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CIO Weekly Commentary
25 August 2025

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Steep and wide: friendly terrain for munis

Bottom line up top

After tapping the brakes, tech stocks remain in the fast lane. The S&P 500 Index snapped a four-day losing streak on Friday and closed higher for the week, buoyed by Federal Reserve Chair Jerome Powell's dovish speech at the Fed's annual Jackson Hole symposium. Tech- and growth-oriented sectors like communication services and information technology, which for most of the week had fallen sharply and driven the index lower, rebounded decisively following Powell's comments and continue to outperform for the year.

While the artificial intelligence (AI) trade is still a powerful force behind market bullishness, investors are reckoning with potentially bearish signals. The CEO and cofounder of OpenAI (creator of the generative AI tool ChatGPT) recently voiced concern about a potential AI bubble, with elevated valuations approaching levels seen during the dot.com era (Figure 1). And shares of one of today's fastest-growing AI-related names tumbled into correction territory (down 10% or more from its most recent peak) on 19 August after a short seller report said the firm's valuations looked indefensible.

Tiptoe through the tariffs. Concerns about the impact of higher tariffs on inflation and corporate earnings haven't gone away. Several consumer companies that reported second-quarter earnings last week confirmed that some prices would soon have to rise due to tariffs. As for tariff-fueled inflation more broadly, Powell's speech acknowledged "the effects of tariffs on consumer prices are now clearly visible" but implied the impact could be "relatively short lived." Meanwhile, further labor market weakening suggests the balance of risks has shifted from inflation to employment and "may warrant adjusting our policy stance."

Saira Malik, CFA
Head of Nuveen Equities and Fixed Income, Chief Investment Officer

On behalf of Nuveen's Global Investment Committee

As Head of Equities and Fixed Income, Nuveen's CIO 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 chairs Nuveen's Equities Investment Council and is a portfolio manager for several key investment strategies.

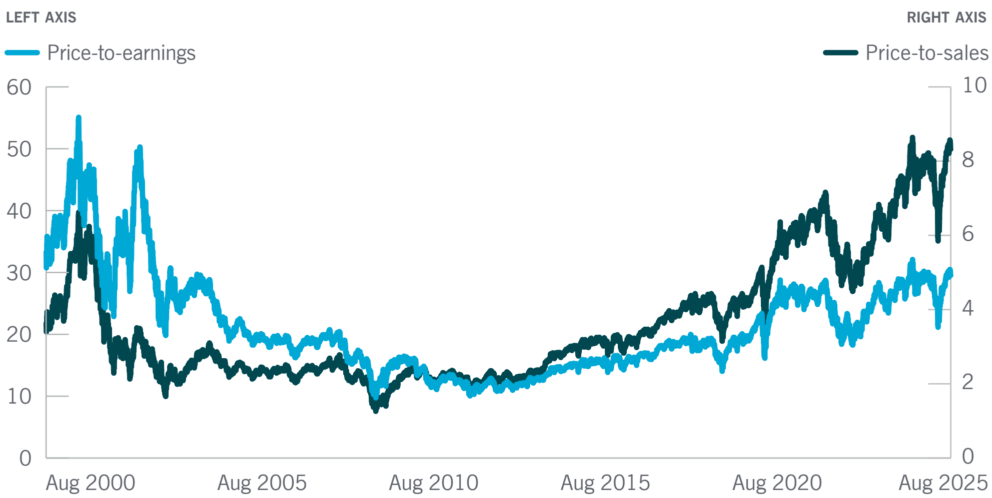
Even with a September rate cut likely on the way, investors still face the challenge of balancing optimism about the impacts of AI on corporate earnings with the potential downside risks of tariffs, inflation and economic slowing. We expect equity market volatility will persist, especially if this week's release of the Personal Consumption Expenditures (PCE) Price Index for July reveals evidence of reaccelerating inflation. Core PCE is the Fed's preferred inflation gauge and will be the focus of intense scrutiny, particularly in light of Powell's Jackson Hole speech.

Equities are balancing bullish and bearish factors, suggesting stock market volatility may remain elevated.

One idea to help smooth what could be a rocky road ahead for equities is to allocate some assets to select areas of fixed income, including municipal bonds, where we are seeing attractive investment opportunities.

FIGURE 1: TECH STOCKS: PRICED TO SELL OR EARNING THEIR VALUATIONS?

S&P 500 information technology sector price-to-earnings and price-to-sales



Data source: FactSet, 15 Apr 1999 to 19 Aug 2025. Data reflect daily readings of the forward 12-month PE and PB ratios. The start date is based on the earliest available data for both data sets. **Performance data shown represents past performance and does not predict or guarantee future results.**

Portfolio considerations

Municipal bond performance has lagged so far in 2025, largely due to unprecedented levels of supply. Through the end of July, muni issuance for 2025 was already at $333 billion, approaching the $381 billion average annual supply over the previous decade. The supply surge has caused municipal spreads to widen, with the ICE BofA U.S. Municipal Securities Index spread now in the 82nd percentile compared to its 10-year average. Although municipal bond total returns typically derive primarily from income, we believe today's wider spreads offer the potential for meaningful capital appreciation going forward.

> ***Wide spreads, a steep yield curve and high quality make municipal bonds one of our most favored asset classes.***

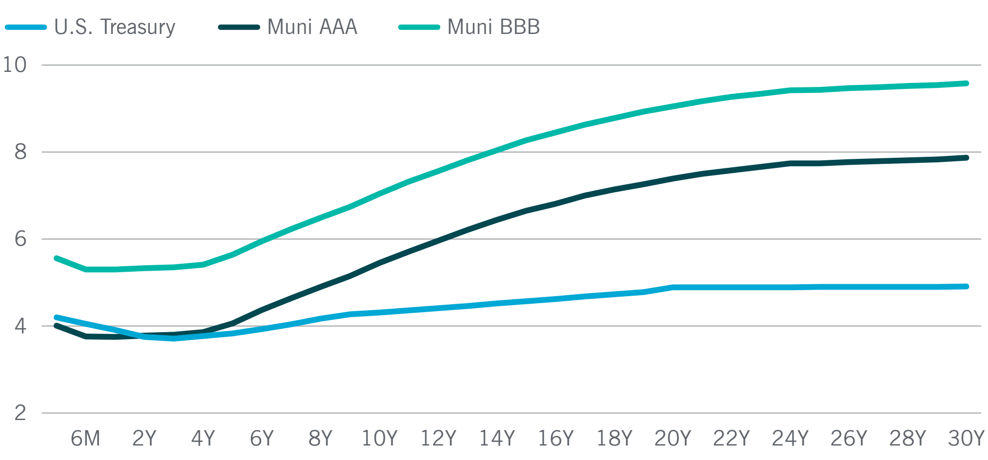
Additionally, the municipal yield curve is quite steep (Figure 2), as intermediate and longer-dated yields have risen significantly. On a taxable-equivalent yield basis, the AAA municipal curve outyields the U.S. Treasury curve starting at the 2-year point. BBB rated municipals, the lowest investment grade tier, offer taxable-equivalent yields between 7.0% and 9.6%, beginning with the 10-year tenor. Over time, we expect longer-term yields to decline, providing a potential source of price appreciation.

Despite some negative headlines focusing on idiosyncratic concerns related to specific issuers, the broad muni market remains fundamentally sound: Tax collections are strong, rainy day funds are near all-time highs and revenue growth is robust. Moreover, credit rating upgrades have continued to outpace downgrades. The favorable quality profile for both investment grade and high yield municipals makes their taxable-equivalent yields all the more compelling: 8.1% for short duration (as measured by the ICE BofA 1-12 Year Broad High Yield Crossover Municipal Index) and 9.2% for long duration (ICE BofA U.S. Municipal High Yield Securities Index), as of 19 August. These yield levels are in the 81st and 74th percentile, respectively, over the past 10 years.

Wide spreads, a steep yield curve and high quality make municipal bonds one of our most favored asset classes, especially for those seeking to diversify portfolios amid ongoing uncertainty.

FIGURE 2: LONGER DURATION MUNIS CONTINUE TO OUTYIELD TREASURIES

U.S. Treasuries versus AAA and BBB municipal yield curves (taxable-equivalent yield, %)



Data source: Bloomberg, L.P., 19 Aug 2025. **Performance data shown represents past performance and does not predict or guarantee future results.** Representative Indexes: **U.S. Treasury**: US Treasury Actives Curve; **Muni AAA**: Bloomberg Municipal AAA Curve; **Muni BBB**: BBB general obligation (GO) securities. Taxable-equivalent yield (TEY) is the yield a taxable investment needs to possess (before taxes) for its yield to be equal to that of a tax-free municipal investment. The yields shown are based on the highest individual marginal federal tax rate of 37%, plus the 3.8% Medicare tax on investment income. Individual tax rates may vary. They do not take into account the effects of the federal alternative minimum tax (AMT) or capital gains taxes.

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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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