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Weekly Fixed Income Commentary

14 July 2025

Rising tariff risks push Treasury yields higher

U.S. Treasury yields increased and credit spreads generally widened following new tariff announcements. Our baseline projection assumes an approximate 10% effective tariff rate, but recent developments suggest the risk of rates reaching 16%. Such an increase could substantially reduce economic growth while accelerating inflation.

HIGHLIGHTS

- **Treasuries, investment grade and high yield corporates, MBS and emerging markets retreated.**
- **Preferred secruties, senior loans and CLOs gained.**
- **Municipal bond yields were mixed. New issue supply was $13.9B, and fund inflows were $432M. This week's new issuance is $11.1B.**

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Watchlist

- *Treasury yields moved higher, and we continue to expect elevated volatility, a wider trading band and a modest rally from current levels.*
- *Spread sectors broadly underperformed Treasuries as tariff uncertainty increased.*
- *We expect the technical environment for municipal bonds to improve as the year progresses.*

INVESTMENT VIEWS

We believe fixed income **yields generally present one of the best entry points in a generation,** creating attractive income opportunities.

Downside economic risks are material, despite strong fundamentals, with tariffs likely to compress consumer spending and weigh on business fixed investment. A U.S. recession is not our base case.

Risk premiums may widen further, with entry points likely to become more attractive over the coming quarters. Duration is likely to reassume its role as a growth hedge.

KEY RISKS

- Tariffs further undermine consumer and business confidence, raising prices while weighing on sentiment and activity.
- Inflation fails to continue moderating as expected, weighing on asset prices.
- Geopolitical flare-ups intensify around the world.

LOWER-RATED CORPORATE DEBT CONTINUES TO OUTPERFORM

U.S. Treasury yields moved higher last week, and the yield curve steepened. 10-year yields rose 6 basis points (bps) to 4.41%, while 2-year yields were flat. No major economic data was released, leaving attention focused on President Trump's renewed tariff announcements. The White House published a series of letters threatening elevated tariff levels – close to the 02 April Liberation Day announcement levels – to take effect 01 August. In our economic forecast, we have assumed a roughly 10% effective tariff rate moving forward, but these renewed threats raise the risk of a rate closer to 16%. That could significantly increase the drag on economic growth and the boost to inflation.

Investment grade corporates retreated, returning -0.62% and lagging similar-duration Treasuries by -22 bps. Spreads widened by around 3 bps, ending the week at 80 bps for the index. Investment grade corporate index yields, which reached a six-month low of 4.99% in late June, have since increased to 5.14%. This level remains significantly below the April high of 5.55%. Inflows continued but decelerated, at $4.9 billion. Supply was healthy again at almost $30 billion. Separately, preferreds eked out a 0.03% gain, outpacing similar-duration Treasuries by 33 bps to lead major fixed income asset classes.

High yield corporates also sold off, returning -0.22% and underperforming similar-duration Treasuries by -21 bps. That was the first weekly loss since mid-May. Despite widening spreads in high yield bonds due to tariff concerns, lower-rated corporate debt continued to outperform, with CCC-rated securities delivering 0.15%. Senior loans returned 0.32% for their 14th straight weekly gain. High yield funds saw outflows of -$304 million, while loan funds had inflows of $565 million. Supply in both markets continued to be healthy, with $8.2 billion and $14.2 billion pricing in high yield and senior loans, respectively.

Emerging markets were mixed, returning -0.24% but outperforming similar-duration Treasuries by 8 bps. Spreads tightened across the asset class, with high grade and high yield spreads ending -5 and -6 bps narrower, respectively. Inflows picked up materially, with $664 million entering the emerging market asset class. Supply slowed, with only $13.5 billion pricing.

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THE MUNICIPAL MARKET SEES EQUILIBRIUM IN SUPPLY AND DEMAND

Municipal bond yields ended last week mixed, with short-term maturities dropping -7 bps while long-end yields increased 1 bps. New issue supply was well received and fund flows were positive for the 11th consecutive week, including $223 million in exchange-traded inflows. New issuance this week should be priced to sell and well received.

The municipal market remains well bid. The 01 July reinvestment money exceeded $50 billion, illustrating the continued demand for bonds. Supply also remains robust, keeping supply and demand in equilibrium. Municipal bonds continue to offer attractive tax-exempt yields, with intermediate and long bonds yielding 4% and 5% respectively. We think the muni market should remain well bid for the foreseeable future.

In a notable deal last week, **the Trustees for California State University** issued $1.6 billion revenue bonds (rated Aa2/ AA-).

High yield municipals saw inflows of $137 million in an abbreviated reporting week due to the U.S. holiday on Friday. Nuveen followed 17 new issue deals, investing in some but passing on several others due to credit or price. Brightline Florida announced on Friday that it would defer the July interest payments on a portion of its subordinate debt, stating they plan to make the payment from future revenues and raising additional funding. The bonds will continue to accrue interest due at the original coupon rate plus an additional 2%. Prices declined across all Brightline bonds in response.

Senior loans returned 0.32% for their 14th straight weekly gain.

In focus

Investment grade issuance is set to cool

Investment grade corporate gross issuance has been strong year-to-date, but it is expected to moderate in the coming months.

Corporations issued about $900 billion in the first half of 2025, the second-highest first half on record, surpassed only by the tally in 2020. However, the recent surge in longer-term interest rates has significantly impacted the 30-year segment, resulting in the lowest six-month issuance volume for this maturity since 2011.

We expect issuance to slow to around $600 billion in the second half of the year for two main reasons: (1) many issuers, especially banks, have capitalized on the favorable spread environment to accelerate their 2025 funding requirements, and (2) merger and acquisition (M&A) activity is expected to decline due to the uncertainty around tariff policies.

With investment grade corporates offering attractive yields (5.14% as of 11 July), the asset class continues to attract substantial investor interest. This strong demand, coupled with declining issuance, should support valuations within the sector. Additionally, solid underlying fundamentals position this segment for what we believe will be strong performance for the second half of the year.

U.S. Treasury market

		Change (%)		
Maturity	Yield	Week	Month-to-date	Year-to-date
2-year	3.89	0.00	0.17	-0.36
5-year	3.97	0.04	0.18	-0.41
10-year	4.41	0.06	0.18	-0.16
30-year	4.95	0.09	0.18	0.17

Source: Bloomberg L.P., 11 Jul 2025. **Performance data shown represents past performance and does not predict or guarantee future results.**

Municipal market

		Change (%)		
Maturity	Yield to worst	Week	Month-to-date	Year-to-date
2-year	2.46	-0.07	-0.12	-0.36
5-year	2.55	-0.06	-0.12	-0.32
10-year	3.22	-0.01	-0.04	0.16
30-year	4.55	0.01	0.01	0.65

Source: Bloomberg L.P., 11 Jul 2025. **Performance data shown represents past performance and does not predict or guarantee future results.**

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	73
30-year AAA Municipal vs Treasury	92
High Yield Municipal vs High Yield Corporate	83

Source: Bloomberg L.P., Thompson Reuters, 11 Jul 2025. AAA municipals represented by the MMD scale. The high yield ratio equals the yield-to-worst for the Bloomberg High Yield Municipal Index divided by the yield-to-worst for the Bloomberg High Yield Corporate Index. **Performance data shown represents past performance and does not predict or guarantee future results.**

Characteristics and returns

				Returns (%)		
Index	Yield to worst (%)	Spread (bps)	Effective duration (years)	Week	Month-to-date	Year-to-date
Municipal	3.93	–	6.90	0.11	0.08	-0.26
High yield municipal	5.89	158[1]	7.83	-0.24	-0.38	-0.71
Short duration high yield municipal[2]	5.60	278	3.98	-0.31	-0.30	1.54
Taxable municipal	5.16	67[3]	7.73	-0.45	-1.14	2.64
U.S. aggregate bond	4.67	31[3]	6.07	-0.37	-0.81	3.18
U.S. Treasury	4.20	–	5.84	-0.30	-0.89	2.87
U.S. government related	4.64	41[3]	5.35	-0.20	-0.54	3.81
U.S. corporate investment grade	5.14	80[3]	6.79	-0.62	-0.83	3.31
U.S. mortgage-backed securities	5.09	35[3]	6.11	-0.30	-0.74	3.46
U.S. commercial mortgage-backed securities	4.86	82[3]	3.93	-0.05	-0.53	3.93
U.S. asset-backed securities	4.54	54[3]	2.64	0.01	-0.23	2.69
Preferred securities	6.22	158[3]	5.40	0.03	0.75	3.19
High yield 2% issuer capped	7.14	283[3]	2.91	-0.22	-0.02	4.55
Senior loans[4]	8.02	446	0.25	0.32	0.51	3.49
Collateralized loan obligations, AA	5.57	150[3]	0.25	0.13	0.18	3.11
Collateralized loan obligations, BB	10.62	665[3]	0.25	0.31	0.44	4.86
Global emerging markets	6.33	202[3]	5.97	-0.24	-0.01	4.93
Global aggregate (unhedged)	3.57	31[3]	6.52	-0.88	-0.95	6.25

1 Yield difference between the Bloomberg High Yield Municipal Index and the 20-year AAA MMD scale. **2** Data is a subset of the S&P Short Duration Municipal Yield Index that is below investment grade/nonrated. Spread is the yield difference between this subset and the subset rated AAA. **3** Option-adjusted spread to Treasuries. **4** Spread refers to the 3-year discount margin. Duration is estimated based on the frequency of the reset date.

Source: Bloomberg L.P. and Standard & Poor's, 11 Jul 2025. **Performance data shown represents past performance and does not predict or guarantee future results.** Unless otherwise noted, the index is Bloomberg. All index returns are shown in U.S. dollars. **Yield to worst** is the lowest potential yield that can be received on a bond without the issuer actually defaulting. **Effective duration** (expressed in years) measures the price sensitivity of a fixed-income investment to a change in interest rates, considering that expected cash flows will fluctuate as interest rates change. Index performance is shown for illustrative purposes only. Index returns include reinvestment of income and do not reflect investment advisory and other fees that would reduce performance in an actual client account.

For more information, please visit nuveen.com.

Performance: Bloomberg, L.P. **Issuance:** The Bond Buyer, 11 Jul 2025. **Fund flows:** Lipper. **New deals:** Market Insight, MMA Research, 09 Jul 025.

Any reference to credit ratings refers to the highest rating given by one of the following national rating agencies: S&P, Moody's or Fitch. Credit ratings are subject to change. AAA, AA, A and BBB are investment grade ratings; BB, B, CCC, CC, C and D are below-investment grade ratings.

Representative indexes: municipal: Bloomberg Municipal Index; **high yield municipal:** Bloomberg High Yield Municipal Index; **short duration high yield municipal:** S&P Short Duration Municipal Yield Index; **taxable municipal:** Bloomberg Taxable Municipal Bond Index; **U.S. aggregate bond:** Bloomberg U.S. Aggregate Bond Index; **U.S. Treasury:** Bloomberg U.S. Treasury Index; **U.S. government related:** Bloomberg U.S. Government-Related Index; **U.S. corporate investment grade:** Bloomberg U.S. Corporate Index; **U.S. mortgage-backed securities;** Bloomberg U.S. Mortgage-Backed Securities Index; **U.S. commercial mortgage-backed securities:** Bloomberg CMBS ERISA-Eligible Index; **U.S. asset-backed securities:** Bloomberg Asset-Backed Securities Index; **preferred securities:** ICE BofA U.S. All Capital Securities Index; **high yield 2% issuer capped:** Bloomberg High Yield 2% Issuer Capped Index; **senior loans:** S&P UBS Leveraged Loan Index; **CLO AA:** J.P. Morgan Collateralized Loan Obligation AA Index; **CLO BB:** J.P. Morgan Collateralized Loan Obligation BB Index; **global emerging markets:** Bloomberg Emerging Market USD Aggregate Index; **global aggregate:** Bloomberg Global Aggregate Unhedged Index.

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Important information on risk

Investing involves risk; principal loss is possible. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, derivatives risk, dollar roll transaction risk and income risk. As interest rates rise, bond prices fall. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure and therefore are subject to greater credit risk. Foreign investments involve additional risks, including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks may be magnified in emerging markets. Asset-backed and mortgage-backed securities are subject to additional risks such as prepayment risk, liquidity risk, default risk and adverse economic developments. The value of convertible securities may decline in response to such factors as rising interest rates and fluctuations in the market price of the underlying securities. Senior loans are subject to loan settlement risk due to the lack of established settlement standards or remedies for failure to settle. These investments are subject to credit risk and potentially limited liquidity, as well as interest rate risk, currency risk, prepayment and extension risk, and inflation risk. Any investment in collateralized loan obligations or other structured vehicles involves significant risks not associated with more conventional investment alternatives.

Investors should contact a tax professional regarding the appropriateness of tax-exempt investments in their portfolio. If sold prior to maturity, municipal securities are subject to gain/losses based on the level of interest rates, market conditions and the credit quality of the issuer. Income may be subject to the alternative minimum tax (AMT) and/or state and local taxes, based on the state of residence. Income from municipal bonds held by a portfolio could be declared taxable because of unfavorable changes in tax laws, adverse interpretations by the Internal Revenue Service or state tax authorities, or noncompliant conduct of a bond issuer. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

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