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Weekly Fixed Income Commentary

25 August 2025

Treasury yields retreat as the Fed signals a pivot

U.S. Treasury yields moved lower after U.S. Federal Reserve Chair Powell leaned dovish in his comments at Jackson Hole. He noted rising employment risks and possible policy adjustment, indicating a likely September rate cut.

HIGHLIGHTS

- **Treasuries, investment grade and high yield corporates, taxable munis, CMBS, preferreds, senior loans, CLOs and emerging markets all rallied.**
- **MBS, CMBS and preferreds outperformed similar-duration Treasuries, while investment grade corporates, high yield corporates and emerging markets lagged.**
- **Municipal bond yields were mixed. New issue supply was $8.7B, and fund inflows were $2.3B. This week's new issuance is light at $7.3B.**

Anders Persson
CIO of Global Fixed Income

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Watchlist

- *Treasury yields declined, but remain near our year-end targets.*
- *Spread sectors were mixed versus Treasuries as the economic outlook remained murky.*
- *We expect the technical environment for municipal bonds to improve over the remainder of the year.*

INVESTMENT VIEWS

We believe fixed income **yields generally present a very attractive entry point,** creating compelling income opportunities.

Downside economic risks are material, despite strong fundamentals, with tariffs likely to compress consumer spending and weigh on business fixed investment. But 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.

HEAVY INVESTMENT GRADE CORPORATE ISSUANCE EXPECTED IN SEPTEMBER

U.S. Treasury yields declined last week, with 10-year yields down 6 basis points (bps) to 4.26% and 2-year yields down 5 bps to 3.70%. That rally occurred after Fed Chair Powell's dovish comments at the Jackson Hole conference on Friday. He said "downside risks to employment are rising" and the "balance of risks may warrant adjusting our policy stance." While Powell also expressed concern about upside inflation risks, on balance he signaled a rate cut at the September meeting is likely. We expect a cut at that meeting and one more later this year. Powell also said the relatively stable labor market "allows us to proceed carefully," which we think means a 50 bps cut is unlikely in September. Separately, economic data was mixed earlier in the week. Flash purchasing managers' indexes (PMIs) for August showed improving momentum in both the U.S. and Europe, with the composite PMIs reaching 55.4 and 51.1, respectively. Those are the highest levels this year, signaling the fastest pace of expansion. However, U.S. jobless claims also ticked higher to a fresh cyclical high. While they remain historically low, the recent trend is consistent with further deterioration in the labor market.

Investment grade corporates advanced, returning 0.36% for the week, though the asset class underperformed similar-duration Treasuries by 11 bps. Spreads widened 2 bps to 75 bps after touching multi-decade tights the prior week. Issuance was relatively quiet at $25 billion, and this week should be similarly muted. Looking ahead, as much as $175 billion of supply is expected in September, with almost half of that volume likely in the first week of the month.

High yield corporates also rallied, returning 0.27%. The asset class lagged similar-duration Treasuries by 1 bps. Longer-duration segments generally outperformed, with BB rated corporates returning 0.33% versus CCC rated corporates at 0.25%. Senior loans returned 0.13%. Supply was muted across both markets amid the summer holidays.

Emerging markets were mixed, returning 0.14% but lagging similar-duration Treasuries by 30 bps. Despite a selloff in the dollar after Fed Chair Powell spoke and a rally in commodity prices, the asset class underperformed other fixed income segments. Spreads widened 8 bps after compressing around 17 bps over the prior two weeks, which was their best two-week stretch since late April.

MUNICIPAL YIELD CURVE STEEPENS AMID STRONG INVESTOR DEMAND

The municipal bond yield curve steepened last week, with short-term yields declining 6 bps while long-term yields edged up 1 bps. Moderate new issuance was absorbed smoothly, accompanied by the strongest fund inflows in 18 months. These inflows included a significant tactical allocation shift by a major money manager, with exchange-traded fund inflows reaching $2.2 billion. This week's new issue calendar remains light due to the U.S. holiday but should meet with favorable reception.

Municipal bonds continue to demonstrate resilience despite substantial new issuance, supported by several factors: Treasury market stability, robust summer reinvestment flows, and investor attraction to the steep municipal yield curve and compelling real yields. Intermediate muni bonds offer approximately a 4% tax-exempt yield – 100 bps above the inflation rate – while long-term munis provide around a 5% tax-exempt yield, representing a 200 bps real return.

Pennsylvania Turnpike Commission revenue bond issuance (rated Aa3/AA- for senior lien) featured 5% coupon bonds due in 2050 offered at par, exemplifying the attractive 5% yields available from quality tax-exempt bonds at the long end of the curve.

High yield municipal bond yields declined last week as investor interest strengthened. Fund inflows reached $1.9 billion, including a $1.5 billion conversion to an exchange-traded fund structure. Nevertheless, the remaining $400 million represents the strongest weekly inflow in recent months. Puerto Rico Electric Power Authority (PREPA) bond prices continued their upward trajectory, reflecting improved prospects for a more collaborative restructuring process following changes to the Fiscal Oversight Board. Nuveen is monitoring at least 16 deals in the coming week, providing ample opportunity for selective credit positioning.

Long-term municipals provide around a 5% tax-exempt yield, representing a 200 bps real return.

In focus

Nuveen adds color to its fixed income holdings

Nuveen's fixed income ESG/impact platform embeds responsible investing standards into actively managed strategies that help address many of the world's large-scale systemic challenges. The Women's Livelihood Bond (WLB) series continues that process.

The series consists of multi-country, gender-focused debt securities managed by the Singapore-based Impact Investment Exchange, which has mobilized nearly $500 million in private-sector capital since 2009. Proceeds from this WLB bond — the seventh and latest in the series — are designed to help finance enterprises owned and operated by over 700,000 women in India, Indonesia, the Philippines and Sri Lanka across sectors including financial inclusion, sustainable agriculture, clean energy and water and sanitation.

The current WLB offering, issued in July 2025 and maturing in 2029, has gained strong stakeholder support, reflecting momentum in the "Orange Bond" market and demand for gender-responsive investments. (Orange bonds are named after the United Nations' icon for gender- and sustainability-based investing.) Nuveen has served as the lead investor in WLB series 2-7 and is a member of the steering committee involved in the development of the Orange Bond Initiative, which aims to reach 100 million women worldwide and provide $10 billion in fiscal support.

Impact strategies may have a varying mix of impact, ESG leaders and traditional securities. Responsible investing incorporates Environmental Social Governance (ESG) factors that may affect exposure to issuers, sectors, industries, limiting the type and number of investment opportunities available, which could result in excluding investments that perform well.

U.S. Treasury market

		Change (%)		
Maturity	Yield	Week	Month-to-date	Year-to-date
2-year	3.70	-0.05	-0.26	-0.55
5-year	3.76	-0.08	-0.21	-0.62
10-year	4.26	-0.06	-0.12	-0.32
30-year	4.88	-0.04	-0.02	0.09

Source: Bloomberg L.P., 22 Aug 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	2.19	-0.06	-0.20	-0.63
5-year	2.37	-0.04	-0.16	-0.50
10-year	3.23	-0.01	-0.09	0.17
30-year	4.61	0.01	-0.06	0.71

Source: Bloomberg L.P., 22 Aug 2025. **Performance data shown represents past performance and does not predict or guarantee future results.**

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	76
30-year AAA Municipal vs Treasury	95
High Yield Municipal vs High Yield Corporate	86

Source: Bloomberg L.P., Thompson Reuters, 22 Aug 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	3.91	–	7.14	0.01	0.61	0.06
High yield municipal	5.90	151[1]	8.16	0.03	0.27	-1.57
Short duration high yield municipal[2]	5.73	301	4.03	-0.03	0.52	1.61
Taxable municipal	4.96	63[3]	7.82	0.52	0.99	4.68
U.S. aggregate bond	4.47	29[3]	6.05	0.43	1.04	4.82
U.S. Treasury	4.01	–	5.87	0.42	0.87	4.28
U.S. government related	4.44	40[3]	5.37	0.31	1.08	5.46
U.S. corporate investment grade	4.91	75[3]	6.84	0.36	1.10	5.39
U.S. mortgage-backed securities	4.90	35[3]	5.93	0.55	1.30	5.15
U.S. commercial mortgage-backed securities	4.60	79[3]	3.91	0.37	1.09	5.50
U.S. asset-backed securities	4.30	51[3]	2.69	0.22	0.74	3.83
Preferred securities	6.01	156[3]	5.30	0.65	1.36	5.06
High yield 2% issuer capped	6.87	279[3]	2.84	0.27	0.80	5.88
Senior loans[4]	7.91	458	0.25	0.13	0.19	4.01
Collateralized loan obligations, AA	5.27	133[3]	0.25	0.15	0.39	3.85
Collateralized loan obligations, BB	10.21	637[3]	0.25	0.28	0.73	6.67
Global emerging markets	6.07	195[3]	6.00	0.14	1.28	7.26
Global aggregate (unhedged)	3.50	30[3]	6.46	0.16	1.30	7.05

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, 22 Aug 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, 22 Aug 2025. **Fund flows:** Lipper. **New deals:** Market Insight, MMA Research, 20 Aug 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.

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.