nuveen
A TIAA Company

Interval fund
Municipal – National

Nuveen Enhanced High Yield Municipal Bond Fund

Marketing Communication | As of 30 Jun 2022

Market review

In the second quarter, the municipal bond market continued to struggle amid volatile U.S. Treasury rates, persistent inflation and rapid U.S. Federal Reserve policy tightening, with sustained municipal fund outflows adding to the selling pressure. AAA municipal benchmark interest rates increased to 2.72% from 2.18% for the 10-year maturity, while municipal-to-Treasury ratios fluctuated but remained above historical averages. The S&P Municipal Bond Index returned -3.02% in the quarter. In the below investment grade universe, the S&P Municipal Yield Index returned -5.61% this quarter.

Municipal yields were higher across the curve, more prominently at the longer end. Municipal interest rates on 1- and 5-year maturities increased by 0.05% and 0.25%, and 10- and 20-year rates rose 0.54% and 0.64%, for AAA MMD yields. The combination of rising interest rates and a steepening yield curve caused bonds with longer maturities to underperform shorter maturities during the second quarter.

Municipal-to-Treasury yield ratios fluctuated but remained much higher versus the beginning of the year and historical averages. The 10-year ratio started the year at 67%, rose to its highest point of 105% on May 20, then fell to 91% by quarter end. The 30-year ratio, which is typically cheaper, rose from 78% to a high of 110%, then ended the quarter at 101%, compared to its long-term average of 93%.

Supply declined by 11.7% from the same period last year to $208.2 billion, primarily because refundings dropped by 47%. The market selloff appears to have stalled the ability of many issuers to refund existing issues, at least temporarily. Municipal fund flows turned consistently negative in the first half of 2022, following record inflows in 2021. The -$74.7 billion total year-to-date is the primary cause of cheaper valuations.

Credit spreads widened, but remain below historical averages. High yield spreads increased from 190 bps to 226 bps over AAA rated 20-year municipal bonds. Investment grade BBB spreads widened from 86 bps to 95 bps over AAA. Through May 2022, first-time municipal bond defaults total $582 million, a very small percentage of the overall $4 trillion market.

Portfolio review

The Fund underperformed the benchmark S&P Municipal Yield Index during the quarter. The relative underperformance was almost entirely due to the Fund's longer duration profile during a period of extreme interest rate volatility, with some positive offsets from rating, sector and credit selection.

The prevailing narrative of the Fund's performance in the first half of 2022 has been the significant underperformance of longer duration bonds. The Fund's longer duration positioning, along with the overweight to bonds maturing in 22 years and longer and corresponding underweight to 2- to 17-year maturities, driven by the use of inverse floaters, was the largest detracting factor by far. While our strategic use of inverse floaters has added to the Fund's performance over the long term, accruing to both the income and total return of the Fund, the prolonged rates selloff has been punishing for longer maturity bonds. While the use of leverage exposes the Fund to greater price volatility (on both the upside and the downside), we continue to believe the longer-term benefits have outweighed the risk.

However, positive contributions from some of the Fund's credit rating, sector and individual credit positions helped the Fund mitigate what could have been an even weaker quarter. An overweight to non-rated bonds, which outperformed, was beneficial. The Fund also held underweight allocations to some of the most lagging sectors, including tobacco settlement and hospitals, along with overweights to utilities and land secured debt, some of the best performing sectors.

Additionally, Fund performance was helped by strong performance from select holdings and particularly from distressed positions. A concentrated position in a distressed situation Talen Energy rallied substantially as a beneficiary of rising energy prices. A distressed senior living facility in Texas, Buckingham, also contributed positively as its valuations continued to recover. We note that the Fund opportunistically bought the Buckingham bonds as a distressed situation, rather than the bond becoming distressed after purchase. Golden State Tobacco bonds bought in May when valuations looked very oversold were among the top contributors by the end of the quarter. Brightline, the Florida high-speed passenger train, was another strong contributor, delivering a positive total return in a down market.

Portfolio positioning

The Fund was an active buyer during the quarter thanks to positive shareholder inflows and cash from coupon income, bond calls and maturities, resulting in a high level of turnover in this period. Additionally, as an interval fund, the Fund was not subject to the elevated level of shareholder redemptions impacting municipal funds this year. Widening relative value dispersion provided attractive opportunities to add bonds from some of the more oversold areas of the secondary market, including Puerto Rico and tobacco settlement bonds. The Fund selectively participated in several new issues priced at higher adjusted yield levels as the primary market struggled to get new deals done. The Fund also did tax loss swaps, selling depreciated bonds with lower book yields and buying similarly structured bonds with higher book yields, capturing tax advantages and supporting the Fund's income earnings capability.

Portfolio outlook

We believe several trends bode well for a potential rebound in the municipal bond market. With additional rate increases already priced into fixed income markets, longer-term Treasuries and longer-term inflation expectations are hinting at a more stable trading range as of the end of the second quarter. Given the relative cheapness of the municipal asset class, this rate stability could easily support the emerging pickup in demand for municipal bonds, leading to improved performance during the second half of the year. Against this backdrop, we believe the Fund is well positioned for outperformance in the longer term, given our active purchasing of oversold secondary market bonds and participation in new issue deals priced cheaply and offering very compelling yield levels.

Nuveen Enhanced High Yield Municipal Bond Fund

For more information contact: 800.752.8700 or visit nuveen.com

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 advisors.

Certain information was obtained from third party sources, which we believe to be reliable but not guaranteed for accuracy or completeness. Clients should consult their financial professionals regarding any unknown terms or concepts.

Glossary

Average effective maturity is the weighted average of the effective maturity dates of the fixed-income securities in the Fund's holdings. A bond's effective maturity takes into account the possibility that it may be called by the issuer before its stated maturity date. In this case, the bond trades as though it had a shorter maturity than its stated maturity. **Leverage adjusted effective duration** is the Fund's average effective duration adjusted for the impact of the Fund's utilization of leverage in the form of senior securities as defined by Section 18 of the Investment Company Act of 1940. Funds that utilize leverage in the form of senior securities will have a leverage adjusted effective duration that is longer than its baseline effective duration. **Leverage** is created whenever a fund has investment exposure (both reward and/or risk) equivalent to more than 100% of the investment capital. **Yield curve** is a graph or "curve" that depicts the yields of bonds of varying maturities, from short-term to long-term. The graph shows the relationship between short-and long-term interest rates. Long-term rates are typically higher than short-term rates. When short-term rates are higher than long-term rates, this is called an "inverted" yield curve. **S&P Municipal Yield Index** is structured so that 70% of the market value of the index consists of bonds that are either not rated or are rated below investment grade, 20% are rated BBB/Baa, and 10% are rated single A**. It is not possible to invest directly in an index.**

Important information on risk

Investing in interval funds involves risk; principal loss is possible. There is no guarantee the Fund's investment objectives will be achieved. Debt or fixed income securities such as those held by the Fund, are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, and income risk. As interest rates rise, bond prices fall. Credit risk refers to an issuers ability to make interest and principal payments when due. The Fund concentrates in non-investment-grade and unrated bonds, as well as special situations municipal securities, with long maturities and durations which carry heightened credit risk, liquidity risk, and potential for default. In addition, the Fund oftentimes utilizes a significant amount of leverage and in doing so, assumes a high level of risk in pursuit of its objectives. Leverage involves the risk that the Fund could lose more than its original investment and also increases the Fund's exposure to volatility, interest rate risk and credit risk.

An interval fund is a non-diversified, closed-end management investment company that continuously offers its common shares. An interval fund is not intended to be a complete investment program and, due to the uncertainty inherent in all investments, there can be no assurance that the fund will achieve its investment objectives. An interval fund's performance and the value of its investments will vary in response to changes in interest rates, inflation, the financial condition of a security's issuer, ratings on a security, perceptions of the issuer, and other market factors. Common shares at any point in time may be worth less than your original investment, even after taking into account the reinvestment of fund dividends and distributions. These and other risk considerations are described in more detail on the Fund's web page at www.nuveen.com/HYIF.

Before investing, carefully consider fund investment objectives, risks, charges and expenses. For this and other information that should be read carefully, please request a prospectus, and if available, a summary prospectus, from your financial professional or Nuveen at 800.257.8787 or visit nuveen.com.

The Fund features portfolio management by Nuveen Asset Management, LLC, an affiliate of Nuveen, LLC. Nuveen Securities, LLC, member FINRA and SIPC.

109971 RCM-2314580PR-Q0622P