

Long-Term Municipal

Marketing communication | As of 30 Sep 2024

- **The Bloomberg Main Municipal Bond Index, the benchmark for the Long-Term Municipal composite, returned 2.71% as its average market yield decreased by -40 bps to 3.31%.**
- **Allocation attribution by duration contributed, while allocation by rating and sector detracted.**
- **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.

Long-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 Main Index, the benchmark for the Long-Term composite, was limited by its weighting to bonds with modified durations of less than 4 years (~39%) which underperformed against the overall Index average.

The Long-Term Municipal Composite outperformed the benchmark in the third quarter. Allocation attribution rewards cases where the composite was overweight in outperforming segments of the market index or underweight in underperforming segments relative to the overall index average. Allocation by duration contributed as the composite was underweight in bonds with modified durations of less than 4 years. Allocation by rating and sector detracted as the composite was underweight in bonds rated A/A, and underweight in industrial development revenue bonds and water/sewer bonds. Allocation by sector was partially favored by the composite's overweight in leasing bonds. Detraction from security selection was primarily associated with local general obligations (which returned 2.62% for the composite vs 2.87% for the Index) and leasing bonds (2.52% vs 2.62%).

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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.

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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. **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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