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Weekly Fixed Income Commentary

26 January 2026

Fixed income markets shrug off tariff concerns

Fixed income markets absorbed early-week tariff-related volatility and rallied as spreads tightened in most asset classes. Strong investor demand supported bonds ahead of Wednesday's U.S. Federal Reserve meeting. The central bank is expected to hold rates steady.

HIGHLIGHTS

- **Treasuries, taxable municipals, investment grade and high yield corporates, preferreds and emerging markets had positive total returns.**
- **Mortgages and senior loans retreated.**
- **Municipal bond yields increased. New issue supply topped $11.4B, and fund inflows were $994M. This week's new issuance is $2.4B.**

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Watchlist

- *10-year Treasury yields were flat last week, and we expect a modest rally from current levels.*
- *Spread sectors generally outperformed versus similar-duration Treasuries ahead of this week's Fed meeting.*
- *We believe 2026 presents favorable market dynamics for municipal bonds.*

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.

INVESTMENT GRADE SPREADS HIT TIGHTEST LEVELS SINCE 1998

U.S. Treasury yields were volatile last week but ended nearly flat. 10-year yields rose as much as 8 basis points (bps) early in the week after President Trump threatened to annex Greenland and impose 10% tariffs on several European countries. Yields mostly retraced after Trump walked back the threats on Wednesday. 10-year yields ended the week flat, while 2-year yields ended 1 bp higher. The Federal Reserve meets on Wednesday, and we expect no policy change as stronger recent labor market data have weakened the case for near-term rate cuts.

Investment grade corporates advanced 0.20%, beating similar-duration Treasuries by 15 bps. Spreads tightened 2 bps to reach 72 bps, matching the tightest levels since 1998. Inflows remained robust at $8.9 billion, while supply totaled just under $21 billion. Demand for new deals remained extremely healthy, with oversubscription rates averaging 4.8x and concessions of only 0.3 bps.

High yield corporates also gained, returning 0.10% and outperforming similar-duration Treasuries by 5 bps. Unlike investment grade high grade, high yield spreads widened 5 bps, though they remain narrow at 256 bps. Senior loans retreated -0.09%. High yield funds saw material outflows of -$1.4 billion, while loan funds had inflows of $160 million. New issuance was healthy at $11.3 billion for high yield bonds and $15.7 billion for loans.

Emerging markets continued to perform well, returning 0.20% and outpacing similar-duration Treasuries by 15 bps. Spreads tightened broadly, with high yield and investment grade sovereign spreads narrowing 18 and 6 bps, respectively. Inflows jumped to $2 billion. Supply was healthy at nearly $18 billion, primarily in corporates, where spreads also tightened, though less than sovereigns.

HIGH YIELD MUNIS WEATHER TREASURY VOLATILITY

The municipal yield curve ended the week slightly higher. Short-term muni yields rose 1 bp while long-term yields rose 8 bps. Fund flows were positive again, including $338 million into exchange-traded funds. New issue supply should be light this week due to the Fed meeting but should be well received.

The muni market remains well bid. New issue supply is increasing, and demand remains robust. Reinvestment funds total $47 billion available 01 February and $32 billion available 01 March. We expect munis to remain well supported.

Maryland Health and Higher Educational Facilities Authority (Medstar Health) issued $724 million revenue bonds (rated A2/A). The deal was well received, with strong demand pushing prices higher in early trading

High yield muni yields increased just 4 bps compared to 8 bps for long-term AAA-rated munis. Large index constituents – particularly Puerto Rico and industrial development bonds most exposed to Treasury-sensitive dealers and ETF market makers – drove the widening. Fund flows were strong again at a net $341 million. New issuance was light at only six deals totaling $55 million. Secondary trading was quiet as investors grew cautious early in the week about Treasury market volatility affecting munis. We expect strong demand this week as the new issue calendar remains light and yields are more attractive.

High yield corporate spreads widened 5 bps, though they remain narrow at 256 bps.

In focus

Investment grade issuance could reach new heights in 2026

The primary market closed a historic 2025 with nearly $1.6 trillion in new issuance – the second-highest annual total on record.

Investment grade corporate supply is expected to be even greater in 2026, creating significant opportunities for active investors. AI-driven capital expenditures across the technology and utilities sectors continue to accelerate, while renewed M&A financing activity should contribute meaningfully to robust gross supply. This elevated issuance environment could generate attractive new issue concessions and create favorable entry points across sectors and rating categories.

The transformative expansion of AI infrastructure presents one of the year's major investment themes. Hyperscalers are projected to tap capital markets for nearly $1.5 trillion over the next three years as ambitious capital expenditure programs outpace anticipated operating cash flows. This financing wave extends beyond technology companies – the massive electricity requirements of AI data centers are fueling heavy borrowing activity throughout the utilities and energy sectors, broadening the investment opportunity set.

U.S. Treasury market

		Change (%)		
Maturity	Yield	Week	Month-to-date	Year-to-date
2-year	3.60	0.01	0.12	0.12
5-year	3.83	0.01	0.10	0.10
10-year	4.23	0.00	0.06	0.06
30-year	4.83	-0.01	-0.02	-0.02

Source: Bloomberg L.P., 23 Jan 2026. **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	2.21	0.01	-0.18	-0.18
5-year	2.28	0.04	-0.13	-0.13
10-year	2.66	0.03	-0.10	-0.10
30-year	4.29	0.08	0.05	0.05

Source: Bloomberg L.P., 23 Jan 2026. **Performance data shown represents past performance and does not predict or guarantee future results.**

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	63
30-year AAA Municipal vs Treasury	89
High Yield Municipal vs High Yield Corporate	84

Source: Bloomberg L.P., Thompson Reuters, 23 Jan 2026. 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	3.49	–	6.79	-0.28	0.64	0.64
High yield municipal	5.53	155[1]	7.78	-0.29	0.77	0.77
Short duration high yield municipal[2]	5.59	317	3.67	0.07	0.84	0.84
Taxable municipal	4.87	58[3]	7.71	0.06	0.00	0.00
U.S. aggregate bond	4.38	24[3]	5.97	0.07	0.08	0.08
U.S. Treasury	3.99	–	5.86	0.06	-0.10	-0.10
U.S. government related	4.39	39[3]	5.36	0.07	-0.06	-0.06
U.S. corporate investment grade	4.85	72[3]	6.84	0.20	0.29	0.29
U.S. mortgage-backed securities	4.66	19[3]	5.62	-0.04	0.22	0.22
U.S. commercial mortgage-backed securities	4.49	68[3]	3.84	0.06	0.07	0.07
U.S. asset-backed securities	4.18	49[3]	2.86	0.10	0.09	0.09
Preferred securities	5.88	151[3]	5.50	0.19	1.12	1.12
High yield 2% issuer capped	6.62	256[3]	2.81	0.10	0.67	0.67
Senior loans[4]	7.99	455	0.25	-0.09	0.29	0.29
Collateralized loan obligations, AA	4.88	129[3]	0.25	0.09	0.40	0.40
Collateralized loan obligations, BB	10.15	643[3]	0.25	0.19	0.99	0.99
Global emerging markets	5.73	169[3]	6.02	0.20	0.28	0.28
Global aggregate (unhedged)	3.56	26[3]	6.34	0.46	0.14	0.14

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, 23 Jan 2026. **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:** J.P. Morgan, 23 Jan 2026. **Fund flows:** Lipper. **New deals:** Market Insight, MMA Research, 21 Jan 2026.

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.

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