Preferred Securities

Marketing communication | As of 31 Mar 2025

- **During the first quarter, the Preferred Securities strategy outperformed its benchmark on a gross and net of fees basis.**
- **The main contributor to performance was security selection.**
- **The main detractor from performance was duration positioning.**

Market review

Economic activity remained strong in the first quarter but showed more signs of a potential slowdown ahead. As the quarter progressed, uncertainty surrounding pending U.S. tariffs caused increasing angst as countries and investors wrestled with the wide range of possible policy outcomes and disparate economic impacts. Depending on the magnitude, breadth and duration of tariffs, the drag on growth could range from 0% to 2% or more of gross domestic product (GDP), with a move of similar scope to inflation in the opposite direction. This uncertainty affected surveys of U.S. consumer and business sentiment, which softened in March, while consumer inflation expectations moved higher. Nevertheless, actual data regarding U.S. job creation, personal income, retail sales and industrial production remained resilient during the quarter.

The Federal Reserve (Fed) kept rates unchanged throughout the quarter as policymakers paused to assess the impact of the Trump administration's aggressive economic agenda. Following their March meeting, policymakers lowered their growth outlook and raised inflation forecasts, while reiterating the likelihood of two 25-basis-point (bps) rate cuts in 2025. Other global central banks, including the European Central Bank (ECB), Bank of England (BoE) and Bank of Canada, cut rates during the quarter, while the Bank of Japan (BoJ) hiked rates in January to their highest level since 2008. U.S. Treasury yields trended downward over the quarter and the yield curve slightly steepened. The 10-year Treasury yield ended the quarter 35 bps lower at 4.23%, reversing about half of the fourth quarter's rise.

The quarter was relatively void of headlines specific to the preferred securities market. For the bank sector, the largest issuer of preferred securities, news was generally positive. Banks released fourth-quarter 2024 earnings that, on average, exceeded expectations, a trend that has now spanned several quarters. At the end of June, the Fed released annual stress test results, with all 31 participating banks yet again passing this year's exam. Based on this year's test, the 31 participating banks held almost $600 billion of excess capital. While the Trump administration has stated a desire to scale back regulations governing the bank sector, we don't believe the changes will be meaningful enough to alter the underlying fundamental story of the bank sector for three reasons. First, from a political standpoint, the perception of going too easy on the bank sector likely would not resonate well with constituents of either political party. Second, from a fundamental standpoint, bank sector profitability has remained at historically high levels under the current regulatory regime.

Douglas M. Baker, CFA

Portfolio Manager, Head of Preferred Securities Sector Team

Brenda A. Langenfeld, CFA

Portfolio Manager

Surprisingly, some of the most prominent U.S. bank CEOs have urged regulators to refrain from changing the regulatory landscape as meaningful deregulation could burden bank management with the cumbersome exercise of realigning strategic initiatives. Third, under the current regulatory environment, the economy has performed well with adequate access to credit and liquidity necessary to support consistent growth.

Portfolio review

The Preferred Securities strategy posted a negative return, but outperformed its benchmark, the ICE BofA Core Plus Fixed Rate Preferred Securities Index, on a gross and net of fees basis. On an absolute basis, option adjusted spread (OAS) widening drove this quarter's negative total return, but positive returns from duration and coupon income offset nearly all of that, resulting in a modestly negative total return. On a relative basis, the strategy's outperformance primarily came from security selection. Additional relative outperformance came from coupon structure positioning and cash, while duration positioning detracted.

Security selection drove relative performance over the course of the quarter. The majority of the selection outperformance was within the banking and insurance sector. Both of these sectors held a handful of securities that outperformed the broader market on a spread basis. Other contributors included coupon structure and cash positioning. An overweight to securities with coupon reset features with a corresponding underweight to fixed-rate coupon structures was a contributor as coupons with reset features outperformed. Lastly, smaller allocations to floating-rate securities and cash were also contributors.

Duration positioning was the only meaningful detractor this quarter. At the beginning of the quarter the strategy's duration was 6.1 years, about 2 years less than that of its benchmark. This quarter, the lower duration profile of the strategy relative to its benchmark detracted modestly from relative performance, given the drop in rates.

The strategy added to several existing securities and participated in one new issue during the first quarter. Strategy trades were primarily funded with cash from income and from the redemption of an Aspen Insurance Holdings Ltd position in January. Similar to last quarter, issuance of $25 par preferreds was fairly light. In March, we added the Bank of New York Mellon Corp new issue to the strategy.

Outlook

Barring any unforeseen developments, we anticipate maintaining most of the strategy's current positioning relative to its benchmark index. We continue to favor securities with coupon reset features. They have minimal duration extension risk compared to their fixed-rate counterparts, plus in the current rate environment many of those nearing their rate reset have the potential for coupon increases. We also continue to maintain an overweight to the financial sector and underweight to industrials, which is defensive in nature. The financial sector as a whole is comprised of highly regulated industries. Banks and insurance companies, which make up the majority of this sector, are subject to strict financial regulation, plus most banks are required to regularly participate in fairly rigorous stress tests. For these reasons we continue to favor highly regulated industries over those with less government. We will, however, likely use bouts of weakness to add spread duration to the strategy by rotating out of near-term callable securities, and into securities with longer call protection.

Preferred Securities

For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is $100,000.

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. The preferred securities strategy entails certain risks, including preferred security risk, interest rate risk, income risk, credit risk, non-US securities risk and concentration/non-diversification risk, among others. There are specific risks associated with investing in preferred securities, including generally an absence of voting rights with respect to the issuing company unless certain events occur. The issuer of preferred securities may redeem the securities prior to a specified date. As with all call provisions, a redemption by the issuer may negatively impact the return of the security held by an account. Investing internationally presents certain risks not associated with investing solely in the U.S., such as currency fluctuation, political and economic change, social unrest, changes in government relations, differences in accounting and the lesser degree of accurate public information available, foreign company risk, market risk and correlation risk. Preferred security investments are generally invested in a high percentage of the securities of companies principally engaged in the financial services sector, which makes these investments more susceptible to adverse economic or regulatory occurrences affecting that sector.

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Glossary

The Custom Benchmark Index consists of 60% ICE BofA U.S. All Capital Securities Index and 40% ICE USD Contingent Capital Index. The **Bloomberg Barclays Aggregate Index** tracks the performance of U.S. investment-grade bonds. The **Bloomberg Barclays U.S. Credit - Financial Institutions Index** measures the performance of U.S. dollar denominated publicly-issued investment-grade corporate bonds in the financial sector. **Contingent Capital Securities (CoCos)** are debt or capital securities of primarily non-U.S. issuers with loss absorption contingency mechanisms built into the terms of the security. The **S&P 500® Financials Index** comprises those companies included in the S&P 500® that are classified as members of the GICS®financials sector.The ICE BofA Core Plus Fixed Rate Preferred Index tracks the performanceof fixed rate U.S. dollar denominated preferred securities issued in the U.S. domestic market. Qualifying securities must be rated at least B3 and must have an investment grade rated country of risk. **Option adjusted spread (OAS)** is the constant spread that when added to all discount rates from the treasury curve on the binomial interest rate tree model (used by the indices) will make the theoretical value of the future cash flows equal to the market price of the instrument. **It It is not possible to invest directly in an index.** Clients should consult their financial professional regarding unknown financial terms and concepts.

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