

Flexible Income

Marketing communication | As of 31 Mar 2026

Effective 25 Mar 2025, James Stephenson joined Susi Budiman, Thomas Ray and Stephen Pena as portfolio managers of the strategy. Effective 01 Oct 2025, Thomas Ray retired from the strategy. These updates are not expected to impact the overall investment strategy.

Key takeaways

- In the first quarter, the Flexible Income strategy outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, on a gross- and net-of-fees basis.
- Global markets experienced elevated volatility as the escalation of the conflict in the Middle East and rising energy prices pressured both equities and fixed income. The strategy's security selection within common stocks was the primary driver of outperformance.
- An allocation to investment grade corporates detracted the most as credit spreads widened and interest rates rose on growth and inflation concerns.

Market review

Economic growth remained solid, although the outlook was clouded by the conflict in the Middle East. Early estimates indicate U.S. gross domestic product (GDP) grew roughly 2.5% year over year in the first quarter, a slight acceleration from 2025's pace. Following earlier signs of softening, the U.S. labor market surprised to the upside in March's report, with unemployment edging down to 4.3%. With the Strait of Hormuz effectively closed amid the Iran conflict, West Texas Intermediate (WTI) oil prices surged in March and ended the quarter above \$100 per barrel, after averaging around \$60 over the prior three months. While it is too early for this move to materially affect economic activity or reported data, it will likely add upward pressure to global inflation in coming months. Inflation releases — still affected by reporting delays after last quarter's government shutdown — showed the core Personal Consumption Expenditures (PCE) Price Index, the preferred measure used by the Federal Reserve (Fed), slightly above 3.0% year over year through January.

Global central banks generally struck a more hawkish tone at their March meetings, reflecting the risk of higher near-term inflation from rising oil prices. The Fed held rates steady at 3.50%-3.75% in January and March, though some participants revised inflation and rate projections higher. Three other major developed-market central banks — the European Central Bank (ECB), Bank of Japan (BoJ) and Bank of England (BoE) — also left policy unchanged during the quarter. The Reserve Bank of Australia began to tighten amid healthy economic activity, raising rates twice by 25 basis points. Messaging shifted more cautious overall, with the Fed adopting a wait-and-see approach to additional cuts this year. The ECB and BoE highlighted upside inflation risks and signaled that rate hikes remain possible this year, while the BoJ maintained a hawkish stance, emphasizing inflation control over growth risks.



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U.S. Treasury yields traded in well-defined range until the Iran conflict escalated, pushing rates sharply higher — particularly at the front end of the curve — as expectations for Fed rate cuts were pushed out. Two-year Treasury yields rose 32 basis points over the quarter, while 30-year yields finished only 4 basis points (bps) higher. Ten-year Treasury yields increased 12 basis points to 4.30%, as the March selloff reversed an earlier rally. Credit spreads widened as well, contributing to flat-to-negative total returns across most fixed income asset classes. The broad-based Bloomberg U.S. Aggregate Bond Index returned -0.05% for the quarter.

Investment grade

In the investment grade corporate sector, spreads traded in a 71-93 bps range. Spreads widened through February amid concerns about artificial intelligence (AI) driven disruption and signs of stress in private credit. Volatility intensified in March as the Middle East conflict escalated, and the Strait of Hormuz was effectively closed. Despite this challenging backdrop, the asset class proved resilient, with spreads retracing part of the move to end the quarter at 89 bps.

Primary issuance was exceptionally strong, led by Amazon's landmark \$37 billion offering. Total investment grade corporate issuance reached \$658 billion — the largest first quarter on record and roughly 18% ahead of last year's pace. Sector performance reflected the quarter's key themes: energy-related subsectors outperformed on higher oil prices, while event risk and AI-disruption concerns weighed heavily on media and entertainment, life insurers and finance companies. Overall, the sector returned -0.54% for the quarter, underperforming Treasuries.

High yield

The high yield bond sector returned -0.50% and underperformed Treasuries, driven primarily by the Iran conflict. The index ended the quarter with a 7.40% yield-to-worst and a 320 bps option-adjusted spread (OAS). CCC rated bonds underperformed their BB and B counterparts, with the largest spread widening in the CCC cohort. AI was the dominant theme early in the quarter as companies continued borrowing to fund capital expenditures (capex) tied to the AI investment cycle; capex rose 9.5% year-over-year to an eight-quarter high.

The narrative shifted materially in the second half of the

quarter as the Middle East conflict displaced AI and the Strait of Hormuz closure lifted energy prices sharply. Gross issuance totaled \$84.1 billion, supported by acquisition financing and leveraged buyout (LBO) activity. Net supply was \$23.2 billion, concentrated in February. Demand weakened, with mutual funds, actively managed funds and ETFs posting -\$11.0 billion of outflows. The high yield default rate ticked up to 2.07% by quarter-end, still significantly below its long-term average of 3.2%.

Preferred securities

First-quarter total returns were negative across the preferred securities markets. \$1000 par preferreds (-0.2% total return) outperformed \$25 par preferreds (-1.6%). Both segments also posted negative excess returns as option-adjusted spreads (OAS) widened.

At quarter-end, average dollar prices for \$1000 par preferreds were around par. In contrast, \$25 par preferreds continued to be meaningfully discounted at approximately 82% of par. This price discount was mostly the result of the current higher rate environment and the \$25 par segment's longer relative duration.

OAS rose for \$25 par preferreds and \$1000 par preferreds by 23 bps and 14 bps, respectively, in Q1. For \$1000 par preferreds, OAS are trading below longer-term median levels. And while the OAS for \$25 par preferreds is above its longer-term average, previous extended periods of negative OAS for this segment distort the perceived relative value between its current OAS and its median.

Equities

Equity markets were choppy as investors rotated toward more defensive exposures. Many major U.S. indexes ended lower despite a last-minute rally, pressured by renewed inflation concerns, higher energy costs and a pullback in mega-cap technology amid broader artificial intelligence (AI) uncertainty.

As investors moved away from the "Magnificent Seven" and other high-growth, tech-focused stocks, market leadership broadened toward areas that have lagged in recent years, including value, dividend payers and small caps. Value stocks (+2.23%) outpaced growth (-9.54%) for a second consecutive quarter, and small caps outperformed large caps, supported by improving earnings momentum, more

attractive valuations and sensitivity to earlier rate cuts. The small-cap focused Russell 2000® Index returned 0.89% for the quarter.

The bellwether S&P 500 returned -4.33%, its weakest first quarter since 2022 and approximately 7% below its January peak. Leadership shifted with the energy sector surging 38%, supported by supply concerns and geopolitical risk. Other more defensive sectors, including utilities and consumer staples, also held up well. Meanwhile, persistent inflation reignited a higher-for-longer interest rate narrative, challenging rate-sensitive sectors such as financials, information technology and consumer discretionary, which each fell more than 9%.

Portfolio review

The Nuveen Flexible Income strategy returned +1.31% (gross of fees) and +1.00% (net of fees) in the first quarter, outperforming the Bloomberg U.S. Aggregate Bond Index (-0.05%). At quarter-end, current yield and yield-to-worst for the representative account were 5.00% and 4.67%, respectively.

Global markets experienced elevated volatility as the escalation of the conflict in the Middle East and rising energy prices pressured both equities and fixed income. Despite this, the portfolio stood resilient and delivered positive returns while outperforming the S&P 500 Index, Bloomberg U.S. Aggregate Bond Index and most other major fixed income indices.

The strategy's allocation to common stocks was the primary driver of outperformance, benefiting from the exposure to value equities. Within equities, we outperformed the Russell 1000 Value Index, led by strong stock selection in the technology and energy sectors.

The portfolio's overweight in \$1000 par preferreds also added to relative results, benefiting from the sector's shorter duration profile as rates rose. In high yield, the portfolio's overweight in up-in-quality credits in BBs and Bs maintained resilience as we saw credit spreads widen the most in the CCC cohort, in which the strategy (by mandate) does not invest. On the other hand, the strategy's allocation in investment grade corporates was a detractor as credit spreads widened and interest rate rose.

Portfolio positioning

The portfolio maintained balanced exposure across asset classes, with an up-in-quality posture in security selection that leaned toward companies with strong balance sheets, sound capital structures and durable free-cash-flow generation. Yields across credit markets stayed relatively high, enabling the investment team to find opportunities to bolster the portfolio's income.

During the quarter, we selectively added to investment grade corporate bonds, capitalizing on wider spreads to strengthen portfolio yield. We also found opportunities to increase exposure to convertibles and common stocks on a name-specific basis where the risk/reward profile looked attractive. These additions were funded via a combination of reducing high yield and preferred stock exposures.

We maintained our overweight in corporates rated BBB and BB given attractive all-in yields and positive technicals. Wider spreads during the period provided a buying opportunity to lock in higher yields. Within high yield, we favored shorter-maturity, higher-coupon names to help limit spread duration.

Value equities overtook the spotlight from growth during the period, as rising commodity prices benefited the energy and materials sectors. Aside from geopolitics, the technology sector was challenged by concerns over AI disruption of software-as-a-service (SaaS) companies. Despite the March selloff, equity market valuations remain at the high-end of historical averages, so we are focused on finding single-name opportunities where the risk/reward profile looks more compelling.

Outlook

We have updated our macroeconomic and market forecasts to reflect the likely effects of the war in the Middle East, although the situation remains highly uncertain. We now expect U.S. real GDP growth of 1.8%, 0.2% lower than previously forecasted, primarily reflecting a likely drag on consumption from higher fuel prices.

That headwind is partly offset by a modest lift to business fixed investment from the oil-extraction sector. We have also raised our core inflation forecast by 0.3% to 2.8%, reflecting the pass-through from higher oil prices and some disinflationary pressure as tariff effects fade. We continue to expect the labor market to remain broadly stable.

In light of these revisions, we now expect the Fed to remain on pause longer than previously anticipated. Instead of a rate cut around mid-year, we now expect the first cut in the second half of the year. Accordingly, the second cut in our forecast will likely shift into 2027.

We expect the yield curve to maintain a steepening bias from current levels – trading directionally with incoming data and monetary policy expectations. We continue to forecast the 10-year Treasury yield will remain around the 4.00% - 4.25% level, likely ending the year near the bottom of that range.

We continue to see strong all-in yields supported by healthy credit fundamentals, with net leverage and interest coverage both improving in the latest reporting period. High yield defaults are projected to come in below long-term averages in 2026. AI-fueled headline volatility and geopolitical uncertainty remain near-term risks and may cause spreads

to drift wider, which creates more selective entry points on a credit-by-credit basis as spread dispersion among the high yield and senior loan universes remain very high. We expect the credit markets to benefit from positive technicals, with supply expected to moderate from its historic first-quarter pace and be well absorbed by investor appetite for income.

We remain cautiously optimistic about equity markets as strong earnings growth is balanced by rising valuations. Resurgent energy prices have benefited the energy and materials sectors, while substantial capital expenditures related to AI infrastructure and AI disruption in software have shifted how we think about risks and opportunities. Across credit and equities, we believe pockets of opportunity still exist and active managers with flexible, value-oriented approaches can take advantage of evolving relative value across asset classes to generate alpha.

For more information contact: 800.752.8700 or visit nuveen.com

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Glossary

The **Bloomberg U.S. Aggregate Bond Index** tracks the performance of U.S. investment-grade bonds. **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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