

27 October 2025

Bond markets advance ahead of Fed meeting

Fixed income markets posted solid gains last week despite mixed Treasury yields as benign inflation data paved the way for another likely U.S. Federal Reserve rate cut. Corporate credit outperformed across sectors, with high yield extending its rebound and municipal bonds absorbing record issuance.

HIGHLIGHTS

- All major fixed income segments rallied, including Treasuries, investment grade and high yield corporates, MBS, preferreds, senior loans and emerging markets.
- Municipal bond yields were mixed. New issue supply was outsized at \$16B, and fund inflows were \$1.1M. This week's new issuance is \$5.6B.



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Watchlist

- 10-year Treasury yields fell marginally last week, and we expect minimal further declines from here.
- Spread sectors broadly outperformed similarduration Treasuries amid softer inflation data.
- We expect the technical environment for municipal bonds to improve over the remainder of the year.

INVESTMENT VIEWS

We believe fixed income **yields generally present** a **very attractive entry point**, creating compelling income opportunities.

Downside economic risks are material, despite strong fundamentals, with tariffs likely to compress consumer spending and weigh on business fixed investment. But a U.S. recession is not our base case.

Risk premiums may widen further, with entry points likely to become more attractive over the coming quarters. Duration is likely to reassume its role as a growth hedge.

KEY RISKS

- Tariffs further undermine consumer and business confidence, raising prices while weighing on sentiment and activity.
- Inflation fails to continue moderating as expected, weighing on asset prices.
- Geopolitical flare-ups intensify around the world.

HIGH YIELD CORPORATE REBOUND CONTINUES DESPITE OUTFLOWS

U.S. Treasury yields were mixed last week, with 2-year yields rising 2 basis points (bps), while 10-year yields fell -1 bps. The 10-year yield was relatively flat, ending at at 4.00%. Amid the ongoing U.S. government shutdown, which may last at least another couple of weeks, economic data releases have largely been on pause. One exception was the September CPI inflation report last Friday, which showed a softer-than-feared increase in core consumer prices. The core index rose 0.2% for the month and 3.0% year-over-year, with shelter softening and goods prices remaining hot but not accelerating. This last data point clears the way for the Fed to cut policy rates by 25 bps at its meeting this week.

Investment grade corporates advanced, returning 0.31% for the week and beating similar-duration Treasuries by 21 bps. The technical backdrop was highly supportive, as inflows accelerated to \$8.3 billion, up almost 50% versus the prior week. That brings inflows back to their recent average run rate. Meanwhile, new issuance was only around \$10 billion, about half of consensus expectations. As a result, investors clamored to snap up those deals, with average oversubscription rates of 3.7x and new issue concessions of just 0.1 bps.

High yield corporates also gained, returning 0.40% and outperforming similar-duration Treasuries by 35 bps. Senior loans returned 0.23%. Both asset classes have rebounded after a brief slide earlier in the month, capping their best two-week periods since July. Despite the rally, outflows continued in both asset classes, totaling -\$98 million and -\$781 million in high yield bonds and senior loans, respectively. As in high grade markets, new issuance was relatively light, with \$2.8 billion and \$5.6 billion pricing across high yield and loans, respectively.

Emerging markets rallied again, returning 0.45% and beating similar-duration Treasuries by 36 bps. Sovereign and corporate spreads tightened -8 bps and -5 bps, respectively, as the rally was broad across sectors and ratings segments. Inflows accelerated substantially to \$2 billion, taking the year-to-date total to almost \$17 billion. As in other markets, new supply was light, with just under \$9 billion pricing.

RECORD MUNICIPAL BOND ISSUANCE MEETS ROBUST INVESTOR DEMAND

The municipal bond yield curve continued to flatten last week, with short-term yields rising 9 bps while long-term yields declined 3 bps. New issuance was outsized at \$16 billion, marking the fifth-largest weekly supply on record. The new deals were well received, with positive fund flows including \$862 million into exchange-traded funds.

This week's new issue supply is expected to subside to a very manageable level, which should keep munis well bid. The muni market remains strong, supported by a robust Treasury market and continued demand from both individual and institutional investors. We expect the municipal market to maintain its strength through year-end.

The Commonwealth of Kentucky issued \$940 million in state property and building commission revenue bonds, rated Aa3 by Moody's. The deal was well received.

High yield municipal bond yields decreased slightly last week as the market absorbed 13 deals totaling \$650 million. The average yield for the index fell to 5.61% from 5.63%, supported by strong demand as inflows reaccelerated following the prior week's slowdown. The Chicago Board of Education announced a \$1.1 billion refinancing that will give investors a clearer view of current market pricing for the bonds. Puerto Rico reported sales tax collections that significantly exceeded expectations, supporting strong cash flows for CVI bonds.

High yield corporates posted their best two-week performance since July, returning 0.40% last week.

In focus

Look at loans, despite the Fed and headlines

Although senior loans are directly affected by Federal Reserve policy, some investors believe – incorrectly – that the asset class can't perform well during periods of Fed easing and falling yields.

In fact, since 1997, loans have posted gains in eight of the nine years when the Fed lowered rates. (The only down year during a Fed easing cycle was 2008, when the Global Financial Crisis drove all risk assets lower.) We forecast one more 25 basis point cut this year and two next year, although one of those cuts could be pulled into 2025.

But whether Fed policy aligns with our view or the market's more dovish outlook, lower rates should spur a rise in M&A activity and benefit otherwise solid businesses that had faced challenges amid higher rates. Meanwhile, loans continue to offer yields topping 7.7%.

We believe investors seeking to allocate to loans would be best served by active management. To illustrate, since 2021, Nuveen's Leveraged Finance Credit Team has tended to avoid most of the issuers that have gone through Liability Management Exercises, or distressed exchanges, while steering clear of traditional defaults. One such issuer, a car parts dealer, has made headlines recently.

Disciplined credit underwriting, a highly selective approach and – most importantly – active management are critical to avoiding credits headed toward default while also identifying discounted loans of issuers whose fundamentals are improving, thereby capturing total return potential.

U.S. Treasury market

Change (%)
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Maturity	Yield	Week	Month- to-date	Year- to-date			
2-year	3.48	0.02	-0.13	-0.76			
5-year	3.61	0.01	-0.14	-0.78			
10-year	4.00	-0.01	-0.15	-0.57			
30-year	4.59	-0.01	-0.14	-0.19			

Source: Bloomberg L.P., 24 Oct 2025. Performance data shown represents past performance and does not predict or guarantee future results.

Municipal market

Change (%)

Maturity	Yield to worst	Week	Month- to-date	Year- to-date
2-year	2.44	0.09	0.14	-0.38
5-year	2.36	0.03	0.04	-0.51
10-year	2.70	-0.06	-0.22	-0.36
30-year	4.10	-0.03	-0.14	0.20

Source: Bloomberg L.P., 24 Oct 2025. Performance data shown represents past performance and does not predict or guarantee future results.

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	67
30-year AAA Municipal vs Treasury	89
High Yield Municipal vs High Yield Corporate	84

Source: Bloomberg L.P., Thompson Reuters, 24 Oct 2025. AAA municipals represented by the MMD scale. The high yield ratio equals the yield-to-worst for the Bloomberg High Yield Municipal Index divided by the yield-to-worst for the Bloomberg High Yield Corporate Index. Performance data shown represents past performance and does not predict or guarantee future results.

Characteristics and returns

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Index	Yield to worst (%)	Spread (bps)	Effective duration (years)	Week	Month- to-date	Year- to-date
Municipal	3.55	_	6.64	0.28	1.31	3.98
High yield municipal	5.62	1811	7.38	0.29	1.11	2.42
Short duration high yield municipal ²	5.61	314	3.61	0.21	-0.23	3.00
Taxable municipal	4.68	55 ³	7.78	0.19	1.66	8.20
U.S. aggregate bond	4.22	273	6.04	0.17	1.20	7.41
U.S. Treasury	3.80	-	5.95	0.09	1.10	6.52
U.S. government related	4.22	39 ³	5.48	0.19	1.06	7.83
U.S. corporate investment grade	4.69	75³	6.97	0.31	1.25	8.21
U.S. mortgage-backed securities	4.54	26 ³	5.60	0.17	1.40	8.25
U.S. commercial mortgage-backed securities	4.39	77³	3.88	0.03	0.78	7.15
U.S. asset-backed securities	4.10	54 ³	2.76	0.07	0.59	5.24
Preferred securities	5.82	158³	5.37	0.59	0.59	7.09
High yield 2% issuer capped	6.69	2813	2.82	0.40	0.24	7.48
Senior loans ⁴	7.79	458	0.25	0.23	0.06	4.75
Collateralized loan obligations, AA	5.04	1443	0.25	0.09	0.30	4.82
Collateralized loan obligations, BB	10.28	672 ³	0.25	0.10	-0.25	7.71
Global emerging markets	5.93	2033	6.13	0.45	1.13	9.73
Global aggregate (unhedged)	3.39	29 ³	6.46	-0.19	0.20	8.13

Returns (%)

1 Yield difference between the Bloomberg High Yield Municipal Index and the 20-year AAA MMD scale. 2 Data is a subset of the S&P Short Duration Municipal Yield Index that is below investment grade/nonrated. Spread is the yield difference between this subset and the subset rated AAA. 3 Option-adjusted spread to Treasuries. 4 Spread refers to the 3-year discount margin. Duration is estimated based on the frequency of the reset date.

Source: Bloomberg L.P. and Standard & Poor's, 24 Oct 2025. **Performance data shown represents past performance and does not predict or guarantee future results.** Unless otherwise noted, the index is Bloomberg. All index returns are shown in U.S. dollars. **Yield to worst** is the lowest potential yield that can be received on a bond without the issuer actually defaulting. **Effective duration** (expressed in years) measures the price sensitivity of a fixed-income investment to a change in interest rates, considering that expected cash flows will fluctuate as interest rates change. Index performance is shown for illustrative purposes only. Index returns include reinvestment of income and do not reflect investment advisory and other fees that would reduce performance in an actual client account

For more information, please visit nuveen.com.

Performance: Bloomberg, L.P. Issuance: J.P. Morgan, 24 Oct 2025. Fund flows: Lipper. New deals: Market Insight, MMA Research, 22 Oct 2025.

Any reference to credit ratings refers to the highest rating given by one of the following national rating agencies: S&P, Moody's or Fitch. Credit ratings are subject to change. AAA, AA, A and BBB are investment grade ratings; BB, B, CCC, CC, C and D are below-investment grade ratings.

Representative indexes: municipal: Bloomberg Municipal Index; high yield municipal: Bloomberg High Yield Municipal Index; short duration high yield municipal: S&P Short Duration Municipal Yield Index; taxable municipal: Bloomberg Taxable Municipal Bloom Index; U.S. aggregate bond: Bloomberg U.S. Treasury: Bloomberg U.S. Treasury Index; U.S. government-Related Index; U.S. corporate investment grade: Bloomberg U.S. Corporate Index; U.S. mortgage-backed securities; Bloomberg U.S. Mortgage-Backed Securities Index; U.S. commercial mortgage-backed securities: Bloomberg CMBS ERISA-Eligible Index; U.S. asset-backed securities: Bloomberg Asset-Backed Securities: Bloomberg High Yield 2% Issuer Capped Index; senior ioans: S&P UBS Leveraged Loan Index; CLO AA: J.P. Morgan Collateralized Loan Obligation BB Index; global emerging markets: Bloomberg Emerging Market USD Aggregate Index; global aggregate: Bloomberg Global Aggregate Unhedged Index.

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Investors should contact a tax professional regarding the appropriateness of tax-exempt investments in their portfolio. 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 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. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

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