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A TIAA Company

Separately Managed Accounts

Municipal Fixed Income

Municipal Total Return

Marketing communication | As of 31 Mar 2025

- **The Bloomberg Main Municipal Bond Index, the benchmark for the Municipal Total Return composite, delivered a total return of -0.22% in the quarter as its average yield increased by 0.10% to 3.84%.**
- **Allocation by duration, rating and sector segments relative to the benchmark detracted to excess return. The remaining difference was allocated to credit selection/residual impacts less correlated with positioning.**
- **The investment team continues to favor premium, high quality, call-protected bonds for a core portion of the portfolios to enhance income while implementing credit selection to identify relative value opportunities.**

Market review

The municipal bond market underperformed other fixed income during the first quarter, with technicals acting as a stiff headwind. However, elevated yields, attractive valuations and improving market technicals created a compelling time to add municipal bonds to a diversified portfolio. While 10-year U.S. Treasury yields declined 37 basis points (bps) in the first quarter, 10-year AAA municipal yields moved in the opposite direction, rising 20 bps. Municipal-to-Treasury yield ratios have historically been a barometer of relative value in the municipal market. The benchmark 5-, 10- and 30-year ratios have averaged 63%, 65% and 84%, respectively, since the bottom of the interest rate selloff on 31 Oct 2023. As of March 31, the ratios of 74%, 78% and 92% are the cheapest since the recovery began. Overall issuance was up 15% in the first quarter compared to the same period in 2024, which was a record-breaking year. Issuance should remain elevated compared to both historical averages and last year's record numbers. On the demand side, fund flows have been relatively strong. Investors poured $9.7 billion into the municipal market in the first quarter.

Looking forward, robust revenues and high statutory and record funding of reserves for state and local governments make municipal credit well-positioned to manage through economic uncertainty even if markets move to a risk-off tone. Many municipal issuers benefit from broad autonomy as bonds backed by property taxes, dedicated state and local taxes, transportation revenues, tolls or project-specific revenues should remain relatively insulated from federal policy changes.

The latest U.S. Census data contains collections through Q4 2024. Total state and local tax collections in 2024 were up 4.6% over 2023, while property tax collections alone rose by 8.2%. Strong growth in property taxes confirms local governments continue to benefit from appreciating property values and a strong demand for housing, while weakness in commercial real estate has not yet had a material impact. States primarily rely on income and sales taxes to fund operations, and both have demonstrated resilience even as revenue growth has returned to historic norms following several years of post-pandemic volatility. Total state tax revenue collections ended 2024 up 4.0% year over year.

Municipal Total Return

Nuveen Asset Management has been emphasizing higher-rated bonds (AAA and AA underlying or stand-alone ratings), but we have also been marginally increasing exposure to A-rated bonds, and plan to modestly lengthen duration, which has been somewhat shorter than our long-term strategic target. We intend to continue favoring premium, high quality, call-protected bonds for a core portion of the portfolio and to seek opportunities to enhance income through favorable security structures and/or sectors. We also intend to choose maturities based on our yield curve analysis, and to utilize the work of our research team to identify bonds that may be undervalued relative to credit strength.

Portfolio review

The Bloomberg Main Index delivered a total return of -0.22% in the first quarter of 2025 as its average yield increased by 0.10% to 3.84%. Yields across the MMD AAA Benchmark Yield Curve Rates changed by -0.25%, -0.01%, 0.20%, 0.34%, 0.0.44% and 0.34% on maturities of 1, 5, 10, 15, 20 and 30 years over the quarter. The larger increase in yield for maturities 10 years or longer and bear steepening between 1 and 15 years largely benefited shorter maturities given their limited duration profiles. For instance, the Long (22+) Index, with a starting duration of 9.83 years, generated a total return of -1.46% as its average yield increased by +0.26% to 4.58%, while the Short/Intermediate (1-10) Index, with a starting duration of 3.65 years, generated a total return of 0.81% as its average yield decreased by -0.06% to 3.25%.

The Bloomberg Main Index, the benchmark for the Total Return Composite, possessed a longer duration profile in comparison to the Composite in the latest quarter with a starting average duration 6.15 years, compared to 5.41 years for the Composite. Bonds with durations of 4 to 8 years represented 44% of the Index as of quarter-end, compared to 68% for the Total Return Composite. The highest returns by rating category for the Index came from bonds rated BBB/Baa and A/A which returned 0.28% and 0.02%, while bonds rated AAA/Aaa, with an ending weight of 22%, returned -0.25%. Unrated bonds returned 0.35% but only represented 0.8% of the Index.

The Municipal Total Return strategy combines holdings of investment grade, intermediate municipal bonds with the Municipal Total Return Managed Accounts Portfolio. The Total Return Portfolio seeks to enhance total returns and tax-exempt income by investing in higher yielding municipal bonds. High Yield Municipals fared much better than Investment Grade Municipals where the technical pressure was most pronounced, but HYM yields are now higher than where they were at the start of the year. The average HYM yield reads 5.58% on 03/31, levels not seen since this time last year.

The Municipal Total Return Composite lagged against its benchmark in the first quarter. Allocation attribution rewards cases where the composite was overweight in outperforming segments of the market index or underweight in underperforming segments relative to the overall index average. Allocations by sector detracted from an underweight in Industrial Development Revenue bonds and overweight in Hospitals which underperformed. Allocation by rating and duration detracted as well although to a much lesser extent as their negative excess return detractions, captured by underweights in bonds rated A/A and in bonds with durations shorter than 4 years, which were largely offset by positive contributions from an underweight in durations 8 years or longer and overweight in bonds rated BB/Ba. The remaining difference was allocated to credit selection/residual impacts less correlated with allocation differences.

Municipal Total Return

For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is $250,000.

Important information on risk

All investments carry a certain degree of risk, including possible loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. An investment in any municipal portfolio should be made with an understanding of the risks involved in investing in municipal bonds, such as interest rate risk, credit risk, and market risk. The value of the portfolio will fluctuate based on the value of the underlying securities. Please contact a tax advisor regarding the appropriateness of tax-exempt investments in your portfolio. Nuveen is not a tax advisor. 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 investor's 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. Some income may be subject to state and local taxes and to the federal alternative minimum tax. Capital gains, if any, are subject to tax. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. The potential use of inverse floaters creates effective leverage. Leverage involves the risk that the portfolio could lose more than its original investment and also increases the portfolio's exposure to volatility and interest rate risk.

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Glossary

The **Bloomberg Municipal Bond Index** covers the USD denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds. The 7-year Index consists of bonds from the Municipal Bond Index with maturities of approximately 7 years. Bonds in the Long Index mature in 22 years or longer. **It is not possible to invest directly in an index.** Clients should consult their financial professionals regarding unknown financial terms and concepts.

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