

Municipal Total Return

Marketing communication | As of 30 Sep 2024

- **The Bloomberg Main Municipal Bond Index, the benchmark for the Municipal Total Return composite, returned 2.71% as its average market yield decreased by -40 bps to 3.31%.**
- **Allocation attribution by duration, rating and sector detracted from relative performance.**
- **The investment team intends to favor premium, high quality, call-protected bonds for a core portion of the portfolios and seek opportunities to enhance income through favorable security structures and/or sectors.**

Market review

The municipal bond market is well positioned to begin the fourth quarter. It's anticipated that municipal bonds will outperform as supply trends wind down and demand strengthens following further expected U.S. Federal Reserve rate cuts. Additional rate cuts will likely continue to drive inflows as reinvestment rates for cash equivalents diminish in value and investors seek to lock in yields. Municipal fund inflows strengthened during the quarter, reaching \$10 billion (as of 18 Sep). This brings the year-to-date total to \$21.3 billion. Flows continue to be directed toward income-oriented strategies such as high yield or longer duration. As fund flows pick up, high yield technicals should improve further. The municipal yield curve steepened more than the U.S. Treasury curve during the quarter, reflected in the change in municipal-to-treasury yield ratios. The 5-year ratio declined from 66% to 65%, while 10- and 30-year ratios increased from 65% to 69% and 82% to 85%, respectively.

We expect higher rates of issuance to continue in October as issuers bring deals ahead of the election, but the pace should cool in November. Such an environment should present a buying opportunity early in the fourth quarter. Furthermore, investors may enjoy attractive total returns from income alone, a dynamic that has been absent for nearly a decade. Though the economy remains on strong footing, we expect munis to perform well even if markets move to a risk-off tone due to their resilience during past economic downturns. Statutory reserves remain high, despite excess reserves being drawn down. Investment grade municipal credit spreads across AA, A and BBB rated categories were relatively unchanged. This makes income and changes in AAA benchmark yields the predominant drivers of returns.

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The MMD AAA-Rated GO Benchmark Yield Curve experienced a bull steepening during the quarter as rates decreased by -60, -69, -58, -24, -22 and -20 bps on maturities of 1, 3, 5, 10, 20 and 30 years, respectively. This shift favored intermediate to long maturities that picked up meaningful market return due to their duration profile. The Bloomberg Main Index delivered a total return of 2.71% during Q3 as the average yield decreased by -40 bps to 3.31%. Despite greater rate volatility observed shorter on the curve, longer duration bonds outperformed versus the intermediate portion of the curve. For example, the Long (22+) Index returned 3.03% as its average yield decreased by -23 bps to 4.0%, while the Short/Intermediate (1-10) Index returned 2.72% as its yield decreased by -60 bps to 2.82%. The difference in starting yields supported the Long Index which had a yield return of 1.08% compared to 0.83% for the Short/Intermediate Index.

Higher yields continue to fuel strong demand from separately managed account programs and direct purchases, causing short-term ratios to remain anchored. This barbell approach has steepened the curve, making the long-intermediate area relatively attractive. Nuveen Asset Management has been emphasizing higher-rated bonds (AAA and AA underlying), but have also been marginally increasing exposure to A-rated bonds while modestly lengthening duration. Investors receive the higher income typically associated with longer-dated bonds while earning additional total return through a combination of declining rates and rolling down the yield curve.

Portfolio review

The Bloomberg Main Index, the benchmark for the Municipal Total Return composite, was limited by its weighting to bonds with modified durations of less than 4 years (~39%) which underperformed against the overall Index average. Bonds rated BBB/Baa experienced notable spread widening in both September (+5 bps) and in the third quarter (+12 bps) to 98 bps above the AAA category given their smaller drop in average yield both in September (-8 bps vs -13 bps for AAA) and in the quarter (-30 bps vs -42 bps for AAA). Bonds rated BBB/Baa produced the lowest returns for the month and quarter. 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. The High Yield Muni market continues to be fed by strong reinvestment and investor fund flows.

The Municipal Total Return Composite underperformed the benchmark in the third 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. Allocation by duration was the primary detractor as the composite was underweight in bonds with modified durations of 8 or more years. Allocation by rating and sector detracted overall as the composite was overweight in cash, which is accounted for in rating/credit allocation, and underweight in industrial development revenue bonds while overweight in hospitals.

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For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is \$250,000.

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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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