

Assessing What Matters for the U.S. Midterms

WEEKLY VIEW FROM THE DESK | October 26, 2026

[LINK TO WEEKLY RETURNS TABLE](#)

MACRO

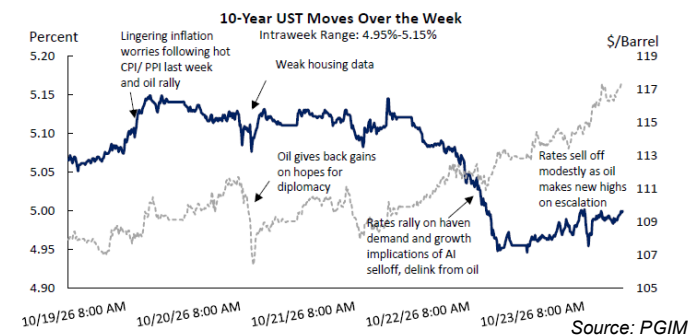
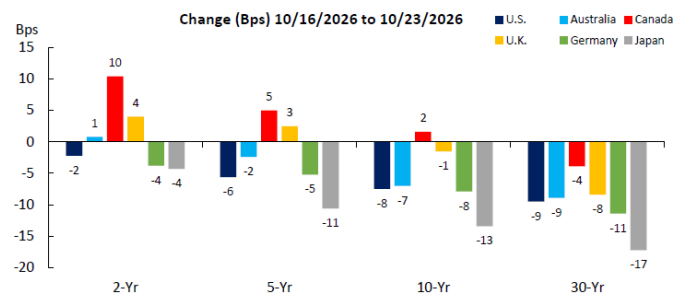
- With U.S. voters heading to the polls next week, our base case for the Congressional midterm elections is that Democrats sweep the House and the Senate, but with materially less confidence around the latter outcome. While a Democratic Congress could block legislation, funding, and nominations, it would lack the votes to override presidential vetoes and, therefore, to implement its own agenda. The principal risk to our base case is in voter turnout and correlated errors within political polling.
- Divided government could push the administration toward greater reliance on executive authority, particularly as it pertains to tariffs and foreign policy. As a result, we could see the effective tariff rate to rise from roughly 10% toward the mid-teen percentages. The timing of the midterms has also been linked to potential conditions in the Middle East, which could deteriorate in the near future, possibly pushing Brent crude above \$120/ barrel before it settles into a range of \$90-\$120 / barrel, which is consistent with our base case for a prolonged quagmire in the region.
- If Republicans do not raise the debt ceiling during its next session, the unresolved issue raises the risk for a particularly contentious debt-ceiling confrontation next summer (for more on the midterms see the accompanying footnote).¹
- Given that the political winds regarding AI may reach a crescendo around the midterms, our working view is for a slower, but longer, AI capex cycle. Therefore, the AI investment boost to real GDP growth could moderate from roughly 100–150 bps this year to an approximate range of 75–100 bps in 2027. A more gradual capex pace could aid the absorption of hyperscaler debt, while weaker AI-driven growth could eventually place downward pressure on long-term rates.

DEVELOPED MARKET RATES

- The recent rally in Treasuries represents more of a repricing of the Fed's policy path, which we think will bring 100 bps of additional rate hikes, rather than a reversal of the tightening expectations. We expect the Fed to keep its policy rate steady at 3.75-4.00% at this week's FOMC meeting.
- Treasuries regained some safe-haven attributes during the rally and, importantly, yields appeared to directionally break from crude oil prices. We view the re-assertion of safe-haven characteristics as an encouraging sign after a period when Treasuries failed to consistently provide a hedge vs. risk-assets.
- Our MBS positioning remains constructive. Despite the recent spread recovery, we remain positive on mortgages due to lighter supply, renewed demand, better-performing specified pools, reduced convexity selling, and the sector's carry profile.

IG CORPORATES

- Last week saw new U.S. IG issuance of about \$21B, with deals three times oversubscribed and coming with a 4.2 bps concession. Dealers are calling for about \$30B in issuance this week, which may prove to be conservative, depending on the prevailing sentiment. Although the recent volatility has index spreads approaching YTD wides, from a longer-term perspective, spreads remain close to multi-decade tights.
- French banks were roughly 30 bps wider last week, while several AI-linked issuers experienced substantially larger moves. By contrast, energy, large U.S. banks, healthcare, and pharma generally held up better. Hyperscalers materially underperformed recently with 30-year spreads roughly 90 bps wider.
- In Europe, France was not surprisingly the dominant theme, with heavy widening followed by a sovereign rebound. The volatility is creating selective opportunities, particularly in globally diversified French-labeled corporates whose underlying economic exposure to France is limited.



¹ "U.S. Midterm Elections: 10 Things that Matter for Markets and Economies," October 20, 2026, PGIM.com, and "Prediction Markets vs. Political Reality: Henrietta Treyz on the Midterm Elections," The Outthinking Investor with Daleep Singh, October 21, 2026.

LEVERAGED FINANCE

- The U.S. high-yield market endured a volatile week, as a sharp mid-week risk-off move transpired amid surging oil prices, continued skepticism around AI spending, and elevated Treasury yields. These factors outweighed a more constructive tone over the final two sessions of the week as buyers stepped in following the weakness, aided by strong SpaceX and Meta earnings. The recovery was skewed toward higher-quality credits.
- High yield reported negative flows for the week totaling -\$1.1B (-\$450M for ETFs). This was the seventh weekly outflow in a nine-week span; cumulative outflows were \$7.4B over the period.
- Primary market activity slowed considerably, with just four deals pricing for approximately \$3.4B through Wednesday, while more than \$5B of broader U.S. and European debt sales were postponed during the month amid rising rates and concerns around AI-related debt. Notable transactions included Grant Thornton (\$1.7B), PLS Group (\$700M), AmWINS Group (\$500M), and Radiology Partners (\$485M).
- Returns across credit tiers were mixed with higher-quality names outperforming. The best performing sectors were aerospace, food/beverage/tobacco, and energy. Air transportation, telecom, and cable were the worst performers.
- U.S. bank loan spreads widened 15 bps on the week. Risk sentiment has been generally negative, with weakness seen in the cable sector as well as rate-sensitive industries, such as building products.
- European high-yield spreads were 34 bps wider, while bank loan spreads widened by 11 bps. Highly leveraged names remained under pressure, leaving a wide gap in performance based on credit quality. In HY, spreads for CCCs and below were +231 bps month-to-date, while BBs were more in line with the index at +45 bps.

EMERGING MARKETS

- EM hard currency sovereign spreads were wider again last week, accelerating the decompression trend this month. The market will be assessing the potential negative spillover effect of the surprise Brazilian election outcome to broader EM markets. Most of the impact will be in Brazilian assets, especially rates and FX. Aside from certain other Latam countries, the contagion should be otherwise contained. In Argentina, which will hold elections next year, spreads moved noticeably wider.
- Election results in Serbia were more market positive. Elsewhere, market participants are watching developments around the Ukraine/Russia conflict and related price moves, as well as reported attempts at negotiations between Gulf countries and Iran. Bahrain (single-B) rallied on headlines that Gulf support will avoid a short-term credit/funding crisis.
- We reduced risk, which helped during the selloff, but remain overweight EMHY. We still believe the yield/carry in some segments provides for good relative value opportunities. We are closely watching fundamentals to help differentiate the opportunity set.
- It was a negative week for EM corporate spreads with continuing decompression driven by broader market concerns around tech and oil. The underperforming sectors have been airlines due to higher jet fuel costs; Turkish utilities on refinancing concerns; and Indonesia corporates on governance and MSCI news. We passed on the new 10-year deal from Aeropuertos Argentina. There were some significant positive developments in Braskem with the company yesterday publicly releasing details of its restructuring proposal, including a \$1.7B equity injection from Petrobras.
- A selloff in risky assets and a rise in crude prices spilled over into EM local rates, despite a strong rally in the core rates markets. Excluding Brazil and South Africa, most local bond markets were either unchanged or weaker on the week. Higher oil prices were a key driver of underperformance in Hungary, Czech, and India. Following several days of profit taking, renewed interest in Brazilian assets ahead of Sunday's runoff pushed the USDBRL below 5.0.
- The EMFX index declined last week with Europe and Latam underperforming, while Asia was stable. Themes in currencies included oil exporters outperforming oil importers; CEE3 underperforming as both oil and gas prices continued to move higher; and idiosyncratic stories, whether fundamental or technical, outperforming (BRL, KRW, CNY, INR, TRY). COP was the best performer on the week, benefitting from higher oil prices. NGN was the one oil exporter that underperformed as de-risking outflows hit the market. EGP was among the laggards, losing nearly 4% as geopolitical concerns grow. MXN continued its recent underperformance as Banxico looks to potentially cut rates before the end of 2026.
- We increased our INR long vs. EUR as we think FX measures will keep the currency stable, and implied yields have moved higher. We increased our CZK short as it lagged the underperformance of HUF and PLN even though it is also exposed to higher energy prices.

SECURITIZED PRODUCTS

- Securitized-product spreads have continued to widen marginally, but the move has been orderly and driven more by weaker risk sentiment and rate volatility than deteriorating credit fundamentals. Quality remains favored: Higher-quality bonds are outperforming, while credit curves are steepening, reinforcing the case for selectivity across securitized sectors.
- RMBS offers emerging value. The asset class could encounter further volatility, but we see compelling value over the longer term given the potential for moderating supply.
- We remain selective across securitized products, especially in sectors that have outperformed broader spread widening. Longer term, we expect the carry environment to support ABS, CMBS and CLOs, while RMBS appears increasingly attractive at current levels.

MUNICIPALS

- Munis rallied sharply last week as Treasury rates moved lower, squeezing relative value out of the front end of the curve. The MTD return of 2.8% has now recovered some of the losses in September (-4.36%), the worst month for munis since September 2008.
- Flows remain positive, with money moving from open-end funds to ETFs, as advisors seek tax-loss swapping opportunities. FOMC meetings, midterm elections, Veterans Day, Thanksgiving, and Christmas week will dampen supply issuance over the next couple of months. This week's calendar is only about \$3.5B in a supply-starved Fed decision week.

THE RETURNS TABLE AS OF OCTOBER 23, 2026

	Duration	YTM	OAS	WTD	Yield / OAS change (bps)				Prior year	WTD	MTD	Total return (%)		
					MTD	QTD	YTD	QTD				YTD	Prior year	
Sovereign rates														
U.S. 2-Year	1.81	4.68	---	-2	-21	-21	121	119	0.15	0.65	0.65	0.91	1.55	
U.S. 5-Year	4.31	4.81	---	-6	-28	-28	108	120	0.38	1.43	1.43	-1.48	-1.36	
U.S. 10-Year	7.69	5.00	---	-8	-29	-29	83	99	0.75	2.48	2.48	-2.80	-3.37	
U.S. 10-Year Breakeven	--	2.35	---	0	-2	-2	11	5	---	---	---	---	---	
U.S. 10-Year TIPS	4.27	2.65	---	-8	-27	-27	74	95	0.81	2.65	2.65	-1.40	-2.09	
U.S. 20-Year	12.10	5.37	---	-10	-30	-30	58	82	1.38	3.90	3.90	-3.31	-5.55	
U.S. 30-Year	14.84	5.32	---	-10	-31	-31	48	74	1.66	4.82	4.82	-3.32	-6.72	
U.S. SOFR	---	---	---	4	2	2	5	-32	0.08	0.25	0.25	3.06	3.84	
UK 10-Year	7.55	5.36	---	-2	-7	-7	88	93	0.07	0.61	0.61	-1.44	-1.09	
Germany 10-Year	8.26	3.34	---	-8	-24	-24	49	76	0.55	1.80	1.80	-1.03	-2.69	
Switzerland 10-Year	8.40	0.48	---	-5	-9	-9	20	37	0.33	0.57	0.57	-1.30	-2.57	
Japan 10-Year	7.73	2.80	---	-12	-25	-25	74	113	0.93	1.84	1.84	-2.77	-5.29	
Australia 10-Year	7.94	5.16	---	-7	-19	-19	42	104	0.43	1.33	1.33	1.17	-2.55	
Canada 10-Year	8.02	3.84	---	2	-15	-15	41	75	-0.12	1.25	1.25	0.01	-1.67	
Major fixed income multi-sector indices		YTW												
Global Aggregate Unhedged	6.19	4.30	37	3	4	4	9	8	0.29	1.10	1.10	-1.59	-1.58	
Global Aggregate Hedged	6.19	4.30	37	3	4	4	9	8	0.28	1.31	1.31	-0.13	-0.33	
U.S. Aggregate	5.88	5.33	32	0	1	1	5	4	0.54	1.87	1.87	-1.10	-1.11	
Euro-Aggregate (Unhedged)	6.11	3.93	73	12	16	16	31	25	-0.28	0.58	0.58	-1.95	-2.66	
Japanese Aggregate	7.86	2.59	1	0	0	0	0	1	0.96	1.68	1.68	-3.02	-5.24	
Major fixed income credit indices		YTW												
Mortgage-Backed (Agency)	5.70	5.63	36	-5	-7	-7	14	8	0.75	2.30	2.30	-1.09	-0.63	
Global IG Corporate Bonds	5.78	5.41	96	7	11	11	16	16	0.05	0.93	0.93	-2.30	-2.12	
U.S. IG Corporate Bonds	6.63	5.87	89	4	8	8	11	12	0.34	1.68	1.68	-1.49	-1.76	
European IG Corporate	4.48	4.24	108	15	17	17	30	28	-0.38	0.38	0.38	-0.83	-1.25	
U.S. High Yield Bonds	3.49	8.39	337	6	26	26	71	50	-0.11	-0.20	-0.20	-0.09	1.17	
European High Yield Bonds	3.34	7.41	396	39	75	75	115	90	-1.04	-1.73	-1.73	-1.43	-0.58	
U.S. Leveraged Loans	0.3	10.06	518	15	36	36	63	59	-0.31	-0.61	-0.61	2.79	4.07	
European Leveraged Loans	0.3	9.04	530	12	58	58	56	41	-0.32	-1.31	-1.31	1.50	2.62	
EM Hard Currency Sovereigns	6.06	7.13	204	-1	10	10	3	23	-0.08	0.96	0.96	0.21	2.13	
EM Corporates	3.96	6.92	198	-1	2	2	3	7	-0.13	0.38	0.38	0.73	1.64	
EM Currencies	---	6.09	---	0	0	0	0	0	-0.17	-0.11	-0.11	3.16	5.10	
EM Local Rates	5.17	6.47	6	0	0	0	1	1	-0.02	0.69	0.69	1.64	2.79	
CMBS	3.58	5.53	72	1	6	6	-3	-5	0.30	1.09	1.09	0.02	0.63	
ABS	2.92	5.24	49	2	9	9	-3	-4	0.23	0.82	0.82	1.09	1.80	
CLOs	3.91	5.74	127	0	0	0	-5	-7	0.09	0.29	0.29	3.91	4.92	
Municipal Bonds	6.95	4.31	---	-17	-47	-47	72	76	1.14	3.18	3.18	-1.13	-0.87	

	Level	Total return (%)						Change (%)					
		WTD	MTD	QTD	YTD	Prior year		Spot	WTD	MTD	QTD	YTD	Prior year
Equity / volatility indices							FX / commodities						
S&P 500 Index	7,624	-0.5	-0.3	-0.3	12.4	14.5	EUR / USD	1.1	-0.3	-1.1	-1.1	-4.6	-3.6
DAX	5,182	-1.7	-0.1	-0.1	2.8	4.0	USD / JPY	156.9	-0.7	-0.3	-0.3	0.1	2.8
Stoxx 600	636	-1.4	0.2	0.2	10.5	14.2	GBP / USD	1.3	0.4	0.8	0.8	-0.7	0.4
Nikkei 225	62,693	-4.0	-6.1	-6.1	26.4	31.0	EUR / CHF	0.9	-0.2	-2.4	-2.4	-0.7	0.0
Shanghai Composite	3,713	-0.5	-3.7	-3.7	-5.1	-3.6	USD / CHF	0.8	0.1	-1.3	-1.3	4.1	3.7
MSCI ACWI Index	1,119	-0.9	-1.3	-1.3	11.9	14.4	USD (DXY)	101.8	0.0	0.4	0.4	3.5	2.9
FTSE 100	10,690	-1.7	0.9	0.9	10.5	15.1	Oil	108.3	6.8	19.8	19.8	88.7	73.0
MOVE Index	103	2.2	-6.5	-6.5	61.5	39.5	Gold	3996.1	-4.1	-3.9	-3.9	-7.5	-3.2
VIX Index	19	-2.7	19.0	19.0	30.1	12.4							

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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Source(s) of data (unless otherwise noted): PGIM as of October 26, 2026.

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