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Nuveen’s Caraher On Why Senior Loans Are In A Sweet Spot Now

Nuveen's senior loans chief says the asset class offers rare shelter from rate uncertainty — with yields near 7%

Scott Caraher
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Chuck Jaffe, in this episode of The NAVigator podcast, interviewed Scott Caraher, Head of Senior Loans at Nuveen. Scott says that the higher-for-longer interest rate environment has created "one of the most interesting and dynamic times" he has seen for senior loans in his 25-year career. Caraher, who manages Nuveen Floating Rate Income in both its closed-end and open-end forms, says that because senior loans don't face interest-rate risk, they are a powerful play in a market where Federal Reserve policy on rate direction is uncertain, noting that it's possible to create strong portfolios yielding about 7 percent, which he called "incredibly attractive ... on both an absolute and relative basis."

TOPICS DISCUSSED

- Senior loans carry no interest-rate duration, since their coupons float as a spread over SOFR — a key advantage while the Fed's rate path stays uncertain.
- With SOFR around 3.6% and loan spreads averaging 350–400 basis points over that, well-constructed portfolios can currently yield approximately 7%.
- Over the past 29 years, the loan market has posted only three negative annual returns — two of which were down less than 1%.
- Since the Fed began cutting rates in late 2024 (down 175 bps), loans have still returned roughly 5.75% annualized, underscoring their resilience across rate regimes.
- The historical loan default rate sits just under 3%, and Caraher sees a benign default environment continuing absent a recession — though dispersion has widened in software credits amid AI uncertainty.
- Closed-end loan funds (like JFR) add modest leverage for higher distributions and NAV-relative trading, while open-end sister funds (like NFRIX) offer lower volatility and daily NAV liquidity — same loan pool, different risk/return wrapper.

The discussion is educational in nature and intended to help investors and advisors better understand the tools, trade-offs, and data points involved in evaluating income-focused strategies.

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THE CONVERSATION

CHUCK JAFFE

Scott Caraher, head of senior loans at Nuveen is here, we're discussing credit markets now on 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, an industry organization representing the entire closed-end fund business from investors and users up to fund managers, sponsors, and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction.

Today we're looking in the direction of credit markets, and more specifically, senior loans, with Scott Caraher. He's head of senior loans for Nuveen where he manages the Nuveen Floating Rate Income Fund, that's ticker symbol JFR, has more than $1.2 billion in assets, which I believe makes it the largest closed-end fund in its asset class, but he also runs its open-ended sister fund, which not to confuse you, is also called Nuveen Floating Rate Income, it is ticker NFRIX, it has over $2 billion in assets. You can get more information on both funds, the firm, and Scott, if you search for it at Nuveen.com.

And if you want to learn more about closed-end funds, interval funds, and business-development companies in general, you'll find plenty of helpful information at AICAlliance.org, the website for the Active Investment Company Alliance.

Scott Caraher, welcome back to The NAVigator.

SCOTT CARAHER

Thanks, Chuck. Happy to be here today.

CHUCK JAFFE

You know, senior loans, it's an old-line product, they've been around for decades and decades, but they're still not well understood by a lot of investors. Before we get into what you see happening broadly in the market, let's make sure everybody's on the same ground. Let's talk about what senior loans are, why investors should be investing in them, and the role that they play relative to other parts of the fixed-income world in a portfolio.

SCOTT CARAHER

Sure, it's a great place to start. The senior loan market, or the broadly syndicated loan market, is a trillion and half dollar market today, and these are loans that are made to a large cross-section of the US economy, but these companies that borrow in the broadly syndicated loan market happen not to be investment grade, so they're rated below investment grade by the rating agencies. These are companies that many of your listeners have heard of and deal with every single day, companies like American Airlines, The Venetian casino in Las Vegas, Chobani the yogurt company, Avis rent-a-car, AMC if you're going to the movies this summer, Burger King, so these are large companies that we deal with and interact with every single day.

Now the interesting thing about the loan market, the most important thing to understand, especially given what's going on with the rate backdrop today, is that these loans have no duration, so they have no interest rate sensitivity. And the way that that works or what I mean by that is that the coupon that you're earning when you're investing in these loans is a spread over SOFR, and SOFR, which the Fed essentially controls, moves up and down. And so without taking interest rate risk, you're taking something that you have in all other parts of your fixed0income portfolio off the table, which is incredibly powerful.

The other thing, just real quickly, is the loans that we're making, these broadly syndicated loans are first in line to be repaid. So if something does go wrong, if there's a bankruptcy, historically the recoveries on these loans are much higher than more subordinated parts of the capital structure. And then the last thing is it is a liquid market, most of these loans trade daily, which is incredibly important when you think about both transparency as well as active management and trading and liquidity.

CHUCK JAFFE

What does the opportunity look like to you right now? Especially, and I recognize that senior loans are not rate-sensitive, but given where rates are, where it looks like they will be steady for longer, historically people who look at senior loans at least think, I don't know that it's always true, that they're better in a rising rate environment. We might be heading there but we might not, so what's the general outlook right now?

SCOTT CARAHER

One of the things that we've really tried to talk to investors about, educate investors about, is that loans really need to be a strategic allocation in your overall fixed-income portfolio. Right now I'm talking to you before the Fed meets in a couple of hours, and we don't know necessarily the direction that the Fed is going to take us. But what I think we probably all could agree on is that the average investor, all of us, you and me, we're not very good at timing the markets, and so having part of your overall fixed-income portfolio in the senior loan asset class, whether rates are rising or falling, is incredibly powerful.

Let me just give you a couple of stats as to why that is and why investors should not try to time the market. If you look back over the last 29 years in the loan market, there have only been three negative years of performance in the loan market, in two of those three years the loan market was down less than 1%, and so the loan market performs well in both rising and falling interest rate environments. If you look at loan performance since the Fed started cutting rates at the end of 2024, the Fed has cut 175 basis points, loans have returned just over 5.75% a year on an annualized basis, which still makes it one of the best liquid fixed-income asset classes from a return perspective, and that's a period when the Fed was cutting rates.

But stepping back from that, think about where we are today, we're at Fed Day, we don't know if the Fed is going to raise rates or hold rates steady, but regardless of what they do, there's a significant amount of yield in this asset class because of where SOFR is today. The Fed has kept rates at a much higher level than anybody thought because they've been focused on inflation and inflation has not fallen back to target.

And so if you think about that SOFR roughly 3.6% today, and then the spread of these loans that we're making which on average is about 350 to 400 basis points above SOFR, we can construct really attractive portfolios right now that are yielding approximately 7%, which is incredibly attractive when you think about that on both an absolute and a relative basis.

CHUCK JAFFE

Investors always worry about default risk, any investors who are listening to our discussion, as you start with senior loans, you start by saying, "Not investment grade," but we've seen rates get higher, everybody worried about default risk, we haven't seen big waves of defaults, we haven't seen them in junk bonds. We've seen a ton of money flowing into private credit, which maybe that's now the junk bonds of what used to be in the past, given some risks, we've seen a lot of action in business-development companies and the rest.

Help us understand what is happening with default risk, because it hasn't been removed from the market but it hasn't shown up seemingly anywhere the way people thought it would.

SCOTT CARAHER

It's a great question and a great topic to address because it is the biggest risk when you're lending to a company that is below investment grade, that is being default risk. If you look back in the history of the loan market, the annualized default rate in the loan market is just under 3%. Now, to your point, we haven't seen any significant pick-up in that. Two years ago it did pick up to just over 4% for the year as a number of the post-Covid LBOs went through some issues.

But where we're at today, to your point, we haven't seen a real pick-up in defaults, and generally speaking, you're not going to see a significant rise in the default rate unless we have a recession. Now, the general consensus, we all believe that we're not going to have a recession at any time over the next year or two, so what we're seeing is for the most part a benign default environment.

Now the one thing I will mention is that we have seen a real pick-up in dispersion under the surface in the loan market, and what I mean by that is there is a cohort of loans over the last few years that have traded down, and that's really two areas. One, this year has been software, nobody exactly knows how AI is going to impact software moving forward, and then two, a number of the LBOs that were done just after Covid in that post-Covid environment from 2021 to 2023 have had some issues and struggled.

So those are the two areas where we've seen volatility, but we haven't necessarily seen the default rate pick up in the software part of the market. That's a story that is still yet to be written, because really nobody knows how AI is going to impact that part of the market.

CHUCK JAFFE

It's funny because that's where, as I was hearing one of your previous answers, I'm like, I've gotta ask the AI question when it comes to senior loans. Is there a point, given that AI still has to prove itself, given that we're going from the everybody has to invest in it and everybody's throwing money at it, to the at some point it's got to prove itself and we've got to see what happens, and there are plenty of people saying capital expenditure promises today are not necessarily capital expenditures going forward.

As you size up senior loans in the AI driven fields, is there some risk there that is different because we've got this revolutionary technology and we're right in the middle of the revolution?

SCOTT CARAHER

Absolutely, and there will be winners and losers. I don't think anyone can sit here and tell you today exactly who is going to be a winner and who is going to be a loser. Now there's clearly parts of the software and technology market that are under much bigger threat and risk, and those loans have traded down appropriately.

Right now the good news is our market, you can actively manage and trade risk. And so one of the things that we did at the very beginning of the year as we started to see some of this fear and volatility pick up is we reduced our software exposure meaningfully and materially. That's one of the major benefits of this asset class, is that when you see risks bubbling up in either your portfolio or the market or a sector, you can respond and manage those risks.

At the same time, when you see opportunities you can go in and buy loans, in many cases at a nice discount to par, to create outsized returns or outsized yield. But again, that comes down to credit selection, research, picking the winners and the losers to make sure you're properly managing risk.

CHUCK JAFFE

I want to move away from the market for a moment to you run two funds with the same name, one open-end, one closed-end, and for the investing public, but also for you as a portfolio manager, why does the vehicle I choose as an investor matter to me maybe as much as what you are doing as portfolio manager? And how different are the strategies between open and closed-end?

SCOTT CARAHER

There's very little difference, the underlying loans going into, whether it's the open-end fund or the closed-end fund. So as an investor, you don't need to worry about getting a different pool of loans or collateral within the funds, it's really the wrapper and what type of volatility and yield the investor is comfortable with.

Because in closed-end funds you do have a little bit of leverage which amplifies your distributions, but also closed-end funds have the ability to trade either at a discount to its NAV or a premium to its NAV. And so historically, closed-end funds have had more volatility than open-end funds, but they're almost always going to have a higher distribution yield.

The open-end fund, you can get in and out of the fund at NAV every single day, or get into the fund at NAV every single day, and so you're taking less volatility. And at the same time, because there is not leverage in the open-end fund, you are going to have a lower distribution in the fund, so it's really a matter of what the end investor wants from a risk and return perspective.

CHUCK JAFFE

What we all want is positive returns and a good market environment, and you have said you don't see recession as a base case here for the next couple of years. But we are in a market that's going to be impacted by geopolitical events and what's happening around the globe, and elections and the rest, is there any sort of macro concern that you look at?

Anything that you're seeing in the big picture that it may not be impacting directly what you're investing in but it is the, hey, if we're going to be a senior loan investor, at least keep our eyes on this?

SCOTT CARAHER

There's a lot going on, right? If you think about inflation, if you think about oil sitting almost up at 90, you think about the uncertainty, there's so many cross-currents going on in the global economy that impact the US economy, that absolutely there are things that we're focused on, we're concerned about, we're watching, that will impact both the economy as well as the senior loan market. That's why I come back to, you need to be an active manager of risk.

What I've been telling investors for two years is, when you think about the backdrop that we're dealing with, higher inflation, higher interest rates, a lot of dispersion underneath the surface, AI, this is one of, in my opinion, the most interesting and dynamic investing times that I've seen in my almost 25-year career. When you have that, you have a lot of opportunity, so there's a lot to look at, there's a lot of opportunity.

But to your point about what's going on across the world, what's going on is keeping rates higher for longer, and that higher for longer is really benefiting the loan market. And so that's an incredible opportunity for investors to clip a lot of yield in the loan market today.

CHUCK JAFFE

Scott, really interesting. Great stuff, I appreciate you joining me again on The NAVigator, hope we get to do it again down the line.

SCOTT CARAHER

Absolutely. Thanks, Chuck.

CHUCK JAFFE

The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and yeah, I'm Chuck Jaffe, I'd love it if you'd check out my show by going to your favorite podcast app or you can find it at MoneyLifeShow.com. Now if you want to find more information about closed-end funds, interval funds, and business-development companies, go to AICAlliance.org, that's the website for the Active Investment Company Alliance.

Thanks to my guest, Scott Caraher, he's head of senior loans for Nuveen, where he manages the Nuveen Floating Rate Income Fund, both the closed-end version, ticker JFR, and its open-ended sister NFRIX. You can get more information on the funds and the firm at Nuveen.com.

The NAVigator podcast has something new for you every Friday, so make plans to join us again next week for some more closed-end fund fun. And until then, happy investing, everybody.

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