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CIO Weekly Commentary
08 December 2025

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Triple tailwinds buoy municipal bond prospects

Bottom line up top

Policymakers wonder as economic signals waver. There's a perceptible winter chill in the air amid concerns about the quantity and quality of available economic data. With official statistical releases hampered by delays, private-sector data like last week's ADP employment survey may carry more weight than usual. ADP reported a startling loss of -32,000 private jobs in November — far below consensus expectations for +31,500 and October's revised +47,000 gain, and the fourth negative reading in six months. While the survey isn't known for accurately predicting U.S. Labor Department reports, its recent movements are in keeping with a broader trend of widening cracks in the labor market. This may be enough to convince some U.S. Federal Reserve governors to soften their hawkish stance. Markets are pricing in a high likelihood of a third consecutive 25 basis point (bps) rate cut at this week's final Fed meeting of 2025 (Figure 1).

Markets look to stick the landing as year-end approaches. After broadly positive returns for the fourth quarter (and year) to date, investors are now tasked with balancing risk and reward in the closing month of 2025. For equities, the weakening labor market momentum underscores a risk to consumer spending, which could weigh on cyclical sectors. But lower rates — and the resulting boost in liquidity — should support growth and interest-sensitive sectors, especially once investors gain more clarity around fiscal and monetary policy. In fixed income, yields — especially on shorter maturities — face continued downward pressure, while longer-duration bonds may regain some appeal if inflation shows signs of moderating.

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.

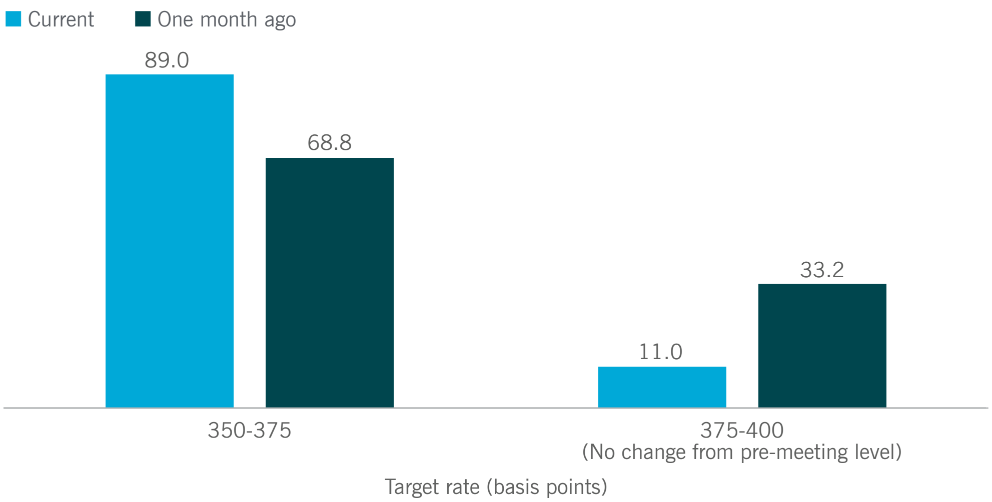
We're still constructive on a number of key asset classes, such as municipal bonds.

Risk appetite outside traditional markets also appears to be rebounding. For speculative-asset investors, a more dovish Fed could spark renewed flows, potentially increasing correlations between equity performance, credit spreads and even digital assets. Cryptocurrency markets, for example, are catching a bid after a mid-November selloff, as sentiment is lifted by rate-cut expectations and the easing of worst-case-scenario macro fears.

In general, we're still constructive on key asset classes we've long favored as strategic allocations. Municipal bonds are a prime example, offering sound fundamentals, diversification advantages and attractive yields — accompanied by especially compelling supply and demand technicals as we look ahead to 2026.

FIGURE 1: MARKET IMPLIED ODDS OF A RATE CUT HAVE INCREASED AMID LABOR MARKET CONCERNS

Probability of policy rate level after December Fed meeting (%)



Data source: CME FedWatch. 03 Dec 2025 12:46 pm ET.

Portfolio considerations

After underperforming other fixed income segments this year, the **municipal bond** market is at an inflection point. Multiple tailwinds are converging to position the asset class well for 2026:

- **Vast amounts of investor cash are available.** $7.5 trillion sits idle in money market funds, generating lackluster returns. For investors in the 24% federal income tax bracket, after-tax yields on 1- to 3-month Treasury bills have dipped below 3% for the first time since 2022. And with additional rate cuts expected, T-bills and the money market funds that hold them will likely see yields decline further. This could provide a catalyst for what we would classify as a "great rotation" from cash and cash equivalents into municipal securities. Municipals offer relatively safe, high-quality investments with an average credit rating of AA/Aa2, along with historically favorable yields. We anticipate spreads will compress amid investor inflows and stable credit conditions, sustaining municipal bond prices.

- **Robust demand, meet ample supply.** Heavy issuance has been the talk of the municipal market for the past couple of years and is expected to remain strong, with $600 billion in anticipated new supply in 2026, up from $550 billion in 2025. Meanwhile, principal redemptions and coupon payments are projected to surge 50% next year, creating powerful reinvestment inflows from prior issuance and a wave of refinancing opportunities as rates decline. We expect elevated supply in both the airport and health care sectors, fostering positive conditions for capturing additional yield — though careful security selection is warranted. We also favor state and local government issuers, as well as water/sewer and electric utilities.

- **Discounted entry fees.** Longer-dated municipal bonds offer their most attractive entry point in more than two years. Consider the 20-year muni bond, which offers yield pickup of +1.45% and +1.12% versus its 5- and 10-year counterparts (Figure 2). We believe this steepness will compress, which should reward strategic positioning along the muni curve.

In our view, these three tailwinds — combined with disciplined credit analysis and active management — may support compelling tax-advantaged, risk-adjusted returns for municipal bond investors.

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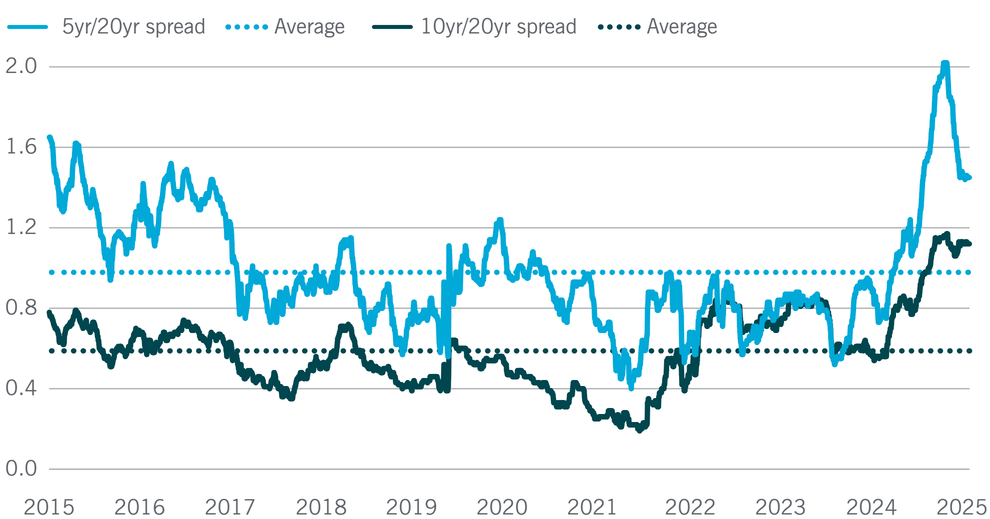
FIGURE 2: MUNICIPAL DURATION IS CHEAP

Municipal yield curves (%)



Data source: Nuveen, MMD Refinitiv, 01 Jan 2015 – 28 Nov 2025. **Performance data shown represents past performance and does not predict or guarantee future results.** Curve slopes represent the yield spread between the relevant AAA municipal tenors.

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.

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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. 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.

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