Limited Maturity Municipal

Marketing communication | As of 31 Mar 2026

Key takeaways

- The Short/Intermediate (1-10) Index, the benchmark for the Limited Maturity Composite, generated a total return of -0.14% in the first quarter as its average yield rose by +17 bps to 3.09%.
- The Limited Maturity Composite underperformed the benchmark in the first quarter mainly tied to allocation by rating and sector, as well as credit selection within the Leasing Obligation sector.
- 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

Investors stand to benefit from rotating from cash and lower-yielding investments into new issue municipal bonds offering higher after-tax yields. The Fed's most recent cut pushed after-tax money market yields below 2.75% for investors in the 24% tax bracket. With inflation hovering near 2.4%, cash is unlikely to cover the growth of living expenses for most investors. Taxable-equivalent yields (TEY) for munis are in the top quartile of their 10-year history. As of March 26, the broad municipal index offered a TEY of 6.37% versus 4.57% for the Bloomberg U.S. Aggregate Bond Index. Municipal credit spreads are also relatively attractive compared to corporates, with muni spreads in the 70th percentile versus the 15th percentile for investment grade corporates. The asymmetric risk-return profile of investing in longer duration bonds has markedly improved with the steepening of the curve throughout 2025. Early movers should benefit the most as sustained demand may drive a continued rally for longer duration investments from the prior quarter.

The Municipal-to-Treasury yield ratios have historically been a barometer of relative value in the municipal market. We anticipate short Municipal-to-Treasury ratios will hover in the 60%–70% range to align with federal tax rates, whereas longer bond ratios will be closer to 90%, which provides even more substantial after-tax yield for investors. While these ratios can indicate relative value, municipal call protection can allow investors to capture better relative value while maintaining duration protection.

We expect demand to continue, supported by ample cash on the sidelines, high starting yields and solid municipal credit conditions. The market has gathered $25.3 billion in 2026 through February, the best start to any year on record. In the first quarter, municipal fund flows surged 113% year-over-year. Most municipal borrowers enter 2026 with reserves at historic highs and recession-tested revenue sources. State reserves now stand at 13% of expenditure, up from 8% in 2019. But recent headwinds are worth monitoring, stemming from geopolitical uncertainty and a U.S. Federal Reserve that appears content holding interest rates steady for 2026.

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Supply trends remain elevated as municipal bond supply is expected to reach $600 billion in 2026 compared to the historically high pace of $582 billion in 2025. Ongoing infrastructure needs and project cost inflation are expected to accelerate the pace of issuance as waning fiscal stimulus and federal funding reductions push more projects toward public financing markets. The result is more attractive valuations on new deals and ample investment opportunities. Despite new supply, reinvestment demand from maturing bonds, callable bonds and coupons continue to outpace new issuance.

Tax revenue collections remain strong despite economic headwinds, with annual state and local tax collections up 5.4% in 2025 as reported in the latest U.S. Census tax collection data report. Individual income taxes showed the strongest growth with tax collections up 10.2% year-over-year. Growth in corporate income tax and sales tax collections remained steady over 2024, up 0.8% and 3.4%, respectively. States primarily rely on income and sales taxes to fund operations, and both have demonstrated resilience following several years of post-pandemic volatility. Many municipal issuers benefit from broad autonomy as bonds backed by property taxes, dedicated state and local taxes, or project-specific revenues should remain relatively insulated from changes in federal policy or economic growth deceleration. We favor state and local governments, water/sewer utilities and electric utilities, which have proven steadfast during economic downturns.

Nuveen Asset Management SMA Composites emphasize higher-rated bonds (AAA and AA underlying or stand-alone ratings), but have also been marginally increasing exposure to A-rated bonds, and plan to modestly lengthen duration to 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 MMD-AAA GO yield curve bear-steepened across the 1 to 8 year maturity range as yields on 1, 5, and 8 year maturities shifted by -7 bps, +26 bps, and +34 bps, respectively. The curve bear-flattened between the 10 to 20 year range as yields on 10, 15, 20, and 25 year maturities ended higher by +36 bps, +27 bps, +19 bps, +20 bps, respectively. The Bloomberg Municipal Bond Index posted a return of -0.18% in the first quarter of 2026 (0.86% yield return and -1.04% market return) as the average market yield of the Index started the year at 3.60%, decreased to 3.29% by the end of February, and surged to 3.77% by the end of March, or up by +17 bps over the first quarter. The (3-15) Year Blend Index returned -0.34% as its average yield rose by +22 bps to 3.39%, while the Long Bond (22+) Index returned -0.22% as its average yield rose by +14 bps to 4.73%.

The Short/Intermediate (1-10) Index, the benchmark for the Limited Maturity Composite, generated a total return of -0.14% in the first quarter as its average yield rose by +17 bps to 3.09%. The Index was primarily anchored by the duration range of 6 to 8 years, which returned -1.23%, compared to -0.48% for 4 to 6 years and 0.18% for 2 to 4 year range. The strongest returns by rating category were generated by bonds rated BBB/Baa and bonds rated A/A, which returned 0.03% and -0.04%, respectively. Bonds rated AA/Aa and AAA/Aaa lagged the overall Index with average quarterly returns of -0.16% and -0.22%, respectively. The Limited Maturity composite underperformed its benchmark in the first quarter, driven by net negative allocation effects and a drag on selection attributed to the relative underperformance of Leasing Obligation bonds in the Composite. Allocation by duration was neutral, while allocation by rating and sector detracted by the underweight in bonds rated A/A and in Transportation bonds, and overweight in bonds rated AAA/Aaa and in Local GO bonds.

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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.

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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. The **Bloomberg Municipal Intermediate/Short (1-10) Municipal Bond Index** measures the performance of municipal bonds with time to maturity of between one and ten years. **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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