PGIM

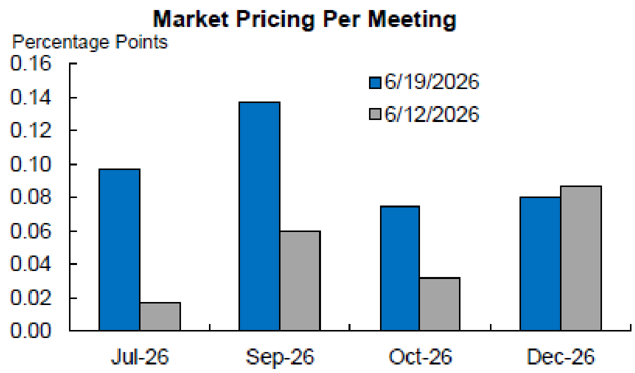
Points on Potential Fed Policy

WEEKLY VIEW FROM THE DESK | June 22, 2026

LINK TO WEEKLY RETURNS TABLE

MACRO

- Our takeaways from the first FOMC meeting under Kevin Warsh as Fed Chairman pertain to the statement, the summary of economic projections (SEP), his policy leaning, the announced task forces, and our Fed rate call. The FOMC statement showed little concern about economic growth and the labor market, but revealed deep concern about inflation. It noted that supply shocks—not just an energy shock—were keeping inflation elevated. The statement's concluding sentence that "the Committee will deliver price stability," strikes us as Warsh's solid commitment to reining in inflation at the outset of his tenure.
- The June SEP was drastically more hawkish than the March edition. Core PCE inflation was marked higher in 2026, 2027, and 2028, indicating deep concerns about persistent inflation. Similarly, almost all respondents saw inflation risks as skewed to the upside. The Fed dots similarly leaned hawkish—nine officials expect hikes this year, moving this year's median dot up to one hike. Warsh's dislike for forward guidance was apparent as he abstained from submitting his own SEP dot. Although he did not dismiss the forecasts, he highlighted their broad uncertainty.

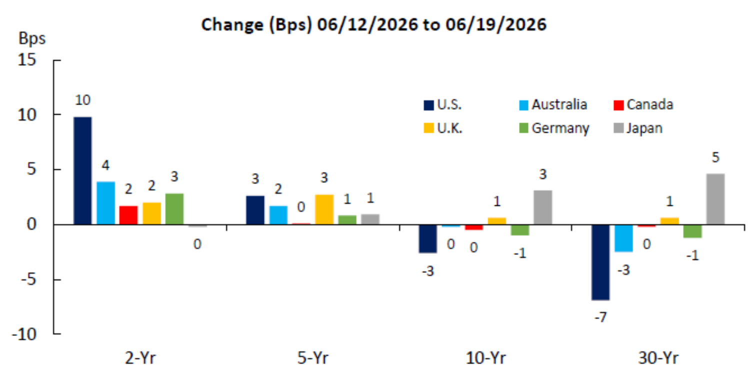


Source: PGIM

- Warsh reaffirmed the Fed's commitment to price stability, noting that the Fed has missed its target for years. He seemingly dismissed the notion of rate cut discussions and even hinted that there may have been hiking some discussions. In addition, he hedged his language on the productivity effects of AI, noting the risks and uncertainties, while deferring further discussion to the task force he is forming on the topic. The task forces cover communication, the balance sheet, data sources, productivity and employment, and the inflation framework. Furthermore, from Warsh's comments, it seemed more likely that the press conference and the SEP will undergo changes rather than be dismissed.
- Last week's meeting showed an increasingly hawkish Committee with a leader that has a Volcker-like commitment to price stability. We think the hawkishness will build, leading to the first rate hike in the fall (see the accompanying chart). The Fed rate call we provided in [our Mid-Year Outlook] consists of three 25 bps rate hikes this year, followed by three 25 bps rate cuts in 2027, and an additional 25 bp rate cut in 2028 that would bring the Fed funds rate to 3.375%. That would be one notch lower than the current mid-point target of 3.625%.

DEVELOPED MARKET RATES

- The Treasury market experienced a substantial curve flattening following the Fed meeting as front-end yields rose significantly and long-end yields declined (see the accompanying chart). A credible inflation-fighting Fed could support the long end of the curve, producing further bull flattening or curve flattening dynamics going forward.
- The Fed's hawkish shift and resulting curve flattening changed market expectations for policy rates and created uncertainty around mortgage valuations. MBS spreads widened modestly last week as investors adjusted to the new rates outlook as agency MBS models tend to react negatively to abrupt curve flattening episodes.



Source: PGIM

IG CORPORATES

- Last week saw $49B in new U.S. IG issuance, well above expectations. Deals came in 3.5x oversubscribed and with a 3.5bps concession. Month-to-date new issuance is hovering near $115B. Nvidia raised $25B, tapping the IG corporate market for the first time since 2021. Reports indicated that Nvidia was initially targeting $20B but demand reached somewhere around $85B.
- SpaceX entered the public credit market with a debut, multi-tranche BBB offering initially sized at $20B with proceeds slated to refinance a bridge loan. Estimates indicate SpaceX public borrowing could reach $400B in net debt by 2031, putting it on track to become one of the world's largest IG issuers.
- In Europe, one notable underperformer was the auto sector, where spreads moved 3-7 bps wider following BMW's profit and margin warning. The automaker cited a struggling Chinese business, and the stock fell 12% on Wednesday.

LEVERAGED FINANCE

- U.S. high yield spreads tightened last week and are now within 10 bps of post-GFC tights. All credit tiers were positive, with Bs outperforming. By sector, air transportation (+0.56%), containers (+0.56%), and super retail (+0.37%) performed the best. Cable (-0.95%), paper (-0.62%), and energy (-0.15%) performed the worst.
- High yield bond funds reported a weekly inflow of $862M for the week ending June 19, driven by $794M of ETF inflows. MTD, flows total +$2.2B following +$6.6B of inflows over the prior two months, while year-to-date HY fund flows remain negative at -$1.6B. Ten high yield bond deals priced last week for $7.43B, bringing YTD volume to $175.7B. Notable deals included: IronMountain ($1.5B 6.25% '35), Equipment Share ($1.35B 7.125% '34), Volcan ($970M 8.5% '32), and Seadrill ($700M 6.75% '34).
- U.S. bank loans posted positive returns last week as capital market activity remained strong. Seventeen deals launched for $21B and 16 deals priced for $12B.
- European high yield bond spreads tightened over the course of last week, with some notable B compression as accounts reach for yield. Eleven deals came to market for about €6.5B in issuance. However, just €1.6B of that was new money. All issuance was easily absorbed and priced inside of initial guidance. In loans, 19 deals priced for about €20B, but just approximately €1B of that was new money.

EMERGING MARKETS

- EM sovereign spreads continued to hold up well, as a mixed backdrop — a hawkish Fed message and the U.S.-Iran MOU — resulted in modest performance and dispersion. In a week punctuated by the Fed and MOU, EMD spreads were relatively stable, with select CCC outperforming. The bigger movers included oil importers (Egypt, Sri Lanka, Pakistan). Unless global conditions tighten considerably, or there is a dramatic move in oil prices, EM spread assets should broadly remain range-bound, with relative performance being driven by idiosyncratic factors. The market will focus on growth dynamics in China, supply-chain developments (especially related to tech) and the USD.
- EM corporate spreads tightened last week. There were a few new issues, with Promigas pricing a 30NC5 subordinated deal at 7.875%. Southern Copper also priced a 10-year deal at T+95bps, which was not a good fit for EM accounts and traded around reoffer. Vedanta is also a focus, as the company tendered for their existing bonds and is looking to price a $3B 5/7/10-year deal with pricing around 7% for the BB-rated name. Braskem is now restricted as talks between the company and bondholders entered a crucial phase. Raizen bonds traded higher on news that various fund managers were interested in partnering on the equity upside.
- Yields in most EM local rates markets were lower on the week, helped by a drop in oil prices. South Africa, Turkey and Colombia were the biggest outperformers. The rally in South Africa was driven by a lower-than-expected inflation print. Demand for Colombian local assets ahead of second-round elections drove the curve tighter. In line with expectations, central banks in Indonesia, the Philippines and Czechia raised policy rates by 25 bps, and the Central Bank of Chile decided to keep rates unchanged. The only market that had an outsized move higher in yields was Brazil after a confusing 25 bps rate cut by the BCB. Overall, only lower oil prices in $70-$80 per barrel range could relieve pressure on EM local markets from the lack of forward guidance from the Fed.
- The EMFX index declined last week with Europe and Latin America lagging and Asia doing better. By and large, currencies that fared the worst during the height of the Iran conflict outperformed last week, including EGP, PHP, INR and IDR. COP continued to trade well in the lead-up to the second round of elections. BRL was the worst performer after the BCB cut rates despite inflation and inflation expectations moving away from target. The broad dollar, which has recently traded at its strongest levels since May 2025, seems to be breaking out of its well-defined 15-month range. We had speculated that the Fed meeting would skew hawkish and have been buying USD against lower-carry currencies in Europe and Asia. There could be more USD strength in the pipeline unless U.S. data start to disappoint. We are positioned mainly in relative value but have a small long USD bias.

SECURITIZED PRODUCTS

- CMBS conduit AAA spreads were wider in the primary market last week, with second-tier names pricing into the high +80s. Subordinate tranches were framed tighter, with As in the +180 context and BBB-s in the mid +400s. SASB spreads held steady, with some tightening for fixed rate profiles. Top-tier AAA floaters are clearing in 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 +135-140 area, while tier-two issuers were 5-25 bps wider. Four deals priced-one SASB, one conduit, one CRE CLO, and one agency.
- In RMBS, Non-QM spreads were flat, with first-tier AAAs holding near T+115 and second-tier levels at T+120-130. Credit curves remain extremely flat, with As at T+145-155 and only 30-35 bps over AAAs. Second-lien flow was elevated, with three deals in the market simultaneously. The CRT market was quiet, with lighter secondary activity and limited issuance keeping spreads unchanged.
- U.S. CLO spreads were generally unchanged. Market conditions remain in line with recent weeks as the gap between marketed transactions and those pricing has narrowed. Dispersion in lower mezzanine tranches is growing, driven by differences in portfolio quality and tail-risk exposure. U.S. issuance was $8.7B across 20 deals and European issuance was €2.6B across six deals.
- ABS spreads were unchanged to tighter on the week. In the U.S. and Europe, the top of the capital stack is at YTD tights, while BBB/BB remains 10-20 bps wide of tights. The exception is commercial ABS where BBB/BB demand has been strong and is trading at YTD tights. We expect a pick-up in global supply heading into quarter-end, particularly in Europe where issuance had paused during the Barcelona conference. U.S. net issuance for 2026 projected to be 40% higher than 2025.

MUNICIPALS

- Munis outperformed treasuries and corporates over the week at 0.37% versus 0.18% and 0.15%, respectively. Outperformance was mostly driven by favorable technicals from the culmination of lighter supply, mid-month reinvestment and limited dealer inventories.
- Technicals remain challenging with June net supply at +$6B to $7B due to elevated supply in the first half of the month, but seasonal technicals tend to improve in the later summer months as reinvestment increases (July and August). Projected net negative supply could be as high as $8B in July.
- In specific credit news, Brightline Trains Florida LLC struck a deal with holders of $988M of municipal bonds to extend a debt payment due Monday through the end of the month.

THE RETURNS TABLE AS OF JUNE 18, 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	1.84	4.18	---	12	18	38	71	24	-0.15	-0.12	0.10	0.33	2.93
U.S. 5-Year	4.41	4.23	---	5	9	29	51	24	-0.16	-0.19	-0.42	-0.43	2.69
U.S. 10-Year	7.91	4.46	---	-1	2	14	29	6	0.07	0.10	-0.12	-0.23	3.82
U.S. 10-Year Breakeven	--	2.27	---	-4	-13	-4	2	-6	---	---	---	---	---
U.S. 10-Year TIPS	4.30	2.18	---	3	15	17	28	12	-0.06	-0.61	1.03	0.95	5.16
U.S. 20-Year	12.47	4.91	---	-5	-5	0	12	1	0.61	1.05	0.89	0.61	4.29
U.S. 30-Year	15.42	4.90	---	-6	-8	-1	5	1	0.85	1.50	1.10	1.41	4.24
U.S. SOFR	---	---	---	2	-1	-6	-25	-66	0.07	0.20	0.80	1.72	4.06
UK 10-Year	7.40	4.76	---	-15	-6	-16	28	26	1.10	0.62	2.14	0.60	3.13
Germany 10-Year	8.20	2.93	---	-10	-1	-7	7	43	0.74	0.16	1.18	0.84	-0.29
Switzerland 10-Year	8.76	0.32	---	-10	-6	-2	4	6	0.65	0.36	0.40	0.20	-0.04
Japan 10-Year	7.68	2.61	---	-7	-5	26	55	116	0.57	0.45	-0.98	-2.36	-5.89
Australia 10-Year	7.76	4.77	---	-12	-6	-20	3	52	0.88	0.67	2.61	1.98	0.70
Canada 10-Year	8.04	3.37	---	-4	-4	-10	-6	4	0.30	0.49	1.41	1.93	3.63
Major fixed income multi-sector indices		**YTW**											
Global Aggregate Unhedged	6.33	3.81	27	0	0	-5	-1	-7	0.26	-0.54	1.04	-0.04	1.99
Global Aggregate Hedged	6.33	3.81	27	0	0	-5	-1	-7	0.36	0.21	1.14	0.98	3.57
U.S. Aggregate	6.01	4.74	26	0	0	-5	-1	-8	0.02	0.12	0.54	0.49	4.80
Euro-Aggregate (Unhedged)	6.29	3.20	42	-1	0	-8	0	-13	0.72	0.11	1.63	0.98	1.18
Japanese Aggregate	8.05	2.30	1	0	0	0	0	1	0.45	0.47	-0.78	-2.36	-5.64
Major fixed income credit indices		**YTW**											
Mortgage-Backed (Agency)	5.51	4.97	24	2	2	0	2	-16	-0.05	0.06	0.43	0.83	6.31
Global IG Corporate Bonds	6.02	4.71	77	0	0	-16	-3	-15	0.09	-0.44	1.46	0.17	4.34
U.S. IG Corporate Bonds	6.96	5.20	73	0	1	-16	-4	-12	0.05	0.10	1.32	0.77	5.52
European IG Corporate	4.62	3.47	78	1	-1	-19	0	-18	0.46	0.14	2.04	1.03	2.27
U.S. High Yield Bonds	3.23	7.12	265	-6	8	-52	-1	-39	0.23	0.12	2.32	1.81	7.04
European High Yield Bonds	3.07	5.68	282	0	0	-66	0	-47	0.24	0.25	3.12	1.57	4.16
U.S. Leveraged Loans	0.3	9.02	489	-5	2	-25	34	18	0.28	0.19	1.91	1.43	4.92
European Leveraged Loans	0.3	7.84	475	-1	0	-62	1	22	0.17	0.26	2.57	1.73	3.27
EM Hard Currency Sovereigns	6.33	6.85	229	-11	-8	-59	-24	-94	0.83	0.78	4.70	3.30	13.25
EM Corporates	4.36	6.49	213	-7	-6	-36	-24	-52	0.34	0.37	2.37	2.16	7.53
EM Currencies	---	5.72	---	0	0	-2	0	0	0.42	-0.39	2.54	1.78	5.50
EM Local Rates	5.28	6.12	6	0	0	0	0	0	0.74	0.71	2.41	1.27	5.63
CMBS	3.71	4.90	65	0	0	-6	-10	-20	-0.14	-0.09	0.20	0.51	4.59
ABS	2.87	4.67	45	-1	-2	-8	-7	-11	-0.07	0.02	0.56	0.87	4.39
CLOs	3.93	5.21	128	0	0	-6	-4	-10	0.09	0.24	1.22	2.24	5.23
Municipal Bonds	6.06	3.60	---	-5	-7	-17	1	-39	0.43	0.65	2.18	2.00	7.03

		Total return (%)				
	Level	WTD	MTD	QTD	YTD	Prior year
Equity / volatility indices						
S&P 500 Index	7,501	1.5	-1.0	15.2	10.2	26.9
DAX	25,027	3.4	-0.3	10.3	2.2	7.3
Stoxx 600	637	2.5	1.9	11.0	10.1	21.7
Nikkei 225	71,053	10.6	7.1	39.1	42.3	86.0
Shanghai Composite	4,090	2.7	0.8	5.7	3.8	23.9
MSCI ACWI Index	1,128	2.6	-0.2	15.7	12.2	29.0
FTSE 100	10,400	1.0	0.0	3.0	6.5	21.4
MOVE Index	65	-5.8	-6.9	-31.9	2.2	-30.2
VIX Index	16	-15.6	7.0	-35.0	9.7	-18.6

		Change (%)				
	Spot	WTD	MTD	QTD	YTD	Prior year
FX / commodities						
EUR / USD	1.1	-1.0	-1.7	-0.8	-2.5	-0.2
USD / JPY	161.4	0.9	1.3	1.7	3.0	11.2
GBP / USD	1.3	-1.6	-1.9	-0.2	-2.0	-1.6
EUR / CHF	0.9	0.1	1.2	-0.2	-1.0	-2.0
USD / CHF	0.8	1.2	3.0	0.7	1.5	-1.7
USD (DXY)	100.8	1.0	1.9	0.9	2.6	2.0
Oil	76.6	-12.7	-12.3	-24.4	33.4	1.9
Gold	4210.0	-0.1	-7.3	-9.8	-2.5	24.9

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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