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Separately Managed Accounts **Commentary**

Municipal Fixed Income

Intermediate-Term Municipal Bond

As of 31 Dec 2021

During the fourth quarter of 2021, the Bloomberg Municipal Bond Index produced a total return of 0.72%, as its average yield edged lower from 1.12% to 1.11%. Because interest rates rose on shorter maturities, and fell on longer maturities, longer maturity indices outperformed shorter indices. For example, the 7-year index produced a total return of 0.21% as its yield rose by 0.05% to 0.88%, but the average yield of the Long (22+) Index fell by -0.10% to 1.74%, generating a total return of 1.58%. The Bloomberg 3 to 15 Blend Index (2-17 Years), the benchmark for the Intermediate-Term composite, returned 0.42% as its average yield increased by 0.03% to 0.92%.

Relative to the benchmark Bloomberg 3-15 year index, the Intermediate-Term composite benefited from being underweight in maturities of 2 to 8 years, and overweight in maturities of 8 to 17 years. Likewise, an overweight in bonds with durations of 6 or more years, and an underweight in durations of less than 4 years, helped performance. Underweighting in bonds rated single-A, and overweighting in bonds rated triple-A also contributed positively. Underweighting in industrial development, and overweighting in local general obligations caused allocation by sector to have a modest positive effect despite the drag on performance from an underweight in state general obligations.

According to the U.S. Census Bureau, during the 12 months ended 9-30-21, total tax revenue received by the states increased by 17.9% compared to the 12 months ended 9-30-20, and by 16.4% compared to the period ended 9-30-19, and during the same period, local property tax revenue was 12.7% higher than in the preceding 12 months, and 17.3% greater than revenue in the 12 months through 9-30-19. According to the Investment Company Institute, open-end municipal bond funds received $81 billion in net new cash inflows during the first 11 months of 2021, compared to $30 billion through November 2020, and $84 billion in 2019. During the quarter, the ratio between 10-year general obligation municipal yields and 10-year Treasury yields declined from 75% to 68%, which was below the 10-year average of 93%.

With consumer prices increasing by 6.8% in the 12 months ended in November, an inflation rate above 4% for eight consecutive months, and an unemployment rate of 4.2%, the Federal Reserve is under pressure to end quantitative easing and start increasing short-term rates, which, together with concerns about inflation, may require long-term interest rates to rise.

Nuveen Asset Management has been emphasizing higher-rated bonds (AAA and AA underlying or stand-alone ratings), but we have also been marginally increasing exposure to A-rated bonds, and plan to modestly lengthen duration, which has been somewhat shorter than our long-term strategic target. We intend to continue favoring premium, high quality, call-protected bonds for a core portion of the portfolio and to seek opportunities to enhance income through favorable security structures and/or sectors. We also intend to choose maturities based on our yield curve analysis, and to utilize the work of our research team to identify bonds that may be undervalued relative to credit strength.

Unless stated otherwise in the text, municipal yields cited in this commentary are those of tax-exempt, general obligation bonds as reported by Thomson Reuters in their Municipal Market Data Scales.

Glossary

The **Bloomberg Barclays Municipal Bond Index** covers the USD denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds. The 7-year Index consists of bonds from the Municipal Bond Index with maturities of approximately 7 years. Bonds in the Long Index mature in 22 years or longer. The **Bloomberg Barclays 3-15 Year Blend Municipal Bond Index** is an unmanaged index composed of investment-grade municipal securities ranging from 2 and 17 years in maturity. **It is not possible to invest directly in an index.**

A word on risk