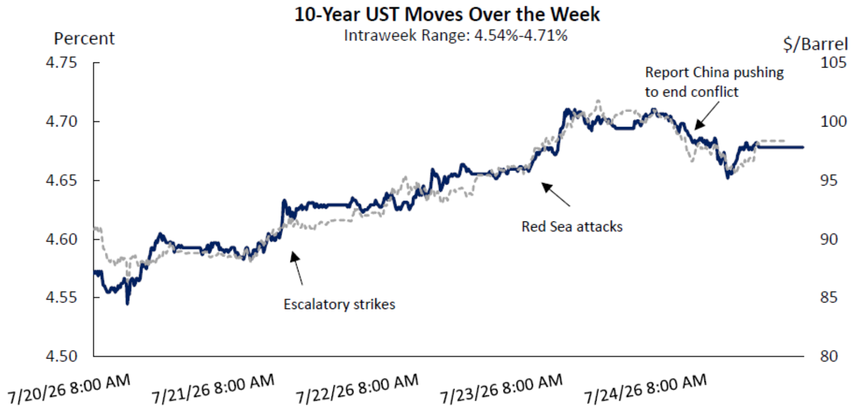
A Complicated Call for Policymakers

WEEKLY VIEW FROM THE DESK | July 27, 2026

LINK TO WEEKLY RETURNS TABLE

MACRO

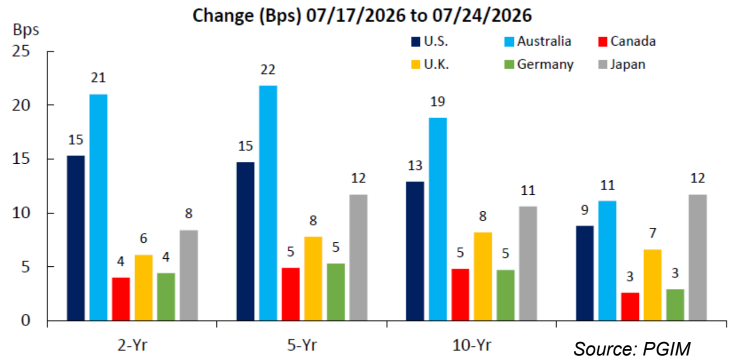
- At this point, we see three key developments from the military re-escalation in the Middle East. The first is that, even through the U.S. and Iran recently escalated their attacks before the current pause, we continue to expect (50% probability) that the cease fire holds in an environment of "no peace, no war" with both sides under economic and political constraints. From its perspective, Iran will likely continue to prioritize control over the Strait of Hormuz.
- The second is that the environment of "no peace, no war" suggests that both sides have realized the limits of what they can achieve under the current approach of tit-for-tat military strikes.
- Third, the Houthi blockade of Saudi ships in the Red Sea and the Ukrainian attacks against Russian and Iranian ships in the Caspian Sea risk expanding the geography of the conflict. Similarly, the Pakistani warning that attacks against Saudi Arabia could lead to the invocation of the mutual defence treaty poses another risk of an expanding footprint.
- From an energy perspective, while investors often focus on crude oil prices, the bigger, current issue is an acute shortage of refining capacity and refined fuels. We see the diesel and refined product markets as the transmission channel to inflation and economic effects, and those markets appear even tighter than crude oil itself (see the accompanying chart of the U.S. 10-year yield and Brent crude prices on the right hand scale).



Source: PGIM

DEVELOPED MARKET RATES

- Based on the sharp run-up in energy prices, new tariff announcements, and rising AI capex guidance, we think it is almost a 50/50 call that the Fed hikes rates by 25 bps this week. That said, we ever so slightly hold onto our base case of a September start to the rate hikes as the June CPI was weak enough that many Fed policymakers could prefer to see more data.
- An unusual level of uncertainty is accompanying this week's Fed meeting as markets still assign a meaningful probability to a rate hike—but not a full rate hike—despite the proximity of the meeting. Hence, volatility has shifted toward shorter maturities, where uncertainty about immediate Fed decisions is greatest.



Source: PGIM

- If the Fed delivers a surprise rate hike this week, markets could interpret the hike as evidence that policymakers remain committed to controlling inflation, which could ultimately reduce longer-term inflation concerns.
- Elsewhere, MBS spreads have widened on rising rates and technical selling, but the movement has contributed to an attractive entry point. With supply scarce and fundamentals stable, we see improving near-term value in the sector despite continued longer-term uncertainty.

IG CORPORATES

- Last week saw about $1.3B in new U.S. IG issuance with deals nearly 4x oversubscribed with an average 6.6 bps concession. Earnings thus far this quarter have been very strong, and this week brings Amazon, Microsoft, Meta, and Apple. Investors will be listening closely for any potential capex commentary from each.
- Technology spend remains one of the focal points of the market, and inflows remain strong, non-tech supply manageable, and attractive yields are pulling investors into the asset class.
- It was a quiet week in the European IG primary market consistent with the seasonal summer slowdown and earnings, with just €3 billion of supply. While next week is expected to be light as well, there is talk that a hyper-scaler/reverse Yankee could be in the market, reflecting both the attractiveness of the European market for U.S. borrowers and ongoing hyper-scaler funding needs.

LEVERAGED FINANCE

- U.S. high yield spreads widened and yields rose last week as a backup in Treasury rates weighed on sentiment. Lower-quality, higher-beta names underperformed. Secondary trading was concentrated in recent deals and event-driven credits, with Galaxy Helios Data Center bonds among the most actively trades names following a difficult pricing process that required yield concession to clear the market. Meanwhile, demand for lower-rated and AI-adjacent credits remained cautious.
- Total returns were mixed across high yield sectors this week, with the best performers being metals/mining (-0.14%), energy (-0.28%), and aerospace (-0.36%). The three worst performing sectors were cable (-1.64%), consumer products (-1.24%), and telecom (-1.10%). Returns across credit tiers were mixed: BBs returned -0.55%, Bs returned -0.53%, and CCCs returned -0.90%.
- U.S. bank loans posted modestly positive returns last week with BBs modestly outperforming. Approximately one-third of the index is currently trading above par and about two-thirds is trading above 99, so general market strength continues. Pockets of softness can still be found in the software sector. Meanwhile, the chemicals, consumer, and media sectors have shown recent strength. Last week saw 14 deals, 10 of which priced for about $10B.
- European high yield bond spreads were slightly wider last week, with Aston Martin bonds down about 10 points on a drop-down transaction. About €1.3B in HY issuance priced last week-mostly refinancing deals. Loans were also slightly wider amid a busier week in terms of issuance, with nine deals pricing for €7.5B—about half of which was new money.

EMERGING MARKETS

- EM hard currency sovereign spreads continued to leak wider on a broader risk selloff, driven in part by higher oil prices and broader concerns related to AI investments. Spreads across rating categories were mildly wider, with the most widening in CCC, as well as Ukraine and Venezuela, the latter perhaps more on the restructuring timeline and contours.
- Despite Argentina getting upgraded to B- with a positive outlook by Moody's (putting it in single-B category with all rating agencies now), it underperformed its rating cohort. This is likely as much a function of warrant pricing and issue selection as fundamentals. There was new issuance across the ratings spectrum, including a $6B multi-tranched deal by a Kuwait issuer that came with no concession.
- EM corporates spreads were a bit tighter last week, but returns were lower and the market was better offered especially in the second half of the week. Corporate earnings continued to trickle through with strong reports from Orbia, Televisa, and Bimboa. Some Mexican consumer names like Gruma and Sigma indicated weakness in the U.S. consumer market. PCRD from Argentina issued $400M in a new issue at a 8.625% yield, which didn't feel enough for the B-rated issuer. Kuwait priced a 3/5/10-year, $6B deal with the 10-year issued at an 85 bps spread but traded slightly wider.
- Local rates also sold off last week. Among the major markets, Colombia and South Africa were the worst performers. The South African Reserve Bank surprised the market by keeping the policy rate on hold at 7.0%. The rand sold off 2.5%, and the curve bear steepened. In light of rising services inflation, we view this action as a potential policy mistake by the SARB.
- Throughout July, EM local markets have traded on a one-factor model (i.e. oil). We may see swings on a daily and weekly basis until the situation is resolved. The FOMC is a big risk factor, too, as a 25 bps July hike can't be ruled out. Hence, we prefer a cautious stance.
- EMFX had positive performance last week despite higher and bear-flattening UST yields, plus higher oil. Latam outperformed, while Europe and Asia lagged. Outperformers included COP on oil and continued optimism around the election outcome; BRL on oil; and KRW on continued technical benefits from HYNIX ADR and hedging flows, with additional support likely coming from the start of the BoK's hiking cycle. The laggards included ZAR on the no-hike shock surprise from SARB.
- We'll see if negotiations pertaining to the Middle East can yield results, as that would lead to lower oil and take pressure off of some higher-carry, oil-importing currencies. Whatever the Fed decides this week, Warsh's comments will likely be more important in driving currencies.

SECURITIZED PRODUCTS

- CMBS conduit AAA spreads were unchanged in the low to mid +70s in the secondary market last week. Subordinate tranches were little changed, with As in the +180 context and BBB-'s in the mid +400s. SASB spreads held steady after recent moves tighter. Top-tier AAA floaters are clearing in the +120-130 area. Fixed-rate seniors are trading in the +80s amid increased dispersion by property type and sponsor. CRE CLO spreads were framed tighter, with AAA new issue in the +130-140 area, while tier-two issuers were 5-25 bps wider. Four deals priced-two CRE CLOs, one SASB, and one agency.
- In RMBS, spreads widened across the stack on heavy new-issue supply-eight Non-QM deals priced last week and six more are now in the market. AAAs moved out to T+130, 12 bps wider on the week. Despite the widening, mezz demand remains firm and credit curves remain flat. Second-lien CES tightened across the stack, with AAAs at T+115, 10 bps tighter on the week and now trading slightly inside Non-QM. CRT spreads remained stable, with investors focused on seasoned bonds backed by low-3% GWAC pools, which are viewed as a defensive trade given strong collateral performance and shorter duration.
- U.S. CLO spreads were generally unchanged. Senior spreads continue to trade with a softer tone as persistent supply weighs on levels. Mezzanine tranches were mixed as investors are increasingly willing to pay up for cleaner portfolios. Overall, both the credit curve and perceived manager tiering curve remains flat. We continue to rotate up the capital structure and into more benchmark managers. U.S. issuance was $10.8B across 26 deals and European issuance was €5.3B across four deals.
- ABS spreads were generally unchanged, displaying resiliency despite heavy supply and uptick in volatility the last few weeks. Capital stack compression has been evident over last few weeks, with below IG contributing. U.S. and European sectors are at or near YTD tights. We are constructive on both sides of the ledger, continuing to add higher value/higher quality securities across the ABS spectrum, particularly in commercial, while taking advantage of YTD tights to take chips off the table in securities that have either significantly rallied or present reduced compensation for higher idiosyncratic risk.

MUNICIPALS

- Muni rates moved higher by more than 20 bps last week, dramatically underperforming Treasuries. The selloff was a combination of faltering demand, heavy dealer balance sheets, expensive relative value, Middle East tension driving treasury rates higher, widely held names continuing to issue, and higher supply.
- With a Fed meeting this week, the calendar size falls dramatically to $7 billion, which should help the market find its footing. Last Monday saw the first net muni-fund outflow since mid-April, ending a 65-session positive streak.

THE RETURNS TABLE AS OF JULY 24, 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	1.82	4.33	---	15	16	16	86	42	-0.20	-0.07	-0.07	0.43	2.69
U.S. 5-Year	4.39	4.43	---	15	20	20	70	47	-0.59	-0.73	-0.73	-0.91	1.75
U.S. 10-Year	7.80	4.68	---	13	21	21	51	28	-0.95	-1.59	-1.59	-1.57	2.23
U.S. 10-Year Breakeven	--	2.25	---	0	1	1	0	-17	---	---	---	---	---
U.S. 10-Year TIPS	4.40	2.43	---	14	21	21	53	47	-0.99	-1.25	-1.25	-0.15	2.83
U.S. 20-Year	12.27	5.18	---	11	22	22	39	25	-1.37	-2.74	-2.74	-2.31	1.41
U.S. 30-Year	15.11	5.16	---	9	21	21	31	22	-1.38	-3.20	-3.20	-2.16	1.27
U.S. SOFR	---	---	---	5	-4	-4	-23	-66	0.07	0.24	0.24	2.09	3.99
UK 10-Year	7.29	5.03	---	8	27	27	56	41	-0.43	-1.46	-1.46	-0.72	2.18
Germany 10-Year	8.53	3.17	---	5	31	31	32	47	-0.30	-1.87	-1.87	-0.46	-0.56
Switzerland 10-Year	8.65	0.47	---	5	20	20	19	5	-0.45	-1.65	-1.65	-1.00	-0.01
Japan 10-Year	7.74	2.80	---	11	12	12	74	120	-0.83	-0.78	-0.78	-3.38	-5.93
Australia 10-Year	7.64	5.09	---	19	36	36	35	73	-1.21	-2.08	-2.08	0.33	-0.56
Canada 10-Year	8.29	3.61	---	5	23	23	18	6	-0.26	-1.32	-1.32	0.87	3.64
Major fixed income multi-sector indices		**YTW**											
Global Aggregate Unhedged	6.24	4.01	29	1	1	1	1	-2	-0.72	-1.16	-1.16	-1.37	0.06
Global Aggregate Hedged	6.24	4.01	29	1	1	1	1	-2	-0.47	-1.03	-1.03	0.10	2.51
U.S. Aggregate	5.93	4.97	29	1	2	2	2	-2	-0.74	-1.18	-1.18	-0.57	3.18
Euro-Aggregate (Unhedged)	6.22	3.45	44	0	1	1	2	-5	-0.25	-1.51	-1.51	-0.23	0.33
Japanese Aggregate	7.86	2.45	1	0	1	1	0	0	-0.61	-0.73	-0.73	-3.50	-5.69
Major fixed income credit indices		**YTW**											
Mortgage-Backed (Agency)	5.62	5.25	29	2	4	4	7	-9	-0.77	-1.19	-1.19	-0.21	4.68
Global IG Corporate Bonds	5.90	4.97	81	2	3	3	1	0	-0.85	-1.41	-1.41	-1.24	1.55
U.S. IG Corporate Bonds	6.78	5.47	79	2	5	5	2	3	-0.92	-1.61	-1.61	-0.77	3.03
European IG Corporate	4.56	3.71	78	1	-1	-1	0	-3	-0.25	-1.04	-1.04	0.28	1.09
U.S. High Yield Bonds	3.31	7.46	280	12	11	11	14	8	-0.57	-0.43	-0.43	1.52	4.95
European High Yield Bonds	3.12	5.95	281	4	-3	-3	-1	-18	-0.26	-0.22	-0.22	1.65	3.47
U.S. Leveraged Loans	0.3	9.36	491	2	-9	-9	36	46	0.06	0.72	0.72	2.09	4.19
European Leveraged Loans	0.3	8.14	480	2	-1	-1	6	26	0.03	0.30	0.30	2.06	3.24
EM Hard Currency Sovereigns	6.19	7.23	244	4	9	9	-9	-58	-0.86	-1.37	-1.37	1.91	9.53
EM Corporates	4.34	6.70	212	-2	0	0	-25	-37	-0.39	-0.45	-0.45	1.75	5.71
EM Currencies	---	6.03	---	0	0	0	0	0	0.17	0.49	0.49	1.70	3.94
EM Local Rates	5.27	6.28	6	0	0	0	0	0	-0.52	-0.69	-0.69	0.99	4.25
CMBS	3.66	5.09	65	-1	0	0	-10	-17	-0.42	-0.47	-0.47	0.29	3.72
ABS	3.05	4.83	42	-1	-1	-1	-10	-10	-0.28	-0.24	-0.24	0.83	3.77
CLOs	3.96	5.37	127	0	0	0	-4	-8	0.07	0.29	0.29	2.69	5.05
Municipal Bonds	6.41	3.94	---	21	36	36	34	-9	-1.19	-1.98	-1.98	0.30	5.65

		Total return (%)				
	Level	WTD	MTD	QTD	YTD	Prior year
Equity / volatility indices						
S&P 500 Index	7,412	-0.6	-1.1	-1.1	9.0	17.9
DAX	25,099	1.1	0.4	0.4	2.5	3.3
Stoxx 600	645	0.5	0.5	0.5	11.5	20.6
Nikkei 225	64,611	0.7	-7.8	-7.8	29.4	57.2
Shanghai Composite	3,814	1.4	-6.4	-6.4	-2.5	8.2
MSCI ACWI Index	1,105	-0.3	-1.3	-1.3	10.1	19.5
FTSE 100	10,736	1.3	2.4	2.4	10.1	21.3
MOVE Index	77	8.4	6.8	6.8	20.1	-7.2
VIX Index	19	-1.0	12.9	12.9	24.3	20.7

		Change (%)				
	Spot	WTD	MTD	QTD	YTD	Prior year
FX / commodities						
EUR / USD	1.1	-0.6	-0.5	-0.5	-3.2	-3.2
USD / JPY	163.8	0.9	0.8	0.8	4.5	11.4
GBP / USD	1.3	-0.9	0.5	0.5	-1.1	-1.4
EUR / CHF	0.9	0.8	0.8	0.8	0.0	-0.5
USD / CHF	0.8	1.4	1.2	1.2	3.2	2.9
USD (DXY)	101.5	0.7	0.3	0.3	3.2	4.2
Oil	91.0	10.4	31.0	31.0	58.6	35.4
Gold	4052.8	0.9	1.1	1.1	-6.2	20.3

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.

NOTICE: IMPORTANT INFORMATION

Source(s) of data (unless otherwise noted): PGIM as of July 27, 2026.

5788817_PGIM