

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

CLOs: yield generation with less correlation

Bottom line up top

Bated breath gives way to a sigh of relief ... for now. Although U.S. equities inched lower last week, the modest loss came after nine consecutive sessions of gains — the longest daily winning streak for the S&P 500 Index in more than 20 years. The recent string of positive trading came during a period that was relatively free from this year’s fast-and-furious flurry of tariff, global trade and geopolitical headlines. We’ve since seen volatility pick up again, fueled by a spike in policy uncertainty (Figure 1). Earnings season has been a relative bright spot amid the flux. Many companies, including some of the “Magnificent Seven” megacap tech names, have reported stronger-than-expected Q1 results. That said, forward guidance has generally been more cautious, hinting at a cloudy macro outlook ahead.

“Dogs and cats living together!” The exaggerated alarm Bill Murray conveyed in this oft-quoted line from *Ghostbusters* brings to mind the different behaviors of two other species: the stock and bond markets. Equities continue to react to positive news with the exuberance of a puppy. In contrast, fixed income investors have maintained a more cat-like skepticism. Although Treasury yields have traded in a fairly wide band following their post-Liberation Day peaks, they have exhibited less volatility, up or down, than the S&P 500 over the past month. The 10-year yield rose slightly last week, with some sizable day-to-day moves reflecting a tariff-driven shift in both inflation expectations and the likely timing of further Federal Reserve policy easing. The Fed kept its finger on the pause button at last week’s



Saira Malik, CFA

*Head of Nuveen Equities and Fixed Income,
Chief Investment Officer*

*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.

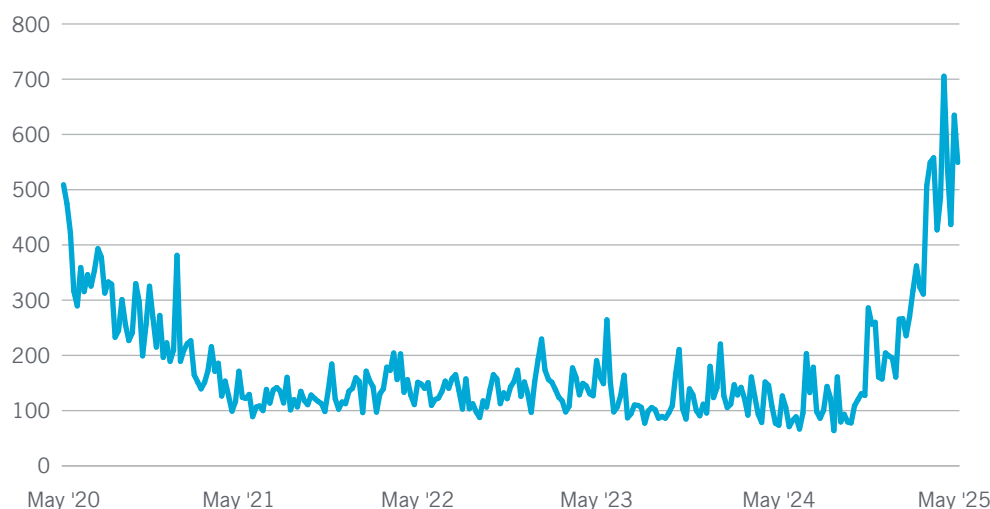
meeting, while showing no inclination to accelerate its rate-cutting timetable any time soon. We expect just two cuts in 2025. June would be the earliest the Fed could act, but waiting until later in the year would allow more time to determine whether the modest contraction in first-quarter GDP will reverse or pick up steam.

On balance, with financial markets still facing a number of unknowns, we remain constructive on asset classes that offer attractive yields, relatively low credit risk and strong diversification potential — a list that includes less traditional choices like collateralized loan obligations (CLOs).

While volatility has declined over the last few weeks, overall uncertainty is likely to remain elevated.

FIGURE 1: ECONOMIC UNCERTAINTY HAS BEEN SPIKING

U.S. Economic Policy Uncertainty Index



Data source: Federal Reserve Bank of St. Louis, weekly index readings 15 May 2020 to 9 May 2025.

Portfolio considerations

Initially considered the sole province of institutional investors, **collateralized loan obligations (CLOs)** now represent a \$1 trillion+ market, supported by expansive global demand from insurance companies, pension funds, endowments, banks and individual investors. But even with this impressive growth, CLOs may be less familiar than more traditional fixed income or equity asset classes.

As background, CLOs are actively managed, diversified portfolios of floating rate corporate loans that have been repackaged (or securitized) into separate segments (tranches) spanning the credit rating spectrum. This structure allows investors to choose the specific CLO tranche that best matches their risk profile and return target. In our view, CLOs offer three primary advantages to investors in today's market:

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

CLOs feature high yields, low default rates and low correlation to other fixed income asset classes.

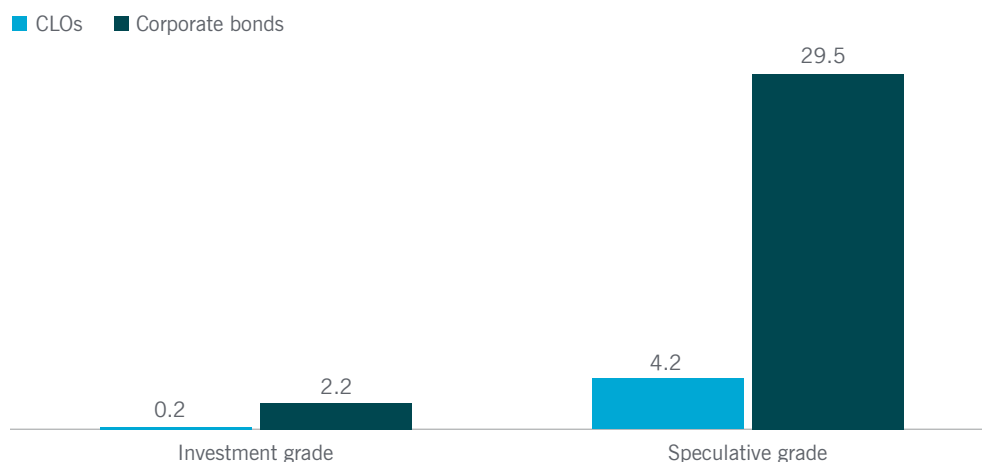
Compelling yields: CLOs offer higher yields relative to similarly rated corporate debt across the capital structure. As of 5 May 2025, the yield on the highest-rated CLO tranche (AAA) was 5.01% (JPM CLO Total AAA Yield Index), while the BB rated yield stood at 11.51% (JPM CLO Total BB Yield Index). CLO equity, which represents the riskiest part of the capital structure, offers yields in excess of 15% to go along with that risk (based on our own analysis of the market). During especially challenging periods of elevated market volatility, such as the Global Financial Crisis or the Covid pandemic, investors benefited from CLO structures and active management, which provided steady income distributions and helped limit losses.

Low default rates: Despite their higher yields, CLOs have experienced relatively few defaults thanks to their strong structural protections and active management to reduce credit risk. For example, default rates across both investment grade and speculative grade CLO tranches have been far lower than those for corporate bonds (Figure 2). Furthermore, no AAA or AA rated CLO tranche has ever defaulted over the course of the CLO market's 30-year history.

Low correlations and strong diversification benefits: As a floating rate asset class, CLOs have minimal duration risk and therefore low correlation to most fixed income assets, making them an excellent diversifier. CLOs are also versatile, filling a variety of roles within a portfolio, such as an alternative to short-duration or core bonds, a complement to high yield corporates or — in the case of CLO equity — a cash-flowing pairing for less liquid asset classes such as private equity.

FIGURE 2: STRONG FUNDAMENTALS HAVE HELPED KEEP CLO DEFAULTS LOW

10-year cumulative default rate (%)



Data source: Moody's Investors Services. **Performance data shown represents past performance and does not predict or guarantee future results.** Corporate bond default rates are based on the 10-year horizon average cumulative issuer-weighted global default rates by alphanumeric rating; 1998-2023 from Moody's "Default Trends - Global: Annual default study: Corporate default rate to moderate in 2024 but remain near its long-term average." CLO default rates are based on the 10-year horizon WR-unadjusted cumulative impairment rates by original rating; 1993-2023 from Moody's "Impairment and loss rates of global CLOs: 1993-2023."

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

About Nuveen's Global Investment Committee

Nuveen's Global Investment Committee (GIC) brings together the most senior investors from across our platform of core and specialist capabilities, including all public and private markets.

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.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professionals.

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain “forward-looking” information that is not purely historical in nature.

Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. **Performance data shown represents past performance and does not predict or guarantee future results.** Investing involves risk; principal loss is possible.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on nuveen.com. **Please note, it is not possible to invest directly in an index.**

Important information on risk

All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Equity investing involves risk. Investments are also subject to political, currency and regulatory risks. These risks may be magnified in emerging markets. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, and income risk. As interest rates rise, bond prices fall. The value and income generated by bonds and other debt securities will fluctuate based on interest rates. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. Senior loans may not be fully secured by collateral, generally do not trade on exchanges, and are typically issued by unrated or below-investment grade companies, and therefore are subject to greater liquidity and credit risk. Any investment in collateralized loan obligations or other structured vehicles involves significant risks not associated with more conventional investment alternatives. The JP Morgan Indexes cited for ratings tranches are the corresponding subcomponents of the JP Morgan Collateralized Loan Obligation Index (CLOIE).

Nuveen, LLC provides investment services through its investment specialists.

This information does not constitute investment research as defined under MiFID.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

WF2483517

4472991