

Municipals a bright spot in murky market outlook

Bottom line up top

Iran and oil stay front and center. After a frenetic first half of March conjured flashbacks to 1970s headlines like “energy crisis” and “stagflation” — with oil prices, inflation fears and job losses on the rise — last week’s economic calendar was quiet by comparison. Financial markets remained volatile, though, still in the thrall of constant and often contradictory reports about developments in the Iran war. The Brent crude oil benchmark continued to climb but fluctuated widely on the way, swinging well above and modestly below \$100 per barrel (Figure 1). That price threshold could add about +0.8 percentage points to headline inflation while trimming approximately -0.25 percentage points from GDP growth.

Preliminary March data for Purchasing Managers Indexes (PMIs) added texture to the uneasy backdrop: The manufacturing PMI edged up to 52.4, beating expectations, but services slipped to 51.1 from 51.7 in February. (Readings >50 indicate expansion.) Meanwhile, a report delayed by last fall’s U.S. government shutdown showed unit labor costs in the fourth quarter climbed +4.4% — nearly twice the consensus forecast of +2.3% — hinting at possible wage inflation. Regional manufacturing gauges for March were mixed, with the Richmond Fed index flat and the Kansas City Fed index at its highest level since 2022. The week was capped by the March University of Michigan consumer sentiment index, which slipped to a three-month low.

The week also brought signs the AI narrative is continuing to evolve, with markets increasingly focused on separating companies with durable competitive advantages (like well-protected proprietary data and infrastructure) from weaker businesses vulnerable to commoditization. Notably, AI investments in the U.S. still represent less than 1% of GDP, suggesting the economic impact of this transformative technology remains in its early stages.

Will monetary policy remain labor or inflation focused? Although Fed Chair Jerome Powell has pointedly declined to apply the term “stagflation” to the prevailing combination of weak employment growth and sticky inflation, the Fed remains reliant on its data-driven approach and keenly focused on both sides of its dual mandate. This week’s JOLTS (Job Openings and Labor Turnover Survey) for

CIO WEEKLY
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Saira Malik, CFA
Chief Investment Officer

*On behalf of
Nuveen’s Global
Investment Committee*

As Nuveen’s Chief Investment Officer 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 is a portfolio manager for several key investment strategies.

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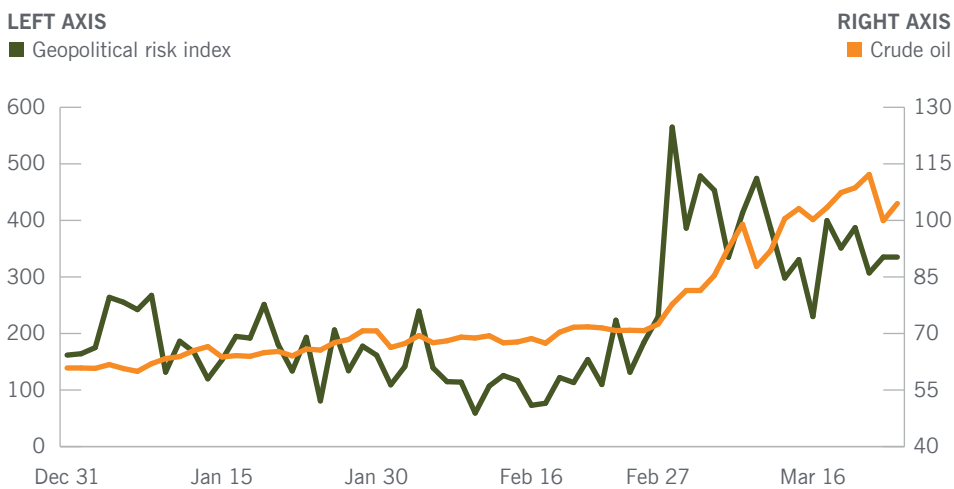
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February and nonfarm payrolls report for March will be the next data points that may signal whether recently weaker employment conditions are an anomaly or part of a broader deterioration. If indicators continue to disappoint, recession fears could quickly reignite, improving the odds of rate cuts. But if inflation stays elevated or moves higher on the back of spiraling energy costs, the Fed's higher-for-longer stance is likely to persist, despite the cooling economy. In this environment, we favor high-quality asset classes such as municipal bonds, which provide enhanced income potential and a degree of insulation from oil price volatility and geopolitical risks.

Figure 1

Geopolitical tensions have driven crude oil prices higher

Geopolitical risk index vs. crude oil prices (\$ per bbl)



Data source: Nuveen, Bloomberg, L.P., 24 Mar 2026. Representative indexes: Geopolitical risk index: Caldara Iacoviello Geopolitical Risk Index; Crude oil: Brent Crude Oil Price.

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We believe this environment favors high quality asset classes such as municipal bonds for income and potential insulation from geopolitical risk.

Portfolio considerations

Muni yields up, spreads down, opportunity intact. With the spike in energy prices stoking fears of resurgent inflation, intermediate- to long-term interest rates are also rising. AAA rated municipal bonds, for example, now yield 7% or more on a taxable-equivalent basis, starting at the 20-year point of the curve (Figure 2). Meanwhile, muni spreads have tightened year to date. The asset class has weathered the geopolitical storm in the Middle East more effectively than many taxable fixed income sectors. Based on respective Bloomberg indexes through 26 March, investment grade munis (-0.41%) have held up better than investment grade corporates (-1.20%) and U.S. Treasuries (-0.67%), while high yield munis (+0.41%) have outperformed high yield corporates (-0.81%).

Demand remains robust, with positive net fund flows in each of the past 17 weeks (per Lipper). Over half of those inflows have been in longer-duration strategies, as investors take advantage of the steep municipal yield curve. Along the AAA curve, the 20-year tenor offers a yield pickup of +1.63% and +1.14% over the 5- and 10-year maturities, respectively.

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Strong fundamentals should sustain demand. State credit quality is historically strong. Balance sheet reserves stand at 14% of expenditures for fiscal year 2026, compared with 8% before Covid, and tax collections continue to grow at more than 5% year over year. Average ratios of debt to gross state product have also fallen by nearly half over the past 25 years — from 20.3% to 11.4% (per Moody’s) — leaving nearly all states with additional borrowing capacity.

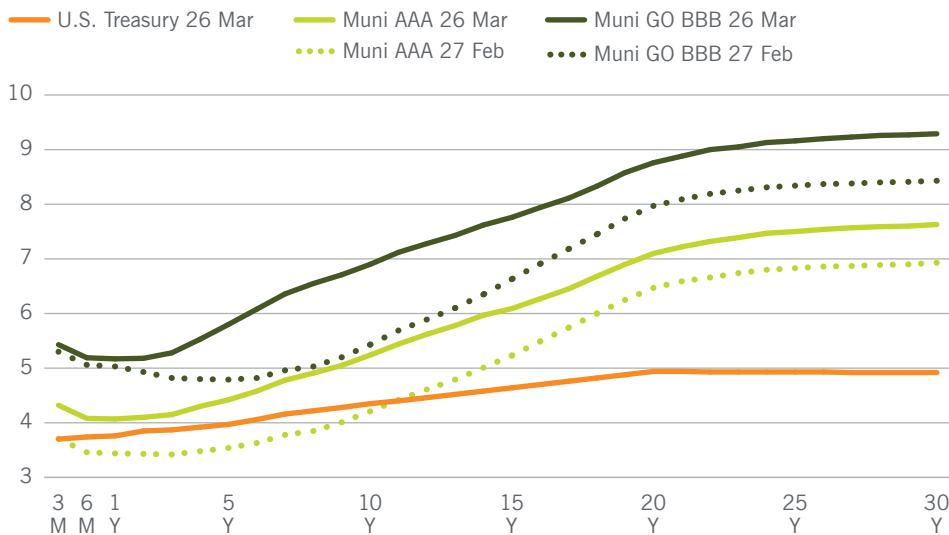
Unlike the U.S. federal government, where deficit spending and related fiscal issues pose perennial challenges, nearly all states are required to balance their budgets. They close any funding gaps via revenue raising, expenditure cuts or by drawing on their reserves.

With strong fundamentals, attractive levels of tax-advantaged income and minimal exposure to geopolitical uncertainty, municipal bonds remain a compelling allocation in diversified portfolios.

Figure 2

Recent geopolitical events have increased intermediate to long-term rates

Taxable-equivalent yields of U.S. Treasuries and municipal bonds (%)



Data source: Bloomberg, L.P., Nuveen Portfolio Strategy Group, 26 Mar 2026. Performance data shown represents past performance and does not predict or guarantee future results. Taxable-equivalent yield (TEY) is the yield a taxable investment needs to possess (before taxes) for its yield to be equal to that of a tax-free municipal investment. The yields shown are based on the highest individual marginal federal tax rate of 37%, plus the 3.8% Medicare tax on investment income. Individual tax rates may vary. They do not take into account the effects of the federal alternative minimum tax (AMT) or capital gains taxes.

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Fundamentals, technicals and rising yields lead us to favor municipal bonds as a compelling portfolio allocation.

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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

For more information, please visit nuveen.com.

Endnotes

Sources

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

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definitions and index descriptions, please access the glossary on nuveen.com. **Please note, it is not possible to invest directly in an index.**

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