nuveen
A TIAA Company

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Munis may mitigate tariffs' unlucky charms

Bottom line up top

U.S. equities could use a Saint Patrick to banish tariffs from the landscape. Increasingly harsh global trade talk has prompted an economic growth scare, with uncertainty around an escalating global trade war (Figure 1) driving down stock prices. The S&P 500 Index entered correction territory (down more than 10% from its most recent peak) last week and has seen its post-election gains erased. As the focus of tariff concerns shifts away from inflation and toward a possible recession, the index has become hypersensitive to any downside surprises in economic data (retail sales, manufacturing, consumer and business confidence), as well as to headlines about significant reductions in the federal workforce, a potential government shutdown and other high-profile disruptions.

More rate cuts after all? Equity markets are currently pricing in three Federal Reserve rate cuts of 25 basis points (bps) each in 2025 given the anticipated negative impact of tariffs on economic growth, but investors will need to digest the risks of the growth scare before finding relief in the potential upside from rate cuts. Furthermore, there's no guarantee those cuts will materialize, as tariffs remain a possible source of upward pressure on prices. In our view, tariffs could add +0.3% to the core Personal Consumption Expenditures (PCE) Price Index on an annualized basis. That would result in core PCE coming in at 2.8% instead of a forecast 2.5% for 2025 — well above the Fed's 2% target. Barring any additional unexpected tariffs, however, we don't foresee further inflationary impact from tariffs beyond 2025.

Saira Malik, CFA
Head of Nuveen Equities and Fixed Income, Chief Investment Officer

On behalf of Nuveen's Global Investment Committee

As Head of Equities and Fixed Income, Nuveen's CIO 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 chairs Nuveen's Equities Investment Council and is a portfolio manager for several key investment strategies.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

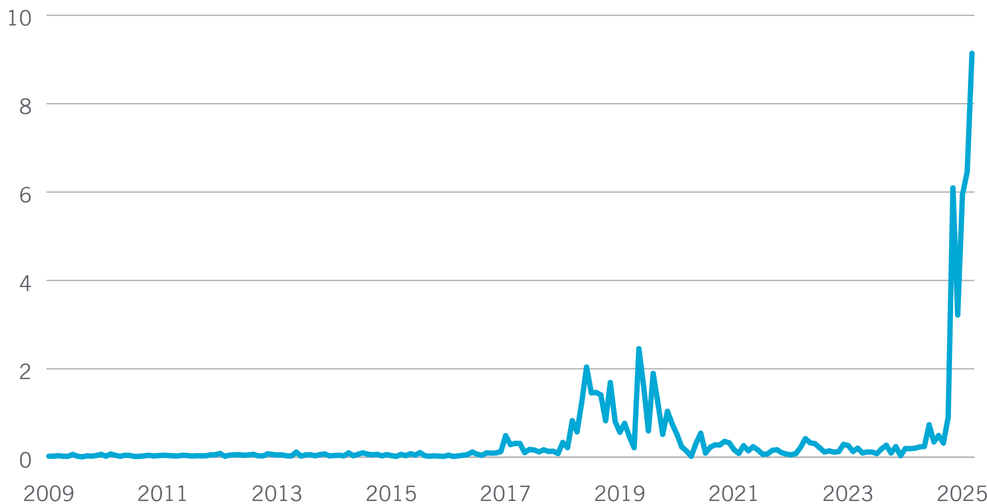
NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

> ***We expect equity market volatility will remain elevated, especially as tariff-related risks continue to escalate.***

No asset class is a four-leaf clover, but investors have options. As growth and inflation worries continue to weigh on market sentiment, investors can seek buffers against volatility by focusing on more defensive areas of the equity market (with less exposure to beleaguered mega cap technology stocks) and by considering allocations to other asset classes currently offering good value and attractive income potential.

FIGURE 1: TRADE POLICY UNCERTAINTY HAS SPIKED OVER THE LAST MONTH

Bloomberg Economics Global Trade Policy Uncertainty Index



Data source: Bloomberg, Jan 2009 to Mar 2025. Data reflects the end-of-month readings, except for March 2025, which reflects March 7. The **Bloomberg Economics Global Trade Policy Uncertainty Index** is a measurement of global news coverage based on daily searches of the Bloomberg News and First Word feeds covering economics, research and government topics. The index reflects the proportion of news stories that include words related to trade policy, such as tariffs, alongside language that expresses uncertainty.

Portfolio considerations

While heightened market volatility and uncertainty have created challenges for investors, particularly in equity markets, one asset class in which we remain confident is **high yield municipal bonds.** Credit spreads for this segment of the market have historically remained stable during prior equity market selloffs, especially compared to taxable high yield corporates. Additionally, municipal default rates are only a fraction of those for their taxable counterparts across both investment and high yield munis. Figure 2 shows a 10-year cumulative default rate for high yield municipals of just 7.1%, versus 29.7% for their taxable high yield counterparts. Lastly, in 2024, municipal credit ratings upgrades outpaced downgrades by a ratio of nearly 3:1 through the third quarter.

At the index level, high yield munis have longer duration than investment grade munis. But actively managed municipal strategies can offer shorter duration and take advantage of attractive interest rates in the short-to-

intermediate part of the yield curve. The municipal curve is positively sloped, rewarding investors for taking on duration exposure. Given the volatility of interest rates at the longer end of the curve, however, we believe a portfolio allocation to intermediate-term municipal credit is worth considering.

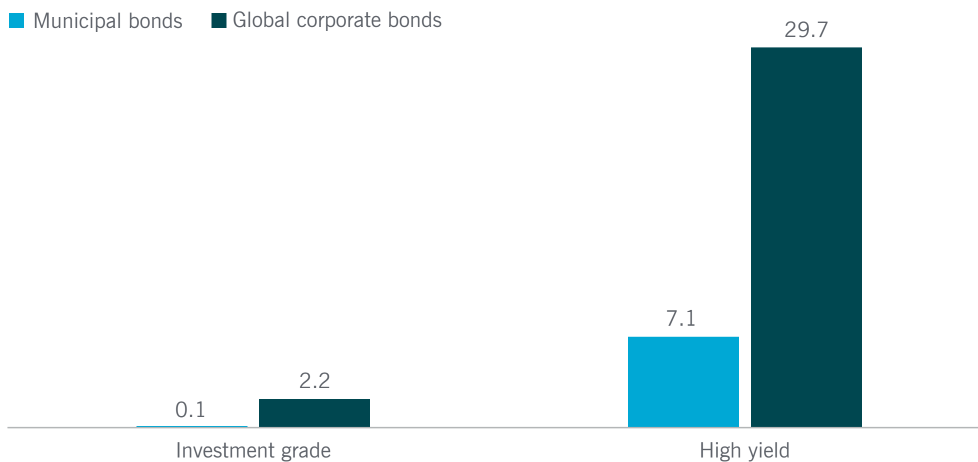
Within municipal credit, the **land-secured ("special tax") sector** is among our favorites. Bonds in this sector finance the horizontal infrastructure (buildings and systems built close to the ground) of communities in states experiencing robust population growth and housing demand. Allocating to this sector provides exposure to long-term household formation and not necessarily to home prices, which fluctuate. This sector has long been a reliable source of supply issuance, and also comes with strong collateral, as the bondholder has first lien on the underlying land and all assessments attached to that land.

Year-to-date per Lipper, more than two-thirds of all investments in active municipal bond funds have gone into high yield municipals, reflecting investors' conviction in this segment. That said, we have also observed a growing number of large but fundamentally weaker deals being teased into the market, which makes vigilant credit selection increasingly important.

High yield municipal bonds feature attractive fundamentals and are enjoying strong demand from investors.

FIGURE 2: MUNICIPAL BONDS HAVE PROVEN RESILIENT THROUGH MARKET CYCLES

10-year cumulative default rate (1970 to 2023) (%)



Source: Moody's Investors Service, U.S. Municipal Bond Defaults and Recoveries, 1970-203. Data as of 31 December 2023, updated annually. The universe for the study represents approximately 12,500 fundamental U.S. public finance ratings from Moody's.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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. Equity investing involves risk. Investments are also subject to political, currency and regulatory risks. These risks may be magnified in emerging markets. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, derivatives risk, dollar roll transaction risk and income risk. As interest rates rise, bond prices fall. 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, could heighten the credit and investment risk.

Nuveen, LLC provides investment services through its investment specialists.

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

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

WF2218517 4306368