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# Positive trade moves boost Treasury yields

*U.S. Treasury yields increased and spread sectors outperformed substantially. The move higher was initially driven by Monday's announcement of a preliminary trade truce between the U.S. and China. Separately, U.S. inflation data was slightly softer than feared.*

## HIGHLIGHTS

- **Treasuries, MBS and taxable munis retreated.**
- **Investment grade and high yield corporates, preferreds, emerging markets, senior loans and CLOs all had positive returns and outperformed Treasuries.**
- **Municipal bond yields ended the week mixed. New issue supply was \$13.8B, and fund inflows were \$767M. This week's new issuance is expected to be \$10.7B.**



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# Watchlist

- *Treasury yields moved higher, and we continue to expect elevated volatility, a wider trading band and a modest rally from current levels.*
- *Spread sectors gained substantially versus Treasuries as the U.S. lowered tariffs on China.*
- *We expect the technical environment for municipal bonds to improve as the year progresses.*

## INVESTMENT VIEWS

We believe fixed income **yields generally present one of the best entry points in a generation**, creating attractive income opportunities.

**Downside risks are material, despite strong fundamentals**, with tariffs likely to compress consumer spending and weigh on business fixed investment. A U.S. recession is not our base case.

**Risk premiums may widen further**, with entry points likely to become more attractive over the coming quarters. Duration is likely to reassume its role as a growth hedge.

## KEY RISKS

- Tariffs further undermine consumer and business confidence, raising prices while weighing on sentiment and activity.
- Inflation fails to continue moderating as expected, weighing on asset prices.
- Geopolitical flare-ups intensify around the world.

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## INVESTMENT GRADE CORPORATE SUPPLY RUNS AHEAD OF LAST YEAR'S PACE

**U.S. Treasury yields rose again last week**, with 10-year yields ending 10 basis points (bps) higher at 4.48%. 2-year yields rose 11bps. The move was initially driven by Monday's announcement of a preliminary trade agreement between the U.S. and China, with the U.S. lowering its tariff rate to 30%. Treasury Secretary Bessent also hinted that the rate could decline to 10% soon. Separately, U.S. inflation data for April was slightly softer than feared, with core CPI rising +0.2% for the month and core PPI falling -0.4%. Altogether, the data point to a core PCE reading of around 2.6% year-over-year for April, although that predates the full tariff impacts that will likely push inflation higher from May onward.

**Investment grade corporates advanced** despite the Treasury weakness, returning 0.19% for the week and outpacing similar-duration Treasuries by 57 bps. Spreads tightened 9 bps, with most of the move occurring on Monday after the positive trade developments. Inflows slowed to \$2.6 billion, still higher than the recent average run rate. New issuance remained busy, with \$40 billion pricing, averaging oversubscription rates of 5x and new issue concessions of 3.7 bps. Overall, despite the recent volatility in bond markets, supply has totaled \$729 billion this year, running 2.3% ahead of last year's pace.

**High yield corporates outperformed**, returning 0.87% and beating similar-duration Treasuries by 105 bps. Senior loans returned 0.65%. That marked the fifth and sixth straight weekly gains for high yield and loans, respectively, even as the Aggregate Index retreated in each of the last three weeks. Lower-quality segments outperformed, with CCC rated high yield returning 1.10% for the week. In loans, 51% of non-distressed names trade above par – the first time that metric has risen above 50% since February – illustrating the recent resurgence in demand. Fund flows were positive as well, with \$2.6 billion and \$1.2 billion entering the high yield and leveraged loans markets, respectively.

**Emerging markets gained**, returning 0.52% and outperforming similar-duration Treasuries by 85 bps. Sovereign spreads tightened by 17 bps. As in U.S. corporates, lower-rated segments outperformed, with high yield sovereigns tightening -31 bps. The asset class enjoyed another week of inflows, totaling \$260 million. Supply was somewhat calm, with only \$4 billion pricing.

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## THE MUNICIPAL MARKET CONTINUES TO FACE OUTSIZED ISSUANCE

**The municipal bond yield curve steepened last week**, with the short end finishing 2 bps lower and the long end 5 bps higher. New issue deals cleared the market. Fund flows were positive for the third consecutive week, including exchange-traded fund inflows of \$561 million. This week's new issue supply should again be priced to sell and well received.

**Moody's downgraded U.S. government debt** from AAA to Aa1 due to concerns over debt levels. Virtually all other fixed income classes are priced at a spread to U.S. government bonds. That being said, Moody's states the U.S. offers "exceptional credit strengths such as the size, resilience and dynamism of its economy." We expect ongoing volatility in the Treasury market as investors assess fair value.

**Municipal market credit is strong**, with the biggest challenge being heavy new issuance. Much of the outsized debt is meant to finance the rebuilding of U.S. infrastructure, including toll roads, airports, bridges and ports. Muni yields have continued to cheapen, but demand is increasing. Reinvestment money of \$140 billion is expected from June to August.

**Dormitory State of New York** issued \$1 billion school district financing revenue bonds (rated Aa3). The deal was priced to sell and well received. All maturities were bid at a premium in the secondary market from where they were originally priced.

**High yield municipal yields moved slightly higher** last week on average, led by large, higher-beta names. Yields tightened on project-specific bonds like Colorado Land Secured due to more focused demand. High yield muni fund inflows are healthy, and new issuance remains massively oversubscribed. Secondary market yields for Brightline FL bonds adjusted firmly into high yield territory, but trading volume involved mostly swaps.

***High yield corporates and loans saw their fifth and sixth straight weekly gains in returns, respectively.***

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## *In focus*

# *CLOs: no longer niche-y*

*Since emerging as a niche asset class in the 1990s, the collateralized loan obligation (CLO) market now tops \$1 trillion, boosted by rising global demand from institutional and individual investors.*

CLOs are actively managed portfolios consisting of typically 200-300 first-lien senior secured below-investment-grade floating rate corporate loans that have been repackaged into separate securities (tranches) spanning the credit rating spectrum. This structure allows investors to choose the specific CLO tranche that best matches their risk profile and return target.

CLOs offer compelling yields compared to similarly rated corporate debt. As of 16 May, the yield on the highly rated AA tranches was 5.6%, while the BB yield was 11.2%. Investors in the highest-risk equity tranches (neither rated nor coupon-bearing) are entitled to receive all excess cash flows, typically a mid-teens cash-on-cash yield, once obligations to the debt tranches have been met and therefore could realize the highest total return. Despite healthy payouts, CLOs have experienced far fewer defaults compared to corporate debt due to strong structural protections and active management to reduce credit risk.

CLOs have minimal duration risk and low correlation to most bond markets, making them a strong portfolio diversifier.

Adjustable-rate/floating rate senior loans may not be fully secured by collateral, generally do not trade on exchanges, and are typically issued by unrated or below-investment grade companies and therefore are subject to greater liquidity and credit risk. Lower credit debt securities may be more likely to fail to make timely interest or principal payments. Rates on senior loans typically adjust with changes in prevailing short-term interest rates; therefore, when short-term rates rise, senior loan rates will rise and when short-term rates decline, senior loan rates will decline.

## U.S. Treasury market

Maturity	Change (%)			
	Yield	Week	Month-to-date	Year-to-date
2-year	4.00	0.11	0.40	-0.24
5-year	4.09	0.09	0.37	-0.29
10-year	4.48	0.10	0.32	-0.09
30-year	4.95	0.11	0.27	0.16

Source: Bloomberg L.P., 16 May 2025. Performance data shown represents past performance and does not predict or guarantee future results.

## Municipal market

Maturity	Change (%)			
	Yield to worst	Week	Month-to-date	Year-to-date
2-year	2.84	-0.02	-0.08	0.02
5-year	2.90	-0.04	-0.12	0.03
10-year	3.27	-0.02	-0.07	0.21
30-year	4.43	0.05	0.05	0.53

Source: Bloomberg L.P., 16 May 2025. Performance data shown represents past performance and does not predict or guarantee future results.

## Yield ratios

	Ratio (%)
10-year AAA Municipal vs Treasury	74
30-year AAA Municipal vs Treasury	91
High Yield Municipal vs High Yield Corporate	78

Source: Bloomberg L.P., Thompson Reuters, 16 May 2025. 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

Index	Yield to worst (%)	Spread (bps)	Effective duration (years)	Returns (%)		
				Week	Month-to-date	Year-to-date
Municipal	4.03	–	6.59	0.02	0.28	-0.75
High yield municipal	5.83	164 <sup>1</sup>	7.37	-0.08	0.15	-0.83
Short duration high yield municipal <sup>2</sup>	5.61	260	4.47	0.33	0.49	0.80
Taxable municipal	5.24	73 <sup>3</sup>	7.60	-0.37	-1.58	1.28
U.S. aggregate bond	4.77	34 <sup>3</sup>	6.10	-0.19	-1.14	2.01
U.S. Treasury	4.27	–	5.88	-0.34	-1.46	2.06
U.S. government related	4.76	46 <sup>3</sup>	5.34	-0.11	-0.92	2.38
U.S. corporate investment grade	5.29	90 <sup>3</sup>	6.76	0.19	-0.60	1.66
U.S. mortgage-backed securities	5.16	38 <sup>3</sup>	6.16	-0.29	-1.14	2.17
U.S. commercial mortgage-backed securities	5.01	88 <sup>3</sup>	4.01	-0.05	-0.83	2.64
U.S. asset-backed securities	4.74	64 <sup>3</sup>	2.65	-0.02	-0.42	1.60
Preferred securities	6.52	183 <sup>3</sup>	5.31	0.62	1.13	0.71
High yield 2% issuer capped	7.46	305 <sup>3</sup>	2.95	0.87	1.42	2.41
Senior loans <sup>4</sup>	8.41	472	0.25	0.65	1.27	1.82
Collateralized loan obligations, AA	5.55	145 <sup>3</sup>	0.25	0.44	0.76	2.11
Collateralized loan obligations, BB	11.22	720 <sup>3</sup>	0.25	1.52	2.12	2.55
Global emerging markets	6.58	222 <sup>3</sup>	5.92	0.52	0.33	2.63
Global aggregate (unhedged)	3.62	34 <sup>3</sup>	6.55	-0.45	-1.39	4.19

**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 Standard & Poor's, 16 May 2025. 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, 16 May 2025. **Fund flows:** Lipper. **New deals:** Market Insight, MMA Research, 14 May 2025.

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:** S&P UBS Leveraged Loan Index; **CLO AA:** J.P. Morgan Collateralized Loan Obligation AA Index; **CLO BB:** J.P. Morgan Collateralized Loan Obligation BB Index; **global emerging markets:** Bloomberg Emerging Market USD Aggregate Index; **global aggregate:** Bloomberg Global Aggregate Unhedged Index.

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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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