

Implications of a Warsh-led Fed

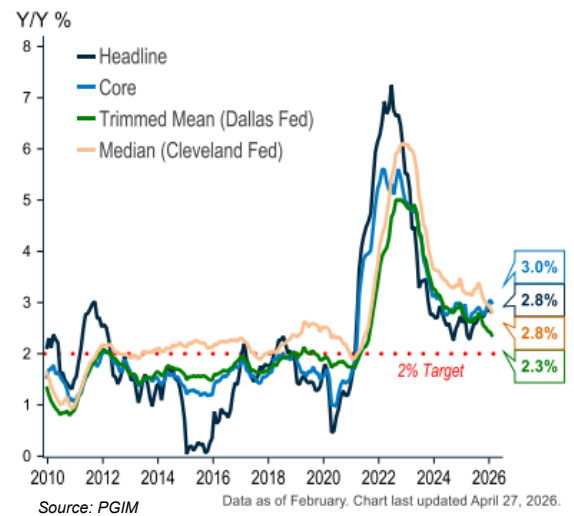
WEEKLY VIEW FROM THE DESK | April 27, 2026

[LINK TO WEEKLY RETURNS TABLE](#)

MACRO

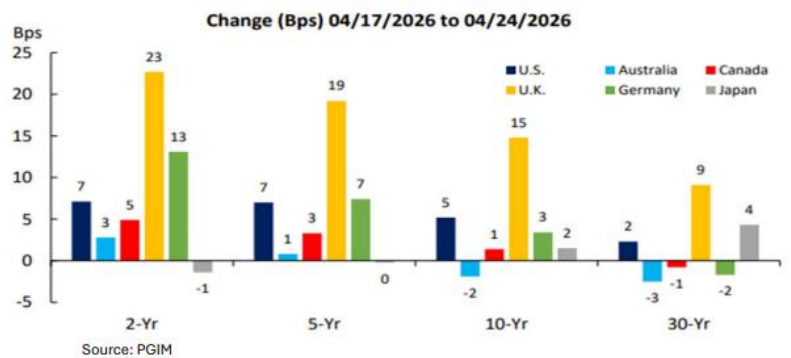
- Reports that the U.S. Department of Justice dropped its investigation into construction cost overruns at the Federal Reserve seemingly sets the confirmation of Kevin Warsh as the next Fed Chairman—and the future direction of U.S. monetary policy—in motion. Based on Warsh’s testimony before the Senate Banking Committee last week, we’ve segmented our views on a potential Warsh-led Fed into three categories, including policy reaction functions, views on inflation, and future composition of the Fed board.
- Warsh’s testimony [supports our views](#) that, if confirmed, he may seek to ease monetary policy with multiple rate cuts over the coming 12 months—with the first two 25 bp cuts potentially emerging in Q4. Warsh’s justification may be based on an assessment of AI’s productivity effects, a subtle shift in inflation emphasis, and other FOMC members who already see monetary policy as restrictive. Warsh could also seek to reduce the size of the Fed’s balance sheet, notwithstanding regulatory and reserve demand requirements.
- In addition, the Fed’s dual mandate of price stability and maximum employment could see it further downplay headline inflation with a possible focal shift to less-volatile inflation measures, such as the trimmed mean of personal consumption expenditures (PCE). Drawbacks from the trimmed mean include its slow reaction to the post-COVID inflation surge (see accompanying chart) and rules that generally point to higher, not lower, interest rates when using the trimmed mean as an input. An inflation “tolerance” band, say of 2-2.25%, could also emerge in contrast to the Fed’s current stated inflation target of 2%.
- Wednesday’s Fed meeting (no rate change expected) will likely be the last for Jerome Powell as Fed Chair before Warsh is potentially confirmed in June. The Fed will likely remain on hold this week and reiterate a narrative of resilient growth, temporarily elevated inflation, and an observable set of downside risks. While Powell may not comment if asked about his remaining tenure as a Fed governor, we believe he will stay on through the mid-term election so that his seat may be confirmed by a less divided Senate. This may also give Powell some input into some of Warsh’s early decisions.

U.S. PCE Inflation



DEVELOPED MARKET RATES

- Market pricing for Fed rate hikes, including at this week’s meeting, has remained steady for months. Yet, after the DoJ dropped its investigation, market pricing for the Fed funds is showing a steadily declining target into the 3.50% area by the end of the year. In a scenario where inflation remains elevated, we think the late-year cuts will be postponed, but not abandoned.
- Movement across the UK curve was also notable last week as rates climbed on higher commodity prices (see chart). Markets are pricing in sizable rate hikes—roughly 20+ bps in June and about 60 bps by year end—from the Bank of England.
- Elsewhere, the Bank of Japan held its policy rate steady at 0.75% today with a third of the board members proposing a 25 bps rate hike. The BoJ also indicated more concern regarding upside risks to inflation as opposed to downside risks to growth. Hence, we’re biased to expect a 25 bp rate hike in June with the caveat of risks from FX moves, potential resistance from the government, and developments in the Middle East.
- In MBS, higher Treasury yields again pushed mortgage rates higher. As such, the market is rotating back toward higher coupons due to their shorter duration profiles. Despite interest from broker/dealers, higher coupon issues (6s and above) remain unattractive from our perspective based on positioning and convexity.



IG CORPORATES

- The U.S. IG index was essentially unchanged last week, leaving spreads range-bound for roughly a month, reflecting low-volatility conditions. Last week’s issuance was softer than the week prior at \$19B. As a barometer of demand, BDC and data-center issuance found decent appetite last week, and investors appear increasingly focused on data-center deal structures as they assess an expected influx of supply.

- Earnings continue to come in strong, with companies generally not projecting much damage from the Middle East conflict in their guidance, though the duration of the hostilities will be key. This week, Meta, Microsoft, Google, and Amazon are all reporting, with a key focus being their capex and AI-related investment outlooks.
- In Europe, IG spreads closed the week 2 bps wider, remaining resilient despite the creep higher in Brent. One explanation for the resilience remains the still-strong technicals, with supply manageable amid high cash balances despite fund flow data pointing to a second consecutive week of (small) outflows from the asset class.

LEVERAGED FINANCE

- U.S. HY bond spreads widened modestly last week but remain near multi-month tightness amid a solid start to the earnings season and healthy inflows. So far in April, the largest focus has been on net new issuance, which has been well absorbed so far. All credit tiers saw negative returns, with higher quality outperforming. Total returns were mixed across sectors, with paper (+4.0%), home building materials (+0.16%), and auto (+0.11%) performing the best. Air transportation, cable, and technology underperformed.
- HY funds posted their third consecutive weekly inflow totaling \$567M, bringing the three-week tally to +4.2B. YTD, outflows now stand at -\$6.4B. The primary market remained busy, with 11 deals being issued for a total of \$12.6B in supply. The HY market has now seen \$21.6B in total non-REFI-related issuance in April—the most since September 2021.
- U.S. bank loans saw another positive week, with lower-quality loans marginally outperforming. Currently, about 35% of the loan index is bid above par, which is a four-month high. Meanwhile, the forward pipeline appears somewhat light. Last week saw one five-B issuer (Delta SkyMiles) price its deal at SOFR+125, which is one of the tightest prints in recent memory.
- European high yield bond and loan spreads tightened last week, with the HY market now having retraced most of the Iran-related widening. The HY primary market picked up, with €4B pricing and another busy week expected this week. Chemical names continue to benefit, up 15-20 points off the January lows. Meanwhile, loans were marginally stronger, with CLO AAA tranches tightening back into the 125-130 context.

EMERGING MARKETS

- We are constructively cautious about EM hard currency sovereign spreads in the short term. Markets may need a “pause” given concerns around valuations and the delayed macro impact of the energy shock (and a potential broader supply shock). However, EM fundamentals remain relatively supportive, and EM is likely to remain resilient over the medium to longer term along with a dispersion in performance. Of note, there were strong inflows into retail EM last week, with \$2.4B estimated in HC. There was some issuance, but the theme was more of “tenders” (Colombia, still a few weeks away from an election, announced \$4B of debt buybacks) and taps (Pakistan “tapping” a recent “private” issue). Such debt management exercises, while not reducing debt stocks, help technicals.
- The EMFX index declined -72 bps last week, and all regions showed losses. Oil importers were the worst performers; interestingly, some of the sensitive, low-carry oil importers in Asia, like TWD and KRW, didn’t sell off and were among the five best performers. Last week, we again selectively added to EMFX longs focusing on HUF, BRL, COP, TRY, and CLP. We reduced exposure to some oil importers like TWD, THB and INR. Interest-rate differentials should, in time, drive FX rates. With a war-risk premium still evident on the USD—it looks rich on interest-rate differentials—we think USD is biased lower going forward, albeit selectively.
- EM local rates remain subject to volatility in the crude oil market, and they sold off across the board last week. We trimmed our overweight by paying five-year swaps in Poland, South Africa, and Colombia and increased an underweight in Chile by paying two-year Chile. However, we added to two-year Mexico after a 15 bps back up from the low. EM central banks remain vigilant to second-order impacts of elevated oil prices. Last week, the Philippines Central Bank was the first central bank to raise rates as a preventive measure. We believe central banks in South Africa, Chile, India, South Korea and Czech may also adopt a similar stance if conditions do not normalize soon. Under this fragile macro environment, the prudent stance is to reduce directionality of the exposure and focus on relative winners and losers.
- The EM corporate index spread was another 5 bps tighter last week (9 bps tighter YTD), fully reversing the Iran conflict weakness and now at the post-GFC tightness. While the broader market is focused on tech earnings and peace negotiations, technicals are constructive. The new issue market remained active, with a large two-tranche perp deal from Genting of Malaysia and another notable deal from Brazil. We added the Brazilian new issue to cover underweights in some corporate accounts.

SECURITIZED PRODUCTS

- CMBS conduit AAA spreads were 2 bps tighter in the secondary market last week. Subordinate tranches were 3-5 bps tighter, with As in the very low +200s and BBB-s in the mid to 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 +135-140 area, while tier-two issuers were 5-25 bps wider. Six deals priced-four SASB, one CRE CLO, and one agency.
- In RMBS, Non-QM spreads continued to rally, with top-tier deals 3-4 times oversubscribed and new issue AAAs clearing at T+118. Secondary AAAs are trading even tighter, at T+110. 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 last week. The tone in AAAs has improved meaningfully in recent weeks; however, the pace of new issue AAA tightening has lagged the rally in the underlying loan market. Mezzanine dispersion remains a defining feature of the market as pricing has become increasingly manager and portfolio specific. In European CLOs, we expect sentiment to firm as pricing momentum remains constructive and demand builds. U.S. issuance was \$7.6B across 19 deals and European issuance was €1.2B across three deals.
- ABS markets remain firm and spreads generally continued to grind tighter across the stack. Primary activity has been heavy but generally met with strong demand. This week, we expect \$4B in issuance inclusive of auto, credit card, consumer loan, and solar transactions. This year’s \$188B in supply is 20% ahead of last year’s pace.

MUNICIPALS

- Munis slightly outperformed Treasuries last week, and April returns have bounced back strongly from the soft March performance.
- Fund inflows of \$1B skewed to long funds with ETFs outpacing open-ended funds. YTD flows have been strong (+\$29B), and ETFs account for 46% of YTD flows (but only represent 20% of fund AUM). Supply this week should be manageable at about \$9B; Fed meeting weeks tend to be lighter so supply should be heavier in coming weeks.
- From a fundamentals perspective, state tax collections are up 5.9% YoY with 38 states reporting data, driven by robust sales tax collections.

THE RETURNS TABLE AS OF APRIL 24, 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 | 1.83 | 3.78 | --- | 7 | -2 | -2 | 31 | -2 | -0.08 | 0.27 | 0.27 | 0.50 | 3.36 |
| U.S. 5-Year | 4.43 | 3.92 | --- | 7 | -3 | -3 | 19 | -2 | -0.27 | 0.38 | 0.38 | 0.37 | 3.81 |
| U.S. 10-Year | 7.91 | 4.30 | --- | 5 | -2 | -2 | 13 | -2 | -0.39 | 0.42 | 0.42 | 0.31 | 4.52 |
| U.S. 10-Year Breakeven | -- | 2.43 | --- | 6 | 12 | 12 | 18 | 12 | --- | --- | --- | --- | --- |
| U.S. 10-Year TIPS | 4.39 | 1.88 | --- | -1 | -14 | -14 | -3 | -14 | 0.18 | 1.73 | 1.73 | 1.66 | 6.34 |
| U.S. 20-Year | 12.61 | 4.89 | --- | 3 | -3 | -3 | 9 | 9 | -0.45 | 0.54 | 0.54 | 0.27 | 3.04 |
| U.S. 30-Year | 15.51 | 4.91 | --- | 2 | 0 | 0 | 6 | 13 | -0.38 | 0.26 | 0.26 | 0.56 | 2.11 |
| U.S. SOFR | --- | --- | --- | 1 | -2 | -2 | -21 | -63 | 0.07 | 0.24 | 0.24 | 1.16 | 4.17 |
| UK 10-Year | 7.54 | 4.91 | --- | 15 | 0 | 0 | 43 | 41 | -0.98 | 0.36 | 0.36 | -1.14 | 1.99 |
| Germany 10-Year | 8.34 | 2.99 | --- | 3 | -1 | -1 | 14 | 55 | -0.24 | 0.34 | 0.34 | 0.00 | -1.15 |
| Switzerland 10-Year | 8.90 | 0.41 | --- | 3 | 7 | 7 | 13 | 0 | -0.31 | -0.48 | -0.48 | -0.68 | 0.48 |
| Japan 10-Year | 7.93 | 2.43 | --- | 2 | 8 | 8 | 37 | 111 | 0.03 | -0.35 | -0.35 | -1.74 | -6.15 |
| Australia 10-Year | 7.88 | 4.98 | --- | -2 | 0 | 0 | 24 | 74 | 0.17 | 0.32 | 0.32 | -0.30 | -0.94 |
| Canada 10-Year | 8.05 | 3.46 | --- | 1 | -1 | -1 | 3 | 27 | -0.05 | 0.33 | 0.33 | 0.84 | 1.79 |
| Major fixed income multi-sector indices YTW | | | | | | | | | | | | | |
| Global Aggregate Unhedged | 6.30 | 3.72 | 28 | 0 | -4 | -4 | 0 | -10 | -0.64 | 1.38 | 1.38 | 0.29 | 3.19 |
| Global Aggregate Hedged | 6.30 | 3.72 | 28 | 0 | -4 | -4 | 0 | -10 | -0.24 | 0.65 | 0.65 | 0.50 | 3.62 |
| U.S. Aggregate | 5.94 | 4.51 | 26 | 0 | -4 | -4 | -1 | -13 | -0.26 | 0.62 | 0.62 | 0.57 | 5.46 |
| Euro-Aggregate (Unhedged) | 6.27 | 3.25 | 45 | 2 | -6 | -6 | 2 | -15 | -0.36 | 0.63 | 0.63 | -0.02 | 0.36 |
| Japanese Aggregate | 8.08 | 2.19 | 0 | 0 | -1 | -1 | 0 | 0 | -0.05 | -0.10 | -0.10 | -1.69 | -6.01 |
| Major fixed income credit indices YTW | | | | | | | | | | | | | |
| Mortgage-Backed (Agency) | 5.35 | 4.77 | 20 | 1 | -4 | -4 | -2 | -23 | -0.33 | 0.61 | 0.61 | 1.02 | 7.08 |
| Global IG Corporate Bonds | 5.98 | 4.62 | 82 | 0 | -11 | -11 | 2 | -26 | -0.56 | 1.61 | 1.61 | 0.32 | 6.10 |
| U.S. IG Corporate Bonds | 6.93 | 5.03 | 79 | 0 | -10 | -10 | 1 | -24 | -0.27 | 1.05 | 1.05 | 0.51 | 6.65 |
| European IG Corporate | 4.58 | 3.52 | 82 | 2 | -16 | -16 | 3 | -27 | -0.38 | 1.10 | 1.10 | 0.10 | 1.91 |
| U.S. High Yield Bonds | 3.21 | 6.90 | 272 | 6 | -45 | -45 | 6 | -96 | -0.19 | 1.78 | 1.78 | 1.28 | 9.12 |
| European High Yield Bonds | 3.15 | 5.86 | 295 | -12 | -52 | -52 | 14 | -79 | 0.05 | 2.05 | 2.05 | 0.52 | 4.84 |
| U.S. Leveraged Loans | 0.3 | 8.65 | 489 | -5 | -25 | -25 | 34 | -28 | 0.26 | 1.12 | 1.12 | 0.64 | 6.25 |
| European Leveraged Loans | 0.3 | 7.85 | 488 | -14 | -49 | -49 | 14 | -25 | 0.50 | 1.53 | 1.53 | 0.70 | 4.32 |
| EM Hard Currency Sovereigns | 6.43 | 6.88 | 246 | 3 | -43 | -43 | -8 | -113 | -0.47 | 3.14 | 3.14 | 1.93 | 14.50 |
| EM Corporates | 4.38 | 6.44 | 229 | -5 | -20 | -20 | -9 | -62 | 0.03 | 1.71 | 1.71 | 1.50 | 8.72 |
| EM Currencies | --- | 6.00 | --- | 0 | -1 | -1 | 0 | -1 | -0.72 | 2.62 | 2.62 | 1.85 | 9.28 |
| EM Local Rates | 5.29 | 6.17 | 6 | 0 | 0 | 0 | 0 | 0 | -0.64 | 1.42 | 1.42 | 0.29 | 5.71 |
| CMBS | 3.75 | 4.61 | 68 | 0 | -3 | -3 | -7 | -31 | -0.18 | 0.50 | 0.50 | 0.82 | 5.94 |
| ABS | 2.81 | 4.37 | 51 | -1 | -1 | -1 | -1 | -21 | -0.07 | 0.43 | 0.43 | 0.75 | 5.06 |
| CLOs | 4.03 | 4.91 | 131 | -1 | -3 | -3 | 0 | -21 | 0.12 | 0.41 | 0.41 | 1.43 | 5.75 |
| Municipal Bonds | 6.10 | 3.60 | --- | 1 | -17 | -17 | 1 | -56 | 0.03 | 1.50 | 1.50 | 1.32 | 7.53 |

| | Total return (%) | | | | | | Change (%) | | | | | | |
|------------------------------------|------------------|------|-------|-------|------|------------|-------------------------|--------|-------|-------|-------|------------|------|
| | Level | WTD | MTD | QTD | YTD | Prior year | Spot | WTD | MTD | QTD | YTD | Prior year | |
| Equity / volatility indices | | | | | | | | | | | | | |
| S&P 500 Index | 7,165 | 0.6 | 9.8 | 9.8 | 5.1 | 32.3 | FX / commodities | | | | | | |
| DAX | 24,129 | -2.3 | 6.4 | 6.4 | -1.5 | 9.4 | EUR / USD | 1.2 | -0.4 | 1.5 | 1.5 | -0.2 | 2.9 |
| Stoxx 600 | 611 | -2.3 | 5.3 | 5.3 | 4.4 | 21.7 | USD / JPY | 159.4 | 0.5 | 0.4 | 0.4 | 1.7 | 11.7 |
| Nikkei 225 | 59,140 | 2.1 | 16.9 | 16.9 | 19.5 | 73.4 | GBP / USD | 1.4 | 0.1 | 2.3 | 2.3 | 0.4 | 1.4 |
| Shanghai Composite | 4,080 | 0.7 | 4.8 | 4.8 | 2.9 | 26.9 | EUR / CHF | 0.9 | 0.0 | -0.4 | -0.4 | -1.1 | -2.3 |
| MSCI ACWI Index | 1,072 | -0.2 | 9.7 | 9.7 | 6.3 | 33.2 | USD / CHF | 0.8 | 0.4 | -1.8 | -1.8 | -1.0 | -5.1 |
| FTSE 100 | 10,379 | -2.6 | 2.3 | 2.3 | 5.8 | 27.5 | USD (DXY) | 98.5 | 0.4 | -1.4 | -1.4 | 0.2 | -0.8 |
| MOVE Index | 67 | 1.9 | -30.3 | -30.3 | 4.7 | -38.2 | Oil | 83.9 | -13.2 | -17.3 | -17.3 | 46.0 | 29.6 |
| VIX Index | 19 | 7.0 | -25.9 | -25.9 | 25.2 | -29.3 | Gold | 4830.3 | 1.7 | 3.5 | 3.5 | 11.8 | 45.2 |

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 April 24, 2026.

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