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Weekly Fixed Income Commentary

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Treasury yields hold steady, despite a wild ride

U.S. Treasury yields ended last week essentially where they began, although they experienced significant volatility throughout the week. Yields generally fell each day until Friday, when the better-than-expected employment report sparked a sharp increase. Non-Treasury sector results ended mixed.

HIGHLIGHTS

- **Senior loans led all sectors with solidly positive returns.**
- **Municipal bond yields increased slightly, as the market continues to recover from all-time lows.**
- **The global aggregate index performed worst, dragged down by Europe and Asia.**

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OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.
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TREASURY YIELDS ARE LITTLE CHANGED DESPITE VOLATILITY

U.S. Treasury yields finished last week within several basis points (bps) of where they began, despite considerable volatility throughout the week.[1] Yields on Treasuries 10-years declined 1 to 3 basis points (bps), while maturities shorter than 10-years rose by the same amount.[1] Yields on 5- to 30-year Treasuries fell every day until Friday, with longer maturities leading the move lower.[1] By Thursday, the 30-year Treasury yield was 14 bps lower while the 2-year yield was unchanged.[1] The unexpected drop in unemployment reported in Friday's payroll report sparked a sharp increase in rates, however, reversing the week's falling rate trend.[1] By the end of the day, the 30-year Treasury yield rose 11 bps, which negated the majority of the week's decline.[1] The jump in rates more than offset earlier declines for short maturities, and the 2- to 5-year maturity range finished the week 2 to 3 bps higher, flattening the yield curve.[1]

Non-Treasury sectors showed mixed performance last week. Senior loans led all sectors.[1] Emerging markets also outperformed, although other higher-risk sectors did not fare as well.[1] Preferred securities and high yield corporate bonds both suffered negative total returns and underperformed Treasuries.[1] Falling long-maturity yields helped boost total returns for longer-duration sectors such as taxable municipals and investment grade corporates, which delivered positive total returns and outperformed Treasuries.[1] The global aggregate index experienced the lowest weekly total return across all sectors, as European and Asian markets posted negative returns.[1]

Falling long-maturity yields helped boost total returns for taxable municipals and investment grade corporates.

MUNICIPAL INVESTORS REMAIN CHOOSY

Municipal bond yields ended the week slightly higher, as the market continues to recover from all-time low yields a few weeks ago.[1] New issue supply of $9.2 billion was priced to sell and well received.[2] Fund flows were positive for the 17th consecutive week at $135 million.[3] This week's new issue supply should be light at $7 billion in the holiday-shortened week.[2]

Municipal investors don't see tremendous value at these historically low yields and remain choosy. Issuers are taking advantage of these low rates to borrow money, and the new issue calendar continues to build. We expect this trend to continue through 2020. New issuance should be priced to sell, but demand remains strong. We would see any increase in yields as a potential buying opportunity.

The State of California issued $2.6 billion general obligation bonds (rated Aa2/AA-).[4] The deal was priced to sell and well received. For example, the 10-year bond was issued with a 5% coupon at a yield of 1.20%. These bonds traded at 1.11% by week's end, versus the 10-year U.S. Treasury yield of 0.70%. This example demonstrates the continued relative value of municipal bonds, particularly for California residents seeking tax-exempt income.

High yield municipal yields remained steady last week, fueled by reinvestment cash flows and relatively low default rates.[1] Fund flows were negative at -$145 million.[3] A $1.3 billion deal for LaGuardia Airport Delta facilities was upsized to $1.5 billion, and was still four times oversubscribed.[4] State revenues have declined just -3.9% on average this year, much less than the dire predictions that drove outflows in the spring.[5] State general obligation bonds represent a small piece of the high yield municipal market, but state budgets do impact many sectors through appropriations and aid. We believe this modest revenue decline bodes well for future performance of many high yield municipal sectors as the economy emerges from the coronavirus recession.

INVESTMENT GRADE CREDIT TAKES ANOTHER SWING INTO POSITIVE TERRITORY

Investment grade corporate bonds posted a moderate gain, continuing their recent trend of bouncing between negative and positive weekly results.[1] The asset class benefited from its long duration (8.71 years) as 10-, 20- and 30-year Treasury yields fell after rising sharply the week before. Spreads and the average yield for investment grade credit both dipped incrementally (-1 bps). On a sector basis, wirelines, independent energy and other utilities delivered the highest total returns, while subordinated tier 1 banking and other financial institutions declined.[1]

High yield corporates finished the week with a small loss.[1] As the U.S. equity market tumbled on Thursday and Friday, high yield bonds performed in sympathy, erasing gains from earlier in the week. Spreads widened by 13 bps, retracing half of the previous week's tightening.[1] Among sectors, aerospace/defense and oil field services were the biggest decliners, while life insurance and leisure topped the list of winners.[1]

High yield corporate spreads widened, retracing half of the previous week's tightening.

Emerging markets (EM) debt snapped a three-week losing streak, recording its first positive return since early August.[1] Within EM segments, sovereign bonds handily outperformed corporate securities and local-currency issues. Inflows into EM fixed income funds continued to accelerate last week, and spreads tightened by 14 bps to 343 bps – their narrowest level since the end of February.[1]

In focus

State revenues are faring better than predicted

As the coronavirus pandemic continues, questions have swirled around how the crisis is affecting the health of state revenues. Broadly speaking, states are seeing only modest declines so far this year, rather than the steep shortfalls predicted in March and April.

States generate revenue through three types of taxes: property, income and sales. Historically, property taxes are the most stable. Federal Reserve action has kept interest rates low, helping generate a boom in home buying and housing prices. Income taxes and sales taxes both declined sharply in April, but states reported mixed-to-positive results in June and July.[5]

California and Illinois are states on the rebound, with general fund revenues above forecast in July. Additionally, Connecticut's better-than-expected tax collections, coupled with CARES Act receipts and expenditure reductions, produced enough cash flow to require a deposit into the state's Budget Reserve (rainy day) Fund.[6]

There is a long road ahead, but states are rebounding as the economy reopens and conditions improve. This is welcome news in support of municipal bonds.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

U.S. Treasury market

Maturity	Yield	Change (%) Week	Month-to-date	Year-to-date
2-year	0.15	0.02	0.01	-1.43
5-year	0.30	0.03	0.03	-1.39
10-year	0.72	-0.01	0.01	-1.20
30-year	1.47	-0.03	0.00	-0.92

Source: Bloomberg L.P. As of 04 Sep 2020. **Past performance is no guarantee of future results.**

Municipal market

Maturity	Yield to Worst	Change (%) Week	Month-to-date	Year-to-date
2-year	0.15	-0.01	-0.01	-0.89
5-year	0.26	0.00	0.00	-0.83
10-year	0.83	0.02	0.02	-0.61
30-year	1.57	0.01	0.01	-0.52

Source: Bloomberg L.P. As of 04 Sep 2020. **Past performance is no guarantee of future results.**

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	115
30-year AAA Municipal vs Treasury	108
High Yield Municipal vs High Yield Corporate	82

Source: Bloomberg L.P., Thompson Reuters. As of 04 Sep 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	Month-to-date	Year-to-date
Municipal	1.33	–	5.39	-0.06	-0.07	3.23
High Yield Municipal	4.54	317[7]	8.91	0.01	-0.03	0.23
Short Duration High Yield Municipal[8]	4.23	374	4.15	0.01	-0.02	0.36
Taxable Municipal	2.24	139[9]	10.11	0.50	0.22	8.77
U.S. Aggregate Bond	1.17	56[9]	6.13	0.15	-0.08	6.76
U.S. Treasury	0.52	–	7.30	0.12	-0.17	8.57
U.S. Government Related	1.15	66[9]	6.08	0.18	-0.01	5.05
U.S. Corporate Investment Grade	1.98	129[9]	8.71	0.38	-0.04	6.90
U.S. Mortgage-Backed Securities	1.20	52[9]	2.01	-0.03	-0.03	3.70
U.S. Commercial Mortgage-Backed Securities	1.50	109[9]	5.33	0.13	-0.05	6.56
U.S. Asset-Backed Securities	0.60	44[9]	2.12	0.03	-0.01	4.00
Preferred Securities	3.16	228[9]	4.39	-0.15	-0.18	2.93
High Yield 2% Issuer Capped	5.53	489[9]	3.65	-0.04	-0.10	1.51
Senior Loans[10]	5.93	568	0.25	0.77	0.64	-0.87
Global Emerging Markets	4.04	343[9]	6.70	0.48	0.29	3.54
Global Aggregate (unhedged)	0.91	48[9]	7.38	-0.16	-0.36	5.72

7 Yield difference between the Bloomberg Barclays High Yield Municipal Index and the 20-year AAA MMD scale. **8** 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. **9** Option-adjusted spread to Treasuries. **10** 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 04 Sep 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.

1 Bloomberg L.P. **2** The Bond Buyer, 4 Sep 2020. **3** Lipper Fund Flows. **4** Market Insight, MMA Research, 2 Sep 2020. **5** J.P. Morgan. **6** CT Examiner, 02 Sep 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 Merrill Lynch 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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