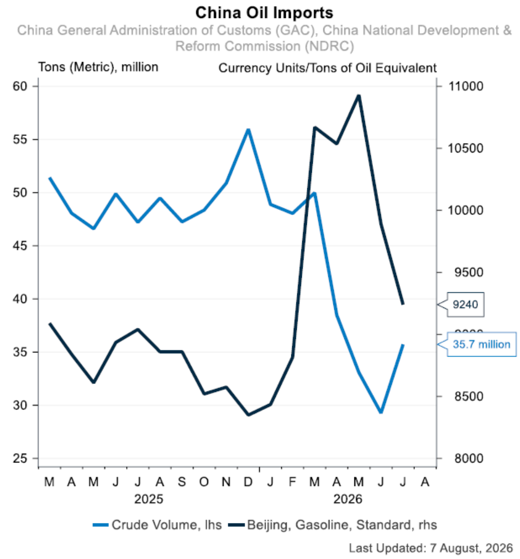
The War's Global Effects and a Fed Framework

WEEKLY VIEW FROM THE DESK | August 10, 2026

LINK TO WEEKLY RETURNS TABLE

MACRO

- As we digest the longer-term global implications of the conflict in the Middle East, several points have become apparent, including China's stabilizing role, the underappreciated effect of AI-led global industrialization, and the re-alignment of global supply chains. China is once again providing a steadying effect to the global economy—similar to its role after the 2008 financial crisis—through its ability to influence global commodity markets via imports, inventories, and domestic demand management. For example, the accompanying chart speaks to China's restraint on crude oil imports and reliance on inventories during the Middle East shipping disruptions.
- The significance of the AI-related investment cycle extends beyond technology companies and AI hubs to macroeconomic implications, including those pertaining to growth patterns, trade, and energy. For this point, we feature two charts, the first of which stands in contrast to China's oil imports. Indeed, the accompanying chart shows a parabolic surge in the sum of all U.S. AI-relevant imports, bringing its share of AI-relevant import commodities to 20%.
- As the U.S. seeks to secure the needed AI-related resources, the final chart provides a country-specific breakdown of countries, their share of AI-relevant exports and the change from last year. Of those countries, Thailand, China, and Taiwan have experienced significant increases in their AI-related export shares.
- All of which indicates that trade remains global, but different and in different directions. Indeed, some economies have faced increased competition, some have redirected trade, and others have integrated new trading relationships. Adaptation and fragmentation are occurring simultaneously—in some respect supply chains are becoming more resilient, but also more politically sensitive and strategic.

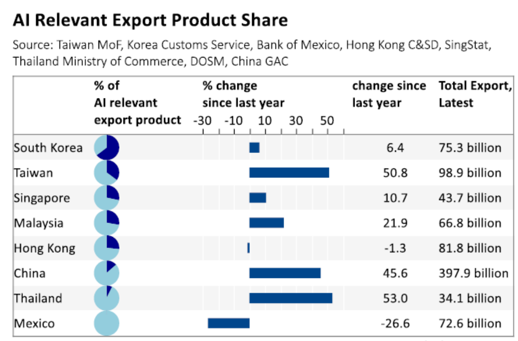


DEVELOPED MARKET RATES

- Our view of recent rate dynamics follows the early trajectory of Kevin Warsh as Fed Chair. Markets initially interpreted his emphasis on a strict inflation target as supportive of tighter monetary policy, and the U.S. Treasury yield curve bear flattened as a result. More recently, uncertainty around the Fed's communication contributed to a steeper curve and higher long-term yields. If markets believe inflation-fighting efforts are credible, long-term yields may remain relatively stable even if policy tightens from here. Conversely, if investors perceive a disconnect between inflation, growth, and policy actions, longer-term rates could continue to move higher.
- From that perspective, a framework for interpreting incoming U.S. inflation data could be the following: monthly CPI inflation readings near or above 0.3% monthly would significantly strengthen the case for a Fed hike; readings around 0.25% monthly would still be concerning and could keep tightening on the table; readings near 0.2% monthly or lower could allow policymakers to delay action and wait for additional data. After a 0.4% decline in June, consensus estimates indicate a 0.1% headline increase in July and a core increase of 0.2%.
- At this point, sustained progress toward lower inflation is required before the Fed can comfortably remain on hold.
- We remain constructive on mortgages in the near term. Our recent purchases have been concentrated in higher-coupon portions of the agency mortgage stack, particularly intermediate-to-higher coupons that lagged during the recent selloff. We believe these segments are viewed as offering attractive carry and relative value opportunities.

IG CORPORATES

- Last week saw new U.S. IG issuance of close to $75B, with deals 4.2x oversubscribed and coming with an 8.6 bps concession. Intel announced a $15 billion equity offering on Monday to support customer demand for AI computing power. Reports also surfaced of a $500B funding package from Nvidia intended for AI infrastructure development.
- It was another quiet week for European IG credit, and issuance will likely remain muted until the end of August. Last Thursday's $25B Google multi-tranche deal saw EUR hyperscaler spreads initially move 4/5 bps wider, before strong demand for the deal brought spreads 5/7 bps tighter of original euro market levels.



Source for charts: Macrobond

LEVERAGED FINANCE

- U.S. high yield spreads tightened meaningfully last week amid solid earnings and strong technicals. There was a modest uptick in primary issuance but the market had no difficulty absorbing it as investors continue to deploy cash. High yield remains resilient as buyers continue to step in amid any pullbacks and look for opportunities to add quality paper. Notably, last week saw data center spreads tighten after widening during July.
- Total returns were positive across high yield sectors, with the best performers being paper (2.64%), consumer products (1.61%), and media (1.21%). The three worst performing sectors were gaming (0.31%), food/bev/tobacco (0.42%), and electric utilities (0.45%). Returns across credit tiers were positive, with lower quality outperforming. Inflows resurfaced, with HY funds reporting an inflow of $2B, which was the second largest weekly inflow in 16 weeks. New issuance was limited, with six high yield bond deals pricing last week for $3.3B.
- U.S. bank loans posted positive returns last week with lower quality outperforming amid some strong corporate earnings. For example, Multiplan's and Tronox's loans were both up about four points. We expect a quiet August in terms of new issuance. As a result, we expect the technical strength to continue over the short term.
- European HY and loan spreads were slightly tighter last week, with both BBs and Bs tightening together. There were no new issues in either the bond or loan markets. We generally remain defensively positioned against the backdrop of elevated macro complexity and heightened geopolitical risks but expect technicals to remain healthy amid a continued lack of supply.

EMERGING MARKETS

- EM hard currency sovereign spreads rallied on U.S. economic data and tech earnings, alongside lower oil prices and a weaker USD, even as the Iran conflict remains cloudy. There was spread compression in almost all names. In the reach-for-yield context—and amidst a market that looks for excuses to rally—the outperformance by lower-rated and higher-yielding names is not a surprise. With continued geopolitical uncertainty, positioning and country-specific fundamentals (policy/sensitivities/buffers/flows) will remain ongoing theme.
- EM corporate index spreads were flat on the week after early spread widening reversed midweek. Supply was fairly muted, but we participated in two lower-rated deals at attractive rates. The first was a Mexican T1, which came at 11% (T+660 over the call date) and performed well. The other was a rare corporate five-year deal out of Laos, which came at 11.125% and popped 3 points on the break.
- The relief rally in EM rates was further boosted last week by a drop in oil prices and a rally in 10-year Treasuries. The rally was broad-based, but some of the oversold names of prior weeks such as Hungary, South Africa, and Czechia were the outperformers. Central bank decisions were in line with expectations, but policy communication was a touch dovish.
- If crude prices remain in a range, we expect the rally in EM rates to continue. The CPI reading in the U.S. will be watched more carefully given a weak jobs report last week. However, given recent inflation prints in EMs while many EM central banks are in a “wait and watch” mode, we remain constructive on EM duration.
- In EMFX, all three regions posted gains, led by Latam. The USD was down broadly on optimism over some form of a deal between Iran and Oman. The weak payroll data on Friday triggered a rally and bull steepening in USTs. The lingering effects of Kevin Warsh’s presser are still being seen in markets; not only has USD been on the weak foot, but markets more broadly have powered higher and eased financial conditions significantly.
- With oil down again last week, oil-importing currencies led gains with EGP, ZAR, CLP and THB being the top performers. CZK was an underperformer after the CNB indicated that rates may be good at their current level, leading yields to move lower.
- With USD near make-or-break technical levels going into the July CPI reading, we are likely to get an outsized reaction up or down, which will determine whether we are going to cut or sit pat on our small long USD bias. We continue with our long select high carry against select low carry relative value positioning, and cyclical high-carry currencies continue to do well in this environment.

SECURITIZED PRODUCTS

- CMBS conduit AAA spreads were unchanged in the low to mid +70s in the secondary market last week. Subordinate tranches were framed tighter, with As in the +170 context and BBB-'s in the mid +400s. SASB spreads moved tighter led by outperformance of lower-rated tranches. Top-tier AAA floaters are clearing in the +120-130 area. Fixed-rate seniors are trading in the +80s as curves continue to flatten. CRE CLO spreads were little changed, with AAA new issue in the +130-140 area, while tier-two issuers were 5-25 bps wider. Eight deals priced-one CRE CLO, six SASB, and one agency.
- In RMBS, non-QM spreads were marginally wider across the stack, with AAAs at T+130, five bps wider on the week. Credit curves remain flat, with AA/A/BBBs at T+145/155/180, respectively, and just 15/25/55 bps above AAAs. Second-lien CES spreads were unchanged and continued to trade firmer than Non-QM, supported by favorable technicals and lower convexity. CRT spreads remain near historic tights, leaving valuations rich versus other fixed-income sectors.
- U.S. CLO spreads for benchmark issuers had a firmer tone last week. Spreads across the senior portion of the capital structure remained largely rangebound, while lower mezzanine tranches experienced modest tightening. The bifurcation across mezzanine tranches persisted, with investors continuing to reward cleaner collateral pools and stronger manager platforms with tighter pricing. 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 $11.2B across 21 deals and European issuance was €4.1B across 10 deals.
- ABS spreads were generally unchanged near YTD tights, with demand remaining steady and most deals pricing through initial guidance. We remain constructive on both sides of the ledger, continuing to add higher value/higher quality securities across the ABS spectrum.

MUNICIPALS

- We have changed our short-term muni outlook to positive given the lighter calendar ($7B) and heavy demand, weighed against expensive relative value.
- Muni bonds rallied last week on the ongoing Iran de-escalation/re-escalation and a negative nonfarm payrolls report. While the market faced a very large new issue environment (the largest of the year at nearly $18 billion), consistent positive flows, reinvestment, and large investor cash balances prevailed. San Juan (BBB+), the first Puerto Rico deal that has priced since its bankruptcy nearly 10 years ago, was met with 25x subscription levels.

THE RETURNS TABLE AS OF AUGUST 7, 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	1.87	4.20	---	-10	-10	2	72	47	0.22	0.22	0.35	0.85	2.62
U.S. 5-Year	4.42	4.35	---	-10	-10	13	63	56	0.42	0.42	-0.22	-0.40	1.30
U.S. 10-Year	7.76	4.65	---	-9	-9	18	48	40	0.64	0.64	-1.09	-1.07	1.13
U.S. 10-Year Breakeven	--	2.25	---	-3	-3	2	1	-12	---	---	---	---	---
U.S. 10-Year TIPS	4.39	2.39	---	-6	-6	17	49	52	0.31	0.31	-0.79	0.31	2.13
U.S. 20-Year	12.20	5.21	---	-8	-8	25	42	41	0.91	0.91	-2.67	-2.23	-0.53
U.S. 30-Year	14.97	5.20	---	-7	-7	25	36	37	0.98	0.98	-3.44	-2.41	-1.22
U.S. SOFR	---	---	---	-4	-4	-6	-25	-73	0.07	0.07	0.38	2.24	3.96
UK 10-Year	7.25	4.92	---	-13	-13	16	44	37	0.98	0.98	-0.50	0.25	2.45
Germany 10-Year	8.49	3.13	---	-7	-7	27	28	50	0.59	0.59	-1.41	0.01	-0.73
Switzerland 10-Year	8.62	0.36	---	-6	-6	9	8	12	0.51	0.51	-0.74	-0.08	-0.45
Japan 10-Year	7.69	2.79	---	0	0	11	73	131	0.01	0.01	-0.56	-3.16	-6.63
Australia 10-Year	8.00	5.01	---	8	8	29	27	77	-0.25	-0.25	-1.07	1.36	-0.53
Canada 10-Year	8.24	3.64	---	-2	-2	26	21	25	0.21	0.21	-1.43	0.76	2.16
Major fixed income multi-sector indices		**YTW**											
Global Aggregate Unhedged	6.27	3.95	28	-1	-1	0	0	-3	0.67	0.67	0.13	-0.08	1.04
Global Aggregate Hedged	6.27	3.95	28	-1	-1	0	0	-3	0.47	0.47	-0.55	0.59	2.10
U.S. Aggregate	5.97	4.90	27	-1	-1	1	0	-4	0.60	0.60	-0.71	-0.09	2.46
Euro-Aggregate (Unhedged)	6.23	3.37	43	-1	-1	0	1	-5	0.49	0.49	-0.99	0.30	0.36
Japanese Aggregate	7.87	2.47	0	0	0	0	0	0	0.05	0.05	-0.57	-3.34	-6.19
Major fixed income credit indices		**YTW**											
Mortgage-Backed (Agency)	5.67	5.18	26	-5	-5	1	4	-11	0.83	0.83	-0.61	0.37	3.95
Global IG Corporate Bonds	5.90	4.88	79	-1	-1	1	-1	-3	0.70	0.70	-0.37	-0.20	2.08
U.S. IG Corporate Bonds	6.80	5.38	77	-1	-1	3	-1	-1	0.66	0.66	-1.03	-0.18	2.39
European IG Corporate	4.55	3.62	77	-1	-1	-3	-1	-4	0.45	0.45	-0.53	0.80	1.30
U.S. High Yield Bonds	3.23	7.18	264	-15	-15	-5	-2	-22	0.73	0.73	0.48	2.44	5.65
European High Yield Bonds	3.08	5.89	286	-2	-2	2	4	-10	0.35	0.35	0.11	1.99	3.26
U.S. Leveraged Loans	0.3	9.18	486	-7	-7	-14	31	31	0.27	0.27	1.07	2.45	4.56
European Leveraged Loans	0.3	8.00	475	-10	-10	-6	1	17	0.11	0.11	0.36	2.13	3.23
EM Hard Currency Sovereigns	6.23	7.13	237	-8	-8	1	-17	-66	0.95	0.95	-0.49	2.70	9.02
EM Corporates	4.37	6.67	214	0	0	2	-23	-38	0.46	0.46	-0.02	2.19	5.33
EM Currencies	---	5.28	---	-1	-1	-1	0	-1	0.65	0.65	2.08	3.31	6.14
EM Local Rates	5.29	6.19	6	0	0	0	0	0	0.47	0.47	0.13	1.82	4.58
CMBS	3.67	4.99	65	-1	-1	0	-10	-15	0.40	0.40	0.02	0.79	3.27
ABS	3.02	4.72	43	1	1	-1	-9	-9	0.28	0.28	0.17	1.24	3.50
CLOs	3.97	5.30	127	0	0	-1	-5	-8	0.10	0.10	0.48	2.89	5.03
Municipal Bonds	6.34	3.83	---	-10	-10	25	23	-6	0.68	0.68	-1.18	1.11	5.25

		Total return (%)				
	Level	WTD	MTD	QTD	YTD	Prior year
Equity / volatility indices						
S&P 500 Index	7,758	3.6	3.6	3.5	14.1	23.8
DAX	26,319	2.7	2.7	5.3	7.5	8.8
Stoxx 600	660	1.8	1.8	3.1	14.4	24.8
Nikkei 225	65,607	1.9	1.9	-6.4	31.4	62.6
Shanghai Composite	3,940	2.9	2.9	-3.2	0.8	10.7
MSCI ACWI Index	1,152	2.9	2.9	3.0	14.8	25.3
FTSE 100	10,901	0.5	0.5	4.2	12.1	23.6
MOVE Index	72	-13.2	-13.2	0.1	12.6	-10.1
VIX Index	15	-6.8	-6.8	-9.4	-0.3	-10.1

		Change (%)				
	Spot	WTD	MTD	QTD	YTD	Prior year
FX / commodities						
EUR / USD	1.2	0.3	0.3	1.2	-1.6	-0.9
USD / JPY	157.8	0.2	0.2	-2.9	0.7	7.2
GBP / USD	1.3	0.1	0.1	1.7	0.1	0.3
EUR / CHF	0.9	0.3	0.3	1.1	0.3	-0.8
USD / CHF	0.8	0.0	0.0	-0.1	1.9	0.2
USD (DXY)	99.5	-0.4	-0.4	-1.6	1.2	1.2
Oil	78.2	-7.7	-7.7	12.5	36.2	22.4
Gold	4341.6	7.3	7.3	8.3	0.5	27.8

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 August 10, 2026.

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