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Weekly Fixed Income Commentary

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Treasury yields rise despite surging virus cases

Longer U.S. Treasury rates rose last week, while shorter maturities were unchanged or slightly lower. Market expectations for growth and inflation have been rising on hopes of a large stimulus package early next year. That optimism outweighed fears about the resurgent virus. Interestingly, the Treasury yield curve tracked election polls, flattening with improving Trump re-election odds and steepening with prospects of a blue wave.

HIGHLIGHTS

- **High yield corporates fell the most, followed by preferred securities, emerging markets and senior loans.**
- **The municipal market was quiet but firm, delivering solid returns.**
- **The global aggregate index posted a negative total return and underperformed U.S. markets due to weak returns in Europe.**

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TREASURY YIELDS RISE DESPITE NEGATIVE RISK SENTIMENT

Long maturity U.S. Treasury yields ended last week slightly higher, while short maturities were unchanged or slightly lower. Rates fell early in the week, led by longer maturities, as risk assets struggled in the wake of a surging second wave of COVID-19 infections across the globe. Treasury auctions appeared to have little impact on rates despite expanding supply. Markets absorbed $162 billion in Treasury notes (2-, 5- and 7-year maturities), which was $7 billion more than September auctions of the same maturities. The week ended with a positive tone, as Treasury rates moved higher and fixed income risk assets rebounded fueled by hopes of a large stimulus package early next year. Interestingly, the Treasury yield curve tracked election polls, flattening with improving Trump re-election odds and steepening with prospects of a blue wave. Investors are expecting that a Democratic sweep would result in more Federal spending funded by more Treasury issuance.

Non-Treasury sectors struggled last week, as most endured negative total returns and relative underperformance. Only mortgage-backed and asset-backed securities delivered positive weekly total returns. The highest risk sectors suffered the worst performance. High yield corporates fell the most, followed by preferred securities, emerging markets and senior loans. Senior loans are now the only sector with a negative total return for 2020. The global aggregate index posted a negative total return and underperformed U.S. markets due to weak returns in Europe.

MUNICIPAL DEMAND SHOULD CONTINUE

The municipal market was quiet but firm last week. New issue supply of $17.1 billion was priced to sell and well received. Fund flows totaled $582 million. This week's new issue calendar is expected to be less than $1 billion, due to the U.S. presidential election. Outsized new issuance should return as usual next week.

The municipal market continues to have a good tone. Earlier this year, the market sold off after the economy closed due to the pandemic. The Federal Reserve and U.S. government then injected massive amounts of money into the economy. This one-two punch allowed high grade municipal bond prices to recover to where they began the year. We expect municipals to remain well bid, and demand should continue as long as municipals yield more than U.S. Treasuries.

The state of North Carolina sold $700 million limited obligation bonds (rated Aa1/AA+). The deal was priced to sell and well received. The bonds were in demand at a premium in the secondary market. The North Carolina 10-year bond came at a yield of 1.09%, which looked attractive versus the 10-year U.S. Treasury bond at 0.80%.

The high yield municipal market remained resilient last week with a surge of new issuance, despite heightened politic risk and resurgence of coronavirus lockdowns. Fund flows were positive and credit spreads grinded tighter, as investors appear be taking a longer-term view of market performance. New issuance next week is basically nonexistent except for Brightline West, which continues to evolve to attract investors.

Senior loans are now the only sector with a negative total return for 2020.

HIGH YIELD CORPORATES END OCTOBER ON A DOWN NOTE AS VOLATILITY INCREASES

High yield corporate bonds posted their first loss in five weeks, erasing more than two-thirds of their October gains and underperforming all other fixed income categories. Volatility increased amid pre-election uncertainty, a resurgence in COVID-19 cases and a 10% drop in oil prices. Spreads widened by 41 basis points (bps) and fund flows (-$2.5 billion) reversed sharply, coinciding with a spike in the equity market volatility.

Investment grade corporates were down modestly for the week, but proved more resilient than their high yield counterparts. Spreads were just 2 bps wider and the technical backdrop remained favorable, with positive fund flows (+$2.3 billion), relatively muted new issue supply ($13.8 billion) and continued foreign demand. Among sectors, insurance, real estate investment trusts (REITs) and chemicals were the best performers, while energy was the worst.

High yield corporate spreads widened and fund flows reversed sharply.

Emerging markets (EM) debt declined for the second week in a row. Like other risk assets, EM debt was pressured by worsening virus headlines, falling oil prices and U.S. election jitters. All segments of the asset class realized losses, but local-currency markets were the hardest hit, in part reflecting a plunge in the Turkish lira to a record low against the U.S. dollar. Despite unsettled conditions, flows into EM debt funds remained positive.

In focus

Markets expect a blue wave to carry the day

Last week both President Donald Trump and former Vice President Joe Biden continued to crisscross the country, seeking to shore up support and drive their voting bases to the polls. Where do things stand on election eve?

Biden is still the odds-on favorite, based on various prediction models. FiveThirtyEight, a website focused on opinion poll analysis, gives him an 89% chance of winning. The Economist puts the likelihood at 96%. Of course, the polls that inform these models could be wrong, and Trump might still prevail. But for that to happen, they'd have to be far more inaccurate than they were just prior to the 2016 election, when Hillary Clinton was expected to prevail.

As for the Senate, there's a 77% probability that Democrats will gain control, according to FiveThirtyEight, likely with a pickup of five seats for a 52-48 margin. That's probably not enough of a cushion to pass the most progressive parts of Biden's agenda. Whether that nuance is reflected in the market's reaction to the election is worth watching.

Markets believe a Biden victory would lead to a bigger fiscal stimulus package, and with it, stronger growth and higher inflation – factors that tend to push up longer-dated Treasury yields. The yield on the 10-year note, for example, began October at 0.69% and ended the month at 0.88%. Yields on 30-year Treasuries (1.65% as of Friday's close), have seen a similar climb.

U.S. Treasury market

Maturity	Yield	Change (%) Week	October 2020	Year-to-date
2-year	0.16	0.00	0.03	-1.42
5-year	0.39	0.01	0.11	-1.31
10-year	0.88	0.03	0.19	-1.04
30-year	1.66	0.02	0.21	-0.73

Source: Bloomberg L.P. As of 30 Oct 2020. **Past performance is no guarantee of future results.**

Municipal market

Maturity	Yield to Worst	Change (%) Week	October 2020	Year-to-date
2-year	0.21	0.03	-0.08	-0.83
5-year	0.30	0.02	-0.04	-0.79
10-year	0.93	-0.03	-0.06	-0.51
30-year	1.71	-0.03	-0.09	-0.38

Source: Bloomberg L.P. As of 30 Oct 2020. **Past performance is no guarantee of future results.**

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	106
30-year AAA Municipal vs Treasury	104
High Yield Municipal vs High Yield Corporate	79

Source: Bloomberg L.P., Thompson Reuters. As of 30 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

Index	Yield to Worst (%)	Spread (bps)	Effective Duration (years)	Returns (%) Week	October 2020	Year-to-date
Municipal	1.41	–	5.60	0.08	-0.30	3.02
High Yield Municipal	4.54	305[1]	9.18	0.15	0.18	0.54
Short Duration High Yield Municipal[2]	4.23	365	4.10	0.14	0.20	0.79
Taxable Municipal	2.37	141[3]	10.05	-0.22	-1.54	7.29
U.S. Aggregate Bond	1.24	54[3]	6.12	-0.04	-0.45	6.32
U.S. Treasury	0.58	–	7.14	0.04	-0.94	7.88
U.S. Government Related	1.17	62[3]	5.89	-0.11	-0.42	4.51
U.S. Corporate Investment Grade	2.03	125[3]	8.64	-0.23	-0.18	6.45
U.S. Mortgage-Backed Securities	1.34	52[3]	2.34	0.06	-0.04	3.58
U.S. Commercial Mortgage-Backed Securities	1.53	104[3]	5.29	-0.10	-0.46	6.49
U.S. Asset-Backed Securities	0.55	39[3]	2.13	0.02	0.01	4.15
Preferred Securities	3.23	236[3]	4.31	-0.83	0.63	2.93
High Yield 2% Issuer Capped	5.79	510[3]	3.79	-1.06	0.49	1.06
Senior Loans[4]	6.08	583	0.25	-0.50	0.17	-0.66
Global Emerging Markets	4.09	340[3]	6.70	-0.52	-0.12	1.81
Global Aggregate (unhedged)	0.91	46[3]	7.37	-0.43	0.10	5.82

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 30 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, 30 Oct 2020. **Fund flows:** Lipper. **New deals:** Market Insight, MMA Research, 28 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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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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