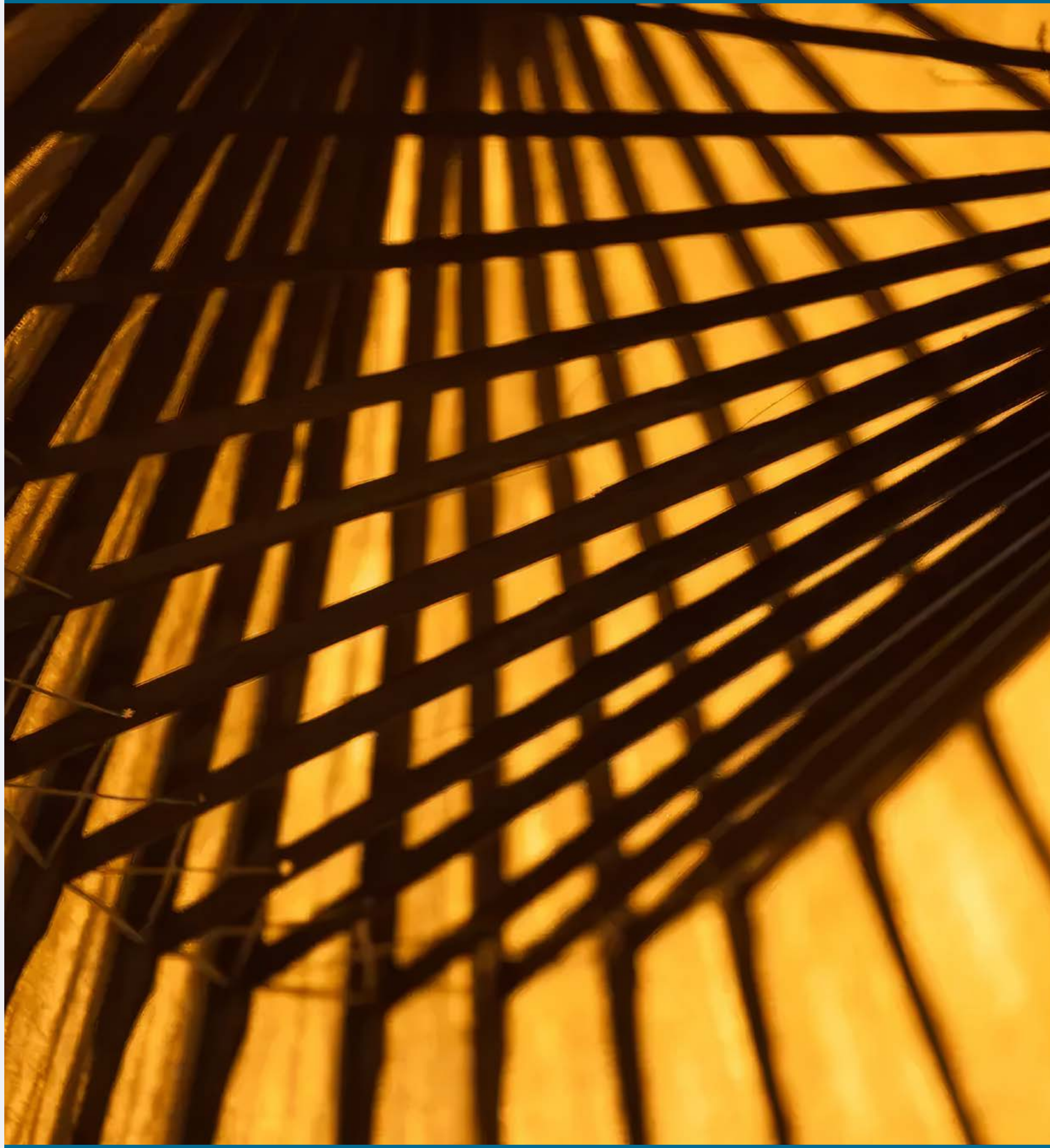
Portfolio benefits

Real estate debt's risk-return characteristics position it well for institutional portfolios, offering returns potentially similar to higher-risk asset classes while maintaining lower volatility.

This favourable risk-return profile stems from several structural factors. The senior position within the capital stack provides cushioning against defaults, while contractual income obligations built into loan structures deliver steady cash flows. The typically shorter duration of CRE loans compared to traditional fixed income investments can help mitigate exposure to inflation and interest rate changes.

From a portfolio construction perspective, CRE debt's low correlation with traditional fixed income provides diversification benefits. Portfolio optimisation analysis from Nuveen Real Estate suggests allocating just 10% of a diversified portfolio to CRE debt can potentially reduce overall portfolio volatility while maintaining or improving expected returns. This diversification advantage becomes particularly valuable during periods of market stress, when correlations between public listed asset classes often increase.

The income stability provided by real estate debt also offers portfolio cash flow predictability that can be useful for institutional investors with defined liability streams, such as pension funds. The contractual nature of loan payments, backed by physical collateral, provides a more predictable income stream.



Seizing opportunities

The shift in the European real estate debt market demonstrates the importance of diversifying beyond U.S. alternative credit. Changing dynamics driven by geopolitical, regulatory and market conditions are acting as catalysts for alternative credit globally. Investors seeking to capitalise on these various entry points are best placed when taking a global approach, combined with the local knowledge of regional markets to meaningfully enter these spaces to help reach investment goals.

Learn how European commercial real estate debt can be an attractive proposition in today's market environment for institutional investors seeking stable, risk-adjusted returns, portfolio diversification and risk mitigation

Source:

1. S&P Global "Default, Transition, and Recovery: Regional Divergences Should Keep The Global Default Rate Steady Through September" dated 26 Nov 2025

Tel: +44 (0) 20 7247 1452
Email: info@pensions-pmi.org.uk
Web: www.pensions-pmi.org.uk

Registered office:
6th Floor,
9 Appold Street
London
EC2A 2AP

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