

Why investors should consider an allocation to securitized credit

WHY SECURITIZED CREDIT?

The securitized sector is a complex, diverse group of investment opportunities. For an astute investor, mortgage-backed securities (MBS), commercial mortgage-backed securities (CMBS) and asset backed securities (ABS) may offer attractive investments with diversified credit exposure, uncorrelated returns and attractive cash flow characteristics. With 10-year rates now at levels we haven't seen in nearly 20 years and the economy starting to show signs of weakness, exposure to the securitized credit market can potentially generate strong risk adjusted returns for investors looking to diversify corporate earnings risk and their portfolios.



For income and growth focused investors, securitized credit has historically offered additional yield over U.S. Treasuries and corporate bonds while diversifying the risk exposures of their portfolios.

WHAT IS SECURITIZED CREDIT?

Securitization is the process in which certain assets are pooled, repackaged and divided into interest-bearing securities with rights to cash flows generated by those assets. The interest and principal payments from the assets are passed through to the purchasers of the securities.

The securitized credit sector's complexity can cause investors to avoid investing. The securitized market is robust and represents around 27% of the total outstanding U.S. fixed income market.¹ Securitized credit offers exposure to a variety of collateral types which can provide significant diversification benefits to a portfolio. Investors can miss out on unique sources of return if they avoid this sector or simply only invest in index-eligible securities due to concerns about complexity.

Figure 1: Securitized bonds generally fall into one of four categories

ABS	MBS	CMBS	Collateralized loan obligations (CLO)
			
Collateralized by a pool of assets across collateral types, structures, and sponsors with the most common being credit card receivables, and auto/student loans.	Backed by a pool of loans for residential homes, MBS are typically split into agency and nonagency subtypes.	Backed by a pool of loans on commercial properties, and are less prone to early principal repayment, reducing the prepayment risk.	Backed by a pool of first lien, senior secured broadly syndicated bank loans.

ABS

ABS is typically split between either consumer or commercial subtypes, with collateral varying widely within both subsectors. Asset backed security structures tend to be relatively shallow in terms of tranches, but can be created from dozens of collateral types. Auto loans, credit card receivables and student loans together constitute the overwhelming majority of the U.S. ABS market (Figure 2).

Consumer ABS are highly correlated with consumer behavior and sentiment, with common subsector examples including credit cards, personal loans, and auto loans.

Commercial ABS are highly correlated with the specific collateral pool or business with which they are associated. Popular subsector examples include equipment, triple net lease, and whole business securitizations. These securitizations are created to facilitate companies’ operations in capital intensive sectors or to streamline cash flows over time in areas where the natural business cycle may cause cash flow volatility.

Potential benefits of ABS

Risk-adjusted returns

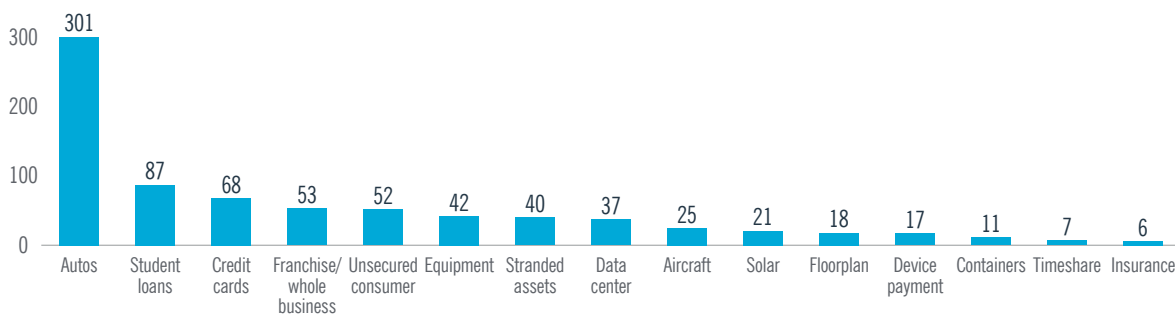
An allocation to ABS has offered investors higher Sharpe ratios over the intermediate- and long-term relative to the Bloomberg U.S. Aggregate Index. ABS can diversify a multi-sector portfolio and help to provide more efficient risk-adjusted results, with potentially lower return correlations to other securitized sectors as well as the broader capital markets. This is due to the extremely wide variety of idiosyncratic risks associated with ABS—a diversified portfolio frequently encompasses a variety of risks including credit card securitizations, whole businesses/franchise deals, data storage or cell towers securitizations, or even music royalty streaming deals.

Liquidity and complexity premiums

The ABS market offers both a large amount of short-duration, highly liquid investment options as well as deeper credit, longer duration esoteric financing securitizations. Structuring these more familiar cash flows provides investors with regular, stable investments that trade efficiently. On the other hand, structuring more esoteric cash flows can lead to increased yields due to liquidity and complexity premiums. Investing in ABS as part of a broader multi-sector portfolio can allow an asset manager to create a portfolio with higher risk-adjusted return potential.

Figure 2: ABS is a broad market

\$ billions



Data source: JP Morgan as of 31 Dec 2025.

MBS

MBS collateral types are typically initially divided into agency and non-agency securities to reflect appropriate credit risk. Agency MBS are backed by either the full faith and credit of the U.S. government (Ginnie Mae) or an implicit guarantee (Fannie Mae/Freddie Mac), whereas non-agency MBS provide enhanced returns that reflect the underlying credit risk.

The non-agency MBS market comprises several distinct subtypes, with Agency CRT, Pre-GFC legacy bonds, non-qualified mortgages, Jumbo securities representing the largest segments by issuance volume and market presence (Figure 3). Each category presents unique credit considerations and performance dynamics.

Potential benefits of MBS

Risk adjusted returns

- Agency MBS can add additional spread when compared to U.S. Treasuries and still provide significant liquidity. Non-agency benefits include substantial additional spread as compensation for credit risk and the lack of standardization within that sub-sector.
- Non-Agency MBS can provide substantial additional spread, enhancing return potential for traditional core and core plus portfolios during times of credit outperformance.

Diversification

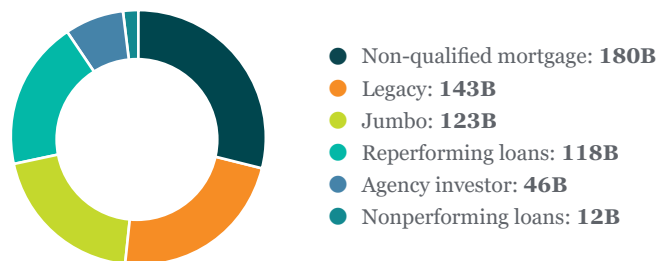
- Typically, Agency MBS is more sensitive to mortgage rates, housing prices or lending activity and offer additional spread compared to treasuries to compensate investors for prepayment risk.
- Non-Agency MBS adds a credit element to security return drivers. Accordingly, non-Agency MBS tends to exhibit a lower correlation to traditional Agency MBS. This credit element of non-agency MBS can also help enhance returns in traditional core fixed income portfolios.

Liquidity

Agency MBS is the most-liquid asset class after U.S. Treasuries and represent more than 40% of the Bloomberg U.S. Aggregate Index.² Significant trading volume and low transaction costs provide professional asset managers with the ability to adjust and scale portfolio positions quickly and efficiently.

Figure 3: Non-agency MBS universe

Assets by subtype (\$ billions)



Data source: JP Morgan as of 31 Jan 2026.

CMBS

CMBS subsectors include conduit, single-asset/single-borrower (SASB) and agency multifamily loans, along with a few other minor groups. These securities are most like non-Agency MBS, with securitized cash flows and loans secured by underlying real estate. However, they have some significant differences:

- Portfolio of underlying loans are associated with commercial properties rather than residential properties.
- Underlying loans are structurally less prone to early principal repayment, which significantly reduces prepayment risk.
- Larger loan sizes with higher loan specific credit risk.
- More simplistic principal and interest cash flow waterfall structure.

The CMBS market is a mature, liquid fixed-income sector with hundreds of billions in outstanding securities and robust participation (Figure 4). Moreover, the sector may help increase a portfolio’s overall credit quality due to the availability of tranches with strong credit ratings (Figure 5).

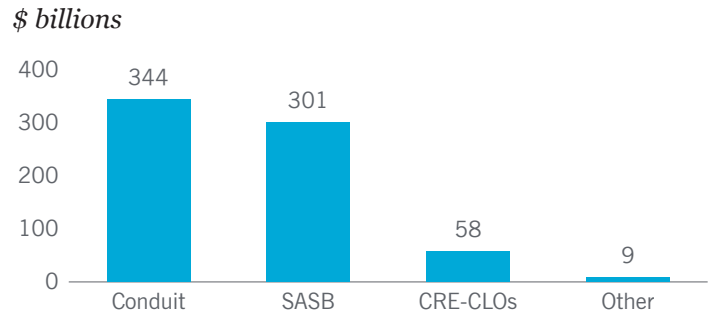
Potential benefits of CMBS

Risk-adjusted returns

An allocation to the sector has historically enhanced overall portfolio performance and Sharpe ratio, with strong risk-adjusted returns.

Tactical and strategic investment targeting CMBS structures provide exposure to a specific pool of commercial mortgages at a particular credit level and duration. Accordingly, investors can tailor their investments to reflect their individual views on specific regions and earn excess returns per credit rating as compensation for taking specific geographic or structural risks.

Figure 4: CMBS non-Agency market sizes



Data source: JP Morgan as of 31 Dec 2025.

Figure 5: CMBS delivers overall strong credit quality



Data source: Bloomberg and Nuveen as of 04 Feb 2026.

Complexity

The performance of a CMBS bond is mainly determined by the performance of the underlying loan pool. Idiosyncratic factors such as regional differences and property types can heavily influence credit performance of individual bonds, which can provide some additional diversification. These drivers are unique to CMBS and can even be loan-specific, and befitting managers with the resources to analyze the underlying real estate in detail.

Duration

Strong protections from loan pre-payments provide for more predictable bond cash flows. This relative certainty allows investors to select investments that reflect certain duration views or meet future cash flow needs.

Why Nuveen for securitized credit³

Nuveen offers unmatched expertise in securitized credit with over 40+ years of experience and \$89+ billion in assets under management.³ Our 60+ specialists conduct rigorous analysis across traditional and esoteric sectors, while adeptly accessing markets and allocations through deep industry relationships. We focus on high-quality collateral, conviction-based investing and long-term risk management. We seek to meet the needs of our clients by delivering stable performance, providing strong income potential and managing risks.

For more details on how securitized credit can play a role in your portfolio, please consult with your local Nuveen representative or visit nuveen.com.

Sources

1 Data source: Bloomberg, L.P., Bloomberg U.S. Aggregate Bond Index as of 19 Aug 2025.

2 Data source: Bloomberg, L.P., Bloomberg MBS Index as of 19 Aug 2025.

3 Investment professionals and assets under management as of 31 Dec 2025. Nuveen assets under management (AUM) is inclusive of underlying investment specialists.

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Investing involves risk; principal loss is possible. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, derivatives risk, dollar roll transaction risk and income risk. As interest rates rise, bond prices fall. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. Investing in MBS entails various risks, including credit risks inherent in the underlying collateral, the risk that the servicer fails to perform its duties, liquidity risks, interest rate risks, structure risks, and geographical concentration risks. Investing in ABS entails various risks, including credit risks inherent in the underlying collateral, the risk that the servicer fails to perform its duties, liquidity risks and prepayment risk.

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