PGIM

Key Questions for the Second Half

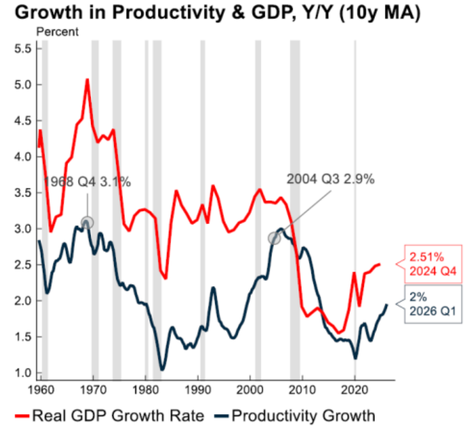
WEEKLY VIEW FROM THE DESK | June 1, 2026

LINK TO WEEKLY RETURNS TABLE

MACRO

- An eventful first half of 2026 raises several key questions as investors prepare for the second half of the year. The eventual outcome with Iran is among the most pressing issues, and we see ample space for an agreement that looks similar to the prior Joint Comprehensive Plan of Action that was signed in 2015. The scope for a deal could include: phased reopening of the Strait of Hormuz that is tied to phased sanctions relief (e.g., energy first, financial last); steps to address Iran's uranium stockpile (e.g., enrichment caps/suspension, transfer of highly-enriched uranium to a third-party country); and continued U.S. troop presence in the region without explicitly seeking regime change. The phased nature of a potential agreement means that there will likely be lingering risk premium on energy prices with a base case expectation for Brent crude prices in the range of $80-$100 per barrel.

Growth in Productivity & GDP, Y/Y (10y MA)

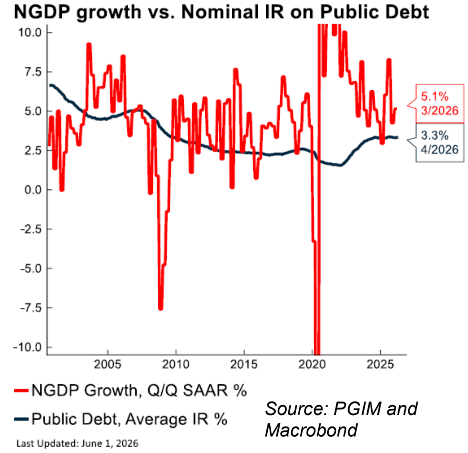


Source: PGIM and Macrobond

- Our expectations for elevated nominal U.S. GDP growth is intact for the remainder of the year based on the scale of AI-related capex, wealth-driven consumption, and ongoing fiscal stimulus. Our base case includes three 25 bp Fed rate cuts over the coming 12 months based on three conditions: falling inflation (core PCE or another inflation measure reaching 3% or less); growing labor market slack (growth in labor demand falling below labor supply and wage growth decelerating vs. productivity growth); and sustained productivity growth in excess of 2.5%. The main risk to our base case expectation is that the Fed holds the Fed funds target in the current 3.50-3.75% range as opposed to hiking rates.
- Conversely, we see two precautionary ECB rate hikes over the coming months, which could be reversed in 2027, as well as two rate hikes by the Bank of Japan through year end. Although Japan's headline CPI is well below 2%, we believe rate hikes will aim to address persistent weakness in the yen and the JGB market.
- In terms of factors that could extend and/or enhance the constructive market backdrop, the most prominent could be an AI-related, disinflationary productivity boost—aligning with perceived views of new Fed Chair Kevin Warsh—that facilitates monetary policy easing into a positive, supply-side boom (see accompanying chart). On the other hand, factors that could derail from the market from here include smaller right tail outcomes from slowing AI-related capex and/or reversing wealth effects. It could also entail bigger left tail risks from supply-side shocks that potentially put an elevated floor under CPI.

DEVELOPED MARKET RATES

NGDP growth vs. Nominal IR on Public Debt



Source: PGIM and Macrobond

- Finally, with fiscal issues often cited as one of the factors behind the recent lift in DM yield curves, we don't think detriorating fiscal conditions will become a first-order market driver, particularly when U.S. nominal GDP exceeds nominal interest rates (i.e., the average cost of public debt, see accompanying chart). However, interest expense is already 20% of revenue, potentially indicating the development of crowding-out effects from elevated yields.
- With the initial movement in the yield curves focused at the front end—and followed by those at the back end—curves are generally flatter than they were prior to the conflict in the Middle East, and curve flattening trends tend to persist once they've started. For context, many investors were likely positioned in curve steepeners as the year started, and those positions could continue to unwind if the flattening persists. At this point, the combination of factors could support an environment of stable to higher rates going forward.
- MBS spreads tightened from the wider levels seen two weeks ago and are sitting at resistance levels across multiple frameworks. Hence, we may seek to reduce exposure on further strength while remaining underweight high premium coupons and favoring the 30-year sector.

IG CORPORATES

- IG spreads remain tight, with the market still focused on developments in the AI space. Some of the previously beaten-down software names performed well last week. Tech names generally performed alongside the rally in equities, with names like Oracle and Salesforce 5-10 bps tighter last week.
- Benefiting from the move in oil, auto names were also 5-10 bps tighter last week. BDCs also generally tightened. Energy and banks lagged. Last week saw about $40B in issuance, bringing May supply to around $170B. Looking forward, expectations for June sit around $120-130B.
- In Europe, spreads remain firm despite issuance hitting a record in May. We expect issuance to slow in June and then remain light for the remainder of the summer. Given current valuations and tight spreads, we remain focused on idiosyncratic situations.

LEVERAGED FINANCE

- U.S. high yield spreads hovered near four-month lows last week amid hopes of a U.S./Iran deal. The primary market was quiet during the holiday-shortened week. Notably, we have now seen two weeks of mild outflows after a prolonged stretch of significant inflows. Broadly, technicals remain strong, without enough paper to satisfy demand. Despite tight spreads, investors are looking to put cash to work with a skew towards higher-quality paper.

- Total returns were positive across all HY sectors, with the best performers being paper (1.20%), containers (0.98%), and technology (0.96%). The three worst performing sectors were cable (0.02%), food & drug retail (0.26%), and energy (0.27%). High yield bond funds had outflows totaling -$69M. This was the second consecutive weekly outflow following +$7.2B of inflows over the prior six weeks. Six high-yield bond deals priced for $4B, compared with two new issues last week totaling $1.5B.
- U.S. bank loans were largely unchanged, with some selling in high-dollar/lower spread loans to make room for new supply. The percentage of the index bid above paper remains near 40%-where it's been for the past month. The area of focus was the large Warner Brothers Discovery deal, which upsized twice from an initial $5B to $13B. Despite the large size, the deal didn't struggle as it garnered about $30B in orders. The deal priced at SOFR+250 at 99.75 and still traded up about a half-point on the break.
- European high yield bond spreads continued to tighten last week, with spreads now in the fourth percentile since 2010. Loans underperformed amid an uptick in supply as €3.5B of new money hit the market (half of which came from the Warner Brother deal). In the tech sector, many of the software names that had traded down a few months ago have since rallied back toward par. Given where valuations are versus the U.S., we've been reducing European risk and increasing U.S. risk in our global portfolios.

EMERGING MARKETS

- EM hard currency sovereign spreads continue to outperform of late, highlighting flows, country-specific developments and a supportive backdrop for risk assets. We saw spread compression in May, particularly among B and CCC issues. Performance by country reflects relative valuations and prospects for returns based on political, policy, or debt management developments. Investors are paying close attention to short-term moves to try to add alpha by positioning. The sizing reflects overall risk sentiment; most managers have room to add risk despite tight valuations, an indication that bottom-up relative value is driving returns. Positive inflows are also driving performance. In the short-term, aside from top-down macro and geopolitical developments, the EM market will focus on elections in Colombia, Pemex supply/liability management, and trading around recent rating agency affirmations.
- Price action in EMFX last week was helped by lower UST yields, which were triggered by month-end technicals and the market’s hope about a U.S.-Iran deal that would open the Strait. Oil importers away from Asia did well last week amid the decline in crude prices. We think if a deal is reached shortly, select oil importers are likely to outperform going forward, and we would add to our long positions in places like EGP and TRY. However, we don’t have conviction to sell USD broadly as growth in the U.S. continues to be relatively strong, the labor market seems to be stabilizing/improving, and inflation was already above target before the war. We favor relative value expressions where we are selectively long carry across Latin America and CEEMEA and short low carry across Asia and Europe.
- The drop in oil prices and bull flattening of the UST curve helped EM high yielders such as Turkey, South Africa, Colombia and Mexico. In the 5-year swap space, Hungary and Mexico were the outperformers. Besides the top-down noise around deal-or-no-deal, bottom-up stories continue to generate performance dispersion across countries. Unlocking of frozen funds in Hungary, a hawkish central bank in Korea, growth markdown in Mexico, lower-than-expected inflation in Poland, the upcoming weekend election in Colombia, and a 25 bps hike in South Africa were the key drivers in respective countries. As for the latter, we added exposure on the back of reinforcement of orthodox policy framework, a credible and hawkish central bank, and National Treasury commitment for fiscal discipline. Overall, the portfolio is at the lower end of the risk budget with more focus on relative value across countries.
- EM corporate spreads widened with the broader markets rallying on tech and Iran optimism. Technicals remained supportive, and we found it difficult to buy paper with dealer inventory cleaned up. Raizen bonds rallied 3-4 points as the company released details of the proposed reprofiling that has been agreed with the steerco. Raizen holders will receive a combination of new bonds and equity. Braskem reprofiling progressed with steerco members expected to go restricted this week. Overall, new issue activity has slowed down.

SECURITIZED PRODUCTS

- CMBS conduit AAA spreads were 1 bp wider in the secondary market last week. Subordinate tranches were also slightly wider, with As in the +180 context and BBB-'s in the mid +400s. SASB spreads held steady. Top-tier AAA floaters are pricing in the +125 area. Fixed-rate seniors are trading in the +80s amid increased dispersion. CRE CLO spreads were marginally wider, with AAA new issue in the low +140 area, while tier-two issuers were 5-25 bps wider. Four deals priced-one SASB, one CRE CLO, one CRE CLO, and one agency.
- In RMBS, Non-QM spreads were unchanged amid lighter new issuance in the holiday-shortened week. First-tier AAAs continued to print around T+120, while second-tier shelves priced modestly wider and secondary levels remained 5-10 bps inside new issue. Mezzanine demand remained firm relative to seniors, keeping credit curves flat. Closed-end second-lien demand for CES appears to be gaining momentum, with new-issue AAAs coming in at levels broadly aligned with Non-QM. We expect prime-quality CES deals to continue to draw strong interest. CRT spreads tightened across the stack.
- U.S. CLO spreads tightened as the market tone remains constructive, though the scope for further tightening is likely limited. Dispersion is increasingly pronounced in the lower mezzanine tranches, reflecting differences in underlying portfolio quality and tail risk exposure. In European CLOs, spreads tightened last week, with manager and structural dispersion more evident in mezzanine tranches. U.S. issuance was $12.4B across 29 deals and European issuance was €2B across five deals.
- ABS markets remain firm and spreads generally continued to grind tighter across the stack. ABS spreads are at, or through, beginning of the year levels. Primary market supply continues to be heavy, but demand is strong with most deals well oversubscribed and pricing well inside of initial guidance.

MUNICIPALS

- Munis saw strong performance last week, as the Iran war narrative bolstered rate products. However, the positive performance leaves munis relatively expensive to taxable products.
- Last week saw the second-highest week ever of muni inflows ($2.3B), showing strong support for a growing June calendar. This week should see $17B of new issue (largest of the year), as 501c3 and government issuers often like to beat summer vacations and year-end audits (6/30).
- Taxable munis continue to trade with tight spreads, but still a couple of credit notches cheap to corporates. We are keeping our tax-exempt short-term outlook at negative due to elevated supply and keeping our taxable short-term outlook at negative based on spreads.

THE RETURNS TABLE AS OF MAY 29, 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	1.90	4.01	---	-12	13	21	53	6	0.28	0.08	0.22	0.45	3.28
U.S. 5-Year	4.47	4.14	---	-12	14	20	42	14	0.53	-0.20	-0.23	-0.24	3.22
U.S. 10-Year	7.97	4.44	---	-12	7	12	27	2	0.90	-0.01	-0.22	-0.33	4.32
U.S. 10-Year Breakeven	--	2.40	---	-1	-9	9	15	7	---	---	---	---	---
U.S. 10-Year TIPS	4.34	2.03	---	-11	15	2	13	-5	1.30	0.13	1.65	1.57	6.52
U.S. 20-Year	12.49	4.97	---	-11	1	5	17	3	1.20	0.38	-0.16	-0.43	4.01
U.S. 30-Year	15.39	4.97	---	-9	1	6	13	6	1.26	0.49	-0.39	-0.09	3.65
U.S. SOFR	---	---	---	8	-3	-5	-24	-70	0.07	0.29	0.59	1.52	4.10
UK 10-Year	7.45	4.81	---	-9	-20	-10	34	17	0.69	1.76	1.52	-0.01	3.89
Germany 10-Year	8.25	2.94	---	-10	-10	-6	8	43	0.78	0.98	1.02	0.68	-0.24
Switzerland 10-Year	8.81	0.38	---	-16	0	5	11	12	1.52	0.35	0.04	-0.16	-0.46
Japan 10-Year	7.72	2.66	---	-9	14	31	60	114	0.68	-0.49	-1.42	-2.80	-5.71
Australia 10-Year	7.80	4.83	---	-9	-23	-14	9	46	0.72	2.12	1.93	1.30	1.16
Canada 10-Year	8.09	3.41	---	-12	-13	-6	-2	21	0.90	1.18	0.92	1.43	2.27
Major fixed income multi-sector indices		**YTW**											
Global Aggregate Unhedged	6.29	3.76	26	0	-1	-6	-1	-8	1.00	0.34	1.59	0.50	3.40
Global Aggregate Hedged	6.29	3.76	26	0	-1	-6	-1	-8	0.76	0.62	0.93	0.77	3.92
U.S. Aggregate	5.98	4.67	25	0	-1	-5	-2	-10	0.83	0.31	0.42	0.38	5.36
Euro-Aggregate (Unhedged)	6.29	3.17	42	-1	-3	-9	0	-13	0.76	1.06	1.52	0.88	1.21
Japanese Aggregate	7.88	2.29	1	0	0	0	0	0	0.77	-0.58	-1.24	-2.82	-5.67
Major fixed income credit indices		**YTW**											
Mortgage-Backed (Agency)	5.52	4.93	22	0	2	-2	0	-21	0.83	0.30	0.36	0.77	7.11
Global IG Corporate Bonds	5.98	4.65	76	-1	-5	-17	-4	-18	1.02	0.62	1.91	0.61	5.87
U.S. IG Corporate Bonds	6.93	5.13	72	-1	-7	-17	-6	-17	0.97	0.76	1.21	0.67	6.29
European IG Corporate	4.60	3.45	79	0	-3	-18	1	-21	0.61	0.94	1.89	0.89	2.38
U.S. High Yield Bonds	3.20	6.96	257	-3	-10	-60	-9	-53	0.55	0.49	2.19	1.68	7.58
European High Yield Bonds	3.09	5.61	282	-9	-15	-66	0	-55	0.45	0.93	2.87	1.32	4.15
U.S. Leveraged Loans	0.3	8.95	487	0	-1	-27	32	15	0.14	0.48	1.71	1.23	5.00
European Leveraged Loans	0.3	7.77	475	2	-10	-62	1	16	0.06	0.58	2.30	1.47	3.36
EM Hard Currency Sovereigns	6.35	6.92	237	-3	-10	-51	-16	-94	1.22	1.00	3.89	2.25	13.70
EM Corporates	4.41	6.50	219	3	-5	-30	-19	-53	0.52	0.38	2.00	1.79	7.93
EM Currencies	---	6.11	---	0	0	-1	0	0	0.53	0.53	2.94	2.18	6.75
EM Local Rates	5.28	6.19	6	0	0	0	0	0	0.72	0.65	1.69	0.55	5.23
CMBS	3.73	4.79	65	1	-2	-6	-10	-22	0.56	0.11	0.29	0.61	5.18
ABS	2.88	4.53	47	1	-2	-6	-5	-13	0.42	0.25	0.54	0.86	4.81
CLOs	3.97	5.12	127	0	-2	-7	-4	-12	0.09	0.43	0.98	2.00	5.33
Municipal Bonds	6.14	3.67	---	-15	-1	-10	8	-37	1.03	0.37	1.52	1.34	6.68

				Total return (%)		
	Level	WTD	MTD	QTD	YTD	Prior year
Equity / volatility indices						
S&P 500 Index	7,580	1.4	5.3	16.3	11.3	29.8
DAX	25,105	0.9	3.3	10.7	2.5	4.9
Stoxx 600	626	0.3	3.2	9.0	8.1	17.9
Nikkei 225	66,330	4.7	11.9	29.9	32.8	75.7
Shanghai Composite	4,069	-1.0	-0.8	4.8	2.9	24.2
MSCI ACWI Index	1,131	1.7	5.2	16.0	12.4	30.7
FTSE 100	10,409	-0.4	0.7	3.0	6.6	23.3
MOVE Index	0	-10.5	-2.6	-26.9	9.8	-24.2
VIX Index	15	-8.3	-9.3	-39.3	2.5	-20.1

				Change (%)		
	Spot	WTD	MTD	QTD	YTD	Prior year
FX / commodities						
EUR / USD	1.2	0.5	-0.6	0.9	-0.7	2.5
USD / JPY	159.3	0.1	1.7	0.3	1.6	10.4
GBP / USD	1.3	0.2	-1.1	1.7	-0.1	-0.3
EUR / CHF	0.9	0.0	-0.7	-1.4	-2.2	-2.6
USD / CHF	0.8	-0.5	-0.1	-2.3	-1.5	-5.1
USD (DXY)	98.9	-0.3	0.9	-1.0	0.6	-0.3
Oil	87.4	-13.4	-16.9	-13.8	52.1	43.4
Gold	4540.3	0.7	-1.7	-2.7	5.1	36.8

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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Source(s) of data (unless otherwise noted): PGIM as of May 29, 2026.

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