

Intermediate Government

Marketing communication | As of 30 Jun 2025

- **The Intermediate Government strategy outperformed the benchmark on a gross of fees basis but underperformed on a net of fees basis.**
- **Duration positioning was the primary contributor to performance.**
- **Curve positioning was the primary detractor from performance.**

Market review

As the quarter began, global markets were rattled by the broad implications of the U.S. administration's "Liberation Day" announcement of across-the-board tariff rates that were materially higher than market expectations. The subsequent 90-day pause in the most extreme measures calmed markets and led to a strong recovery in risk assets, although trade policy uncertainty continued to overhang the markets. At the same time, global economic data showed more signs of deceleration during the quarter, including a downward revision to first-quarter's U.S. gross domestic product (GDP) growth to -0.5% annualized. Although much of the weakness was due to a short-term surge in imports as businesses tried to front run tariffs, underlying U.S. consumer spending also slowed. June's U.S. employment report beat expectations, with higher job creation and a lower unemployment rate, but other labor market data continued to signal a further slowdown ahead. While inflation moderated to around 2.4% annually, according to the most recent Consumer Price Index print, the effects from tariffs may push core goods prices higher in the third quarter. As a result of U.S. trade policy uncertainty, the dollar weakened further versus most G10 peers and emerging market (EM) currencies.

The Federal Reserve (Fed) held rates steady throughout the quarter as policymakers continued to closely monitor economic data for potential impacts from trade policies, while signaling likely additional cuts later this year. The Bank of Japan (BoJ) also remained on hold during the quarter but left the door open for another rate hike later in the year. The European Central Bank (ECB) and Bank of England (BOE) both cut rates by another 50 and 25 basis points, respectively, with the ECB signaling a data-dependent approach as it nears the end of its current easing cycle. U.S. Treasury yields remained volatile, but the 10-year Treasury ultimately ended close to flat for the quarter at 4.24%, masking a sharp increase amid ongoing fiscal uncertainty, followed by a decline as concerns eased. Meanwhile, short to intermediate rates fell due to better inflation data while longer-term rates rose based on fears about fiscal policy and the country's growing debt load, resulting in a steeper Treasury yield curve for the quarter.



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Portfolio review

During the second quarter, the Intermediate Government strategy outperformed its benchmark, the Bloomberg U.S. Intermediate Government Index, on a gross of fees basis but underperformed on a net of fees basis.

Duration positioning was the primary contributor from performance. The strategy was modestly overweight duration during the quarter which contributed to performance as rates declined during the quarter. However, curve positioning detracted from performance as the portfolio was positioned with an overweight to the 5-10 year area of the yield curve which experienced less of a decline in yields compared to the shorter end of the curve.

During the quarter we modestly added to duration by purchasing 10-year Treasuries in April and 7- and 10-year Treasuries in May.

While we have upgraded our U.S. economic growth forecast to 1.0% for 2025 to reflect the improved tone of tariff rhetoric, this figure remains lower than it was before the tariff disruptions. We expect core inflation to increase to around 3.0% this year, which is lower than our previous forecast. However, these projections remain highly

uncertain and sensitive to the tariff outlook with the potential for much higher or lower growth, depending on whether tariffs are scaled back or raised in the months ahead.

We continue to anticipate two 25 basis point cuts by the Fed this year, bringing the policy rate to around 3.75%-4.00%. The ECB looks poised to lower rates again as well, with one more cut likely this year. Fiscal policy is turning more supportive in both the U.S. and eurozone economies, which should reduce the pressure on their respective central banks to reduce rates further in 2026. In China, we expect policymakers will continue their fiscal policy support, although substantial monetary easing is unlikely. We expect the 10-year Treasury yield to end the year at about 4.25%, reflecting reduced risks of weaker growth and higher risks of wider fiscal deficits.

Going forward, we will continue to maintain a slightly longer duration profile and position for a steepening yield curve. After dwindling in recent years, the portfolio no longer has exposure to agencies given the lack of relative value to similar-duration Treasuries.

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For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is \$250,000.

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Glossary

The **Bloomberg U.S. Aggregate Bond Index** tracks the performance of U.S. investment-grade bonds. The **Bloomberg U.S. Intermediate Government Index** covers measures of the non-securitized component of the U.S. Aggregate Index with maturities of 1 to 9.999 years. **It is not possible to invest directly in an index.** Clients should consult their financial professional regarding unknown financial terms and concepts.

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