

LEVERAGED FINANCE

- U.S. high yield spreads tightened last week and are now close to post-GFC tights and well inside of the March YTD wide. Technicals remained constructive with \$409M of inflows and \$6.95B of new issuance (including \$3.65B of AI-related deals). In all, seven HY deals priced, bringing YTD volume to \$172B, or \$76.3B ex-refinancings.
- Total returns were positive across all HY sectors, with paper (+1.69%), air transportation (+0.93%), and containers (+0.85%) the best performers. Technology (+0.13%), media (+0.21%), and financials (+0.28%) performed the worst. MTD inflows now total \$1.1B following \$6.6B of inflows over the prior two months.
- U.S. bank loans were slightly softer, with lower-quality loans underperforming. AI-related software paper was softer to begin the week. Currently, 28% of the index is bid above par, which is down 10 ppts from the week before, as accounts have been selling tight-spread BBs to make way for new issue. We expect issuance and repricings to slow as we get into the summer months, which should help technicals. We remain overweight higher quality and very selective in the lower-rated part of the market.
- European high yield bond spreads widened over the course of last week as issuance remained quiet due to a global ABS conference. Five deals came to market for about €4B in issuance. In loans, 10 deals priced for about €5B, but just €1B of that was new money.

EMERGING MARKETS

- EMD HY continued to outperform during a volatile week. Spreads were tighter in general but mixed from an idiosyncratic perspective. Big movers included Argentina (second upgrade to B-), Ukraine (IMF funding) and Colombia (second round election expectations). We note that Pemex continues to trade well, and noise on the USMCA outcome does not seem to be impacting the overall Mexico complex. Recent volatility around Fed pricing, stock market volatility and geopolitics could pressure spreads, but investors are paying close attention to short-term moves to try to add alpha by positioning. While there were outflows of \$550M in EM hard currency last week, if overall positive inflows persist, it will continue to help drive performance.
- EM corporate spreads widened last week. Supply continued to come with banks from the Middle East and corporate perps from the Philippines. We participated in Israel Chemical, which priced 10-year bonds at T+150 and opened tighter before retracing a little into the weekend. We also saw Vedanta launch a refinance of its \$5.5bn of Holdco debt. While their decision to bypass their make-whole covenant is frustrating, the market seems willing to look past this and tender bonds in order to ensure allocations of the new deal. In the stressed sector, Braskem and Raizen were relatively stable.
- After selling off earlier in the week, EM local rates rallied strongly late in the week amid headlines around a U.S.-Iran deal. The previous week's laggards rallied the most with outperformers that included Brazil, Turkey, Colombia, and Peru. Indonesia was the biggest underperformer with a selloff across the curve after a surprise 25 bps hike. Our portfolio was positioned for a somewhat cautious outlook, and the only trade that we did last week was in Colombia as an idiosyncratic story rather than taking a strong view on global duration. Given that U.S. rates are back to pre-jobs report levels and only one hike is priced in the curve, the risk of a hawkish FOMC could easily derail the Iran deal-driven rally. We are cautious and would revisit our stance after the FOMC meeting.
- The EMFX index rose last week, also driven by news of a possible U.S.-Iran deal that resulted in broad risk-on, lower global rates, and lower oil prices. Most currencies reversed their weakness from last week after a string of better-than-expected U.S. data supported USD. Top performers included COP amid election expectations and HUF as investors are attracted to likely positive structural stories. If the Iran conflict is behind us, the market will likely shift most of its attention to the Fed. We think this week's Fed meeting will likely be impactful for USD over the summer, and we think the Fed will be hawkish. We have net bought USD over the last two weeks, focusing on lower-carry currencies such as THB and PLN. Even if USD does have an up leg, we think select high-carry currencies will do okay, and our relative value positioning should continue to work. With oil upside likely capped, we think oil importers like EGP can outperform and have increased positioning there. Should the Fed not be hawkish this week, we would likely cover some of the USD buys we did and add to some of our high-carry overweights like BRL, HUF, and EGP.

SECURITIZED PRODUCTS

- CMBS conduit AAA spreads were unchanged in the primary market last week. Subordinate tranches were tighter, with As in the +180 context and BBB-'s in the low to mid +400s. SASB spread performance was mixed. Top-tier AAA floaters widened into the +135 area. Fixed-rate seniors are trading in the +80s amid increased dispersion by property type and sponsor. CRE CLO spreads were unchanged, with AAA new issue in the +140 area, while tier-two issuers were 5-25 bps wider. Ten deals priced—six SASB, two conduits, one CRE CLO, and one agency.
- In RMBS, Non-QM spreads tightened slightly across the stack as investor demand returned on expectations of a positive Iran outcome. Credit curves remain extremely flat, with only ~30 bps from AAAs to As and ~55 bps to BBBs. Second-lien spreads were unchanged, with no new supply. The CRT market was quiet, with lighter secondary activity and limited issuance keeping spreads unchanged.
- U.S. CLO spreads were generally unchanged. Mezzanine investors are showing increased discipline, favoring high-quality collateral across the stack amid elevated refinancing supply. In European CLOs, spreads were wider last week, with manager and structural dispersion remaining evident in mezzanine tranches. U.S. issuance was \$11.2B across 21 deals and European issuance was €1.2B across three deals.
- ABS spreads were resilient amid consistent demand in the face of elevated early-week volatility. With ABS spreads at/near YTD tights at the top of the stack and within striking range of tights at the bottom of stack, we believe valuations are more sensitive to supply change or any uptick in volatility. We continue to expect a carry environment but are constructive on select commercial ABS opportunities.

MUNICIPALS

- Last week, munis sold off after several weeks of outperformance, underperforming the rate move in Treasuries. Wednesday and Thursday was the first MMD scale cut in three weeks on the back of moderating inflows, heavy issuance, and stretched valuations.
- While weekly fund flows of \$625M are still solid, this is down from the 25-week average of \$1.2B. At the same time, elevated issuance pressured the market with three additional prepaid gas deals pricing \$3B. This does clear the immediate prepaid gas new issue pipeline, although Goldman announced a new deal at \$1.7B, with Goldman as the funding recipient. Entering a week that includes a Fed meeting and federal holiday, supply drops off to \$9 billion—a very manageable number versus the six-week average of \$13B.
- The balance of the summer should provide a favorable technical backdrop with high levels of reinvestment. Barring an unexpected outflow cycle, munis should be well supported in the near term, despite stretched valuations. With the Iran war's potential resolution, we are upgrading our ratings on tax-exempt and taxable munis to positive.

THE RETURNS TABLE AS OF JUNE 12, 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	1.86	4.08	---	-7	8	29	61	17	0.22	-0.01	0.21	0.44	3.05
U.S. 5-Year	4.43	4.21	---	-6	6	26	48	24	0.42	-0.16	-0.39	-0.40	2.69
U.S. 10-Year	7.93	4.48	---	-5	4	16	31	12	0.62	-0.16	-0.38	-0.49	3.38
U.S. 10-Year Breakeven	--	2.32	---	-4	-8	2	8	5	---	---	---	---	---
U.S. 10-Year TIPS	4.31	2.15	---	-1	12	14	25	7	0.45	-0.53	1.11	1.03	5.63
U.S. 20-Year	12.48	4.98	---	-4	1	6	18	12	0.78	0.19	0.03	-0.24	2.90
U.S. 30-Year	15.40	4.97	---	-3	-1	6	12	13	0.70	0.33	-0.06	0.24	2.42
U.S. SOFR	---	---	---	2	2	-3	-22	-63	0.07	0.14	0.74	1.66	4.07
UK 10-Year	7.42	4.84	---	-7	2	-8	36	36	0.53	0.01	1.52	-0.01	2.40
Germany 10-Year	8.22	2.99	---	-4	6	-1	14	52	0.39	-0.30	0.72	0.38	-0.84
Switzerland 10-Year	8.78	0.39	---	-3	1	6	12	16	0.00	-0.15	-0.11	-0.31	-0.76
Japan 10-Year	7.75	2.62	---	-4	-4	27	56	117	0.30	0.33	-1.10	-2.48	-5.98
Australia 10-Year	7.78	4.81	---	-10	-2	-16	7	57	0.79	0.36	2.29	1.66	0.41
Canada 10-Year	8.06	3.40	---	-7	-1	-7	-3	7	0.61	0.24	1.16	1.67	3.36
Major fixed income multi-sector indices YTW													
Global Aggregate Unhedged	6.34	3.83	26	-1	0	-5	-1	-7	0.41	-0.49	1.09	0.01	1.63
Global Aggregate Hedged	6.34	3.83	26	-1	0	-5	-1	-7	0.36	-0.08	0.85	0.69	3.20
U.S. Aggregate	6.02	4.72	25	-1	0	-6	-2	-8	0.52	-0.03	0.39	0.35	4.47
Euro-Aggregate (Unhedged)	6.30	3.26	42	0	0	-8	0	-12	0.27	-0.40	1.12	0.47	0.52
Japanese Aggregate	8.07	2.32	1	0	0	0	0	0	0.29	0.29	-0.95	-2.53	-5.76
Major fixed income credit indices YTW													
Mortgage-Backed (Agency)	5.58	4.97	21	-4	-1	-2	0	-16	0.66	-0.03	0.33	0.74	5.96
Global IG Corporate Bonds	6.02	4.71	76	0	0	-17	-4	-15	0.46	-0.35	1.55	0.26	4.04
U.S. IG Corporate Bonds	6.95	5.18	72	-1	0	-17	-5	-12	0.55	-0.04	1.17	0.62	5.14
European IG Corporate	4.62	3.51	77	0	-2	-20	-1	-19	0.24	-0.15	1.75	0.74	1.89
U.S. High Yield Bonds	3.22	7.10	266	1	8	-51	0	-40	0.45	0.03	2.22	1.71	6.97
European High Yield Bonds	3.07	5.69	283	17	1	-65	1	-38	0.13	0.16	3.03	1.49	3.92
U.S. Leveraged Loans	0.3	9.01	493	7	6	-21	38	25	-0.06	-0.02	1.69	1.21	4.76
European Leveraged Loans	0.3	7.85	476	2	1	-61	2	25	0.04	0.11	2.42	1.58	3.10
EM Hard Currency Sovereigns	6.32	6.90	231	-2	-6	-57	-22	-90	0.60	0.38	4.28	2.53	12.66
EM Corporates	4.38	6.52	215	4	-4	-34	-23	-50	0.23	0.17	2.17	1.96	7.37
EM Currencies	---	5.73	---	0	0	-2	0	0	0.63	-0.13	2.81	2.04	5.39
EM Local Rates	5.27	6.18	6	0	0	0	0	0	0.44	0.31	2.01	0.87	5.35
CMBS	3.71	4.86	65	1	0	-6	-10	-19	0.36	-0.07	0.22	0.54	4.59
ABS	2.87	4.59	45	0	-2	-8	-7	-12	0.29	0.04	0.58	0.89	4.44
CLOs	3.94	5.18	128	1	1	-6	-4	-10	0.07	0.15	1.14	2.16	5.24
Municipal Bonds	6.12	3.65	---	3	-2	-12	5	-37	-0.12	0.28	1.80	1.62	6.80

	Total return (%)						Change (%)						
	Level	WTD	MTD	QTD	YTD	Prior year	Spot	WTD	MTD	QTD	YTD	Prior year	
Equity / volatility indices													
S&P 500 Index	7,431	0.7	-1.9	14.1	9.2	24.4	FX / commodities						
DAX	24,635	-0.5	-1.9	8.6	0.6	3.6	EUR / USD	1.2	0.4	-0.8	0.1	-1.5	-0.1
Stoxx 600	633	1.7	1.2	10.3	9.4	18.8	USD / JPY	160.2	0.0	0.6	1.0	2.3	11.7
Nikkei 225	66,020	-0.9	-0.5	29.3	32.2	76.0	GBP / USD	1.3	0.5	-0.4	1.4	-0.5	-1.5
Shanghai Composite	4,032	0.2	-0.7	4.1	2.2	21.6	EUR / CHF	0.9	0.5	1.3	-0.2	-1.0	-1.8
MSCI ACWI Index	1,112	0.6	-1.6	14.1	10.6	25.8	USD / CHF	0.8	0.1	2.1	-0.3	0.6	-1.6
FTSE 100	10,472	1.0	0.6	3.7	7.2	21.6	USD (DXY)	99.7	-0.3	0.8	-0.2	1.4	1.9
MOVE Index	69	-7.8	-1.2	-27.8	8.4	-22.1	Oil	84.9	-6.3	-2.8	-16.3	47.8	24.8
VIX Index	18	-17.8	15.4	-30.0	18.3	-1.9	Gold	4219.3	-2.5	-7.1	-9.6	-2.3	24.6

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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