nuveen
A TIAA Company

Weekly Fixed Income Commentary

9 November 2020

# Treasury yields decline as the U.S. election is closer than expected

*U.S. Treasury yields declined last week, led by longer maturities. Yields decreased and the yield curve flattened on Wednesday, as investors struggled to adjust to the tumultuous U.S. presidential election. While prospects for a large fiscal stimulus package dimmed as a result of what will likely be divided government, this did not damage a constructive market sentiment that persisted all week.*

## HIGHLIGHTS

- **High yield corporates led the way, followed by emerging markets and investment grade corporates.**
- **The municipal market rallied strongly.**
- **The global aggregate index enjoyed a strong week, as both European and Asian markets outpaced U.S. markets.**


**Anders Persson**
*CIO of Global Fixed Income*

**John Miller**
*Head of Municipals*

## U.S. ELECTION UNCERTAINTY SPARKS TREASURY YIELD VOLATILITY

**U.S. Treasury yields closed lower last week, led by long maturities.** Rates were volatile throughout the week. The largest move occurred on Wednesday, as rates fell and the yield curve flattened in reaction to closer-than-expected U.S. election results. As the likelihood of a divided government became clearer, prospects for a large fiscal stimulus package dimmed. This pushed Treasury yields lower, but did not damage the constructive market sentiment that persisted all week. The decline in yields withstood generally better-than-expected economic data and news that the Federal Reserve (Fed) left its asset purchase program unchanged.

**Despite the political uncertainty, non-Treasury sectors enjoyed an extremely strong week.** Most sectors outperformed Treasuries with solidly positive total returns. The highest risk sectors delivered the best performance. High yield corporates led the way, with a soaring weekly total return above 2%. Emerging markets and investment grade corporates followed, both posting returns above 1%. Senior loans bounced back from recent weakness, and the sector's positive weekly total return pulled its year-to-date return into positive territory as well. Only mortgage-backed (MBS) and asset-backed securities underperformed Treasuries, with MBS enduring a slightly negative total return for the week. That sector's weakness may have stemmed from disappointment that the Fed did not increase its purchases of MBS. The global aggregate sector enjoyed a strong week, as both European and Asian markets outpaced U.S. markets and lifted returns.

***The municipal market saw record new issuance in October at more than $70 billion, roughly divided between tax-exempt and taxable.***

## MUNICIPAL SUPPLY SHOULD INCREASE IN THE NEXT FEW WEEKS

**The municipal market rallied strongly last week.** New issue supply was muted at only $900 million, but it was well received. Fund flows were positive at $670 million. New issue supply is expected to be muted this week at $4.1 billion due to fallout from the U.S. election and limited Veterans Day trading.

**We believe the municipal market should remain solid for the rest of the year.** The Fed has signaled it will hold rates steady for the foreseeable future. The municipal market saw record new issuance in October at more than $70 billion, roughly divided between tax-exempt and taxable. November new issuance is currently on hiatus due to the election. We expect supply to pick up in the next few weeks, however, as outsized coupon reinvestment is right around the corner for December 1 and January 1. We would see any municipal sell off as a potential buying opportunity.

**Maine Turnpike Authority** issued $130 million revenue bonds (rated Aa3/AA-). These tax-exempt bonds were trading up 8 basis points (bps) in the secondary market, which compares well to taxable bonds. The 10-year high grade tax-exempt bond priced at a yield of 1.22%, versus the taxable U.S. Treasury bond at around 0.80%.

**The high yield municipal market responded favorably** to the idea of a more stable and status quo political environment, with increased prospects for an infrastructure package and possible stimulus spending. High yield municipal-to-Treasury ratios plunged at the end of week, leaving credit spreads even more attractive then they have been in recent weeks. Fund flows were negative for the week. The new issue calendar remains light, as expected. Many deals were pulled forward ahead of the election to avoid adverse outcomes that did not materialize.

## POST-ELECTION RISK RALLY IS LED BY HIGH YIELD CORPORATE BONDS

**High yield corporates led all fixed income sectors,** producing their best one-week performance since early June. Spreads narrowed by 67 bps to pre-pandemic levels. Nearly half of high yield bonds – a greater percentage than in January – now yield less than 4%. Last week's gains were realized across all quality tiers, with lower-rated (CCCs) outperforming modestly. While returns for the asset class were positive, outflows from high yield funds exceeded $2 billion for the second week in a row.

**Investment grade corporate bonds posted their largest weekly gain** since before Memorial Day. In the absence of a blue wave election outcome, markets focused on the potential upside of a divided Congress, particularly the prospect of business-friendlier tax policies. Spreads were 8 bps tighter on the week, narrowing to levels last seen in late February. Investment grade funds experienced outflows (-$1.58 billion) for the first time since April.

***Nearly half of high yield bonds now yield less than 4%.***

**Emerging markets (EM) debt rebounded** from two weeks of losses. Even with no presidential winner declared by the end of the week, simply having the election in the market's rear view mirror was enough to spark buying. EM fund flows remained positive (+$1.2 billion), and spreads tightened by 16 bps. All EM segments participated in the week's rally, with local-currency issues outperforming U.S. dollar-denominated debt as the dollar fell sharply against EM currencies.

*In focus*

# No blue wave, but Biden wins the White House

*Joe Biden is now the presumptive President Elect. Down the ballot, many Republican candidates outperformed expectations. Democrats saw their majority shrink in the House, while Republicans could ultimately keep control of the Senate, pending two Georgia run-off elections in January.*

Polling models, which aggregate and analyze poll data from multiple sources, had confidently predicted a Biden win, with some putting the odds as high as 90%-95%, allowing for a healthy margin of error if the polls comprising the models ended up being far off the mark. In states such as Wisconsin and Michigan, the polls were off to a historic degree, although Biden still prevailed. In others, like Arizona and Georgia, polls were on the money.

A new concern for investors is the risk that an expected fiscal relief bill, whether passed in the lame duck session or early next year, will be smaller than hoped for due to a divided Congress. From the bond market's perspective, that's not necessarily a bad thing:  U.S. Treasuries rallied last week, as scaled-back stimulus expectations softened the outlook for growth and inflation. The 10-year yield fell from 0.90% on Election Day to 0.79% on Thursday, before recouping about half that decline on Friday in the wake of October's strong jobs report.

## U.S. Treasury market

| | | Change (%) | | |
|---|---|---|---|---|
| Maturity | Yield | Week | Month-to-date | Year-to-date |
| 2-year | 0.15 | 0.00 | 0.00 | -1.42 |
| 5-year | 0.36 | -0.02 | -0.02 | -1.33 |
| 10-year | 0.82 | -0.06 | -0.06 | -1.10 |
| 30-year | 1.60 | -0.06 | -0.06 | -0.79 |

Source: Bloomberg L.P. As of 06 Nov 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 | 0.19 | -0.02 | -0.02 | -0.85 |
| 5-year | 0.27 | -0.03 | -0.03 | -0.82 |
| 10-year | 0.81 | -0.12 | -0.12 | -0.63 |
| 30-year | 1.56 | -0.15 | -0.15 | -0.53 |

Source: Bloomberg L.P. As of 06 Nov 2020. **Past performance is no guarantee of future results.**

## Yield ratios

| | Ratio (%) |
|---|---|
| 10-year AAA Municipal vs Treasury | 98 |
| 30-year AAA Municipal vs Treasury | 98 |
| High Yield Municipal vs High Yield Corporate | 89 |

Source: Bloomberg L.P., Thompson Reuters. As of 06 Nov 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 | 1.31 | – | 5.45 | 0.63 | 0.63 | 3.67 |
| High Yield Municipal | 4.46 | 312[1] | 8.80 | 0.71 | 0.71 | 1.26 |
| Short Duration High Yield Municipal[2] | 4.16 | 367 | 4.11 | 0.34 | 0.34 | 1.14 |
| Taxable Municipal | 2.34 | 141[3] | 10.05 | 0.47 | 0.47 | 7.79 |
| U.S. Aggregate Bond | 1.19 | 52[3] | 6.21 | 0.49 | 0.49 | 6.83 |
| U.S. Treasury | 0.57 | – | 7.31 | 0.23 | 0.23 | 8.13 |
| U.S. Government Related | 1.14 | 61[3] | 5.97 | 0.55 | 0.55 | 5.09 |
| U.S. Corporate Investment Grade | 1.93 | 117[3] | 8.78 | 1.32 | 1.32 | 7.86 |
| U.S. Mortgage-Backed Securities | 1.30 | 52[3] | 2.23 | -0.01 | -0.01 | 3.57 |
| U.S. Commercial Mortgage-Backed Securities | 1.49 | 103[3] | 5.28 | 0.28 | 0.28 | 6.78 |
| U.S. Asset-Backed Securities | 0.54 | 39[3] | 2.13 | 0.03 | 0.03 | 4.18 |
| Preferred Securities | 3.17 | 237[3] | 4.40 | 0.98 | 0.98 | 3.94 |
| High Yield 2% Issuer Capped | 5.02 | 443[3] | 3.59 | 2.11 | 2.11 | 3.19 |
| Senior Loans[4] | 5.84 | 559 | 0.25 | 0.73 | 0.73 | 0.07 |
| Global Emerging Markets | 3.91 | 324[3] | 6.83 | 1.60 | 1.60 | 3.44 |
| Global Aggregate (unhedged) | 0.88 | 44[3] | 7.43 | 1.30 | 1.30 | 7.20 |

**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 06 Nov 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, 06 Nov 2020. **Fund flows:** Lipper. **New deals:** Market Insight, MMA Research, 04 Nov 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%.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professionals.

### 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.

This information represents the opinion of Nuveen, LLC and its affiliates and is not intended to be a forecast of future events and or guarantee of any future result. Information was obtained from third party sources which we believe to be reliable but are not guaranteed as to their accuracy or completeness. There is no assurance that an investment will provide positive performance over any period of time.

The investment advisery services, strategies and expertise of TIAA Investments, a division of Nuveen, are provided by Teachers Advisors, LLC and TIAA-CREF Investment Management, LLC. Nuveen Asset Management, LLC, Symphony Asset Management LLC and NWQ Investment Management Company LLC are registered investment advisers and affiliates of Nuveen, LLC.

This information does not constitute investment research as defined under MiFID.