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CIO WEEKLY COMMENTARY

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Tricky, sticky and picky: jobs, inflation and high yield bond selections

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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.

Bottom line up top

Last week's July jobs report was the tricky part. Nonfarm payrolls delivered a downside surprise for July (-23,000 jobs versus consensus forecasts of +80,000), with May and June totals revised lower by a combined -103,000. The unemployment rate dipped to 4.1% as 264,000 people left the workforce, resulting in a labor force participation rate of 61.4% — the lowest since February 2021. Year-over-year wage growth of +3.2% was cooler than the +3.5% anticipated. One monthly report doesn't make a trend, but the U.S. Federal Reserve Bank of Atlanta's jobs calculator suggests unemployment can be kept flat if the participation rate edges down to 61.3% and the economy creates an average of about 54,000 jobs per month. That's a low bar, reinforcing the narrative that the employment component of the Fed's dual mandate will be much less of a swing factor than inflation going forward, although Fed members are currently divided on the appropriate policy path.

This week's inflation data will be the next test of the Fed's resolve and markets' response. The labor market's voice may have cracked, but inflation hasn't stopped whispering. It's unclear whether that whisper once again turns into a shout. Consensus forecasts for July's Consumer Price Index (CPI) call for headline inflation easing slightly in July, to roughly 3.4% year over year, with core CPI (ex-food and energy) around 2.5%. Gasoline poses a near-term whipsaw risk, as pump prices averaged lower in July than in June, but current prices above $4 per gallon could add meaningfully to subsequent readings. Net tariff collections, down nearly 50% year-over-year as refunds ease passthrough pressure on retailers, are helping temper goods prices. Shelter costs, meanwhile, appear poised for further disinflation before bottoming, likely in 2027. Lastly, technology-related inflation, particularly software, has dominated the disparity between CPI and the PCE Price Index, driven by software's near-zero weight in CPI versus about 1.25% in core PCE. This suggests core CPI should stay less volatile than core PCE (traditionally the Fed's preferred inflation metric) through the remainder of the year — a nuance worth watching.

Also on tap this week is the Producer Price Index (PPI), a measure of inflation at the wholesale level. Headline and core PPI came in at 5.5% and 4.7%, respectively, in June. The July print may indicate whether the transmission of producer-to-

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consumer price movements, commonly seen as a three- to six-month pipeline, holds as a rule of thumb (Figure 1). Actual passthrough pricing speed may vary depending on the good or service, corporate margins and elasticity of demand.

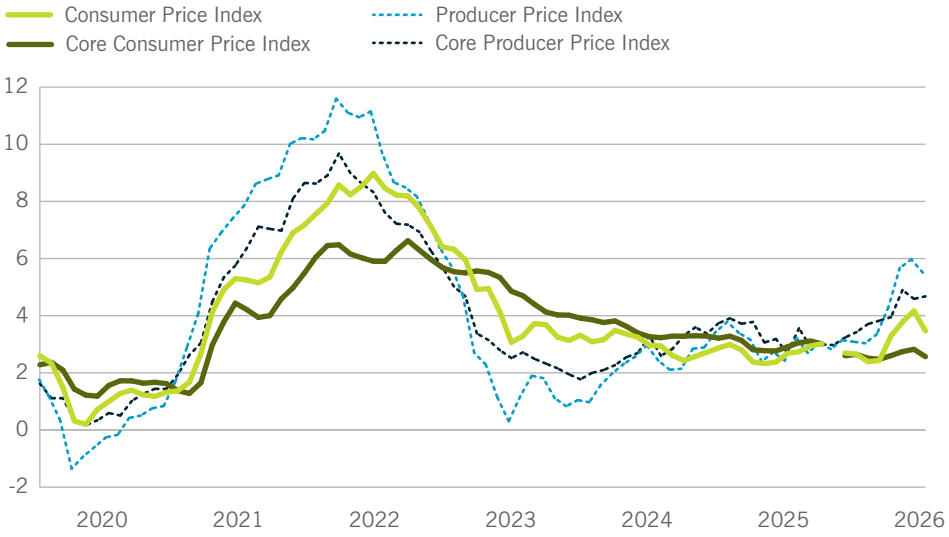
The week closes out with retail sales data for July, which should capture the start of the back-to-school shopping season. In the wake of the poor jobs report, this week's inflation and spending data could help determine whether inflation hawks retain the upper hand heading into the Fed's September meeting. Investors seeking to diversify their portfolios with income-generating assets amid continued inflation concerns may want to consider an allocation to high yield corporate bonds.

> **Upcoming inflation and spending data could still potentially signal a hawkish Fed meeting in September.**

Figure 1

Inflation remains elevated across the board

CPI and PPI measures, percent change from a year ago, seasonally adjusted (%)



Data source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of St Louis. 05 Aug 2026. Core indexes are less food and energy. Gaps in 2025 data represent missed inflation reports during the U.S. federal government shutdown.

Portfolio considerations

High yield remains high on the list

U.S. high yield corporate bonds have returned +2.29% year-to-date through 07 August, outperforming both their investment grade counterparts (-0.35%), U.S. Treasuries (-0.37%) and core fixed income more broadly (-0.29%), as measured by respective Bloomberg indexes. The high yield total return advantage is supported by a number of positive characteristics that may make the asset class a worthy addition to diversified portfolios.

- **Compelling yields.** The ICE BofA U.S. High Yield Index currently offers a yield to worst of approximately 7.4% — a level that, outside of brief periods of market stress, has not been sustained since before the 2007-2009 global financial crisis. (Yield to worst is the lowest potential yield a bond would pay, absent a default,

if the issuer were to exercise call options or other provisions unfavorable to the bondholder.) Yield income is currently the dominant component of expected return for high yield. Additionally, the asset class is yielding roughly 285 basis points (bps) more than U.S. Treasuries, an attractive spread given the benign backdrop of high yield credit fundamentals.

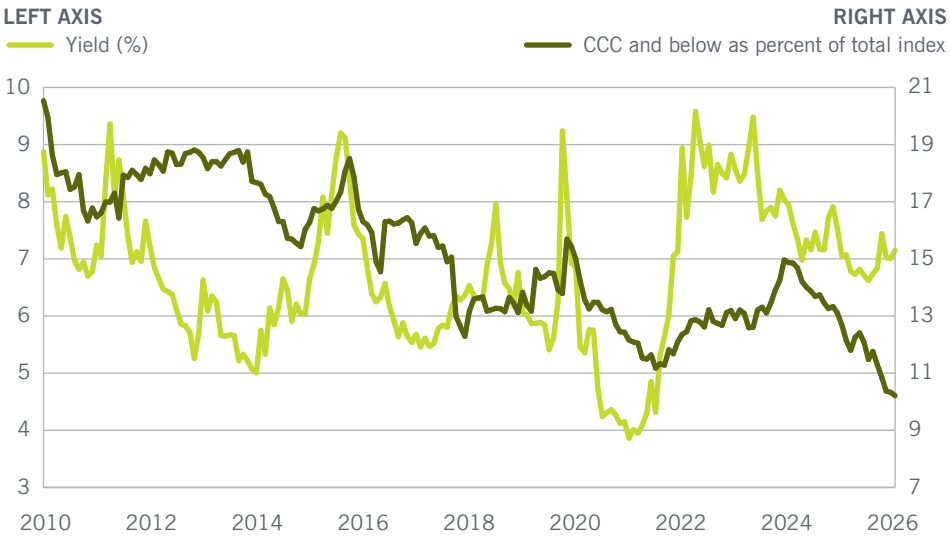
- **Better credit quality.** The composition of the index has evolved meaningfully relative to prior cycles. Issuers rated BB (the top quality tier within high yield) now represent about 60% of the index, while exposure to the lowest tier (CCC and below) has fallen to approximately 10%, near historical lows (Figure 2). Public companies, which offer greater disclosure and transparency than the private-sponsor structure that dominated in the past, now account for 61% of index constituents. Reflecting these shifts, the par-weighted default rate stands at 2.67%, below the long-term average of 3.2%. Lastly, net leverage is stable at 3.8x, with interest coverage at 4.1x.
- **Improved market liquidity.** Daily secondary market trading volume of approximately $10 billion for high yield is a significant structural improvement in liquidity relative to prior cycles, bolstering the ability to establish and adjust positions at scale.

Performance deconstruction and security selection are also critical. Currently, across every rating tier, price return is negative while income return is positive. This is consistent with a market in which coupon income is broadly available to all participants, while realized total return outcomes diverge based on issuer selection. A passive allocation to high yield captures the income stream in full but is also fully exposed to the price component. In our view, actively managed positioning is the primary mechanism by which negative price contribution may be offset or improved. In other words, the difference between gross income return and net total return is a function of active security selection.

> **“Yields, quality and liquidity all lead to high yield corporate bonds being a compelling allocation.**

Figure 2

The high yield market has improved in quality while maintaining attractive yields



Data source: Bloomberg, L.P., BofA. 30 Jun 2026. Representative index is the ICE BofA U.S. High Yield Index. Yield measured by yield to worst.

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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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