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A TIAA Company

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Digging deeper for yield in credit markets

When traditional credit markets offer little reward for risk, securitized credit — specifically CLOs and CMBS — may deliver yield, diversification and structural resilience.

Key takeaways

- **Compressed credit spreads are pushing investors to look beyond traditional corporate bonds for compelling income opportunities.**
- **CLOs offer attractive yield potential, near-zero interest rate duration and historically low default rates.**
- **CMBS provides income potential, modest interest rate sensitivity and exposure to real estate risk factors that behave differently than corporate credit.**
- **Manager selection is critical — both asset classes are complex and require deep expertise and rigorous credit analysis.**

The economy is resilient enough to take on credit risk

The U.S. economy continues to demonstrate resilience. Higher oil prices have pushed inflation up without yet weighing meaningfully on growth, and tech investment continues to support expansion even as it adds price pressure.

Oil prices remain elevated amid the Middle East conflict. That increase has already pushed headline CPI above 4% year-over-year and will continue to pressure core inflation. Higher levels of domestic energy production have partially offset the pressure, and U.S. consumers now allocate less than 4% of spending to energy.

We now project GDP growth to slow to 2% annualized and core PCE inflation to end the year around 3.0% — higher for longer than our prior forecast — reflecting persistently elevated oil prices, tech investment trends and recent labor data.

Against this backdrop of moderate growth, we see ample room to add credit exposure to portfolios.

Rich valuations require digging deeper

We see opportunities to add income through credit sectors, but we are also mindful of rich valuations. This dynamic is not unique to fixed income — from equities to commodities to credit spreads, valuations are near historical highs.

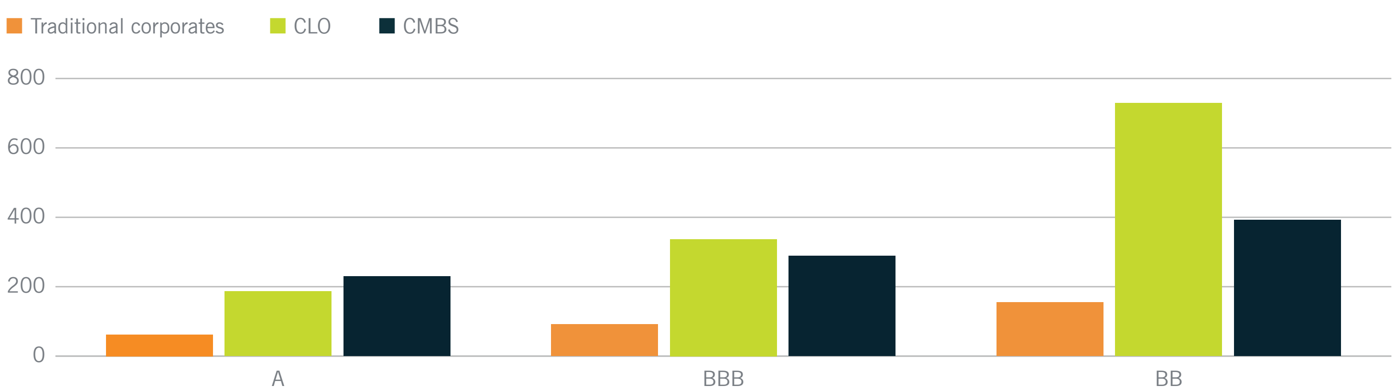
That said, tight credit spreads alone do not warrant reducing risk. In our view, full valuations may persist for years before correcting.

One way to reconcile a positive economic outlook with potentially stretched valuations is to dig deeper. We believe the best ideas lie in lesser-known credit segments where investors are rewarded not only for credit risk, but also for navigating complexity and illiquidity — segments that can offer higher yields and potentially higher returns.

We currently see opportunities in two areas of securitized credit: collateralized loan obligations (CLOs) and commercial mortgage-backed securities (CMBS). Both sectors offer wider credit spreads — and therefore higher yield potential — than traditional investment grade or high yield corporate bonds (Figure 1). Their structural attributes may also deliver meaningful investment benefits.

Figure 1: CLOs and CMBS offer wider spreads across the quality spectrum

Option-adjusted spread (bps)



Data source: Bloomberg, L.P., 30 Jun 2026. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: corporate A & BBB:** Bloomberg U.S. Corporate Index; **corporate BB:** Bloomberg U.S. High Yield Index; **collateralized loan obligations (CLO):** JPM U.S. CLO Index; **commercial mortgage-backed securities (CMBS):** JPMorgan, based on available observations in the Single Asset Single Borrower market only.

What is securitized credit?

Securitization is the process of pooling assets, repackaging them and dividing them into interest-bearing securities with rights to the cash flows those assets generate. Interest and principal payments flow from the underlying assets through to the bondholders.

Securitized bonds transform collateral cash flows into structured deals divided into tranches with varying levels of risk and return. Higher-quality tranches offer protection against credit losses but with lower total return potential, while lower-quality tranches typically provide higher relative yields but offer less credit protection. Cash flows move down the structure — from the most senior to the most junior tranche — in a waterfall sequence (Figure 2). Losses move up the structure, with the most junior tranche taking losses first.

Because securitized credit involves a more complex structure than traditional corporate bonds, it tends to offer higher yields. This complexity provides advantages for experienced managers who can assess risks that less familiar investors might miss.

CLOs: attractive income, low rate sensitivity and resilience

In a collateralized loan obligation, the underlying assets are typically broadly syndicated first-lien senior-secured loans issued by large, well-established companies. These loans hold priority over other forms of debt in a default and historically recover at higher rates than corporate bonds.

CLOs also differ structurally from the collateralized debt obligations (CDOs) that amplified losses during the 2008 Global Financial Crisis. CDOs backed by subprime mortgages were continuously revalued as conditions deteriorated, triggering margin calls and forced selling that deepened the crisis.

CLOs use non-mark-to-market leverage — managers are not forced to sell into declining markets — allowing them to ride out volatility and potentially profit when loan prices are dislocated.

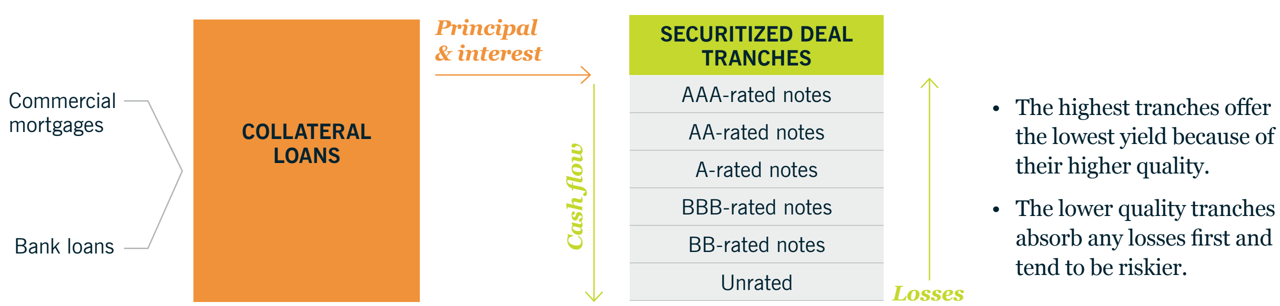
A persistent yield advantage

CLOs typically deliver higher yields than similarly rated corporate bonds (Figure 3), and three factors explain why: tranche structure, a complexity premium and active management.

The tranche structure segments risk and return across the capital stack, with inherent leverage amplifying yield

Figure 2: A securitized deal converts loans into layered investment opportunities

Examples of loans held in a securitized pool

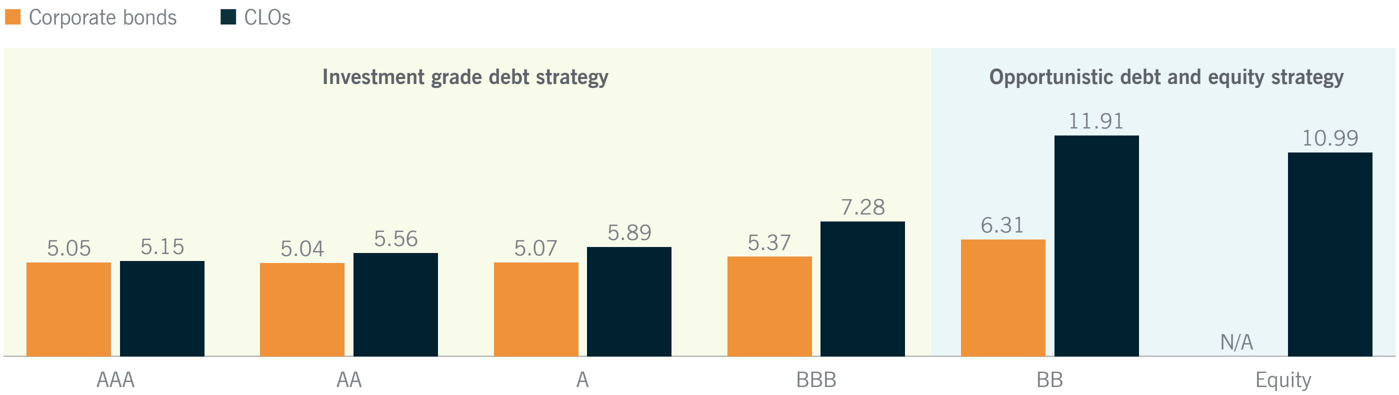


Interest and principal payments from the loans are passed from the collateral pool to the purchasers of the bonds.

For illustrative purposes only. Chart does not represent the performance of any Nuveen product. Asset allocation does not assure a profit or protect against loss.

Figure 3: CLO debt compares favorably to corporate bond yields

Yield (%)



Data source: Bloomberg, L.P., JPMorgan and Bank of America, 30 Jun 2026. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: investment grade corporates AAA-BBB:** Bloomberg U.S. Corporate Investment Grade Index; **high yield corporates BB:** ICE BofA US High Yield Index; **investment grade and high yield CLOs AAA-BBB:** J.P. Morgan Collateralized Loan Obligation Index (CLOIE); **CLO equity:** BofA US BSL CLO Equity Distributions (IO) median. The yield quoted is yield-to-maturity except for CLO equity, which is the median annualized U.S. broadly syndicated loan obligations equity distribution.

potential — particularly for junior tranches. That layering allows each tranche to offer a yield calibrated to its specific risk position — a level of income differentiation that traditional corporate bond structures cannot replicate.

A complexity premium adds further yield for investors willing to do the analytical work. And active management compounds both advantages, as CLO managers rotate out of deteriorating credits toward higher-yielding opportunities as conditions shift.

Built-in protection against rising rates

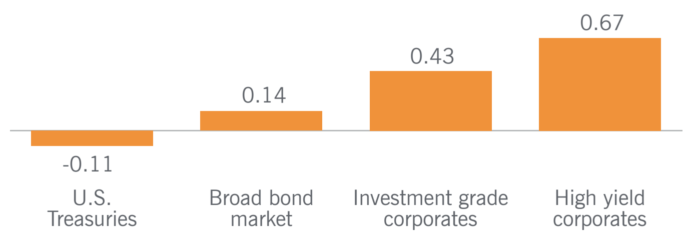
CLOs are a floating-rate asset class, meaning their cash flows adjust as interest rates change. Debt tranches pay a fixed spread over a base floating rate, typically the Secured Overnight Financing Rate (SOFR). This floating-rate nature gives CLOs near-zero duration (approximately 0.25 years), so their prices fluctuate far less than traditional bonds as rates change. That minimal rate sensitivity also produces low correlations to traditional fixed income sectors, making CLOs a valuable diversifier within a broader bond portfolio (Figure 4).

A strong default track record

Over more than 30 years, investment grade CLO tranches have experienced cumulative default rates of just 0.2% — compared to 2.1% for investment grade corporate bonds over the same period (Figure 5). The outperformance extends to speculative grade as well: below-investment-grade plus CLO tranches have posted cumulative defaults of 4.4% versus 29.5% for comparably rated high yield bonds.

Figure 4: A rated CLOs have low correlation to most traditional fixed income sectors

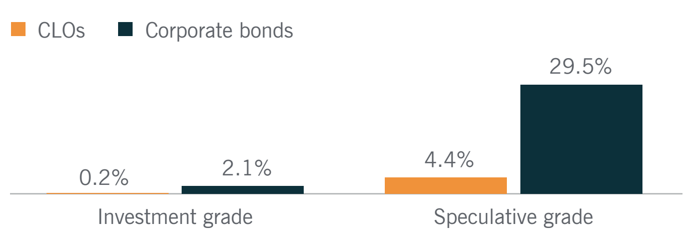
Correlation to A rated CLOs



Data sources: Bloomberg, L.P., 31 Dec 2011 – 31 Dec 2025. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: CLO A:** J.P. Morgan CLO A Index; **Treasuries:** Bloomberg U.S. Treasury Index; **broad bond market:** Bloomberg U.S. Aggregate Bond Index; **investment grade corporates:** Bloomberg U.S. Corporate Index; **high yield corporates:** Bloomberg U.S. High Yield Index.

Figure 5: CLO default rates have been lower than for similarly rated traditional bonds

Cumulative default rate



Data sources: **corporates:** 10-year horizon average cumulative issuer-weighted global default rates by alphanumeric rating, 1998-2024 from Moody's "Default Trends – Global Annual Default Study: Corporate default rate to fall below its long-term average in 2025" dated 27 Mar 2025; **CLOs:** U.S. CLOs, 10-year horizon WR-unadjusted cumulative impairment rates by original rating, 1993-2024 from Moody's "Impairment and loss rates of global CLOs: 1993-2024" dated 23 Jun 2025. **Performance data shown represents past performance and does not predict or guarantee future results.**

Why now may be a compelling entry point

Valuations are attractive on both an absolute and relative basis, and the current environment may create a particularly compelling entry point for investors sitting in cash or short-duration instruments. With the U.S. Federal Reserve on hold and rate sensitivity top of mind, CLOs' near-zero duration profile makes them a timely fit.

The yield advantage over comparably rated investment grade corporates is meaningful and grows more pronounced down the rating spectrum. As of 30 June 2026, AA-rated CLO tranches yielded 5.56% versus 5.04% for AA corporates, a 52 basis point pickup that widens considerably down the rating spectrum. A rated CLOs offered 5.89% compared to 5.07% for A corporates — an 82 basis point premium. At BBB, the gap reaches 191 basis points — 7.28% for CLO tranches versus 5.37% for comparably rated corporates.

Investment grade CLOs have demonstrated resilience across multiple credit cycles, a track record that has underpinned growing institutional adoption of the asset class.

The second half of 2026 may bring episodic volatility from supply dynamics and macro catalysts. For investors who can be patient and selective, those moments of spread widening have historically represented the best entry points across the capital structure.

CMBS: attractive income, modest rate sensitivity and a different risk profile

Commercial mortgage-backed securities are backed by pools of loans secured by income-producing commercial real estate (CRE) — office buildings, retail centers, multifamily properties, hotels and industrial assets. Unlike residential mortgage loans, commercial mortgage loans are structurally less prone to early principal repayment, reducing prepayment risk and providing more predictable bond cash flows. Like CLOs, CMBS are issued in tranches reflecting varying degrees of credit risk and potential yield.

CMBS can be classified as either agency or non-agency, depending on whether they carry a government guarantee.

Agency CMBS are typically issued on multifamily housing units by Fannie Mae or Freddie Mac and carry the U.S. government's AA+ credit rating. As a result, they have relatively lower income potential.

Investment grade CLOs have demonstrated resilience across multiple credit cycles.

Non-agency CMBS are issued on a wide range of commercial properties by private financial institutions and are divided into tranches rated from AAA through B, plus an unrated equity tranche.

Non-agency CMBS can be further separated into two categories:

SASB (single-asset, single-borrower): Backed by a single property or multiple assets owned by the same borrower. CRE loans can be fixed or floating rate.

Conduit (multi-borrower): Backed by a diversified pool of 20 to 60 small to mid-sized CRE loans across varied geographies and property types. The loans are fixed rate.

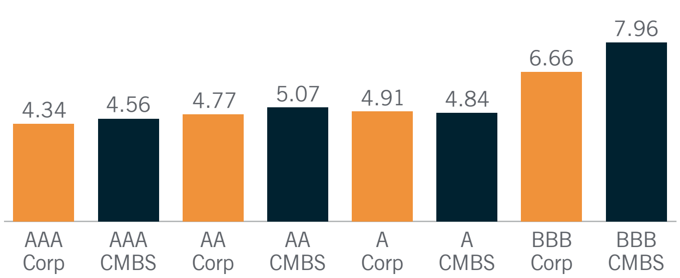
The breadth of the CMBS market makes professional manager oversight essential for security selection and ongoing monitoring.

A compelling yield profile

While much of the CMBS universe is rated AAA, the most compelling yield advantage over traditional corporate bonds emerges in the non-agency AA and lower-quality segments (Figure 6). Well-underwritten A and BBB rated CMBS may add meaningfully to a portfolio's income potential.

Figure 6: Most CMBS yields outpace comparably rated corporate bonds

Yield (%)



Data source: Bloomberg, L.P., 30 Jun 2026. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: CMBS:** ICE BofA 3-5 Year CMBS Indexes (AAA to BBB); **investment grade corporates:** ICE BofA 3-5 Year Corporate Indexes (AAA to BBB).

Efficient duration offers more yield, less rate risk

Fixed-rate CMBS carries positive duration, creating the potential for price appreciation when rates fall without meaningfully exposing the portfolio to losses if rates rise. That asymmetry can be a useful attribute in a period of elevated rate volatility and shifting market expectations.

CMBS bonds also tend to carry shorter durations than investment grade corporates. More importantly, even at comparable duration levels, CMBS have consistently outyielded investment grade corporates — meaning investors may achieve superior income with a more defensive rate footprint (Figure 7). That combination represents a more capital-efficient fixed income allocation.

Exposure to distinct return drivers

CMBS are backed by commercial real estate loans, tying their performance to a sector that behaves very differently from traditional corporate fixed income. This independence from the corporate credit cycle is one of the asset class's more underappreciated, and most powerful, diversification attributes.

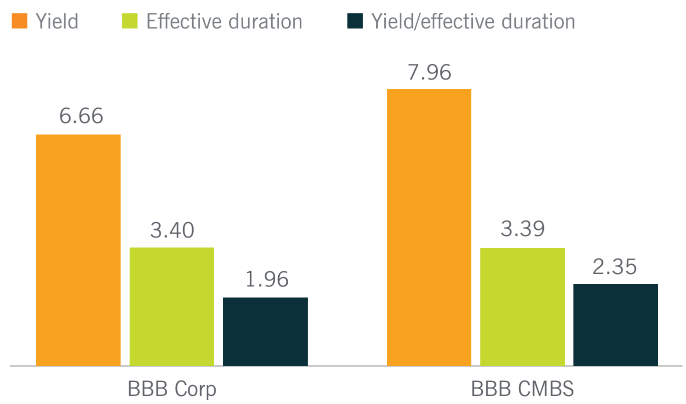
The CMBS market is also notably varied in composition, spanning industrial, lodging, multifamily, office and data center properties. Idiosyncratic factors — regional economic conditions, tenant concentration and lease structures — can all meaningfully influence the performance of individual securities. This breadth of return drivers creates a rich landscape for active security selection and relative value analysis. Examples of specific opportunities include:

Multifamily housing may benefit from housing affordability challenges that sustain strong rental demand.

New York office offers a compelling supply/demand dynamic, with limited new inventory meeting a notable rebound in leasing activity.

Data centers with long-term hyperscaler leases provide stable, contractual cash flows supported by secular growth in digital infrastructure demand.

Figure 7: CMBS credit has delivered more yield for every year of duration risk



Data source: Bloomberg, L.P., 30 Jun 2026. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: CMBS:** ICE BofA 3-5 Year CMBS Indexes (AAA to BBB); **investment grade corporates:** ICE BofA 3-5 Year Corporate Indexes (AAA to BBB). Effective duration measures a bond's price sensitivity to changes in interest rates, accounting for the fact that its cash flows may shift as rates move.

Why now may be a compelling entry point

Both fixed income markets and commercial real estate fundamentals support a compelling entry point for CMBS today. Fixed income continues to offer significant yield relative to recent history, while commercial real estate valuations — having reset meaningfully from their post-pandemic highs — are showing early signs of stabilization and recovery. That combination creates an environment where patient, selective investors may access attractive income with improving underlying collateral quality.

The breadth of the CMBS market amplifies the opportunity. With performance driven by property type, geography and lease structure rather than the corporate credit cycle, skilled managers can identify mispriced securities and avoid deteriorating credits in ways that passive approaches cannot replicate. In a market this varied and complex, active management is not merely an advantage — it is a prerequisite.

Portfolio construction: better together

CLOs and CMBS can function as complements within a diversified fixed income allocation. Together, they may provide meaningful yield enhancement above traditional fixed income in return for complexity, with diversification across credit risk, rate risk and real estate risk.

CLOs contribute floating-rate income with near-zero duration, low default risk and low correlation to other fixed income sectors.

CMBS offer attractive income, efficient duration and idiosyncratic exposure to commercial real estate fundamentals.

The same complexity that creates yield premiums also creates meaningful dispersion between skilled and less-skilled managers. In CLOs, evaluating individual loan credits, managing through liability management exercises and capitalizing on market dislocations requires deep expertise and scale. In CMBS, property-level analysis, regional knowledge and structural assessment capabilities separate managers who generate alpha from those who merely track beta.

An environment of episodic volatility generated by geopolitical risk and policy uncertainty is precisely where active managers may translate disruption into opportunity. The macro backdrop is supportive, valuations in both asset classes are attractive, and the structural case for CLOs and CMBS is strong.

Delivering durable income through credit specialization

With 125 years of investment experience and $663 billion in fixed income assets under management,[1] Nuveen has institutional expertise across public and private markets, seeking to provide investors with reliable, long-term income.

Our platform is built around core strengths:

- **Credit specialists:** Specialist knowledge across credit sectors enables us to identify harder-to-reach, innovative investment opportunities on behalf of clients.
- **Access to experts:** With solutions spanning public and private markets, we provide access to our capabilities and the investment teams behind the portfolios.
- **Focus on client outcomes:** Our heritage of risk-based decision-making seeks consistent excess returns while managing volatility.

For more fixed income insights, please visit us at nuveen.com.

Endnotes

1 AUM as of 30 Jun 2026. Nuveen assets under management is inclusive of underlying investment specialists. Represents overall firm underlying fixed income assets for public and private markets, inclusive of AUM in multi-asset, direct middle market lending and investment grade private credit.

Important information on risk

Investing involves risk; principal loss is possible. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, derivatives risk, dollar roll transaction 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. Any investment in collateralized loan obligations or other structured vehicles involves significant risks not associated with more conventional investment alternatives, such as the risk that distributions from the collateral may not be adequate to make interest or other payments; the quality of the collateral may decline in value or default; the fund may invest in tranches of CLOs that are subordinate to other tranches; and the CLO's manager may perform poorly. Investing in CMBS entails various risks, including credit risks inherent in the underlying collateral, real estate market risk, interest rate risk, liquidity risk and prepayment risk. Senior loans are subject to loan settlement risk due to the lack of established settlement standards or remedies for failure to settle. Diversification does not assure a profit or protect against loss.

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