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Separately Managed Accounts

Global Fixed Income

Investment Grade Corporate

Marketing communication | As of 31 Dec 2024

- **During the fourth quarter, the Investment Grade Corporate strategy underperformed on a gross and net of fees basis.**
- **Duration positioning was the primary contributor to performance.**
- **Security selection was the primary detractor from performance.**

Market review

U.S. and global economies remained healthy through the end of 2024. In the U.S., the pace of job creation picked up slightly, supporting continued resilience in consumption spending. Survey measures of business activity generally improved as well, with one gauge of services-sector activity hitting its highest level since mid-2022. Overseas, manufacturing activity in China rebounded a bit, with the country's official Purchasing Managers' Index (PMI) number reaching its highest level since April. Conditions in Europe remained tepid, with softening business surveys, although the consumer showed signs of renewed strength. On the inflation front, U.S. core prices continued to rise around 2.8% year-on-year, but the housing subindex showed further signs of moderating.

The Federal Reserve (Fed) cut interest rates by 25 basis points at both of its meetings during the fourth quarter, bringing the policy rate range to 4.25%-4.50%. However, the Fed's updated rate forecasts in December surprised markets with only 50 basis points of cuts slated for 2025, down from 100 basis points projected previously. The European Central Bank (ECB) also reduced rates twice during the quarter, while the Bank of England (BoE) cut once. Separately, the Republican party swept the U.S. elections, winning control of the White House and both chambers of Congress. As consumers remained resilient, progress on the inflation front slowed, and election results pointed to potential pricing pressures down the road, U.S. Treasury yields rose sharply during the quarter and the yield curve steepened. The 10-year Treasury yield ended the quarter 77 basis points higher at 4.58%.

Investment grade corporate spreads tightened throughout the quarter, reaching a 25-year low of 74 basis points following the U.S. presidential election and closing the quarter at 80 basis points. This spread backdrop was supported by attractive all-in yields that rose steadily during the quarter ending at 5.33%. This year also marked the second highest year of new issuance volume on record, surpassed only by 2020. Investment grade corporates saw $1.5 trillion of primary issuance, a 25% increase over last year. Despite supply continuing to surprise to the upside, demand remained strong with sustained inflows into the asset class. Investment grade corporates ended the quarter with a total return of -3.04%, outperforming Treasuries. (Source: Bloomberg index returns except where noted.)

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Investment Grade Corporate

Portfolio review

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

The strategy's duration underweight was the largest contributor to performance as Treasury yields rose over the quarter. Additionally, the strategy's up-in-quality positioning detracted 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 single-A bonds during the fourth quarter. At the index level, BBB rated corporates returned -1.26%, while A returned -1.57%, AA -1.34% and AAA -1.17%. The strategy's allocation to the energy sector contributed to performance, while its lack of allocation to finance companies was a detracted from performance. The strategy was negatively impacted from security selection within the energy space.

Over the course of the quarter, we extended duration within our Comcast and Honeywell exposure while also extending duration by moving from Abbott Laboratories into Georgia Power. However, the strategy remained underweight duration at the close of the quarter. Lastly, we reinvested cash into a PNC bond.

Heavy supply continued in the fourth quarter with the year marking the second highest year of new issuance volume on record, second only to 2020. Technicals continue to be the primary driver of the investment grade corporate market this year and we expect this trend to continue with yields at attractive levels keeping spreads contained. At these levels, forward-looking excess returns look uncompelling. We anticipate spreads will remain range bound in the near term, with the potential to stay tight barring an economic shock. A surge in M&A activity, driven by optimism around deregulation and potential tax cuts from the incoming administration, could drive another robust year of corporate bond issuance, while potentially weakening credit metrics. We expect the uptick in M&A activity next year will be particularly prominent among higher-quality issuers, which may lead to BBB outperformance again in 2025.

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. We also prefer U.S. money center banks as they remain well-capitalized. 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

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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. **It is not possible to invest directly in an index.** Clients should consult their financial professional regarding unknown financial terms and concepts.

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