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CIO WEEKLY COMMENTARY

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Opportunity grows for senior loans and CLOs

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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.

Bottom line up top

Not gaining traction: the road to disinflation is covered in an oil slick. Renewed hostilities in the Middle East have driven crude oil prices back above $100 per barrel, leaving elevated energy costs to work their way through production, transportation and household consumption. In particular, surging diesel prices, which recently hit a record average of $5.65 per gallon in the United States, are showing up in both producer and consumer inflation data. The headline Producer Price Index (PPI) for August came in at 5.4% year-over-year, with core PPI (ex-food and energy) at 4.6% (Figure 1). Consumer inflation was hot as well, with headline and core CPI of 3.4% and 2.4%, respectively. We expect energy-related pressures to keep inflation elevated.

Persistent inflation and a mostly resilient labor market have prompted futures markets to price in one or perhaps two U.S. Federal Reserve rate hikes by January 2027. We remain less convinced than the market about the probability of this outcome. Unlike demand-driven inflation, recent price pressures reflect external energy supply shocks that are unlikely to be alleviated by higher policy rates. The Fed, in our view, will be more inclined to look through headline inflation and keep policy moves on hold — provided higher energy costs don't become embedded in wages and broader inflation expectations.

The road for markets could be slippery, too. Financial markets have begun to react to the increasingly complicated policy backdrop, which could grow more uncertain still amid the upcoming U.S. midterm elections. Stocks, which gained in August, turned more volatile after Labor Day, with the S&P 500 Index posting a weekly loss, albeit only its fourth in the 11 weeks since the quarter began. The U.S. Treasury market struggled as well, with the 10-year yield breaching 4.9%, its highest level in almost three years, as investors balanced stronger inflation risks against the possibility of tighter monetary policy.

This week will bring key events and data releases that should highlight the degree of resilience in the U.S. economy, with implications for market performance and Fed policy. Wednesday is particularly notable, bringing both the Fed's September meeting (including updated economic projections) and August retail sales. Other reports include housing market metrics, regional manufacturing surveys and The Conference Board's index of leading economic indicators.

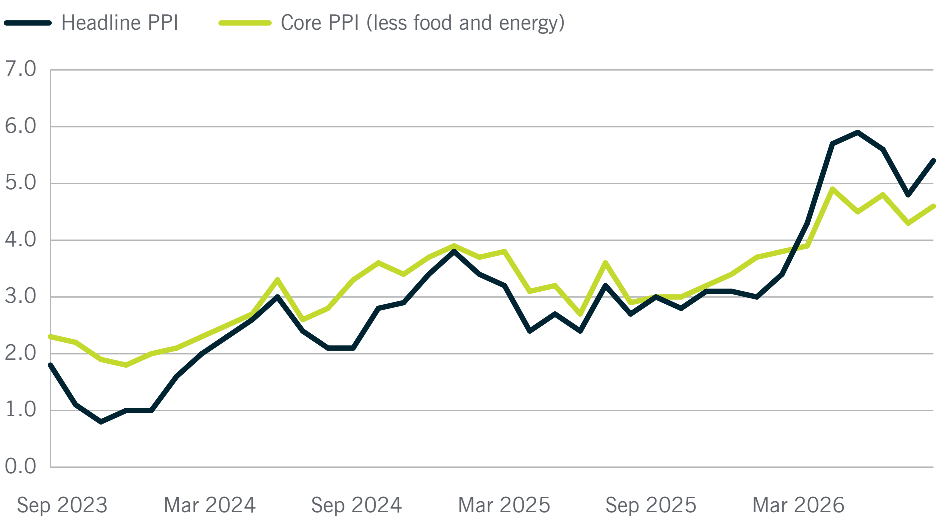
Currently unsettled conditions create a favorable investment backdrop for diversifying portfolios with fixed income allocations that may offer a buffer against stubborn inflation and higher-for-longer rates.

> **“ Unsettled conditions create a favorable backdrop for diversification into fixed income sectors that can buffer against inflation.**

Figure 1

Energy prices powering higher headline inflation, but core prices climbing as well

Headline and core Producer Price Index (percent change from one year ago)



Data source: FactSet, 10 Sep 2026.

Portfolio considerations

Floating-rate credit may help investors navigate a volatile rate environment. Senior loans have historically exhibited limited duration exposure because their coupons adjust with short-term interest rates, helping reduce sensitivity to changes in U.S. Treasury yields. At the same time, elevated base rates have supported attractive income generation, with a yield to three-year of 9.02% as of 10 September 2026. (Yield to three-year is the standard yield metric for senior loans. It represents the yield an investor would receive, factoring in the current market price and future coupon payments, if the loan is repaid, refinanced or called after a three-year period.)

These asset class characteristics have contributed to strong relative performance in 2026. Year-to-date through 10 September, the Morningstar LSTA U.S. Leveraged Loan Index returned +3.28%, compared to -1.31% for the Bloomberg U.S. Aggregate Bond Index.

While senior loan prices have recovered in recent months, particularly in the software sector, the market is still marked by dispersion. Corporate fundamentals have generally improved, with stronger EBITDA (earnings before interest, taxes, depreciation and amortization) growth and rising interest coverage ratios supporting credit quality across much of the market. This has helped normalize default activity, from a peak of about 4.5% in 2020 to approximately 2% now. But the good news hasn't been evenly distributed.

Higher-quality issuers continue to exhibit modest leverage and strong interest coverage metrics (Figure 2), while lower-rated borrowers remain more vulnerable to macro volatility, refinancing pressures and company-specific challenges. The result is a market increasingly focused on issuer fundamentals rather than broad risk appetite. In our view, the growing divergence between stronger and weaker credits reinforces the importance of disciplined credit selection. Investors may benefit by differentiating between issuers with durable fundamentals and those facing business-model, leverage or refinancing challenges.

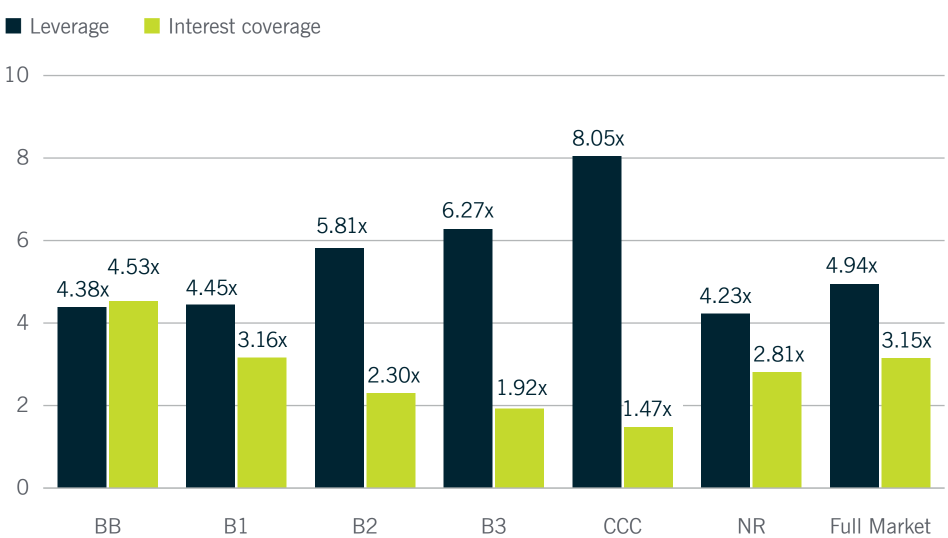
Primary market activity has begun to accelerate following the summer slowdown as companies seek to refinance debt, address upcoming maturities and issue new loans to finance leveraged buyouts. Improving sentiment toward the software sector and continued demand from collateralized loan obligation (CLO) managers have supported conditions across the broader loan market, resulting in improved new-issue spreads and tighter credit agreements. Issuers returning to market may need to offer attractive spreads, structures or other investor-friendly terms to secure financing. This should create opportunities for active managers willing to be patient and selective.

> **"Senior loans may offer resilience through a volatile rate environment, but credit selection remains key.**

Figure 2

Credit fundamentals vary by issuer quality

Senior loan credit characteristics



Data source: JPMorgan Chase, 31 Mar 2026. Performance data shown represents past performance and does not predict or guarantee future results. Investing involves risk; principal loss is possible.

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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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