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Weekly Fixed Income Commentary

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Treasury yields rise amid mixed economic data

U.S. Treasury yields increased and risk sentiment improved as U.S. economic data remained generally upbeat. Most headline weakness was likely due to one-off trade effects, which should reverse in the quarters ahead. Underlying growth remained stable. The U.S. Federal Reserve is scheduled to meet this week.

HIGHLIGHTS

- **High yield corporates and senior loans posted positive total returns, while CMBS, ABS and preferreds outperformed similar-duration Treasuries.**
- **Treasuries, investment grade corporates and MBS had negative total returns.**
- **Municipal bond yields declined substantially. New issue supply was outsized again at $16B, and fund inflows were $1.6B. This week's new issuance is scheduled to be $9.6B.**

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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 gained versus Treasuries amid better economic data.*
- *We expect the technical environment for municipal bonds to improve as the year progresses.*

INVESTMENT VIEWS

Yields present the best entry point in a generation, creating attractive income opportunities.

Downside risks are material, despite strong fundamentals, with tariffs likely to compress consumer spending and weigh on business fixed investment. A 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.

PREFERRED SECURITIES GET A BOOST FROM STRONG BANK EARNINGS REPORTS

U.S. Treasury yields rose last week, with overall economic data better than expected. The 10-year Treasury yield increased 7 basis points (bps) to 4.31%, while the 2-year yield rose 8 bps. Though U.S. GDP growth was negative in the first quarter (-0.3% annualized), the details showed ongoing resilience. Most headline weakness was likely due to one-off trade effects, which should reverse in the quarters ahead. Underlying growth remained stable at a healthy pace of around 3.0%. Separately, U.S. job creation in April was stronger than expected and the unemployment rate remained stable, while a closely watched survey of manufacturing sentiment was better than expected. Finally, the drips of tariff-related news skewed positive.

Investment grade corporates softened, returning -0.43% for the week and lagging similar-duration Treasuries by 15 bps. Preferred securities performed better – helped by strong bank earnings reports – beating similar-duration Treasuries by 19 bps. The technical backdrop was mixed, with supply exceeding expectations at almost $35 billion. Those deals were met with strong demand, averaging oversubscription rates of around 4x and resulting in new issue concessions of just 1.4 bps – well below the year-to-date average of close to 4 bps.

High yield corporates advanced, returning 0.27% and beating similar-duration Treasuries by 33 bps. Senior loans also performed well, rallying 0.37%. The loan asset class has now advanced for four straight weeks with a 1.57% return over that period, the best such stretch since 2023. Inflows returned, with $2.6 billion entering high yield funds and $75 million flowing into loans. Supply remained muted in both markets, totaling $2.6 billion and $1.6 billion in high yield and loans, respectively, though it is set to pick up moving forward given better valuations and lower volatility.

Emerging markets were close to flat, returning -0.16% but outpacing similar-duration Treasuries by 7 bps. Emerging markets currencies continued to rally versus the dollar, helping the asset class, but this was partially offset by a further fall in commodities. Crude oil prices fell -7.5% to reach their lowest level since early 2021. That dynamic weighed on oil-exporting countries, which may see their terms of trade deteriorate. Separately, supply surged across the asset class at $21 billion, and inflows returned at $455 million.

MUNICIPAL BOND FUND INFLOWS RETURN

The municipal bond yield curved ended substantially lower last week. Short-term muni yields declined -11 bps and long-term yields fell -10 bps. Outsized new issue supply was priced to sell and well received. Fund flows turned positive after seven weeks of outflows, including exchange-traded fund inflows of $1.8 billion. This week's scheduled new issue calendar is undersized, but many deals are waiting to be issued. If issuance is well received at the beginning of the week, we expect additional deals to come to market.

Municipal bonds are yielding as much as their taxable counterparts due to heavy new supply. This trend is enticing crossover buyers, who would buy a tax-exempt bond because of the favorable risk profile. Individual investors have renewed interest in municipal bonds, as 4% yields on intermediate bonds and 5% yields on long bonds remain appealing. And the municipal market should enjoy solid demand for the next several months. $40 billion in reinvestment money came into the market 01 May 1, and we expect at least that amount (and growing) in June, July and August.

Los Angeles Department of Water and Power issued $991 million power system revenue bonds (rated Aa2/NR). The deal was originally priced cheaply to clear the market, but short- and long-bond yields were lowered 11 bps and 20 bps, respectively, upon final pricing.

The high yield municipal market is looking far more stable. Reinvestment flows from 01 May are working to strengthen demand, and net flows are positive. The benchmark deal last week – a $400 million deal for an American Airlines key maintenance facility in Tulsa, OK – was 17x oversubscribed.

The loan asset class has advanced for four straight weeks with a 1.57% return over that period, the best such stretch since 2023.

In focus

The securitized sector offers a port in a storm

The securitized sector offers potential refuge in this environment of slower growth, higher inflation and economic uncertainty. And it benefits from being relatively immune to tariff policy.

The agency mortgage-backed, residential mortgage credit and commercial mortgage-backed sectors have been among the best performers year-to-date, with CMBS and agency MBS returning more than 2.5% while the S&P has declined over -3%.

Housing and real estate more broadly stand out as resilient sectors:

Home mortgages are one of the first expenses to get paid, even when Americans face household budget pressure. Americans have also accumulated significant home equity over the last several years, decreasing the chances of default.

Home price appreciation has been supported by the chronic U.S. housing supply/demand imbalance. Multifamily commercial real estate (CRE) has benefited from this trend as Americans struggle to afford the cost of homeownership.

New construction projects have been pressured due to rising materials prices, leading to reduced overall supply. This should provide a tailwind for existing housing and CRE.

Industrial properties should benefit from increased demand for manufacturing and storage needs as manufacturing and supply chains evolve.

U.S. Treasury market

		Change (%)		
Maturity	Yield	Week	April 2025	Year-to-date
2-year	3.83	0.08	-0.28	-0.42
5-year	3.92	0.06	-0.22	-0.46
10-year	4.31	0.07	-0.04	-0.26
30-year	4.79	0.09	0.11	0.01

Source: Bloomberg L.P., 02 May 2025. **Performance data shown represents past performance and does not predict or guarantee future results.**

Municipal market

		Change (%)		
Maturity	Yield to worst	Week	April 2025	Year-to-date
2-year	2.89	-0.11	0.24	0.07
5-year	2.97	-0.15	0.16	0.10
10-year	3.29	-0.15	0.08	0.23
30-year	4.36	-0.10	0.14	0.46

Source: Bloomberg L.P., 02 May 2025. **Performance data shown represents past performance and does not predict or guarantee future results.**

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	76
30-year AAA Municipal vs Treasury	91
High Yield Municipal vs High Yield Corporate	75

Source: Bloomberg L.P., Thompson Reuters, 02 May 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	April 2025	Year-to-date
Municipal	4.04	–	6.56	0.76	-0.81	-0.88
High yield municipal	5.82	169[1]	7.25	0.70	-1.78	-0.80
Short duration high yield municipal[2]	5.66	260	4.01	0.53	-0.69	0.33
Taxable municipal	5.14	76[3]	7.62	-0.16	-0.08	1.81
U.S. aggregate bond	4.67	38[3]	6.13	-0.30	0.39	2.37
U.S. Treasury	4.12	–	5.93	-0.24	0.63	2.70
U.S. government related	4.65	50[3]	5.38	-0.12	0.69	2.64
U.S. corporate investment grade	5.28	102[3]	6.81	-0.43	-0.03	1.57
U.S. mortgage-backed securities	5.07	42[3]	6.17	-0.31	0.29	2.51
U.S. commercial mortgage-backed securities	4.94	96[3]	4.03	-0.04	0.91	2.74
U.S. asset-backed securities	4.68	73[3]	2.61	-0.05	0.49	1.61
Preferred securities	6.73	211[3]	5.33	-0.02	-0.99	-0.27
High yield 2% issuer capped	7.76	352[3]	3.01	0.27	-0.02	1.38
Senior loans[4]	8.50	499	0.25	0.37	-0.07	0.78
Collateralized loan obligations, AA	5.64	177[3]	0.25	0.35	0.28	1.51
Collateralized loan obligations, BB	11.51	769[3]	0.25	0.98	-0.32	0.53
Global emerging markets	6.65	244[3]	5.96	-0.16	-0.05	1.96
Global aggregate (unhedged)	3.54	37[3]	6.60	0.00	2.94	5.14

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, 02 May 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, 02 May 2025. **Fund flows:** Lipper. **New deals:** Market Insight, MMA Research, 30 Apr 2025.

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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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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