

Intermediate Term Municipal

Marketing communication | As of 30 Sep 2024

- **The Bloomberg 3-15 Year Blend Index, the benchmark for the Intermediate-Term composite, produced a total return of 2.70% as its average yield decreased by -47 bps to 3.02%.**
- **Allocation attribution by duration contributed, while allocation by rating detracted. Allocation by sector had a neutral impact.**
- **The investment team intends to favor premium, high quality, call-protected bonds for a core portion of the portfolios and seek opportunities to enhance income through favorable security structures and/or sectors.**

Market review

The municipal bond market is well positioned to begin the fourth quarter. It's anticipated that municipal bonds will outperform as supply trends wind down and demand strengthens following further expected U.S. Federal Reserve rate cuts. Additional rate cuts will likely continue to drive inflows as reinvestment rates for cash equivalents diminish in value and investors seek to lock in yields. Municipal fund inflows strengthened during the quarter, reaching \$10 billion (as of 18 Sep). This brings the year-to-date total to \$21.3 billion. Flows continue to be directed toward income-oriented strategies such as high yield or longer duration. As fund flows pick up, high yield technicals should improve further. The municipal yield curve steepened more than the U.S. Treasury curve during the quarter, reflected in the change in municipal-to-treasury yield ratios. The 5-year ratio declined from 66% to 65%, while 10- and 30-year ratios increased from 65% to 69% and 82% to 85%, respectively.

We expect higher rates of issuance to continue in October as issuers bring deals ahead of the election, but the pace should cool in November. Such an environment should present a buying opportunity early in the fourth quarter. Furthermore, investors may enjoy attractive total returns from income alone, a dynamic that has been absent for nearly a decade. Though the economy remains on strong footing, we expect munis to perform well even if markets move to a risk-off tone due to their resilience during past economic downturns. Statutory reserves remain high, despite excess reserves being drawn down. Investment grade municipal credit spreads across AA, A and BBB rated categories were relatively unchanged. This makes income and changes in AAA benchmark yields the predominant drivers of returns.

Intermediate Term Municipal

The MMD AAA-Rated GO Benchmark Yield Curve experienced a bull steepening during the quarter as rates decreased by -60, -69, -58, -24, -22 and -20 bps on maturities of 1, 3, 5, 10, 20 and 30 years, respectively. This shift favored intermediate to long maturities that picked up meaningful market return due to their duration profile. The Bloomberg Main Index delivered a total return of 2.71% during Q3 as the average yield decreased by -40 bps to 3.31%. Despite greater rate volatility observed shorter on the curve, longer duration bonds outperformed versus the intermediate portion of the curve. For example, the Long (22+) Index returned 3.03% as its average yield decreased by -23 bps to 4.0%, while the Short/Intermediate (1-10) Index returned 2.72% as its yield decreased by -60 bps to 2.82%. The difference in starting yields supported the Long Index which had a yield return of 1.08% compared to 0.83% for the Short/Intermediate Index.

Higher yields continue to fuel strong demand from separately managed account programs and direct purchases, causing short-term ratios to remain anchored. This barbell approach has steepened the curve, making the long-intermediate area relatively attractive. Nuveen Asset Management has been emphasizing higher-rated bonds (AAA and AA underlying), but have also been marginally increasing exposure to A-rated bonds while modestly lengthening duration. Investors receive the higher income typically associated with longer-dated bonds while earning additional total return through a combination of declining rates and rolling down the yield curve.

Portfolio review

The Bloomberg 3-15 Year Blend Index, the benchmark for the Intermediate ESG Municipal Composite, produced a total return of 2.70% as its average yield decreased by -47 bps to 3.02%. The Index holds (~91%) of its weighting in bonds with modified durations of less than 8 years and was limited by its weighting in durations of less than 2 years (~16%) and 2 to 4 years (~29%), which returned 1.63% and 2.51%, respectively. The best performance by rating category within the Index came from bonds rated A/A (2.80%), AA/Aa (2.68%) and AAA/Aaa (2.68%), which together compose approximately 95% of the high rated benchmark. Unrated bonds showed the worst performance (2.50%), but only carried an ending weight of 0.6%.

The Intermediate Term Municipal Composite underperformed the benchmark in the third quarter. Allocation attribution rewards cases where the composite was overweight in outperforming segments of the index or underweight in underperforming segments relative to the overall index average. Allocation by duration contributed as the composite was underweight in durations of less than 4 years and overweight in durations of 4 to 8 years. Allocation by rating detracted from relative performance as the composite was underweight in bonds rated A/A, while allocation by sector detracted from being underweight in industrial development revenue bonds but was positively offset by an overweight in local general obligations. Detraction from security selection was primarily associated with local general obligations (which returned 2.53% for the composite vs 2.75% for the Index) and special tax bonds (2.41% vs 2.60%).

Intermediate Term Municipal

For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is \$250,000.

Important information on risk

All investments carry a certain degree of risk, including possible loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. An investment in any municipal portfolio should be made with an understanding of the risks involved in investing in municipal bonds, such as interest rate risk, credit risk, and market risk. The value of the portfolio will fluctuate based on the value of the underlying securities. Please contact a tax advisor regarding the appropriateness of tax-exempt investments in your portfolio. Nuveen is not a tax advisor. 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 investor's 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. Some income may be subject to state and local taxes and to the federal alternative minimum tax. Capital gains, if any, are subject to tax.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professional.

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain "forward-looking" information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. **Performance data shown represents past performance and does not predict or guarantee future results.** All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

Glossary

The **Bloomberg Municipal Bond Index** covers the USD denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds. The 7-year Index consists of bonds from the Municipal Bond Index with maturities of approximately 7 years. Bonds in the Long Index mature in 22 years or longer. The **Bloomberg 3-15 Year Blend Municipal Bond Index** is an unmanaged index composed of investment-grade municipal securities ranging from 2 and 17 years in maturity. **It is not possible to invest directly in an index.** Clients should consult their financial professionals regarding unknown financial terms and concepts.

Nuveen Asset Management, LLC is a registered investment adviser and an affiliate of Nuveen, LLC.