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Bond markets show strength after the Fed cuts

Fixed income markets responded to relatively hawkish U.S. Federal Reserve signals last week, with Treasury yields rising and the curve flattening. Credit markets outperformed Treasuries across sectors, while municipal bonds remained well bid heading into year-end.

HIGHLIGHTS

- Treasuries, investment grade and high yield corporates, MBS and preferreds all retreated last week amid the move higher in rates.
- Senior loans and emerging markets advanced.
- Municipal bond yields increased. New issue supply was only \$6B, and fund inflows were \$720M. This week's new issuance ramps up to \$13B.



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Watchlist

- 10-year Treasury yields rose last week and are close to our year-end forecast.
- Spread sectors broadly outperformed similarduration Treasuries amid the selloff in rates.
- We expect the technical environment for municipal bonds to improve over the remainder of the year.

INVESTMENT VIEWS

We believe fixed income **yields generally present** a very attractive entry point, creating compelling income opportunities.

Downside economic risks are material, despite strong fundamentals, with tariffs likely to compress consumer spending and weigh on business fixed investment. But a U.S. recession is not our base case.

Risk premiums may widen further, with entry points likely to become more attractive over the coming quarters. Duration is likely to reassume its role as a growth hedge.

KEY RISKS

- Tariffs further undermine consumer and business confidence, raising prices while weighing on sentiment and activity.
- Inflation fails to continue moderating as expected, weighing on asset prices.
- Geopolitical flare-ups intensify around the world.

CREDIT MARKETS NAVIGATE HIGHER YIELDS AFTER FED MEETING

U.S. Treasury yields moved higher last week following hawkish signals from Fed Chair Powell. The Fed cut interest rates by 25 basis points (bps) as expected, but Powell's rhetoric at the press conference was notably more hawkish than in previous communications. Treasury yields rose and the curve flattened as a result, with 2-year yields up 9 bps and 10-year yields up 8 bps. Separately, the U.S. federal government shutdown continues, with betting markets implying another two weeks before resolution. The economic data calendar remains light as a result, though this week's privately issued ISM surveys should provide a gauge of economic activity in October.

Investment grade corporates retreated, returning -0.85% for the week, though they outperformed similar-duration Treasuries by 21 bps. Post-Fed Treasury movements dominated price action, while the technical backdrop was weak. Inflows slowed slightly to \$6.2 billion, nonetheless remaining at healthy levels. Supply was heavier than expected at almost \$77 billion. Deals continued to meet solid demand, averaging oversubscription rates of 3.8x, but new issue concessions were materially wider than recent trends at 2.1 bps.

High yield corporates were nearly flat, returning -0.09% and outpacing similar-duration Treasuries by 35 bps. Senior loans returned 0.24%. Since loan yields are floating-rate, the more-hawkish Fed stance supported yield levels, which ticked up to 7.87%, matching their highest levels since August. High yield fund inflows totaled \$459 million, while loan funds experienced outflows of -\$132 million. New issuance picked up in both markets, totaling \$4.2 billion and \$6.9 billion across high yield and loans, respectively.

Emerging markets continued to advance,

returning 0.59% and outperforming similar-duration Treasuries by 36 bps. Spreads broadly tightened across sovereigns and corporates, with high yield segments generally outperforming. Notable gains in Argentina contributed to this performance, where benchmark 10-year U.S. dollar bonds surged almost 14 points following market-friendly election results. Inflows across emerging market funds continued, though they decelerated to \$564 million. New issuance was steady at \$8.6 billion.

THE MUNICIPAL BOND MARKET IS WELL-POSITIONED FOR YEAR-END

The municipal bond yield curve ended higher last week, with short- and long-term yields rising 2 bps and 5 bps, respectively. New issue supply was low and well received. Fund inflows included \$2.5 billion into exchange-traded funds. The outsized ETF figure likely reflects investors repositioning short-term municipal holdings further out on the curve, as money market accounts showed outflows of -\$418 million. This week's new issue supply is expected to increase and should be well received.

The muni market remains well bid, supported by a stable Treasury market and manageable new issue supply in recent weeks. Demand remains strong from both individual and institutional investors and should continue as investors deploy of November reinvestment proceeds. With 01 December approaching — an outsized month for reinvestment — we expect munis should remain well bid through year-end.

The Chicago Board of Education issued \$1 billion in unlimited tax GO refunding bonds (rated NR/BB+). The deal was largely well received, though balances remained in the account at week's end. Underwriters should clear these positions in a timely manner.

High yield municipal bond yields increased just 1 bps last week as the market displayed resilient demand. Fund flows stalled last week, but an exchange-traded fund conversion may have distorted the data, as actual market demand remained robust. This week should bring a typical new issue calendar, with Nuveen tracking a diverse set of 15 new deals.

Outsized December reinvestment flows should keep munis well bid through year-end.

In focus

The Fed cuts but lets the hawks out

As anticipated, the Federal Reserve lowered interest rates for the second consecutive meeting, reducing the fed funds rate by 25 basis points (bps) to a new target range of 3.75%-4.00%. This decision aligns with the Fed's previously published dot plot of rate expectations.

Although the central bank's policy statement was largely unchanged compared to October, Chair Powell leaned hawkish in his press conference. He indicated that a rate reduction in December "is not a forgone conclusion" as "we just don't know what we're going to get" in terms of economic data between now and then. If the Fed remains in a data blackout because of the government shutdown, Powell said that uncertainty "could be an argument in favor of caution about moving."

The Fed also announced the end of its balance sheet runoff policy, effective 1 December. Maturing Treasuries will be reinvested in new Treasuries, and maturing mortgage-backed securities will be reinvested in Treasury bills. These actions are meant to stabilize the level of bank reserves and reduce the risk of dislocations in overnight lending markets.

We still expect two rate cuts (totaling 50 bps) through mid-2026, with one possible next month if employment data is released and signals further weakness. The government could publish three job reports (for September, October and November) in quick succession. In our view, the health of the labor market will determine the pace and path of any near-term easing.

U.S. Treasury market

Char	ıge	(%
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October	Year-
ek 2025	to-date
9 -0.03	-0.67
8 -0.05	-0.70
-0.07	-0.49
6 -0.08	-0.13
֡	ek 2025 09 -0.03 08 -0.05 08 -0.07

Source: Bloomberg L.P., 31 Oct 2025. Performance data shown represents past performance and does not predict or guarantee future results.

Municipal market

Change (%)

Maturity	Yield to worst	Week	October 2025	Year- to-date
2-year	2.46	0.02	0.16	-0.36
5-year	2.38	0.02	0.06	-0.49
10-year	2.73	0.03	-0.19	-0.33
30-year	4.15	0.05	-0.09	0.25

Source: Bloomberg L.P., $31\ {\rm Oct}\ 2025.$ Performance data shown represents past performance and does not predict or guarantee future results.

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	66
30-year AAA Municipal vs Treasury	89
High Yield Municipal vs High Yield Corporate	83

Source: Bloomberg L.P., Thompson Reuters, 31 Oct 2025. AAA municipals represented by the MMD scale. The high yield ratio equals the yield-to-worst for the Bloomberg High Yield Municipal Index divided by the yield-to-worst for the Bloomberg High Yield Corporate Index. **Performance data shown represents past performance and does not predict or guarantee future results**.

Characteristics and returns

Index	Yield to worst (%)	Spread (bps)	Effective duration (years)	Week	October 2025	Year- to-date
Municipal	3.57	_	6.65	-0.07	1.24	3.91
High yield municipal	5.63	1771	7.47	-0.11	1.00	2.31
Short duration high yield municipal ²	5.67	317	3.63	0.07	-0.16	3.07
Taxable municipal	4.78	57 ³	7.78	-0.58	1.08	7.58
U.S. aggregate bond	4.33	283	6.02	-0.57	0.62	6.80
U.S. Treasury	3.91	_	5.91	-0.48	0.62	6.01
U.S. government related	4.30	37 ³	5.46	-0.28	0.78	7.53
U.S. corporate investment grade	4.82	78³	6.89	-0.85	0.38	7.29
U.S. mortgage-backed securities	4.66	283	5.65	-0.53	0.86	7.68
U.S. commercial mortgage-backed securities	4.50	77³	3.87	-0.32	0.46	6.82
U.S. asset-backed securities	4.22	55³	2.75	-0.21	0.38	5.02
Preferred securities	5.95	161³	5.50	-0.37	0.22	6.70
High yield 2% issuer capped	6.78	2813	2.85	-0.09	0.16	7.39
Senior loans ⁴	7.87	454	0.25	0.24	0.30	5.00
Collateralized loan obligations, AA	5.10	1423	0.25	0.11	0.42	4.94
Collateralized loan obligations, BB	10.28	660³	0.25	0.32	0.06	8.05
Global emerging markets	5.82	1823	6.12	0.59	1.72	10.37
Global aggregate (unhedged)	3.43	29³	6.44	-0.45	-0.25	7.64

Returns (%)

1 Yield difference between the Bloomberg High Yield Municipal Index and the 20-year AAA MMD scale. 2 Data is a subset of the S&P Short Duration Municipal Yield Index that is below investment grade/nonrated. Spread is the yield difference between this subset and the subset rated AAA. 3 Option-adjusted spread to Treasuries. 4 Spread refers to the 3-year discount margin. Duration is estimated based on the frequency of the reset date.

Source: Bloomberg L.P. and Standard & Poor's, 31 Oct 2025. Performance data shown represents past performance and does not predict or guarantee future results. Unless otherwise noted, the index is Bloomberg. All index returns are shown in U.S. dollars. Yield to worst is the lowest potential yield that can be received on a bond without the issuer actually defaulting. Effective duration (expressed in years) measures the price sensitivity of a fixed-income investment to a change in interest rates, considering that expected cash flows will fluctuate as interest rates change. Index performance is shown for illustrative purposes only. Index returns include reinvestment of income and do not reflect investment advisory and other fees that would reduce performance in an actual client account

For more information, please visit nuveen.com.

Performance: Bloomberg, L.P. Issuance: J.P. Morgan, 31 Oct 2025. Fund flows: Lipper. New deals: Market Insight, MMA Research, 29 Oct 2025.

Any reference to credit ratings refers to the highest rating given by one of the following national rating agencies: S&P, Moody's or Fitch. Credit ratings are subject to change. AAA, AA, A and BBB are investment grade ratings; BB, B, CCC, CC, C and D are below-investment grade ratings.

Representative indexes: municipal: Bloomberg Municipal Index; high yield municipal: Bloomberg High Yield Municipal Index; short duration high yield municipal: S&P Short Duration Municipal Yield Index; taxable municipal: Bloomberg Taxable Municipal Bloom Index; U.S. aggregate bond: Bloomberg U.S. Treasury: Bloomberg U.S. Treasury Index; U.S. government-Related Index; U.S. corporate investment grade: Bloomberg U.S. Corporate Index; U.S. mortgage-backed securities; Bloomberg U.S. Mortgage-Backed Securities Index; U.S. commercial mortgage-backed securities: Bloomberg CMBS ERISA-Eligible Index; U.S. asset-backed securities: Bloomberg Asset-Backed Securities: Bloomberg High Yield 2% Issuer Capped Index; senior ioans: S&P UBS Leveraged Loan Index; CLO AA: J.P. Morgan Collateralized Loan Obligation BB Index; global emerging markets: Bloomberg Emerging Market USD Aggregate Index; global aggregate: Bloomberg Global Aggregate Unhedged Index.

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Important information on risk

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Investors should contact a tax professional regarding the appropriateness of tax-exempt investments in their portfolio. If sold prior to maturity, municipal securities are subject to gain/losses based on the level of interest rates, market conditions and the credit quality of the issuer. Income may be subject to the alternative minimum tax (AMT) and/or state and local taxes, based on the state of residence. Income from municipal bonds held by a portfolio could be declared taxable because of unfavorable changes in tax laws, adverse interpretations by the Internal Revenue Service or state tax authorities, or noncompliant conduct of a bond issuer. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

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