

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Fixed income trades amid the tariff tirade

Bottom line up top

An earnings season to remember ... or quickly forget? Given the intense tariff-driven market volatility seen in April thus far, it would be understandable if this week's unofficial start to first quarter earnings season flies under the radar. Extreme policy uncertainty around the state of global trade may make this season feel less significant as a directional indicator for equity markets and the U.S. economy. In fact, a significant number of companies may decline to provide forward guidance due to a lack of confidence in projecting what tariffs may mean for the future of costs and supply chains.

What is certain is that Q1 earnings growth estimates for the S&P 500 have been downgraded since the beginning of the year. Utilities is the only sector that hasn't been subject to negative revisions (Figure 1). With the bar lowered, and most of the tariff tirade coming in late March/early April, we expect a high percentage of earnings "beats" this quarter. But investors may not reward them much because the outlook remains opaque. Earnings misses, on the other hand, will likely be penalized more heavily compared to historical averages.

Higher tariffs, volatile bond yields. Fixed income markets haven't escaped the turmoil plaguing equities. Following the 02 April Liberation Day tariff announcement, the 10-year U.S. Treasury yield tumbled to 4%, its lowest level since last October. But this welcome rate reprieve was short-lived, as the 10-year yield spiked 50 basis points (bps) in midweek overnight trading after the Trump administration's abrupt decision to delay tariffs (except those against China) by 90 days.



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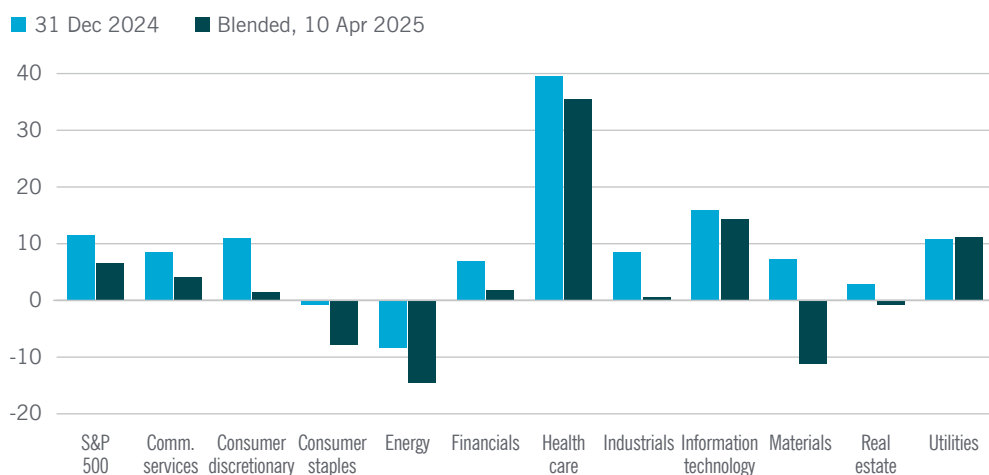
On behalf of Nuveen's Global Investment Committee

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.

The 10-year yield finished the week at 4.48%, up 47 bps from where it started. On a positive note for bonds, relative to stocks, the sudden pause in tariffs may have a more sustained stabilizing effect, with elevated yields offering compelling value in a number of fixed income sectors.

FIGURE 1: TEN OF 11 S&P 500 SECTORS HAVE SEEN SIZABLE REDUCTIONS IN EARNINGS ESTIMATES THIS QUARTER

Earnings growth estimates (%), year-over-year



Data source: FactSet, 10 Apr 2025. Past performance does not predict or guarantee future results. Data based on GICS sectors from the S&P 500 Index. Blended earnings growth combines data for companies that have already reported and estimates for companies that have not reported yet.

The sudden pause in tariff implementation may have a more sustained stabilizing effect, with elevated yields offering compelling value.

Portfolio considerations

Although last week's volatility across taxable fixed income sectors spooked some investors, we reiterate our view that these moves may enhance valuations and starting yields for those seeking to allocate to more tariff-resistant asset classes. Consider the current yield and spread of various fixed income categories versus their average levels over the last 10 years in percentile terms (Figure 2). In general, the higher the percentile for current yield, the more compelling the entry point. As for current spreads, a percentile in the 50 range (neither substantially wider nor tighter relative to their 10-year average) indicates spreads are fairly priced.

Preferred securities is one sector we favor on these grounds. Spreads were quite tight at the beginning of the year but have since widened by 70 bps for \$1000 par securities — our favored segment — which now yield 6.8% with a modest duration of 3.8 years. Spreads have widened even though banks, the largest issuer of preferreds, are less exposed to tariff risks than goods-producing corporations. With a yield in the 84th percentile and spreads in the 50th, we think preferreds warrant consideration in a diversified portfolio. (It's worth noting that investment grade corporate

bonds have a similar yield and spread profile, but, in our view, their greater vulnerability to tariffs dampens their attractiveness.)

Municipal bonds are another area with lower tariff exposure, as municipalities generally don't purchase or sell goods across borders. Spreads have narrowed for both investment grade and longer-duration high yield munis but have widened year to date by 15 bps for short-duration high yield, offering a compelling relative value opportunity.

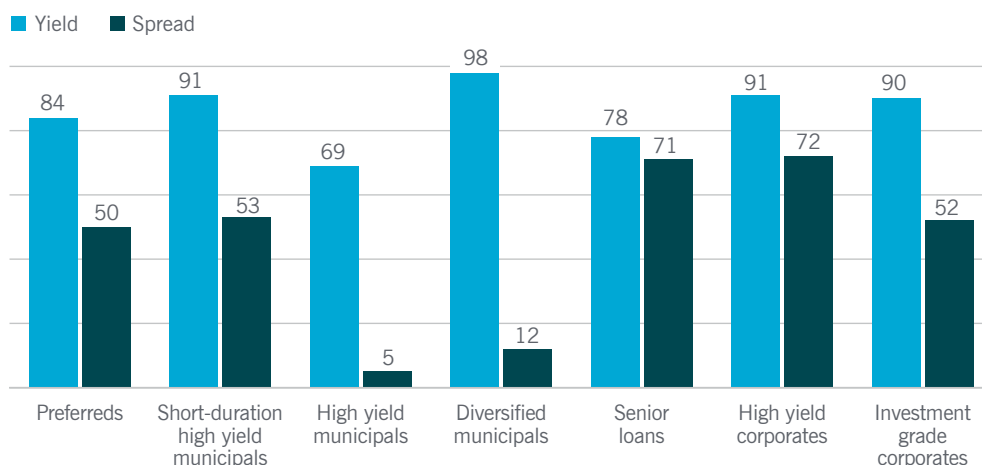
Muni-to-Treasury yield ratios have continued to creep higher, with the 5-, 10- and 30-year ratios now at 82%, 82% and 96%, respectively, representing multiyear highs. While these elevated ratios haven't been a positive for recent performance, they provide favorable points for investors. Thanks to higher ratios, investment grade intermediate munis offer a taxable-equivalent yield north of 6% for those in higher tax brackets.

Investors can pair investment grade intermediate muni exposure with high yield munis and decide whether to allocate to the short or long end (or both) of the high yield curve. The short-duration high yield muni segment currently yields 5.0% with a duration of 4.4 years, as measured by the ICE 1-12 Year Broad High Yield Crossover Municipal Index. This yield-to-duration ratio is a rare find in the municipal market. For those enticed by the potential for additional price return, longer-duration high yield munis may fit the bill if longer-dated muni ratios decline or longer-dated interest rates pull back. Additionally, demand for high yield municipals remains robust across the board, and new deals continue to be oversubscribed.

We reiterate our view that these moves may enhance valuations and starting yields for investors.

FIGURE 2: RELATIVELY HIGH YIELDS AND SPREADS COULD MAKE FOR ATTRACTIVE ENTRY POINTS

Current yields and spreads vs. historical 10-year period (percentile)



Data source: Bloomberg, L.P., 08 Apr 2025. Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: investment grade corporates: Bloomberg U.S. Corporate Total Return Value Unhedged USD; high yield corporates: Bloomberg U.S. Corporate High Yield Total Return Index Value Unhedged USD; senior loans: S&P UBS Leveraged Loan Index Total Return Index Level Unhedged USD; diversified municipals: ICE BofA U.S. Municipal Securities Index; high yield municipals: ICE BofA U.S. Municipal High Yield Securities Index; short-duration high yield municipals: ICE 1-12 Year Broad High Yield Crossover Municipal Index; preferreds: ICE U.S. Institutional Capital Securities Index.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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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.

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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.

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Investing in preferred securities entails certain risks, including preferred security risk, interest rate risk, income risk, credit risk, non-U.S. securities risk and concentration/nondiversification risk, among others. There are special risks associated with investing in preferred securities, including generally an absence of voting rights with respect to the issuing company unless certain events occur. Also in certain circumstances, an issuer of preferred securities may redeem the securities prior to a specified date. As with call provisions, a redemption by the issuer may negatively impact the return of the security held by an account. In addition, preferred securities are subordinated to bonds and other debt instruments in a company's capital structure and therefore will be subject to greater credit risk than those debt instruments. Credit risk is the risk that an issuer of a security will be unable to make dividend, interest and principal payments when due. Interest rate risk is the risk that interest rates will rise, causing fixed income securities prices to fall. Income risk is the risk that the income will decline because of falling market interest rates. This can result when an account invests the proceeds from new share sales, or from matured or called fixed income securities, at market interest rates that are below the account's current earnings rate. An investment in foreign securities entails risks such as adverse economic, political, currency, social or regulatory developments in a country including government seizure of assets, lack of liquidity and differing legal or accounting standards (non-U.S. securities 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 concentration/nondiversification risk). It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

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