

Intermediate Government

Marketing communication | As of 31 Dec 2025

- **During the fourth quarter, the Intermediate Government strategy slightly underperformed its benchmark, the Bloomberg U.S. Intermediate Government Index.**
- **Duration and yield curve positioning contributed to performance.**
- **Pricing timing differences detracted from performance.**

Market review

Continued easing by the Federal Reserve (Fed) provided support for markets facing headwinds during the fourth quarter, including the extended U.S. government shutdown, weakening job market and geopolitical concerns. U.S. markets were flying blind for much of the quarter because of delayed economic data releases due to the closure, with the most recent figures likely still reflecting the effects of incomplete data collection. At the headline level, inflation trended lower, with the core Consumer Price Index (CPI) rising 2.6% year-over-year in November, while U.S. unemployment ticked up slightly, to 4.6%. Resilient U.S. consumer spending led to a modest improvement in the Fed's gross domestic product (GDP) growth projection of 1.7% for full-year 2025 and a stronger growth outlook of 2.3% in 2026.

Monetary policy worldwide continued to diverge. The Fed cut rates by 25 basis points in both October and December, lowering the target federal funds rate to a range of 3.50%-3.75%. The dovish pivot was driven by mounting evidence of labor market softening and inflation data that remained surprisingly benign. However, the Fed's accompanying statement in December telegraphed a more patient approach going forward, with potentially only one rate cut in the coming year. The Bank of England (BOE) also cut rates in December by 25 basis points, while the European Central Bank (ECB) held policy steady. Meanwhile, the Bank of Japan (BoJ) departed from the global trend by hiking rates by 25 basis points in December.

The U.S. Treasury yield curve steepened during the quarter as longer-term rates rose modestly, the 10-year Treasury yield ended nearly flat at 4.18% and rates at the shorter end fell. Lower rates across the short-to-intermediate portion of the yield curve and generally tighter credit spreads continued to fuel positive returns across the broad fixed income market, with most spread sectors outperforming Treasuries. The strategy's benchmark, the Bloomberg U.S. Intermediate Government Index, returned 1.15% during the quarter.



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Intermediate Government

Portfolio review

During the fourth quarter, the Intermediate Government strategy slightly underperformed its benchmark, the Bloomberg U.S. Intermediate Government Index, on a gross and net of fees basis.

The strategy's duration and yield curve positioning contributed positively to results. Duration was slightly longer than the benchmark, which was beneficial as short-to-intermediate rates declined during the quarter.

Year-end pricing anomalies were the primary detractor for the period. The index provider prices the benchmark before the bond and futures markets close on the final trading day of the year. Since the bond market sold off after the index pricing, this timing difference had an impact on the portfolio's relative results for the fourth quarter. However, these pricing differences were corrected on the first trading day of 2026.

During the quarter, we extended the strategy's duration by purchasing 7-year Treasuries in October and December, ending the quarter modestly long versus the benchmark.

Outlook

Entering 2026, we expect U.S. real GDP growth to improve. We forecast full-year GDP expansion at 2.0%, a modest improvement from 2025's anticipated pace. With stronger growth, we also expect the labor market to stabilize and unemployment to remain near its current level. On the inflation front, while there may still be some near-term upside from pending tariffs, we ultimately believe core inflation will moderate to around 2.5% by year-end.

As for monetary policy, we project the Fed will slow its pace of rate reductions in 2026 but deliver a total of 50 basis points of cuts over the course of the year. That would take the policy rate to a target range of 3.00%-3.25%, near our estimate of "neutral." In Europe, the ECB will likely remain on hold in the near term before hiking in the second half of 2026. We also foresee the BoJ raising rates at least once more this year. We expect Treasury yields to decline modestly and the yield curve to steepen over the course of 2026.

Going forward, we are positioning the portfolio with a neutral to long 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 to 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.

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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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