

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Muni bonds poised to deliver

Bottom line up top:

The gap narrows. Last week's Consumer Price Index (CPI) report appears to have broken the back of market prognosticators hoping to outlast the U.S. Federal Reserve's fight against inflation. Coupled with an upbeat payrolls report, January's inflation data pushed market forecasts for the terminal fed funds rate north of 5%.

Higher-for-longer interest rates could lead to elevated volatility for certain assets, including equities. But, other assets could find fertile ground before the Fed soon reaches a restrictive interest rate level and achieves its goal of stabilizing prices.

Late cycle for rate hikes, early innings for municipal bonds.

At some point in 2023, as inflation decelerates, we anticipate the Fed nearing the end of its rate hike cycle.

In terms of fixed income allocations, this environment should favor longer duration, steeper yield curves and more discerning credit selection. In particular, municipal bonds appear poised to deliver attractive total returns for investors, with compelling taxable-equivalent yields, especially as duration is extended (Figure 1).

Portfolio considerations:

Investment grade municipal bonds should provide attractive opportunities in select longer duration, undervalued high-quality bonds with the potential for income and total return. In 2023, new bond issuance is likely to be muted, and we think fundamentals remain strong. If the risk of a recession increases, risk-off investments should be more attractive.



Saira Malik, CFA

Chief Investment Officer

On behalf of Nuveen's Global Investment Committee

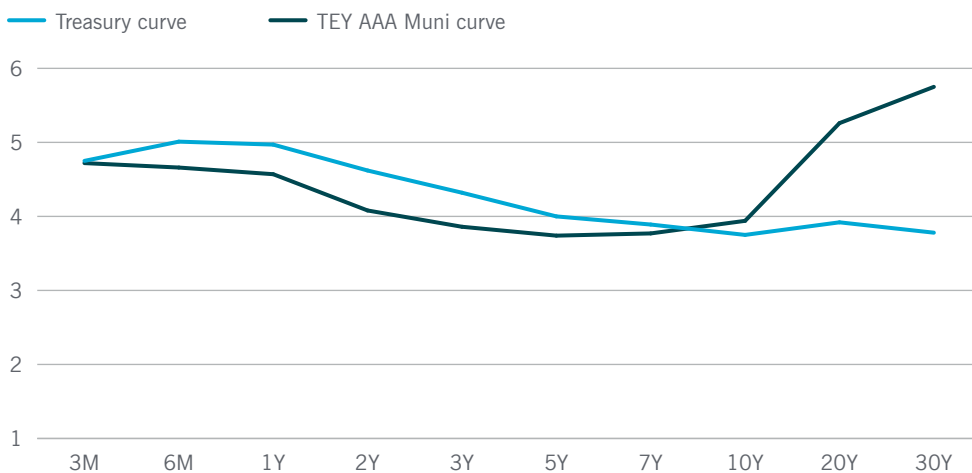
As Nuveen's CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she chairs Nuveen's Equities Investment Council and is a portfolio manager for several key investment strategies.

At some point in 2023, we anticipate the Fed nearing the end of its rate hike cycle.

Since high yield municipal bonds trend toward longer durations and higher yields, those investments should particularly benefit investors when both inflation and municipal rates decline. The taxable-equivalent yield of bonds in the Bloomberg High Yield Municipal Bond Index was nearly 10% as of 31 Dec 2022.

FIGURE 1: MUNICIPALS OFFER ATTRACTIVE YIELDS, ESPECIALLY AS INVESTORS EXTEND DURATION

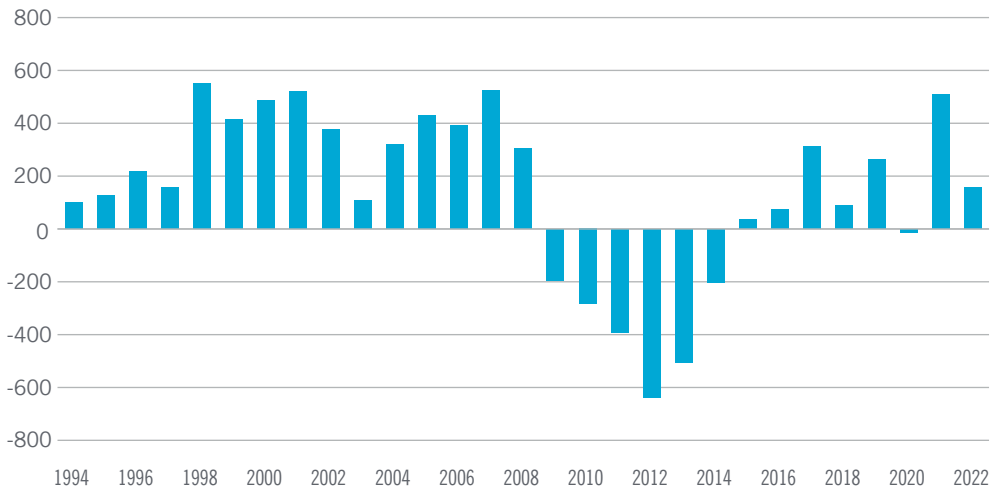
U.S. Treasuries vs. AAA-rated municipal yield curve (%)



Data source: Bloomberg, L.P. 14 Feb 2023. Performance data shown represents past performance and does not predict or guarantee future results. The taxable-equivalent yield (TEY) is based in the highest individual marginal federal tax rate of 37%, plus the 3.8% Medicare tax on investment income (the Net Investment Income Tax). Individual tax rates may vary.

Credit fundamentals strengthened in 2021 and 2022 in the wake of the pandemic due to increased municipal revenue collections and significant federal stimulus funds (Figure 2). We remain constructive on credit, although fundamentals may experience some pressure in 2023 if the economy decelerates. Historically, municipals have provided positive returns even in the face of accelerating credit downgrades, as witnessed during the Global Financial Crisis.

FIGURE 2: THE CREDIT ENVIRONMENT CONTINUES TO IMPROVE WITH NET UPGRADES



Data sources: Bloomberg, L.P., Moody's Investor Service, 01 Jan 1994 – 31 Dec 2022. Upgrade/downgrade data through 30 Sep 2022, most recent data available. Performance data shown represents past performance and does not predict or guarantee future results.

In terms of fixed income allocations, this environment should favor steeper yield curves.

About Nuveen's Global Investment Committee

Nuveen's Global Investment Committee (GIC) brings together the most senior investors from across our platform of core and specialist capabilities, including all public and private markets.

Regular meetings of the GIC lead to published outlooks that offer:

- macro and asset class views that gain consensus among our investors
- insights from thematic “deep dive” discussions by the GIC and guest experts (markets, risk, geopolitics, demographics, etc.)
- guidance on how to turn our insights into action via regular commentary and communications

For more information, please visit [nuveen.com](https://www.nuveen.com).

Endnotes

Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to 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. **Performance data shown represents past performance does not predict or guarantee 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](https://www.nuveen.com). **Please note, it is not possible to invest directly in an index.**

Important information on risk

Investing involves risk; principal loss is possible. All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Equity investing involves risk. Investments are also subject to political, currency and regulatory risks. These risks may be magnified in emerging markets. Diversification is a technique to help reduce risk. There is no guarantee that diversification will protect against a loss of income. Investing in municipal bonds involves risks such as interest rate risk, credit risk and market risk, including the possible loss of principal. The value of the portfolio will fluctuate based on the value of the underlying securities. There are special risks associated with investments in high yield bonds, hedging activities and the potential use of leverage. Portfolios that include lower rated municipal bonds, commonly referred to as “high yield” or “junk” bonds, which are considered to be speculative, the credit and investment risk is heightened for the portfolio. 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. This information should not replace an investor's consultation with a financial professional regarding their tax situation. Nuveen is not a tax advisor. Investors should contact a tax professional 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.

Nuveen provides investment advisory services through its investment specialists.

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

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

296221

GWP-2749582PG-E0223P