

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Bond voyage: itineraries for exploring fixed income

Bottom line up top

Whistling past graveyards, or just accentuating the positive?

The tone across financial markets leaned more hopeful than fearful last week as investors digested a mix of softer inflation data, solid third quarter corporate earnings and a Federal Reserve that cut rates for a second meeting in a row. U.S. equities were treated to continued gains in late October, despite the ongoing government shutdown. With the exception of the delayed September reading of the Consumer Price Index — which showed inflation moderating but still a percentage point above the Fed's 2% target — most key economic reports due last month have yet to be released. The dearth of data has prevented investors, and the Fed, from gleaning fresh insights into the state of the economy.

An upbeat earnings season has helped mitigate the missing macro perspective. Roughly two-thirds of S&P 500 companies have now reported their Q3 results, with 83% beating consensus forecasts, well above the long-term average. Additionally, year-over-year earnings per share (EPS) growth is currently estimated to come in at a robust +10.7% for the overall index. Valuations appear stretched but supported by improving earnings momentum and the prospect of lower costs of capital thanks to Fed easing.

That said, despite the Fed's widely anticipated 25 basis points rate cut last week, Chair Jerome Powell cautioned that a further reduction in December "is not a foregone conclusion," adding "Far from it." That point is also reflected in how investor expectations have shifted. Markets are now pricing in a shallower easing path than they did one week ago or compared to last month, as shown in Figure 1.



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On behalf of Nuveen's Global Investment Committee

As Head of Equities and Fixed Income, 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.

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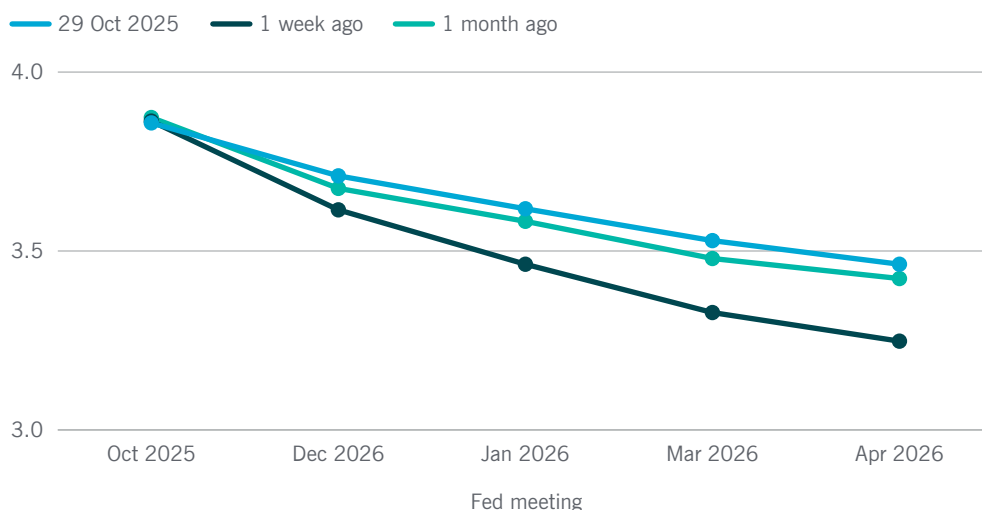
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The prospect of fewer or slower rate cuts and the lack of macro clarity means equity markets will likely have to rely on resilient earnings growth as the main catalyst for extending this year's rally. Investors seeking to diversify their equity exposure for a potentially better balance of caution and hope in their portfolios have a range of choices within fixed income.

Although the shutdown is clouding the economic picture, investors continue to focus on the positives.

FIGURE 1: RATE CUTS SHOULD CONTINUE, BUT AT A LESS AGGRESSIVE PACE

Market-implied fed funds rate (%)



Data source: Bloomberg, L.P., as of 29 Oct 2025.

Portfolio considerations

While headlines trumpet the banner year U.S. equities are having, **U.S. fixed income** markets are quietly putting up impressive gains of their own, with many categories that warrant consideration as portfolio allocations. Year to date through October, the broad-based Bloomberg U.S. Aggregate Bond Index (the “Agg”) has returned a stellar +6.8%. At this rate, 2025 is on track to be among the Agg’s best years going back three decades.

Falling Treasury yields, tighter credit spreads and relatively high levels of income have fueled the strong performance. Going forward, we expect short-term yields (including the Fed-sensitive 2-year Treasury rate, already down 66 bps this year) to decline further as the Fed continues its policy easing, while longer-term yields like the 10-year will likely remain near current levels (Figure 2). As a result, the yield curve should steepen, providing more attractive entry points for adding duration in the future. In the meantime, we favor sectors with a duration lower than the overall Agg’s (currently 6.0 years).

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Securitized assets, preferred securities and senior loans are all enjoying tailwinds.

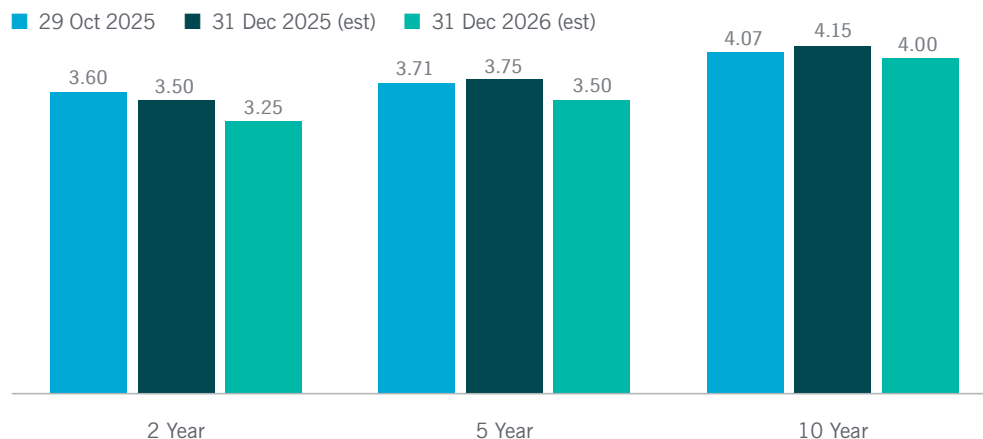
Securitized assets are an important sector within the Agg, accounting for roughly 26% of its total market value and encompassing **asset-backed, mortgage-backed and commercial mortgage-backed securities** (ABS, MBS and CMBS, respectively). But many ABS and CMBS issues are excluded from the index due to their small size. Widening the opportunity set to include non-index securitized assets offers a way to seek additional yield and return potential.

Also beyond the confines of the Agg are “plus” fixed income sectors, including **preferred securities**. Preferreds remain appealing for their income potential, but not all types are created equal. We favor **\$1000 par preferreds**, which have returned +8.0% year to date, while their spreads have marginally widened, unlike those in other areas of fixed income. Additionally, compared to \$25 par preferreds, \$1000 par preferreds offer a higher option-adjusted spread, more non-fixed-rate coupon structures and lower duration. We are less favorable toward a third segment of the preferreds market — contingent capital securities (CoCos) — though to a lesser extent than in the past, as Western European banks, a primary issuer of CoCos, are well-capitalized.

Lastly, while rate cuts may cause some modest yield erosion, starting yields in **senior loans** are about 7.8%, near 15-year highs. Rate cuts are a tailwind for senior loan fundamentals, improving borrowing conditions by reducing issuers’ interest expense. Other corporate fundamentals for leveraged finance borrowers remain broadly healthy as well. Among lower-rated (B and CCC) issuers, a focus on selectivity is key. We expect any deterioration in credit fundamentals will be concentrated in weaker issuers with limited cash flow and stretched balance sheets.

FIGURE 2: DECLINING SHORT-TERM RATES SHOULD STEEPEN THE YIELD CURVE

Nuveen expectations for U.S. Treasury yields (%)



Data source: Bloomberg, L.P., as of 29 Oct 2025 and Nuveen forecasts. Performance data shown represents past performance and does not predict or guarantee future results.

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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

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Endnotes

Sources

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

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