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**Separately Managed Accounts** | Global Fixed Income

# Investment Grade Corporate

**Marketing communication** | As of 30 Jun 2024

- **During the second quarter the Investment Grade Corporate strategy underperformed on a gross and net of fees basis.**
- **The shorter duration posture was the primary contributor to performance.**
- **The higher credit quality bias was the primary detractor from performance.**

## Market review

Economic growth continued at a healthy pace in the second quarter, although signs of deceleration became more evident. First quarter U.S. gross domestic product growth came in at an annualized pace of 1.4% quarter-on-quarter, below the 2.5% expected, and second quarter growth is tracking slightly below 2.0%. In Europe, growth continued at a slightly above-zero pace with surveys of activity softening somewhat in June, possibly because of heightened political uncertainty. In China, the stagnant property market continued to drag on growth, but domestic consumption showed signs of picking up after recent weakness. On the inflation front, the latest data has been positive with core prices in the United States rising at their slowest monthly pace since 2020. Overseas, inflation data was more mixed with notable upside surprises in Australia and Canada and more modest upside surprises in Europe.

As expected, Federal Reserve (Fed) policymakers kept rates steady in May and June, but their rhetoric skewed hawkish with the updated dot plot showing only one rate cut this year, versus three previously. U.S. Treasury yields spiked early in the quarter before moderating in May and June, while still ending the quarter higher across the yield curve with the 10-year Treasury increasing 16 basis points to 4.36%.


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# Investment Grade Corporate

In the investment grade corporate bond market, yields ended the quarter 18 basis points higher at 5.48%. However, the modest increase masked heavier volatility during the period with yields rising as much as 45 basis points early on before retracing, driven by Treasury rates. Spreads remained in a narrow range and briefly touched their lows of the year at 85 basis points before widening into quarter end to 94 basis points on the back of softer economic data. Credit fundamentals weakened during the quarter, although not enough to cause panic, as higher interest costs negatively impacted interest coverage ratios and leverage metrics. Heavy new issuance continued as new issue volume reached $815 billion year to date, 18% higher than last year's pace and the busiest first half since 2020. Investment grade corporates ended the quarter with a total return of -0.09%, slightly underperforming Treasuries. (Source: Bloomberg index returns except where noted.)

## Portfolio review

During the second quarter, the Investment Grade Corporate strategy underperformed its index, the Bloomberg Barclays U.S. Intermediate Investment Grade Corporate Index, on both a gross and net of fees basis.

In the second quarter, the strategy's higher credit quality bias was the main detractor from performance. Most of the accounts in the composite do not have exposure to BBB rated securities, which comprises ~48% of the index and outperformed during the second quarter. At the index level, BBB rated corporates returned 0.78%, while A returned 0.72%, AA 0.62% and AAA 0.61Despite volatility in Treasury yields, the strategy's shorter-than-benchmark positioning was the primary contributor to performance, as Treasury yields moved higher to start the quarter before falling into quarter-end as the market began pricing in fewer Fed cuts in 2024 from softer inflation prints. The strategy also benefitted from security selection within the banking sector. The strategy's positioning in global systemically important banks was additive to performance, while its positioning in longer pharmaceuticals was a detractor from performance. Over the course of the quarter, we reinvested coupons and a maturity into a 5-year Marsh & McLennan security and a 7-year Salesforce security.

Heavy supply from the first quarter continued into the second quarter, capping off the most active first half of a year for the new issue market  since 2020. Technicals have been the primary driver of the investment-grade corporate market this year and we expect this trend to continue. Tailwinds such as lower supply and overfunded pensions should help support the technical backdrop further. This may be enough to keep spreads range-bound in the near-term, however, we believe spreads will ultimately move wider as we head deeper into the third quarter as the market shifts its focus from inflation towards growth. Further decreases in yield may reduce demand for investment grade corporate bonds and, all else equal, put pressure on credit spreads. We anticipate that spread decompression may begin as BBBs widen relative to As. Additionally, the approaching presidential election and geopolitical events could introduce more volatility into the market at a time when credit fundamentals are weakening and valuations are full.

We continue to favor positioning that emphasizes higher credit quality and liquidity. We prefer defensive sectors such as utilities and consumer non-cyclicals because they generate consistent cash flows, even during periods of economic uncertainty. Conversely, we intend to maintain the strategy's underweight to economically sensitive sectors such as basic industry and transportation.

# Investment Grade Corporate

## For more information contact: 800.752.8700 or visit nuveen.com

### Important information on risk

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### Glossary

The **Bloomberg U.S. Intermediate Investment Grade Corporate Index** is a broad based benchmark that measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers that have between 1 and up to, but not including, 10 years to maturity. Clients should consult their financial professional regarding unknown financial terms and concepts.

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