Flexible Income

Marketing communication | As of 30 Jun 2026

Key takeaways

- The Flexible Income strategy outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, on a gross- and net-of-fees basis, in the second quarter of 2026.
- Global markets staged a strong recovery as geopolitical tensions in the Middle East cooled, and economic growth remained healthy. Investors refocused on technology and AI tailwinds, which pushed markets higher. The strategy's allocation to common stocks was the top contributor, aided by strong security selection in the technology sector. The portfolio's overweight in BBBs was additive as those credits outperformed, and our up-in-quality exposure in BBs and Bs outpaced the lower quality market cohort. Hybrid securities continued to provide yield pick-up versus senior notes, supplying attractive carry to the portfolio and adding to total returns.
- Regarding individual securities, common stocks issued by Seagate Technology, Applied Materials and Corning continued to outperform on strong earnings growth attributed to the demand for AI infrastructure. In contrast, common stocks issued by Exxon Mobil and AT&T detracted.

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Market review

U.S. economic growth remained healthy in the second quarter, supported by a steady labor market, slightly lower unemployment and a robust pace of job creation. The dominant theme shaping fixed income markets, however, was the U.S.–Iran war, which sparked a sharp increase in oil prices early in the quarter and brought stagflation concerns to the forefront.

That narrative shifted meaningfully in mid-June when an interim peace deal was signed, triggering a collapse in oil prices, receding stagflation fears and a broad rally in both bonds and risk assets. Inflation moved materially higher over the period, with the most recent Consumer Price Index running above 4% year-over-year, reflecting the volatility in energy prices. Although rising inflation weighed on consumer purchasing power, U.S. spending proved resilient, with real consumer spending rebounding to approximately 2.0% annualized in the second quarter after tracking near 0.5% annualized in the first.

The rate backdrop was volatile for the quarter, with the 10-year Treasury yield peaking at 4.68% in mid-May before retreating to end the period only 14 basis points higher at 4.44%. Yields rose more sharply at the short end of the curve, as expectations for Federal Reserve (Fed) rate cuts gave way to anticipation of at least one hike. Two-year Treasury yields rose 35 basis points over the quarter, while 30-year yields finished only three basis points higher.

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The shift in rate expectations was catalyzed by the first meeting under new Fed Chair Kevin Warsh in June, which struck a more hawkish tone than markets anticipated. While Fed policymakers continued to hold rates steady in the 3.50%-3.75% range, they upgraded their median core inflation forecast for the year to 3.3%, and half of the 18 committee members favored a rate increase by year-end. Sticky inflation, resilient economic data and a solid labor market underpinned this shift.

Other global central banks broadly signaled more hawkish intentions as well. The European Central Bank (ECB) and Bank of Japan (BoJ) each raised rates by 25 basis points in June, while the Reserve Bank of Australia delivered its third consecutive hike in May before pausing to assess the impact. Despite the volatile rate environment, credit spreads tightened, leading to positive total returns across fixed income asset classes. The broad-based Bloomberg U.S. Aggregate Bond Index returned +0.67% for the quarter.

Investment grade

Investment grade corporates demonstrated notable resilience throughout the quarter, returning +1.40% and outperforming Treasuries. Spreads began the period at 89 basis points, tightened meaningfully following the initial April ceasefire and subsequently held in a tight range to end at 74 basis points. Supply was the defining story of the quarter, as hyperscalers continued their extraordinary pace of issuance. Total investment grade corporate new-issue volume reached $1.2 trillion in the first half of 2026, with June alone adding a record $200 billion. Despite this elevated supply, market technicals remained broadly supportive.

High yield

High yield delivered a solid quarter, returning +2.47% and outperforming Treasuries, with the index ending the period at a 7.16% yield-to-worst and a 270 basis point option-adjusted spread (OAS). As the quarter progressed, risk sentiment improved and spreads tightened across rating cohorts, primarily due to supportive market technicals and the macroeconomic backdrop. Within the asset class, B rated bonds modestly outperformed both BB rated and CCC and below rated counterparts.

Gross issuance totaled $99.5 billion, fueled by project financing and refinancing activity, while net supply reached $51.5 billion, with the majority coming to market in April. Demand remained constructive, with flows from mutual funds, actively managed portfolios and ETFs totaling +$8.3 billion. The high yield default rate ticked up to 2.67% by quarter-end, still well below its long-term average of 3.2%, based on JPMorgan's 12-month par-weighted default rate including distressed exchanges.

Preferred securities

Second-quarter total returns were positive across the preferred securities markets, with $1000 par preferreds (+2.6% total return for the quarter) topping $25 par preferreds (+1.3%). $25 par issues remained relatively rich, with an OAS of 144 bps, versus 161 bps for $1000 par. At quarter-end, average dollar prices for $1000 par preferreds were slightly above par. In contrast, $25 par preferreds continued to be meaningfully discounted at approximately 82% of par. This price discount was mostly the result of the current higher rate environment and the $25 par segment's longer relative duration.

OAS was unchanged for $25 par preferreds, while OAS for $1000 par preferreds decreased by 38 bps in Q2. For $1000 par preferreds, OAS are trading below longer-term median levels. And while the OAS for $25 par preferreds is above its longer-term average, previous extended periods of negative OAS for this segment of the market distort the perceived relative value between its current OAS and its median.

Equities

The U.S. stock market mounted an impressive rebound during the second quarter of 2026, delivering its strongest quarterly performance in six years. Market participants looked past concerns surrounding the disruptions caused by the Iran conflict and shifting expectations about the potential for Fed rate hikes. Easing tensions in the Middle East helped West Texas Intermediate (WTI) oil prices retreat from above $110 per barrel to below $70 by quarter end, relieving worst-case scenario inflation fears.

Despite ongoing concerns about inflation, rates and one of the biggest oil shocks in history, investor appetite for equities remained robust, as the market concluded one of its strongest corporate earnings seasons in recent memory. According to FactSet, aggregate S&P 500 earnings grew by more than 25% year-over-year last quarter and are expected to record a similar trend in the second quarter.

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The second-quarter rally was led by a resurgence in the AI trade and technology stocks; however, this time the advance was led by semiconductor and hardware-related stocks. The upswing helped the market reverse all of first quarter's losses, and more, with the bellwether S&P 500 gaining +15.20% for the period. Information technology was by far the strongest performing sector in the index, advancing nearly +32%, while energy stocks gave back some of first quarter's gains, falling more than -13%.

Portfolio review

The Nuveen Flexible Income strategy returned +5.57% (gross of fees) and +5.25% (net of fees) in the second quarter, outperforming the Bloomberg U.S. Aggregate Bond Index (+0.67%). At quarter-end, current yield and yield-to-worst for the representative account were 4.83% and 4.40%, respectively.

Global markets staged a strong recovery as geopolitical tensions in the Middle East cooled, and economic growth remained healthy. Investors refocused on technology and AI tailwinds, which pushed markets higher. Global central banks adopted a more hawkish stance, responding to heightened inflationary pressures. The 10-year U.S. Treasury yield rose 14 bps for the period but fell 20 bps from its May peak.

The strategy's allocation to common stocks was the top contributor, aided by strong security selection in the technology sector. In particular, Seagate Technology, Applied Materials, and Corning continued to outperform on strong earnings growth attributed to the demand for AI infrastructure. The portfolio's overweight in BBBs was additive as those credits outperformed, and our up-in-quality exposure in BBs and Bs outpaced the lower quality market cohort. Hybrid securities continued to provide yield pick-up versus senior notes, supplying attractive carry to the portfolio and adding to total returns.

Portfolio positioning

The portfolio maintained balanced exposure across asset classes, with an up-in-quality posture in security selection that leaned toward companies with strong balance sheets, sound capital structures and durable free-cash-flow generation. Yields across credit markets stayed relatively high, enabling the investment team to find opportunities to bolster the portfolio's income.

During the quarter, we increased our allocation in common stocks by initiating several positions across communications and transportation. We also added convertibles, hybrids and preferreds via the new issue primary market, capturing attractive coupon income and price appreciation potential. In investment grade corporate bonds, we maintained our overweight in BBB-rated bonds based upon attractive relative value versus higher quality investment grade. In high yield, we focused on higher coupon, lower-spread-duration corporates while taking advantage of spread widening intra-period. Our overall exposure to preferreds decreased quarter-over-quarter, as relative value to the more senior parts of the capital structure looked less attractive.

We continue to see a strong technical bid for preferreds, which has propped up valuations. We continue to be constructive on hybrids, which are junior subordinated debt but sit senior to preferred stock. These securities provided around +100 basis points of yield pick-up relative to senior debt while remaining in high quality capital structures.

We maintained a shorter duration posture relative to the benchmark, which was beneficial as rates crept higher on inflation concerns. We remain focused on individual opportunities that offer an attractive risk/reward profile based on fundamentals, rather than making a top-down bet on the direction of interest rates. We will selectively evaluate opportunities to extend duration if rates were to move higher from current levels.

Outlook

The Middle East conflict weighed on growth and boosted inflation, and recent setbacks to negotiations have contributed additional uncertainty to the macroeconomic picture. Technology investment related to AI is supporting growth, partially offsetting oil-induced weakness. Meanwhile, AI-driven demand is exerting upward pressure on select inflation categories. We now forecast U.S. real GDP growth at 1.8% for 2026 and core PCE inflation at 3.0%.

In response to resilient labor market data, persistent inflationary pressures and hawkish rhetoric from central bank officials, we expect the Fed to remain on hold for the remainder of 2026, before resuming potential rate cuts in 2027. In line with our updated Fed forecast, we have also raised our broad Treasury yield projections. We now forecast a range of 4.25% - 4.50% for the 10-year Treasury

yield at year-end 2026.

Strong all-in yields continue to offer compelling income generation, supported by healthy corporate balance sheets, strong profit margins and historically low default rates. High yield defaults for 2026 are forecasted to remain below long-term rates, despite elevated volatility. The unresolved situation in Iran and ongoing threat of further Strait of Hormuz disruptions are likely to keep energy prices volatile, with markets sensitive to geopolitical risk well into the second half of the year. Rapid growth in corporate bond issuance to finance AI-driven capital expenditures also bears monitoring as a structural risk, as deal quality and documentation could loosen. This creates an opportunity for active managers to take advantage of potential dispersion and mispricings.

We maintain a selective approach to equities as we look to balance the strong earnings outlook for technology and AI-adjacent industries while positioning the portfolio for the potential broadening out of the economy in areas such as housing and the consumer that have yet to participate in the run-up. As we search for undervalued stories, momentum in the market remains a factor that we continue to monitor. Across credit and equities, we believe pockets of opportunity still exist, and active managers with flexible, value-oriented approaches can take advantage of evolving relative value across the capital structure to generate alpha.

For more information contact: 800.752.8700 or visit nuveen.com

Important information on risk

All investments carry a certain degree of risk of loss and there is no assurance that an investment will provide positive performance over any period of time. Debt and fixed income securities are subject to market risk, credit risk, interest rate risk, call 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 subordinate 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. Asset-backed and mortgage-backed securities are subject to additional risks such as prepayment risk, liquidity risk and adverse economic developments. Concentration in the financial services sector may involve greater exposure to adverse economic or regulatory occurrences. Equity investments are subject to market risk, common stock risk, covered call risk, short sale risk, and derivatives risk. Value style investing presents the risk that the holdings or securities may never reach their full market value because the market fails to recognize what the portfolio management team considers the true business value or because the portfolio management team has misjudged those values. In addition, value style investing may fall out of favor and underperform growth or other style investing during given periods.

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Glossary

The **Bloomberg U.S. Aggregate Bond Index** tracks the performance of U.S. investment-grade bonds. **It is not possible to invest directly in an index.** Clients should consult their financial professional regarding unknown financial terms and concepts.

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