PGIM

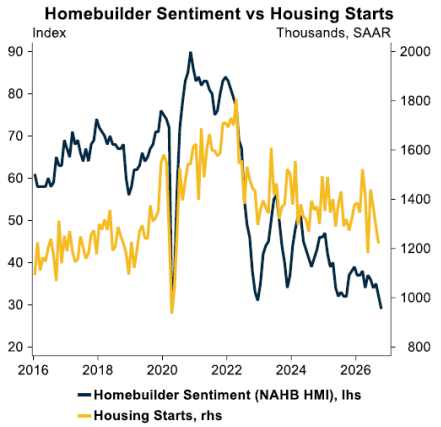
How the Midterms Change the Macro

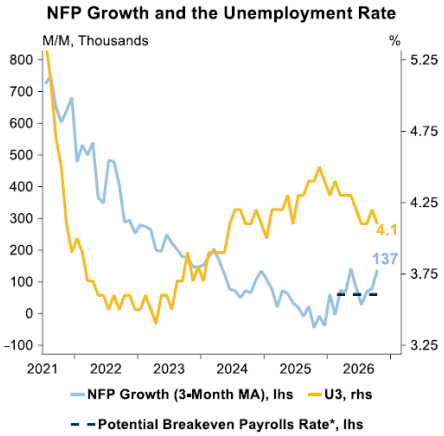
WEEKLY VIEW FROM THE DESK | November 9, 2026

LINK TO WEEKLY RETURNS TABLE

MACRO

- While the prospects of a more moderate AI buildout sent ripples through the markets last week, we do not expect the U.S. midterm results to derail growth going forward. As stated last week, our base case for the buildout is a slower-for-longer capex cycle (50% probability) where the AI-related contribution to U.S. GDP moderates slightly in 2027. Meanwhile, divided government also means that the use of executive actions could expand and lift tariff rates from about 10% to closer to 15%, thus potentially maintaining an inflationary impulse (see the following bullet on the October CPI print).
- With the exception of housing, the relative increase in market interest rates this year has yet to derail significant portions of the economy. And the labor market remains stable, if not showing signs of improvement, as non-farm payroll growth extends beyond the estimated breakeven rate of about 100k while the "quit" rate also ticks higher. With that backdrop, we continue to expect the Fed to hike rates by 100 bps with the next increase coming in December and quarterly thereafter.
- Given the recent developments, we recently adjusted the probabilities on our macro scenarios and now assign a 40% probability to our U.S. base case of Overheating, down from 50% previously. We increased our recession probability from a very low level to historical norms of about 25%. We raised the probability of our Muddle Through base case for the European economy to 40% from 35% while the recession probability also gained 5 percentage points to 20% at the cost of our overheating and productivity boost scenarios.





Source: PGIM and Macrobond

DEVELOPED MARKET RATES

- The notable rally in the Treasury market unwound some of the market pricing around Fed hikes, even while economic strength, inflation risks, and Fed rhetoric remain comparatively hawkish. That disconnect between the market and the broader economy leaves this week's inflation data particularly important and creates scope for renewed rate volatility if the market has become too dovish.
- The U.S. 10-year Treasury yield climbed Tuesday after the **U.S. CPI** print for October rose 0.4%, or 0.3% at the core level, comprising a 5.7% annualized pace over the prior three months. The hotter-than-expected reading arrived shortly after Fed Governor Waller indicated that a 50 bps Fed rate hike could be on the table for December.
- We remain constructive on agency MBS. Our view is driven less by a housing recovery and more by favorable market technicals: very light supply, improving demand, declining volatility, limited refinancing risk and increasingly supportive financing conditions.

IG CORPORATES

- Last week saw new issuance of about $71B, with deals 3.7x oversubscribed and coming with an 8.5 bps concession. Credit held up much better than equities last week, despite significant volatility. The S&P 500 fell 2.7% and Nasdaq 3.4% for the week, but IG credit indices ended only about 1 bp wider, masking substantial issuer and sector dispersion.
- Data-center infrastructure and semiconductor names suffered most as the market reassessed the pace of AI buildout. Oracle widened more than 20 bps, while higher-quality hyperscalers tightened roughly 3–5 bps. Defensive sectors and banks also outperformed.
- In Europe, IG outperformed the U.S. slightly, tightening about 1 bp. Falling energy prices and improving French government-bond spreads provided support, while heavy reverse-Yankee issuance from names such as Google and Meta created attractive concessions.

LEVERAGED FINANCE

- The U.S. high-yield market navigated a volatile week shaped by the U.S. midterm election outcome, a sharp decline in oil prices, and weakness in technology equities, ultimately generating a modest positive total return. Markets began the week cautiously ahead of Election Day, with primary activity initially active before slowing as issuers awaited greater clarity. Risk sentiment initially improved following the election results, supported by lower oil prices and Treasury yields, which helped drive high-yield spreads tighter across ratings tiers. However, the post-election rally proved to be short lived, with volatility returning sharply on Thursday.
- Despite the more challenging risk backdrop, the high-yield primary market remained resilient, with new issuance posting its busiest week since early October. The market priced approximately $9.7bn across 10 deals. Notable transactions were Cloud Software (Vista/Elliot; $2.0bn), Fortescue ($1.5bn), TKO Worldwide ($1.0bn), and FTAI Aviation Investors ($1.0bn).
- Overall, high yield technicals remained constructive, supported by continued fund inflows and healthy investor demand that allowed an active new issue calendar to be well absorbed. Flows for the week totaled +$1.4bn (+$1.6bn ETFs), the largest weekly inflow in 13 weeks.

- The best performers were air transportation, consumer products, and cable. The worst performing sectors included paper, energy, and telecom.
- U.S. bank loan spreads tightened 14 bps. We see the market continuing to grind higher as flows remain positive. While we remain constructive, it's worth noting that the market has exhibited sensitivity to earnings and whether reported financial results compare positively or negatively to corporate guidance.
- European high-yield and bank loan spreads tightened by 9 bps and 4 bps, respectively, with dispersion continuing across the loan market.

EMERGING MARKETS.

- EM hard currency sovereign spreads were marginally wider at the index level, but there was considerable dispersion within single-B and below. Latin America was the main underperformer. Attention focused on the ramifications of U.S. political shifts, including potential de-escalation in the Middle East and whether there's a revision of the "Donroe" Doctrine that affects dynamics in Venezuela and Argentina. Market participants were also focused on concerns about a possibly slower AI buildout, which could dampen growth and expose other vulnerabilities.
- EM spreads also reacted to their own dynamics as well as potential spillovers. SSA/Egypt/Sri Lanka/Pakistan/Ukraine outperformed on lower energy and geopolitics. Venezuela is recalibrating the commitment of the U.S. to rebuilding, etc., along with the timing of restructuring and a political transition. Argentina is suffering from a buyers strike as the market continues to reflect political concerns. Poland is suffering from its own political tensions between the government and central bank.
- In EM corporates, it was a risk-off week with a decompression in spreads continuing. There was a bounce in airline bonds with crude lower on reported U.S.-Iran proposals. Turkish corporates remained under pressure with Sisecam and Wesoda down 3-4 points (we are underweight both names). We passed on the EEPPME deal from Colombia, as we have credit concerns. The Q3 earnings season continued with strong results from Veon, Volcan and Banort. Turkish banks are reporting higher NPLs, which we are monitoring.
- EM local rates rallied broadly as South Africa, India and Czech rates outperformed. Even Brazil rallied 29 bps on the week. The Czech National Bank hiked rates by 25 bps in a 4-3 decision, while Banxico cut rates by 25 bps in a 3-2 vote. The CNB move could be characterized as a dovish hike, while Banxico delivered a hawkish cut. In Brazil, inflation expectations rose sharply as the currency and rates sold off. Against this backdrop, the Central Bank of Brazil left rates unchanged after delivering a cumulative 125 bps of cuts earlier this year.
- Within the portfolio, we reduced our underweights in India and Indonesia, adding to front-end swaps and bonds, respectively. We also increased our overweights in Czech Republic and Poland.
- We increased our short-term rating for EM rates from negative to positive. The risk of an "escalate-to-de-escalate" strike on Iran remains elevated. On the other hand, cracks in the AI narrative appear to be emerging, which at the margin should be supportive of rates. Overall, our bias is to fade the geopolitical risk premium while gradually adding exposure to the rates-friendly implications of a weakening AI narrative.
- The EMFX index returned +10 bps in a very eventful week. After the midterms, USD pared most of its losses and even reversed against some currencies as broader growth and Fed concerns drove risk-off market sentiment. Energy importers broadly outperformed. MXN had a relatively strong week after Banxico cut rates but indicated it is likely on hold for a while (we put on a tactical long after the decision). INR also can be seen as an anti-AI trade. Among the worst performers were KRW and TWD, two currencies that are sensitive to a slowdown in the AI buildout. While the midterm results have led to near-term growth concerns, as long as the Iran conflict is not resolved, it could be tough for the Fed to adjust their net hawkish bias; this scenario would likely preserve the upward bias in USD that has been in place for most of 2026.

SECURITIZED PRODUCTS

- We continue to see a resilient securitized market supported by strong demand despite elevated issuance. Our most notable shift is on CLOs, where the short-term outlook moved positive, while ABS, CMBS and RMBS appear broadly balanced with relatively limited room for significant near-term spread moves.
- Our improved view on CLOs reflects continued sector outperformance, resilient loan markets, and expectations for somewhat softer issuance in coming weeks. We do not expect major CLO spread compression from here. Rather, strong demand combined with slightly lower supply should produce a more balanced and supportive technical environment.
- ABS spreads were largely unchanged. Some commercial subsectors softened modestly, but deals continued to clear near their tightest levels of the year despite heavy issuance.
- CMBS remained resilient through a busy issuance week. Top-tier floating-rate SASB AAA spreads were around 150-160 bps, while conduit AAA spreads tightened modestly. A notable test was a $3.3B Blackstone multifamily SASB transaction, which the market absorbed.
- AA RMBS spreads moved from roughly 150-160 bps to 145-150 bps. While still relatively wide compared with several other securitized sectors, that relative-value advantage has diminished somewhat. RMBS issuance should remain strong through year-end, which may limit the scope for a substantial further tightening in spreads.

MUNICIPALS

- Munis continued their rally last week, as treasury rates were pulled down by Iranian war deescalation, midterm results, and a tech selloff. The broad muni index is now showing positive returns YTD and has completely reversed September's losses.
- Technicals remain mixed, though less supportive seasonal trends should turn more positive in the December-through-February timeframe.
- High level midterm election takeaways include a preference for higher taxes (CO and WA), and more bond issuance ($119 billion of bond referendums approved or expected to be approved), which should lead to more demand and more issuance in the muni market over the coming years.
- Forty-two of 45 local ballot measures to restrict data centers have either passed or are leaning towards passing. The measures were concentrated in Ohio (20) followed by Illinois and Maine.

THE RETURNS TABLE AS OF NOVEMBER 6, 2026

				Yield / OAS change (bps)					Total return (%)				
	Duration	YTM	OAS	WTD	MTD	QTD	YTD	Prior year	WTD	MTD	QTD	YTD	Prior year
Sovereign rates													
U.S. 2-Year	1.86	4.51	---	-8	-8	-38	104	96	0.17	0.17	1.10	1.36	2.02
U.S. 5-Year	4.38	4.65	---	-8	-8	-44	92	97	0.30	0.30	2.30	-0.63	-0.29
U.S. 10-Year	7.67	4.86	---	-7	-7	-43	69	77	0.46	0.46	3.75	-1.59	-1.64
U.S. 10-Year Breakeven	--	2.24	---	-10	-10	-13	0	-4	---	---	---	---	---
U.S. 10-Year TIPS	4.25	2.62	---	3	3	-30	71	81	-0.21	-0.21	3.24	-0.82	-0.77
U.S. 20-Year	12.10	5.30	---	-4	-4	-38	50	64	0.37	0.37	5.14	-2.16	-3.37
U.S. 30-Year	14.85	5.27	---	-4	-4	-36	42	59	0.53	0.53	6.02	-2.22	-4.31
U.S. SOFR	---	---	---	-6	-6	-1	2	-3	0.08	0.08	0.40	3.22	3.83
UK 10-Year	7.54	5.15	---	-13	-13	-27	68	72	0.99	0.99	2.16	0.08	0.45
Germany 10-Year	8.24	3.25	---	-7	-7	-33	40	60	0.52	0.52	2.59	-0.26	-1.50
Switzerland 10-Year	8.36	0.40	---	-5	-5	-16	12	31	0.33	0.33	1.12	-0.75	-2.17
Japan 10-Year	7.77	2.64	---	-14	-14	-41	58	96	1.20	1.20	3.18	-1.50	-3.96
Australia 10-Year	7.93	4.98	---	-13	-13	-37	24	62	0.99	0.99	2.70	2.55	0.21
Canada 10-Year	8.00	3.66	---	-14	-14	-34	23	56	1.04	1.04	2.70	1.45	-0.25
Major fixed income multi-sector indices		**YTW**											
Global Aggregate Unhedged	6.24	4.18	35	-1	-1	3	8	6	0.35	0.35	1.76	-0.95	-0.37
Global Aggregate Hedged	6.24	4.18	35	-1	-1	3	8	6	0.56	0.56	2.30	0.84	0.87
U.S. Aggregate	5.93	5.19	32	0	0	1	5	3	0.40	0.40	2.85	-0.15	0.27
Euro-Aggregate (Unhedged)	6.17	3.78	66	-4	-4	8	23	19	0.74	0.74	1.71	-0.85	-1.29
Japanese Aggregate	7.85	2.47	1	0	0	0	0	0	0.76	0.76	2.56	-2.18	-4.32
Major fixed income credit indices		**YTW**											
Mortgage-Backed (Agency)	5.71	5.44	30	-4	-4	-13	8	2	0.57	0.57	3.66	0.23	0.93
Global IG Corporate Bonds	5.82	5.29	96	0	0	11	17	14	0.33	0.33	1.62	-1.63	-0.70
U.S. IG Corporate Bonds	6.66	5.75	91	1	1	11	13	10	0.41	0.41	2.58	-0.62	-0.12
European IG Corporate	4.53	4.12	104	0	0	13	26	23	0.40	0.40	1.16	-0.06	-0.25
U.S. High Yield Bonds	3.43	8.21	336	-4	-4	25	69	42	0.40	0.40	0.70	0.80	2.20
European High Yield Bonds	3.27	7.16	381	-4	-4	60	100	85	0.49	0.49	-0.57	-0.26	0.48
U.S. Leveraged Loans	0.3	9.68	496	-14	-14	14	41	37	0.36	0.36	0.11	3.53	4.41
European Leveraged Loans	0.3	8.75	517	-7	-7	45	43	33	0.28	0.28	-0.76	2.05	2.79
EM Hard Currency Sovereigns	6.09	7.04	206	4	4	19	11	27	0.36	0.36	1.72	1.02	2.53
EM Corporates	3.99	6.86	205	1	1	3	5	8	0.28	0.28	0.80	1.15	1.92
EM Currencies	---	5.82	---	0	0	0	0	0	0.10	0.10	-0.47	2.79	4.82
EM Local Rates	5.24	6.42	6	0	0	0	1	1	0.81	0.81	1.12	2.08	3.15
CMBS	3.58	5.37	73	-2	-2	6	-2	-4	0.38	0.38	1.88	0.79	1.52
ABS	2.92	5.10	52	0	0	11	-1	-3	0.24	0.24	1.37	1.64	2.38
CLOs	3.93	5.58	126	0	0	0	-5	-6	0.10	0.10	0.50	4.11	4.90
Municipal Bonds	6.62	4.09	---	-13	-13	-69	49	51	0.92	0.92	4.81	0.43	0.68

		Total return (%)						Change (%)					
	Level	WTD	MTD	QTD	YTD	Prior year		Spot	WTD	MTD	QTD	YTD	Prior year
Equity / volatility indices							**FX / commodities**						
S&P 500 Index	7,377	-2.7	-2.7	-3.5	8.8	11.1	EUR / USD	1.1	-0.2	-0.2	-1.7	-5.1	-3.5
DAX	25,820	0.0	0.0	2.5	5.4	8.8	USD / JPY	158.5	0.6	0.6	0.7	1.1	3.5
Stoxx 600	648	0.3	0.3	2.3	12.7	17.8	GBP / USD	1.3	-0.3	-0.3	0.7	-0.9	1.6
Nikkei 225	57,435	-9.3	-9.3	-14.0	15.9	14.8	EUR / CHF	0.9	-0.7	-0.7	-3.5	-1.8	-1.9
Shanghai Composite	3,649	1.4	1.4	-4.7	-6.1	-6.7	USD / CHF	0.8	-0.5	-0.5	-1.8	3.5	1.7
MSCI ACWI Index	1,085	-2.7	-2.7	-4.3	8.6	11.3	USD (DXY)	102.3	0.4	0.4	0.8	4.0	2.6
FTSE 100	10,674	-0.5	-0.5	0.8	10.4	13.0	Oil	90.8	-12.8	-12.8	0.5	58.2	52.8
MOVE Index	93	-7.4	-7.4	-16.0	45.0	28.1	Gold	4070.8	5.1	5.1	-2.1	-5.8	2.4
VIX Index	26	32.0	32.0	56.9	71.5	31.5							

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 November 2, 2026.

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