Municipal Total Return

Marketing communication | As of 30 Jun 2026

Key takeaways

- The Bloomberg Main Muni Bond Index, the benchmark for the Total Return Composite, generated a total return of 2.50% in the second quarter as its average yield declined by -20 bps to 3.57%.
- The Total Return Composite matched the performance of the benchmark in the second quarter, supported by overweight positions in longer-duration bonds and lower-rated categories, and underweight positions in AAA-rated bonds and State GO and IDR/PCR bonds
- The investment team maintain a foundation in investment grade credit while extending access across the full credit and maturity spectrum to enhance total return and tax-exempt income.

Market review

Since the third quarter of 2025, municipals have staged a meaningful comeback against broad taxable fixed income. As the year to date return of the Bloomberg Main Muni Index rose to 2.32% after the second quarter, attractive absolute taxable-equivalent yields, a steep curve, and compelling relative valuations provide a solid foundation for the rally to continue. Even with the U.S. Federal Reserve on hold, money market yields for investors in the 24% tax bracket hover near 2.75%. With inflation hovering near 2.4%, cash is unlikely to cover the growth of living expenses for most investors. By contrast, the broad municipal index offers a TEY of 6.04%, which sits in the top quartile of their 10-year history, versus 4.73% for the Bloomberg U.S. Aggregate Bond Index. For investors holding excess cash, the next few months present a meaningful window to put it to work. We favor longer-maturity bonds, particularly 20-year-plus maturities.

Treasury yields have risen sharply — particularly in the short and intermediate segments — as markets price in near-term Fed rate hike risk. The comparison to Treasuries strengthens the case for munis at longer maturities. The Treasury 10s/30s slope stands at 47 bps, trailing muni steepness by 77 bps. The Municipal-to-Treasury yield ratios have historically been a barometer of relative value in the municipal market. The 10-year and 20-year ratios currently stand at 66% and 76%, respectively. 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. Near-record inflows showed positive performance and compressed spreads through the first half of the year. Investors directed nearly $50 billion into muni funds and exchange-traded funds — up 150% year-over-year — mainly into long duration and high yield strategies. Municipal performance is highly correlated to fund flows, and when flows are positive, returns have followed more than 70% of the time. When first-half flows have been positive, second half performance has matched that trend more than 80% of the time dating back to 1993. Reinvestment cash flows — from maturities, calls and coupons — are up year-over-year, but have fallen short of market estimates for close to $700 billion for the year. July call estimates have risen meaningfully, and July coupon payments are the highest on record for that month.

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New issue volume accelerated in the second quarter, rising 25% from the first quarter. Total supply stands just under $300 billion year-to-date, and we maintain our full-year expectation of approximately $600 billion. The heavy volume has been well-absorbed given the strength of inflows, and both deal size and deal count have grown relative to historical norms — providing ample opportunity to deploy cash at attractive yield levels.

Tax revenue collections remain strong despite economic headwinds, with state and local tax collections up 5.7% compared to the first quarter of 2025 as reported in the latest U.S. Census tax collection data report. Individual income taxes showed the strongest growth with tax collections up 9.6% over the same period. Growth in corporate income tax and sales tax collections remained steady, up 0.8% and 3.8%, 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 bull-flattened during the second quarter as long maturities meaningfully outperformed the front end. The 5, 10, and 15 year maturities declined by -8 bps, -17 bps and -25 bps, respectively, while the longer end bull-steepened as 20 and 30 year maturities declined by -34 bps and -28 bps, respectively. The Bloomberg Municipal Bond Index returned 2.50% for the quarter (0.93% yield return, 1.57% market return) as its average market yield ended lower by -20 bps over the period – down from 3.77% to 3.68% in April, down to 3.67% in May, and down to 3.57% in June. The Short/Intermediate (1-10) Index returned 1.22% over the quarter as its average yield moved lower by -8 bps to 3.02%, while the Long Bond (22+) Index returned 4.24% as its average yield moved lower by -33 bps to 4.40%.

The Bloomberg Main Index, the benchmark for the Total Return Composite, was bolstered by its ending exposure of 15.5% in bonds with a modified duration of 10 years or longer, which returned 5.47%, and was anchored by its exposure in durations shorter than 2 years and in the 2 to 4 year range, which returned 0.96% and 1.16%, respectively. The strongest returns by rating category were generated by bonds rated BBB/Baa, which returned 3.37%. Bonds rated AA/Aa and AAA/Aaa, which represented 77.3% of the ending exposure, lagged the overall Index with average returns of 2.47% and 2.40%, respectively. The Total Return Composite matched the performance of the benchmark in the second quarter, supported by overweight positions in the 6 to 8 year duration range, in Unrated and BBB-rated bonds, and in Hospital and Special Tax sectors, and underweight in AAA-rated bonds, in State GO and in IDR/PCR bonds that underperformed.

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For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is $250,000.

Important information on risk

All investments carry a certain degree of risk, including possible loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. An investment in any municipal portfolio should be made with an understanding of the risks involved in investing in municipal bonds, 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. Please contact a tax advisor regarding the appropriateness of tax-exempt investments in your portfolio. Nuveen is not a tax advisor. 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 investor's 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. 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. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. The potential use of inverse floaters creates effective leverage. Leverage involves the risk that the portfolio could lose more than its original investment and also increases the portfolio's exposure to volatility and interest rate risk.

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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.

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