NUVEEN ASSET MANAGEMENT

Fiscal and monetary stimulus plans help stabilize markets March 2020

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Weekly Fixed Income Commentary

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Fiscal and monetary stimulus plans help stabilize markets

U.S. Treasury yields finished slightly lower last week, moving within a narrower range as markets stabilized. Investors – especially those in higher risk assets – were encouraged by the announcement of additional Federal Reserve (Fed) programs and fiscal stimulus of more than $2 trillion. Risk-off sentiment returned later in the week, however, mainly due to the astounding jump in initial jobless claims.

HIGHLIGHTS

- **Preferred securities led taxable performance, followed by investment grade and high yield corporates.**
- **The municipal market rallied strongly across the yield curve.**
- **The global aggregate sector outperformed U.S. markets, based on strong returns in Asia.**

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MONETARY AND FISCAL POLICY PROGRESS FOSTERS HOPE

Treasury rates bounced within a narrower range last week, as markets stabilized.[1] Early in the week, investors reacted positively to additional Fed programs and hopes that Congress would pass a sizable spending bill. By Thursday's close, Treasury yields were only modestly changed.[1] Passage of a $2 trillion spending bill did not deliver the intended effect, and Treasuries experienced their most significant move on Friday as all yields fell sharply.[1] The astounding jump in weekly initial jobless claims to 3.2 million contributed significantly to the risk-off sentiment later in the week.

Market sentiment recovered last week for the highest risk sectors. All the credit-related sectors posted strong positive returns and handily outperformed similar-duration Treasuries.[1] Preferred securities delivered the best total return, followed by investment grade and high yield corporates.[1] The securitized and government-related sectors suffered the weakest returns, with asset-backed and commercial mortgage-backed securities enduring negative weekly total returns.[1] The only sectors with positive total returns so far in 2020 are Treasuries, mortgage-backed securities and agencies, as these areas have been heavily supported by Fed buying.[1] Non-U.S. markets performed well, with emerging markets debt benefiting from the positive risk sentiment. The global aggregate sector outperformed U.S. markets, based on strong returns in Asia.[1]

The Fed has been purchasing assets at a significantly faster pace compared to the 2008 financial crisis. Its balance sheet has already grown more than $1 trillion in March alone. It announced that it would be slowing the pace of buying later next week.

Municipal yields rallied by 150 bps across the curve last week.

MUNICIPAL MARKETS BOUNCE BACK

Municipal yields experienced their biggest rally in history last week, moving roughly 150 basis points (bps) across the municipal yield curve.[1] New issuance of only $2.1 billion was priced to sell and well received.[2] Fund flows were negative for the second consecutive week, at -$13.6 billion.[3] New issuance this week is expected to be muted once again at $3 billion.[2]

The municipal market responded positively to the stimulus package, as well as federal programs set to purchase several billion dollars of non-government securities, including certain municipal bonds. The rally allowed the market to retrace the losses since the coronavirus crisis began. The stimulus package provides direct relief to municipalities, airports, ports, hospitals, mass transit and colleges. The government's yeoman efforts have helped provide needed stability to the markets. Once the virus curve begins to flatten, we can more fully evaluate any potential credit issues.

Buncombe County, North Carolina, issued $56 million in tax-exempt bonds (rated Aa1/AA+).[4] The deal was well received, with interest in some areas more than 20 times the amount of the bonds being offered. The 2036 maturity had 4% bonds offered at a tax-exempt yield of 2.36%, nearly 100 bps cheaper than the taxable 30-year bond yield of 1.45%. This is a prime example of how the municipal market is beginning to function properly again.

High yield municipal bond fund outflows have totaled -$9.5 billion over the last two weeks.[3] Due to selling pressures, yields increased 135 bps on average for the week of 20 March.[1] Once liquidity improved, yields declined 105 bps last week.[1] The last two weeks have shown record volatility and record relative value dispersion, with compelling credit spreads. Credit research going forward will require a balance of impact to revenues, stimulus relief, and reserves and auxiliary revenue sources. We believe many high yield municipal credits can be resilient during this time, and currently discounted prices are not warranted in a new low interest rate environment.

RISK ASSETS SWING TO BIG GAINS EVEN AMID OUTFLOWS

Investment grade corporate bonds rebounded dramatically, with total returns surging to +6% last week from -9% the week before.[1] After hitting new year-to-date highs last Monday, spreads finished the week 68 bps tighter.[1] Sentiment was bolstered by news that the Fed will start buying eligible investment grade corporate bonds through primary and secondary market facilities and through ETFs. Investment grade outflows persisted, however, to the tune of $20.7 billion, while primary supply saw its busiest week ever: nearly $109 billion in new deals from 49 issuers.[2,3]

High yield corporates swung to a 5% gain from the prior week's double-digit loss (-10%).[1] Sector leaders included health care and TMT (technology, media and telecommunications).[1] The week began on a gloomy note, as high yield credit initially declined in sympathy with equities.[1] On Tuesday, the market shifted abruptly to a risk-on mode, and on Thursday the high yield index posted its second-largest one-day return (+2.83%) on record.[1] Improved conditions didn't stem high yield outflows, which totaled $2 billion for the week.[3]

On Thursday, high yield corporates posted their second-largest one-day return ever.

Emerging markets (EM) debt was well-bid.[1] The previous week's panicked selling gave way to equally frenzied buying. EM spreads narrowed by 31 bps overall, led by higher-quality sovereign issues.[1] Local rates markets were buoyed in part by new easing programs from EM central banks. Despite these positives, nearly $12 billion flowed out of EM debt funds last week.[3]

In focus

Municipal market shows positive signs

Prior to March, a strong municipal bond market enjoyed a record 60 weeks of positive fund flows. Supply outpaced demand, and munis were looking expensive as investors sought tax-exempt income.

But on 9 March, municipal bonds broke from their historical relationship to Treasuries, and volatility and liquidity pressures triggered intense outflows. We began to see improvement last week.

AAA municipal bond yields peaked on Friday, 20 March, with the 10- and 30-year bonds yielding 2.79% and 3.37%, respectively. Yields held steady on Monday 23 March, then began to decline on Tuesday for the first time since municipal yields split from Treasuries. An exuberant market followed the rest of the week: On Friday, 10- and 30-year yields were 1.26% and 1.84%, respectively. This move was large enough to erase a significant portion of the losses of the first two weeks of March, but yields remain elevated.

Any hints of positive news about the virus control or improved financial conditions could trigger additional price jumps. Credit selection remains critically important and opportunities remain specific, suggesting the need for careful active management.

We believe investor sentiment should continue to improve, given municipals' solid fundamentals backed by large monetary and fiscal stimulus efforts and extraordinarily high yields compared to taxable bonds, especially Treasuries.

U.S. Treasury market

Maturity	Yield	Change (%) Week	Month-to-date	Year-to-date
2-year	0.25	-0.07	-0.67	-1.33
5-year	0.40	-0.07	-0.54	-1.30
10-year	0.68	-0.17	-0.47	-1.24
30-year	1.27	-0.15	-0.41	-1.12

Source: Bloomberg L.P. As of 27 Mar 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	1.06	-1.46	0.33	0.02
5-year	1.09	-1.47	0.36	0.00
10-year	1.26	-1.53	0.33	-0.18
30-year	1.84	-1.53	0.32	-0.25

Source: Bloomberg L.P. As of 27 Mar 2020. **Past performance is no guarantee of future results.**

Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	175
30-year AAA Municipal vs Treasury	143
High Yield Municipal vs High Yield Corporate	52

Source: Bloomberg L.P., Thompson Reuters. As of 27 Mar 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	1.95	–	5.17	7.86	-3.28	-0.27
High Yield Municipal	5.12	347[5]	9.55	11.16	-10.06	-5.91
Short Duration High Yield Municipal[6]	4.17	303	4.66	4.39	-6.41	-3.82
Taxable Municipal	3.03	214[7]	9.33	-1.94	-7.16	0.15
U.S. Aggregate Bond	1.61	96[7]	5.59	2.65	-1.05	2.67
U.S. Treasury	0.61	–	7.03	1.70	2.83	8.14
U.S. Government Related	1.97	141[7]	5.58	1.31	-3.45	0.11
U.S. Corporate Investment Grade	3.69	295[7]	7.88	6.13	-8.50	-5.11
U.S. Mortgage-Backed Securities	1.12	41[7]	1.45	1.92	1.06	2.82
U.S. Commercial Mortgage-Backed Securities	2.89	234[7]	5.28	-0.99	-5.65	-1.45
U.S. Asset-Backed Securities	3.49	318[7]	2.09	-1.31	-3.85	-2.02
Preferred Securities	6.09	418[7]	5.23	9.16	-11.70	-12.56
High Yield 2% Issuer Capped	9.86	922[7]	4.13	5.07	-12.76	-13.96
Senior Loans[8]	11.39	1082	0.25	2.42	-14.85	-15.56
Global Emerging Markets	7.14	649[7]	5.89	3.47	-10.55	-9.35
Global Aggregate (unhedged)	1.22	82[7]	7.01	3.17	-2.16	-0.25

5 Yield difference between the Bloomberg Barclays High Yield Municipal Index and the 20-year AAA MMD scale. **6** 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. **7** Option-adjusted spread to Treasuries. **8** 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 27 Mar 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 indices are unmanaged and unavailable for direct investment.

For more information, please visit nuveen.com.

1 Bloomberg L.P. **2** The Bond Buyer, 27 Mar 2020. **3** Lipper Fund Flows. **4** Market Insight, MMA Research, 25 Mar 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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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 suitability 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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