

Recession potential: pivot portfolios toward fixed income

Contrasting data in the summer and fall of 2024 combined with the rise-and-hold of the unemployment rate at just over 4% have contributed to rising recession concerns. While the economy has proved resilient and the election outcome is perceived as positive for growth, investors should prepare portfolios to be resilient across various scenarios. A potential recession would likely lead to a decline in interest rates that may benefit fixed income sectors. We suggest exploring strategies that may lock in attractive fixed income yields while balancing credit and interest rate risk.

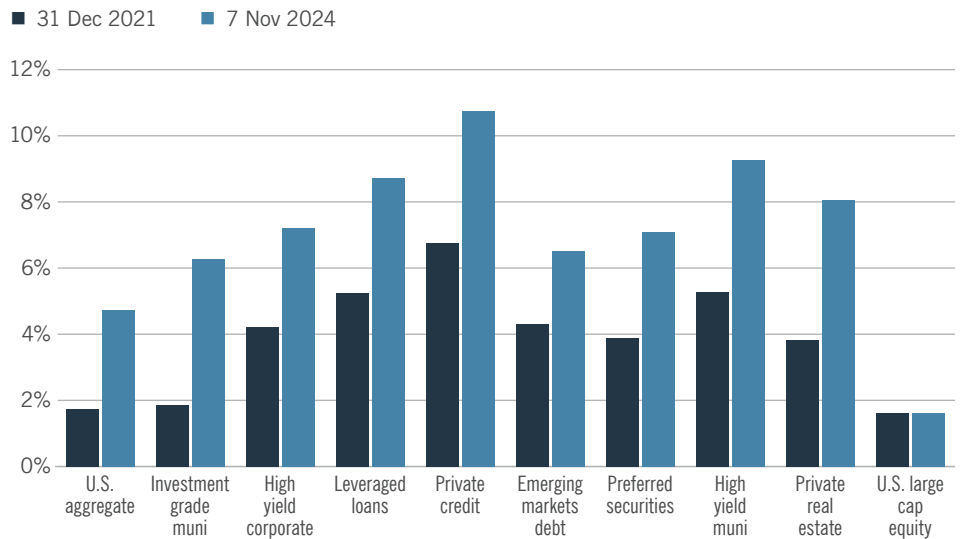
Income opportunities are enhanced

Rising U.S. Treasury rates have significantly enhanced income potential. Over the last three years, yields have risen across many asset classes and sub-sectors.

Some fixed income sectors have seen yields more than double as the market has become less expensive. Particular standout areas include investment grade and high-yield munis, preferred securities, senior loans and private credit.

Figure 1: Fixed income yields have increased dramatically

Taxable equivalent yield



Data source: As of 07 Nov 2024. Bloomberg, L.P. Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: U.S. aggregate: Bloomberg U.S. Aggregate Bond Index; investment grade municipals: Bloomberg Municipal Bond Index; high yield corporates: Bloomberg U.S. Corporate High Yield Index; leveraged loans: Credit Suisse Leveraged Loan Index; private credit: Cliffwater Direct Lending Index; emerging markets debt: Bloomberg Emerging Markets USD Aggregate Index; preferred securities: ICE BofA U.S. All Capital Securities Index; high yield municipals: Bloomberg High Yield Municipal Bond Index; private real estate: NCREIF ODCE Index; U.S. equity: S&P 500 Index. The tax treatment of dividends is subject to change based on changes in tax rules and regulations. For preferred securities, taxable-equivalent yield calculations assume all income is QDI-eligible and is taxed at the 20% QDI rate plus 3.8% Medicare surtax rate. For municipals, taxable-equivalent yield calculation uses 37% federal income tax and 3.8% Medicare surtax rates. Individual tax rates may vary.

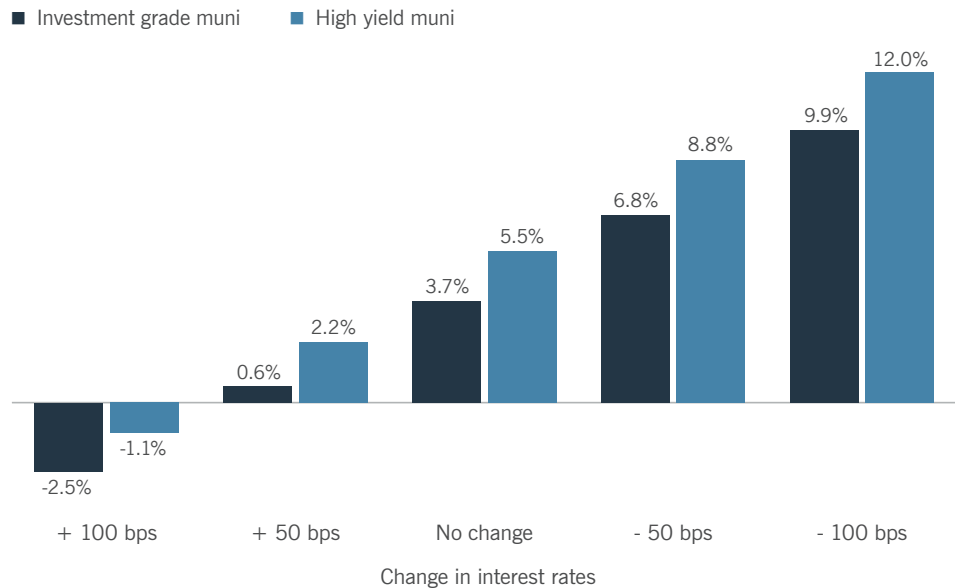
Potential impact of rate declines

The impact of elevated interest rates for the past several years combined with the first modest interest rate cuts in 2024 have created an attractive entry point for municipal bonds.

Investors can blend investment grade and high yield municipals to create attractive tax-efficient portfolios. High-yield municipals are a longer duration asset class, and the municipal curve is much steeper than the Treasury curve. As a result, investors may be rewarded for locking in yields ahead of additional rate cuts, making investment-grade and high-yield municipals compelling choices for their total return potential and to help defensively position portfolios across multiple rate scenarios that may lie ahead.

Figure 2: Potential total return is attractive for a parallel shift in the yield curve

Hypothetical forward 12-month return



Data source: As of 7 Nov 2024; Bloomberg, L.P. Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: investment grade municipals: Bloomberg Municipal Bond Total Return Index; high yield municipals: Bloomberg Municipal High Yield Total Return Index. Yield curve change assumes a parallel shift in the yield curve. Calculation assumes no change in the spread for investment grade or high yield.

For more information, please consult with your financial professional and visit nuveen.com.

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