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CIO WEEKLY COMMENTARY

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Resilience and restraint set the mood for munis

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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

Modest movement in economic indicators. Last week's relatively light data calendar offered little new information on U.S. growth and inflation ahead of the U.S. Federal Reserve's upcoming annual symposium in Jackson Hole, Wyoming. A full slate of housing market metrics reinforced that sector's sluggishness, while durable goods production (+0.7% in July) suggested manufacturing activity continues to find its footing. Minutes from the Fed's July meeting, released last week, held no new surprises: policymakers remain wary of sticky inflation and energy-related risks but divided on the path forward. Concerns have since been tempered by evidence of slowing job growth and cooler consumer prices, trimming the odds of a September rate hike.

The pace picks up this week as the focus shifts to the U.S. consumer, and the mood may matter as much as the math. Tuesday brings the latest The Conference Board's Consumer Confidence Index, testing whether back-to-school sticker shock and a wobblier labor market are widening cracks in household optimism, or whether consumers shrug it off as they tend to do during late summer.

Wednesday delivers the week's marquee data: the government's second estimate of annualized Q2 GDP growth, with consensus pointing to an incremental upward revision to +1.6% (from +1.5%); and the July Personal Consumption Expenditures (PCE) Price Index. Economists expect the GDP revision to be driven by stronger business investment and minor adjustments to private nonresidential structures and inventories. On inflation, forecasters project headline PCE to ease slightly to 3.6% year-over-year from June's 3.7%, while core PCE (excluding food and energy and the Fed's preferred measure) is expected to hold steady at roughly 3.3%. June's PCE dipped month-over-month by -0.1%, driven by temporary energy factors, but the broader trend has kept inflation stubbornly above the Fed's 2% target.

Action in Jackson: will bold adventure be the game? The early 1970s "Action Jackson" toy didn't bear the likeness of then-Fed Chair Arthur Burns, although it hit the market just as inflation was beginning to ramp up to historic levels, making battling high prices a theoretically reasonable pursuit for the smaller, lower-cost alternative to G.I. Joe. Current Chair Kevin Warsh and his colleagues would certainly favor smaller, lower-cost inflation as central banks convene in Jackson Hole on Thursday. And if last week's economic data provided little fodder for Fed watchers, the symposium should offer plenty. Will the gathering solidify the Fed's patience playbook, or will divisions deepen the debate on timing? How long can "wait and see" survive contact with incoming data?

These questions aren't just about numbers on a page. On Friday, markets will parse every statement from Jackson Hole alongside the final August University of Michigan consumer sentiment index. The former may signal the Fed's course of action post-Jackson Hole, while the latter offers the latest read on how households are feeling about their wallets, their jobs, and their grocery receipts heading into fall. Figure 1 addresses whether consumers have made peace with above-target inflation or are still bracing against it.

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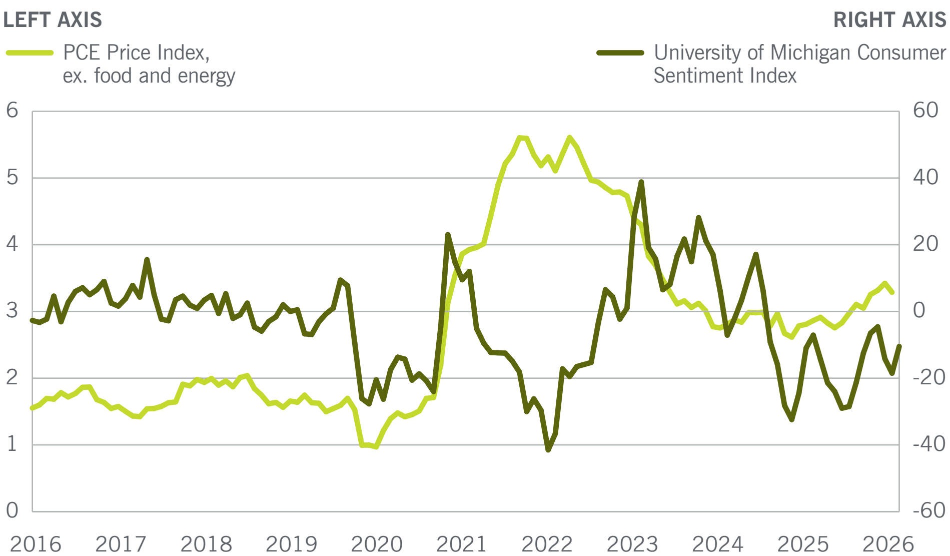
> **This week, focus shifts to the U.S. consumer, and whether optimism is cracking or remaining resilient.**

Figure 1

Have consumers made peace with higher inflation?

Percent change from year ago



Data source: U.S. Bureau of Economic Analysis, University of Michigan, 17 Aug 2026.

Portfolio considerations

Municipal bonds are outperforming their taxable counterparts in 2026 through 17 August, with the investment grade and high yield ICE BofA municipal securities indexes returning +0.61% and +2.41%, respectively, versus the negative return of -0.34% 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 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 $38.3 billion to longer-maturity munis (Figure 2), taking advantage of the positively sloping curve.

High yield municipals — about 10% of the municipal universe by market value — have attracted $9.1 billion in net inflows in 2026. Issued by state and local governments to finance hospitals, toll roads and senior living facilities, these bonds carry a high yield designation because repayment depends on project revenues or special taxes, not because of issuer credit quality concerns that the label might suggest 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, we believe both shorter- and longer-duration strategies currently provide adequate compensation for the degree of risk assumed. Based on the ICE 1-12 Year Broad High Yield Crossover Municipal Index, the shorter end offers a taxable-equivalent yield of 7.8% for investors in the highest tax bracket, with a duration of four years — a compelling opportunity to benefit from generous yields while limiting interest rate risk. Longer-duration high yield munis may offer even stronger total return potential, with a taxable equivalent yield of around 9.0%. In addition, with a low long-term correlation to U.S. equities of 0.36 (per Bloomberg), high yield municipal bonds can serve as an effective portfolio diversifier.

> **“While rate volatility has been a headwind, muni fundamentals have remained resilient, and spreads have tightened.**

Figure 2

No summer slowdown for municipals, as near-record demand continues

2026 inflows ($ billions)

Data source: LSEG Lipper, 12 Aug 2026. **Performance data shown represents past performance and does not predict or guarantee future results.**

About Nuveen's Global Investment Committee

Nuveen's Global Investment Committee (GIC) brings together the most senior investors from across our platform of core and specialist capabilities, including all public and private markets.

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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