nuveen
A TIAA Company

Weekly Fixed Income Commentary

23 June 2025

Credit sectors lead markets despite rising geopolitical tensions

U.S. Treasury yields declined modestly following the U.S. Federal Reserve's decision to hold rates steady and signal future cuts, while credit markets posted positive returns amid heightened conflict in the Middle East.

HIGHLIGHTS

- **Treasuries, investment grade and high yield corporates, MBS, preferreds, senior loans and emerging markets all gained.**
- **Municipal bond yields declined. New issue supply was undersized at $6.9B, and fund inflows were $110M. This week's new issuance heats up again at $12.5B.**

Anders Persson
CIO of Global Fixed Income

Daniel Close
Head of Municipals

Watchlist

- *Treasury yields moved lower, and we continue to expect elevated volatility, a wider trading band and a modest rally from current levels.*
- *Spread sectors benefited from the move lower in rates and generally outperformed Treasuries.*
- *We expect the technical environment for municipal bonds to improve as the year progresses.*

INVESTMENT VIEWS

We believe fixed income **yields generally present one of the best entry points in a generation,** creating attractive income opportunities.

Downside economic risks are material, despite strong fundamentals, with tariffs likely to compress consumer spending and weigh on business fixed investment. 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.

PREFERRED SECURITIES SHOW STRONG PERFORMANCE IN JUNE

U.S. Treasury yields declined slightly last week, with the 10-year yield falling -2 basis points (bps) to 4.38%. 2-year yields moved lower by -4 bps. Geopolitical tensions remained in focus, which broadened over the weekend with the U.S. strike on Iran. We expect market volatility to remain elevated and upward pressure on oil prices to persist. Separately, the Fed kept interest rates unchanged, as expected, and continued to signal two cuts are likely later this year. That was slightly more dovish than expected, driving some of the decline in short-term yields.

Investment grade corporates gained, returning 0.28% for the week and outperforming similar-duration Treasuries by 6 bps. The asset class benefited from the move lower in rates, with spreads remaining flat at their recent tight levels around 85 bps. That is still wider than the February lows, but almost 35 bps tighter than their early April peak. Inflows slowed again to $2.3 billion. New issuance was somewhat light and continued to meet with strong demand. Supply totaled $16.25 billion, averaging oversubscription rates of 5x and resulting in concessions of just 0.5 bps. Separately, preferred securities had another strong week, returning 0.44% and outperforming similar-duration Treasuries by 22 bps. Preferreds have been the best-performing major fixed income asset class so far in June, with a total return of 1.00%.

High yield corporates also advanced, returning 0.29% and beating similar-duration Treasuries by 11 bps. Senior loans returned 0.16%, their 11th straight weekly gain. In both asset classes, lower-rated segments generally outperformed, with CCC rated high yield leading the way with a 0.70% return. Inflows were steady, totaling $356 and $291 million into high yield and loans, respectively. Supply was also relatively active, with $6.1 billion pricing in high yield and almost $11 billion in loans.

Emerging markets were more mixed, returning 0.12% but lagging similar-duration Treasuries by -10 bps. Spreads generally widened by around 1 bp across both high grade and high yield spaces. However, inflows accelerated, with $1.1 billion entering the asset class. Issuance was also steady at $9.2 billion, split nearly evenly between corporate and sovereign spaces.

MUNICIPAL YIELDS DROP AMID POSITIVE FUND FLOWS

Municipal bond yields declined last week, with short-term maturities dropping -3 bps while long-end yields held steady. The reduced new issue market provided traders an opportunity to sell existing inventory from previous weeks. Market sentiment remained positive, evidenced by fund flows staying positive for the eighth consecutive week, including $508 million in exchange-traded inflows. New issuance is expected to increase this week, with deals likely to be well-received.

The municipal market remains resilient, though it lagged Treasuries last week. This underperformance is reasonable given the significant inventory overhang despite last week's lighter calendar. Looking ahead, new issuance is set to increase again, supported by robust summer reinvestment funds of $140 billion. Tax-exempt municipals continue to offer compelling value.

Great Lakes Water Authority, Michigan, issued $529 million in water supply system revenue bonds (rated Aa3/AA). The offering was well received, and some bonds traded at a premium in the secondary market. For example, 5.25% coupon bonds maturing in 2050 were initially priced at a 4.81% yield and subsequently traded at 4.80% in the secondary market.

High yield municipal bond market supply and demand dynamics were affected by the U.S. holiday-shortened week. Inflows moderated significantly at just $58 million. New issuance deals were concentrated in the first three days of the week, creating a challenging environment for some deals to gain full market attention. Looking forward, the new issue pipeline is expected to maintain a moderate pace. High yield municipal indices remain stable, averaging around 5.83%, with numerous opportunities available at even more attractive yields.

Senior loans saw their 11th straight weekly gain, with lower-rated segments generally outperforming.

In focus

The Fed offers calm before the cuts

As expected, the Federal Reserve kept rates unchanged last week, with the target fed funds rate range holding at 4.25% to 4.50%, but signaled that easier policy lies ahead.

The central bank made few substantive changes to its policy statement. Language stating that "uncertainty about the economic outlook has increased further" was removed in favor of a more moderate comment that uncertainty "has diminished but remains elevated."

The Fed updated its economic projections, lowering its 2025 GDP growth forecast to 1.4% (from 1.7% in March) and anticipating core inflation will edge up to 3.1% (from 2.8%) by year-end. Those changes reflect the expected impact of large tariffs, which will likely hinder growth and push up prices. According to the Fed's closely watched dot plot, policymakers still expect two 25 basis point (bps) rate cuts in 2025.

In his press conference, Chair Powell emphasized that conditions are still "highly uncertain" and that "the appropriate thing to do is hold where we are" even as the Fed believes consumer prices will rise, reflecting the impact of tariffs. We anticipate two 25 bps rate reductions this year, followed by a few more in 2026. These forecasts are based on our macroeconomic outlook and a probability-weighted view on the outlook for tariffs. But if the levies end up steeper than our models suggest, the Fed could loosen policy more aggressively (and vice versa).

U.S. Treasury market

		Change (%)		
Maturity	Yield	Week	Month-to-date	Year-to-date
2-year	3.91	-0.04	0.01	-0.33
5-year	3.96	-0.04	0.00	-0.42
10-year	4.38	-0.02	-0.02	-0.19
30-year	4.89	0.00	-0.04	0.11

Source: Bloomberg L.P., 20 Jun 2025. **Performance data shown represents past performance and does not predict or guarantee future results.**

Municipal market

		Change (%)		
Maturity	Yield to worst	Week	Month-to-date	Year-to-date
2-year	2.63	-0.03	-0.14	-0.19
5-year	2.73	-0.02	-0.11	-0.14
10-year	3.30	-0.02	-0.03	0.24
30-year	4.54	0.00	0.02	0.64

Source: Bloomberg L.P., 20 Jun 2025. **Performance data shown represents past performance and does not predict or guarantee future results.**

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	75
30-year AAA Municipal vs Treasury	93
High Yield Municipal vs High Yield Corporate	80

Source: Bloomberg L.P., Thompson Reuters, 20 Jun 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

				Returns (%)		
Index	Yield to worst (%)	Spread (bps)	Effective duration (years)	Week	Month-to-date	Year-to-date
Municipal	4.00	–	6.76	0.16	0.32	-0.64
High yield municipal	5.83	153[1]	7.53	0.19	0.30	-0.62
Short duration high yield municipal[2]	5.50	257	3.91	0.09	0.51	1.67
Taxable municipal	5.15	70[3]	7.67	0.33	0.76	2.41
U.S. aggregate bond	4.68	33[3]	6.07	0.26	0.49	2.95
U.S. Treasury	4.19	–	5.84	0.24	0.30	2.81
U.S. government related	4.65	44[3]	5.32	0.22	0.52	3.40
U.S. corporate investment grade	5.16	85[3]	6.79	0.28	0.71	2.99
U.S. mortgage-backed securities	5.10	39[3]	6.12	0.27	0.63	3.05
U.S. commercial mortgage-backed securities	4.88	85[3]	3.96	0.23	0.38	3.62
U.S. asset-backed securities	4.58	57[3]	2.63	0.17	0.35	2.40
Preferred securities	6.34	175[3]	5.32	0.44	1.00	1.74
High yield 2% issuer capped	7.30	299[3]	2.97	0.29	0.77	3.47
Senior loans[4]	8.28	471	0.25	0.16	0.30	2.45
Collateralized loan obligations, AA	5.42	137[3]	0.25	0.11	0.34	2.71
Collateralized loan obligations, BB	10.58	662[3]	0.25	0.21	0.62	4.09
Global emerging markets	6.48	220[3]	5.94	0.12	0.79	3.78
Global aggregate (unhedged)	3.56	33[3]	6.54	-0.09	0.65	5.96

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, 20 Jun 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:** The Bond Buyer, 20 Jun 2025. **Fund flows:** Lipper. **New deals:** Market Insight, MMA Research, 18 Jun 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 Bond Index; **U.S. aggregate bond:** Bloomberg U.S. Aggregate Bond Index; **U.S. Treasury:** Bloomberg U.S. Treasury Index; **U.S. government related:** Bloomberg 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 Index; **preferred securities:** ICE BofA U.S. All Capital Securities Index; **high yield 2% issuer capped:** Bloomberg High Yield 2% Issuer Capped Index; **senior loans:** S&P UBS Leveraged Loan Index; **CLO AA:** J.P. Morgan Collateralized Loan Obligation AA Index; **CLO BB:** J.P. Morgan Collateralized Loan Obligation BB Index; **global emerging markets:** Bloomberg Emerging Market USD Aggregate Index; **global aggregate:** Bloomberg Global Aggregate Unhedged Index.

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. Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure and therefore are subject to greater credit risk. Foreign investments involve additional risks, including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks may be magnified in emerging markets. Asset-backed and mortgage-backed securities are subject to additional risks such as prepayment risk, liquidity risk, default risk and adverse economic developments. The value of convertible securities may decline in response to such factors as rising interest rates and fluctuations in the market price of the underlying securities. Senior loans are subject to loan settlement risk due to the lack of established settlement standards or remedies for failure to settle. These investments are subject to credit risk and potentially limited liquidity, as well as interest rate risk, currency risk, prepayment and extension risk, and inflation risk. Any investment in collateralized loan obligations or other structured vehicles involves significant risks not associated with more conventional investment alternatives.

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.

Nuveen, LLC provides investment solutions through its investment specialists.

This information does not constitute investment research as defined under MiFID.