

MACRO

Inflation reaccelerated in April; the headline Consumer Price Index (CPI) came in at 3.8% year over year (y/y) and core CPI came in at 2.8% y/y. Headline Personal Consumption Expenditures (PCE) also rose to 3.8% y/y and core PCE increased to 3.3% y/y. Higher energy prices remain a primary driver of headline inflation measures and increased consumer inflation expectations.

Consumer spending remained positive but slowed, while the savings rate dropped to 2.6%. Labor demand showed signs of stabilizing in May; the Job Openings and Labor Turnover Survey (JOLTS) indicated that job openings rose to 7.62 million from 6.88 million and that layoffs fell to 2.98 million, though overall labor market dynamism remains subdued. Further, surveys suggest that workers and businesses remain anxious about the labor market and overall economic conditions.

Minutes from April's Federal Open Market Committee meeting suggested growing concern among members about the inflation outlook. While the minutes did not fully align with financial market expectations — which now reflects potential Federal Reserve (Fed) rate hikes during the next 12 months — their hawkish tone implies participants are increasingly focused on inflationary pressures rather than downside risks to labor markets.

CREDIT

May was another active month for issuance, with more than \$164 billion in new investment-grade issuance, bringing the year-to-date (YTD) total near \$1 trillion. Investor demand remains strong; many deals were significantly oversubscribed and offered minimal new-issue concessions relative to existing debt.

While uncertainty surrounding the Iran conflict persists, credit spreads continue to be anchored by a robust technical backdrop of elevated U.S. Treasury (UST) yields, solid fundamentals and supportive economic data. This has brought credit spreads to 67 basis points (bps), matching the historic lows seen earlier this year.

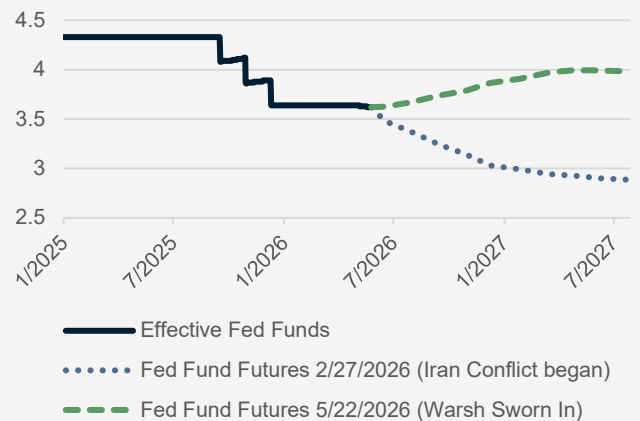
STRUCTURED

Mortgage-backed securities (MBS) posted slight increases in May, with excess returns reaching 13 bps. Although the sector faced turbulence mid-month due to concerns about inflation and increased interest rate volatility, improved conditions toward the end of May helped MBS recover and close the month with gains.

YTD asset-backed security (ABS) issuance reached \$178 billion, nearly 24% higher than the same period last year. Despite heavy supply, demand for ABS remains firm as spreads compressed and the sector posted 8 bps of positive excess returns in May.

CHART OF THE MONTH

From Dovish to Hawkish



- Since the beginning of the Iran conflict on February 28, markets have shifted from pricing approximately two rate cuts in 2026 to potential rate hikes later this year.
- Financial markets are awaiting how new Fed Chair Kevin Warsh plans to steer the committee in the face of renewed inflationary pressures.

As of 5/22/2026. Source: Bloomberg L.P.

MARKET DATA

Yields	YTM %	MTD Change	QTD Change	YTD Change
3-Mo UST	3.68	0.01	0.00	0.04
2-Yr UST	4.01	0.13	0.21	0.53
5-Yr UST	4.14	0.14	0.20	0.42
10-Yr UST	4.44	0.07	0.12	0.27
30-Yr UST	4.97	0.01	0.06	0.13
Risk Premia	OAS (Bps)	MTD Change	QTD Change	YTD Change
Investment Grade Credit	67	-6	-16	-6
Asset-Backed Securities	47	-2	-6	-5
High Yield	257	-11	-60	-9

As of 5/29/2026. Source: Bloomberg L.P.

BLOOMBERG SECTOR/INDEX PERFORMANCE (USD)

Sector	Duration (yrs.)	MTD Excess Return (%)	YTD Excess Return (%)	MTD Total Return (%)	YTD Total Return (%)
Investment Grade Credit	6.56	0.49	0.81	0.67	0.65
Mortgage-Backed Securities	5.39	0.13	0.52	0.30	0.77
Asset-Backed Securities	2.70	0.08	0.39	0.25	0.86
High Yield	2.84	0.39	1.30	0.49	1.68

Index	Duration (yrs.)	MTD Excess Return (%)	YTD Excess Return (%)	MTD Total Return (%)	YTD Total Return (%)
1-3-Yr Government/Credit	1.78	0.03	0.08	0.16	0.69
Intermediate Government/ Credit	3.65	0.09	0.20	0.11	0.30
U.S. Aggregate	5.81	0.17	0.36	0.31	0.38

As of 5/29/2026. Source: Bloomberg L.P.

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