Long-Term Municipal

Marketing communication | As of 31 Mar 2025

- **The Bloomberg Main Index, the benchmark for the Long-Term Composite, delivered a total return of -0.22% in the quarter as its average yield increased by 0.10% to 3.84%.**
- **Allocation by duration, rating and sector segments relative to the benchmark detracted to excess return. The remaining difference was allocated to credit selection/residual impacts less correlated with positioning.**
- **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

The municipal bond market underperformed other fixed income during the first quarter, with technicals acting as a stiff headwind. However, elevated yields, attractive valuations and improving market technicals created a compelling time to add municipal bonds to a diversified portfolio. While 10-year U.S. Treasury yields declined 37 basis points (bps) in the first quarter, 10-year AAA municipal yields moved in the opposite direction, rising 20 bps. Municipal-to-Treasury yield ratios have historically been a barometer of relative value in the municipal market. The benchmark 5-, 10- and 30-year ratios have averaged 63%, 65% and 84%, respectively, since the bottom of the interest rate selloff on 31 Oct 2023. As of March 31, the ratios of 74%, 78% and 92% are the cheapest since the recovery began. Overall issuance was up 15% in the first quarter compared to the same period in 2024, which was a record-breaking year. Issuance should remain elevated compared to both historical averages and last year's record numbers. On the demand side, fund flows have been relatively strong. Investors poured $9.7 billion into the municipal market in the first quarter.

Looking forward, 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 Q4 2024. Total state and local tax collections in 2024 were up 4.6% over 2023, while property tax collections alone rose by 8.2%. Strong growth in property taxes confirms local governments continue to benefit from appreciating property values and a strong demand for housing, while weakness in commercial real estate has not yet had a material impact. 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. Total state tax revenue collections ended 2024 up 4.0% year over year.

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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

The Bloomberg Main Index delivered a total return of -0.22% in the first quarter of 2025 as its average yield increased by 0.10% to 3.84%. Yields across the MMD AAA Benchmark Yield Curve Rates changed by -0.25%, -0.01%, 0.20%, 0.34%, 0.0.44% and 0.34% on maturities of 1, 5, 10, 15, 20 and 30 years over the quarter. The larger increase in yield for maturities 10 years or longer and bear steepening between 1 and 15 years largely benefited shorter maturities given their limited duration profiles. For instance, the Long (22+) Index, with a starting duration of 9.83 years, generated a total return of -1.46% as its average yield increased by +0.26% to 4.58%, while the Short/Intermediate (1-10) Index, with a starting duration of 3.65 years, generated a total return of 0.81% as its average yield decreased by -0.06% to 3.25%.

The Bloomberg Main Index, the benchmark for the Long-Term Composite, benefitted from a shorter duration profile in comparison to the Composite in the latest quarter with a starting average duration 6.15 years, compared to 7.31 years for the Composite. Bonds with durations of 6 or more years represented 43% of the Index as of quarter-end, compared to 82.5% for the Long-Term Composite. The highest index returns by rating category came from bonds rated BBB/Baa and A/A which returned 0.28% and 0.02%, while bonds rated AAA/Aaa, with an ending weight of 22%, returned -0.25%. Unrated bonds returned 0.35% but only represented 0.8% of the Index.

The Long-Term Composite lagged against its benchmark in the first 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, rating and sector segments relative to the benchmark detracted to excess return – primarily due to the composite's overall longer duration profile which was driven by the overweight in durations of 6 to 8 years, and underweight in durations shorter than 4 years. On the rating and sector levels, the composite was hampered relative to the Index by its underweight in bonds rated BBB/Baa, A/A and in Industrial Revenue bonds, and overweight in bonds rated AA/Aa and in Local GOs which underperformed. The remaining difference was allocated to credit selection/residual impacts less correlated with positioning.

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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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