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Dovish Fed signals boost fixed income markets

U.S. Treasury yields declined as expectations for U.S. Federal Reserve rate cuts moved higher at the end of the week, driving a rally. Investment grade and high yield corporate credit spreads widened despite positive technicals, while municipal bonds remained well bid.

HIGHLIGHTS

- **Treasuries, MBS, investment grade and high yield corporates, taxable munis and emerging markets advanced.**
- **Senior loans and preferreds retreated.**
- **Municipal bond yields remained unchanged once again. New issue supply was outsized at \$14.1B, and fund inflows were \$130M (after accounting for a fund adjustment). This week's new issuance is only \$1.1B.**



Anders Persson

CIO of Global Fixed Income



Daniel Close

Head of Municipals

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES.

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Watchlist

- *10-year Treasury yields fell last week and remain close to our year-end forecast.*
- *Spread sectors broadly lagged similar-duration Treasuries amid mixed U.S. labor market data.*
- *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.

TREASURIES RALLY WHILE CREDIT SPREADS WIDEN

U.S. Treasury yields fell last week, after rising in each of the three prior weeks, with the 10-year Treasury yield declining -8 basis points (bps) to 4.07% and 2-year yields falling -10 bps to 3.51%. The move was driven by repricing of Fed rate cut expectations. After hawkish signals from regional Fed presidents pushed the odds of a December rate cut to as low as 32%, NY Fed President Williams argued in favor of a cut, sparking a sharp reversal to roughly 75% odds. That shift helped Treasuries rally across the curve. Separately, the long-awaited September jobs report mostly met expectations, with job creation accelerating to 119,000 – nearly double the three-month pace – though the unemployment rate rose to 4.4%, a new cyclical high.

Investment grade corporates gained 0.40% for the week but lagged similar-duration Treasuries by -15 bps. Spreads widened by around 3 bps to 85 bps, the widest level since June, though still relatively tight historically. The technical backdrop was mixed: inflows picked up to \$6 billion, but supply was heavier than expected at \$45 billion – roughly 50% above consensus. New deals were nevertheless well-received, averaging 4x oversubscription and tighter concessions than the prior week at 1.3 bps on average.

High yield corporates were nearly flat, returning 0.03%. The asset class underperformed similar-duration Treasuries by -33 bps, with spreads widening 10 bps. Senior loans returned -0.09%, as spreads widened 4 bps. Both asset classes experienced outflows, totaling -\$333 million and -\$89 million from high yield and loan funds, respectively. Supply remained healthy at \$6.4 billion in high yield and \$21.1 billion in loans.

Emerging markets were mixed, returning 0.07% but lagging similar-duration Treasuries by -46 bps. Spreads widened by 4 to 7 bps across sovereign and corporate markets. Inflows picked up to \$675 million, bringing the year-to-date total to nearly \$24 billion. Primary market activity was relatively busy at \$15.5 billion, mainly in the high grade, with deals well-digested, at oversubscription rates of 3.5x.

THE MUNI MARKET IS SUPPORTED BY STRONG TECHNICAL FACTORS

The muni yield curve remained essentially unchanged last week, with short-term yields flat and long-term yields rising 2 bps. New issuance was outsized but well received. This week's calendar is very light due to the Thanksgiving holiday and should be easily absorbed.

The muni market remains well bid, supported by the strong government bond market and favorable supply/demand dynamics. December's new issue calendar should be relatively light due to holidays, while demand remains robust from both individual and institutional buyers. Reinvestment flows of \$42 billion coming 01 December will need deployment, with January 1 – typically munis' highest reinvestment month – following closely. Munis should remain well bid through year-end.

Ascension Health Alliance (Ascension Senior Credit Group, Indiana) issued \$1.75 billion revenue bonds (rated Aa3/AA). The deal included 5% coupon bonds due in 2035 priced at 3.21%, with some bonds trading at a premium in the secondary market at 3.18%.

The high yield municipal market absorbed substantial new issuance last week in a pre-holiday push, including the highly anticipated resolution of Brightline West's impending default. The market ended the week on a positive note. Despite negative fund flows concentrated in select platforms, new issues were well absorbed. A limited \$500 million pre-pay gas securitization backed by Citadel was heavily oversubscribed and traded 30+ bps tighter in the secondary market. Brightline West announced a successful restructuring to redeem 28% of outstanding bonds with trustee-held funds while backing the remaining 72% with a U.S. Department of Transportation loan, additional equity, senior debt and an investment grade rating requirement.

December's muni bond new issue calendar should be relatively light, while demand remains robust from both individual and institutional buyers.

In focus

The eurozone economy zips ahead

Thanks to contributions from the manufacturing and service sectors, the eurozone economy enjoyed its best month in nearly 2½ years in October, ending months of stagnant growth.

Europe's continued macro improvement will turn on Germany's massive investment plan, which runs through 2029. This program will channel around €800 billion into defense and €300 billion into infrastructure, with additional green and social spending aimed at lifting growth and improving strategic autonomy.

Markets appear to be underestimating the speed of Germany's implementation and its multiplier effect. Defense orders are proceeding apace with few bottlenecks, and infrastructure investment should accelerate through 2026, fueled by Next Generation EU funds — the European Union's largest fiscal program.

This upswing in spending repositions Europe from a “policy taker” to a “growth maker,” as the European Central Bank remains cautiously hawkish amid inflation that hovers near its 2% target. With consumer prices under control for the time being, we believe the ECB has completed its rate cutting cycle and could hike rates by 25 basis points, to 2.25%, by the second half of 2026. Meanwhile, 10-year bund yields could rise toward 3% (from 2.69% on 21 November) over the rest of the quarter, lifting the euro to \$1.22 (from \$1.15) as fiscal expansion supports above-trend growth.

U.S. Treasury market

Maturity	Change (%)			
	Yield	Week	Month-to-date	Year-to-date
2-year	3.51	-0.10	-0.07	-0.73
5-year	3.62	-0.11	-0.07	-0.76
10-year	4.07	-0.08	-0.01	-0.51
30-year	4.71	-0.04	0.06	-0.07

Source: Bloomberg L.P., 21 Nov 2025. Performance data shown represents past performance and does not predict or guarantee future results.

Municipal market

Maturity	Change (%)			
	Yield to worst	Week	Month-to-date	Year-to-date
2-year	2.46	0.00	0.00	-0.36
5-year	2.41	0.00	0.03	-0.46
10-year	2.75	0.00	0.02	-0.31
30-year	4.16	0.02	0.01	0.26

Source: Bloomberg L.P., 21 Nov 2025. Performance data shown represents past performance and does not predict or guarantee future results.

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	68
30-year AAA Municipal vs Treasury	88
High Yield Municipal vs High Yield Corporate	82

Source: Bloomberg L.P., Thompson Reuters, 21 Nov 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.

For more information, please visit nuveen.com.

Performance: Bloomberg, L.P. Issuance: J.P. Morgan, 21 Nov 2025. Fund flows: Lipper. New deals: Market Insight, MMA Research, 19 Nov 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 ERIISA-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.

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Characteristics and returns

Index	Yield to worst (%)	Spread (bps)	Effective duration (years)	Returns (%)		
				Week	Month-to-date	Year-to-date
Municipal	3.60	–	6.65	-0.09	0.08	4.00
High yield municipal	5.64	177 ¹	7.44	0.01	0.29	2.60
Short duration high yield municipal ²	5.74	320	3.67	-0.13	0.10	3.17
Taxable municipal	4.76	59 ³	7.72	0.56	0.23	7.83
U.S. aggregate bond	4.30	30 ³	6.04	0.45	0.24	7.05
U.S. Treasury	3.84	–	5.95	0.50	0.34	6.37
U.S. government related	4.26	40 ³	5.41	0.39	0.16	7.71
U.S. corporate investment grade	4.83	85 ³	6.89	0.40	-0.03	7.26
U.S. mortgage-backed securities	4.66	29 ³	5.69	0.41	0.30	8.00
U.S. commercial mortgage-backed securities	4.40	76 ³	3.88	0.45	0.56	7.42
U.S. asset-backed securities	4.16	56 ³	2.89	0.29	0.38	5.42
Preferred securities	6.15	185 ³	5.49	-0.47	-0.91	5.73
High yield 2% issuer capped	6.90	301 ³	2.88	0.03	-0.22	7.15
Senior loans ⁴	7.88	465	0.25	-0.09	0.04	5.04
Collateralized loan obligations, AA	5.02	140 ³	0.25	0.11	0.32	5.27
Collateralized loan obligations, BB	10.46	683 ³	0.25	-0.64	-0.32	7.71
Global emerging markets	5.84	190 ³	6.09	0.07	-0.10	10.26
Global aggregate (unhedged)	3.46	30 ³	6.42	-0.28	-0.45	7.15

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, 21 Nov 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.

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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.

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