

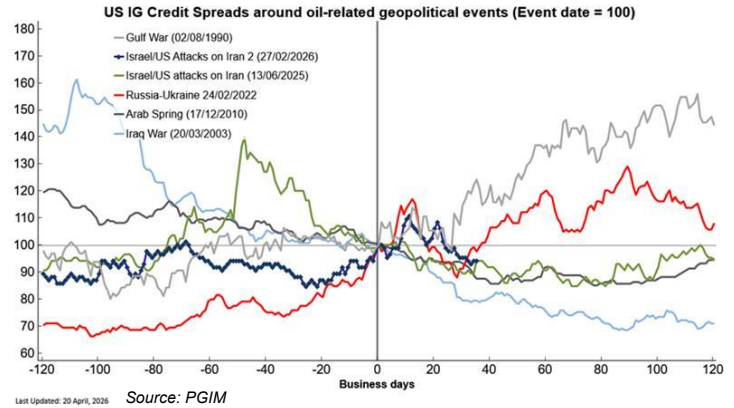
The Macro-Market Dissonance

WEEKLY VIEW FROM THE DESK | April 20, 2026

[LINK TO WEEKLY RETURNS TABLE](#)

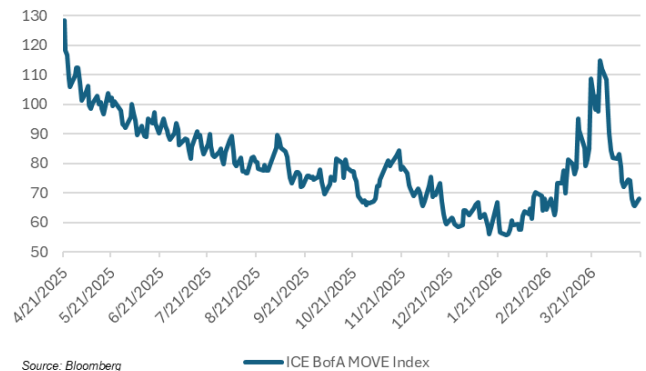
MACRO

- The tone at last week's IMF/ World Bank Spring meetings was one of dissonance: risk assets rallied sharply on optimism about a resolution to the conflict with Iran (see the accompanying chart on U.S. IG spreads), while analysts at the meetings expressed a cautious view around the Strait of Hormuz blockage and its implications for the global economy. The disconnect indicates that markets may be applying the "transitory" principle to a situation that will continue to work its way through the system over a prolonged period of time.
- While our interactions with delegates from the Middle East indicated a shift in spending priorities toward defense and infrastructure, they also expressed a commitment to existing plans as it was said to be too early to consider re-allocating capital (see the Emerging Markets section for more). There was also a notable interest from investors to partner with Gulf states on new spending priorities, including those in the tech sector, which could quickly restart the regional investment boom once the conflict subsides. The tourism industry is also said to be on track for a quick recovery, and national embassies within the region are recalling staff.
- November's mid-term elections in the U.S. were another focal point during the meetings. From a near-term market perspective, the current administration will likely seek to provide the economy with a fiscal boost as November approaches, which explains why we reduced our recession probability for the U.S. ([from 15% in Q1 to 10% in Q2](#)) even as the war commenced. This anticipated fiscal stimulus—market valuations notwithstanding—should provide additional support for risk assets going forward.
- On the monetary policy front, it appears that central bankers want to look through the war-related bump in inflation and attribute it to a transitory supply shock. While this may lead some central banks to lean away from rate hikes, others, such as the Fed, could seek to ease monetary policy once the conflict subsides. In short, the combined fiscal and monetary stimulus could support additional growth and inflation, while providing further fuel to equities and potentially steepening the U.S. yield curve.



DEVELOPED MARKET RATES

- In terms of Fed expectations, we also note that market pricing, which was recently indicating rate hikes, has returned to pricing in rate cuts, with the first potentially arriving later this year with another indicated in the first half of 2027.
- The dissonance in the DM rates complex was apparent in measures of interest-rate volatility. For example, the accompanying chart of the MOVE Index shows that volatility is lower than when the war started in late February. As implied and realized volatility declines, markets are expecting potential market moves of 8 bps this week.
- In MBS, we're selling into strength given the recent rally and reducing exposure. Our short-term stance remains cautious given tight spread levels and limited room for further volatility compression.



IG CORPORATES

- Similar to the sentiment above, U.S. IG spreads tightened inside of 80 bps last week, and although the path of least resistance may be towards tighter spreads, we're cautious in the near term given the tight levels. However, we continue to see the carry potential of the asset class as compelling once the near-term risks fade or become clearer.
- Bank earnings were solid last week, with net interest income and fee income generally strong. The impact of easing capital rules has, not surprisingly, been bigger balance sheets and weaker capital ratios. The overall earnings picture has been positive so far, with 88% of companies reporting haven beaten expectations. Despite the ongoing conflict in Iran, analysts' consensus EPS estimates have actually risen.
- In Europe, IG continues to benefit from positive market sentiment, though current spread levels seem to ignore the oncoming impacts of the energy supply chain disruption on many European industries.

LEVERAGED FINANCE

- U.S. HY bond spreads tightened last week as HY funds saw their largest weekly inflow of the year. All credit tiers saw positive returns, with lower quality outperforming. Total returns were mixed across sectors, with paper (+2.60%), technology (+1.06%), and telecom (+1.06%) outperforming. HY funds posted inflows of \$2.8B following a seven-week stretch of withdrawals. YTD, outflows now stand at -\$7.1B.

- The primary market was busy, with 16 deals being issued for a total of \$16.6B in supply. This brings April's total to \$23.8B, or \$13.25B ex-refi. Last week's deals included a \$5.7B deal for data center Meridian Arc, a BB rated five-year deal that came at 6.25%. The deal saw \$19B of commitments and traded up 75 bps on the break. For the remainder of the year, we're expecting to see another \$20B of data center deals and the industry to become a larger share of the HY market.
- U.S. bank loans saw another positive week, with lower-quality loans leading the performance. Currently, about 35% of the loan index is bid above par, which is a four-month high. Meanwhile, technicals appear strong, with about \$5B worth of paydowns expected over the next couple of weeks. Chemical names were a focus last week, with that part of the market up 3-5 points. Building product names were also higher.
- European high yield bond and loan spreads tightened last week. Despite recent tightening, HY spreads remain wider from where they stood at the end of February, with underperformance driven by interest-rate sensitive sectors. Primary issuance remains light, with just €10B in bonds pricing so far in April.

EMERGING MARKETS

- The rally in EM hard currency sovereign spreads continued last week, particularly in distressed names. The backdrop of the IMF Spring Meetings did not dampen the positive investor sentiment, even as official creditors, policymakers and economists warned of risks. Investors continue to focus on global liquidity, a glass-half-full read of fundamentals, a reach for yield, and dispersion of opportunities across markets. Of course, markets are hyper-focused on the status of the Strait of Hormuz and the impact on global growth dynamics. A prolonged closure from here heightens the potential for demand destruction and the consequent market effects. The market seems convinced that the lingering impact of the war is manageable.
- EMFX also continued to move higher last week amid optimism over an Iran-U.S. deal. Interestingly, though, the Friday news about Iran re-opening the Strait via a specific route saw a knee-jerk move lower in USD, but throughout the day, USD buying came in. The best performers included HUF at +5% on the back of the Tisha party winning a super-majority in Parliament, which is triggering optimism over an increase in EU funds as well as eventually Euro adoption. EGP was +4% on lower oil prices and net positive Iran-U.S. developments. During the week, we increased long EMFX positioning very selectively. We bought HUF on a structural positive view given the election results; NGN on elevated oil prices and inflows coming back to frontier names; TRY on view that with inflows coming back, reserves are growing again, and status quo FX management can be sustained; and BRL on elevated oil prices and the waning probability of an aggressive cutting cycle. We have taken the view that the worst of the Iran-U.S. conflict is behind us and have been selectively getting more constructive on EMFX. We would use any volatility resulting from this to further add to our favored opportunities.
- In EM local rates, one of the strongest rallies of the year lifted the EM rates complex. The GBI-EM Index yield was 8 bps lower, and yields in all countries were lower except for Romania. Hungary and Turkey were the star performers. Other key outperformers, including South Africa and Colombia, benefitted from stronger currencies. We reduced our 2- to 3-year exposure in Mexico given that a full 25 bps cut is priced in for the next two meetings. We added to 5-year Huf, 10-year HGBs and the long end of the SAGB curve. We also added 5-year linker in Colombia. Price action seems to suggest fund flows are back and investors are in a hurry to ramp up risk in the countries that performed well before the war, but sold off in March.
- In EM corporates, the high yield segment continued to compress, keeping total returns firmly positive. EM Corp index spreads were marginally tighter at 233 bps. HY outperformed, and conflict-impacted sectors and countries bounced back. Oil and gas names were mixed but largely held onto recent gains despite crude being significantly lower. The new issue market opened with deals from Cencosud, J&F, STM and some other higher-quality names with books building up strongly. We played in the STM deal (BBB-rated Chilean utility) across portfolios, but allocations were tough and bonds traded up 2 pts. We are also looking to add exposure in Saudi bank capital through a reverse enquiry. We continued to run EM corporate accounts at 15-20% of risk budgets, reflecting a mildly risk-positive stance, even as spreads are tight and there could be a potential deterioration in fundamentals if global growth weakens.

SECURITIZED PRODUCTS

- CMBS conduit AAA spreads were 2 bps tighter in the secondary market last week. Subordinate tranches were 5 bps tighter, with As in the low +200's and BBBs in the high +400s. SASB spreads were tighter in the secondary market. Top-tier AAA floaters are pricing in the +130 area. Fixed-rate seniors are trading in the mid- +90s to low +100s amid increased dispersion by property type and sponsor. CRE CLO spreads were tighter, with AAA new issue in the +150 area, while tier-two issuers were 5-25 bps wider. Three deals priced—one SASB, one CRE CLO, and one agency. We are turning more positive on the sector over the short term given the stabilizing macro backdrop and room for spread compression.
- In RMBS, Non-QM spreads continued to tighten, with top-tier deals 3-4 times oversubscribed and new issue AAAs clearing at T+118 versus initial talk in the T+130-135 range. Secondary AAAs are trading even tighter, or 5-10 bps inside new issue. Second-lien spreads tightened in line with broader RMBS and Non-QM moves. CRT spreads rallied across the stack and we expect near-term tightening to continue supported by solid mortgage fundamentals.
- U.S. CLO spreads softened broadly across tranches. We continue to see wider dispersion in mezzanine tranches as investors differentiate between underlying loan portfolios. European CLOs were largely unchanged across the capital structure despite a firmer tone. U.S. issuance was \$7.2B across 18 deals and European issuance was €1.3B across three deals.
- ABS spreads tightened, seeing further compression across the capital stack, with outperformance in BBBs. This week, we expect \$5B in issuance inclusive of auto, equipment, consumer loan, and timeshare transactions. This year's \$105B in supply is 15% ahead of last year's pace.

MUNICIPALS

- Munis underperformed slightly over the last week but continue to outperform on a MTD basis. Trading volume declined and munis were not able to keep pace with Friday's Treasury rally.
- Weekly outflows of \$408M were concentrated in short-duration funds. YTD flows of \$27.8B remain robust (the third-strongest pace on record). Technicals are expected to be seasonally softer until mid-year, but potential inflows from more certainty in the Middle East could mitigate the impact of elevated supply.
- Wealth tax initiatives continue to make headlines across states and cities. Minnesota is the latest example and aims to implement a 1% annual levy on all "taxable wealth above \$10M." This is the first measure that aims to tax wealth rather than income.

THE RETURNS TABLE AS OF APRIL 17, 2026

	Duration	YTM	OAS	WTD	Yield / OAS change (bps)				WTD	MTD	Total return (%)		
					MTD	QTD	YTD	Prior year			QTD	YTD	Prior year
Sovereign rates													
U.S. 2-Year	1.85	3.71	---	-9	-9	-9	23	-9	0.26	0.35	0.35	0.58	3.46
U.S. 5-Year	4.45	3.85	---	-10	-10	-10	12	-9	0.54	0.65	0.65	0.64	4.22
U.S. 10-Year	7.93	4.25	---	-7	-7	-7	8	-8	0.68	0.81	0.81	0.70	5.23
U.S. 10-Year Breakeven	--	2.36	---	-3	6	6	12	12	---	---	---	---	---
U.S. 10-Year TIPS	4.40	1.89	---	-4	-13	-13	-1	-20	0.61	1.55	1.55	1.48	7.03
U.S. 20-Year	12.65	4.85	---	-5	-6	-6	6	2	0.75	1.00	1.00	0.72	4.31
U.S. 30-Year	15.56	4.89	---	-2	-3	-3	4	9	0.57	0.64	0.64	0.94	3.46
U.S. SOFR	---	---	---	4	-3	-3	-22	-67	0.07	0.17	0.17	1.09	4.19
UK 10-Year	7.57	4.76	---	-7	-15	-15	29	20	0.65	1.35	1.35	-0.17	3.57
Germany 10-Year	8.36	2.96	---	-10	-4	-4	10	49	0.83	0.58	0.58	0.24	-0.67
Switzerland 10-Year	8.93	0.37	---	-4	4	4	10	1	0.38	-0.17	-0.17	-0.37	0.44
Japan 10-Year	8.00	2.41	---	-2	7	7	35	110	0.14	-0.38	-0.38	-1.77	-6.29
Australia 10-Year	7.91	5.00	---	3	2	2	25	71	-0.04	0.15	0.15	-0.47	-0.69
Canada 10-Year	8.08	3.45	---	-2	-2	-2	2	31	0.24	0.39	0.39	0.90	1.33
Major fixed income multi-sector indices YTW													
Global Aggregate Unhedged	6.32	3.66	27	-1	-4	-4	0	-12	0.88	2.03	2.03	0.94	4.20
Global Aggregate Hedged	6.32	3.66	27	-1	-4	-4	0	-12	0.54	0.89	0.89	0.74	4.18
U.S. Aggregate	5.96	4.45	26	0	-4	-4	-1	-15	0.55	0.88	0.88	0.84	6.10
Euro-Aggregate (Unhedged)	6.29	3.15	43	-2	-8	-8	0	-20	0.69	0.99	0.99	0.34	1.08
Japanese Aggregate	8.11	2.18	0	0	0	0	0	0	0.22	-0.04	-0.04	-1.64	-5.86
Major fixed income credit indices YTW													
Mortgage-Backed (Agency)	5.32	4.68	19	0	-5	-5	-3	-26	0.55	0.95	0.95	1.35	7.80
Global IG Corporate Bonds	6.00	4.54	81	-2	-11	-11	2	-31	0.93	2.18	2.18	0.89	7.28
U.S. IG Corporate Bonds	6.96	4.97	79	-1	-10	-10	1	-29	0.67	1.32	1.32	0.78	7.56
European IG Corporate	4.59	3.41	80	-4	-18	-18	1	-33	0.73	1.49	1.49	0.48	2.62
U.S. High Yield Bonds	3.16	6.75	266	-13	-51	-51	-1	-132	0.66	1.97	1.97	1.47	10.41
European High Yield Bonds	3.15	5.84	308	-4	-40	-40	26	-88	0.58	2.00	2.00	0.47	5.67
U.S. Leveraged Loans	0.3	8.60	494	-13	-20	-20	39	-43	0.50	0.86	0.86	0.38	6.68
European Leveraged Loans	0.3	7.87	502	-13	-35	-35	28	-26	0.52	1.03	1.03	0.21	4.32
EM Hard Currency Sovereigns	6.47	6.79	243	-11	-46	-46	-11	-125	1.25	3.62	3.62	1.74	15.96
EM Corporates	4.40	6.42	234	-1	-15	-15	-4	-65	0.68	1.68	1.68	1.47	9.29
EM Currencies	---	5.64	---	-1	-2	-2	0	-1	0.69	3.36	3.36	2.59	10.64
EM Local Rates	5.32	6.05	6	0	0	0	0	0	0.62	2.08	2.08	0.94	6.85
CMBS	3.77	4.53	68	-1	-3	-3	-7	-32	0.51	0.69	0.69	1.00	6.32
ABS	2.84	4.32	53	-1	0	0	1	-19	0.36	0.51	0.51	0.82	5.27
CLOs	4.02	4.86	132	-1	-1	-1	1	-25	0.13	0.29	0.29	1.30	5.92
Municipal Bonds	6.10	3.59	---	-3	-19	-19	-1	-55	0.31	1.46	1.46	1.28	7.40

	Level	Total return (%)						Change (%)					
		WTD	MTD	QTD	YTD	Prior year		Spot	WTD	MTD	QTD	YTD	Prior year
Equity / volatility indices													
S&P 500 Index	7,126	4.5	9.2	9.2	4.5	36.6							
DAX	24,702	3.8	8.9	8.9	0.9	16.5							
Stoxx 600	627	2.0	7.7	7.7	6.8	27.9							
Nikkei 225	59,518	2.7	14.5	14.5	17.0	73.0							
Shanghai Composite	4,051	1.6	4.1	4.1	2.2	26.7							
MSCI ACWI Index	1,075	3.9	9.9	9.9	6.5	38.0							
FTSE 100	10,668	0.7	5.0	5.0	8.6	33.1							
MOVE Index	66	-8.9	-31.6	-31.6	2.7	-42.7							
VIX Index	17	-9.1	-30.8	-30.8	16.9	-41.0							
FX / commodities													
EUR / USD		1.2	0.4	1.8	1.8	0.2							
USD / JPY		158.6	-0.4	-0.1	-0.1	1.2							
GBP / USD		1.4	0.4	2.2	2.2	0.3							
EUR / CHF		0.9	-0.5	-0.4	-0.4	-1.2							
USD / CHF		0.8	-0.9	-2.2	-2.2	-1.4							
USD (DXY)		98.1	-0.6	-1.9	-1.9	-0.2							
Oil		83.9	-13.2	-17.3	-17.3	46.0							
Gold		4830.3	1.7	3.5	3.5	11.8							

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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