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Separately Managed Accounts | Global Fixed Income

Intermediate Government

Marketing communication | As of 30 Jun 2026

Key takeaways

- During the second quarter, the Intermediate Government strategy performed in line with its benchmark, the Bloomberg U.S. Intermediate Government Index.
- Duration and yield curve positioning contributed to performance.
- The strategy had no meaningful performance detractors during the quarter.

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Market review

U.S. economic growth remained healthy in the second quarter, supported by a steady labor market, slightly lower unemployment and a robust pace of job creation. The dominant theme shaping fixed income markets, however, was the U.S.–Iran war, which sparked a sharp increase in oil prices early in the quarter and brought stagflation concerns to the forefront. That narrative shifted meaningfully in mid-June when an interim peace deal was signed, triggering a collapse in oil prices, receding stagflation fears and a broad rally in both bonds and risk assets. Inflation moved materially higher over the period, with the most recent Consumer Price Index running above 4% year-over-year, reflecting the volatility in energy prices. Although rising inflation weighed on consumer purchasing power, U.S. spending proved resilient, with real consumer spending rebounding to approximately 2.0% annualized in the second quarter after tracking near 0.5% annualized in the first.

The rate backdrop was volatile for the quarter, with the 10-year Treasury yield peaking at 4.68% in mid-May before retreating to end the period only 14 basis points higher at 4.44%. Yields rose more sharply at the short end of the curve, as expectations for Federal Reserve (Fed) rate cuts gave way to anticipation of at least one hike. Two-year Treasury yields rose 35 basis points over the quarter, while 30-year yields finished only three basis points higher.

The shift in rate expectations was catalyzed by the first meeting under new Fed Chair Kevin Warsh in June, which struck a more hawkish tone than markets anticipated. While Fed policymakers continued to hold rates steady in the 3.50%–3.75% range, they upgraded their median core inflation forecast for the year to 3.3%, and half of the 18 committee members favored a rate increase by year-end. Sticky inflation, resilient economic data and a solid labor market underpinned this shift. Other global central banks broadly signaled more hawkish intentions as well. The European Central Bank (ECB) and Bank of Japan (BoJ) each raised rates by 25 basis points in June, while the Reserve Bank of Australia delivered its third consecutive hike in May before pausing to assess the impact. Despite the volatile rate environment, credit spreads tightened, leading to positive total returns across fixed income asset classes. The strategy's benchmark, the Bloomberg U.S. Intermediate Government Index, returned 0.18% during the quarter.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

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Portfolio review

During the second quarter, the Intermediate Government strategy outperformed its benchmark, the Bloomberg U.S. Intermediate Government Index, on a gross of fees basis but underperformed on a net of fees basis.

The strategy's duration and yield curve positioning contributed positively to performance. The portfolio was positioned with a long duration early in the quarter, moved closer to neutral at mid-quarter and shifted to short late in the quarter. In May, we deployed a portion of the portfolio's cash into short-term 1.5-year Treasuries, and overall portfolio duration ended the quarter slightly short of the benchmark's duration.

The strategy had no meaningful performance detractors during the quarter.

Outlook

We maintain a broadly constructive macroeconomic outlook. Although the Middle East conflict has weighed on growth and boosted inflation, recent developments suggest a more favorable trajectory on both fronts. We still expect a modest drag on overall growth this year, but the impact appears more contained than previously anticipated, and upside risks to inflation have moderated. Technology investment related to AI continues to support growth, partially offsetting oil-induced weakness, though AI-driven demand is also exerting upward pressure on select inflation categories. We now forecast U.S. real GDP growth at 1.8% for 2026 and core Personal Consumption Expenditures (PCE) Price Index inflation at 3.0%.

In response to resilient labor market data, persistent inflationary pressures and hawkish rhetoric from central bank officials, we have revised our Fed forecast. We now expect the Fed to remain on hold for the remainder of 2026 before resuming rate cuts in the first half of 2027. We expect the BoJ to hike rates at least once more this year and to continue hiking in 2027. For the ECB, we view risks as skewed toward an additional rate increase, though likely not before 2027. In line with our updated Fed forecast, we have raised our broad Treasury yield projections, now forecasting a range of 4.25%–4.50% for the 10-year Treasury yield at year-end 2026.

We are currently positioning the portfolio with a modestly short duration and a yield curve steepening bias.

The strategy no longer owns any government-sponsored enterprise (GSE) bonds given the limited supply and lack of relative value versus similar duration Treasuries, while the benchmark has around 1.4% exposure to that segment.

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For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is $250,000.

Important information on risk

All investments carry a certain degree of risk, including possible loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. Fixed income investments emphasize U.S. government agency debt securities. Debt or fixed income securities are subject to credit risk and interest rate risk. The value of and income generated by debt securities will decrease or increase based on changes in market interest rates. Credit risk refers to an issuer's ability to make interest and principal payments when due.

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Glossary

The **Bloomberg U.S. Intermediate Government Index** measures the non-securitized component of the U.S. Aggregate Index with maturities of 1 to 9.999 years. **It is not possible to invest directly in an index.** Clients should consult their financial professional regarding unknown financial terms and concepts.

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