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Weekly Fixed Income Commentary

02 February 2026

Bond markets split on Fed policy uncertainty

Fixed income markets diverged as the U.S. Federal Reserve held rates steady. Treasury curves steepened on the Warsh Fed Chair nomination, while investment grade and high yield corporates retreated amid heavy supply. Emerging markets outperformed. Municipal bonds held steady on strong demand and reinvestment flows.

HIGHLIGHTS

- **Treasuries were flat for the week.**
- **Mortgages, municipals and emerging markets advanced, while investment grade and high yield corporates, preferreds and senior loans retreated.**
- **Municipal bond yields were essentially unchanged. New issue supply totaled $3.8B, and fund inflows were $2.1B. This week's new issuance is $7.2B.**

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Watchlist

- *10-year Treasury yields increased slightly last week, and we expect a modest rally from current levels.*
- *Spread sectors were mixed versus similar-duration Treasuries ahead of this week's jobs data.*
- *We believe 2026 presents favorable market dynamics for municipal bonds.*

INVESTMENT VIEWS

We believe fixed income **yields generally present a very attractive entry point,** creating compelling income opportunities.

Downside economic risks are material, despite strong fundamentals, with tariffs likely to compress consumer spending and weigh on business fixed investment. But a U.S. recession is not our base case.

Risk premiums may widen further, with entry points likely to become more attractive over the coming quarters. Duration is likely to reassume its role as a growth hedge.

KEY RISKS

- Tariffs further undermine consumer and business confidence, raising prices while weighing on sentiment and activity.
- Inflation fails to continue moderating as expected, weighing on asset prices.
- Geopolitical flare-ups intensify around the world.

INVESTMENT GRADE CORPORATES LAG AMID SUPPLY SURGE

The U.S. Treasury curve steepened last week, with 2-year yields falling -7 basis points (bps) while 10-year yields rose 1 bp and 30-year yields rose 5 bps. Two parallel monetary policy developments drove those moves. First, the Fed kept rates steady, and Chair Powell leaned slightly hawkish in his press conference. Second, and more impactful, President Trump nominated Kevin Warsh for Fed Chair. Warsh has previously criticized the Fed's asset purchase programs, signaling potential unwillingness to maintain a large balance sheet. This could pressure long-end yields higher.

Investment grade corporates retreated, returning -0.11% and lagging similar-duration Treasuries by 9 bps. Spreads widened slightly, though technicals remain highly supportive. The asset class enjoyed $11 billion in inflows, the largest since last August. Supply remained robust at over $37 billion, bringing January's total above $200 billion – 18% above 2025's pace. Despite heavy issuance, demand remains very strong, with average oversubscription rates of 4x and new issue concessions below 1 bp.

High yield corporates weakened, returning -0.16% and underperforming similar-duration Treasuries by 33 bps. Senior loans returned -0.55%, the worst weekly performance since last April's tariff announcements. Loan weakness concentrated in the software sector (12% of the index) as trading increasingly reflects AI-driven disruption risks. Around two-thirds of the loan market now trades above par, down from 78% two weeks ago. Despite volatility, high yield and senior loan funds enjoyed inflows of $233 million and $234 million, respectively.

Emerging markets outperformed again, returning 0.09% and beating similar-duration Treasuries by 6 bps. Spreads were flat across both sovereigns and corporates. Inflows accelerated to $3.5 billion while supply slowed to $18 billion, met with solid demand averaging 4.5x oversubscription.

LIGHT SUPPLY AND STRONG FLOWS SUPPORT MUNICIPAL BONDS

Municipal bond yields ended last week essentially unchanged, with short-term yields declining -3 bps while long-term yields held steady. Light new issue supply was well received, and fund inflows remained robust, including $1.4 billion into exchange-traded funds. This week's undersized new issuance should also be well received.

The muni market remains well bid for several reasons. The government bond market is stable, and outsized reinvestment flows continue – $47 billion arrives 01 February and $32 billion on 01 March. While new issue supply is expected to reach $600 billion in 2026, the calendar has remained manageable so far this year relative to available reinvestment dollars. We expect munis to remain well bid for the foreseeable future.

The Florida Development Finance Corporation (Tampa General Hospital) issued $389 million in revenue bonds (rated A-). The account is closed, and the underwriter is quoting bids 1 bps cheaper than the original issue levels for both term bonds.

High yield municipal fund inflows accelerated last week, with investors adding $486 million. Many new issues were firmly oversubscribed and upsized. Secondary market demand is broadening, with focus on charter school and senior living bonds that have lagged. This week brings nine deals totaling $775 million as cash balances strengthen with 01 February reinvestment flows. Record reinvestment flows and accelerating fund flows position February for a strong start following solid January performance.

The nomination of Kevin Warsh for Fed Chair could pressure long Treasury yields higher.

In focus

The Fed's lack of surprises comes as no surprise

As expected, the Federal Reserve held interest rates steady (3.50%-3.75%) at its 2026 kickoff meeting after three consecutive rate reductions to end 2025. The decision wasn't unanimous, though, as Fed Governors Waller and Miran dissented in favor of a 25 basis point (bps) rate cut.

The policy statement leaned hawkish compared to December, with the central bank noting that the unemployment rate "has shown some signs of stabilization," while removing a reference to "downside risks to employment." The statement also described recent economic growth as "solid" rather than "moderate."

In his press conference, Chair Jay Powell avoided signaling a clear near-term policy path, saying the Fed is "well-positioned to determine the extent and timing of additional adjustments." He also indicated that inflation's trajectory will dictate future cuts, suggesting that declining inflation would "tell us that we can loosen policy." As for potential rate hikes, Powell stated, "We don't take things off the table, but it isn't anybody's base case right now."

Looking ahead, the Fed's most recent dot plot of rate forecasts showed just one 25 bps cut this year. We continue to expect two rate reductions (totaling 50 bps) in 2026. This outlook reflects our macroeconomic forecast for moderating inflation later in the year, labor market stabilization and a more dovish stance from new Fed appointees.

U.S. Treasury market

		Change (%)		
Maturity	Yield	Week	January 2026	Year-to-date
2-year	3.52	-0.07	0.05	0.05
5-year	3.79	-0.04	0.06	0.06
10-year	4.24	0.01	0.07	0.07
30-year	4.87	0.05	0.03	0.03

Source: Bloomberg L.P., 30 Jan 2026. **Performance data shown represents past performance and does not predict or guarantee future results.**

Municipal market

		Change (%)		
Maturity	Yield to worst	Week	January 2026	Year-to-date
2-year	2.18	-0.03	-0.21	-0.21
5-year	2.24	-0.04	-0.17	-0.17
10-year	2.63	-0.03	-0.13	-0.13
30-year	4.29	0.00	0.05	0.05

Source: Bloomberg L.P., 30 Jan 2026. **Performance data shown represents past performance and does not predict or guarantee future results.**

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	62
30-year AAA Municipal vs Treasury	88
High Yield Municipal vs High Yield Corporate	84

Source: Bloomberg L.P., Thompson Reuters, 30 Jan 2026. AAA municipals represented by the MMD scale. The high yield ratio equals the yield-to-worst for the Bloomberg High Yield Municipal Index divided by the yield-to-worst for the Bloomberg High Yield Corporate Index. **Performance data shown represents past performance and does not predict or guarantee future results.**

Characteristics and returns

				Returns (%)		
Index	Yield to worst (%)	Spread (bps)	Effective duration (years)	Week	January 2026	Year-to-date
Municipal	3.45	–	6.77	0.29	0.94	0.94
High yield municipal	5.52	155[1]	7.74	0.20	0.98	0.98
Short duration high yield municipal[2]	5.58	318	3.66	0.12	0.96	0.96
Taxable municipal	4.86	57[3]	7.70	0.05	0.05	0.05
U.S. aggregate bond	4.36	24[3]	5.95	0.03	0.11	0.11
U.S. Treasury	3.97	–	5.83	0.00	-0.09	-0.09
U.S. government related	4.36	39[3]	5.34	0.09	0.03	0.03
U.S. corporate investment grade	4.84	73[3]	6.81	-0.11	0.18	0.18
U.S. mortgage-backed securities	4.64	16[3]	5.60	0.19	0.41	0.41
U.S. commercial mortgage-backed securities	4.43	67[3]	3.85	0.28	0.35	0.35
U.S. asset-backed securities	4.12	48[3]	2.84	0.15	0.25	0.25
Preferred securities	6.04	157[3]	5.61	-0.04	1.08	1.08
High yield 2% issuer capped	6.58	265[3]	2.84	-0.16	0.51	0.51
Senior loans[4]	8.15	480	0.25	-0.55	-0.26	-0.26
Collateralized loan obligations, AA	4.83	128[3]	0.25	0.07	0.47	0.47
Collateralized loan obligations, BB	10.12	644[3]	0.25	-0.09	0.89	0.89
Global emerging markets	5.76	170[3]	6.01	0.09	0.36	0.36
Global aggregate (unhedged)	3.53	25[3]	6.32	0.80	0.94	0.94

1 Yield difference between the Bloomberg High Yield Municipal Index and the 20-year AAA MMD scale. **2** Data is a subset of the S&P Short Duration Municipal Yield Index that is below investment grade/nonrated. Spread is the yield difference between this subset and the subset rated AAA. **3** Option-adjusted spread to Treasuries. **4** Spread refers to the 3-year discount margin. Duration is estimated based on the frequency of the reset date.

Source: Bloomberg L.P. and Standard & Poor's, 30 Jan 2026. **Performance data shown represents past performance and does not predict or guarantee future results.** Unless otherwise noted, the index is Bloomberg. All index returns are shown in U.S. dollars. **Yield to worst** is the lowest potential yield that can be received on a bond without the issuer actually defaulting. **Effective duration** (expressed in years) measures the price sensitivity of a fixed-income investment to a change in interest rates, considering that expected cash flows will fluctuate as interest rates change. Index performance is shown for illustrative purposes only. Index returns include reinvestment of income and do not reflect investment advisory and other fees that would reduce performance in an actual client account.

For more information, please visit nuveen.com.

Performance: Bloomberg, L.P. **Issuance:** J.P. Morgan, 30 Jan 2026. **Fund flows:** Lipper. **New deals:** Market Insight, MMA Research, 28 Jan 2026.

Any reference to credit ratings refers to the highest rating given by one of the following national rating agencies: S&P, Moody's or Fitch. Credit ratings are subject to change. AAA, AA, A and BBB are investment grade ratings; BB, B, CCC, CC, C and D are below-investment grade ratings.

Representative indexes: municipal: Bloomberg Municipal Index; **high yield municipal:** Bloomberg High Yield Municipal Index; **short duration high yield municipal:** S&P Short Duration Municipal Yield Index; **taxable municipal:** Bloomberg Taxable Municipal Bond Index; **U.S. aggregate bond:** Bloomberg U.S. Aggregate Bond Index; **U.S. Treasury:** Bloomberg U.S. Treasury Index; **U.S. government related:** Bloomberg U.S. Government-Related Index; **U.S. corporate investment grade:** Bloomberg U.S. Corporate Index; **U.S. mortgage-backed securities;** Bloomberg U.S. Mortgage-Backed Securities Index; **U.S. commercial mortgage-backed securities:** Bloomberg CMBS ERISA-Eligible Index; **U.S. asset-backed securities:** Bloomberg Asset-Backed Securities Index; **preferred securities:** ICE BofA U.S. All Capital Securities Index; **high yield 2% issuer capped:** Bloomberg High Yield 2% Issuer Capped Index; **senior loans:** S&P UBS Leveraged Loan Index; **CLO AA:** J.P. Morgan Collateralized Loan Obligation AA Index; **CLO BB:** J.P. Morgan Collateralized Loan Obligation BB Index; **global emerging markets:** Bloomberg Emerging Market USD Aggregate Index; **global aggregate:** Bloomberg Global Aggregate Unhedged Index.

Important information on risk

Investing involves risk; principal loss is possible. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, derivatives risk, dollar roll transaction risk and income risk. As interest rates rise, bond prices fall. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure and therefore are subject to greater credit risk. Foreign investments involve additional risks, including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks may be magnified in emerging markets. Asset-backed and mortgage-backed securities are subject to additional risks such as prepayment risk, liquidity risk, default risk and adverse economic developments. The value of convertible securities may decline in response to such factors as rising interest rates and fluctuations in the market price of the underlying securities. Senior loans are subject to loan settlement risk due to the lack of established settlement standards or remedies for failure to settle. These investments are subject to credit risk and potentially limited liquidity, as well as interest rate risk, currency risk, prepayment and extension risk, and inflation risk. Any investment in collateralized loan obligations or other structured vehicles involves significant risks not associated with more conventional investment alternatives.

Investors should contact a tax professional regarding the appropriateness of tax-exempt investments in their portfolio. If sold prior to maturity, municipal securities are subject to gain/losses based on the level of interest rates, market conditions and the credit quality of the issuer. Income may be subject to the alternative minimum tax (AMT) and/or state and local taxes, based on the state of residence. Income from municipal bonds held by a portfolio could be declared taxable because of unfavorable changes in tax laws, adverse interpretations by the Internal Revenue Service or state tax authorities, or noncompliant conduct of a bond issuer. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

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