nuveen
A TIAA Company

Weekly Fixed Income Commentary

10 April 2023

Treasury yields resume declines on weaker economic data

U.S. Treasury yields declined last week amid softer U.S. economic data. Manufacturing and services surveys came in weaker than expected and the March jobs mostly met expectations.

HIGHLIGHTS

- **Treasuries, agencies, MBS, ABS, taxable munis, investment grade and high yield corporates, preferreds, emerging markets and senior loans all had positive total returns.**
- **Most spread assets, including MBS, investment grade and high yield corporates, preferreds and emerging markets had negative excess returns.**
- **Municipal bond yields declined across the curve. New issue supply was $6.1B with outflows of -$92M. This week's new issuance is expected to be $5.9B.**

Anders Persson
CIO of Global Fixed Income

Daniel Close
Head of Municipals

Watchlist

- *U.S. Treasury yields resumed their declines.*
- *Spread assets underperformed amid softer economic data.*
- *Increased seasonal supply should provide an attractive entry point for municipal bonds.*

INVESTMENT VIEWS

"Higher for longer" emerges as a theme, as the Fed battles to control inflation. Higher interest rates are likely to cause additional volatility.

The underlying growth outlook remains healthy, thanks to strong consumer balance sheets and solid levels of businesses investment. This combination should keep corporate defaults low.

Treasury yields are likely to fall this year, and we expect the 10-year Treasury yield to end 2023 around 3.25%.

We favor selectively taking on risk in this environment of attractive prices and yields. Credit selection is key as we search for bonds with favorable income and solid fundamentals.

KEY RISKS

- Inflation fails to moderate as expected, weighing on asset prices.
- Policymakers tighten too rapidly, undermining the global economic expansion.
- Geopolitical flare-ups: China, Russia, Turkey, Iran.

INVESTMENT GRADE CORPORATES ENJOY FAVORABLE TECHNICALS

U.S. Treasury yields resumed their declines last week, with the 10-year yield ending -8 basis points (bps) lower at 3.40%, touching its lowest level since September. The 2-year yield fell more modestly, down -4 bps for the week. Economic data was mostly weaker, with the manufacturing and services surveys from ISM both declining more than expected. The ISM manufacturing index fell to 46.3, a new post-Covid low, while the services gauge fell to 51.2. Levels below 50 indicate a contraction in activity. Meanwhile, the March jobs report mostly met expectations, with the U.S. economy adding 236,000 new jobs for the month. Average hourly earnings were also in-line with expectations, moderating to 4.2% year-on-year, their slowest rate of increase since mid-2021.

Investment grade corporates gained last week, thanks to the rally in rates, returning 0.45%. However, the asset class underperformed similar-duration Treasuries by -17 bps. Accordingly, overall yield levels fell -6 bps, but spreads widened 2 bps. The technical backdrop was favorable, as the asset class snapped a streak of three consecutive weekly outflows with a $1.8 billion inflow. The new issue market was quiet amid the holidays, with only $9 billion pricing versus expectations for around $15 billion.

High yield corporates eked out a positive return, gaining 0.09% but lagging similar-duration Treasuries by -28 bps. The asset class experienced an elevated inflow of $3.8 billion, the first since early March and the biggest single-week inflow in 23 weeks. Senior loan funds had their eleventh straight weekly outflow, with -$592 million exiting the asset class. The loan market still managed to return 0.34% for the week, however.

Emerging markets also rallied, returning 0.27% for the week. The asset class underperformed similar-duration Treasuries by -30 bps. Sovereign bonds from Ukraine were downgraded by S&P to CCC, after the government announced a plan to restructure external debt by next year. Central banks in Israel and New Zealand hiked rates, the latter by more than expected, but other central banks held rates steady, including in India, Australia and Poland. The potential for less aggressive rate hikes, combined with the dollar's -0.40% deprecation for the week, helped the asset class.

MUNICIPAL BOND YIELDS REACH THEIR LOWEST POINT SINCE MARCH 2022

The municipal bond yield curve rallied last week. New issue supply was very well received, while outflows continued. This week's new issue calendar should also be well received.

The U.S. Federal Reserve has been focused on fighting inflation and containing the recent banking crisis. The banking situation appears to be contained for now, so the Fed's focus can return to inflation. Treasuries sold off slightly on Friday's strong employment report, but should remain well bid as the Fed continues to show its commitment to controlling inflation.

Municipal bond yields have rallied to their lowest point since March 2022. Fixed income in general remains stable and many investors are interested in the tax-exempt income offered by municipal bonds. Yet muni supply remains muted. We expect munis in general to remain well bid.

The state of California issued $2.5 billion general obligation bonds (rated Aa2/AA-). The deal was well received and underwriters were able to lower yields across the curve. Longer bonds increased 15 bps upon final pricing. The deal broke to a premium in the secondary market, with many maturities trading 10 bps higher.

High yield municipals participated in step with Treasury bonds and investment grade municipals as yields rallied last week. Spreads remained at virtually the same level from the week before. Fund flows were positive for the second consecutive week at $149 million, as investors are gaining confidence in fixed income and longer duration. Supply remains light, which should support the market. Eyes will be on inflation data this week, which could cause market volatility to increase.

High yield corporates experienced their biggest single-week inflow in 23 weeks.

In focus

High yield munis enjoy a recovery rally

The high yield municipal bond market produced a positive total return in the first quarter, despite rate volatility and banking sector concerns.

High yield muni bond yields have lagged the more aggressive rally in high grades, despite positive inflows for high yield muni bond funds and negative flows for high grade funds. Credit spreads have widened as a result.

We believe investors should consider emphasizing credit risk over duration risk in this environment. Short-duration high yield credit spread inversion remains pronounced and offers attractive relative value for investors who are duration sensitive or seeking optimal risk-adjusted yields.

We expect the high yield municipal market recovery rally to continue now that interest rates appear to be stabilizing. A large amount of liquidity should be available as the market regains its 2022 outflows. We typically see technicals strengthen in June, July and August. And the persistent lower supply environment means we are less likely to experience the typical supply pressures in the fall.

Market convexity currently favors the investor, and market yields offer reliable and lasting income opportunities without taking on the reinvestment risk of shorter duration taxable fixed income.

U.S. Treasury market

		Change (%)		
Maturity	Yield	Week	Month-to-date	Year-to-date
2-year	3.98	-0.04	-0.04	-0.45
5-year	3.50	-0.08	-0.08	-0.51
10-year	3.40	-0.08	-0.08	-0.48
30-year	3.61	-0.04	-0.04	-0.35

Source: Bloomberg L.P., 07 Apr 2023. **Performance data shown represents past performance and does not predict or guarantee future results.**

Municipal market

		Change (%)		
Maturity	Yield to Worst	Week	Month-to-date	Year-to-date
2-year	2.28	-0.10	-0.10	-0.32
5-year	2.10	-0.12	-0.12	-0.42
10-year	2.10	-0.17	-0.17	-0.53
30-year	3.18	-0.12	-0.12	-0.40

Source: Bloomberg L.P., 07 Apr 2023. **Performance data shown represents past performance and does not predict or guarantee future results.**

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	62
30-year AAA Municipal vs Treasury	88
High Yield Municipal vs High Yield Corporate	65

Source: Bloomberg L.P., Thompson Reuters, 07 Apr 2023. AAA municipals represented by the MMD scale. The high yield ratio equals the yield-to-worst for the Bloomberg High Yield Municipal Index divided by the yield-to-worst for the Bloomberg High Yield Corporate Index. **Performance data shown represents past performance and does not predict or guarantee future results.**

Characteristics and returns

				Returns (%)		
Index	Yield to Worst (%)	Spread (bps)	Effective Duration (years)	Week	Month-to-date	Year-to-date
Municipal[5]	3.11	–	6.05	0.91	0.91	3.72
High yield municipal	5.55	259[1]	7.56	1.61	1.61	4.39
Short duration high yield municipal[2]	5.17	311	3.94	0.75	0.75	2.99
Taxable municipal	4.71	108[3]	8.32	0.77	0.77	6.02
U.S. aggregate bond	4.33	58[3]	6.39	0.49	0.49	3.47
U.S. Treasury	3.74	–	6.37	0.56	0.56	3.58
U.S. government related	4.36	59[3]	5.45	0.51	0.51	3.40
U.S. corporate investment grade	5.11	140[3]	7.30	0.45	0.45	3.97
U.S. mortgage-backed securities	4.45	66[3]	5.97	0.43	0.43	2.97
U.S. commercial mortgage-backed securities	5.11	142[3]	4.51	0.53	0.53	2.35
U.S. asset-backed securities	4.88	84[3]	2.83	0.25	0.25	2.12
Preferred securities[5]	7.38	291[3]	4.61	0.41	0.41	1.92
High yield 2% issuer capped	8.57	467[3]	3.67	0.09	0.09	3.66
Senior loans[4,5]	9.68	602	0.25	0.34	0.34	3.46
Global emerging markets	7.25	356[3]	6.27	0.27	0.27	2.43
Global aggregate (unhedged)	3.47	55[3]	6.88	0.69	0.69	3.72

1 Yield difference between the Bloomberg 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. **5** Data as of 06 Apr 2023.

Source: Bloomberg L.P. and Credit Suisse, 07 Apr 2023. **Performance data shown represents past performance and does not predict or guarantee future results.** Unless otherwise noted, the index is Bloomberg. 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, 07 Apr 2023. **Fund flows:** Lipper. **New deals:** Market Insight, MMA Research, 05 Apr 2023.

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 Municipal Index; **high yield municipal:** Bloomberg High Yield Municipal Index; **short duration high yield municipal:** S&P Short Duration Municipal Yield Index; **taxable municipal:** Bloomberg Taxable Municipal Bond Index; **U.S. aggregate bond:** Bloomberg U.S. Aggregate Bond Index; **U.S. Treasury:** Bloomberg U.S. Treasury Index; **U.S. government related:** Bloomberg U.S. Government-Related Index; **U.S. corporate investment grade:** Bloomberg U.S. Corporate Index; **U.S. mortgage-backed securities;** Bloomberg U.S. Mortgage-Backed Securities Index; **U.S. commercial mortgage-backed securities:** Bloomberg CMBS ERISA-Eligible Index; **U.S. asset-backed securities:** Bloomberg Asset-Backed Securities Index; **preferred securities:** ICE BofA U.S. All Capital Securities Index; **high yield 2% issuer capped:** Bloomberg High Yield 2% Issuer Capped Index; **senior loans:** Credit Suisse Leveraged Loan Index; **global emerging markets:** Bloomberg Emerging Market USD Aggregate Index; **global aggregate:** Bloomberg 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. **Performance data shown represents past performance and 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. **Please note, it is not possible to invest directly in an index.**

Important information 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 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 solutions through its investment specialists.

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