

# Making room for munis

## Bottom line up top

**Markets wish they may, wish they might, have some certainty in their sight.** Investors continue to wrestle with the defining question of this year: how much geopolitical risk should be priced into equity markets which keep surprising to the upside? Lack of clarity around progress in the Middle East and an eventual return to normalcy in the Strait of Hormuz continues to confound those seeking easy answers. While the spike in energy prices has eased somewhat, the regional risk hasn't disappeared — and neither have the threats to global supply chains, the possibility of broader entrenched inflation or the ongoing drag on consumer sentiment.

Nor does the latest U.S. economic data offer clear-cut answers. Growth is necessarily neither rock-solid nor crumbling under pressure. Last week's release of the second estimate of Q1 GDP growth showed the economy expanded at an annualized rate of +1.6%, revised downward from the initial +2.0%. Meanwhile, The Conference Board's Consumer Confidence Index came in at 93.1 for May, slightly higher than the 91.9 consensus forecast. While this shows household sentiment hasn't soured materially, the index is still lingering well below its most recent post-Covid peak of 112.8 (November 2024). Regional manufacturing metrics continue to reveal pockets of softness, even as the labor market exhibits some resilience, with weekly first-time unemployment claims hovering near the 2026 average of about 210,000 — a level historically associated with a healthy economy. Friday's all-important nonfarm payrolls report will indicate how well the job market withstood the vagaries of the volatile macro and geopolitical backdrop in May.

On the inflation front, April's Personal Consumption Expenditures (PCE) Price Index offered mild encouragement, with headline prices a touch cooler than anticipated on both a monthly (+0.4%) and year-over-year (+3.8%) basis, even though the latter registered its highest reading since May 2023 (Figure 1). Core PCE, which excludes food and energy costs and is the U.S. Federal Reserve's preferred inflation barometer, increased just 0.2% for the month and 3.3% year-over-year, in line with or marginally lower than the consensus.

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CIO WEEKLY  
COMMENTARY

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Chief Investment Officer

*On behalf of  
Nuveen's Global  
Investment Committee*

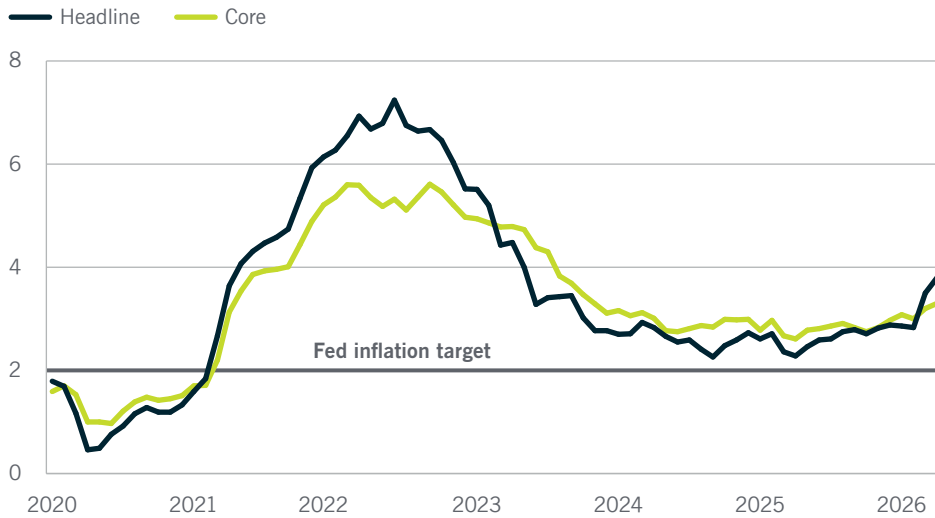
*As Nuveen's Chief Investment Officer and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition,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

For investors, the question isn't simply whether growth is slowing, but whether it can moderate without a meaningful deterioration in employment conditions or worsening of inflation expectations. The answer, amid the noisy and uncertain backdrop, will likely shape both market sentiment and Fed policy in the months ahead. Portfolio strategies, in turn, may be best-served by asset allocations that add strength and stability to the mix.

Figure 1

## Inflation is climbing further above Fed target

Personal consumption expenditure indexes (YoY, %)



Data source: Federal Reserve Bank of St. Louis, 28 May 2026. **Representative indexes:** **Headline:** Personal Consumption Expenditures; **Core:** Personal Consumption Expenditures Excluding Food and Energy. Chain-type price index, percent change from one year ago, monthly, seasonally adjusted.

## Portfolio considerations

Municipal bonds are outperforming their taxable counterparts in 2026 through May, with the investment grade and high yield ICE BofA municipal securities indexes returning +1.3% and +2.7%, respectively, versus the virtually flat return of +0.4% for the Bloomberg U.S. Aggregate Index.

While rate volatility has been a headwind, municipal bond fundamentals have remained resilient, and spreads have actually tightened since the beginning of the year. Demand for municipals is also robust: Fund inflows are at their second-highest YTD total at this point in the year since Lipper began reporting in 1992, trailing only 2021. Investors have added \$21.9 billion to longer-maturity munis, taking advantage of the positively sloping curve (Figure 2).

High yield municipals — about 10% of the municipal universe in terms of market value — have attracted +\$5.5 billion in net flows in 2026. These bonds are issued by state and local government entities to fund critical projects, such as senior living facilities, hospitals and toll roads. They're classified as high yield securities primarily because their repayment relies on project revenues or special taxes,

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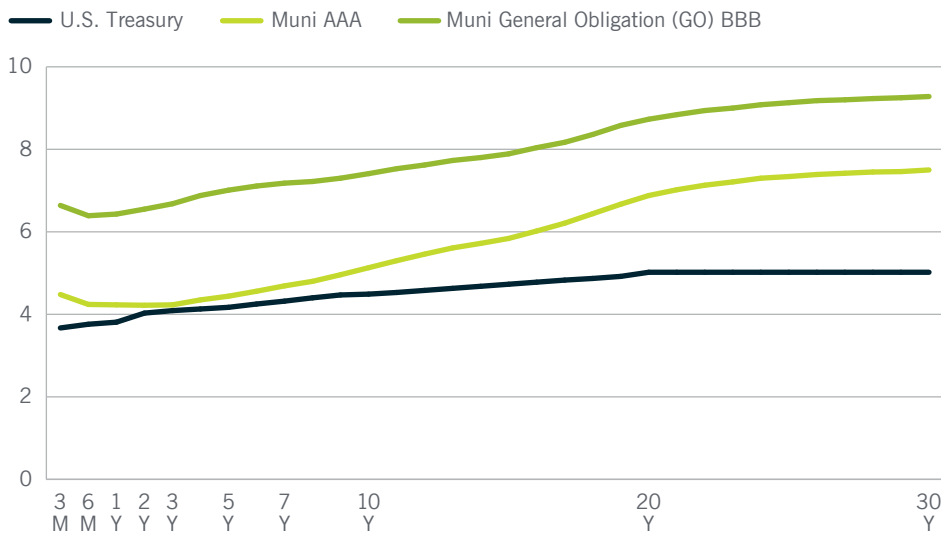
not because of issuer quality or creditworthiness concerns that may be implied by “high yield” in other contexts. That said, high yield munis can be harder to evaluate compared to other types of bonds, so investing in them may be best suited to active managers with deep research capabilities.

Within high yield munis, both shorter- and longer-duration strategies currently provide adequate compensation for the degree of risk assumed, in our view. Based on the ICE 1-12 Year Broad High Yield Crossover Municipal Index, the shorter end offers a taxable equivalent yield of 7.9% for investors in the highest tax bracket, with a duration of four years — a compelling opportunity to benefit from generous yields while limiting exposure to interest rate risk. Longer-duration high yield munis may offer even stronger total return potential, with taxable equivalent yields exceeding 9.0%. In addition, with a low long-term correlation to U.S. equities of 0.32 (per Morningstar Direct), high yield municipal bonds can serve as an effective diversifier in investor portfolios.

Figure 2

### Investors have been buying longer-dated munis to capture yields

*Taxable-equivalent yields of U.S. Treasuries and municipal bonds (%)*



Data source: Bloomberg L.P., Nuveen Portfolio Strategy Group, 26 May 2026. **Performance data shown represents past performance and does not predict or guarantee future results.** Taxable-equivalent yield (TEY) is the yield a taxable investment needs to possess (before taxes) for its yield to be equal to that of a tax-free municipal investment. The yields shown are based on the highest individual marginal federal tax rate of 37%, plus the 3.8% Medicare tax on investment income. Individual tax rates may vary. They do not take into account the effects of the federal alternative minimum tax (AMT) or capital gains taxes.

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**Municipal bond fundamentals remain resilient, despite rate volatility.**

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*Regular meetings of the GIC lead to published outlooks that offer:*

- 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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definitions and index descriptions, please access the glossary on [nuveen.com](http://nuveen.com). **Please note, it is not possible to invest directly in an index.**

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All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Investing in municipal bonds involves risks such as interest rate risk, credit risk and market risk. The value of the portfolio will fluctuate based on the value of the underlying securities. There are special risks associated with investments in high yield bonds, hedging activities and the potential use of leverage. Portfolios that include lower 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.

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