

Intermediate ESG Municipal

Marketing communication | As of 30 Sep 2025

- **The Bloomberg 3-15 Year Blend Index, the benchmark for the Intermediate ESG Composite, generated a total return of 2.71% in the third quarter as its average yield ended at 3.23%, or lower by -33bps.**
- **The composite marginally trailed its benchmark over the quarter, supported by a longer duration profile but dragged by unfavorable rating and sector allocation effects.**
- **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 market reached a critical inflection point after a positive third quarter following underperformance against broader fixed income markets driven by unprecedented supply pressure, challenging fund flows and a higher-for-longer rate environment. However, the return of shareholder inflows – one of the most important technical factors for municipals – helped the sector to rally and outperform in the third quarter with the Bloomberg Municipal Bond Index returning 3.00% compared to 2.03% for the Bloomberg U.S. Aggregate Index. The Municipal-to-Treasury yield ratios have historically been a barometer of relative value in the municipal market. Current ratios of 60%, 70% and 90% remain well below year-beginning levels and meaningfully cheaper than recent history. A steepened municipal yield curve still offers additional opportunity in long duration going forward. 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. The Federal Reserve's rate cuts, combined with strong credit fundamentals and potentially improving technical conditions, may create a compelling opportunity for the remainder of 2025.

Supply trends remain robust as municipal bond supply in 2025 is projected to exceed last year's record \$500 billion, though issuance should slow in the fourth quarter. Year-to-date, \$428 billion has been issued – 14% higher than last year. On the demand side, investor demand surged during the third quarter with inflows of \$8.8 billion, which brought flows to \$31.6 billion year-to-date, including \$20.2 billion into long and intermediate funds. Separately managed account interest remains robust, with flows tilting toward intermediate strategies as duration becomes a tailwind.

Tax revenue collections and reserves remain at all-time highs despite economic headwinds, with state and local tax revenue collections up 5.1% through the first half of 2025 compared to last year. Individual and Corporate income taxes showed the strongest performance with tax collections up 10.9% and 4.9%, respectively, compared to the same period last year (2024). Sales tax growth has been more muted, up 2.0% from last year. States primarily rely on income and sales taxes to fund operations, and both have demonstrated resilience following several years of post-pandemic volatility. 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 changes in federal policy or economic growth deceleration.

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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 MMD-AAA GO Yield Curve shifted downward in Q3 as yields on 1-, 5-, 10-, 15-, 20- and 30-year maturities ended lower by -19, -35, -34, -31, -30, -30 bps, respectively. The Bloomberg Main Index delivered a return of 3.00% in the quarter as its average yield ended at 3.65%, or lower by -23 bps on the month, -30 bps on the quarter, and -9 bps year-to-date. Longer duration was beneficial in the third quarter. For instance, the Short/Intermediate (1-10) Index returned 2.21% as its average yield moved lower by -34 bps

to 2.86% while the Long Bond (22+) Index returned 3.82% as its average yield moved lower by -27 bps to 4.63%.

The Bloomberg 3-15 Year Blend Index, the benchmark for the Intermediate ESG Composite, generated a total return of 2.71% in the third quarter as its average yield ended lower by -33 bps to 3.23%. The duration of the (3-15) Index as of the start of the quarter was 5.04 years, compared to 5.19 for the Intermediate ESG Composite and 6.53 for the Main Index. Bonds rated A/A outperformed in the Index with a total return of 2.92%, compared to 2.68% and 2.63% for bonds rated AA/Aa and AAA/Aaa, respectively. 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. The Intermediate ESG Composite lagged its benchmark in the third quarter. The composite's overweight in bonds with a duration of 6 to 8 years contributed positively, while allocations by rating and sector detracted its underweight in bonds rated A/A and in IDR/PCR bonds.

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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. The portfolio will include only holdings deemed consistent with the applicable Environmental Social Governance (ESG) guidelines. As a result, the universe of investments available to the portfolio will be more limited than other portfolios that do not apply such guidelines. ESG criteria risk is the risk that because the portfolio's ESG criteria exclude securities of certain issuers for nonfinancial reasons, the portfolio may forgo some market opportunities available to portfolios that do not use these criteria.

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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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