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Weekly Fixed Income Commentary

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Strong employment data boost Treasury yields

U.S. Treasury yields rose on strong U.S. economic data, and spread sectors generally outperformed. The overall solid data further reduced expectations for near-term U.S. Federal Reserve easing, though markets still price the first rate cut for June.

HIGHLIGHTS

- **Total returns were negative for Treasuries and most spread sectors.**
- **Investment grade corporates, MBS, preferreds and emerging markets all outperformed.**
- **Municipal bond yields increased. New issue supply was $6B and fund inflows were $80M. This week's new issuance is expected to be $8.3B.**

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Watchlist

- *The 10-year U.S. Treasury yield rose last week, but we expect yields to decline slightly over the course of the year.*
- *Spread assets were mixed but generally outperformed Treasuries.*
- *Increased seasonal supply should provide an attractive entry point for municipal bonds.*

INVESTMENT VIEWS

Rates have probably peaked for this cycle, as attention pivots toward rate cuts in response to softer growth and easing inflation.

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

Risk premiums may widen further, with entry points for taxable fixed income likely to become more attractive over the coming quarters. Credit selection is key as we search for bonds with favorable income and solid fundamentals.

KEY RISKS

- Inflation fails to continue moderating as expected, weighing on asset prices.
- Policymakers unsuccessfully juggle fighting inflation with supporting economies still struggling to gain traction.
- Geopolitical flare-ups: Israel, China, Russia and Iran.

EMERGING MARKETS DEBT SEES INFLOWS

U.S. Treasury yields rose last week amid mostly stronger economic data. The 10-year yield ended 20 basis points (bps) higher at 4.40%, a new year-to-date high. 2-year yields moved less sharply, up 13 bps. The strong March jobs report showed a 303,000 increase in employment last month. The unemployment rate also fell -0.1 percentage point to 3.8%. Encouragingly, the net revisions to prior months were positive as well, in contrast to the recent trend of mostly negative revisions. Meanwhile, the ISM manufacturing survey moved into expansionary territory for the first time since 2022, though the parallel services survey surprisingly retreated. Overall, the ISM surveys remain consistent with a slowdown in real GDP growth to around 1.5% this year. The overall strong data further reduced expectations for near-term Fed easing, though markets still price the first rate cut for June.

Investment grade corporates retreated, returning -1.18% for the week, though they outpaced similar-duration Treasuries by 7 bps. The asset class enjoyed its 23rd straight weekly inflow, with $6.3 billion entering the asset class for the week. That was an acceleration from the recent pace, which has averaged closer to $5 billion per week. The new issue market remained active, with around $23 billion of new supply for the week, which the market easily digested. Those deals were oversubscribed by around 3.6x, leading to new issue concessions of around 3.7 bps, in line with year-to-date averages.

High yield corporates also weakened alongside the rise in rates, returning -0.49% for the week. The asset class lagged similar-duration Treasuries by -6 bps. Senior loans returned 0.14%, the 23rd straight week of positive returns. With the strong and prolonged rally in loans, 45% of the market is now trading above par, the highest rate since 2022. Loan market inflows continued, at $689 million, while high yield funds saw outflows of -$259 million. The new issue market remained active, with $5.5 billion and $5.0 billion of supply in the high yield and loan markets, respectively.

Emerging markets returned -0.46% for the week, though they outperformed similar-duration Treasuries by 59 bps, the best performance across major asset classes. Spreads tightened across sovereigns and corporates, led by high yield sovereigns such as Argentina and Pakistan. Inflows returned for only the second week this year, with $190 million into local funds and $58 million into hard currency funds.

MUNICIPAL BOND IS RELATIVELY FLAT, GARNERING BROAD INTEREST

Municipal bond yields rose 14 bps and 13 bps on the short and long ends of the curve, respectively. The new issue market was priced to sell, and was generally well received. Fund flows were positive, despite exchange-traded fund outflows of -$390 million. This week's new issue supply should be well received, as portfolio managers continue to require large blocks of bonds to rework portfolios.

The municipal bond sell off was mainly driven by recent outsized new issuance. Even with the yield increase, muni yields remain rich compared to Treasuries. However, muni yields have risen gradually, and demand remains strong. The muni bond yield curve is relatively flat, garnering tremendous interest in both the short and the long ends. We expect this trend to continue for the foreseeable future.

Anne Arundel Co., Maryland, issued $240 million general obligation bonds (rated Aaa/AAA). Remaining balances traded at a discount. For example, 5% coupon bonds maturing in 2034 were issued at a 2.69% yield and traded at a loss to the underwriter at a higher yield of 2.76 %. This was due to the Treasury bond sell off and because dealers wanted to move inventory.

High yield municipal bond yields rose last week, but by less than high grade munis. This continues the credit spread tightening trend in 2024, narrowing 39 bps to 210 bps currently. Spreads are biased lower by the richness and large market-weighted contributions from tobacco and Puerto Rico. Spread narrowing has been driven by the return of high yield muni fund inflows, with positive flows every week this year totaling $5.5 billion. Supply has also been limited. We are tracking 12 deals pricing this week, offering only $306 million in total par issuance. New issue deals remain routinely oversubscribed, forcing many buyers to compete more aggressively in the secondary market.

45% of the senior loan market is trading above par, the highest rate since 2022.

In focus

IG corporate issuance sets record

Investment grade (IG) first quarter issuance totaled $537 billion, easily outpacing the previous first quarter high of $479 billion set in 2020. This volume is second only to the Covid-fueled surge of $716 billion in the second quarter of 2020.

Issuers were driven to the new issue market by the decline in borrowing costs from both spread compression and the overall lower level of interest rates compared to late last year. Despite the record issuance, IG corporate spreads compressed 9 bps to close the quarter at 90 bps due to strong demand. On average, deals were about 4 times oversubscribed with minimal new issue concessions.

Full-year supply forecasts remain materially unchanged, as the 2024 surge of issuance can be attributed to a pull-forward of plans to issue new bonds. We expect the pace of issuance to slow as we move through the remainder of the year. We believe IG corporate technicals will be supportive of valuations as supply normalizes in the face of still-strong demand.

U.S. Treasury market

		Change (%)		
Maturity	Yield	Week	Month-to-date	Year-to-date
2-year	4.75	0.13	0.13	0.50
5-year	4.40	0.18	0.18	0.55
10-year	4.40	0.20	0.20	0.52
30-year	4.55	0.21	0.21	0.53

Source: Bloomberg L.P., 05 Apr 2024. **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	3.11	0.14	0.14	0.59
5-year	2.68	0.14	0.14	0.40
10-year	2.66	0.15	0.15	0.38
30-year	3.81	0.13	0.13	0.39

Source: Bloomberg L.P., 05 Apr 2024. **Performance data shown represents past performance and does not predict or guarantee future results.**

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	61
30-year AAA Municipal vs Treasury	84
High Yield Municipal vs High Yield Corporate	71

Source: Bloomberg L.P., Thompson Reuters, 05 Apr 2024. 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]	3.61	–	6.12	-0.65	-0.65	-1.03
High yield municipal	5.59	210[1]	7.03	-0.83	-0.83	0.67
Short duration high yield municipal[2]	5.20	257	3.62	-0.28	-0.28	1.82
Taxable municipal	5.19	65[3]	7.88	-1.52	-1.52	-1.42
U.S. aggregate bond	5.00	38[3]	6.23	-1.06	-1.06	-1.83
U.S. Treasury	4.58	–	5.99	-1.07	-1.07	-2.01
U.S. government related	5.05	45[3]	5.30	-0.78	-0.78	-1.14
U.S. corporate investment grade	5.45	89[3]	6.99	-1.18	-1.18	-1.57
U.S. mortgage-backed securities	5.20	47[3]	6.23	-1.04	-1.04	-2.07
U.S. commercial mortgage-backed securities	5.46	93[3]	4.30	-0.54	-0.54	0.30
U.S. asset-backed securities	5.29	52[3]	2.59	-0.27	-0.27	0.41
Preferred securities	6.52	147[3]	4.76	-0.20	-0.20	4.32
High yield 2% issuer capped	7.84	303[3]	3.20	-0.49	-0.49	0.98
Senior loans[4]	9.38	503	0.25	0.14	0.14	2.67
Global emerging markets	7.14	257[3]	6.07	-0.46	-0.46	1.07
Global aggregate (unhedged)	3.83	38[3]	6.68	-0.70	-0.70	-2.76

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.

Source: Bloomberg L.P. and Credit Suisse, 05 Apr 2024. **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, 05 Apr 2024. **Fund flows:** Lipper. **New deals:** Market Insight, MMA Research, 03 Apr 2024.

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.

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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 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.

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