

Intermediate High-Quality Municipal

Marketing communication | As of 31 Dec 2025

- **The Bloomberg 3-15 Year Blend Index, the benchmark for the Intermediate HQ Composite, generated a total return of 1.48% in the fourth quarter as its average yield declined by -8 bps to 3.17%.**
- **The Intermediate Composite outperformed the benchmark in the fourth quarter largely due to its longer maturity allocation, as well as favorable allocation by rating and 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

Given our forecast of declining short taxable rates, investors stand to benefit from rotating from cash and lower-yielding investments into new issue municipal bonds offering higher after-tax yields. Investors in the 24% tax bracket face after-tax yields below 3% on 1–3-month T-Bills for the first time since 2022 – a threshold that should spark meaningful portfolio repositioning as approximately \$7.5 trillion sits on cash. Long-dated munis offer the most attractive entry point in over two years and early movers should benefit the most as we expect sustained demand to drive a continued rally for longer duration investments.

Looking forward, 2026 presents attractive valuations, structural demand shifts and proven credit fundamentals that align to help support sustained outperformance. After experiencing underperformance against broader fixed income markets driven by unprecedented supply pressure and a higher-for-longer rate environment earlier on the year, the asset class demonstrated resilience as the Bloomberg Municipal Bond Index returned 1.56% in the fourth quarter and 4.24% in 2025. The asymmetric risk-return profile of investing in longer duration bonds has markedly improved with the steepening of the curve throughout 2025. Municipals should be relatively insulated from federal fiscal deficits weighing on the long end of the curve. Most municipal borrowers enter 2026 with reserves at historic highs and recession-tested revenue sources. State reserves now stand at 13% of expenditures, up from 8% in 2019.

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 65%–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. Supply trends remain elevated as municipal bond supply is expected to reach \$600 billion in 2026 compared to \$582 billion in 2025, driven by ongoing infrastructure needs and project cost inflation. Principal redemptions and coupon payments are projected to surge 50%, which should create powerful reinvestment flows from higher prior-year issuance and refinancing opportunities as rates decline. We favor state and local governments, water/sewer utilities and electric utilities, which have proven steadfast during economic downturns.

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Tax revenue collections remain strong despite economic headwinds, with state and local tax revenue collections up 4.7% through the first three quarters of 2025 compared to the same period in 2024, as reported in the latest U.S. Census tax collection data report. Individual income taxes showed the strongest growth with tax collections up 10.9% though the third quarter again compared to the same period last year. Corporate income tax and sales tax collections through the third quarter were more muted at -2.6% and 2.9% compared to the same period in 2024, 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, transportation revenues, tolls or project-specific revenues should remain relatively insulated from changes in federal policy or economic growth deceleration.

Nuveen Asset Management emphasizes 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 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 bull-flattened across 3- to 14-year maturities and steepened across the 15- and 25-year range during the fourth quarter of 2025. Yields on 3- and 5-year bonds rose by +12 bps and +9 bps, respectively, and 10-, 15-, 20-, and 25-year yields declined by -16 bps, -23 bps, -7 bps, and -2 bps, respectively. The Bloomberg Municipal Bond Index delivered a return of 1.56% in the fourth quarter, composed of a yield return of 0.92% and a market return of 0.65%, as its average market yield of the Index ended lower by -8 bps over the quarter and -15 bps year-to-date. Longer duration was beneficial in the fourth quarter. For instance, the Short/Intermediate (1-10) Index returned 0.77% with an ending yield of 2.91% while the Long Bond (22+) Index returned 1.63% with an ending yield of 4.58%.

The Bloomberg 3-15 Year Blend Index, the benchmark for the Intermediate HQ Composite, generated a total return of 1.48% in the fourth quarter as its average yield declined by -8 bps to 3.17%. Bonds with a modified duration of 8 year or longer generated a return of 3.92%, while the duration range of 2 to 4 years returned 0.64%. Bonds rated BBB generated the strongest return of 1.74%, compared to 1.25% for bonds rated A and 1.52% for both bonds rated AA and AAA. The Intermediate Term Composite outperformed its benchmark in the fourth quarter largely due to its term structure allocation with an overweight in maturities of 12 to 17 years, and underweight in maturities of 2 to 6 years. Allocation by rating and sector also added to net excess return contribution, mainly by underweights in bonds rated A/A and in industrial revenue bonds, as well as positive selection contribution in the Local GO sector.

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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. 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 3-15 Year Blend Municipal Bond Index** is an unmanaged index composed of investment-grade municipal securities ranging from 2 and 17 years in maturity. **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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