Intermediate Government/Credit

Marketing communication | As of 31 Mar 2025

- **The Intermediate Government/Credit strategy underperformed its benchmark on a gross and net of fees basis but underperformed.**
- **Sector allocation was the primary detractor from performance.**
- **Security selection was the primary contributor to performance.**

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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 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 basis points lower at 4.23%, reversing about half of the fourth quarter's rise.

In the investment grade corporate sector, spreads narrowed to 77 basis points in the first half of the period but then widened to 94 basis points by quarter-end as still-elevated inflation, increasing tariff and growth concerns and weakening survey-based economic data sparked a broader risk-off tone. A busier-than-expected final week of March lifted new issue volume to $534 billion for the first quarter, roughly one-third of this year's expected total issuance and on pace with the record-setting first quarter of 2024. Despite this heavy supply, demand for investment grade remained steady with all-in yields remaining attractive at 5.15%, supported by low historical default rates. Investment grade corporates ended the quarter with a total return of 2.31%, underperforming Treasuries. (Source: Bloomberg Corporate index returns except where noted.)

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Portfolio review

The Intermediate Government/Credit strategy underperformed its benchmark, the Bloomberg Intermediate U.S. Government/Credit Index, on a gross and net of fees basis.

In the first quarter, the primary detractor from performance was the overweight to investment grade corporates and corresponding U.S. Treasury underweight detracted from performance as corporates underperformed with spreads moving wider. The primary contributor to performance was security selection. Specifically, the strategy's selection within consumer cyclicals and insurance was additive to performance. The strategy's duration positioning also contributed positively to performance, alongside our positioning across the curve. This was especially prominent within the exposure to U.S. Treasuries, where positioning had a longer-than-benchmark duration stance. Lastly, the strategy saw a tailwind from its higher credit quality bias within corporates. Most of the accounts in the composite do not have exposure to BBB rated securities, which comprise a significant part of the index and underperformed during the quarter. Thus, our lack of exposure to BBB rated securities in most accounts was a positive contributor. At the Bloomberg Intermediate Corporate index level, BBB rated corporates returned 2.22%, while A returned 2.34%, AA 2.24% and AAA -1.95%.

During the quarter, the strategy extended duration by purchasing a Goldman Sachs holdings, while also reinvesting cash into Salesforce. Within the government portion of the portfolio, the strategy extended duration by purchasing a 7-year Treasury.

Heavy supply of corporate bond issuance continued in the first quarter, keeping pace with last year's record-setting pace. Soft economic data continued to weaken, though it hasn't yet been followed by similar weakness in the hard data. While yields declined over the quarter, spreads widened on the back of policy uncertainty and growth concerns. Plenty of warning signs suggest spreads may move wider still as consumer weakness, delayed investment from policy uncertainty, stickier inflation and a weaker macro environment move to the forefront of the market's concerns. Volatility will likely persist as long as policy uncertainty remains.

We continue to favor positioning that emphasizes higher credit quality and liquidity. We prefer defensive sectors such as utilities and consumer non-cyclicals because they generate consistent cash flows, even during periods of economic uncertainty. We also prefer U.S. money center banks as they remain well-capitalized. Conversely, we intend to maintain the strategy's underweight to economically sensitive sectors such as basic industry and transportation.

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For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is $250,000.

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. Fixed income investments emphasize U.S. Government agency debt securities. Debt or fixed income securities are subject to credit risk and interest rates risk. The value of and income generated by debt securities will decrease or increase based on changes in market interest rates. Credit risk refers to an issuer's ability to make interest and principal payments when due.

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Glossary

The **Bloomberg U.S. Aggregate Bond Index** tracks the performance of U.S. investment-grade bonds. The **Bloomberg U.S. Intermediate Government Index** covers tmeasures the non-securitized component of the U.S. Aggregate Index with maturitiesof 1 to 9.999 years. **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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