

Software, selectivity and senior loans

Bottom line up top

Volatility reigns, but the Fed holds the reins steady. The U.S. Federal Reserve voted 11-1 last Wednesday to hold its target rate steady in a range of 3.50%-3.75%, extending its pause on rate cuts for a second consecutive meeting. The decision came as members of the Fed's policymaking committee weighed concerns about elevated inflation — augmented by soaring energy prices since the start of U.S. and Israeli strikes on Iran — against a weakening labor market. Fed governor Stephen Miran was the lone dissenter, favoring a 25 basis points (bps) rate cut.

Meanwhile, the Fed's updated Summary of Economic Projections (SEP) left the rates outlook unchanged from December, with just one cut this year and one in 2027. Even so, several members leaned toward even fewer cuts — a shift reflected in the median dot, which rose 5 bps for 2026 (Figure 1). The core inflation forecast slightly worsened, showing the Fed's preferred inflation barometer at 2.7% by year-end, up from 2.5% in the December SEP and still stubbornly higher than the 2% target. The expected unemployment rate was unchanged at 4.4%, while projected GDP growth ticked up only slightly, to +2.4%. During his press conference, Chair Jerome Powell struck a mildly hawkish tone, acknowledging that the current oil shock is likely not fully captured in the Fed's forecasts and cautioning that near-term inflation pressures are likely to keep rates on hold until more decisive data warrants a pivot.

Outside the U.S., the European Central Bank, Bank of England and Bank of Japan also held rates steady last week, united by the common threat of potentially prolonged energy supply disruptions. That threat was reflected in oil prices that surged above \$100 per barrel from a three-month average near \$60, a shock that could add about +0.8 percentage points to headline inflation this year (+0.3 to core inflation), while shaving roughly -0.25 percentage points from GDP growth.

U.S. inflation data released during the week was also troubling. The Producer Price Index, which captures price changes at the wholesale level before they filter through to consumers, came in much hotter than anticipated at 0.7% for February (versus the 0.4% consensus estimate) and 3.4% year over year (2.9% consensus). Core PPI was even higher, reaching 3.9% year over year, above both the 3.5% for January and consensus forecasts.

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CIO WEEKLY
COMMENTARY

23 MARCH 2026



Saira Malik, CFA
Chief Investment Officer

*On behalf of
Nuveen's Global
Investment Committee*

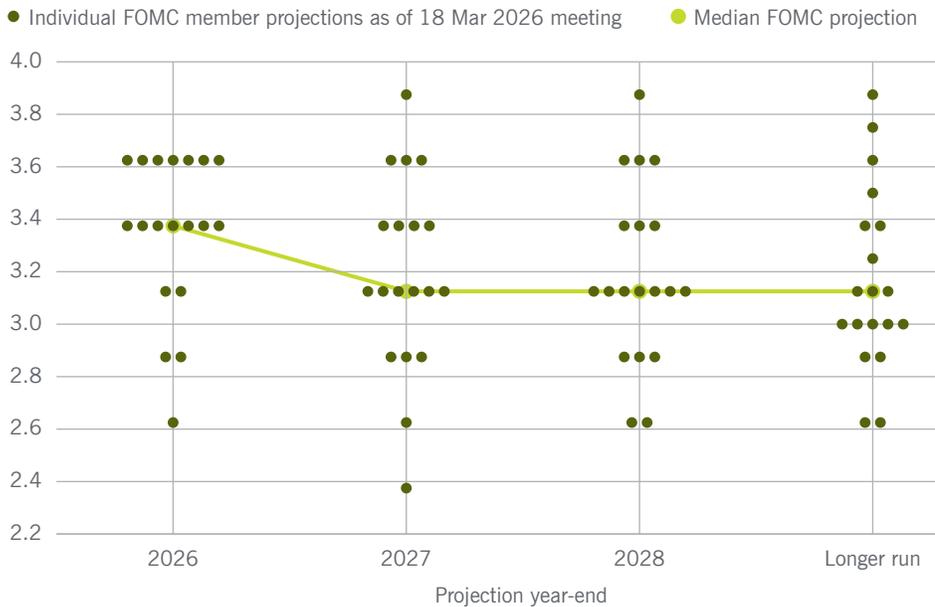
As Nuveen's Chief Investment Officer and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition,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

This backdrop suggests that “higher for longer” rates remains more than a mantra, creating adverse conditions for U.S. equity and Treasury markets. But opportunities are available to mitigate the turmoil through higher-yielding fixed income assets such as senior loans.

Figure 1

Dot plot shows 25 bps in cuts for 2026 and 2027

Implied Fed funds target rate (%)



Data source: U.S. Federal Reserve, 18 Mar 2026.

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While the current backdrop suggests that “higher for longer” remains a headwind for U.S. Treasuries and equities, opportunities are available in higher-yielding fixed income.

Portfolio considerations

Senior loan spread widening: more nuanced than headlines suggest.

Senior loans, also known as syndicated loans or leveraged loans, have seen their spreads widen by +53 bps in 2026 through 19 March, based on the S&P UBS Leveraged Loan Index. (Spread is the amount of incremental yield a fixed income security or sector provides relative to U.S. Treasuries.) This widening has been driven largely by the technology sector (+237 bps year to date), most notably among software companies, as investors price in the risks that AI will disrupt traditional software business models. Company valuations in the sector are now at multiyear lows, driving up loan-to-value ratios and introducing refinancing risks.

But not all software names are seeing the same hard times. We view the current environment as a transitional period that could potentially create a substantial opportunity for active managers. While we do expect AI to threaten weak business models and are currently underweight software overall, within the category we favor stronger businesses with an up-in-quality tilt. These are companies whose durable competitive advantages make them less vulnerable to being replicated or displaced by AI tools, with AI more likely to enhance rather than erode margins.

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We also remain skeptical of more levered businesses across the wider senior loan market. Notably, that spread widening in 2026 has not been uniform: BB loan spreads are up +22 bps year to date, while spreads on B rated and CCC rated issues have widened by +61 and +217 bps, respectively. The average price of CCC loans is now approaching its Covid-era lows, suggesting that substantial total return potential may lie ahead for investors who choose credits judiciously.

Overall, about 21% of the loan market is currently trading below \$95, with roughly 29% trading above par value (Figure 2). By comparison, approximately 60% of loans were trading above par at the beginning of the year. In our view, dispersion in performance is likely to continue through this period of uncertainty, creating opportunities to actively increase risk as fundamentals become further mispriced. Loans trading at under \$90, for example, could potentially generate outsized gains — but only if patience, a focus on fundamentals and selectivity are prioritized over attention-grabbing headlines.

Figure 2

More than 20% of senior loans are trading below \$95

Par pricing of U.S. senior loans (%)

■ Percentage of senior loans trading at each value, where \$100 equals par



Data source: Nuveen, Morningstar. 11 Mar 2026. Performance data shown represents past performance and does not predict or guarantee future results. Investing involves risk; principal loss is possible. Representative index is the Morningstar LSTA U.S. Leveraged Loan Index.

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Senior loan spreads have widened in 2026, presenting potentially attractive entry points.

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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

For more information, please visit nuveen.com.

Endnotes

Sources

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

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