

High Income Municipal

Marketing communication | As of 31 Mar 2026

Key takeaways

- The Bloomberg Main Muni Bond Index, the benchmark for the High-Income Composite, generated a total return of -0.18% in the first quarter of 2026 as its average yield rose by +17 bps to 3.77%.
- The High-Income Composite outperformed the benchmark in the first quarter, driven by its allocation by rating and favorable credit selection within the Water & Sewer and Special Tax sectors, but partially offset by the overweight in Hospital and Education bonds.
- The investment team maintain a foundation in investment grade credit while extending access across the full credit and maturity spectrum aiming to enhance total return and tax-exempt income.



Patrick R. Maher
Head of Institutional Municipal SMA

Market review

Investors willing to take on additional risk can consider rotating from cash and lower-yielding investments into new issue municipal bonds offering higher after-tax yields. The Fed's most recent cut pushed after-tax money market yields below 2.75% for investors in the 24% tax bracket. With inflation hovering near 2.4%, cash is unlikely to cover the growth of living expenses for most investors. Taxable-equivalent yields (TEY) for munis are in the top quartile of their 10-year history. As of March 26, the broad municipal index offered a TEY of 6.37% versus 4.57% for the Bloomberg U.S. Aggregate Bond Index. Municipal credit spreads are also relatively attractive compared to corporates, with muni spreads in the 70th percentile versus the 15th percentile for investment grade corporates. The asymmetric risk-return profile of investing in longer duration bonds has markedly improved with the steepening of the curve throughout 2025. Early movers should benefit the most as sustained demand may drive a continued rally for longer duration investments from the prior quarter.

The Municipal-to-Treasury yield ratios have historically been a barometer of relative value in the municipal market. We anticipate short Municipal-to-Treasury ratios will hover in the 60%–70% range to align with federal tax rates, whereas longer bond ratios will be closer to 90%, which provides even more substantial after-tax yield for investors. While these ratios can indicate relative value, municipal call protection can allow investors to capture better relative value while maintaining duration protection.

We expect demand to continue, supported by ample cash on the sidelines, high starting yields and solid municipal credit conditions. The market has gathered \$25.3 billion in 2026 through February, the best start to any year on record. In the first quarter, municipal fund flows surged 113% year-over-year. Most municipal borrowers enter 2026 with reserves at historic highs and recession-tested revenue sources. State reserves now stand at 13% of expenditure, up from 8% in 2019. But recent headwinds are worth monitoring, stemming from geopolitical uncertainty and a U.S. Federal Reserve that appears content holding interest rates steady for 2026.

Supply trends remain elevated as municipal bond supply is expected to reach \$600 billion in 2026 compared to the historically high pace of \$582 billion in 2025. Ongoing infrastructure needs and project cost inflation are expected to accelerate the pace of issuance as waning fiscal stimulus and federal funding reductions push more projects toward public financing markets. We believe the result should be more attractive valuations on new deals and ample investment opportunities. Despite new supply, reinvestment demand from maturing bonds, callable bonds and coupons continue to outpace new issuance.

Tax revenue collections remain strong despite economic headwinds, with annual state and local tax collections up 5.4% in 2025 as reported in the latest U.S. Census tax collection data report. Individual income taxes showed the strongest growth with tax collections up 10.2% year-over-year. Growth in corporate income tax and sales tax collections remained steady over 2024, up 0.8% and 3.4%, respectively. States primarily rely on income and sales taxes to fund operations, and both have demonstrated resilience following several years of post-pandemic volatility. Many municipal issuers benefit from broad autonomy as bonds backed by property taxes, dedicated state and local taxes, or project-specific revenues should remain relatively insulated from changes in federal policy or economic growth deceleration. We favor state and local governments, water/sewer utilities and electric utilities, which have proven steadfast during economic downturns.

Nuveen Asset Management SMA Composites maintain a foundation in investment grade credit while extending access across the full credit and maturity spectrum through the Total Return and High Income strategies. The portfolio management team employs rigorous yield curve analysis to position along the most attractive areas of the curve, while leveraging the depth of Nuveen's research capabilities to maximize relative value through disciplined security

selection, with a focus on favorable structures, sectors, and opportunistic credit positioning.

Portfolio review

The MMD-AAA GO yield curve bear-steepened across the 1 to 8 year maturity range as yields on 1, 5, and 8 year maturities shifted by -7 bps, +26 bps, and +34 bps, respectively. The curve bear-flattened between the 10 to 20 year range as yields on 10, 15, 20, and 25 year maturities ended higher by +36 bps, +27 bps, +19 bps, +20 bps, respectively. The Bloomberg Municipal Bond Index posted a return of -0.18% in the first quarter of 2026 (0.86% yield return and -1.04% market return) as the average market yield of the Index rose by +17 bps over the first quarter. The Short/Intermediate (1-10) Index returned -0.14% as its average yield rose by +17 bps to 3.09% in the first quarter, while the Long Bond (22+) Index returned -0.22% as its average yield rose by +14 bps to 4.73%.

The Bloomberg Main Index, the benchmark for the High-Income Composite, posted a return of -0.18% in the first quarter of 2026 as the average market yield of the Index started the year at 3.60%, decreased to 3.29% by the end of February, and surged to 3.77% by the end of March, or up by +17 bps over the first quarter. Bonds with a duration of 6 to 8 years anchored the Index return as their average market yield rose by +27 bps in the first quarter to 4.00% and returned -0.59%. Bonds rated BBB/Baa and A/A outperformed with average first quarter returns of -0.04% and -0.02%, respectively, compared to -0.19% for bonds rated AA/Aa and -0.31% for bonds rated AAA/Aaa. The High Income Composite outperformed the benchmark in the first quarter driven by its overweight in bonds rated BBB/Baa, as well as positive credit selection within the Water & Sewer and Special Tax sectors. Allocation by duration was neutral, while the overweight in Hospital bonds and in Education bonds detracted.

For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is \$250,000.

Important information on risk

Investing in municipal bonds and a municipal bond investment vehicle involves risks such as market risk, credit risk, interest rate/duration risk, call risk, tax risk, political and economic risk, and income risk. Credit risk refers to an issuer's ability to make interest and principal payments when due. The value of the portfolio will fluctuate based on the value of the underlying securities. Typically the value of, and income generated by, debt securities will decrease or increase based on changes in market interest rates. As interest rates rise, bond prices fall. 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. There are special risks associated with investments in high yield bonds, hedging activities and the potential use of leverage. Portfolios that include lower rated and/or non-rated municipal bonds commonly referred to as "high yield" or "junk" bonds, which are considered to be speculative, the credit and investment risk is heightened for the portfolio. Bond insurance guarantees only the payment of principal and interest on the bond when due, and not the value of the bonds themselves, which will fluctuate with the bond market and the financial success of the issuer and the insurer. No representation is made as to an insurer's ability to meet their commitments. Income is only one component of performance and investor should consider all of the risk factors for an asset class before investing.

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. Investors should contact a tax professional regarding the appropriateness of tax-exempt investments in their portfolio. Nuveen is not a tax professional. This information should not replace a client's consultation with a financial professional regarding their tax situation. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager. Some

income may be subject to state and local taxes and to the federal alternative minimum tax. Capital gains, if any, are subject to tax.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to 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 professional.

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.** 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.

Glossary

The **Bloomberg Municipal Bond Index** covers the USD denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds. The 7-year Index consists of bonds from the Municipal Bond Index with maturities of approximately 7 years. Bonds in the Long Index mature in 22 years or longer. **It is not possible to invest directly in an index.** Clients should consult their financial professionals regarding unknown financial terms and concepts.

Nuveen Asset Management, LLC is a registered investment adviser and an affiliate of Nuveen, LLC.