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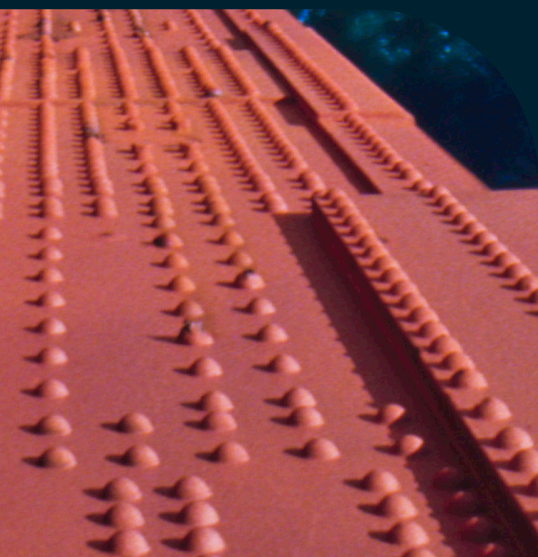
2026 FIXED INCOME OUTLOOK

Structural shifts create strategic opportunities



OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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Key takeaways

- **Fiscal policy will drive markets.** Deficits and spending push premiums for longer-term bonds higher as rate cutting cycles near completion.
- **Credit fundamentals support selective risk-taking.** Economic resilience justifies modest risk-on positioning in below-investment grade sectors.
- **Less-liquid fixed income segments offer attractive income opportunities.** Select areas of fixed income that tend to be less liquid often result in significantly higher spreads for equivalent ratings.
- **Emerging and developed market distinctions are blurring.** Political uncertainties warrant an EM-style analytical framework for all sovereigns.

THE BOTTOM LINE:

Discipline meets opportunity

Our 2026 investment themes point to a global fixed income landscape that is more differentiated, more policy-driven and ultimately more investable than in recent years. Fiscal policy will play a larger role in shaping yield curves and term premiums, requiring investors to look beyond the traditional focus on central bank reaction functions. Meanwhile, the narrowing distinction between developed and emerging markets underscores the importance of assessing institutional credibility, political continuity and policy frameworks across all major economies — not only in emerging markets (EM) as in the past.

Despite these structural shifts, the underlying macro environment remains fundamentally constructive. Growth is set to improve across key regions, inflation continues to moderate and corporate balance sheets remain healthy. While valuations across traditional credit markets are tight by historical standards, they have been supported by strong inflows and resilient fundamentals, suggesting opportunities still exist for selective investors.

In this environment, we believe the most effective approach combines discipline and creativity: maintaining exposure to high-quality and durable sources of income, recognizing the growing relevance of fiscal dynamics and diversifying across sectors that offer attractive risk-adjusted returns, including securitized credit, municipals, preferred securities, leveraged finance and segments of EM debt. By combining a clear understanding of evolving policy regimes with thoughtful portfolio construction, investors can position effectively for a cycle that is more stable than feared, yet more nuanced than in the past.

The great realignment:

Forces defining the next era

We are entering a period of profound structural transformation in the global economy, where traditional policy frameworks are giving way to new drivers of growth and volatility. As we look ahead, we believe four long-term forces will shape investment themes and opportunities across markets.

- **Deficits remain historically large, with debt-to-gross domestic product (GDP) ratios projected to climb substantially.** Expanding deficits are pushing up term premiums and increasing volatility in longer-dated interest rates. While increased government spending is stabilizing near-term employment and demand, rising debt and deficits may mortgage future growth.
- **Trade policy has shifted toward more restrictive measures globally,** creating volatility and presenting downside risks to growth, alongside upside inflation risks. Yet this is accelerating supply chain diversification and regional manufacturing, creating opportunities for domestic producers and nearshoring. Longer term, broad tariffs can reduce trade volumes, raise input costs and dampen productivity growth, lowering GDP and real wage growth.
- **Demographics and immigration are fundamentally reshaping labor supply.** Aging populations and constrained immigration create shortages that elevate wage pressures. Over the next decade, slower labor force growth will likely weaken GDP growth, all else being equal. However, artificial intelligence (AI) and automation investment are partially offsetting this weakness, with sustained demand in healthcare and technology infrastructure. We are actively monitoring these competing forces and their long-term impacts.
- **The AI productivity super cycle is shifting from hype to execution** as companies accelerate spending on data center infrastructure, semiconductors and automation. The IMF estimates 60% of jobs in advanced economies are exposed to AI. However, AI-related industries are now starting to drive growth, power demand and corporate margins. Productivity gains could meaningfully lift medium-term growth, sustaining profits. The net effect of these forces on growth remains ambiguous.

By staying flexible, diversified and focused on these longer-term forces, investors can capitalize on emerging opportunities and plan for the risks they present.



Investment themes for 2026

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- 1 Time for a takeover:
Fiscal over monetary
policy
 - 2 Economic resilience:
Tight spreads, but room
for credit risk
 - 3 Digging deeper for
diversification: Look
beyond traditional credit
 - 4 New playbook: Developed
and emerging markets
converge

1 Time for a takeover: Fiscal over monetary policy

In 2026, fiscal policy, rather than monetary policy, will shape global fixed income markets. While central banks across developed economies near the end of their rate-cutting cycles (Figure 1), fiscal trajectories remain far more variable. Elevated deficits, ageing demographics, sustained commitments to defense, industrial policy and energy transition mean fiscal settings will exert an important influence on growth, inflation and term premiums over coming quarters and years.

Across the U.S., Euro area and Japan, governments are set to maintain relatively expansionary fiscal positions. With debt levels already elevated, wide deficits threaten to push term premiums higher across most government bond markets (Figure 2). Though central bank policy may be entering a new, more-predictable environment, investors must assess not only the path of policy rates but also the credibility and medium-term sustainability of fiscal plans. One bright spot is the U.K., which we expect to proceed cautiously with both monetary and fiscal adjustments, adding further differentiation within developed markets.

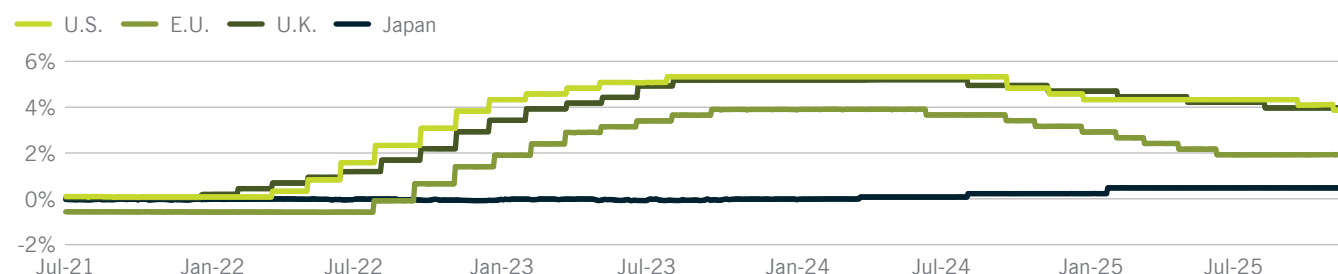
For fixed income investors, fiscal dynamics warrant a prudent approach to positioning across curves and sovereign markets. Rather than extending duration aggressively, we see value in positioning for moderately steeper curves, an environment supportive of sectors with structural demand or lower sensitivity to sovereign supply dynamics. Securitized credit, municipal bonds and high-quality credit remain well supported, while careful attention to sovereign issuance patterns and fiscal frameworks will be increasingly important.

Actions to consider

- Target sectors with structural demand insulated from sovereign supply pressures.
- Favor positioning for a steeper curve over aggressive duration extension.

Figure 1: Central banks are nearing the end of easing cycles...

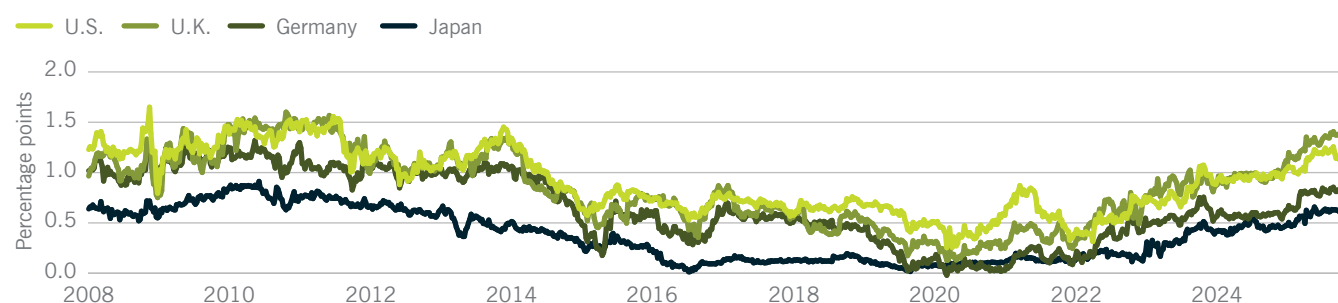
Policy rates of central banks



Data source: Projections are Nuveen forecasts, Bloomberg, L.P., as of 10 November 2025.

Figure 2: ...while term premium estimates have sharply risen

Extra yield on longer-term bonds to compensate investors for taking on more risk



Data source: Bloomberg, L.P., as of 17 November 2025.

2 Economic resilience: Tight spreads, but room for credit risk

Our 2026 outlook rests on a fundamentally constructive view of global growth. Our long-held “no recession” call remains intact. Although headwinds persist, fresh areas of strength more than offset areas of concern. Credit spreads are tight by historical standards but fair for the current environment. We suggest maintaining modestly risk-on exposure, specifically in preferred securities, high yield corporates, broadly syndicated loans and middle market loans.

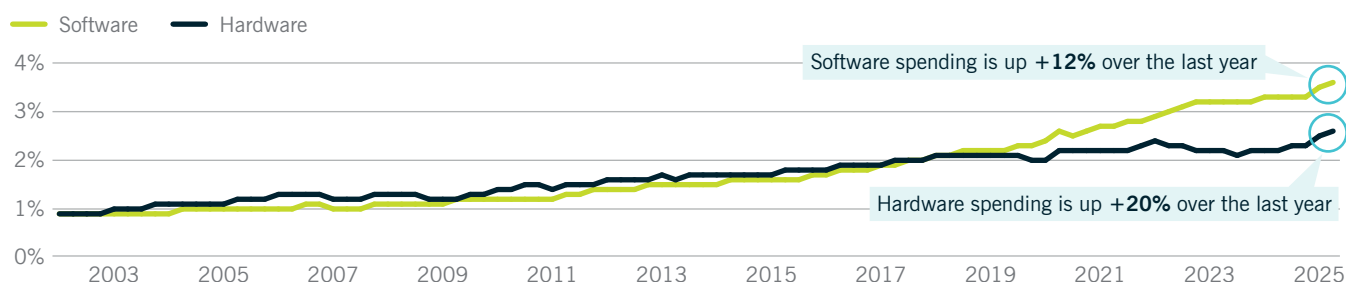
Across developed markets, including in the U.S., Euro area and Japan, we expect faster growth in 2026 than 2025. Global inflation has moderated to around 2.5% year-over-year from over 5% in 2023, and is now within striking distance of the conventional 2% target.

At the same time, tech infrastructure investment has driven roughly 20% of headline U.S. GDP growth in 2025 and should remain elevated, with scope for better productivity growth as AI tools are deployed more widely across the workforce (Figure 3). Strong corporate fundamentals are poised to continue to be supported by healthy balance sheets. Valuations are rich by historical standards, but credit spreads often remain tight for years at a time (Figure 4). We favor taking risk in segments that combine strong fundamentals with reasonable credit spreads. Higher-rated, investment grade segments do not offer compelling income, while lower-rated, below investment grade segments carry too much shock risk. The up-in-quality segment of below-investment grade markets — in preferred securities, high yield corporates, broadly syndicated loans and middle market lending — is the sweet spot.

Actions to consider

- **Maintain modest risk-on exposure** in preferreds, high yield and loans.
- **Focus on higher-quality segments** within below investment grade credit.

Figure 3: Tech spending has grown as a % of GDP for decades, but has accelerated sharply over the last few quarters



Data sources: Bloomberg, L.P., Bureau of Economic Analysis, as of 30 Jun 2025.

Figure 4: Credit often remains tight for prolonged periods

Corporate credit spreads by rating segment



Data source: Bloomberg, L.P., as of 31 Oct 2025. Z-score is the number of standard deviations between the current level and historical average level. Performance data shown represents past performance and does not predict or guarantee future results.

3 Digging deeper for diversification: Look beyond traditional credit

Although we see ample opportunities to add income across sectors, we are also cognizant of rich valuations. This dynamic is not unique to fixed income markets — from equities to commodities to credit spreads, valuations are near historical highs. Tight credit spreads alone do not warrant reducing risk, and full valuations can persist for several years before correcting. However, the current landscape does argue for a nuanced approach to risk taking.

One way to reconcile the positive economic outlook with potentially full valuations is to dig deeper. Investors have thoroughly picked over the conventional, liquid credit markets, making opportunities harder to find. Inflows into fixed income funds have been strong this year: almost 7% of AUM for high grade funds through the end of October, 4% for high yield, and 12% for broadly syndicated senior loans.¹ With these inflows chasing the same opportunities, credit spreads have tightened.

We believe the best opportunities are in areas where investors benefit from complexity, illiquidity and geographic premiums in addition to taking credit risk (Figure 5). Less-liquid credit segments offer higher yields and potentially higher returns, to compensate for illiquidity. Given our constructive macroeconomic outlook and the full valuations across traditional credit, we think this is an attractive tradeoff.

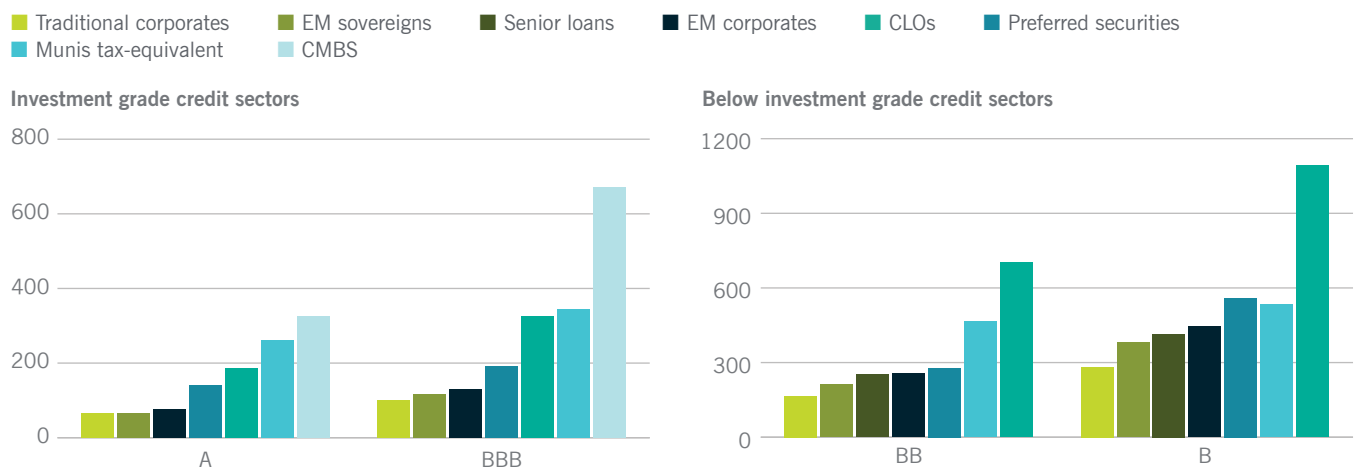
For a given credit rating, investors may significantly increase portfolio income by adding relatively less-liquid credit (Figure 5). For example, in the single A bucket, corporate debt offers spreads around 66 basis points (bps). Less-liquid securitized products like collateralized loan obligations (CLO) or commercial mortgage-backed securities (CMBS) offer credit spreads of approximately 186 bps and 326 bps, respectively — for similar credit risk. Further down the ratings spectrum, the pickup can be even more attractive. BB-rated corporate bonds trade around 165 bps, compared with 257 bps for BB-rated emerging markets corporates, or above 700 bps for BB-rated CLOs.

Actions to consider

- **Target the less liquid segments** of CLOs, CMBS and emerging markets debt.
- **Capture incremental yield** by moving beyond conventional credit sectors into preferreds and municipals.

Figure 5: Extending credit sectors reveals more attractive opportunities across the quality spectrum

Option-adjusted spread (bps)



Data sources: Bloomberg, L.P., JPMorgan, S&P, FactSet, 28 Nov 2025. Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: corporate A & BBB rated: Bloomberg U.S. Corporate Index; corporate BB & B rated: Bloomberg U.S. High Yield Index; emerging markets sovereigns: JPM EMBI Global Diversified Index; emerging markets corporates: JPM CEMBI Broad Diversified Index; municipal bonds: Bloomberg Municipal Bond Index (taxable-equivalent calculation assumes 37% federal income tax and 3.8% Medicare surtax rate); senior loans: S&P UBS Leveraged Loan Index; commercial mortgage-backed securities (CMBS): Bloomberg CMBS ERISA Eligible Index; collateralized loan obligations (CLO): JPM U.S. CLO Index.

4 New playbook: Developed and emerging markets converge

A notable shift in the 2026 landscape will be the narrowing gap between developed markets (DM) and emerging markets (EM) in terms of macro stability, institutional credibility and policy predictability (Figure 6). Questions investors once reserved for emerging markets around political continuity, central bank independence and the durability of fiscal and institutional anchors are becoming increasingly relevant across major developed economies.

Political transitions in France and Japan, alongside the change in U.S. Federal Reserve leadership when Chair Powell's term ends in early 2026, introduce uncertainty as global term premiums have already risen. Meanwhile, continued supply chain adjustments, elevated geopolitical tensions and an increasingly fragmented trade environment mean that DM economies face structural forces traditionally associated with EM.

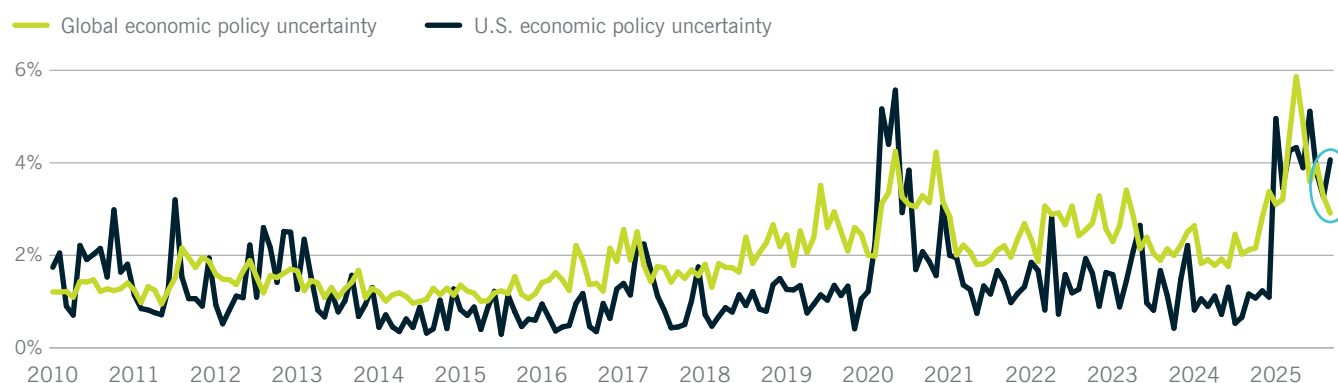
At the same time, many EM economies have strengthened their fundamentals. Proactive and more decisive monetary tightening, healthier balance sheets and more credible policy frameworks mean EM assets are entering 2026 from a position of relative stability.

For investors, these factors make the case for taking a more EM-style analytical framework to DM issuers: assessing political and institutional risks as part of the overall credit, rates and currency outlooks. It also supports selective allocations to areas insulated from sovereign-level volatility such as securitized credit and municipals, while recognizing that high-quality EM debt may offer diversification benefits traditionally associated with DM.

Actions to consider

- Analyze political and institutional risks in **both DM and EM allocations.**
- **Favor sovereign-insulated assets** like securitized credit and municipals.

Figure 6: Unlike recent history, economic policy uncertainty is now higher in the U.S. than the rest of the world



Data sources: Bloomberg, L.P., Baker, Bloom and Davis daily news-based economic policy uncertainty index as of 10 Nov 2025.

Sector outlook

Leveraged finance

Collateralized loan obligations (CLOs)

In an environment where traditional credit valuations are rich but economic fundamentals remain sound, CLOs stand out as a way to capture attractive carry without taking incremental credit risk. CLOs typically offer spread premiums versus similarly rated corporate bonds. For example, in the single A credit rating bucket, corporate debt offers spreads of around 66 bps, while CLOs have spreads of around 186 bps — for a similar amount of credit risk.² This spread premium largely reflects structural and liquidity complexity — investors are compensated for analyzing how CLO structures operate and for holding instruments that may be less liquid than corporate bonds — an A-rated CLO still has liquidity, but it is less liquid than an A-rated corporate bond.

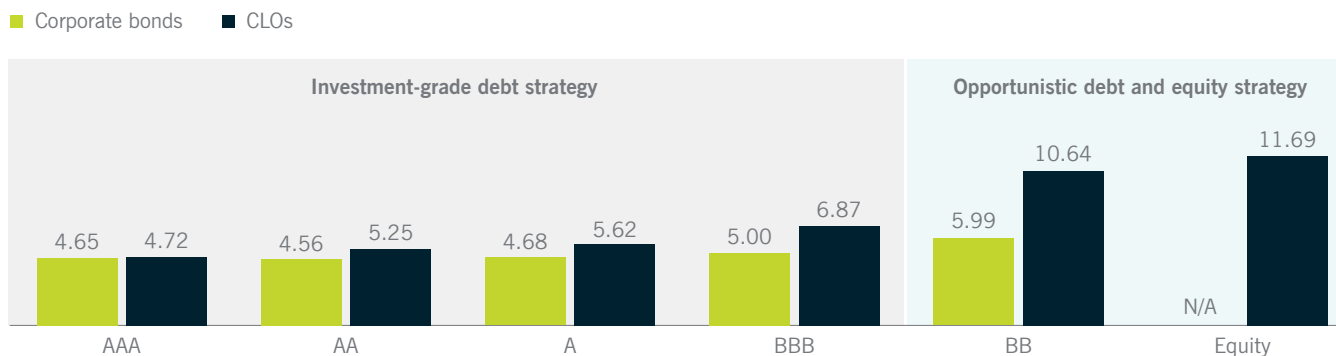
Complexity does not translate into higher credit or default risk. In fact, CLOs have historically demonstrated superior default performance compared to similarly rated corporate credit, supported by the structural protection and the strength of the underlying collateral. Each CLO is a

diversified portfolio of 200+ broadly syndicated senior loans from well-known companies, structured into tranches with varying risk/return profiles ranging from AAA-rated debt to unrated equity. By spreading risk across a large number of loans in different industries, CLOs mitigate the impact of poor performance by any single company or industry, making them a valuable addition to portfolios seeking greater stability.

Additionally, CLOs are actively managed, enabling managers to sell underperforming loans and purchase higher-quality assets or those offering more attractive relative value. This flexibility can be especially valuable during periods of market volatility, when loans from fundamentally strong companies become undervalued, creating opportunities to buy higher-quality assets at discounted prices and capitalizing on the underlying economic resilience of borrowers. Looking into 2026, we expect bouts of volatility to continue, and we have constructed our portfolios to be defensive and positioned to take advantage of price movements to enhance returns for our clients.

Figure 7: CLO offers the potential for enhanced yield for multiple investment objectives

*CLO debt yields compared to similarly-rated corporate bonds (%)**



* Yield: The yield quoted is yield-to-maturity except for CLO equity which is the median annualized U.S. broadly syndicated loan obligations equity distribution.

Sources: Nuveen, Bloomberg, JPMorgan, and Bank of America as of 30 Sep 2025. Performance data shown represents past performance and does not predict or guarantee future results. Equity is the median annualized market equity distribution as of the most recent quarter. Representative indexes: Investment grade corporates AAA-BBB: Bloomberg U.S. Corporate Investment Grade Index; High yield corporates BB-B: ICE BofA US High Yield Index; Investment grade and high yield CLOs AAA-BBB: J.P. Morgan Collateralized Loan Obligation Index (CLOIE); CLO equity: US BSL CLO Equity Distributions (IO) median. Different benchmarks, economic periods, methodologies, and market conditions will produce different results.

Senior loans

Under the forecast of minimal recession risk, the broadly syndicated loan (BSL) market is well positioned from a fundamental credit standpoint and could potentially provide economic resilience for investors. Throughout 2025, BSL default rates have moved lower from the peak reached in late 2024, reflecting positive fundamental momentum, and we expect this trend to continue into 2026. The average BSL borrower is growing revenue and EBITDA by approximately 3% and 4%, respectively, on a year-over-year basis, while the average interest coverage ratio stands at 3.0x, up year-over-year.³

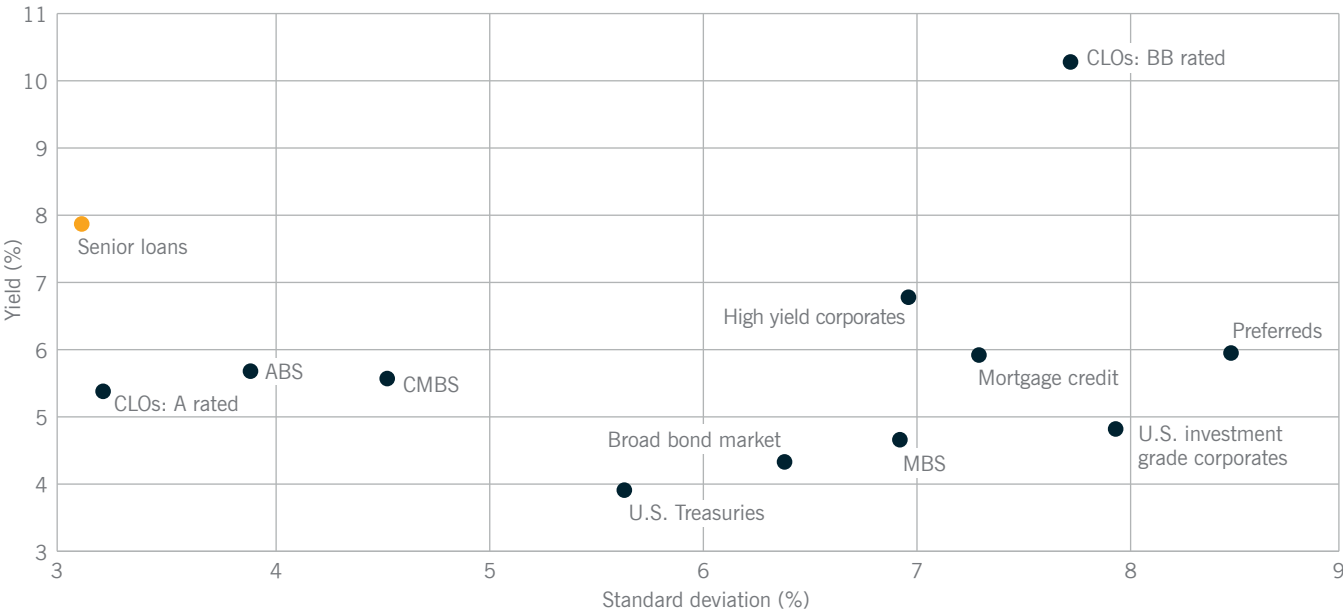
Credit selection remains critical, as dispersion among fundamentals remains within the lower quality segment of the BSL market. We believe significant incremental yield and return potential is available, and we actively manage the risks and opportunities within this cohort.

The BSL market continues to drive high levels of income while delivering low volatility and diversification for investors (Figure 8). With rate volatility expected to remain, especially when considering the shape of the yield curve, the floating rate nature of senior loans affords investors the opportunity to insulate from rate risk, while benefiting from high levels of income associated with credit risk poised to

perform in a slow, albeit positive, economic environment. The BSL market remains highly transparent, and with the market growing to \$1.5 trillion in size, daily trading volume is approaching \$4 billion. In addition, we expect increased mergers and acquisitions (M&A) and leveraged buyout (LBO) activity to drive new issue in the BSL market, highlighting the strategic importance of the asset class. Finally, we expect continued demand from investors across the globe, especially those under-allocated to the asset class, or over-allocated to riskier segments of the credit landscape.

The BSL market is yielding close to 8% on a yield to 3-year basis,⁴ even when incorporating the market's expectations for the path of short-term rates, delivering to investors one of the highest yielding asset classes within the fixed income markets. While credit spreads have tightened throughout 2025, we believe investors are being compensated for the inherent risk in the market — default risk. Active management will continue to be critical in avoiding downside volatility while also taking advantage of the liquidity in the market to find opportunities within the discounted loan cohort, incrementally adding significant yield and total return potential on top of the high levels of income the broad BSL market offers investors.

Figure 8: Senior loans present compelling yield with balanced risk profile



Data sources: Bloomberg, L.P., 31 Oct 2025. Index yields: yield to worst, except senior loans, which is yield to three year; Standard deviation: five-year as of 30 Jun 2025, based on monthly returns. Performance data shown represents past performance and does not predict or guarantee future results. It is not possible to invest directly in an index. Diversification does not ensure against loss in a declining market. Representative indexes: asset-backed securities (ABS): ICE BofA AA-BBB US Fixed Rate ABS; broad bond market: Bloomberg U.S. Aggregate Index; collateralized loan obligations (CLOs): JPM CLO A-Rated Index and JPM CLO BB-Rated Index; commercial mortgage-backed securities (CMBS): ICE BofA AA-BBB U.S. Fixed Rate CMBS; high yield (HY) corporates: Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index; U.S. investment grade (IG) corporates: Bloomberg U.S. Corporate Investment Grade Index; mortgage-backed securities (MBS): Bloomberg U.S. Mortgage-Backed Securities Index; mortgage credit: ICE BofA AA-BBB Home Equity Index; preferred securities: ICE BofA U.S. All Capital Securities Index; senior loans: S&P UBS Leveraged Loan Index; U.S. Treasuries: Bloomberg U.S. Treasury Index.

U.S. high yield corporates

The U.S. high yield bond market offers attractive absolute yields, currently around 7%.⁵ Issuer fundamentals have remained healthy, with net leverage ratio at 3.9x and the interest coverage ratio at 4.1x as of third quarter 2025.⁵ The market composition has evolved structurally, with an increasing presence of larger, publicly traded BB-rated companies, which fundamentally reduces default risk for the overall high yield market. Default rates are projected at 1.75% in 2026, below long-term averages and in line with 2025, despite ongoing market volatility across the credit landscape (Figure 9). Importantly, much of the loss associated with projected default activity is already priced into the market. Corporate balance sheets remain resilient, with revenue and EBITDA growth trends continuing; however, credit selection remains critical within lower quality segments of the high yield market.

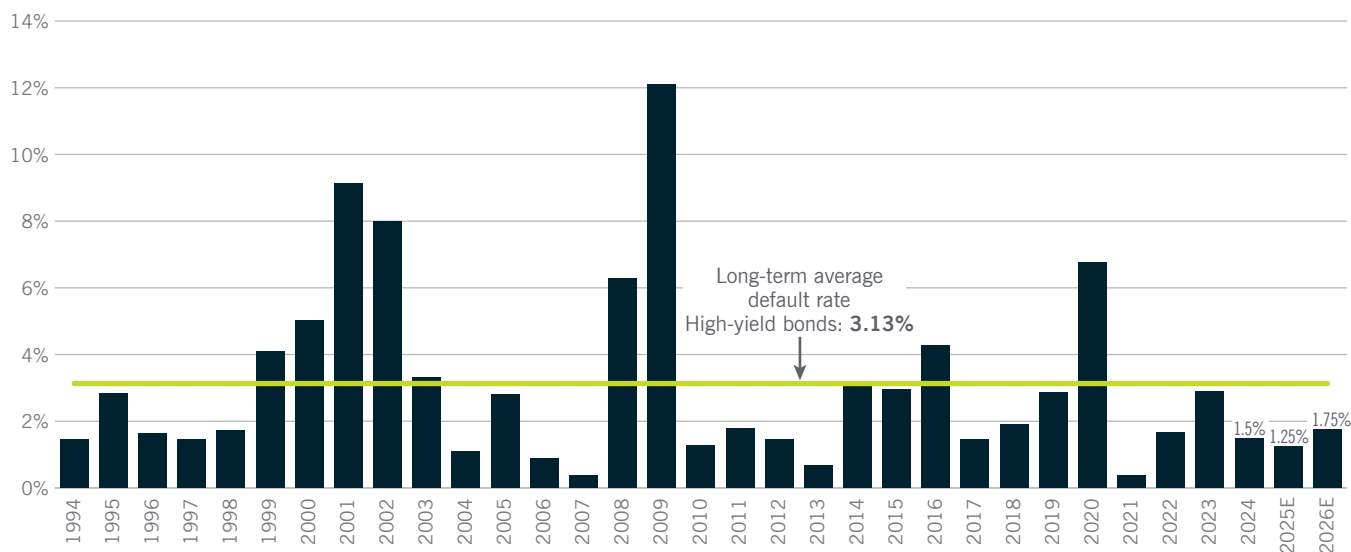
Fiscal policy dynamics and monetary easing are expected to influence the high yield market in 2026. Trade policies, immigration changes and regulatory reforms could affect economic activity and the Fed's easing cycle, contributing to performance differences across sectors and issuers. Gross issuance for 2026 is forecasted to rise 15% to \$375 billion,

driven by refinancing needs and increased M&A activity, increasing the opportunity set for active managers. With Fed rate cuts anticipated to bring the Fed funds rate to approximately 3.25% by mid-year 2026, we believe credit spreads can continue to tighten amid reduced volatility. In addition, the high yield market remains anchored around three years of duration, providing potential positive convexity to falling short term rates, while being insulated from longer-term rates where we anticipate continued volatility.

While credit spreads remain tight to long-term averages, economic resilience alongside the fundamental and technical picture for high yield reflects the rationale for tighter spreads. We expect high yield spreads to remain range bound around current levels throughout 2026, and coupled with high coupons, could result in a full year total return estimate of 6%–8%. Absent a severe economic downturn, high yield bonds should continue to deliver attractive risk-adjusted returns. We believe dispersion among issuers will continue, allowing active managers with robust credit underwriting to capitalize on relative value opportunities and dig deeper for diversification across the credit landscape.

Figure 9: Defaults are expected to remain well below historical average

Par-weighted bond default rates for high yield (%)



Data source: JPMorgan as of 30 Sept 2025.

Emerging markets debt (EM)

The boundaries separating developed markets (DM) and EM are becoming increasingly blurred, presenting compelling investment opportunities as DM grapples with issues that traditionally have been confined to EM. Rising fiscal deficits, above target inflation, concerns over central bank independence, and weakening currencies have been tagged as EM risks historically, resulting in a yield premium demanded by investors. Yet, in recent years, many DMs have seen a rise in the same concerns, without the same degree of risk premium demanded.

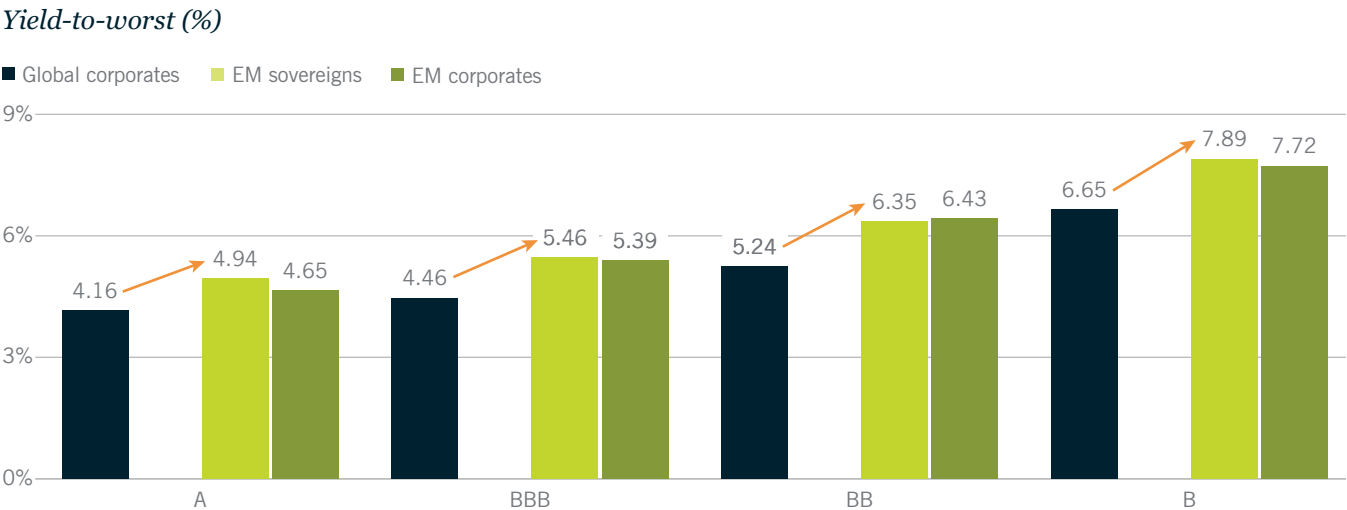
Concerns over fiscal trajectory and broader policies are plaguing countries throughout DM from the U.K. to Japan, but EM economies have been demonstrating improving fundamentals and increased prudence in central bank policymaking. EM countries, as well as companies, are often compelled to exercise greater caution than their DM counterparts. We can see the relative strength as EM sovereigns exhibit much lower debt-to-GDP ratios and EM corporates maintain significantly lower net leverage compared to DM, though select sectors could be pressured by China’s competitive export orientation. We have started to see some repricing of the EM premium amid strong recent returns, but EM external debt, both sovereign and

corporate, offers an average of nearly 100 bps of additional yield versus DM on a ratings-adjusted basis (Figure 10).

EM investing requires a country-level view as the starting point for determining bottom-up expression in terms of issuer or issue. Using our proprietary country cohort lens, we identify countries where extension into EM corporates is most appropriate. The best opportunities for corporate extension are generally within the Steady cohort. We are more cautious within Frontier where our sovereign team spends significant time, and there is often sufficient performance divergence potential, and an embedded spread premium, offering little motivation to extend to corporates.

EM local has returned +17.5% with foreign exchange (FX) contributing nearly half of that figure.⁶ As DM concerns intensify, EM local currency debt appears positioned to continue to outperform. For investors seeking yield and spread opportunities, while expanding their diversification, EM’s fundamental strength looks increasingly attractive. With risks of a higher dollar subsiding for now, this will benefit hard currency investors too with an improvement in debt servicing ability and inflation dynamics.

Figure 10: EM debt offers a compelling advantage of nearly 100 bps to similarly rated global credit



Data sources: JPMorgan; Bloomberg, L.P., 30 Nov 2025. Performance data shown represents past performance and does not predict or guarantee future results.

Securitized credit

Securitized credit can offer compelling investment opportunities in 2026 for investors seeking diversification beyond traditional corporate credit (Figure 11).

Securitized credit should provide lower correlation to corporate earnings, resilience to tariffs and some exposure to floating rate or shorter-duration investments, reducing the potential impact of steeper curves. Securitized credit's contractual cash flows and tangible collateral also provide relative stability as questions intensify about the fiscal sustainability of developed markets.

Mortgage-backed securities (MBS) present continued opportunity, with robust household balance sheets and sustained rigor in credit underwriting representing key support for the sector. Agency MBS represents a compelling blend of tariff remoteness, liquidity and high-quality income relative to U.S. Treasuries. Non-agency MBS continues to benefit from structural housing shortages and

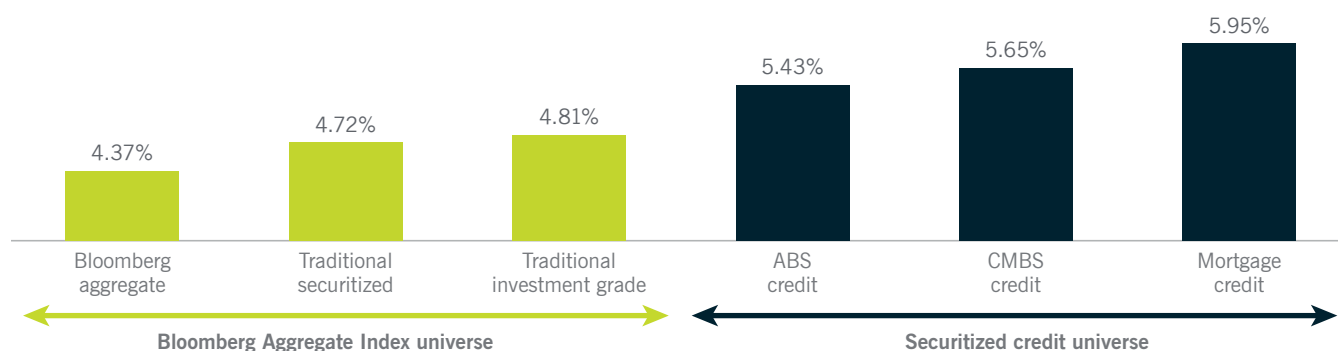
disciplined underwriting standards. U.S.-focused collateral provides insulation from global trade disruptions and geopolitical risks.

Asset-backed securities (ABS) have seen record supply for several years in a row as investors seek yields backed by fundamentally sound consumers, robust employment and ongoing commercial financing requirements. While signs of weakness are emerging in lower-quality credit, opportunities continue for investors willing to participate in esoteric collateral types. The highest-quality opportunities should benefit from increased investor focus.

Commercial mortgage-backed securities (CMBS) should benefit from ongoing real estate tailwinds; valuations have found floors, demand has stabilized and oversupply has generally abated. Anticipated interest rate cuts should also provide further support for the sector and lower the cost of debt for many borrowers.

Figure 11: ABS, CMBS and mortgage credit issues create additional return potential

Yield-to-worst (%)



Data source: Bloomberg, L.P., as of 30 Sep 2025. Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: **Bloomberg aggregate**: Bloomberg U.S. Aggregate Bond Index; **traditional securitized**: Bloomberg U.S. securitized: MBS/ABS/CMBS Index; **traditional investment grade**: Bloomberg U.S. Corporate Index; **ABS credit**: ICE BofA AA-BBB U.S. ABS Index; **CMBS credit**: ICE BofA AA-BBB U.S. Fixed Rate CMBS Index; **mortgage credit**: ICE BofA AA-BBB Home Equity Loan U.S. ABS Index. **Yield-to-worst** is the lowest potential yield that can be received on a bond without the issuer defaulting.

Preferred securities

An economically resilient sector, preferred securities provide investors with attractive tax-advantaged income and exposure to primarily high-quality issuers. The sector offers strong fundamentals with an average security-level rating of BBB and average issuer ratings typically three to five notches higher. We invest primarily in highly regulated sectors (e.g., banks, insurance companies and utilities) that offer investors the added assurance of external oversight. Preferreds are a less traditional, higher-yielding credit sector. Allocating to preferred securities can also enhance overall portfolio diversification because of the sector’s low correlation to other fixed income and equity categories.

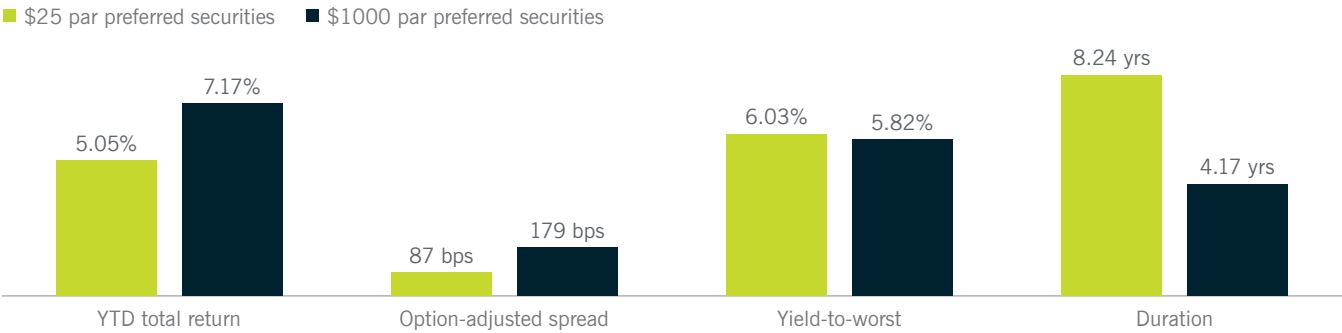
Banks, the largest sector of the universe, are in a position of notable strength. U.S. banks had favorable 2025 stress test results, solid earnings and conservative risk positioning. Insurance, the second largest sector, also has a positive outlook. Insurers have historically high risk-based capital levels, the added assurance of regulatory oversight, an inherent benefit from higher interest rates and near record-

setting sales of annuity products for the past three years. Both industries are only indirectly impacted by tariffs.

While new supply has increased, it should not meaningfully affect valuations. Much of the new issuance comes from non-bank financials or corporate hybrid structures that are eligible for traditional investment grade or high yield corporate indexes, attracting a broader investor base beyond dedicated preferred investors. This new supply has been easily absorbed.

Spreads remain below longer-term averages but above historical lows. We believe underlying fundamentals and supportive technicals can support current spread levels. Despite recent outperformance, we continue to favor \$1000 par preferreds for their higher option-adjusted spreads, attractive income levels and lower duration (Figure 12). In contrast, \$25 par preferreds tend to be more volatile, less liquid, longer duration and currently trade at much tighter spread levels.

Figure 12: \$1000 par preferreds: attractive spread, income and duration profile



Data source: Bloomberg, L.P., 30 Sep 2025. Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: \$25 par: ICE BofA Core Plus Fixed Rate Preferred Index; \$1000 par: ICE BofA U.S. Institutional Capital Securities Index..

Tax-exempt municipal bonds

We have a favorable view of tax-exempt municipals, especially in longer maturities, and we expect the municipal rally to continue. High starting yields, paired with resilient credit fundamentals and a solid technical foundation, should drive positive returns for municipals in 2026 (Figure 13).

As the fiscal over monetary takeover theme materializes, federal deficit spending headlines will drive U.S. Treasury yield volatility, but municipal bonds are more insulated as the municipal yield curve is significantly steeper than the Treasury curve. Municipal 20-year bonds outyield 10-year bonds by 112 bps, while Treasury counterparts only offer 60 bps of yield pickup at the same tenors (as of 25 Nov 2025). This relationship is likely to normalize in 2026, and we favor taking duration in municipals.

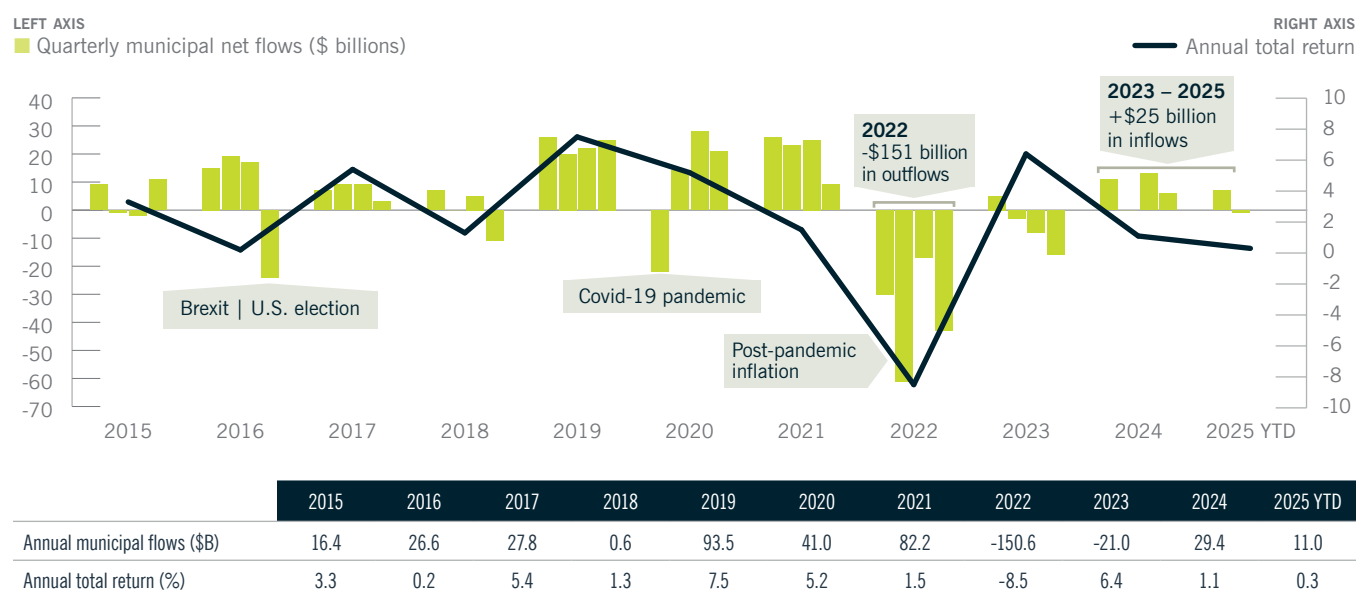
Municipal credit fundamentals are solid. Most municipal borrowers are essential service providers that continue to earn revenues when federal support wanes. Further,

borrowers possess significant flexibility to balance budgets via taxes, service cuts and other tools. Credit quality is high after several strong years of upgrades, yet municipal spreads are wider than where they began 2025.

Lower-rated municipal issuers offer more room for compression. The yield spread on the Bloomberg Municipal 10-year High Yield Index stands at 301 bps, which is 71 bps wider than the five-year average (as of 28 Nov 2025). With economic resilience supporting markets, we see no major catalyst for spread correction.

Municipal market technicals are a critical source of price performance. 2025 set record levels of supply, and the market demonstrated tenacity as it navigated heavy deal flow. We expect 2026 supply to remain elevated while demand will continue to grow as investors move out of money market funds into higher-yielding municipals. The recovery staged in late 2025 is likely to continue and should reward early movers.

Figure 13: Municipal mutual fund flows have been strongly correlated with performance



Data source: Morningstar Direct, 01 Jan 2015 – 31 Aug 2025, fund flows shown quarterly and performance shown annually. **Performance data shown represents past performance and does not predict or guarantee future results. Representative index:** Bloomberg Municipal Bond Index. Municipals represent the total of all municipal bond open-end funds, including high yield, but excluding exchange-traded funds. Shading represents significant market events.

Taxable municipal bonds

Taxable municipals are poised to deliver compelling performance in 2026 as strong technical tailwinds and attractive valuations converge (Figure 14). Anemic taxable municipal supply trends are expected to continue in 2026, driving scarcity in the market. We do not foresee supply growth until longer-term rates fall sustainably and taxable refunding becomes economically attractive again. Flows to the asset class remain robust and Build America Bonds' continued use of extraordinary redemption provisions (ERPs) should underpin demand.

As investors dig deeper for diversification in 2026, high absolute yields for taxable municipals offer attractive relative value versus corporates with typically lower default risk. With fiscal sustainability and policy questions rising to the

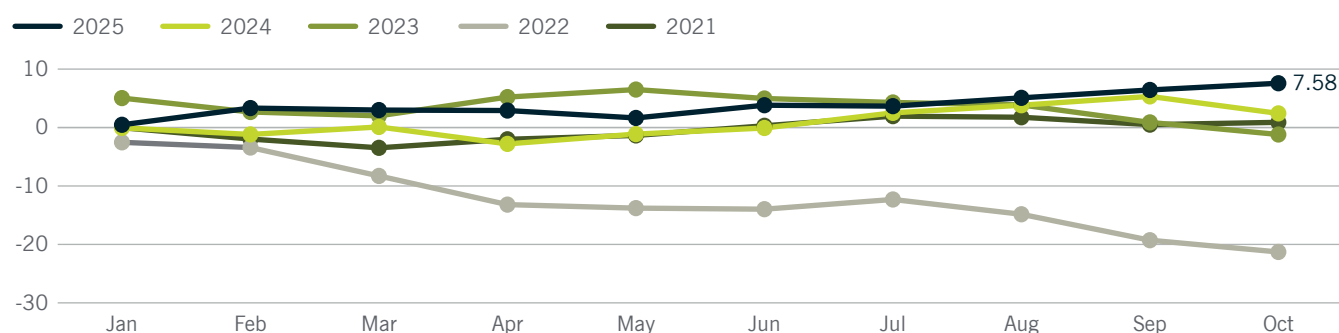
forefront, headline-driven episodic volatility will be short lived and should present buying opportunities in municipals.

Economic resilience and solid credit fundamentals should continue to support municipals, justifying current valuations. Yet, we see relatively more value in BBB and lower-rated taxable municipals where spreads are wider than where they began the year. We see no immediate impetus for widespread credit deterioration but expect dispersion among issuers, particularly in higher education, health care and large urban centers. Disciplined credit selection should be rewarded.

Taxable municipals enter 2026 with strong momentum, which we expect to continue as market conditions remain favorable.

Figure 14: Taxable municipal debt performance has rebounded strongly in 2025 YTD

Bloomberg Taxable Municipal Bond Index returns (%)



Data source: Bloomberg, L.P., 01 Jan 2021–31 Oct 2025. Performance data shown represents past performance and does not predict or guarantee future results. Representative index: Bloomberg Taxable Municipal Index.

Multi-sector credit

As we enter 2026, multi-sector fixed income investors face an easing monetary policy cycle paired with full valuations across traditional credit sectors.

In developed markets, high levels of deficit spending remain unaddressed and we expect continued supply pressure to push long-end rates higher. As such, we are maintaining a duration posture significantly lower relative to standard benchmarks.

Emerging markets stand to benefit as developed market vulnerabilities come into focus. Questions about fiscal sustainability and institutional credibility — traditionally emerging market concerns — are increasingly being applied to advanced economies. These blurred lines create opportunities across emerging market sovereign, corporate,

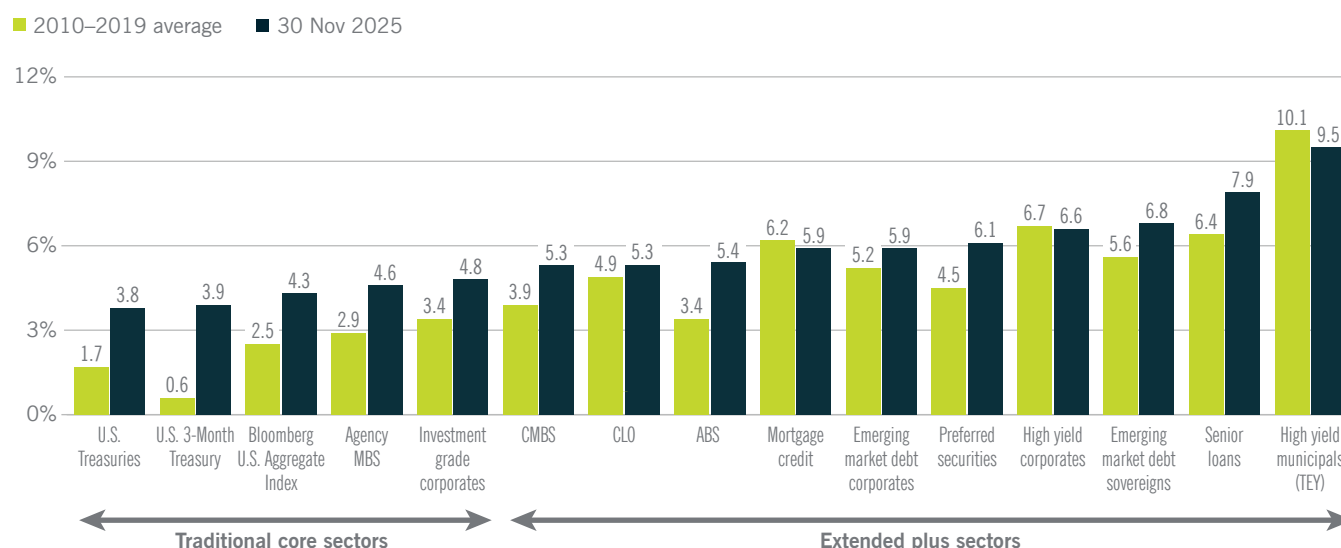
and local currency debt as investors recognize improving relative fundamentals.

Going lower in quality in corporate credit is unlikely to benefit investors because spreads are tight relative to historical standards. We're looking beyond traditional credit to sectors like securitized, emerging markets and preferred securities, where complexity premiums and wider spreads reward credit specialists who can accurately identify value.

We do not believe a recession will occur in 2026, and there is still some room to take credit risk within portfolios. While we are taking more credit exposure in less traditional sectors, recession resistant sectors like MBS, higher quality EM sovereigns and IG corporate utilities can offer downside protection against spread widening events.

Figure 15: Current yields present an attractive starting point

Yield-to-worst by fixed income sector (%)



Data sources: BofA, Bloomberg LP, JPMorgan. As of 30 Nov 2025. **Representative indices:** 3-Month Treasury: U.S. Treasury 3-Month yield; **U.S. Treasuries:** Bloomberg U.S. Treasury Index; **Agency mortgage-backed securities (MBS):** Bloomberg U.S. Mortgage-Backed Securities Index; **Investment grade corporates:** Bloomberg U.S. Corporate Investment Grade Index; **Asset-backed securities (ABS):** ICE BofA AA-BBB US Fixed Rate ABS Index; **Collateralized Loan Obligations (CLO):** JPM CLO A Rated Index; **Preferred securities:** ICE BofA U.S. All Capital Securities Index; **Emerging market debt corporates:** JPM CEMBI Diversified Index; **Commercial mortgage-backed securities (CMBS):** ICE BofA AA-BBB US Fixed Rate CMBS Index; **High yield corporates:** Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index; **Mortgage credit:** ICE BofA AA-BBB Home Equity Index; **Emerging market debt sovereigns:** JPM EMBI Global Diversified Index; **Senior loans:** S&P UBS Leveraged Loan Index; **High yield municipals (TEY):** Bloomberg Municipal High Yield Bond Index (tax-equivalent yield at a 40.8% tax rate). **Performance data shown represents past performance and does not predict or guarantee future results. It is not possible to invest directly in an index.**



In summary

Fixed income investors face a transformed landscape where traditional playbooks require rethinking:

- **Fiscal policy eclipses monetary policy as the primary market driver**, with elevated deficits and term premiums demanding careful sovereign analysis across the curve.
- **Economic resilience supports selective risk-taking**, particularly in up-in-quality segments of below investment grade credit that combine strong fundamentals with reasonable spreads.
- **Diversification demands venturing beyond crowded liquid credit markets** to take advantage of illiquidity premiums and less traditional sectors that can offer additional yield without extra credit risk.
- **The developed-emerging market divide narrows dramatically**, as uncertainty spreads to DM economies while many EM issuers demonstrate strengthened fundamentals, requiring a unified analytical framework that applies political and fiscal scrutiny.

Contributors

Anders Persson, CFA®

Chief Investment Officer, Head of Global Fixed Income

Tony Rodriguez

Head of Fixed Income Strategy

Laura Cooper

Head of Macro Credit and Global Investment Strategist

Quinn Brody

Senior Director, Macro Strategy

SECTORS	PORTFOLIO MANAGERS	CLIENT PORTFOLIO MANAGERS
Leveraged Finance	Scott Caraher James Kim Kristal Y. Seales, CFA® Himani Trivedi	Ravi Chintapalli, CFA® Lindsay Gruhl Shannon Jin, CFA®
Emerging markets debt (EM)	Katherine Renfrew John Espinosa Alejandro L. Rivera, CFA®	Jeffrey Smith, CFA®
Securitized credit	Chris Jelstrup Aashh Parekh, CFA® Nicholas Travaglino	Samira Mattin Fogarty Jack Allen, CAIA, CFA®
Preferred securities	Douglas Baker, CFA®	Lisa A. Segner, CFA® Kari Stanway, CFA®
Tax-exempt municipal bonds	Daniel Close, CFA®	Ellen Chenoweth Christopher Barron
Taxable municipal bonds	Daniel Close, CFA® Kristen DeJong Bart Nowak Philip Traven	Ellen Chenoweth Christopher Barron
Multi-sector credit	Nicholas Travaglino	Samira Mattin Fogarty Jack Allen, CAIA, CFA®

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Endnotes

Sources

- 1 Data sources: JPMorgan, EPFR, as of 31 Oct 2025.
- 2 Data sources: The Bloomberg A Corporate Index, JPM US CLOIE A Dur Wgt DM (to worst), as of 30 Sep 2025.
- 3 Data source: JPMorgan, as of 31 Oct 2025.
- 4 Data sources: Bloomberg, L.P., S&P UBS Leveraged Loan Index, as of 31 Oct 2025.
- 5 Data sources: JP Morgan, ICE BofA U.S. High yield Index, as of 30 Sep 2025.
- 6 Data sources: J JP Morgan Markets as of 30 Nov 2025.

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