

## MACRO

At the June Federal Open Market Committee meeting, the first chaired by Kevin Warsh, the Federal Reserve (Fed) held rates steady at 3.50-3.75% but delivered a more hawkish message, emphasizing price stability. The median year-end 2026 fed funds rate projection increased to 3.8% from 3.4% in March, effectively removing the prior easing bias. At the post-meeting press conference, Chair Warsh emphasized taking a data-dependent approach and repeatedly avoided providing forward guidance, marking a notable departure from recent Fed communication practices. Chair Warsh also announced the creation of five new task forces, including one to review the Fed's \$6.7 trillion balance sheet, which has been a longstanding area of focus for him.

Inflation accelerated in May; the Consumer Price Index (CPI) rose 4.2% year over year (y/y), largely driven by higher energy prices due to the Iran conflict. Core inflation remained relatively contained at 2.9% y/y, suggesting that price pressures remain concentrated in energy-related categories. The Producer Price Index (PPI) also reflected rising upstream cost pressures, and the widening gap between PPI and CPI suggests businesses are absorbing part of these costs rather than fully passing them on to consumers. Wage growth continued to lag inflation, June marked the second consecutive month of negative real wage growth, which is weighing on consumers' purchasing power.

## CREDIT

Thus far in 2026, investment grade (IG) bond issuance has totaled \$1.18 trillion, the highest first-half volume since 2020. This year's issuance has been driven by jumbo bond sales tied to artificial intelligence (AI) and data-center buildouts. The Bloomberg IG Credit Index posted a 15-basis-point (bp) decline in excess returns in June but remains positive year to date through month-end.

SpaceX's inaugural \$25 billion bond offering garnered strong investor demand at issuance; however, it has since underperformed in secondary trading. Investor scrutiny has centered on the rapid assignment of investment-grade ratings to the company, given its limited public financial history and projected negative free cash flow.

High yield (HY) new issuance remained active during the month, totaling more than \$34 billion. In June, the HY index generated 17 bps of excess returns, with performance generally weaker among more distressed issuers.

## STRUCTURED

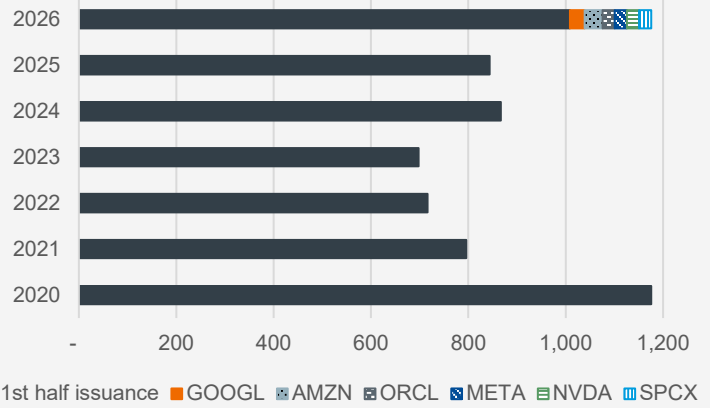
Technicals for mortgage-backed securities (MBS) were mixed in June; the sector posted excess return losses of 7 bps. Performance across the coupon spectrum was mixed; lower-coupon MBS underperformed current coupons. Housing affordability challenges restrain supply, but a flatter yield curve may limit bank demand.

Asset-backed securities' spreads ended the month at 44 bps, just 1 bp off their tightest year-to-date levels. Rising delinquency trends remain largely concentrated to subprime borrowers.

## CHART OF THE MONTH

### First Half of the Year, U.S. IG Bond Sales

*Big tech dominance extends to IG markets*



- First-half IG bond issuance totaled \$1.18 trillion, matching pandemic-era highs and marking one of the strongest starts to a year on record, supported in large part by AI infrastructure-related financing.
- Issuance in June set a record for the month, driven by large deals from Nvidia Corp. and SpaceX.

As of 6/30/2026. Source: Bloomberg L.P.

## MARKET DATA

Yields	YTM %	MTD Change	QTD Change	YTD Change
3-Mo UST	3.82	0.14	0.14	0.18
2-Yr UST	4.18	0.17	0.38	0.70
5-Yr UST	4.23	0.09	0.28	0.50
10-Yr UST	4.47	0.03	0.15	0.30
30-Yr UST	4.95	-0.02	0.04	0.11

Risk Premia	OAS (Bps)	MTD Change	QTD Change	YTD Change
Investment Grade Credit	69	2	-14	-4
Asset-Backed Securities	44	-3	-9	-8
High Yield	270	13	-47	4

As of 6/30/2026. 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	6.55	-0.15	0.66	0.20	0.85
Mortgage-Backed Securities	5.34	-0.07	0.45	0.22	0.99
Asset-Backed Securities	2.78	0.07	0.46	0.21	1.07
High Yield	2.85	0.17	1.46	0.27	1.96

Index	Duration (yrs.)	MTD Excess Return (%)	YTD Excess Return (%)	MTD Total Return (%)	YTD Total Return (%)
1-3-Yr Government/Credit	1.79	0.02	0.10	0.08	0.77
Intermediate Government/ Credit	3.65	0.01	0.21	0.10	0.40
U.S. Aggregate	5.81	-0.06	0.30	0.24	0.62

As of 6/30/2026. Source: Bloomberg L.P.

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