

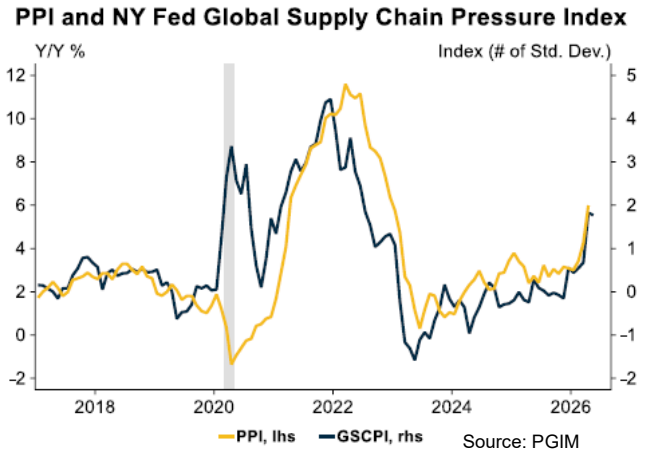
Fed Policy Prospects Take a Hawkish Turn

WEEKLY VIEW FROM THE DESK | June 8, 2026

[LINK TO WEEKLY RETURNS TABLE](#)

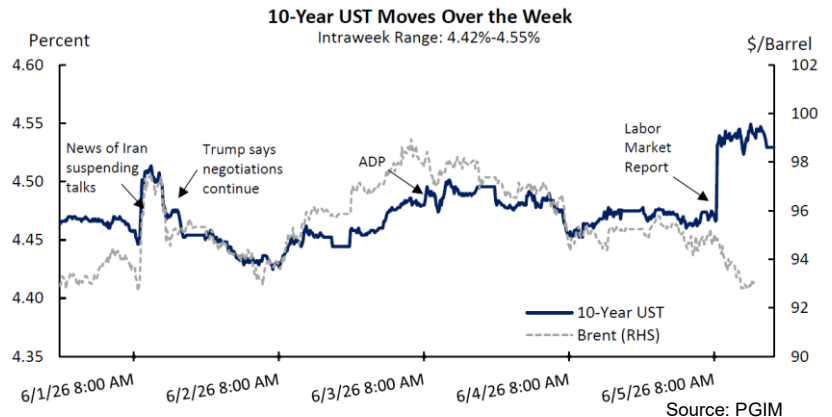
MACRO

- The stronger-than-expected May payroll report provided another sign of economic momentum for the U.S. economy as labor market conditions appear relatively stable with limited signs of slack. It aligns with our economic base case of overheating and our above-consensus GDP forecast of 2.3% for 2026 and our projection for elevated core PCE inflation of 3.0% by Q4.
- Although the core inflation measures show a minimal imprint from the oil shock, leading inflation indicators, such as the PPI and measures of pressure on global supply chains, continue to appear quite firm. This indicates that the risks to our inflation forecast are tilted to the upside given the prospects that it will remain above 3% for the remainder of the year.
- Solid growth, firm labor conditions, and elevated inflation point to a more hawkish direction for U.S. monetary policy. In addition to the economic indicators above, it is also likely that the estimated neutral interest rate has also risen, potentially putting the Fed on watch that inflation expectations could become dislodged and undermine its policy credibility. More Fed officials are also discussing the possibility of rate hikes, citing a broader range of factors.
- While Chairman Warsh steps into a divided Fed, he may have political cover to tighten policy by indicating that precautionary hikes could keep long-term rates range bound, thus potentially supporting housing demand, and that hikes this year could precede possible rate cuts in 2027.



DEVELOPED MARKET RATES

- Considering the market reaction to price in Fed hikes as rising energy prices boosted inflation, subsequent moves at the front end could be relatively stable to slightly higher. However, a couple to a few rate hikes may not push long rates higher than their current levels. For an example of a period of curve flatteners, we would point to 2023 when the Fed funds rate was 5.3% and the curve was inverted by 100 bps.
- In the MBS sector, the repricing of the Fed policy cycle and inflation concerns continue to place upward pressure on rates. MBS cheapened, but could continue to see convexity selling. If rates continue moving up, expect volatility to increase, which would be negative for the sector.



IG CORPORATES

- Last week saw about \$43B in new issuance, higher than expected, with deals coming in nearly 4x oversubscribed. Fund flows continue to be strong with another \$15.4B last week, the second highest on record.
- The immediate term is marked by a CPI reading and Oracle earnings on Wednesday, the SpaceX IPO on Friday, and an FOMC meeting next week. Our short-term rating remains cautious, with a long-term carry outlook.
- In Europe, supply was muted due to a Thursday holiday. Despite lower volumes, smaller tranche sizes and 16 unique issuers kept investors busy, including further hybrid issuance from utility SSE.

LEVERAGED FINANCE

- U.S. high yield spreads remained stable over last week. Capital markets were active to kick off the month, tracking ahead of a typical June and already halfway to the low-end of estimates. Technicals remain supportive, fundamentals are intact, earnings have come in strong, and growth is holding up well enough to keep spreads rangebound.
- All credit tiers saw negative returns last week, with CCCs underperforming. Total returns were mixed across sectors, with paper (0.96%), technology (-0.14%), and energy (-0.18%) performing the best. Air transportation (-1.11%), consumer products (-0.91%), and cable (-0.64%) underperformed. Fifteen new issues totaling \$13.3B priced, bringing YTD gross volume to \$165.1B.

- There were no U.S. HY payment defaults or distressed exchanges/LMEs in May—a first since 2018. Including distressed exchanges, the par-weighted U.S. HY and loan default rate decreased 18 bps and 19 bps, respectively, to 2.02% and 2.62% in May. We continue to expect U.S. HY default rates to end the year around current levels.
- U.S. bank loans were slightly better last week, with BBs leading the way. Approximately 36% of the loan index is currently bid at or above par as technicals remain strong for higher-rated names. Last week saw B2/B rated issuer Smith Protection flex pricing down from SOFR+350 to SOFR+250, so demand remains strong and new issue generally continues to trade well on the break.
- European high yield bond spreads continued to tighten last week, with spreads now in the second percentile since 2010. Loans underperformed amid an uptick in supply as €2.2B of new money hit the market. We continue to view the market as more of a carry environment, remaining cautious but looking to add attractive credits when we can.

EMERGING MARKETS

- In spite of a broader risk selloff last week, EMD HY continued to outperform, highlighting flows, country-specific developments, and a relatively supportive backdrop for risk assets, though with some cracks showing. Spreads were tighter in general but mixed from an idiosyncratic perspective. Big movers included Colombia after first-round elections. Zambia also did well as it pursued a tender; defaulted Venezuela and Lebanon did well, along with SSA issuers. Recent volatility around Fed pricing, stock market volatility, and geopolitics could pressure spreads, but investors are paying close attention to short-term moves to try to add alpha by positioning.
- EM corporate spreads tightened, although flows were more two-way with some bonds better offered, especially on Friday. There was a trickle of new issues still, with Edemsa pricing a 7-year deal at 10.75% (we played in some corporate accounts to cover the BM weight). We also played in the Green Palm 20-year deal, which priced at 150 bps and traded 10 bps tighter. Braskem continued its uptrend, and Raizen was successful in getting bondholder support for its reprofiling. Debtwire reported that Braskem is proposing extending bonds by five years but no haircuts, which would be a good starting point for negotiations in our view. We did add some corporate risk in constrained accounts to equalize them with unconstrained accounts but stuck to BB+/BBB-type names like Coxmex and Gatun.
- EM rates continued to trade on the back foot—with wide dispersion between outperformers and underperformers—due to pressure from rising U.S. yields, while USD was sitting a touch shy of its March high. Besides the beta-led selloff in EM, the main story last week was the results of the first-round election in Colombia. This led to a repricing of the whole TES and IBR curve, and both curves bull flattened. Among the underperformers, Brazil rates had outsized moves due to strong data, ongoing political noise, and fiscal policy concerns. Even the mighty BRL weakened, despite all the cuts being taken out of the curve. We trimmed our overweight in Peru and Hungary and added exposure in five-year IBR and Jan. 2035 Coltes. In the near-term, local rates are likely to remain under pressure with no U.S.-Iran resolution yet, the U.S. CPI report and Fed meeting coming up, and USD strength.
- The EMFX index declined last week amid higher U.S. Treasury yields. After the U.S. jobs report, it seemed the last of the holdouts in the market that maintained a view that the Fed would be able to avoid a hawkish turn capitulated. This is a risk we had flagged that would create upside risk to USD in the near-term, even if the Fed ultimately doesn't hike. Technically, USD could have more upside, so we bought USD last week to turn our beta slightly underweight EMFX. Rising hawkish Fed risks, no resolution to U.S.-Iran, and complacent short USD positioning in some pockets of the market could introduce more USD near-term upside. We maintain the bulk of the risk in relative value, being overweight select high-carry FX in LATAM and CEEMEA against low-carry underweights in Europe and Asia.

SECURITIZED PRODUCTS

- CMBS conduit AAA spreads were 3 bps tighter in the primary market last week. Subordinate tranches were also tighter, with As in the +180 context and BBB-'s in the mid +400s. SASB spread performance was mixed. Top-tier AAA floaters widened into the +130 area. Fixed-rate seniors are trading in the +80s amid increased dispersion by property type and sponsor. CRE CLO spreads were unchanged, with AAA new issue in the +140 area, while tier-two issuers were 5-25 bps wider. Four deals priced—three SASB and one conduit.
- In RMBS, Non-QM spreads opened the week on a firm note, with strong demand across the stack. Credit curves remain extremely flat, with As around T+150 (~35bps wide of AAAs) and BBBs near T+170, close to recent tights. Second-lien spreads were unchanged, with no new supply. CES spreads are expected to track Non-QM. The CRT market was quiet, with lighter secondary activity and no new issuance keeping spreads unchanged.
- U.S. CLO spreads were generally unchanged. Investor behavior has become increasingly disciplined, with clear preference for higher-quality collateral profiles. AAA spreads continue to price in the SOFR+118 area, although valuations for deals currently marketing have seen softer engagement levels. In European CLOs, spreads were marginally wider last week, with manager and structural dispersion remaining evident in mezzanine tranches. U.S. issuance was \$9.1B across 20 deals and European issuance was €4B across 10 deals.
- ABS spreads were resilient in the face of heavy supply and an uptick in volatility at week's end and most deals priced tighter than initial guidance. With ABS spreads at/near YTD tights at the top of the stack and within striking range of tights at the bottom of stack, we believe valuations are more sensitive to supply change or any uptick in volatility. We continue to expect a carry environment but are constructive on select commercial ABS opportunities.

MUNICIPALS

- Munis saw strong outperformance over the week despite volatility in rates, robust labor reports, and re-escalation in the Iranian war. New-issue deals saw strong subscriptions, despite it being the largest new-issue week of the year.
- One highlight of the week was Google parent Alphabet's entrance into the muni market with a \$1B deal, which was 10x oversubscribed and opens the door for more hyperscaler supply.
- Also notable was the muni market's first-ever default in the \$80B tobacco bond sector after a Nassau County, New York, agency failed to make a \$36M principal payment on June 1.
- Brightline, the Florida passenger railroad, is weighing bankruptcy-loan offers from its largest creditors after it failed to lure a buyer by its self-imposed bidding deadline last month, according to reports.

THE RETURNS TABLE AS OF JUNE 5, 2026

	Duration	YTM	OAS	WTD	Yield / OAS change (bps)				Total return (%)				
					MTD	QTD	YTD	Prior year	WTD	MTD	QTD	YTD	Prior year
Sovereign rates													
U.S. 2-Year	1.88	4.15	---	14	14	35	67	23	-0.23	-0.23	-0.01	0.22	2.95
U.S. 5-Year	4.45	4.27	---	13	13	33	54	28	-0.58	-0.58	-0.81	-0.82	2.50
U.S. 10-Year	7.94	4.53	---	9	9	21	36	14	-0.78	-0.78	-1.00	-1.10	3.17
U.S. 10-Year Breakeven	--	2.37	---	-4	-4	6	12	7	---	---	---	---	---
U.S. 10-Year TIPS	4.33	2.16	---	13	13	15	26	7	-0.98	-0.98	0.65	0.58	5.33
U.S. 20-Year	12.47	5.02	---	5	5	11	23	12	-0.59	-0.59	-0.75	-1.02	2.82
U.S. 30-Year	15.38	5.00	---	2	2	9	15	12	-0.37	-0.37	-0.76	-0.46	2.50
U.S. SOFR	---	---	---	0	0	-5	-24	-66	0.07	0.07	0.67	1.59	4.09
UK 10-Year	7.43	4.90	---	9	9	-1	43	29	-0.52	-0.52	0.98	-0.54	2.97
Germany 10-Year	8.23	3.04	---	10	10	4	18	46	-0.69	-0.69	0.33	-0.01	-0.37
Switzerland 10-Year	8.79	0.42	---	4	4	8	14	15	-0.15	-0.15	-0.11	-0.31	-0.49
Japan 10-Year	7.68	2.66	---	0	0	31	60	120	0.04	0.04	-1.39	-2.77	-6.06
Australia 10-Year	7.78	4.91	---	8	8	-7	17	66	-0.43	-0.43	1.49	0.86	-0.26
Canada 10-Year	8.07	3.47	---	6	6	0	4	22	-0.37	-0.37	0.54	1.05	2.15
Major fixed income multi-sector indices YTW													
Global Aggregate Unhedged	6.35	3.88	27	1	1	-5	-1	-7	-0.89	-0.89	0.68	-0.40	1.91
Global Aggregate Hedged	6.35	3.88	27	1	1	-5	-1	-7	-0.44	-0.44	0.48	0.33	3.28
U.S. Aggregate	6.03	4.80	26	1	1	-4	-1	-9	-0.54	-0.54	-0.12	-0.17	4.43
Euro-Aggregate (Unhedged)	6.31	3.30	43	0	0	-8	0	-11	-0.67	-0.67	0.84	0.20	0.88
Japanese Aggregate	8.04	2.34	1	0	0	0	0	1	0.00	0.00	-1.23	-2.81	-6.12
Major fixed income credit indices YTW													
Mortgage-Backed (Agency)	5.62	5.07	25	3	3	1	3	-17	-0.69	-0.69	-0.33	0.08	6.00
Global IG Corporate Bonds	6.02	4.78	76	0	0	-17	-4	-17	-0.81	-0.81	1.08	-0.21	4.42
U.S. IG Corporate Bonds	6.96	5.26	73	1	1	-16	-5	-15	-0.59	-0.59	0.62	0.08	5.19
European IG Corporate	4.64	3.55	77	-3	-3	-21	-2	-21	-0.39	-0.39	1.50	0.50	2.22
U.S. High Yield Bonds	3.29	7.19	265	7	7	-52	-1	-44	-0.42	-0.42	1.77	1.26	6.78
European High Yield Bonds	3.08	5.59	266	-16	-16	-82	-16	-53	0.04	0.04	2.90	1.36	3.90
U.S. Leveraged Loans	0.3	9.01	486	-1	-1	-28	31	20	0.04	0.04	1.75	1.27	4.91
European Leveraged Loans	0.3	7.88	474	-1	-1	-63	0	22	0.07	0.07	2.37	1.54	3.21
EM Hard Currency Sovereigns	6.31	6.98	234	-4	-4	-55	-20	-93	-0.22	-0.22	3.66	2.69	12.77
EM Corporates	4.39	6.54	211	-8	-8	-38	-27	-56	-0.06	-0.06	1.94	1.73	7.54
EM Currencies	---	6.21	---	0	0	-1	0	0	-0.75	-0.75	2.17	1.41	5.39
EM Local Rates	5.28	6.24	6	0	0	0	0	0	-0.13	-0.13	1.56	0.42	4.88
CMBS	3.71	4.92	63	-2	-2	-8	-12	-22	-0.42	-0.42	-0.13	0.18	4.50
ABS	2.87	4.66	45	-2	-2	-8	-7	-12	-0.25	-0.25	0.29	0.60	4.31
CLOs	3.95	5.24	127	0	0	-7	-4	-12	0.09	0.09	1.07	2.09	5.30
Municipal Bonds	6.11	3.62	---	-5	-5	-15	3	-42	0.39	0.39	1.92	1.74	7.16

	Total return (%)						Change (%)						
	Level	WTD	MTD	QTD	YTD	Prior year	Spot	WTD	MTD	QTD	YTD	Prior year	
Equity / volatility indices													
S&P 500 Index	7,384	-2.5	-2.5	13.3	8.4	25.9	FX / commodities						
DAX	24,759	-1.4	-1.4	9.2	1.1	1.8	EUR / USD	1.2	-1.2	-1.2	-0.3	-1.9	0.7
Stoxx 600	623	-0.5	-0.5	8.4	7.5	16.4	USD / JPY	160.3	0.6	0.6	1.0	2.3	11.7
Nikkei 225	66,588	0.4	0.4	30.4	33.3	80.5	GBP / USD	1.3	-0.8	-0.8	0.9	-1.0	-1.7
Shanghai Composite	4,028	-0.9	-0.9	3.8	2.0	22.2	EUR / CHF	0.9	0.7	0.7	-0.7	-1.5	-2.2
MSCI ACWI Index	1,106	-2.2	-2.2	13.4	9.9	26.9	USD / CHF	0.8	1.9	1.9	-0.4	0.4	-2.9
FTSE 100	10,368	-0.4	-0.4	2.6	6.2	21.4	USD (DXY)	100.1	1.1	1.1	0.1	1.8	1.3
MOVE Index	75	7.1	7.1	-21.7	17.6	-20.5	Oil	90.5	3.6	3.6	-10.7	57.7	42.9
VIX Index	22	40.4	40.4	-14.8	43.9	16.4	Gold	4328.5	-4.7	-4.7	-7.3	0.2	29.1

Past performance is not a guarantee or a reliable indicator of future results. Sources: Bloomberg except EMD (J.P. Morgan), HY (ICE BofAML), Bank Loans (S&P), and CLOs (Palmer Square). European returns are unhedged in euros unless otherwise indicated. An investment cannot be made directly in an index.

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