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CIO Weekly Commentary
2 May 2022

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Bond alchemy: turning duration into a positive

Bottom line up top:

Don't expect a repeat of the first quarter's bond market rout. Treasury yields jumped at a pace and magnitude rarely seen historically (Figure 1). This dragged down fixed income returns broadly, but punished longer-duration and higher-quality assets the most. A similar rate shock looks unlikely in the near term for a number of reasons: Much of the bad news (Fed hikes, inflation) has already been priced in, bonds tend to be resilient following selloffs and during Fed hiking periods (Figure 2), and in many cases fixed income fundamentals are good and getting better.

Et tu, muni investors? Municipal bonds have become a poster child for areas of the market that investors have shunned, regardless of improving fundamentals. The amount of stimulus allocated to municipal governments, for example, has eradicated some budget deficits for years. Despite this good fiscal news, investors have been pulling out of muni funds to the tune of about $40 billion per month. Historically, selling out of municipals after a rate spike has been a bad idea (Figure 3).

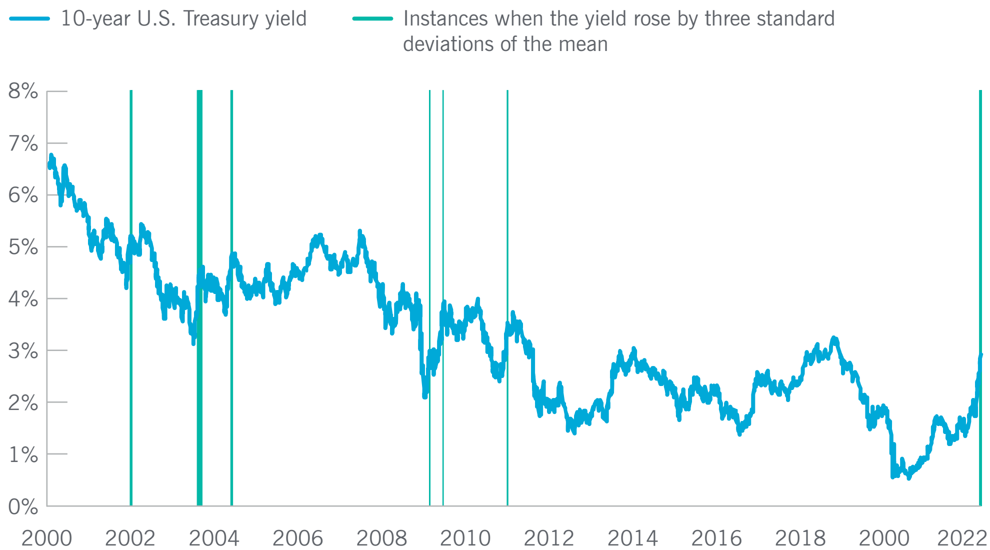
Value emerging from the bond market wreckage. While our taxable fixed income teams remain focused on shorter duration (especially the 3- to 5-year part of the curve) and credit sectors, potentially attractive entry points are coming into view for some longer-duration assets that were among last quarter's biggest losers. Investors with a more bearish take on the economy or wishing to bolster exposure to high-quality fixed income as a defensive measure can consider selectively adding to or staying invested in these segments.

Saira Malik, CFA
Chief Investment Officer

On behalf of Nuveen's Global Investment Committee

As Nuveen's CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she chairs Nuveen's Equities Investment Council and is a portfolio manager for several key investment strategies.

FIGURE 1: THE RECENT YIELD SPIKE IS UNLIKELY TO BE REPEATED

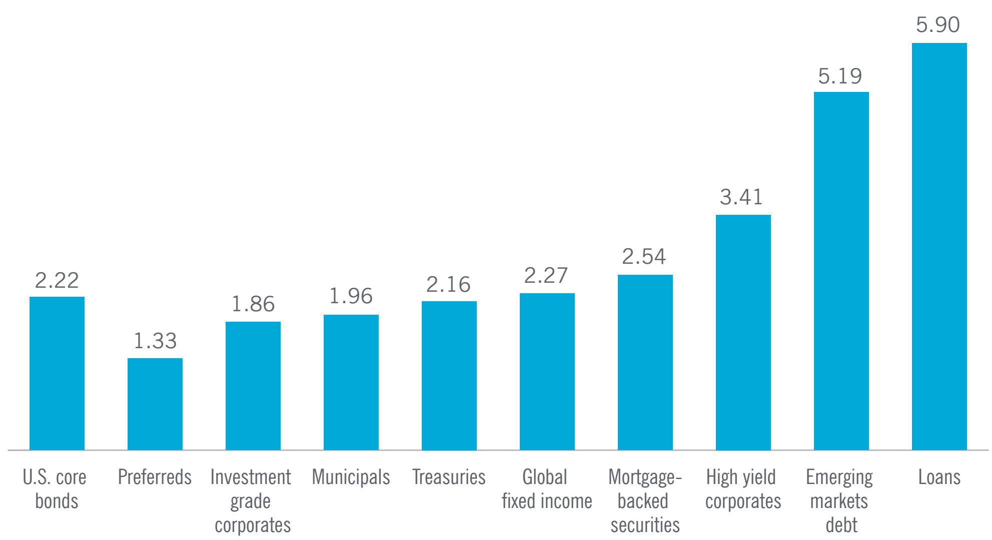


Data source: Bloomberg, L.P., 03 Jan 2020 to 19 Apr 2022. **Past performance is no guarantee of future results.**

> ***Yields may still climb higher this year, but not at the same pace we saw in the first quarter.***

FIGURE 2: WILL BONDS START ACTING MORE LIKE BONDS?

Average annualized total returns by asset class during prior Fed hiking periods (%)



Data source: Bloomberg, L.P. Data reflects the following periods of Federal Reserve rate hikes and rising rate periods: 28 Feb 1994 to 28 Feb 28 1995; 31 May 1999 to 31 May 31 2000; 30 Jun 2004 to 30 Jun 30 2006; 31 Dec 2015 to 31 Dec 2018. **Representative indexes: U.S. core bonds:** Bloomberg U.S. Aggregate Index; **preferreds:** ICE BofA Fixed Rate Preferred Securities Index; **investment grade corporates:** Bloomberg U.S. Corporate Investment Grade Index; **municipals:** Bloomberg Municipal Index; **Treasuries:** Bloomberg U.S. Treasury Index; **global fixed income:** Bloomberg Global Aggregate Unhedged Index; **mortgage-backed securities:** Bloomberg U.S. Mortgage-Backed Securities Index; **high yield corporates:** Bloomberg U.S. Corporate High Yield Index; **emerging markets debt:** Bloomberg Emerging Markets Hard Currency Aggregate Index; loans: Credit Suisse Leveraged Loan Index. **Past performance is no guarantee of future results.**

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Portfolio considerations

Unexpecting the expected. Investors aren't used to seeing dramatic losses in their bond portfolios, particularly when equity markets are also declining sharply. We don't foresee such simultaneous selloffs becoming the norm, but less predictable correlations could become more frequent as the Fed continues its policy normalization and liquidity conditions tighten. To address this, we suggest a combination of real assets for inflation protection and private assets, which may offer higher expected returns per unit of volatility. A strategic allocation to core bonds should also help cushion against possible growth shocks.

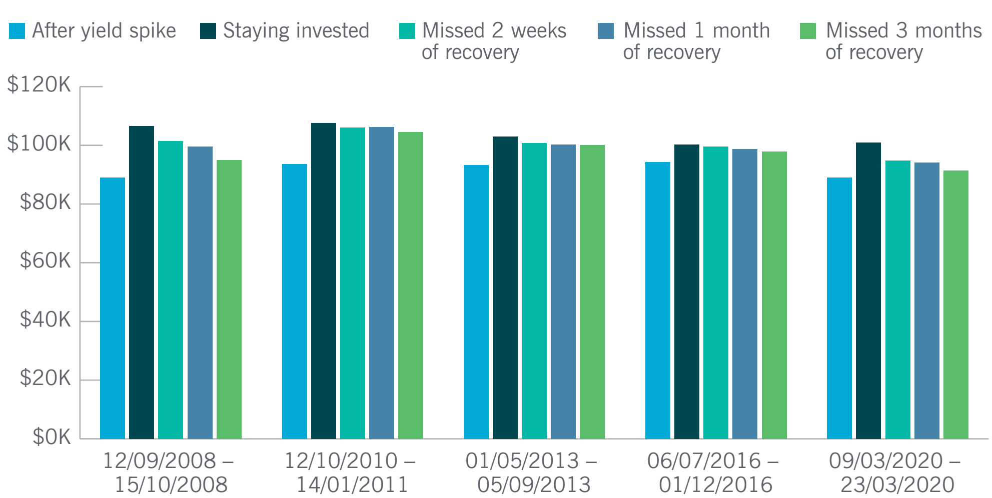
Giving credit its due doesn't have to mean ignoring muni buying opportunities. In taxable markets, our teams continue to favor credit-sensitive sectors, where issuers have ample interest coverage ratios. These include floating rate loans, high yield corporates and fixed-to-floating preferred securities. In municipal markets, higher-yielding debt has outperformed investment-grade during the selloff. As a result, our muni teams see value at the long end of the municipal curve, where AAA/U.S. Treasury ratios for the 10- and 30-year segments sit at 95% and 104%, respectively — well above their historical averages.

Beyond bonds, glimmers for growth stocks. Growth stocks were also pummeled by the surge in yields. We're expecting to see them stabilize, however, with some major technology names posting gains after strong first-quarter earnings. Growth shares moving higher in the wake of downside data surprises like the negative first quarter headline GDP print could be a sign that yields are close to peaking.

The selloff in bonds has created opportunities to find value and generate income in select areas of the fixed income market.

FIGURE 3: MUNICIPAL BONDS: STAYING INVESTED RESULTED IN HIGHER RETURNS

Value of hypothetical $100,000 portfolio during and following muni yield spikes



Data source: Bloomberg, L.P., 31 Mar 2021. **Representative Index:** Bloomberg Municipal Bond Index. Nuveen examined the total return of hypothetical $100,000 portfolios during periods following 100+ bp spikes in municipal yields. In this chart, the portfolios were held for 12 months following the spikes. **Hypothetical examples are shown for illustrative purposes only and do not represent the performance of an actual portfolio.**

About Nuveen's Global Investment Committee

Nuveen's Global Investment Committee (GIC) brings together the most senior investors from across our platform of core and specialist capabilities, including all public and private markets.

Regular meetings of the GIC lead to published outlooks that offer:

- macro and asset class views that gain consensus among our investors
- insights from thematic "deep dive" discussions by the GIC and guest experts (markets, risk, geopolitics, demographics, etc.)
- guidance on how to turn our insights into action via regular commentary and communications

For more information, please visit nuveen.com.

Endnotes

Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on nuveen.com. **Please note, it is not possible to invest directly in an index.**

A word on risk

All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Equity investing involves risk. Investments are also subject to political, currency and regulatory risks. These risks may be magnified in emerging markets. Diversification is a technique to help reduce risk. There is no guarantee that diversification will protect against a loss of income. Investing in municipal bonds involves risks such as interest rate risk, credit risk and market risk, including the possible loss of principal. The value of the portfolio will fluctuate based on the value of the underlying securities. There are special risks associated with investments in high yield bonds, hedging activities and the potential use of leverage. Portfolios that include lower rated municipal bonds, commonly referred to as "high yield" or "junk" bonds, which are considered to be speculative, the credit and investment risk is heightened for the portfolio. 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. As an asset class, real assets are less developed, more illiquid, and less transparent compared to traditional asset classes. Investments will be subject to risks generally associated with the ownership of real estate-related assets and foreign investing, including changes in economic conditions, currency values, environmental risks, the cost of and ability to obtain insurance, and risks related to leasing of properties. Socially Responsible Investments are subject to Social Criteria Risk, namely the risk that because social criteria exclude securities of certain issuers for non-financial reasons, investors may forgo some market opportunities available to those that don't use these criteria. Investors should be aware that alternative investments including private equity and private debt are speculative, subject to substantial risks including the risks associated with limited liquidity, the use of leverage, short sales and concentrated investments and may involve complex tax structures and investment strategies. Alternative investments may be illiquid, there may be no liquid secondary market or ready purchasers for such securities, they may not be required to provide periodic pricing or valuation information to investors, there may be delays in distributing tax information to investors, they are not subject to the same regulatory requirements as other types of pooled investment vehicles, and they may be subject to high fees and expenses, which will reduce profits. Alternative investments are not appropriate for all investors and should not constitute an entire investment program. Investors may lose all or substantially all of the capital invested. The historical returns achieved by alternative asset vehicles is not a prediction of future performance or a guarantee of future results, and there can be no assurance that comparable returns will be achieved by any strategy.

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