nuveen
A TIAA Company

Weekly Fixed Income Commentary

8 March 2021

Treasury yields continue their march higher

U.S. Treasury yields rose again last week, with 10-year yields reaching 1.57%, as economic data continued to beat expectations and policy remained stimulative. Credit spreads widened somewhat, but the technical backdrop remains supportive. Most fixed income asset classes saw inflows, with the notable exception of emerging markets.

HIGHLIGHTS

- **Investment grade corporates sold off, while lower-quality sectors like high yield bonds and leveraged loans held up well despite volatility in other markets.**
- **Municipal bond yields declined. New issue supply was $6.5 billion, with negative flows of -$605 million. This week's new issue supply is expected to be $9.3 billion ($7.3 billion taxable).**
- **Emerging markets debt weakened, as headwinds from higher rates and the stronger U.S. dollar weighed on the asset class.**

Anders Persson
CIO of Global Fixed Income

John Miller
Head of Municipals

Watchlist

- *Treasury yields rose and the curve steepened amid solid economic data and continued policy support.*
- *The selloff presented a headwind to longer-duration assets and put upward pressure on the dollar.*
- *Spreads widened slightly, but lower-quality sectors continued to outperform.*
- *Flows were generally positive, with the exception of emerging markets, where higher real rates and a stronger dollar weighed on sentiment. High grade and high yield municipals saw outflows.*

INVESTMENT VIEWS

Unprecedented global fiscal stimulus will likely boost growth and support risk assets.

Zero/negative interest rate policy remains a key market support, but investors are beginning to focus on the eventual normalization of policy.

Record supply from investment grade corporates has been followed by issuance from high yield, middle market loans, broadly syndicated loan market and certain COVID-exposed names/sectors. Taxable municipal supply continues to grow.

We favor a risk-on stance, focused on credits with durable free cash flow and solid balance sheets across a wide range of sectors. Mid-quality rating segments remain the most attractive. Essential service municipal credits also look compelling.

KEY RISKS

- Further complications with the COVID-19 vaccine rollout.
- Geopolitical flare-ups: China, Russia, Turkey, Iran.
- Policymakers become cautious or run out of stimulus capacity.
- Inflation rises in a disorderly way, forcing premature policy tightening.

HIGH GRADE CORPORATE CREDIT SPREADS WIDEN

U.S. Treasury yields rose for the fifth consecutive week, with 10-year yields rising 16 basis points (bps) to 1.57%. Economic data was broadly positive, with industrial surveys beating expectations for February. The ISM manufacturing survey rose 2.1 points to match a multi-decade high of 60.8, while global PMIs rose 0.7 points to 53.4 (a level above 50 indicates expansion). The February jobs report also beat expectations, showing a net gain of 379,000 jobs. Separately, Federal Reserve (Fed) Chair Powell gave public remarks that indicated no near-term action, as he did not push back on the rise in yields and downplayed the odds of any near-term policy changes.

Investment grade credit spreads widened amid a robust new issuance calendar, returning -1.55% for the week. Around $63 billion of new deals priced, already equaling around 40% of the expected March amount, as some issuers brought forward their deals. At the same time, inflows remained solid, with $5.2 billion entering the asset class. Looking ahead, technicals will likely become more favorable as rebalancing demand picks up and issuance slows somewhat.

High yield credit and leveraged loans performed relatively well, returning -0.15% and -0.01%, respectively, as weakness was concentrated in longer-duration and higher-quality segments. Inflows remained strong, with $601 million and $624 million entering high yield bond and loan funds, respectively. Lower-quality and higher-spread names continued to perform well, with CCC bonds trading flat on the week, while BB bonds shed -0.43%.

Emerging markets (EM) debt was pressured by higher rates and the stronger dollar, returning -0.93%. Some issuers brought sizable deals early in the week, but the market weakened as interest rates increased on Thursday and Friday. Hard currency funds ended up seeing outflows of -$1.9 billion. In contrast to the dynamic in U.S. credit, high yield EMs weakened slightly after recent outperformance.

MUNI YIELDS REMAIN RANGE BOUND

Municipal yields closed lower last week, but remained range bound. Most investment managers project a healthy U.S. economy by the end of 2021. And once the economy recovers, market concerns should turn to higher inflation and higher interest rates.

While there is some inflation in the pipeline, Fed Chair Powell has been adamant that inflation is of no concern. Investors are not so certain. Treasury yields are substantially higher than at the depths of the pandemic in spring 2020. And unless Powell shows he is committed to keeping inflation at bay, rates may just grind even higher.

New York City issued $1.2 billion general obligation bonds (rated Aa2/AA). The deal was priced to sell and was very well received. Bonds were trading at a premium in the secondary market. While this deal was priced to sell because of its size, tax-exempt New York bonds in general are in high demand.

High yield municipal yields also declined last week. Outflows were large at -$722 million, but the market has shrugged off this weak technical signal due to high cash balances across mutual funds and unprecedented stimulus support. Over the weekend, the Senate passed the stimulus package with the $650 billion in municipal components intact, an amount that is widely viewed as aggressively stimulative.

Last week's U.S. Steel refunding deal was heavily oversubscribed, and yields were adjusted lower on the first days of secondary market trading. In a rather late move, Fitch downgraded Pennsylvania's Tower Health system multiple notches to B+, weeks after disclosures revealed dismal financial performance in 2020. However, the downgrade triggered selling pressure that caused yields to widen by roughly 100 bps, to as much as 4.50% on 5% coupon bonds, with firm demand for bonds at the adjusted levels.

High grade corporate technicals will likely become more favorable.

In focus

Real interest rates rise sharply

The recent rise in U.S. Treasury yields, with the 10-year rate up 67 bps this year, has been driven by higher real interest rates, in contrast to the gentler increase in yields over the preceding five months.

The market has accelerated its expectations for eventual Fed policy tightening, now seeing liftoff in late 2022, compared to late 2023 as of the start of the year.

The steepness and speed of the move in rates has been remarkable. The only comparable episodes over the last decade were the taper tantrum in 2013 and COVID-driven volatility in early 2020. Those moves were also driven by revised expectations for Fed policy and exacerbated by thinner-than-usual liquidity in Treasury markets.

After the prior episodes of steep rate repricing, high yield credit, emerging markets debt and preferred securities all performed well. We believe this dynamic should repeat through the rest of this year, even as we expect core interest rates to continue rising, albeit more slowly and steadily than over the last few weeks. We had anticipated the 10-year Treasury yield would end the year in the 1.50% to 2.00% range, and we continue to think that is likely, though we are now biased toward the higher end of that range.

U.S. Treasury market

		Change (%)		
Maturity	Yield	Week	Month-to-date	Year-to-date
2-year	0.14	0.01	0.01	0.02
5-year	0.80	0.07	0.07	0.44
10-year	1.57	0.16	0.16	0.65
30-year	2.30	0.15	0.15	0.66

Source: Bloomberg L.P. As of 05 Mar 2021. **Past performance is no guarantee of future results.**

Municipal market

		Change (%)		
Maturity	Yield to Worst	Week	Month-to-date	Year-to-date
2-year	0.13	-0.06	-0.06	-0.01
5-year	0.48	-0.08	-0.08	0.26
10-year	1.11	-0.03	-0.03	0.40
30-year	1.76	-0.04	-0.04	0.37

Source: Bloomberg L.P. As of 05 Mar 2021. **Past performance is no guarantee of future results.**

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	71
30-year AAA Municipal vs Treasury	77
High Yield Municipal vs High Yield Corporate	86

Source: Bloomberg L.P., Thompson Reuters. As of 05 Mar 2021. 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	1.21	–	5.34	0.31	0.31	-0.66
High Yield Municipal	3.73	217[1]	7.55	0.35	0.35	1.37
Short Duration High Yield Municipal[2]	3.15	240	3.59	0.13	0.13	1.53
Taxable Municipal	2.42	85[3]	9.84	-0.97	-0.97	-2.92
U.S. Aggregate Bond	1.51	33[3]	6.31	-0.80	-0.80	-2.93
U.S. Treasury	0.92	–	6.91	-0.83	-0.83	-3.56
U.S. Government Related	1.41	48[3]	6.04	-0.66	-0.66	-2.69
U.S. Corporate Investment Grade	2.22	96[3]	8.48	-1.55	-1.55	-4.49
U.S. Mortgage-Backed Securities	1.66	12[3]	3.61	-0.08	-0.08	-0.67
U.S. Commercial Mortgage-Backed Securities	1.58	69[3]	5.22	-0.48	-0.48	-1.69
U.S. Asset-Backed Securities	0.48	29[3]	2.07	-0.06	-0.06	-0.05
Preferred Securities	3.22	199[3]	4.91	0.35	0.35	-1.24
High Yield 2% Issuer Capped	4.35	329[3]	3.85	-0.15	-0.15	0.55
Senior Loans[4]	4.78	445	0.25	-0.01	-0.01	1.94
Global Emerging Markets	3.88	276[3]	6.72	-0.93	-0.93	-3.17
Global Aggregate (unhedged)	1.11	34[3]	7.40	-1.01	-1.01	-3.58

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 05 Mar 2021. **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.

For more information, please visit nuveen.com.

Performance: Bloomberg, L.P. **Issuance:** The Bond Buyer, 05 Mar 2021. **Fund flows:** Lipper. **New deals:** Market Insight, MMA Research, 03 Mar 2021.

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 Barclays Municipal Index; **high yield municipal:** Bloomberg Barclays High Yield Municipal Index; **short duration high yield municipal:** S&P Short Duration Municipal Yield Index; **taxable municipal:** Bloomberg Barclays Taxable Municipal Bond Index; **U.S. aggregate bond:** Bloomberg Barclays U.S. Aggregate Bond Index; **U.S. Treasury:** Bloomberg Barclays U.S. Treasury Index; **U.S. government related:** Bloomberg Barclays U.S. Government-Related Index; **U.S. corporate investment grade:** Bloomberg Barclays U.S. Corporate Index; **U.S. mortgage-backed securities;** Bloomberg Barclays U.S. Mortgage-Backed Securities Index; **U.S. commercial mortgage-backed securities:** Bloomberg Barclays CMBS ERISA-Eligible Index; **U.S. asset-backed securities:** Bloomberg Barclays Asset-Backed Securities Index; **preferred securities:** ICE BofA U.S. All Capital Securities Index; **high yield 2% issuer capped:** Bloomberg Barclays High Yield 2% Issuer Capped Index; **senior loans:** Credit Suisse Leveraged Loan Index; **global emerging markets:** Bloomberg Barclays Emerging Market USD Aggregate Index; **global aggregate:** Bloomberg Barclays Global Aggregate Unhedged Index.

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.

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain "forward-looking" information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. **Past performance is no guarantee of future results.** Investing involves risk; principal loss is possible.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on nuveen.com. **Please note, it is not possible to invest directly in an index.**

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.

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.

GCM-1552997PG-W0321P