

16 June 2025

Bond markets rise despite geopolitical tensions

U.S. Treasury yields declined last week, pulling other fixed income sectors higher, as moderating U.S. core inflation data and strong technical demand offset concerns about rising oil prices.

HIGHLIGHTS

- **Treasuries, investment grade and high yield corporates, MBS, preferreds, senior loans and emerging markets all gained.**
- **Municipal bond yields ended the week lower. New issue supply was \$17.5B, and fund inflows were \$523M. This week's new issuance is light at \$6.9B.**



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OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES.

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Watchlist

- *Treasury yields moved lower, and we continue to expect elevated volatility, a wider trading band and a modest rally from current levels.*
- *Spread sectors benefited from the move lower in rates but generally underperformed Treasuries.*
- *We expect the technical environment for municipal bonds to improve as the year progresses.*

INVESTMENT VIEWS

We believe fixed income **yields generally present one of the best entry points in a generation**, creating attractive income opportunities.

Downside economic risks are material, despite strong fundamentals, with tariffs likely to compress consumer spending and weigh on business fixed investment. 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 CORPORATE INFLOWS SLOW

U.S. Treasury yields declined last week, with the 10-year yield falling -11 basis points (bps) to 4.40% and the 2-year dropping -9 bps. The rally was primarily driven by encouraging inflation data, as May's core consumer prices showed continued moderation. Notable improvements included shelter costs returning to pre-pandemic levels and stable core goods prices, despite potential upward pressure from upcoming tariffs. The 0.1% increase in core prices brought the three-month annualized rate down to 1.7%, while the year-over-year rate held steady at 2.8%. However, geopolitical tensions between Israel and Iran sparked a 13% surge in WTI crude oil prices on Friday, pushing inflation expectations and interest rates higher. Markets found additional support from robust demand at the Treasury's 10- and 30-year bond auctions, alleviating concerns about deficit financing amid ongoing Congressional fiscal discussions.

Investment grade corporates gained, returning 0.66% for the week, though the asset class slightly underperformed similar-duration Treasuries by -2 bps. Spreads were flat overall. Inflows slowed, with only \$2.7 billion entering the market, around \$2 billion less than in recent weeks. However, new issuance was also lighter than expected, with just under \$22 billion pricing. Those deals continued the recent theme of a very robust investor appetite, with oversubscription rates of 5x on average and new issue concessions of just 1.4 bps.

High yield corporates advanced again, returning 0.15%, though they lagged similar-duration Treasuries by -22 bps. Senior loans returned 0.01%. Spreads in both asset classes widened, by 8 bps in high yield and 5 bps in loans. Nevertheless, both asset classes continued to experience healthy inflows, totaling \$1.1 billion and \$354 million across high yield and loans, respectively. New issuance was steady as well, totaling \$2.6 billion in high yield and \$14.2 billion in loans.

Emerging markets also gained, returning 0.46%. However, similar to U.S. markets, spreads generally widened, and the asset class underperformed similar-duration Treasuries by 16 bps. Spreads widened across investment grade and high yield, though higher oil prices will likely support certain countries that are large oil exporters. Technicals remained supportive, with inflows totaling \$738 million. New issuance was slightly slow, totaling \$2.2 billion.

MUNI BOND SUPPLY/DEMAND BALANCE REMAINS FAVORABLE

Municipal bond yields moved lower last week, with short-term maturities declining -4 bps and longer-dated bonds falling -2 bps. Despite elevated new issuance, the market demonstrated continued strength. It was supported by the seventh consecutive week of positive fund flows, including \$329 million into exchange-traded funds.

The market's supply/demand dynamics remain balanced, bolstered by substantial reinvestment capital of approximately \$140 billion available through 01 August. While recent weeks saw significant new issue volume successfully absorbed, this week's calendar is notably lighter due to Wednesday's U.S. Federal Reserve meeting and Thursday's market closure for the U.S. Juneteenth holiday.

The municipal market continues to exhibit resilience, as the substantial recent supply has been met with steady demand. The lighter calendar ahead should provide an opportunity for dealers to clean up remaining positions.

The state of Maryland issued four competitive deals totaling over \$1.5 billion (rated Aa1/AAA). Though these offerings saw general market acceptance, some unsold balances persist. Dealers maintain an optimistic outlook for placing remaining inventory, particularly given this week's reduced supply.

High yield municipal bonds strengthened last week, with yields declining -4 bps to 5.84% on average. While fund inflows moderated to \$138 million, they remained positive. Looking ahead, the light new issue calendar and improving technical factors suggest further market tightening in the coming weeks.

Robust investor demand and a \$140 billion reinvestment cushion absorb heavy muni bond supply.

In focus

Muni bonds offer fresh opportunities

The municipal bond market has experienced continued yield curve steepening in 2025, creating attractive entry points for investors. While shorter-term yields have slightly declined, longer-dated maturities (8+ years) have seen proportional yield increases, presenting strategic opportunities in the current market environment.

Despite higher long-term yields, municipal fundamentals remain strong, with growing tax collections and improved financial positions compared to pre-pandemic levels. The yield increases are primarily attributed to technical factors, including record-breaking issuance (up +12% year-over-year) and seasonally low demand from reinvestment flows and April tax-related selling. However, demand is expected to strengthen as summer approaches, driven by attractive yield levels and increased reinvestment flows.

This market dynamic creates compelling opportunities for investors looking to deploy cash or shift from taxable alternatives. Municipal yield ratios versus Treasuries are elevated, indicating relative value, while investment grade absolute yields are at the 97th percentile compared to 10-year trailing averages.* The steep, positive yield curve structure offers additional compensation for extending duration, making it an opportune time for investors to consider putting cash to work in the municipal market.

*Data source: Bloomberg, L.P., 09 Jun 2025, as measured by the ICE BofA U.S. Municipal Securities Index.

U.S. Treasury market

Maturity	Change (%)			
	Yield	Week	Month-to-date	Year-to-date
2-year	3.95	-0.09	0.05	-0.29
5-year	4.00	-0.12	0.04	-0.38
10-year	4.40	-0.11	0.00	-0.17
30-year	4.90	-0.08	-0.04	0.11

Source: Bloomberg L.P., 13 Jun 2025. Performance data shown represents past performance and does not predict or guarantee future results.

Municipal market

Maturity	Change (%)			
	Yield to worst	Week	Month-to-date	Year-to-date
2-year	2.66	-0.04	-0.11	-0.16
5-year	2.75	-0.04	-0.09	-0.12
10-year	3.32	-0.02	-0.01	0.26
30-year	4.54	-0.02	0.02	0.64

Source: Bloomberg L.P., 13 Jun 2025. Performance data shown represents past performance and does not predict or guarantee future results.

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	75
30-year AAA Municipal vs Treasury	93
High Yield Municipal vs High Yield Corporate	79

Source: Bloomberg L.P., Thompson Reuters, 13 Jun 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.

For more information, please visit nuveen.com.

Performance: Bloomberg, L.P. Issuance: The Bond Buyer, 13 Jun 2025. Fund flows: Lipper. New deals: Market Insight, MMA Research, 11 Jun 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 ERIISA-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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Characteristics and returns

Index	Yield to worst (%)	Spread (bps)	Effective duration (years)	Returns (%)		
				Week	Month-to-date	Year-to-date
Municipal	4.02	—	6.76	0.25	0.16	-0.80
High yield municipal	5.84	154 ¹	7.52	0.29	0.11	-0.80
Short duration high yield municipal ²	5.50	255	3.89	0.30	0.42	1.57
Taxable municipal	5.19	69 ³	7.67	0.84	0.43	2.07
U.S. aggregate bond	4.71	33 ³	6.09	0.67	0.23	2.69
U.S. Treasury	4.23	—	5.87	0.58	0.06	2.57
U.S. government related	4.69	44 ³	5.33	0.61	0.30	3.17
U.S. corporate investment grade	5.20	85 ³	6.79	0.66	0.42	2.70
U.S. mortgage-backed securities	5.13	39 ³	6.15	0.88	0.36	2.78
U.S. commercial mortgage-backed securities	4.91	84 ³	3.97	0.55	0.14	3.38
U.S. asset-backed securities	4.61	57 ³	2.60	0.29	0.17	2.22
Preferred securities	6.48	183 ³	5.36	0.11	0.56	1.29
High yield 2% issuer capped	7.42	308 ³	2.99	0.15	0.47	3.17
Senior loans ⁴	8.34	471	0.25	0.01	0.14	2.29
Collateralized loan obligations, AA	5.42	134 ³	0.25	0.11	0.23	2.60
Collateralized loan obligations, BB	10.65	665 ³	0.25	0.17	0.40	3.88
Global emerging markets	6.49	218 ³	5.95	0.46	0.66	3.66
Global aggregate (unhedged)	3.58	33 ³	6.56	0.81	0.73	6.05

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, 13 Jun 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.

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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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