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Weekly Fixed Income Commentary

30 June 2025

Treasury yields fall as the Fed leans more dovish

U.S. Treasury yields fell amid softer U.S. economic data and more dovish rhetoric from certain U.S. Federal Reserve officials. Markets have fully priced in a September rate cut, while proposed tariff impacts appear already reflected in prices. However, the yield curve remains steep as investors question whether the final version of the fiscal bill will contain sufficient measures to control long-term inflation.

HIGHLIGHTS

- **Treasuries, investment grade and high yield corporates, MBS, preferreds, senior loans and emerging markets all gained.**
- **Municipal bond yields declined. New issue supply was $12.5B, and fund inflows were $77M. This week's new issuance is muted at $2.1B.**

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Watchlist

- *Treasury yields moved lower, and we continue to expect elevated volatility, a wider trading band and a modest rally from current levels.*
- *Spread sectors broadly outperformed Treasuries, with lower-rated segments showing particular strength.*
- *We expect the technical environment for municipal bonds to improve as the year progresses.*

INVESTMENT VIEWS

We believe fixed income **yields generally present one of the best entry points in a generation,** creating attractive income opportunities.

Downside economic risks are material, despite strong fundamentals, with tariffs likely to compress consumer spending and weigh on business fixed investment. A U.S. recession is not our base case.

Risk premiums may widen further, with entry points likely to become more attractive over the coming quarters. Duration is likely to reassume its role as a growth hedge.

KEY RISKS

- Tariffs further undermine consumer and business confidence, raising prices while weighing on sentiment and activity.
- Inflation fails to continue moderating as expected, weighing on asset prices.
- Geopolitical flare-ups intensify around the world.

INVESTMENT GRADE CORPORATE INFLOWS PICK UP SUBSTANTIALLY

U.S. Treasury yields declined again last week, with 10-year yields ending -10 basis points (bps) lower at 4.28%. The move was driven by more dovish rhetoric from Federal Reserve officials and softer economic data. The 2-year Treasury yield fell -16 bps for the week to 3.75%, its lowest level since early April. Fed Chair Powell repeated his recent comments in testimony to Congress, suggesting that it is still appropriate for the Fed to remain patient before cutting rates further. But other officials, notably including Governors Waller and Bowman, suggested that a cut at the 30 July meeting could be appropriate. Separately, U.S. economic data were generally softer, including a downward revision to Q1 GDP growth to -0.5% annualized, further slowdowns in home sales, an uptick in jobless claims and the first monthly decline in consumer income since 2021.

Investment grade corporates advanced, returning 0.67% for the week, though the asset class lagged similar-duration Treasuries by -2 bps. Spreads were flat at 85 bps, remaining in their recent range far below the April peak near 120 bps but above this year's lows of 77 bps. Inflows picked up substantially, more than doubling last week to $5.3 billion, the largest weekly inflow in more than a month. Heavy supply saw just over $36 billion pricing, though deals continued to be extremely well-digested. This week is expected to be quieter with the Independence Day holiday in the U.S. Supply is running 4.5% ahead of last year's pace year-to-date.

High yield corporates also rallied, returning 0.81% and outperforming similar-duration Treasuries by 37 bps. Lower-rated segments continued their recent trend of outperformance, with CCC rated corporates gaining 1.02%. Senior loans advanced 0.38%, their 12th straight weekly gain. Both asset classes saw inflows, totaling $3.5 billion into high yield and $306 million into loans. As in investment grade corporate markets, supply was elevated, with $9.1 billion and $21.5 billion pricing across high yield and loans, respectively.

Emerging markets rebounded, gaining 0.85% and beating similar-duration Treasuries by 21 bps. As in U.S. corporate markets, lower-rated names outperformed. In the sovereign space, high yield spreads tightened -5 bps, while investment grade names widened 6 bps. The emerging markets asset class had a robust inflow of $1.5 billion entering the market. At the same time, supply accelerated dramatically at $26 billion.

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SUMMER REINVESTMENT BOLSTERS THE MUNICIPAL MARKET

Municipal bond yields ended last week lower, with short-term maturities dropping -4 bps while long-end yields held steady. New issuance was well received, and fund flows remained positive for the ninth consecutive week, including $467 million in exchange-traded inflows. New issuance is expected to be muted this week due to the 04 July holiday in the U.S.

The muni market is well positioned to remain supported through summer. Year-to-date new issue supply has reached $280 billion, 33% above the 10-year historical first-half average. Despite rising yields, the market has efficiently absorbed this substantial supply. Reinvestment flows of $45 billion are scheduled for both 01 July and 01 August, providing additional support. Municipal bonds continue to offer attractive tax-exempt yields, with intermediate and long bonds yielding 4% and 5% respectively.

Seattle, Washington, issued $443 million light and power revenue bonds (rated Aa2/AA). The deal was well received, and bonds traded at a premium in the secondary market. For example, 5.25% coupon bonds maturing in 2055 came at a yield of 4.80% and subsequently traded at 4.74%.

The high yield municipal market currently presents attractive absolute yields, averaging 5.85% yield-to-worst across the index. We anticipate a significant decrease in new issuance activity in the near term. Additionally, we expect on-the-run high yield munis to begin outperforming after their notable underperformance in recent weeks.

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In focus

The GIC lays out the fixed income landscape

In its 2025 midyear outlook, Nuveen's Global Investment Committee (GIC), which brings together the most senior investors across our core and specialist capabilities, highlighted some of its best bond ideas.

Although bonds have seen increased volatility amid rising policy uncertainty, high yields overall offer compelling entry points, and the fundamental credit picture remains positive. Regarding duration, the GIC believes long-term rates should gradually drop as U.S. economic growth slows and the Federal Reserve eases policy.

Among the committee's best sector ideas:

Preferred securities benefit from a strong issuer base (banks are well capitalized) and are attractively valued.

Securitized assets, especially mortgage-related sectors, offer healthy yields, while high yield corporates, despite tighter spreads, sport positive fundamentals.

Municipal bonds remain one of the GIC's most-favored areas of the market, with their prices reflecting a dislocation from fundamentals. Lagging year-to-date returns suggest munis offer excellent value.

Senior loans are still a good choice, according to the GIC, but the likelihood of slowly moderating rates warrants caution due to their floating-rate structure.

In contrast, the GIC is less positive on investment grade corporates given their relatively tight spreads and longer duration profile.

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U.S. Treasury market

		Change (%)		
Maturity	Yield	Week	Month-to-date	Year-to-date
2-year	3.75	-0.16	-0.15	-0.49
5-year	3.83	-0.13	-0.13	-0.55
10-year	4.28	-0.10	-0.12	-0.29
30-year	4.84	-0.06	-0.10	0.05

Source: Bloomberg L.P., 27 Jun 2025. **Performance data shown represents past performance and does not predict or guarantee future results.**

Municipal market

		Change (%)		
Maturity	Yield to worst	Week	Month-to-date	Year-to-date
2-year	2.59	-0.04	-0.18	-0.23
5-year	2.70	-0.03	-0.14	-0.17
10-year	3.29	-0.01	-0.04	0.23
30-year	4.54	0.00	0.02	0.64

Source: Bloomberg L.P., 27 Jun 2025. **Performance data shown represents past performance and does not predict or guarantee future results.**

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	77
30-year AAA Municipal vs Treasury	94
High Yield Municipal vs High Yield Corporate	82

Source: Bloomberg L.P., Thompson Reuters, 27 Jun 2025. AAA municipals represented by the MMD scale. The high yield ratio equals the yield-to-worst for the Bloomberg High Yield Municipal Index divided by the yield-to-worst for the Bloomberg High Yield Corporate Index. **Performance data shown represents past performance and does not predict or guarantee future results.**

Characteristics and returns

				Returns (%)		
Index	Yield to worst (%)	Spread (bps)	Effective duration (years)	Week	Month-to-date	Year-to-date
Municipal	3.97	–	6.75	0.20	0.52	-0.45
High yield municipal	5.81	151[1]	7.52	0.23	0.52	-0.39
Short duration high yield municipal[2]	5.47	255	3.89	0.19	0.70	1.86
Taxable municipal	5.05	68[3]	7.67	0.84	1.61	3.27
U.S. aggregate bond	4.56	32[3]	6.05	0.68	1.18	3.65
U.S. Treasury	4.07	–	5.85	0.62	0.92	3.45
U.S. government related	4.54	44[3]	5.33	0.64	1.17	4.06
U.S. corporate investment grade	5.06	85[3]	6.80	0.67	1.39	3.68
U.S. mortgage-backed securities	4.98	36[3]	6.02	0.83	1.47	3.91
U.S. commercial mortgage-backed securities	4.74	84[3]	3.96	0.63	1.01	4.27
U.S. asset-backed securities	4.43	56[3]	2.63	0.39	0.74	2.80
Preferred securities	6.28	178[3]	5.32	0.51	1.52	2.26
High yield 2% issuer capped	7.10	292[3]	2.84	0.81	1.58	4.30
Senior loans[4]	8.03	461	0.25	0.38	0.68	2.83
Collateralized loan obligations, AA	5.36	138[3]	0.25	0.13	0.47	2.84
Collateralized loan obligations, BB	10.49	664[3]	0.25	0.18	0.79	4.28
Global emerging markets	6.35	218[3]	5.96	0.85	1.65	4.67
Global aggregate (unhedged)	3.50	32[3]	6.52	0.98	1.63	6.99

1 Yield difference between the Bloomberg High Yield Municipal Index and the 20-year AAA MMD scale. **2** Data is a subset of the S&P Short Duration Municipal Yield Index that is below investment grade/nonrated. Spread is the yield difference between this subset and the subset rated AAA. **3** Option-adjusted spread to Treasuries. **4** Spread refers to the 3-year discount margin. Duration is estimated based on the frequency of the reset date.

Source: Bloomberg L.P. and Standard & Poor's, 27 Jun 2025. **Performance data shown represents past performance and does not predict or guarantee future results.** Unless otherwise noted, the index is Bloomberg. All index returns are shown in U.S. dollars. **Yield to worst** is the lowest potential yield that can be received on a bond without the issuer actually defaulting. **Effective duration** (expressed in years) measures the price sensitivity of a fixed-income investment to a change in interest rates, considering that expected cash flows will fluctuate as interest rates change. Index performance is shown for illustrative purposes only. Index returns include reinvestment of income and do not reflect investment advisory and other fees that would reduce performance in an actual client account.

For more information, please visit nuveen.com.

Performance: Bloomberg, L.P. **Issuance:** The Bond Buyer, 27 Jun 2025. **Fund flows:** Lipper. **New deals:** Market Insight, MMA Research, 25 Jun 2025.

Any reference to credit ratings refers to the highest rating given by one of the following national rating agencies: S&P, Moody's or Fitch. Credit ratings are subject to change. AAA, AA, A and BBB are investment grade ratings; BB, B, CCC, CC, C and D are below-investment grade ratings.

Representative indexes: municipal: Bloomberg Municipal Index; **high yield municipal:** Bloomberg High Yield Municipal Index; **short duration high yield municipal:** S&P Short Duration Municipal Yield Index; **taxable municipal:** Bloomberg Taxable Municipal Bond Index; **U.S. aggregate bond:** Bloomberg U.S. Aggregate Bond Index; **U.S. Treasury:** Bloomberg U.S. Treasury Index; **U.S. government related:** Bloomberg U.S. Government-Related Index; **U.S. corporate investment grade:** Bloomberg U.S. Corporate Index; **U.S. mortgage-backed securities;** Bloomberg U.S. Mortgage-Backed Securities Index; **U.S. commercial mortgage-backed securities:** Bloomberg CMBS ERISA-Eligible Index; **U.S. asset-backed securities:** Bloomberg Asset-Backed Securities Index; **preferred securities:** ICE BofA U.S. All Capital Securities Index; **high yield 2% issuer capped:** Bloomberg High Yield 2% Issuer Capped Index; **senior loans:** S&P UBS Leveraged Loan Index; **CLO AA:** J.P. Morgan Collateralized Loan Obligation AA Index; **CLO BB:** J.P. Morgan Collateralized Loan Obligation BB Index; **global emerging markets:** Bloomberg Emerging Market USD Aggregate Index; **global aggregate:** Bloomberg Global Aggregate Unhedged Index.

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Important information on risk

Investing involves risk; principal loss is possible. 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. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure and therefore are subject to greater credit risk. Foreign investments involve additional risks, including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks may be magnified in emerging markets. Asset-backed and mortgage-backed securities are subject to additional risks such as prepayment risk, liquidity risk, default risk and adverse economic developments. The value of convertible securities may decline in response to such factors as rising interest rates and fluctuations in the market price of the underlying securities. Senior loans are subject to loan settlement risk due to the lack of established settlement standards or remedies for failure to settle. These investments are subject to credit risk and potentially limited liquidity, as well as interest rate risk, currency risk, prepayment and extension risk, and inflation risk. Any investment in collateralized loan obligations or other structured vehicles involves significant risks not associated with more conventional investment alternatives.

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.

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