Nuveen Global Green Bond Fund

Fund Commentary

The Federal Reserve's (Fed) higher-for-longer narrative and uncertainty surrounding more Treasury supply drove rates sharply higher through late October before a string of lower inflation readings led investors to begin anticipating a soft-landing scenario for the U.S. economy. In December, Fed policymakers surprised the market with a dovish pivot indicating three potential rate cuts in 2024. The market aggressively priced in even more cuts for the coming year, fueling a rally in rates and spreads that continued through year-end. The rally boosted the return of the broad fixed income market into positive territory for the quarter and year, following two years of declines.

The team was active from a bottom up perspective, selling corporate and municipal credit instruments with richer valuations and tighter spreads, and reinvesting in higher quality securities that still offered attractive yields, including supranationals and asset backed securities (ABS). The risk-on tone and strong year-end rally provided opportunities to reduce spread duration during a period of exuberance and market liquidity. Security selection is based on our (Nuveen) impact framework, emphasizing, what we believe to be, undervalued investment grade bonds whose proceeds support direct and measurable outcomes in two environmental/sustainable themes: (1) renewable energy & climate change and/or (2) natural resources.

During the quarter, the Nuveen Global Green Bond Fund (Series FH) gained 5.18% and the Nuveen Global Green Bond (Series F) gained 2.86%.

Positive Contributors

Sector allocation contributed to the Fund's fourth-quarter performance. Amid improving inflation data, the Fed signaled that it had reached its terminal federal funds rate. This drove increased risk-taking in the bond market during the period, with strong excess returns and every spread sector generating material outperformance. Portfolio overweights in corporates and municipals, as well as an underweight in government-related agency, contributed favourably. Corporate security selection in the utility sector bolstered relative results during the period.

Performance Detractors

The Fund's slightly shorter-than-benchmark duration weighted on results as rates staged a strong but unexpected rally in November and December. Duration positioning was additive to results in October. Ultimately, the market concluded a Fed pivot to lower policy rates was imminent. Yet we are not convinced the Fed will deliver the number or magnitude of cuts in 2024 that are currently priced into the futures market.

The Fund's up-in-quality security selection bias detracted from relative performance given the fourth quarter's risk-on tone. The portfolio remains defensively positioned from a credit perspective, favouring up-in-quality credits and seeking to get closer to predictable, stable free cash flows (FCFs). There is potential for greater credit spread volatility as the economy decelerates and the consumer weakens, given historically tight credit spreads and flat credit curves. This portends a more attractive entry point for taking credit risk later in 2024.

Overweight high quality ABS and covered bonds detracted from results during the risk-on-period, and the liquidity stores of U.S. Treasuries and cash dragged on relative results as well.

Current Positioning

Fixed income markets overall appear attractive. Inflation is easing across developed markets, and we believe the Federal Reserve and European Central Bank have finished their rate hiking cycles. We don't expect near-term rate cuts, but believe bond yields should move modestly lower throughout 2024. Fixed income markets should perform well in such an environment. Even if rates remain elevated, current yields offer compelling income.

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We believe that the increase in bond yields and continued tight credit spreads across most areas of the global fixed income market have created value. As discussed in our portfolio constructive views, we are mostly focused on higher credit quality segments. We anticipate wider credit spreads in the first part of 2024, and at that point, it might make sense to take more credit risk.

We have been advocating for some time a focus on flexibility and diversification across credit sectors, as we see solid (if idiosyncratic) opportunities across global fixed income markets. Given our expectation for modest spread widening, we have an overall neutral view toward investment grade and high yield markets (in which we favour the higher credit quality areas). Valuations look fair in emerging markets debt, but geopolitical risks could create headwinds.

We favour securitized credit. Non-agency mortgage-backed securtities look especially attractive, as they offer relatively wide credit spreads. We also think prepayment risks are relatively low, given that rates are unlikely to decline rapidly. We also see value in commercial mortgage-backed and asset-backed securities. Furthermore, higher-quality (BB rated) senior loans offer strong fundamentals and, as a floating-rate asset class, look compelling in a higher-for-longer short-term rate environment.

Municipal bonds feature, in our opinion, strong fundamentals (solid credit ratings and high levels of cash) and attractive supply/demand dynamics. We also believe their longer-duration profile should be a tailwind given our views on rates. We see significant opportunities in taxable municipals for non-U.S. investors (despite some higher hedging costs) and are focused on the high yield and specialty and property-tax-backed areas of the taxable market.

About Nuveen

Nuveen is a global investment leader, managing an array of public and private assets for clients around the world on behalf of their parent company TIAA, one of the world's largest institutional investors, a highly rated insurance company and a retirement provider. With a diverse expertise across income and alternatives, Nuveen invests in the growth of businesses, real estate, infrastructure, farmland and forests to help make an enduring impact on our world.

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