

Senior loans and CLOs rise to the occasion

Bottom line up top

Deflated hopes, inflated prices — and vice-versa. Amid the “lather, rinse, repeat” cycle of escalating U.S.-Iran hostilities followed by suddenly optimistic prospects for a negotiated peace deal, energy markets remain volatile. Global supply disruptions persist, and oil prices, though well off their May highs above \$110 per barrel, are still elevated — a persistent inflationary headwind that complicates the Federal Reserve’s path forward.

Last week’s release of the Consumer Price Index for May showed year-over-year headline CPI at 4.2%, up from April’s 3.8% and its highest reading in three years. Core CPI, which excludes volatile energy and food prices, came in at a milder 2.9%. Producer prices as measured by PPI rose even more — from 5.7% to 6.5%, a level not seen since November 2022. The pop in headline CPI and PPI was driven largely by the energy shock, exerting upward pressure on interest rates.

That’s the backdrop for this week’s Fed policy meeting, which coincides with the release of U.S. retail sales data for May. Markets will be watching retail sales closely for any cracks in consumer resilience, particularly among lower-income households. Also on tap this week are various surveys of economic activity, including industrial production and regional manufacturing indexes, along with housing market data and first-time jobless claims, which last week hit 229,000, the most since February. The overall picture should help investors gauge whether recent strength in the economy can continue or is beginning to falter under the weight of higher borrowing costs and energy prices.

A massive confluence of influences. On balance, the economic climate has pushed expectations for a Fed rate cut into 2027, with markets now pricing in a roughly 70% probability that the Fed will actually hike rather than cut this year (Figure 1). Providing a meaningful counterweight to macroeconomic and interest rate concerns is the ongoing supercycle in artificial intelligence (AI), with landmark developments — including this past Friday’s \$1.75 trillion SpaceX IPO and Anthropic’s recently reported \$47 billion annualized revenue run rate adding to significant tailwinds for the technology sector.

CIO WEEKLY
COMMENTARY

15 JUN 2026



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*On behalf of
Nuveen’s Global
Investment Committee*

As Nuveen’s Chief Investment Officer and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm’s most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she is a portfolio manager for several key investment strategies.

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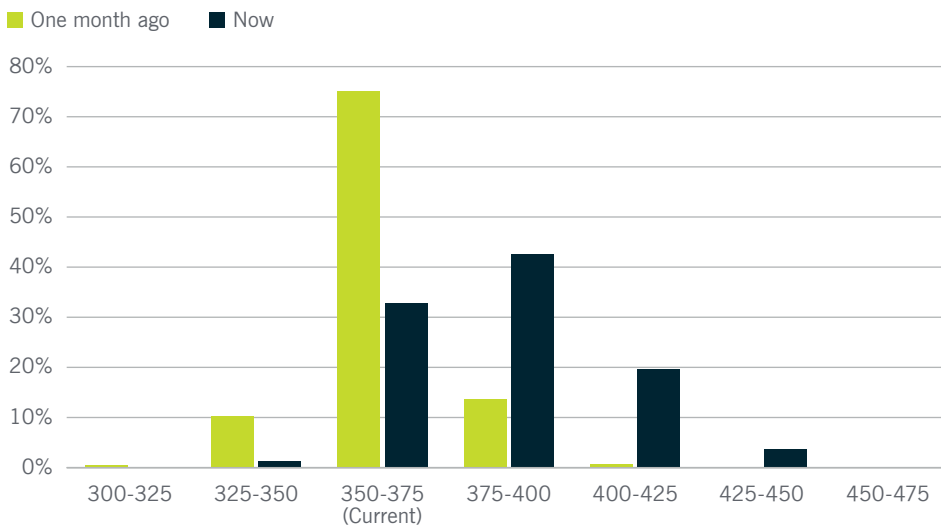
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Elevated interest rates and heightened market volatility suggest investors may benefit from looking beyond traditional fixed income assets to diversify their portfolios. Among the credit instruments that appear better-suited to the current environment are senior loans and collateralized loan obligation (CLOs), as detailed in the discussion that follows.

Figure 1

When doves cry: Hopes for Fed rate cuts continue to fade

Market-implied end-of-year percentage odds for the fed funds rate (range in bps)



Data source: CME FedWatch. Data reflects the market-implied probabilities from 08 May and 08 Jun 2026.

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Higher inflation is making Fed rate cuts in 2026 look increasingly unlikely.

Portfolio considerations

Senior loans, also known as syndicated loans or leveraged loans, present an attractive opportunity. These loans are made to below-investment grade companies, typically larger, private equity-backed issuers with average annual revenue of roughly \$750 million, and they sit atop the capital structure — meaning they have the highest priority of repayment, ahead of the issuer’s other classes of debt and equity securities. Importantly, senior loans have floating rate coupons, which helps reduce their price sensitivity to changes in interest rates.

Supported by higher income levels and lower duration exposure, senior loans have outperformed the broad U.S. investment grade fixed income market this year, with the Morningstar LSTA (Loan Syndications and Trading Association) US Leveraged Loan Index returning +1.24% through 8 June, versus -0.24% for the Bloomberg U.S. Aggregate Index.

Another way for investors to access the senior loan market is through **collateralized loan obligations (CLOs)**, which have gained +2.20% year to date (Figure 2). CLOs are securitized portfolios of broadly syndicated loans, providing diversified exposure to a large pool of issuers within a single structure. Although the underlying loans themselves are below investment

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grade, securitization adds a degree of protection by diversifying credit risk across multiple issuers. Historically, the 30+ year cumulative default rate for investment grade CLO tranches is just 0.2%, well below the 2.1% for similarly rated corporate bonds, while still offering attractive yields.

In a year when rate volatility has caused wide dispersion of fixed income returns, the characteristics and structure of senior loans and CLOs look compelling. Floating rate exposure helps mitigate duration risk, while diversification may create more consistent income potential. These qualities make an allocation to CLOs a worthy candidate for investor portfolios.

Figure 2

Senior loans and CLOs have enjoyed tailwinds this year

Year-to-date performance of loans, CLOs and the broad bond market



Data source: Bloomberg, L.P. 31 Dec 2025 to 08 Jun 2026. Representative indexes: **senior loans**: Morningstar LSTA US Leveraged Loan TR Index; **CLOs**: JPM US CLOIE Index; **broad bond market**: Bloomberg U.S. Aggregate Total Return Index. **Performance data shown represents past performance and does not predict or guarantee future results.**

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Senior loans and CLOs present attractive opportunities amid higher volatility and upward pressure on interest rates.

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- macro and asset class views that gain consensus among our investors
- insights from thematic “deep dive” discussions by the GIC and guest experts (markets, risk, geopolitics, demographics, etc.)
- guidance on how to turn our insights into action via regular commentary and communications

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Endnotes

Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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