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GLOBAL FIXED INCOME

# Beyond income

## Resiliency, liquidity and alpha potential in the U.S. senior loan market

**U.S. senior loans, also known as broadly syndicated loans, floating rate loans or bank loans, have re-emerged as a compelling allocation within fixed income portfolios. In a market environment defined by elevated interest rates, persistent macro uncertainty, and growing dispersion across credit, the $1.5 trillion asset class[1] offers a combination of attractive income, minimal duration risk and structural resilience.**

**Unlike traditional fixed-rate bonds, senior loans provide floating-rate exposure, allowing investors to benefit from higher short-term rates while mitigating interest rate sensitivity. At the same time, their senior secured position in the capital structure and historically strong recovery rates have supported performance across market cycles.**

**Importantly, this is no longer a market where investors can simply own beta and expect the index to do the work. Rising dispersion across issuers and sectors is creating a more attractive backdrop for active management, where security selection is playing a larger role in outcomes. Because senior loans trade in a liquid and active secondary market, managers are well positioned to capitalize on dislocations and express relative value views in real time.**

In a market of elevated rates and rising credit dispersion, U.S. senior loans look to offer high income, near-zero duration and structural downside protection. With growing issuer divergence, active management becomes key to unlocking resilient income, liquidity and alpha.

# 1. Senior loans

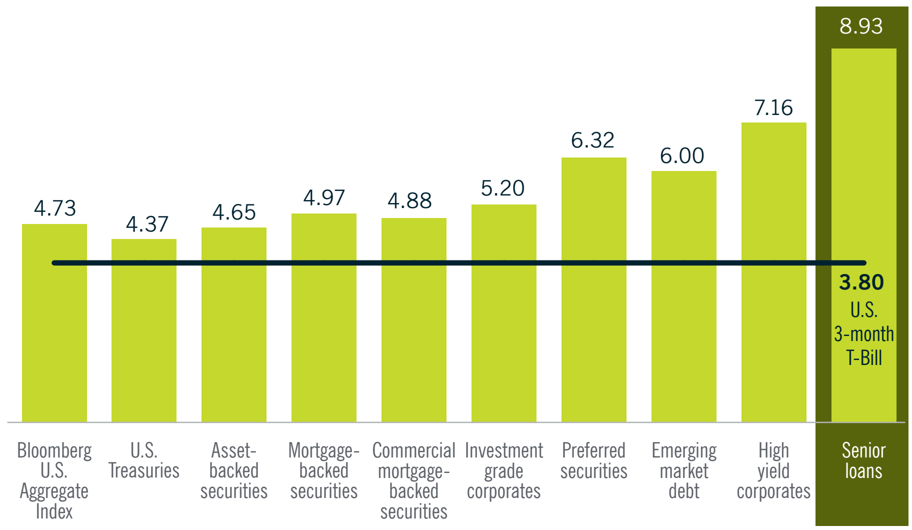
## Resilient income through market cycles

Senior loans have demonstrated resilience across market cycles, driven by their high-income profile and floating-rate structure, which results in near-zero duration. Together, these characteristics produce lower interest rate sensitivity than traditional fixed income, allowing loans to generate consistent income while helping to mitigate the impact of market and rate volatility.

High levels of income are a central pillar of that resilience. While loans may experience some price movement reflecting their below-investment-grade issuer base, they are backed by underlying collateral and generate some of the highest income across public fixed income today. In today's environment, base rates are expected to remain higher-for-longer, supporting yields well above the near-zero rate environment experienced after the Great Financial Crisis (GFC) and during COVID. Long-term average spreads of 400+ basis points, together with elevated short-end rates, support a current yield of 8.93% and reinforce the durability of loan income.

Despite widely held perceptions that senior loans are largely a tactical expression of rising-rate views, their historical value has been broader than that. The asset class has shown resilience across a range of policy regimes, supported not only by its floating-rate structure but also by its high level of income. The U.S. loan market has generated positive total returns in 26 of the last 29 years (Figure 2). Even in 2022, when aggressive rate hikes created one

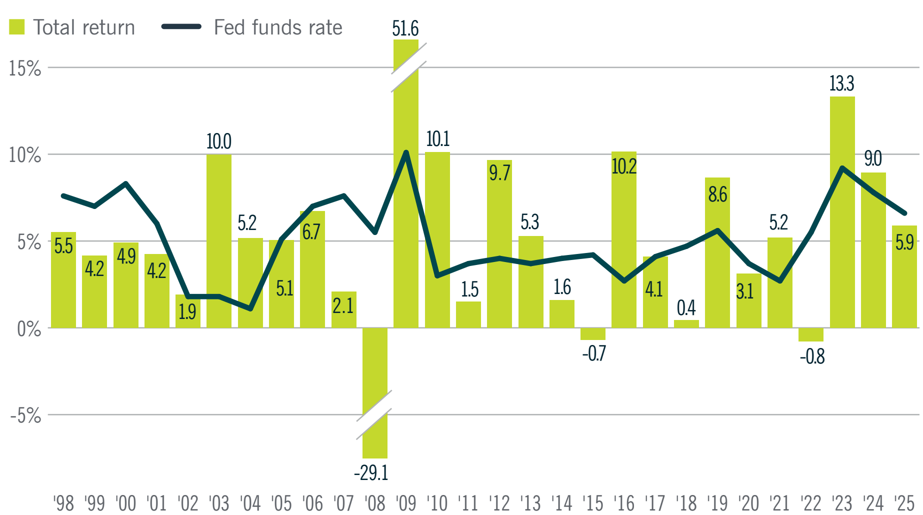
**Figure 1: U.S. loans remain one of the highest yielding asset classes in public fixed income (%)**




Data source: Bloomberg LP; Nuveen. 30 Jun 2026; Credit Suisse. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indices: U.S. Treasuries:** Bloomberg U.S. Treasury Index; **ABS:** Bloomberg Asset-Backed Securities Index; **MBS:** Bloomberg U.S. Mortgage-Backed Securities Index; **CMBS:** Bloomberg Commercial Mortgage-Backed Securities Index; **Investment grade corporates:** Bloomberg U.S. Corporate Investment Grade Index; **Preferred securities:** ICE BofA U.S. All Capital Securities Index; **Emerging market debt:** Bloomberg Emerging Market USD Aggregate Index; **High yield corporates:** Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index; **Senior loans:** Credit Suisse Leveraged Loan Index. **Past performance is no guarantee of future results. It is not possible to invest directly in an index.**

**Figure 2: Historically positive total returns, even when NAVs fluctuate**

*Morningstar LSTA Index annual returns and fed funds rate (%)*




Data source: Morningstar LSTA Index, 31 Dec 2025. Performance data shown represents past performance and does not predict or guarantee future results. **It is not possible to invest directly in an index.**

of the most challenging years for fixed income in recent history, loans declined less than 1%, compared to roughly 13% for the broader Aggregate Bond Index. Loans have also delivered positive returns during periods of rate cuts, underscoring that their role in portfolios extends beyond simply benefiting from higher short-term rates.

# 2. A more nuanced market

## Dispersion is paving the way for alpha

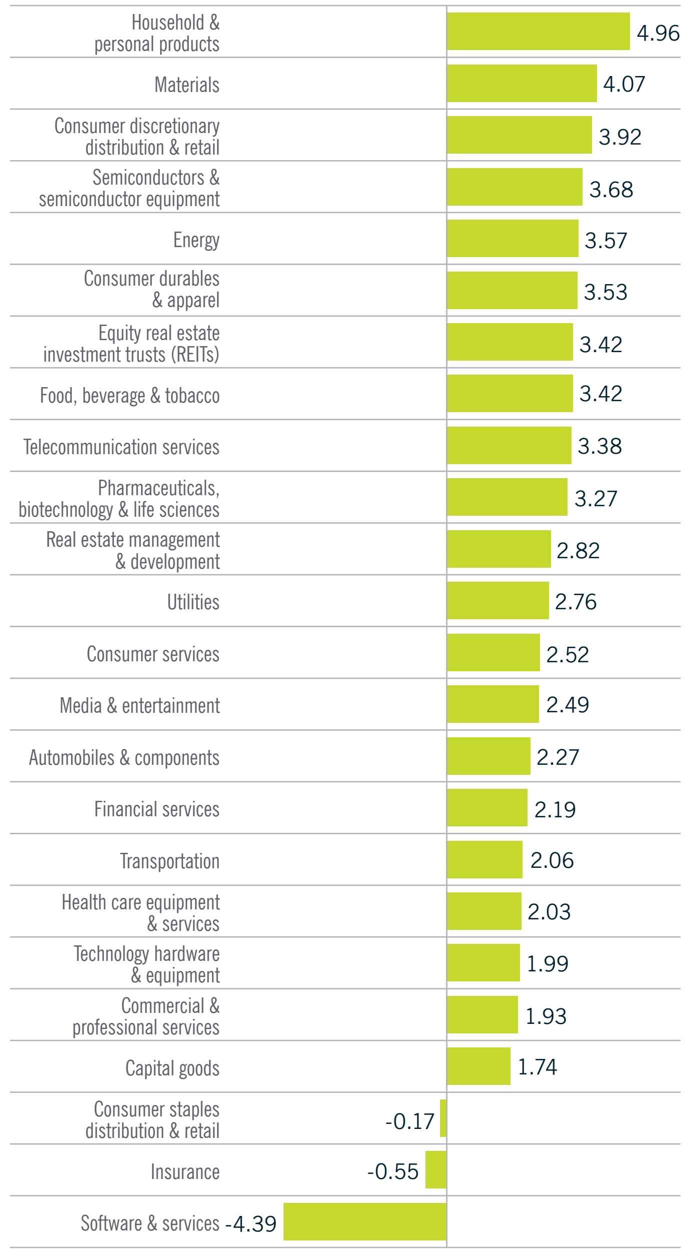
In the post-zero-rate environment, credit markets are undergoing a meaningful shift. The era of broadly synchronized performance is giving way to increased dispersion across issuers, sectors and capital structures. Key drivers include higher borrowing costs impacting issuers unevenly and sector-specific pressures such as AI disruption and elevated energy costs. As a result, the gap between outperforming and underperforming credits has widened considerably.

The rate hiking cycle that began in 2022 created a meaningful stress test across leveraged credit. Higher-for-longer rates exposed weaker balance sheets while stronger issuers held up. Defaults rose as that pressure worked through the system leveled off in 2025 before beginning to re-emerge as new risks build — particularly from geopolitical uncertainty and AI-driven disruption.

Dispersion is no longer confined to broad market moves. It is increasingly evident across industries, credit quality and pricing. Year-to-date, the performance gap between the top- and bottom-performing industries has widened to more than 750 basis points, reinforcing that outcomes are increasingly driven by idiosyncratic factors rather than broad market beta.

Dispersion is also showing up in the distribution of loan prices. As of June 30, 2026, loans trading at $80 or below represented 6.87% of the market, or roughly $95 billion, compared with a 10-year average of 3.94% (Figure 4). This segment generally reflects credits the market views as deeply challenged, so selectivity is critical. Still, the elevated size of the below-$80 cohort suggests there may be instances where prices have fallen further than fundamentals warrant. Meanwhile, only 21.72% of loans were trading at $100 or above, below the 10-year average of 29.23%, suggesting that the broader repricing has reduced

**Figure 3: Wide performance gap emerges across industries (%)**



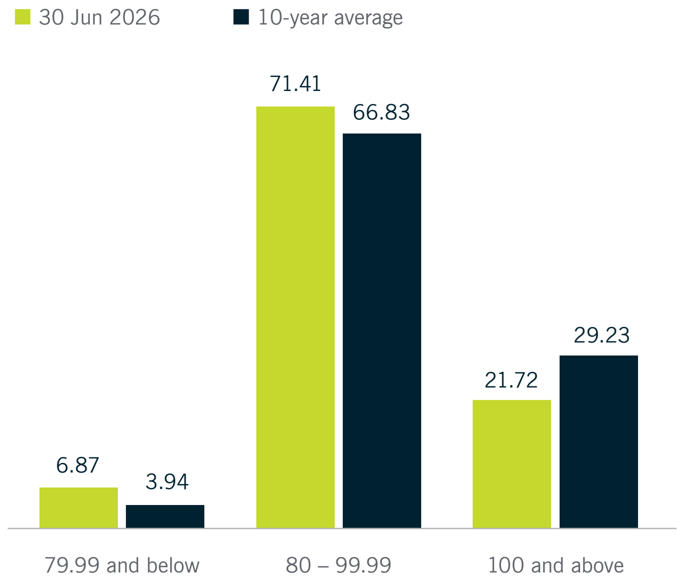

Data source: PitchBook LCD as of 30 Jun 2026.

the share of loans trading near full value. For active managers, that matters because it expands the opportunity set beyond distressed credits alone, creating room to identify higher-quality issuers trading at discounts as well as select stressed credits with recovery potential.

Periods of market volatility have added another layer to this dynamic. Drawdowns have been relatively short-lived, with prices recovering quickly, though not uniformly across credit quality (Figure 5). What makes the current moment notable is that B/CCC-rated loan prices are approaching levels last seen during COVID. Historically, deeply discounted starting prices have often been a strong forward indicator of total return potential, as elevated income is paired with the possibility of price recovery when market stress begins to normalize.

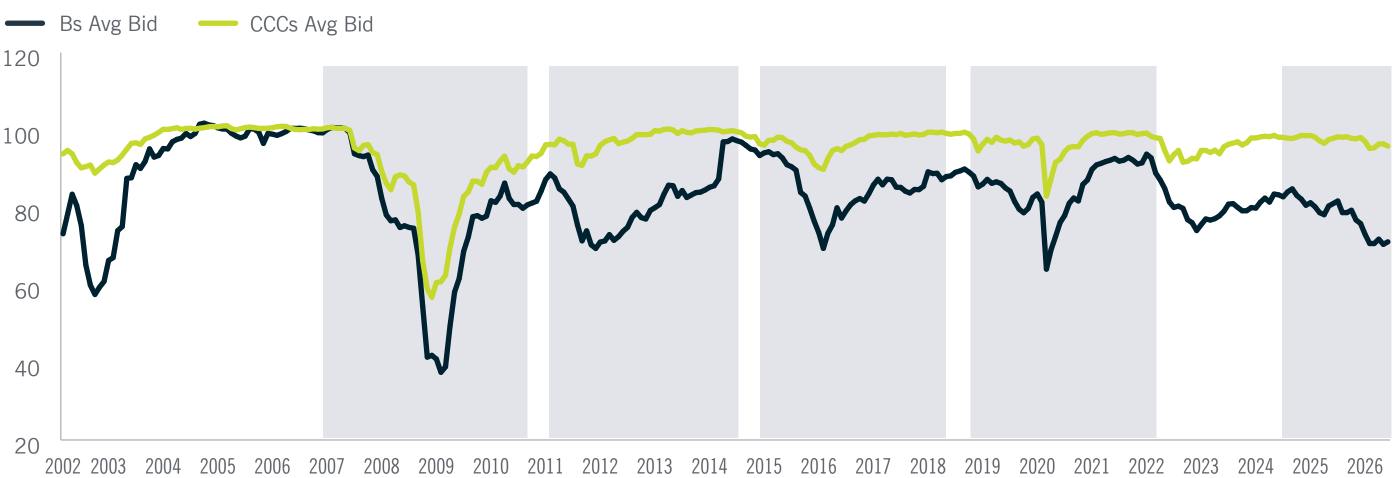
The takeaway is straightforward: this is not a beta-driven market. Increased dispersion is creating a more attractive backdrop for active credit selection, and outcomes are increasingly idiosyncratic. Credit selection and active management will be the primary drivers of outperformance.

**Figure 4: Quality divergence drives elevated price dispersion (%)**




Data source: PitchBook LCD as of 30 Jun 2026.

**Figure 5: B and CCC loan price recovery**




Data source: PitchBook LCD as of 30 Jun 2026.

# 3. Liquidity advantage

## The ability to capture yield and alpha

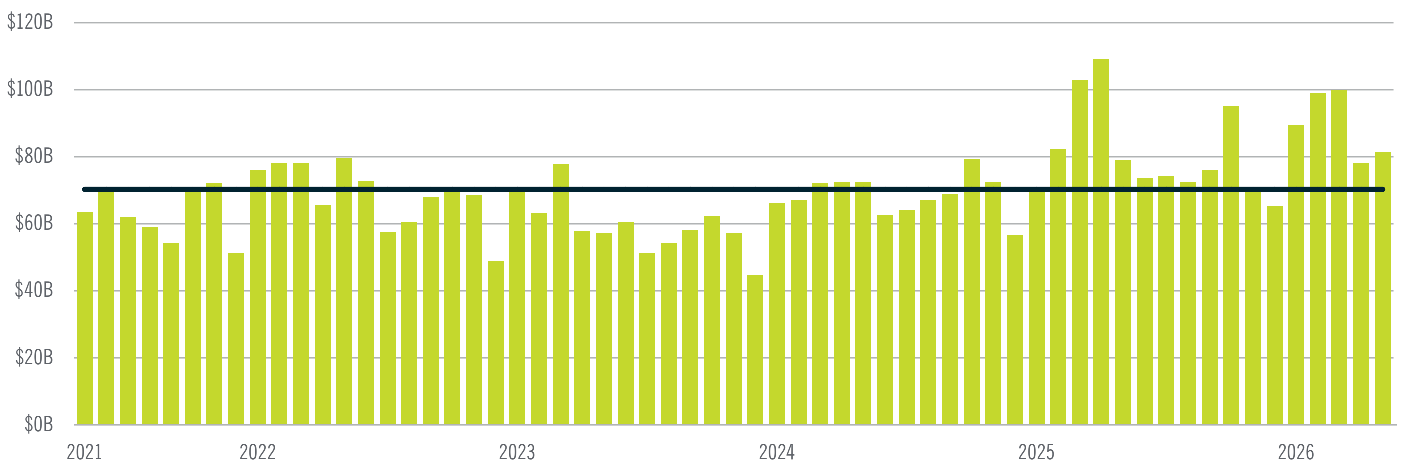
Liquidity adds another dimension to the asset class's appeal. Loans trade actively on the secondary market, with average monthly trading volume of approximately $70 billion over the past five years (Figure 6). Funds that invest in loans can offer daily or weekly liquidity to underlying investors. This matters for two key reasons: it facilitates active portfolio management, allowing managers to trade positions for risk mitigation or return-seeking purposes, and it benefits end investors directly by providing access to senior secured corporate credit exposure in a liquid format, while preserving the flexibility to express asset allocation and relative value views in real time.

This liquidity is facilitated by transparent pricing and multiple dealers actively trading each loan, enabling continuous price discovery. As a result, portfolios can be repositioned as conditions evolve, and managers are able to take advantage of dislocations proactively rather than reacting to lagged valuations.

It is also worth noting how broadly syndicated loans compare to private credit in this regard. Broadly syndicated loans (BSLs) can complement private credit allocations because of their liquidity profile. Investors gain exposure to a similar part of the capital structure, but with the added benefits of real-time pricing, a deep secondary market and the flexibility to act quickly as opportunities arise. BSLs are also generally issued by larger, more established companies, often in the $500 million to $1 billion EBITDA range, providing access to a different and broader segment of the credit universe than is typically available in private markets, where issuers are often smaller.

**Figure 6: Active secondary market drives consistent loan liquidity**

*Loan liquidity monthly trade volume ($ billions)*




Data source: Loan Syndications and Trading Association (LSTA) as of 31 May 2026

## Why now?

**Continued market volatility underscores the importance of portfolio diversification through alternative income-generating assets and senior loans present a compelling entry point for several reasons:**

- Elevated all-in yields relative to long-term averages
- Strong starting income providing a cushion against volatility
- Persistent macro and rate uncertainty reinforcing the value of floating-rate exposure
- Rising dispersion creating a favorable backdrop for active management

Taken together, these factors create a rare combination of income generation and alpha potential within a liquid structure. Within a diversified portfolio, senior loans can play a distinct and valuable role for investors seeking high income without duration risk. Their floating-rate structure produces low duration, reducing exposure to rate volatility relative to traditional fixed-rate bonds, while their senior secured position in the capital structure provides a meaningful layer of downside protection relative to equities. Senior loans are not simply a tactical allocation. They are an increasingly important strategic component of a diversified portfolio, offering the potential for both stable income and selective outperformance.

**For more information, please visit nuveen.com.**

**Endnotes**

1 Data source: PitchBook LCD as of 30 Jun 2026.

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