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Weekly Fixed Income Commentary

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Bond markets advance on Fed rate cut expectations

U.S. Treasury yields were mixed last week as inflation came in hotter than expected while labor market data showed signs of weakness. Spread sectors outperformed similar-duration Treasuries amid the divergent economic signals. We expect the U.S. Federal Reserve to cut rates by 25 basis points at this week's meeting.

HIGHLIGHTS

- **Treasuries, taxable munis, MBS, high yield corporates, senior loans, CLOs and emerging markets all rallied.**
- **Municipal bond yields declined. New issue supply was $11.9B, and fund inflows were $2.2B. This week's new issuance is light at $5B.**

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Watchlist

- *10-year Treasury yields were close to flat last week.*
- *Spread sectors universally outperformed similar-duration Treasuries.*
- *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.

CREDIT MARKETS ADVANCE AMID FED CUT EXPECTATIONS

U.S. Treasury yields stabilized last week following a substantial rally over the prior month. The 10-year yield declined 1 basis point (bp), though the curve broadly flattened as the 2-year yield rose 5 bps and 30-year yield fell 8 bps. Economic data were mixed as well, with August CPI inflation slightly above expectations. Core goods prices rose 0.35% for the month, accelerating again as tariff impacts slowly work through supply chains to final consumer prices. Meanwhile, initial jobless claims reached a fresh post-Covid high, potentially signaling further labor market weakness, though levels remain historically low. We expect the Fed to cut rates by 25 basis points at this week's meeting.

Investment grade corporates gained again, returning 0.59% for the week and beating similar-duration Treasuries by 25 bps. Spreads tightened toward their recent lows, with the index spread level now at 74 bps. The strong performance came despite somewhat softer technical dynamics. Inflows slowed to $5.9 billion, still a very healthy level, but weaker than the recent pace. Supply was larger than expected with $40 billion of new deals pricing. Those deals continued to be met with strong demand, with average oversubscription rates of 4x as investors jostled to lock-in yields ahead of the Fed's expected rate cut. Separately, preferred securities had another strong week, returning 0.85% and beating similar-duration Treasuries by 62 bps.

High yield corporates also gained, returning 0.27% and outperforming similar-duration Treasuries by 26 bps. Senior loans returned 0.16%. Both asset classes saw healthy supply, with just under $10 billion pricing in high yield and $27 billion in loans. Inflows were mixed, with substantial high yield fund inflows of $1.2 billion, while loan funds had small outflows totaling -$160 million.

Emerging markets advanced, returning 0.48% and outpacing similar-duration Treasuries by 23 bps. Spreads compressed across the board, led by high yield sovereigns which narrowed 11 bps. Inflows were very strong, totaling $1.4 billion, skewed toward hard currency funds. Supply was also active, with almost $16 billion pricing, and those deals were met with robust demand and average oversubscription rates of 4.5x.

MUNICIPAL MARKETS RALLY AMID STRONG INVESTOR DEMAND

The municipal bond yield curve rallied strongly last week, with short-term rates declining -11 bps and long-term rates falling -20 bps. New issue supply was well received by investors. Fund flows reached $2.2 billion, including $1.3 billion in exchange-traded fund inflows. This week's light new issue calendar should continue to find strong reception.

The municipal market remains well-supported for several key reasons. First, the government bond market has stabilized. Second, while supply has been elevated this year, demand has picked up considerably in recent weeks, driving the strong rally.

Despite this strength, municipals continue to offer compelling value. Some tax-exempt bonds remain available in the intermediate range at 4%, though inventory is becoming increasingly scarce. Similarly, on the long end, tax-exempt bonds are still offered at 5%, but these opportunities are also growing limited. We expect the municipal bond market to remain well-supported through year-end.

The Chicago Board of Education issued $650 million in unlimited tax general obligation bonds (rated BB+). Strong investor demand prompted underwriters to lower yields at final pricing.

High yield municipal funds captured approximately 50% of the $3 billion in net flows over the last two weeks, marking a remarkable shift after crisis-level underperformance year-to-date. September saw average high yield muni yields decrease -23 bps versus -37 basis points for high quality munis, widening credit spreads by 14 bps. Significant relative value dispersion emerged quickly, with large index constituents leading: Puerto Rico Sales Tax Financing Corporation (COFINA) 5s declined -46 bps, Buckeye 5s fell -42 bps and the Georgia Tollroad deal dropped nearly -80 bps since July.

This week's light muni bond new issue calendar should continue to find strong reception.

In focus

The ECB believes the price is right

As expected, the European Central Bank held its key policy rate at 2% for the second consecutive meeting last week, as President Christine Lagarde stated that inflation "is in a good place."

Unlike the U.S. Federal Reserve, which monitors inflation and the health of the labor market (its dual mandate), the ECB's primary goal is price stability, namely, an inflation rate of 2% over the medium term. On that front, the ECB continues to make progress — inflation has been 2.3% or below since February.

At the same time, growth in the eurozone has been surprisingly resilient. Despite uncertainty over a trade deal between the European Union and U.S., economic activity remained in expansion territory in August for the eighth straight month. Moreover, fiscal stimulus is taking hold while bank credit is flowing. For these reasons, we believe the eurozone economy can strengthen heading into the fourth quarter.

Looking ahead, we don't expect the ECB to reduce rates in the near term unless growth declines rapidly to justify an insurance cut. Instead, the central bank will keep its options open and remain data dependent. That means maintaining hawkish messaging with a dovish safety net, although Lagarde has stated that, when it comes to monetary policy, "I'm neither hawk nor dove. I'm an owl." We also think the euro will strengthen versus the dollar in the fourth quarter as yields on German bunds approach 3% (from around 2.70% on Friday).

U.S. Treasury market

		Change (%)		
Maturity	Yield	Week	Month-to-date	Year-to-date
2-year	3.56	0.05	-0.06	-0.69
5-year	3.63	0.05	-0.06	-0.75
10-year	4.07	-0.01	-0.16	-0.51
30-year	4.68	-0.08	-0.25	-0.10

Source: Bloomberg L.P., 12 Sep 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	2.00	-0.11	-0.20	-0.82
5-year	2.17	-0.11	-0.20	-0.70
10-year	2.90	-0.19	-0.32	-0.16
30-year	4.23	-0.20	-0.38	0.33

Source: Bloomberg L.P., 12 Sep 2025. **Performance data shown represents past performance and does not predict or guarantee future results.**

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	71
30-year AAA Municipal vs Treasury	90
High Yield Municipal vs High Yield Corporate	85

Source: Bloomberg L.P., Thompson Reuters, 12 Sep 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

				Returns (%)		
Index	Yield to worst (%)	Spread (bps)	Effective duration (years)	Week	Month-to-date	Year-to-date
Municipal	3.58	–	6.94	1.48	2.38	2.70
High yield municipal	5.64	162[1]	7.79	1.74	2.68	1.34
Short duration high yield municipal[2]	5.49	300	3.87	0.68	1.17	3.19
Taxable municipal	4.78	61[3]	7.84	0.35	1.49	6.64
U.S. aggregate bond	4.29	28[3]	6.07	0.41	1.34	6.40
U.S. Treasury	3.87	–	5.98	0.26	1.08	5.60
U.S. government related	4.28	39[3]	5.43	0.35	1.04	6.78
U.S. corporate investment grade	4.74	74[3]	6.95	0.59	1.76	7.15
U.S. mortgage-backed securities	4.62	29[3]	5.67	0.56	1.54	7.10
U.S. commercial mortgage-backed securities	4.45	78[3]	3.90	0.00	0.47	6.40
U.S. asset-backed securities	4.13	49[3]	2.68	0.09	0.49	4.55
Preferred securities	5.77	148[3]	5.26	0.85	1.71	6.67
High yield 2% issuer capped	6.64	270[3]	2.78	0.27	0.59	6.98
Senior loans[4]	7.66	446	0.25	0.16	0.32	4.53
Collateralized loan obligations, AA	5.10	130[3]	0.25	0.12	0.23	4.21
Collateralized loan obligations, BB	10.00	630[3]	0.25	0.20	0.45	7.40
Global emerging markets	5.96	200[3]	6.09	0.48	1.16	8.56
Global aggregate (unhedged)	3.43	29[3]	6.50	0.20	0.77	8.04

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, 12 Sep 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:** The Bond Buyer, 12 Sep 2025. **Fund flows:** Lipper. **New deals:** Market Insight, MMA Research, 10 Sep 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 Bond Index; **U.S. aggregate bond:** Bloomberg U.S. Aggregate Bond Index; **U.S. Treasury:** Bloomberg U.S. Treasury Index; **U.S. government related:** Bloomberg 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 Index; **preferred securities:** ICE BofA U.S. All Capital Securities Index; **high yield 2% issuer capped:** Bloomberg High Yield 2% Issuer Capped Index; **senior loans:** S&P UBS Leveraged Loan Index; **CLO AA:** J.P. Morgan Collateralized Loan Obligation AA Index; **CLO BB:** 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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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. Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure and therefore are subject to greater credit risk. Foreign investments involve additional risks, including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks may be magnified in emerging markets. Asset-backed and mortgage-backed securities are subject to additional risks such as prepayment risk, liquidity risk, default risk and adverse economic developments. The value of convertible securities may decline in response to such factors as rising interest rates and fluctuations in the market price of the underlying securities. Senior loans are subject to loan settlement risk due to the lack of established settlement standards or remedies for failure to settle. These investments are subject to credit risk and potentially limited liquidity, as well as interest rate risk, currency risk, prepayment and extension risk, and inflation risk. Any investment in collateralized loan obligations or other structured vehicles involves significant risks not associated with more conventional investment alternatives.

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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