nuveen
A TIAA Company

CIO Weekly Commentary
02 February 2026

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

A sunny muni outlook this Groundhog Day

Bottom line up top

Macro environment: less shock, more calibration. Nearly 18 months into the U.S. Federal Reserve's easing cycle, investors are increasingly focused on the endgame for monetary policy rather than individual rate decisions. This shift is visible across public markets, where volatility has subsided, equity valuations have stabilized (albeit at above-average levels) and differentiation among interest rate-sensitive assets is based more on duration risk than economic growth expectations.

Futures markets no longer price in rapid Fed easing. Instead, they expect gradual easing, with the terminal fed funds rate drifting modestly lower (Figure 1). This "higher-for-longer, but not forever" narrative has supported a flattening of the yield curve, kept real yields elevated and reinforced the appeal of assets with visible cash flows and pricing power.

In equities, performance of the S&P 500 Index has become more earnings- than liquidity-driven, with 2026 forward earnings per share (EPS) growth estimates in the mid- to high-single-digits. In fixed income, the 10-year U.S. Treasury yield, while off recent highs, is still restrictive in real terms, anchoring equity valuations and capping multiple expansion even as earnings expectations hold up.

Labor: lament or lullaby? This week's U.S. labor market data will provide a critical sentiment check. ADP private employment, the latest JOLTS (Job Openings and Labor Turnover Survey) release and the January nonfarm payrolls report will help investors assess whether labor demand is cooling at a pace consistent with disinflation or recession. Above-trend job creation or reaccelerating wage growth could extend the higher-for-longer rate outlook, tightening financial conditions and

Saira Malik, CFA
Chief Investment Officer

On behalf of Nuveen's Global Investment Committee

As Nuveen's Chief Investment Officer and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she is a portfolio manager for several key investment strategies.

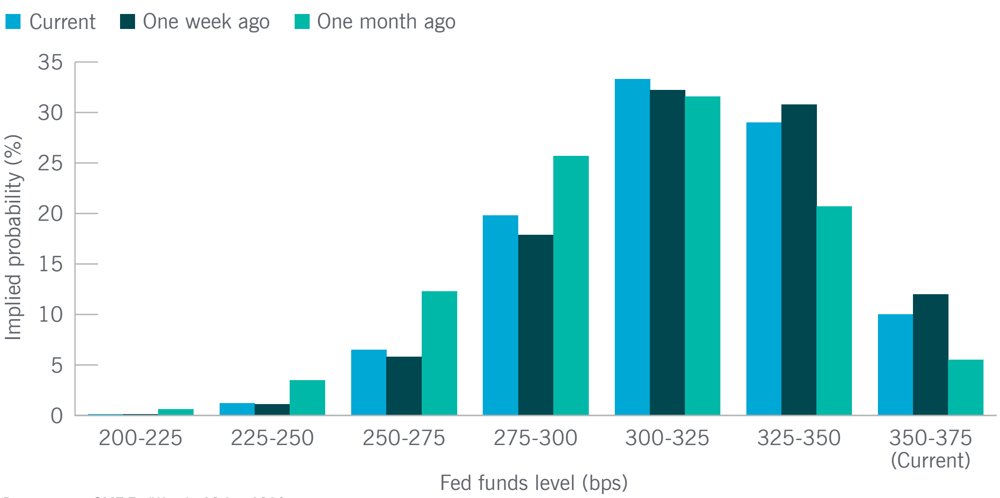
Investors seem to be rewarding resilience and balance-sheet strength.

pressuring risk assets. In contrast, a gradual decline in job openings and wage gains would likely reinforce confidence in a soft landing.

Markets appear to be trading not on the direction of policy per se, but on how long policy is expected to continue in that direction. For now, that nuance is rewarding resilience, balance-sheet strength and cash-flow visibility — traits that matter most when the cost of capital remains structurally higher, even as the cycle matures. In this environment, asset classes exhibiting both sound credit fundamentals and favorable technical dynamics may outperform. Municipal bonds meet these criteria.

FIGURE 1: MARKET EXPECTS LOWER RATES IN 2026

Market implied odds of various fed funds rates by the end of 2026



Data source: CME FedWatch, 28 Jan 2026.

Portfolio considerations

Municipal bonds endured a challenging 2025 in which they broadly underperformed other major fixed income categories. One reason was the significant headwind of record new supply ($580 billion in issuance, up 14% from 2024).

But munis are off to a strong start in 2026. Through January, admittedly a limited time period, investment grade and high yield munis have returned +0.94% and +0.98%, respectively, based on the Bloomberg Municipal Bond and Bloomberg Municipal High Yield Bond total return indexes. And while new-issue supply is likely to remain elevated, principal redemptions and coupon payments are expected to surge 50% (Figure 2), resulting in an estimated net supply of -$100 billion. Meanwhile, fund flows suggest investor demand may prove robust enough to absorb heavy new issuance, with munis recently experiencing back-to-back weeks of $1 billion+ inflows for the first time in over two years.

We believe continued municipal inflows will be sourced in part from the roughly $7.7 trillion currently sitting in low-yielding money market funds, as investors in those funds begin to see the value of rotating into more attractive income-generating assets. Across the municipal curve, longer-maturity bonds offer compelling tax-efficient yields. For those in the top federal income tax bracket, 20-year AAA municipals provide a taxable-equivalent yield of 6.68% — more than high yield corporates (6.58%). Along the AAA muni curve, the 20-year also represents a yield pickup of +1.72% and +1.33% over the 5- and 10-year maturities, respectively.

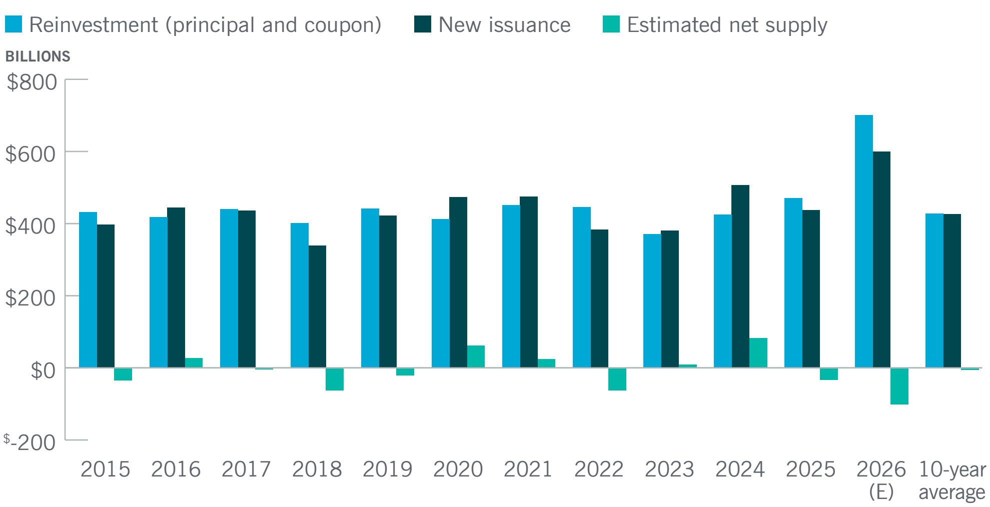
We support the case for adding munis to portfolios for their tax-advantaged income and return potential.

Credit fundamentals remain healthy as well: State and local government tax revenue collections and reserves hover near 40-year highs. In 2025, muni ratings upgrades exceeded downgrades for the fifth year in a row. Defaults are in line with long-term averages, while yields remain historically high. And spreads have stayed relatively stable, even during equity market selloffs. While a downturn in equities isn't our base case, stretched valuations and heightened geopolitical uncertainty are risks investors should not take lightly. Municipals, on the other hand, may remain largely insulated from geopolitical impacts.

In our view, these tailwinds, combined with disciplined credit analysis and active management, support the case for adding munis to portfolios for their tax-advantaged income and risk-adjusted return potential.

FIGURE 2: DESPITE ELEVATED MUNI ISSUANCE, SURGING REINVESTMENT COULD MEAN NEGATIVE NET SUPPLY

Reinvestment and supply of municipal bonds ($ billions)



Data source: Siebert Williams Shank, 2015-2025; Nuveen, Bank of America Merrill Lynch, 2016 estimates, 31 Oct 2025. 2026 estimates include both taxable and tax-exempt municipals.

About Nuveen's Global Investment Committee

Nuveen's Global Investment Committee (GIC) brings together the most senior investors from across our platform of core and specialist capabilities, including all public and private markets.

Regular meetings of the GIC lead to published outlooks that offer:

- macro and asset class views that gain consensus among our investors
- insights from thematic "deep dive" discussions by the GIC and guest experts (markets, risk, geopolitics, demographics, etc.)
- guidance on how to turn our insights into action via regular commentary and communications

For more information, please visit nuveen.com.

Endnotes

Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professionals.

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain "forward-looking" information that is not purely historical in nature.

Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. **Performance data shown represents past performance and does not predict or guarantee future results.** Investing involves risk; principal loss is possible.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on nuveen.com. **Please note, it is not possible to invest directly in an index.**

Important information on risk

All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Investing in municipal bonds involves risks 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. There are special risks associated with investments in high yield bonds, hedging activities and the potential use of leverage. Portfolios that include lower rated municipal bonds, commonly referred to as "high yield" or "junk" bonds, which are considered to be speculative, the credit and investment risk is heightened for the portfolio. Bond insurance guarantees only the payment of principal and interest on the bond when due, and not the value of the bonds themselves, which will fluctuate with the bond market and the financial success of the issuer and the insurer. No representation is made as to an insurer's ability to meet their commitments.

This information should not replace an investor's consultation with a financial professional regarding their tax situation. Nuveen is not a tax advisor. Investors should contact a tax professional regarding the appropriateness of tax-exempt investments in their portfolio. 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 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. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

Nuveen, LLC provides investment services through its investment specialists.

This information does not constitute investment research as defined under MiFID.

WF3949550 5172560