

Intermediate Term Municipal

Marketing communication | As of 30 Jun 2025

- **The Bloomberg 3-15 Year Blend Index, the benchmark for the Intermediate-Term Composite, generated a total return of 0.69% in the second quarter as yield return and a fall in shorter term yields supported a positive total return despite a rise in longer term yields.**
- **Positive selection partially offset the detracting effect of allocation by maturity, while allocation by rating and sector had minimal impact on excess return.**
- **The investment team continues to favor premium, high quality, call-protected bonds for a core portion of the portfolios to enhance income while implementing credit selection to identify relative value opportunities.**

Market review

Technical factors including substantial issuance have caused municipals to meaningfully underperform other fixed income sectors during the second quarter, which rose municipal yields but created relative value opportunities. While 15-year U.S. Treasury yields rose by 9 basis points (bps) in the second quarter, 15-year AAA municipal yields rose by 24 bps. The Municipal-to-Treasury yield ratios have historically been a barometer of relative value in the municipal market and have ended the second quarter at their most favorable levels since the post-October 2023 interest rate sell off. A steeper municipal yield curve creates more opportunity in long duration going forward. Importantly, the prevalent 10-year muni bond call features typically limit additional duration risk when extending beyond 10 years, allowing investors to enhance yield without proportional duration exposure.

Supply trends remain robust, with year-to-date muni issuance up more than 16% versus 2024's record-breaking levels, despite early April volatility. Issuance of \$220 billion year-to-date through May suggests 2025 could reach a record \$560 billion. On the demand side, fund flows stayed relatively strong despite the drawdown in April. According to the Investment Company Institute net new cash flow reported to both municipal exchange-traded and open-end mutual funds totaled \$12.74 billion year-to-date through May 31, 2025, compared to \$14.34 billion by the same time last year.

Looking ahead, greater tax policy certainty and reduced summer issuance, combined with strong reinvestment demand, should create favorable technical conditions, potentially sparking positive momentum into fall. Robust revenues and high statutory and record funding of reserves for state and local governments make municipal credit well-positioned to manage through economic uncertainty even if markets move to a risk-off tone. Many municipal issuers benefit from broad autonomy as bonds backed by property taxes, dedicated state and local taxes, transportation revenues, tolls or project-specific revenues should remain relatively insulated from federal policy changes.

The latest U.S. Census data contains collections through Q1 2025. Total state and local tax collections for the first quarter of 2025 were up 5.8% compared to the first quarter of 2024. Individual and Corporate income taxes showed the strongest performance, with individual income taxes up 10.8% over the prior year and corporate tax collections up 6.1% compared to the same quarter last year (2024). States primarily rely on income and sales taxes to fund operations, and both have demonstrated resilience even as revenue growth has returned to historic norms following several years of post-pandemic volatility.

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Nuveen Asset Management has been emphasizing higher-rated bonds (AAA and AA underlying or stand-alone ratings), but we have also been marginally increasing exposure to A-rated bonds, and plan to modestly lengthen duration, which has been somewhat shorter than our long-term strategic target. We intend to continue favoring premium, high quality, call-protected bonds for a core portion of the portfolio and to seek opportunities to enhance income through favorable security structures and/or sectors. We also intend to choose maturities based on our yield curve analysis, and to utilize the work of our research team to identify bonds that may be undervalued relative to credit strength.

Portfolio review

MMD-AAA Benchmark Yield Curve Rates ended the quarter higher across maturities of 15 years or longer by +24 to +30 bps, while yields on 1-, 5- and 7-year maturities ended lower by -4, -19, -13 bps, respectively. The Bloomberg Main Index returned 0.62% in the month of June and -0.12% in the second quarter of 2025 as its market yield ended the period at 3.95%, or -9 bps lower than as of the start of the month, +10 bps higher than as of the start of the quarter, and +21 bps higher than as of the start of the year (3.74%). The steepening of the municipal yield curve favored shorter maturities given their limited duration profiles. The Bloomberg Muni Long Bond (22+) Index, which had a starting modified duration of 9.87 years, returned -1.94% as its average yield rose by +31 bps over the quarter to 4.90%, while the Short/Intermediate (1-10) Index, which had a starting duration of 3.60 years, returned 1.14% as its average yield ended the quarter lower by -8bps at 3.18%.

The Bloomberg 3-15 Year Blend Index, the benchmark for the Intermediate-Term Composite, generated a total return of 0.69% in the second quarter as its yield return and the fall in shorter term yields supported a positive total return despite a rise in longer term yields. The average market yield of the Index ended the period at the same starting level of 3.55%, yet the average market yield of bonds maturing in 17 to 22 years in the Index ended higher by +19 bps while the average market yield across maturities of 4 to 6 years ended lower by -13 bps. The starting modified duration of the (3-15) Index was 4.96 years, compared to 5.60 for the Intermediate Composite and 6.25 for the Main Index. Bonds rated AA/Aa led in performance with a total return of 0.74%, compared to 0.50% for bonds rated BBB/Baa, 0.63% for bonds rated A/A, and 0.65% for AAA/Aaa.

The Intermediate Composite lagged against its benchmark in the second 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 maturity was the primary detracting effect driven by the composite's overweight in bonds maturing in 12-to-17 years and underweight in bonds maturing in 2 to 8 years, while allocations by rating and sector had near net neutral impacts. Positive selection within the 12-to-17-year bucket partially offset the overweight effect.

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For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is \$250,000.

Important information on risk

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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.

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