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CIO Weekly Commentary
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CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Munis make their mark amid tariff uncertainty

Bottom line up top

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On behalf of Nuveen's Global Investment Committee

As Head of Equities and Fixed Income, Nuveen's CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she chairs Nuveen's Equities Investment Council and is a portfolio manager for several key investment strategies.

U.S. equities navigate a U-turn. Since bottoming on 08 April, the S&P 500 Index has returned almost 20% — aided by a 3.3% surge on 12 May alone and a 5.3% gain for last week as a whole — erasing its year-to-date losses. The most recent accelerant: a deal reached over the 10-11 May weekend in which the U.S. and China pledged to reduce tariffs and start a new round of trade talks.

Because U.S. tariffs are still at post-World War II highs, though, we expect them to create headwinds for the U.S. economy. Our models now show both hotter inflation and a slower rate of GDP expansion for 2025 compared to our pre-02 April forecast (Figure 1). The possibility of recession remains at 35%.

Have tariffs made their mark on the U.S. economy? Maybe. On one hand, retail sales edged up only +0.1% in April after jumping +1.7% in March, when customers front-loaded their purchases in anticipation of the import levies. But on the other hand, inflation appears to be under control — for now anyway — suggesting tariffs have yet to filter into higher prices. The Consumer Price Index rose +2.3% on an annualized basis last month, the lowest reading since February 2021. Meanwhile, the Producer Price Index, which measures prices paid by manufacturers, wholesalers and retailers, fell from +3.4% year-over-year in March to +2.4% in April.

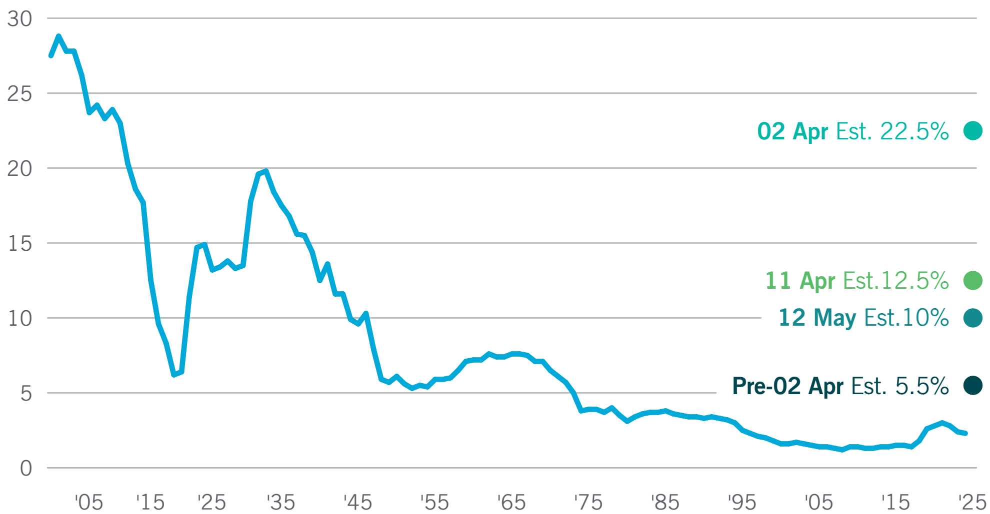
We doubt April's inflation reports will alter the U.S. Federal Reserve's expected timeline for rate cuts and continue to expect two rate reductions by year-end. However, our assessment could change based on how inflation and the labor market move.

Against this mixed and uncertain backdrop, we continue to lean toward fixed income segments offering compelling yields, solid fundamentals and the potential for capital gains.

Against this backdrop, we continue to lean toward fixed income segments offering compelling yields.

FIGURE 1: CHARTING TARIFFS' IMPACT ON THE U.S. ECONOMY

Historical average effective U.S. tariff rate on imports (%)



2025 Estimates:	Pre-02 Apr Expectation	02 Apr "Liberation Day"	11 Apr 90-day Pause, Sector Exemptions	12 May U.S./China Agreement
U.S. GDP Growth (%)	2.0	0.4	0.8	1.0
Core PCE inflation (%)	2.5	4.2	3.2	3.0
12-month recession probability (%)	35	70	40	35

Data source: Bloomberg, L.P., Nuveen Macro Research. 31 Dec 1900 – 12 May 2025.

Portfolio considerations

Although tax season may officially be over, municipal bonds remain among our favored asset classes. Munis have struggled so far this year, as their yields have risen in tandem with other fixed income sectors following President Trump's Liberation Day announcement. Notably, the upswing in yields has been unrelated to credit concerns — tax-free bonds remain on solid financial footing, with state and local governments recording "rainy-day funds" at 15% of 2025 spending levels, a dramatic increase over the 8% registered in 2019.

Munis also face challenges on Capitol Hill, with lawmakers looking to extend the 2017 Tax Cuts and Jobs Act. The possibility of Congress eliminating munis' tax-exempt status in a bid to raise revenue fueled a sharp increase in supply as municipalities raced to issue bonds in hopes of their being grandfathered under the old law. We believe munis will retain their favorable tax treatment given the essential nature of municipal projects.

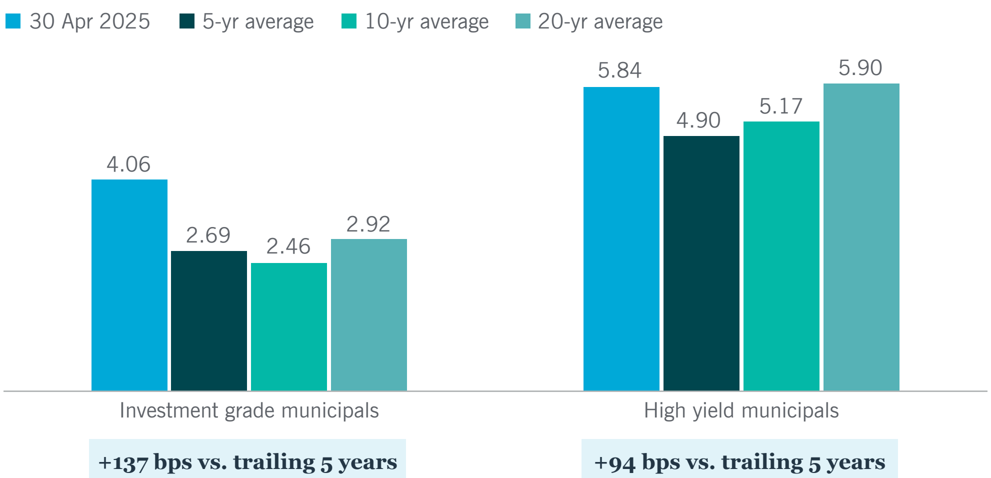
Another revenue raiser contemplated by Congress is lifting the top federal marginal tax rate from 37% to 39.6%, which would boost the maximum tax-equivalent yield for investment grade (IG) munis from an already healthy 6.86% to 7.17%.

Current yields are elevated for IG and high yield munis, with income comfortably above, or in line with, long-term averages (Figure 2). Overall, yields are in the 97th percentile compared to payouts over the past ten years ended 28 April 2025. Since higher yields translate to lower prices, municipal bonds could be poised to deliver not only income, but the potential for capital gains as well.

Current yields are elevated for investment grade and high yield munis.

FIGURE 2: STARTING YIELD LEVELS ARE ELEVATED ACROSS INVESTMENT GRADE AND HIGH YIELD MUNICIPALS

Current municipal yields are attractive compared to history



Data source: Bloomberg, L.P., 30 Apr 2025. **Performance data shown represents past performance and does not predict or guarantee future results.** Yields are yield to worst. Yield to worst is the lowest potential yield that can be received on a bond without the issuer defaulting. **Representative indexes: investment grade municipals:** Bloomberg Municipal Bond Index; **high yield municipals:** Bloomberg High Yield Municipal Bond Index.

About Nuveen's Global Investment Committee

Nuveen's Global Investment Committee (GIC) brings together the most senior investors from across our platform of core and specialist capabilities, including all public and private markets.

Regular meetings of the GIC lead to published outlooks that offer:

- macro and asset class views that gain consensus among our investors
- insights from thematic "deep dive" discussions by the GIC and guest experts (markets, risk, geopolitics, demographics, etc.)
- guidance on how to turn our insights into action via regular commentary and communications

For more information, please visit nuveen.com.

Endnotes

Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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