

Intermediate Government/Credit

Marketing communication | As of 31 Dec 2025

- **During the fourth quarter, the Intermediate Government/Credit strategy underperformed its benchmark, the Bloomberg Intermediate U.S. Government/Credit Index.**
- **Sector allocation, duration and yield curve positioning contributed to performance.**
- **The strategy's higher-quality bias among corporates detracted from performance.**

Market review

Continued easing by the Federal Reserve (Fed) provided support for markets facing headwinds during the fourth quarter, including the extended U.S. government shutdown, weakening job market and geopolitical concerns. U.S. markets were flying blind for much of the quarter because of delayed economic data releases due to the closure, with the most recent figures likely still reflecting the effects of incomplete data collection. At the headline level, inflation trended lower, with the core Consumer Price Index (CPI) rising 2.6% year-over-year in November, while U.S. unemployment ticked up slightly, to 4.6%. Resilient U.S. consumer spending led to a modest improvement in the Fed's gross domestic product (GDP) growth projection of 1.7% for full-year 2025 and a stronger growth outlook of 2.3% in 2026.

Monetary policy worldwide continued to diverge. The Fed cut rates by 25 basis points in both October and December, lowering the target federal funds rate to a range of 3.50%-3.75%. The dovish pivot was driven by mounting evidence of labor market softening and inflation data that remained surprisingly benign. However, the Fed's accompanying statement in December telegraphed a more patient approach going forward, with potentially only one rate cut in the coming year. The Bank of England (BOE) also cut rates in December by 25 basis points, while the European Central Bank (ECB) held policy steady. Meanwhile, the Bank of Japan (BoJ) departed from the global trend by hiking rates by 25 basis points in December.

The U.S. Treasury yield curve steepened during the quarter as longer-term rates rose modestly, the 10-year Treasury yield ended nearly flat at 4.18% and rates at the shorter end fell. Lower rates across the short-to-intermediate portion of the yield curve and generally tighter credit spreads continued to fuel positive returns across the broad fixed income market.

In the investment grade corporate sector, concerns about artificial intelligence (AI) adoption and its substantial required capital expenditures pushed spreads to a five-month high of 85 basis points in mid-November. However, this widening proved temporary as spreads subsequently retraced after the Fed delivered another rate cut in December and fourth-quarter GDP growth estimates exceeded expectations.

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Intermediate Government/Credit

Investment grade corporate yields ended the quarter unchanged at 4.81%. Strong demand was met with record-setting issuance, resulting in the busiest fourth quarter ever recorded, bolstered by substantial primary issuance from hyperscalers. New-issue activity continued the year's earlier momentum, with full-year 2025 volume totaling \$1.6 trillion — a 7% year-over-year increase and the second-highest annual amount on record, trailing only 2020's \$1.7 trillion level. The broader investment grade corporate segment slightly underperformed Treasuries, ending the quarter with a total return of 0.84% (Bloomberg U.S. Corporate Bond Index). The strategy's benchmark, the Bloomberg Intermediate U.S. Government/Credit Index, returned 1.20% during the quarter.

Portfolio review

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

The primary contributor to performance was allocation within investment grade corporates due to an overweight in the bank sector versus the benchmark. Also, the strategy's duration and yield curve positioning contributed positively to results. Duration was slightly longer than the benchmark, particularly within Treasuries, which was beneficial as short-to-intermediate rates declined during the quarter.

The strategy experienced a headwind from its higher credit quality bias within its corporate exposure. Most of the accounts in the composite do not have exposure to BBB rated securities, which comprise a significant part of the Bloomberg U.S. Intermediate Investment Grade Corporate Index. The BBB rated segment of the index returned 1.32% during the quarter, outperforming A, AA and AAA rated securities, which returned 1.28%, 1.13% and 1.19%, respectively. Therefore, the lack of exposure to BBB rated securities in most accounts detracted from performance.

During the quarter, we shifted to a modestly long duration in the government portion of the portfolio by purchasing 3-year Treasuries in October and 10-year Treasuries in December.

Outlook

Entering 2026, we expect U.S. real GDP growth to improve. We forecast full-year GDP expansion at 2.0%, a modest

improvement from 2025's anticipated pace. With stronger growth, we also expect the labor market to stabilize and unemployment to remain near its current level. On the inflation front, while there may still be some near-term upside from pending tariffs, we ultimately believe core inflation will moderate to around 2.5% by year-end.

As for monetary policy, we project the Fed will slow its pace of rate reductions in 2026 but deliver a total of 50 basis points of cuts over the course of the year. That would take the policy rate to a target range of 3.00%-3.25%, near our estimate of "neutral." In Europe, the ECB will likely remain on hold in the near term before hiking in the second half of 2026. We also foresee the BoJ raising rates at least once more this year. We expect Treasury yields to decline modestly and the yield curve to steepen over the course of 2026.

Resilient economic growth, cooling inflation and solid corporate earnings provide a supportive backdrop for investment grade corporates in 2026. However, we anticipate modest spread widening from multi-decade tight levels as merger and acquisition (M&A) activity increases, corporate balance sheets re-lever and supply rises. We estimate approximately \$1.8 trillion of new U.S. investment grade corporate issuance in 2026, driven by AI-related capital expenditures in the technology and utilities sectors, and increased M&A financing. This notable increase in issuance, combined with some issuers' price insensitivity, will likely lead to larger new-issue concessions and could trigger a repricing of risk across sectors and rating categories.

In the corporate bond portfolio, we continue to favor positioning that emphasizes higher credit quality and liquidity. Our preferred high-quality sectors include banking, consumer noncyclical and utilities. We maintain a more selective stance in the basic industry, energy and transportation sectors, given rich valuations and ongoing cyclical risks.

We are positioning the government portion of the portfolio with a neutral to long duration and a yield curve steepening bias. The strategy no longer owns any government-sponsored enterprise (GSE) bonds given the limited supply and lack of relative value to similar duration Treasuries.

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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 rate 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. Intermediate Government Index** measures the non-securitized component of the U.S. Aggregate Index with maturities of 1 to 9.999 years. The **Bloomberg U.S. Intermediate Investment Grade Corporate Index** is a broad based benchmark that measures the investment grade, fixed-rate, taxable corporate bond market. It includes U.S. dollar-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers that have between 1 and up to, but not including, 10 years to maturity. The **Bloomberg U.S. Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes U.S. dollar-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers. **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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