

15 December 2025

Hawkish Fed rate cut steepens Treasury curve

Fixed income markets diverged last week as the U.S. Federal Reserve delivered an expected 25 basis point rate cut with hawkish policy guidance. The Treasury yield curve steepened while credit sectors retreated and municipals remained resilient.

HIGHLIGHTS

- **Treasuries, investment grade and high yield corporates, taxable munis, MBS and emerging markets retreated.**
- **Senior loans and preferred securities gained.**
- **Municipal bond yields remained essentially unchanged once again. New issue supply was \$10.6B, and fund inflows were \$16M. This week's new issuance is \$6.8B.**

**Anders Persson***CIO of Global Fixed Income***Daniel Close***Head of Municipals*

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

Watchlist

- *10-year Treasury yields increased again last week and remain close to our year-end forecast.*
- *Spread sectors were mixed versus similar-duration Treasuries as economic data were steady.*
- *We expect the technical environment for municipal bonds to continue improving in 2026.*

INVESTMENT VIEWS

We believe fixed income **yields generally present a very attractive entry point**, creating compelling income opportunities.

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

TREASURY CURVE STEEPENS WHILE CREDIT MARKETS RETREAT

The U.S. Treasury yield curve steepened last week, with 10-year yields rising 5 basis points (bps) to 4.19% and 2-year yields falling 4 bps to 3.52%. The Fed cut interest rates by 25 bps as expected, though the policy statement skewed hawkish. Chair Powell's press conference offered dovish counterpoints, emphasizing potential downward revisions to labor market data. Economic data also sent mixed signals: job openings ticked higher, signaling continued strength, but the quits rate fell, suggesting loosening employment conditions. We expect the labor market to soften modestly before stabilizing in 2026.

Investment grade corporates softened, returning -0.30% on the week and lagging similar-duration Treasuries by 7 bps. The selloff in longer-duration rates pressured performance, compounded by several sector-specific headwinds. AI-linked tech credits saw spread widening after disappointing earnings showed softer revenue growth and higher planned capital expenditures. Media names weakened amid M&A activity. Inflows slowed to \$2.7 billion while supply remained muted at \$6 billion. Year-to-date issuance now tracks 6.6% above 2024's pace.

High yield corporates also retreated, returning -0.13% and underperforming similar-duration Treasuries by 17 bps. Senior loans returned 0.13%. Lower-rated companies in the senior loan market, which stand to benefit from lower overnight rates, outperformed at 0.19%. The lowest-rated high yield segment lagged at -0.17%. Supply was robust, with \$7.1 billion pricing in high yield and \$22.8 billion in loans. High yield funds drew \$543 million in inflows, while loan funds posted -\$123 million in outflows.

Emerging markets outperformed, returning -0.04% but topping similar-duration Treasuries by 13 bps. Spreads were generally steady. Inflows slowed to \$430 million but total more than \$27 billion year-to-date. New issuance was quiet, with only one \$180 million corporate deal pricing. 2025 supply is up nearly 70% from 2024's pace.

THE MUNI MARKET REMAINS RESILIENT THROUGH YEAR-END

The municipal bond yield curve held steady last week. Short-term yields closed unchanged, while long-term yields rose 3 bps. New issue supply was well received, with positive fund flows including \$410 million in transfers from money market funds to longer-term exchange-traded funds. This week's expected supply should be readily absorbed.

The muni market remains well bid, driven primarily by Treasury strength. However, munis have continued to outperform on their own merit. The new issue calendar should be thin through year-end due to U.S. holidays, while investor demand from both individuals and institutions remains robust. December's \$42 billion in reinvestment proceeds have yet to be fully deployed, with an additional \$40+ billion is expected on 01 January. We expect the muni market to remain well bid through mid-January.

The Alabama Highway Authority issued \$730 million in special obligation revenue bonds (rated Aa2/AA, Assured Guaranty wrap). The deal was heavily oversubscribed except for the 2034 maturity, allowing underwriters to lower yields across most of the curve at final pricing.

High yield municipal fund flows were balanced last week, absorbing modest tax loss selling. Open-end funds posted -\$200 million in outflows while exchange-traded funds drew \$200 million in inflows. Reinvestment flows kept new issues well bid. Most deals were well subscribed, with some headline transactions oversubscribed by as much as 15x. The market appears well positioned to absorb any remaining tax loss selling as supply tapers and year-end reinvestment cash arrives. Brightline West bonds continue facing selling pressure post exchange.

December's \$42 billion in muni reinvestment proceeds have yet to be fully deployed, with \$40+ billion more expected in January.

In focus

Hawks and doves perch as the Fed cuts rates

The Federal Reserve reduced rates by 25 bps for the third consecutive meeting, lowering the target policy rate range to 3.50%-3.75%. This move, anticipated by investors, aligns with the central bank's previously published dot plot.

The Fed's policy statement leaned hawkish compared to October. Instead of referencing "additional adjustments to the target range for the federal funds rate," the statement mentioned "the extent and timing" of adjustments. That subtle shift suggests reduced confidence about cutting rates again soon.

In his press conference, Chair Jerome Powell stated that "the fed funds rate is now within a broad range of estimates of its neutral value" and that the central bank is "well positioned to wait and see how the economy evolves." Both comments point to less urgency to cut rates again. But in a nod to the doves, Powell repeated previous rhetoric about "significant downside risks" to the labor market, adding "I don't think a rate hike is anybody's base case." This indicates the Fed's next move remains biased toward easier policy.

The updated Summary of Economic Projections again showed one rate reduction next year. However, we expect two additional rate cuts (totaling 50 bps) in 2026 — 25 basis points more than our previous forecast. This revision reflects softer labor market data and the increasing odds of a more dovish chair to replace Powell in May.

U.S. Treasury market

Maturity	Change (%)			
	Yield	Week	Month-to-date	Year-to-date
2-year	3.52	-0.04	0.03	-0.72
5-year	3.74	0.03	0.15	-0.64
10-year	4.19	0.05	0.17	-0.39
30-year	4.85	0.05	0.18	0.06

Source: Bloomberg L.P., 12 Dec 2025. Performance data shown represents past performance and does not predict or guarantee future results.

Municipal market

Maturity	Change (%)			
	Yield to worst	Week	Month-to-date	Year-to-date
2-year	2.43	0.00	-0.01	-0.39
5-year	2.43	0.00	0.02	-0.44
10-year	2.76	-0.01	0.01	-0.30
30-year	4.24	0.03	0.08	0.34

Source: Bloomberg L.P., 12 Dec 2025. Performance data shown represents past performance and does not predict or guarantee future results.

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	66
30-year AAA Municipal vs Treasury	87
High Yield Municipal vs High Yield Corporate	85

Source: Bloomberg L.P., Thompson Reuters, 12 Dec 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.

For more information, please visit nuveen.com.

Performance: Bloomberg, L.P. Issuance: J.P. Morgan, 12 Dec 2025. Fund flows: Lipper. New deals: Market Insight, MMA Research, 10 Dec 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 ERIISA-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.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professionals. The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain "forward-looking" information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. Performance data shown represents past performance and does not predict or guarantee future results. Investing involves risk; principal loss is possible.

Characteristics and returns

Index	Yield to worst (%)	Spread (bps)	Effective duration (years)	Returns (%)		
				Week	Month-to-date	Year-to-date
Municipal	3.61	–	6.72	-0.04	-0.16	3.99
High yield municipal	5.68	175 ¹	7.60	0.04	-0.26	2.44
Short duration high yield municipal ²	5.78	322	3.79	-0.07	-0.24	3.11
Taxable municipal	4.86	55 ³	7.70	-0.23	-1.06	7.12
U.S. aggregate bond	4.38	27 ³	6.04	-0.20	-0.68	6.73
U.S. Treasury	3.94	–	5.92	-0.17	-0.78	5.83
U.S. government related	4.33	38 ³	5.35	-0.09	-0.47	7.50
U.S. corporate investment grade	4.87	78 ³	6.85	-0.30	-0.77	7.16
U.S. mortgage-backed securities	4.73	24 ³	5.79	-0.19	-0.47	7.84
U.S. commercial mortgage-backed securities	4.49	75 ³	3.87	0.03	-0.31	7.29
U.S. asset-backed securities	4.16	53 ³	2.84	0.06	-0.10	5.50
Preferred securities	6.08	169 ³	5.55	0.13	0.05	6.37
High yield 2% issuer capped	6.70	275 ³	2.85	-0.13	-0.01	8.00
Senior loans ⁴	7.87	453	0.25	0.13	0.40	5.65
Collateralized loan obligations, AA	4.99	138 ³	0.25	0.11	0.22	5.61
Collateralized loan obligations, BB	10.48	677 ³	0.25	0.18	0.43	8.40
Global emerging markets	5.81	177 ³	6.03	-0.04	-0.08	10.55
Global aggregate (unhedged)	3.55	28 ³	6.40	0.03	-0.21	7.66

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, 12 Dec 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.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on nuveen.com. Please note, it is not possible to invest directly in an index.

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.

Nuveen, LLC provides investment solutions through its investment specialists. This information does not constitute investment research as defined under MiFID.