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Weekly Fixed Income Commentary

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Treasury yields rise amid support for risk assets

U.S. Treasury rates closed higher last week, led by longer maturities. A constructive market tone lifted rates and supported risk assets. Prospects for additional fiscal stimulus prior to the U.S. election dimmed, but rates rose nonetheless as the yield curve steepened. The move higher pushed long Treasury yields above the recent range that has been in place since mid-August.

HIGHLIGHTS

- **Preferred securities, high yield corporates and senior loans performed best.**
- **The municipal bond market remained range bound, ending the week on a constructive tone.**
- **The global aggregate index posted a positive weekly total return, based on strength in both Europe and Asia.**

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TREASURY YIELDS RISE WITH POSITIVE RISK SENTIMENT

U.S. Treasury rates rose last week, led by longer maturities. A constructive market tone methodically lifted rates and supported risk assets. Investors were focused on negotiations for another fiscal aid package. Prospects for additional fiscal stimulus prior to the election dimmed, but rates rose nonetheless as the yield curve steepened. The move higher pushed long Treasury yields above the range that has been in place since mid-August.

Short rates remain well-anchored, as evidenced by the 2-year Treasury's narrow 4 basis point (bps) closing range over the last 10 weeks. However, the shape of the Treasury curve has been less stable and has steepened considerably, bringing the difference between 30- and the 5-year yields to the highest level since 2016. Speculation about increasing Treasury supply propelled long rates higher.

Non-Treasury sectors enjoyed a risk-friendly market tone, with most sectors outperforming Treasuries. Preferred securities, high yield corporates and senior loans performed best, all delivering positive returns despite rising base yields. Higher quality, longer duration sectors struggled to overcome the effect of higher long maturity yields. In the U.S., taxable municipals suffered the lowest returns, followed by investment grade corporates and government-related securities. Emerging markets struggled last week and underperformed even U.S. Treasury markets. The global aggregate index posted a positive weekly total return, based on strength in both Europe and Asia.

MUNICIPAL DEMAND DRIVEN BY THE STEEP YIELD CURVE

The municipal bond market remained range bound last week. New issue supply totaled $22 billion ($11 billion taxable) and was priced to sell. Fund flows were positive for the third straight week at $607 million. This week's new issue supply should be outsized again at $15.6 billion ($5.9 taxable).

Given the steepness of the yield curve, investors are seeing buying opportunities. The demand for longer maturities should continue for the foreseeable future, as the Federal Reserve (Fed) indicates that rates will remain low until the economy has recovered. New issue municipal supply will likely be outsized through the end of the year, but the steep yield curve should support robust demand. We would view any sell off in municipal bonds as a potential buying opportunity.

The Alabama Public School and College Authority sold $1.2 billion of capital improvement and refunding bonds (rated Aa1/AA). The deal was priced to sell and well received, driven primarily by price. The 10-year bond was issued at a yield of 1.19%, substantially cheaper than the taxable U.S. Treasury bond trading at around 80 bps.

High yield municipal fund flows were positive once again last week. Investors still appear to lack confidence in the direction of the market, making relative value opportunities possible. More than 20 high yield municipal deals are expected this week, including a third attempt for Brightline West after further improvements to the deal's structure. In addition, ten land development, five charter schools, five senior living and two higher education deals are coming.

New issue municipal supply will likely be outsized through the end of the year.

HIGH YIELD CORPORATE MARKET IS IN A HOLDING PATTERN PRIOR TO THE U.S. ELECTION

A slight gain for high yield corporate bonds helped place them among last week's top performers. The high yield market appeared to be in a holding pattern, with the prospect of a fiscal relief deal before the election all but quashed. Technicals remained positive but muted. Fund inflows were a modest $151 million, down from $2.2 billion the week before, and the new issue calendar quieted down. Secondary trading volumes have been below average, as investors wait to put cash to work at more attractive levels.

Investment grade corporates posted a loss, hurt by their long duration as 10- and 30-year Treasury yields jumped by 10 and 11 bps, respectively. Secondary flows pointed to investors selling roughly $2 billion in investment grade securities, skewed heavily toward 30-year paper. In spite of this, corporate spreads tightened marginally (-2 bps) for the week, to their narrowest level since the end of February. Activity in both the primary and secondary markets was relatively subdued.

Local currency-denominated markets outperformed amid broad U.S.-dollar weakness.

Emerging markets (EM) debt recorded its worst week since late September, with exhaustion over fiscal stimulus headlines taking a toll. Inflows of $1.1 billion helped absorb some of last week's roughly $2 billion in new supply, all of which was high yield rated. Local currency-denominated markets outperformed amid broad U.S. dollar weakness.

In focus

Treasury yields should remain low as Fed leaves rate path unchanged

Treasury yields have fallen precipitously this year and all major benchmark maturities touched record lows. Shorter maturities led the way, with the 2-year yield falling more than 140 bps, while the 10-year Treasury is down more than 100 bps.

Market yields followed monetary policy rates lower in March, when the Fed cut the fed funds target rate by 150 bps to 0%–0.25%. Economic projections of Fed members released on 16 September show the policy rate path should remain at this level through at least the end of 2023.

With the Fed committed to leaving the fed funds rate at the lower bound, we expect the short end of the yield curve to remain fairly well anchored. However, we believe longer Treasury rates may move marginally higher next year. Funding an additional fiscal stimulus package would led to increased issuance. These rate shifts would result in a steeper yield curve.

We anticipate that any increase in rates will be modest, as relatively attractive U.S. rates keep global demand for Treasuries strong. Any sharp rate increases that affect financial conditions would compel the Fed to adjust its purchase program to contain any rise in longer-term yields.

U.S. Treasury market

		Change (%)		
Maturity	Yield	Week	Month-to-date	Year-to-date
2-year	0.16	0.01	0.03	-1.42
5-year	0.38	0.06	0.10	-1.32
10-year	0.84	0.10	0.16	-1.08
30-year	1.64	0.11	0.19	-0.75

Source: Bloomberg L.P. As of 23 Oct 2020. **Past performance is no guarantee of future results.**

Municipal market

		Change (%)		
Maturity	Yield to Worst	Week	Month-to-date	Year-to-date
2-year	0.18	0.02	-0.05	-0.86
5-year	0.28	0.00	-0.02	-0.81
10-year	0.96	0.02	-0.09	-0.48
30-year	1.74	0.02	-0.12	-0.35

Source: Bloomberg L.P. As of 23 Oct 2020. **Past performance is no guarantee of future results.**

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	113
30-year AAA Municipal vs Treasury	106
High Yield Municipal vs High Yield Corporate	86

Source: Bloomberg L.P., Thompson Reuters. As of 23 Oct 2020. AAA municipals represented by the MMD scale. The high yield ratio equals the yield-to-worst for the Bloomberg Barclays High Yield Municipal Index divided by the yield-to-worst for the Bloomberg Barclays High Yield Corporate Index. **Past performance is no guarantee of future results.**

Characteristics and returns

				Returns (%)		
Index	Yield to Worst (%)	Spread (bps)	Effective Duration (years)	Week	Month-to-date	Year-to-date
Municipal	1.41	–	5.64	-0.07	-0.39	2.93
High Yield Municipal	4.58	308[1]	9.22	-0.10	0.02	0.39
Short Duration High Yield Municipal[2]	4.24	367	4.12	0.00	0.05	0.65
Taxable Municipal	2.34	140[3]	10.05	-0.81	-1.32	7.52
U.S. Aggregate Bond	1.24	55[3]	6.15	-0.42	-0.41	6.36
U.S. Treasury	0.58	–	7.16	-0.59	-0.98	7.83
U.S. Government Related	1.17	62[3]	5.92	-0.52	-0.32	4.62
U.S. Corporate Investment Grade	2.00	123[3]	8.67	-0.54	0.05	6.69
U.S. Mortgage-Backed Securities	1.37	55[3]	2.37	-0.06	-0.10	3.52
U.S. Commercial Mortgage-Backed Securities	1.51	103[3]	5.29	-0.25	-0.37	6.59
U.S. Asset-Backed Securities	0.55	39[3]	2.13	-0.04	-0.01	4.13
Preferred Securities	2.81	203[3]	4.18	0.34	1.47	3.79
High Yield 2% Issuer Capped	5.35	469[3]	3.66	0.16	1.57	2.15
Senior Loans[4]	5.87	562	0.25	0.16	0.68	-0.15
Global Emerging Markets	4.01	332[3]	6.74	-0.60	0.40	2.33
Global Aggregate (unhedged)	0.92	46[3]	7.38	0.07	0.53	6.28

1 Yield difference between the Bloomberg Barclays 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 Credit Suisse. As of 23 Oct 2020. **Past performance is no guarantee of future results.** Unless otherwise noted, the index is Bloomberg Barclays. 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. All indexes are unmanaged and unavailable for direct investment.

For more information, please visit nuveen.com.

Performance: Bloomberg, L.P. **Issuance:** The Bond Buyer, 23 Oct 2020. **Fund flows:** Lipper. **New deals:** Market Insight, MMA Research, 21 Oct 2020.

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.

Bloomberg Barclays Municipal Index covers the USD-denominated tax-exempt bond market. **Bloomberg Barclays High Yield Municipal Index** covers the USD-denominated, below investment grade tax-exempt bond market. **S&P Short Duration Municipal Yield Index** tracks the municipal bond market with maturities from 1 to 12 years. **Bloomberg Barclays Taxable Municipal Bond Index** is a rules-based, market-value-weighted index engineered for the long-term taxable bond market. **Bloomberg Barclays U.S. Aggregate Bond Index** covers the U.S. investment grade fixed rate bond market. **Bloomberg Barclays U.S. Treasury Index** includes public obligations of the U.S. Treasury. **Bloomberg Barclays U.S. Government-Related Index** includes debt guaranteed, owned and sponsored by the U.S. government; it does not include debt directly issued by the U.S. government. **Bloomberg Barclays U.S. Corporate Index** is a broad-based benchmark that measures the investment grade, fixed-rate, taxable corporate bond market. **Bloomberg Barclays U.S. Mortgage-Backed Securities Index** is the MBS component of the U.S. Aggregate index and includes the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). **Bloomberg Barclays CMBS ERISA-Eligible Index** is the CMBS component of the U.S. Aggregate index and includes CMBS investment grade securities that are ERISA eligible under the underwriter's exemption. **Bloomberg Barclays Asset-Backed Securities Index** is the ABS component of the U.S. Aggregate index and includes credit and charge cards, autos and utilities. **ICE BofA U.S. All Capital Securities Index** is a subset of the BofA Merrill Lynch U.S. Corporate Index including all fixed-to-floating rate, perpetual callable and capital securities. **Bloomberg Barclays High Yield 2% Issuer Capped Index** measures the market of USD-denominated, non-investment grade bonds and limits each issue to 2% of the index. The **Credit Suisse Leveraged Loan Index** is designed to mirror the investable universe of the U.S. dollar-denominated leveraged loan market. Loans are added to the index if they qualify according to the following criteria: The highest Moody's/S&P ratings are Ba1/BBB+, only funded term loans are included, and the tenor must be at least one year. **Bloomberg Barclays Emerging Market USD Aggregate Index** is a flagship hard currency Emerging Markets debt benchmark that includes USD denominated debt from sovereign, quasi-sovereign, and corporate EM issuers. **Bloomberg Barclays Global Aggregate Unhedged Index** measures the performance of global bonds. It includes government, securitized and corporate sectors and does not hedge currency. One **basis point** equals .01%, or 100 basis points equal 1%.

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A word 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. 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

Investors should contact a tax advisor 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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