Nuveen's Davis On What '25 Has Set Up For Closed-End Funds In The Year Ahead

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Chuck Jaffe, in this episode of The NAVigator podcast interviews Stephen Davis, closed-end fund product specialist at Nuveen. Stephen says that while 2025 was a strong year for closed-end fund performance, price returns exceeded net asset value (NAV) gains, reflecting a narrowing of discounts, continuing a trend from 2024. Those narrower discounts will make it harder for that broad trend to continue in 2026, but he noted that municipal bonds and senior loans are two areas that should provide promising opportunities. Davis noted that 2025 saw significant merger and rights offering activity, a trend he expects to continue in the new year.

The podcast can be found on AICA's website by clicking here: https://aicalliance.org/alliance-content/pod-cast/

CHUCK JAFFE: Stephen Davis, closed-end fund product specialist at Nuveen is here, we're getting his take on what happened in closed-end funds in 2025 and his outlook for what's looking good in 2026, this is The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization in that it represents the full spectrum of the closed-end fund business from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. Joining me today, Stephen Davis, he's closed-end fund product specialist at Nuveen, one of the largest players in the closed-end fund space, and if you want to find out what they're doing in closed-end funds, well, it's Nuveen.com/closed-end-funds. If you want to learn more generally about closed-end funds, interval funds. or business-development companies, go to AICAlliance.org, that's the website for the Active Investment Company Alliance. Stephen Davis, welcome to The NAVigator.

STEPHEN DAVIS: Thanks, Chuck. Great to be with you, thanks for having me on.

CHUCK JAFFE: I very seldom ask people about their job, because I normally know from their title what their job is or it's a meaningless title like, you know, executive vice president, but closed-end fund specialist, what exactly is that that you're doing at Nuveen?

STEPHEN DAVIS: Let me give you an overview of my role, Chuck, I think that's a good place to start. So my main focus at Nuveen, in the role of the closed-end fund product specialist is really supporting Nuveen's clients, supporting our clients, and I do that by partnering with our internal sales teams and the advisors they serve, and I support them in their closed-end fund conversations, so helping answer questions related to the structure or the management of or the trading of closed-end funds in the secondary market. At Nuveen we place a high priority on educating advisors and investors on closed-end funds, and so to that end I help advisors analyze the risks and rewards of specific funds, how to understand and better evaluate closed-end funds trading in the secondary market, as well as consider how closed-end funds might play a role in a broader investment portfolio.

CHUCK JAFFE: So if you're helping advisors analyze the potential risks and rewards of specific funds, you certainly had a lot to talk about in 2025, because whether it was equity or fixed income, pretty much every major asset class was doing pretty well. Now that doesn't mean that all funds did well, but for you what were the takeaways from 2025 among closed-end funds?

STEPHEN DAVIS: Yeah, you're right, Chuck, we did see strong gains across equity and fixed-income markets broadly, and as it relates to closed-end funds, 2025 was really another strong year for closed-end fund investors. Just like the broader equity markets, we saw broad-based gains across almost all closed-end fund strategies, among the top performing strategies in NAV and price return terms were commodities funds, emerging market equity, and global equity funds. We saw emerging market income funds deliver the strongest returns of all the taxable fixed-income strategies. At the other end of the table we observed some of the weakest returns in the real estate and senior loan strategies, and senior loans is in fact the only category, closed-end fund strategy to post a negative price in NAV return over the 2025 calendar year. Municipals, obviously a lot of investors know Nuveen for municipals, returns at the mid-year stage were effectively flat, but they ended the year generating positive returns over the period following a strong rally over the final four months of 2025. In fact, that rally has continued into 2026, and although it's a very short time period, munis have made a pretty strong start to this year. I'd say one of the themes, Chuck, that stands out when we look closer at NAV and price returns in 2025 is that for the majority of strategies price returns exceeded NAV returns, and that as we know reflects a narrowing of the discount, and in 2025 we saw the mean discount across all closed-end funds narrowed, and that continues a trend from 2003 and indeed 2024.

CHUCK JAFFE: Let's go a little further into discounts because they're so important to buyers of closed-end funds and people who are looking for opportunities in closed-end funds. As you pointed out, discounts narrowed last year, but I want to talk a little bit about how that happened, and I also want to talk about what that sets up for this year. Because discounts have now narrowed, they continued, as you pointed out at the end of your last answer, they continued to narrow from 2024, and if we have seen the situation where price returns beat NAV returns, that's easiest in an environment where discounts are biggest because you can narrow the discounts and get that boost. So talk about the discount trends from 2025, but then look ahead just a little bit to if discounts have narrowed, are we going to potentially see an end to that trend of price returns beating NAV returns?

STEPHEN DAVIS: Yeah, so in terms of the overall discount level, discounts narrowed over the first eight months of 2025 broadly speaking, and then they drifted wider over the final four months of the year, but despite that widening in each of the final four months of 2025, as we've just said, discounts ended 2025 at a slightly narrower level than at the start of the year, and we saw that the mean discount level overall narrowed by about 25 basis points according to Morningstar. One of the themes that we always look at is the dispersion between discount changes within the strategies, and one thing that stands out is that with municipal strategies we saw the most discount tightening over the period, over last year, that was likely driven by very attractive distribution rates on offer across muni closed-end funds.

And so to answer your second part of the question there, Chuck, I think while discounts have come in in municipal funds, there are still pockets of value and there are funds that still offer investors compelling entry points. Just going back to where we saw the biggest discount changes, senior loans and investment grade bonds were where we saw the most discount widening over the period, and that potentially reflects investor concerns about declining rates and yields. Some of the top performing strategies, the equity funds, despite their relatively strong returns we actually saw very little change in the discounts of those equity strategies, we saw almost no change in the US equity and equity option strategies.

CHUCK JAFFE: Let's turn our attention to what was one of the big stories in 2025 around the industry, which is how much action we saw when it came to funds combining, merging, et cetera, busiest year we've had for mergers in 10 or 11 years. What was up with that and how likely is that to continue?

STEPHEN DAVIS: You're absolutely right, Chuck, it was a very busy year for product actions. Let me start with mergers, I should just start by saying that closed-end fund mergers are actually a fairly common occurrence, closed-end fund product managers regularly look for ways to deliver scale benefits to shareholders through fund mergers, and our belief at Nuveen is that closed-end funds generally benefit shareholders of both the target fund or funds and the acquiring fund through enhanced operational efficiencies, meaning spreading costs over a larger asset base, as well as through improved trading dynamics, meaning greater secondary market liquidity or potential for tighter bid-ask spreads. So we're always looking at ways to generate scale in our funds for the benefit of shareholders, and I think for that reason closed-end fund mergers aren't going away, I think we'll continue to see product managers look for ways to give scale benefits to shareholders and look to merge funds that may have overlapping or very similar strategies. In 2025, you mentioned this in your question, we saw a total of 31 closed-end funds being merged or be the subject of a merger proposal, that's the highest number of closed-end fund mergers in a year we've seen since 2014 according to ICI data, so certainly a busy year for mergers. One other theme we saw in 2025 was a notable increase in the number of rights offerings being conducted, this was driven by narrower discounts more broadly, improved market sentiment and market conditions, and I think an increase in the number of opportunities for managers to put new capital to work. Nuveen conducted three rights offerings in 2025, two in our senior loan funds, JFR and JQC, at the beginning of last year, and one in our global high income fund, JGH, at the end of last year, and in each case we saw an opportunity to pour new capital in certain sectors and areas of the market that were exhibiting attractive valuations and yields, making the investment of that additional capital accretive to earnings and increasing the potential for higher portfolio yields as well as potentially improved portfolio performance. I think just like mergers, we may see that continue in 2026 if market conditions are attractive or if an opportunity is identified that's attractive, it makes sense to consider putting additional capital to work.

CHUCK JAFFE: Speaking of putting capital to work, and in your role where you're working with advisors, helping them manage risks and the rest, what are you telling them to expect for 2026? What's the parts of the market that you like?

STEPHEN DAVIS: High level, Chuck, we think closed-end funds continue to represent a compelling option for income-seeking inventors, yields are attractive across a good number of asset classes. I think a key theme for 2026 for closed-end fund investors will be declining rates and their impact on leverage costs, this has been a theme awhile and we're beginning to see the benefits of declining leverage costs. We think lower borrowing costs will continue to provide a tailwind for closed-end funds in 2026 through higher earnings, through higher fund earnings. What areas do we like? Municipals, we talked about municipals earlier, they remain one of our highest conviction views, we think munis continue to offer great value as supply eases and demand rises, we think supportive interest rates and strong fundamentals could continue to power munis forward. With a yield curve that is steep in the Treasury curve, we think that investors may be well compensated for taking on duration risk, and we see good opportunities broadly, meaning across both high grade and high yield. One other asset class I'll mention that we like, and an asset class we believe remains attractive is senior loans, we think loan yields remain attractive even after we factor in potential policy easing in 2026. We think that the healthy macro backdrop supports the asset class and we're seeing some discounted prices out there across the loan market, some good opportunities in loans priced in the $85 to $95 range, and that offers good pull to par potential upside on top of income. And as we discussed earlier, we're seeing discounts widen across the senior loan closed-end funds, meaning that entry points have become more attractive, so continue to like municipals and think that senior loans offer a compelling entry point given the discount widening over the last three, four months of 2025.

CHUCK JAFFE: Stephen, really interesting. I appreciate the help and the time, we'll talk to you again down the line.

STEPHEN DAVIS: Thanks for having me, Chuck. Great to be with you today.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. And yeah, that's me, I'm Chuck Jaffe, check out my show on your favorite podcast app or go to MoneyLifeShow.com to find it. To learn more about closed-end funds, interval funds, and business-development companies go to AICAlliance.org, it's the website for the Active Investment Company Alliance. Thanks to my guest Stephen Davis, he's a closed-end fund product specialist at Nuveen, find out what the company is doing in closed-end funds by going to Nuveen.com/closed-end-funds. The NAVigator podcast has something new for you every Friday, make sure you never miss an episode by subscribing or following along in your favorite podcast app. And if you liked this podcast, leave us a review and tell your friends, that stuff really does help us. We'll be back next week with more closed-end fund fun, until then, happy investing, everybody.

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