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Weekly Fixed Income Commentary

31 March 2025

Treasury yields swing amid tariff uncertainty

U.S. Treasury yields were volatile and spreads broadly widened. The tariff-induced combination of weaker sentiment, slower activity and higher prices combined for an ambiguous effect on long-end yields, but front-end yields responded by pricing in more aggressive U.S. Federal Reserve rate cuts.

HIGHLIGHTS

- **Treasuries, MBS, CMBS and senior loans all had positive total returns.**
- **Investment grade and high yield corporates, taxable munis, emerging markets and preferreds all had negative total returns.**
- **Municipal bond yields rose dramatically. New issue supply was $9.1B, and fund outflows were -$573M. This week's new issuance is expected to be $10.5B.**

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CIO of Global Fixed Income

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Watchlist

- *10-year Treasury yields were flat, and we expect yields to remain range bound during 2025.*
- *Spread sectors broadly lagged Treasuries, amid tariff uncertainty and softer economic data.*
- *We expect the technical environment for municipal bonds to regain strength as the year progresses.*

INVESTMENT VIEWS

Rates are set to stay higher for longer, as the Fed approaches rate cuts cautiously.

The underlying growth outlook remains healthy thanks to strong consumer balance sheets and solid levels of business investment. This combination should keep corporate defaults low.

Risk premiums may widen further, with entry points for taxable fixed income likely to become more attractive over the coming quarters. Credit selection remains key as we search for bonds with favorable income and solid fundamentals.

KEY RISKS

- Inflation fails to continue moderating as expected, weighing on asset prices.
- Policymakers unsuccessfully juggle fighting inflation with supporting economies still struggling to gain traction.
- Geopolitical flare-ups intensify around the world.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

INVESTMENT GRADE CORPORATE INFLOWS SLOW SHARPLY

10-year U.S. Treasury yields ultimately ended flat in a volatile week. Yields were as much as 15 basis points (bps) higher by mid-week, before fresh tariff announcements and softer U.S. economic data sparked a rally to close the week. The Trump administration announced 25% tariffs on imports of cars and car parts, while continuing to signal heavier tariffs to be announced on 02 April. Consumer sentiment continued to decline, with the March reading of the University of Michigan survey dropping for the third straight month. Consumer price expectations rose again, with the one-year inflation expectation moving to 5.0%, a high since 2022. These factors combined for an ambiguous effect on long-end yields, but front-end yields responded by pricing in more aggressive U.S. Federal Reserve rate cuts, with the 2-year yield dropping -4 bps for the week.

Investment grade corporates retreated, returning -0.21% for the week and lagging similar-duration Treasuries by 20 bps. Spreads widened 3 bps to 93 bps, led by auto names, which widened by 10-20 bps depending on the issuer and the maturity. Inflows slowed sharply to $1.1 billion, the lowest total in four months. Nevertheless, supply remained healthy, and the market continues to snap up new issuance. Almost $40 billion priced last week, taking the Q1 total to $536 billion and breaking last year's record.

High yield corporates also weakened, returning -0.44% and lagging similar-duration Treasuries by 58 bps. Senior loans returned 0.16%. Both asset classes saw outflows, totaling -$110 million in high yield and -$780 million in loans. However, both asset classes still tallied significant inflows in Q1, totaling $7.6 billion and $10.8 billion across high yield and loans, respectively. Supply remained steady for the week, totaling $8.7 billion in high yield and $10.8 billion in loans.

Emerging markets joined the selloff, returning -0.27% and underperforming similar-duration Treasuries by -30 bps. Sovereign spreads widened by 5 bps, with the move driven by underperformance in high yield names, which widened 10 bps compared to flat spreads in investment grade space. Outflows totaled -$72 million for the week, though that move was dominated by movement in local currency funds; hard currency funds saw inflows of $381 million. New issuance picked up, with $17.3 billion pricing, though demand was somewhat softer with oversubscription rates of 3x on average.

MUNICIPAL BOND SUPPLY REMAINS RELENTLESS

Municipal bond yields rose dramatically across the curve last week, diverging once again from Treasuries. Short- and long-term muni yields rose 12 bps while Treasury yields ended the week lower, top to bottom. Municipal market new issue deals struggled to be placed. In fact, a $1.2 high yield deal was canceled due to oversupply. Fund outflows continued for the third week. This week's new issue supply is expected to be priced to sell. Market stress should ease as more deals remain than buyers.

The muni market is volatile but trending cheaper, mainly because of relentless new issue supply. Conventional municipal bond investors have invested most of their money. However, muni yields now offer a better value relative to Treasuries versus when the year began. The 10-year municipal-to-Treasury bond yield ratio has risen from 67% in January to 77% today. Historically, crossover investors have eventually entered the market when munis became cheap enough. And muni yields are the highest in 2 years, which is holding investor interest in tax-exempt bonds. All the while, muni bonds are maintaining their credit strength.

The New York City Municipal Water Finance Authority issued $588 million water and sewer system revenue bonds (rated Aa1/AA+). The size of the offering was reduced by approximately $45 million due to tepid investor demand.

High yield municipal bond yields increased 9 bps last week, on average, and now sit 12 bps higher year-to-date. Solid inflows continued. The market firmed at the end of the week, with bids tightening yields on high beta indicators like tobacco and Puerto Rico. This week's high yield municipal new issuance should be rather light. Nuveen is tracking only eight new deals offering just $233 million in par value.

Investment grade corporate issuance totaled $536 billion in Q1, breaking last year's record.

In focus

The GIC lays out the fixed income landscape

In its 2025 second quarter outlook, Nuveen's Global Investment Committee (GIC), which brings together the most senior investors across our core and specialist capabilities, highlighted some of its best bond ideas.

The GIC notes that although interest rates have been slow to decline and inflation risks persist, the global macroeconomic backdrop favors fixed income. In the GIC's view, better relative value opportunities can be found through credit allocations rather than solely taking on duration risk.

Among the committee's best ideas:

Senior loans were among the top fixed income performers in 2024. They continue to offer yields topping 8% with minimal interest rate risk, and credit upgrades have outpaced downgrades. High yield corporates also merit consideration. While spreads are tight, fundamentals remain solid. Selectivity is critical for both asset classes, with the GIC preferring higher quality issuers.

Municipal bonds boast strong, stable credit quality. State and local governments feature healthy balance sheets and ample liquidity. Moreover, munis are backed by attractive supply/demand dynamics, and valuations look compelling.

In contrast, the GIC does not favor U.S. Treasuries (better opportunities elsewhere) and investment grade bonds (tight spreads, long duration). And while emerging markets debt has posted a gain this year, the asset class faces the potential headwinds of a strong dollar and trade wars.

U.S. Treasury market

		Change (%)		
Maturity	Yield	Week	Month-to-date	Year-to-date
2-year	3.91	-0.04	-0.08	-0.33
5-year	3.98	-0.02	-0.04	-0.40
10-year	4.25	0.00	0.04	-0.32
30-year	4.63	0.04	0.14	-0.15

Source: Bloomberg L.P., 28 Mar 2025. **Performance data shown represents past performance and does not predict or guarantee future results.**

Municipal market

		Change (%)		
Maturity	Yield to worst	Week	Month-to-date	Year-to-date
2-year	2.75	0.12	0.21	-0.07
5-year	2.93	0.13	0.30	0.06
10-year	3.30	0.17	0.44	0.24
30-year	4.28	0.12	0.35	0.38

Source: Bloomberg L.P., 28 Mar 2025. **Performance data shown represents past performance and does not predict or guarantee future results.**

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	77
30-year AAA Municipal vs Treasury	92
High Yield Municipal vs High Yield Corporate	73

Source: Bloomberg L.P., Thompson Reuters, 28 Mar 2025. 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	Month-to-date	Year-to-date
Municipal	3.90	–	6.53	-0.90	-2.02	-0.55
High yield municipal	5.62	152[1]	7.17	-0.68	-1.57	0.42
Short duration high yield municipal[2]	5.36	231	3.92	-0.57	-0.96	0.77
Taxable municipal	5.01	67[3]	7.67	-0.27	-0.66	2.65
U.S. aggregate bond	4.62	35[3]	6.08	-0.04	-0.19	2.54
U.S. Treasury	4.14	–	5.90	0.02	-0.05	2.63
U.S. government related	4.67	50[3]	5.29	-0.09	-0.10	2.41
U.S. corporate investment grade	5.17	93[3]	6.86	-0.21	-0.50	2.09
U.S. mortgage-backed securities	4.94	35[3]	5.98	0.01	-0.19	2.87
U.S. commercial mortgage-backed securities	4.90	86[3]	4.06	0.18	0.17	2.47
U.S. asset-backed securities	4.60	59[3]	2.64	0.03	0.15	1.45
Preferred securities	6.40	183[3]	5.22	-0.63	-0.91	0.82
High yield 2% issuer capped	7.72	340[3]	3.07	-0.44	-0.95	1.08
Senior loans[4]	8.56	490	0.25	0.16	-0.14	0.73
Collateralized loan obligations, AA	5.71	187[3]	0.25	0.23	0.06	1.00
Collateralized loan obligations, BB	11.57	734[3]	0.25	-0.54	-1.48	0.72
Global emerging markets	6.53	232[3]	5.97	-0.27	-0.43	2.26
Global aggregate (unhedged)	3.64	34[3]	6.51	0.03	0.51	2.53

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, 28 Mar 2025. **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:** The Bond Buyer, 28 Mar 2025. **Fund flows:** Lipper. **New deals:** Market Insight, MMA Research, 26 Mar 2025.

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.

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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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