PGIM

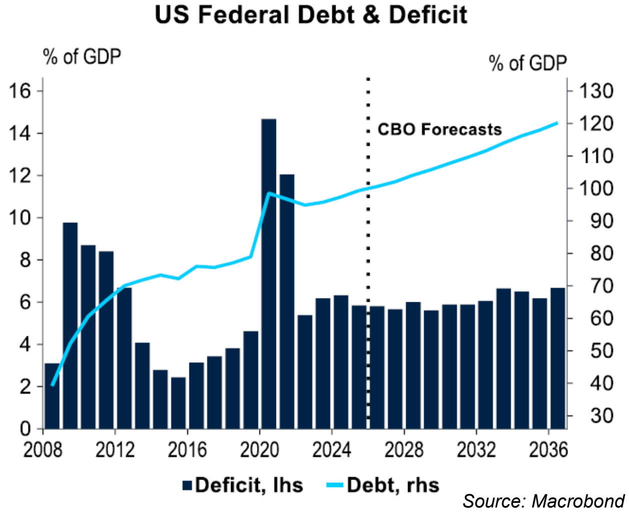
Not an Easy Fiscal Fix

WEEKLY VIEW FROM THE DESK | August 24, 2026

LINK TO WEEKLY RETURNS TABLE

MACRO

- Given the recent moves announced by the U.S. Treasury and the ongoing increase in long-term yields, attention has returned to the increasingly fraught U.S. deficit picture and the likelihood that the deficit continues to grow (see accompanying chart).
- As a starting point, federal spending is being driven by interest costs and mandatory spending programs, meaning that Congress would need to act in order to curtail mandatory spending requirements. Yet, the political will from either party to tackle the deficit remains conspicuously absent. Other factors that will likely contribute to the deficit going forward include the tendency for temporary fiscal measures to become permanent, rising interest costs from higher interest rates, increasing geopolitical pressure on defense spending, and rising industrial policy/infrastructure needs.
- In terms of the recent pressure on long-term rates, we believe that macro realities are driving some of the recent market reaction. Examples of these macro realities include a federal deficit that is now 6% of GDP or higher where it was 3.5% from 2015-2019, AI-related corporate issuance that is increasingly crowding out government debt, and a Treasury buyer base that is now more price sensitive than central bank purchasers.

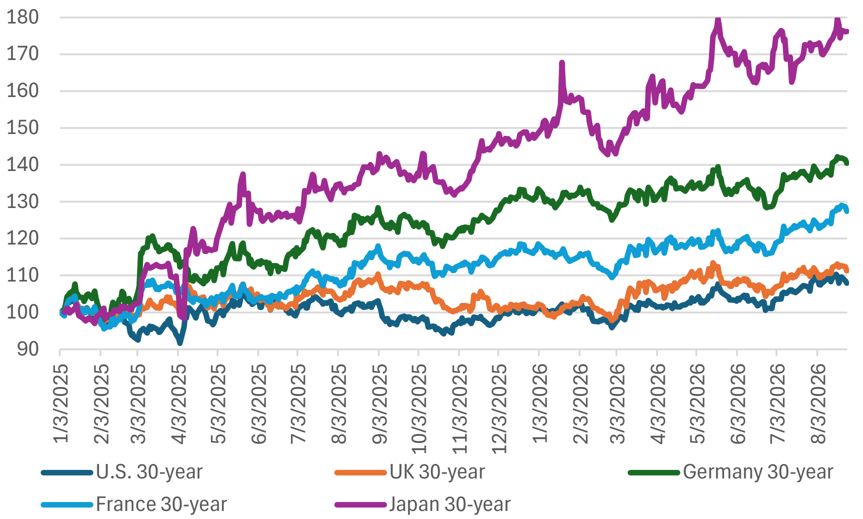


Source: Macrobond

- As far as the Treasury's response, the recent buyback plan appears to be relatively limited in size, meaning that it may have more effect as a signal than a potential market development. It also may put more Treasury issuance pressure on the front end of the market, which may explain the renewed political pressure on the Fed.

DEVELOPED MARKET RATES

- With the context above, it is also important to maintain perspective as the recent increase in the U.S. 30-year yield has been less than long-end moves in the UK, Germany, France, and Japan since early last year (see accompanying chart).
- Looking ahead, markets could see a slow tightening of financial conditions and potential stock market congestion until inflation is solidly on the way to the Fed's 2% inflation target. Long rates may also stabilize around current levels heading into the end of 2026 with a subsequent move possibly coming next year. Credit spreads appear firm, but incoming AI-related supply can pressure spreads at the back of the curve.
- We maintain a positive short-term and positive longer-term view on U.S. MBS due to favorable technicals, limited supply, attractive carry, and the potential for spread tightening.



Source: Bloomberg. 30-year yields indexed to 100

IG CORPORATES

- Last week saw new U.S. IG issuance of $16.5B, with deals 3.7x oversubscribed and coming with a 1.5 bps concession. There was some weakness in certain insurers and AI-related chip names. Nvidia reports its quarterly results on Wednesday and much of the focus will center on the firm's future plans related to AI factories and data-center spending.
- In Europe, new issue volumes were slightly heavier than expected, with the main drivers of sectoral weakness being a renewed focus on U.S. private credit, issuance in the banking sector, and the risk of more hyperscaler issuance. Focus is also moving to rates, and whether the moves by the U.S. administration on long-end debt tenders and Yen protection turn out to be an indicator of a larger potential issue.

LEVERAGED FINANCE

- High-yield bonds posted a modest negative total return. Rising Treasury yields weighed on spread performance across the credit quality spectrum, as higher oil prices amplified concerns that inflation could re-accelerate.
- Total returns were mixed across sectors, with the best performers being gaming, energy, and healthcare. Paper, air transportation, and cable were the worst performers.
- Primary market activity stalled mid-week with issuers pulling back as rates climbed. A surprise U.S. Treasury announcement of increased long-term bond buybacks provided a brief window for a handful of deals to price. Overall, the primary market priced only $1.7B across four deals, compared with $9.5B during the prior week. Notable transactions were Wealthspire, Northern Oil & Gas, Jefferson Capital Holdings, and Gray Media.
- U.S. bank loans saw support from investors seeking extra yield with limited appetite for reaching into distressed debt. Inflows into loan products hit their strongest level in 15 weeks. There were only two deals last week, but we are seeing early indications of a healthy amount of issuance coming down the pike. Earnings have been generally solid, with investors eyeing software results closely.
- European HY spreads held steady last week, while loan spreads widened slightly. Positioning continues to be generally defensive across the market, while technicals remain strong given the lack of net supply. Pockets of volatility are likely due to elevated macro complexity and geopolitical risks.

EMERGING MARKETS

- EM hard currency sovereign spreads exhibited another week of decompression amid widening caused by global macro pressure and positioning. With uncertainty surrounding the geopolitical context and central bank policies, positioning and country-specific fundamentals will remain the theme. Last week, there was weakness where there was political uncertainty, with Argentina and Ukraine being two examples.
- In the short term, there are likely to be swings in broader risk sentiment due to geopolitical pressures, broader derisking/deleveraging, and what seems to be resilient fundamentals otherwise. The market will also focus on the AI narrative as well as things that could compromise global liquidity.
- Impacts on USD are helping some segments of EM debt, and the confluence of risks and opportunities will support EM dispersion of relevant alpha drivers. The USD selloff and higher oil prices left EM corporate spreads in a tight range. The new issue market was dominated by Indian bank issuance, with RBI closing the hedging window earlier than expected.
- In EM rates, index yields were higher in a volatile week. The biggest underperformers were Colombia, South Africa and Peru. Brazil and Indonesia rallied mostly due to local factors. The most notable change in our portfolio was hedging the UST beta by 60%. Central banks in Hungary, Thailand, Korea, and Philippines will deliver decisions this week. In essence, a bearish sentiment toward global yields is unlikely to abate anytime soon, and our bias is to reduce duration either by cutting overweight in EM or adding to UST hedge.
- The EMFX index had a strong week, helped by a weaker USD. However, we are skeptical that the trends of last week will be the dominant trends for the remainder of the year, mainly because we don’t agree with the narrative that the Fed is or will become subservient to U.S. Treasury. We also believe the odds continue to favor a more hawkish Fed that eventually hikes, but we await Warsh’s commentary in Jackson Hole. While we don’t think that last week’s price action in EMFX is sustainable, we think it is too early to fade it. We reduced our small USD long on the margin last week.

SECURITIZED PRODUCTS

- CMBS conduit AAA spreads were slightly tighter in the mid +70s in the secondary market last week. Subordinate tranches were marginally tighter with single-A in the +170s context and BBB- around +400. The SASB spread curve held steady with top tier AAA floaters clearing at +120-130, while BBB tranches are +190. Fixed rate seniors are trading into the +80s. CRE CLO spreads were little changed with AAA new issue at +130-140, 5-25 bps wider for tier 2 issuers. CRE CLO execution remains in the 150s-160s, high 80% advance rate for top tier issuers.
- Spreads for benchmark issuers had a firmer tone throughout last week, with the pace of tightening slowing at the senior tranches as spreads begin marketing inside 3M SOFR+120. The most notable development included enhanced structural protection allowed issuers and arrangers to push for increasingly aggressive execution. Investor demand continues to outpace available supply, particularly for higher quality mezzanine risk, allowing issuers to achieve record-tight pricing. European CLO spreads were unchanged across the capital structure as dealers work through their final deals until September. Sentiment remains firmer on limited supply, with the strongest demand concentrated in IG tranches. Modest deceleration in issuance should help maintain favorable technical conditions in the weeks ahead. We continue to add selectively to European IG mezzanine tranches, where relative value remains attractive versus comparable U.S. CLO debt.
- ABS spreads continue to trade range bound, and we expect lighter volume next couple of weeks. The ABS vs. corporate basis is 35bps (85bps on the ABS side), and we would categorize this as fair. Demand remains robust, categorized by new issue deals in August pricing at or through initial guidance. We continue to be opportunistic on both sides of the ledger in this current market where spreads are at/near YTD tights and spread compression is prevalent. We favor commercial obligor exposures/platforms that present attractive relative value and diversification vs. similarly rated consumer. We’re opportunistic sellers of longer duration mezzanine classes that have rallied into higher up capital stack and/or shorter duration comparable rating to take advantage of spread compression.

MUNICIPALS

- Rate volatility and heavy issuance weighed on the muni market last week, leading to underperformance. Despite that, muni valuations still feel somewhat rich on a tax exempt to taxable basis and on a credit-spread basis.
- As most of August reinvestment has been exhausted, the new issue calendar continues to be elevated, flows moderate, and relative value remains challenged, munis will face new performance obstacles as we transition from summer to fall. These trends lead to a shift to a short-term negative stance in tax exempts.
- Tax collection data overall continues to show solid gains, with corporate and sales tax collections leading the way.

THE RETURNS TABLE AS OF AUGUST 14, 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	1.83	4.24	---	7	-5	6	76	44	-0.03	0.31	0.44	0.94	2.69
U.S. 5-Year	4.38	4.43	---	6	-3	20	70	57	-0.19	0.26	-0.38	-0.56	1.30
U.S. 10-Year	7.90	4.74	---	4	0	27	57	41	-0.23	0.16	-1.57	-1.55	1.14
U.S. 10-Year Breakeven	--	2.33	---	5	5	10	9	-6	---	---	---	---	---
U.S. 10-Year TIPS	4.37	2.40	---	-1	-5	18	50	47	0.05	0.17	-0.93	0.17	2.38
U.S. 20-Year	12.33	5.26	---	0	-3	30	47	36	0.00	0.36	-3.20	-2.77	0.03
U.S. 30-Year	15.09	5.27	---	1	0	32	43	35	-0.11	-0.03	-4.41	-3.38	-0.80
U.S. SOFR	---	---	---	3	-1	-3	-22	-67	0.07	0.21	0.52	2.38	3.93
UK 10-Year	7.21	5.06	---	2	1	30	58	33	-0.05	0.24	-1.23	-0.48	2.86
Germany 10-Year	8.44	3.26	---	5	5	40	40	50	-0.33	-0.16	-2.14	-0.74	-0.62
Switzerland 10-Year	8.58	0.39	---	1	-3	12	11	8	0.01	0.40	-0.85	-0.19	0.06
Japan 10-Year	7.62	2.88	---	1	9	21	82	128	0.07	-0.48	-1.04	-3.63	-6.26
Australia 10-Year	7.96	5.06	---	5	13	34	32	78	-0.24	-0.35	-1.17	1.26	-0.60
Canada 10-Year	8.20	3.76	---	9	10	38	33	28	-0.51	-0.45	-2.08	0.09	2.01
Major fixed income multi-sector indices		**YTW**											
Global Aggregate Unhedged	6.22	4.02	29	0	0	1	1	-1	0.18	0.71	0.17	-0.04	1.64
Global Aggregate Hedged	6.22	4.02	29	0	0	1	1	-1	-0.14	0.14	-0.88	0.25	2.17
U.S. Aggregate	5.93	4.96	28	0	-1	2	1	-2	-0.10	0.35	-0.96	-0.34	2.48
Euro-Aggregate (Unhedged)	6.14	3.50	45	1	1	1	2	-3	-0.36	-0.23	-1.70	-0.42	0.29
Japanese Aggregate	7.78	2.54	1	0	0	0	0	0	-0.01	-0.44	-1.05	-3.81	-5.84
Major fixed income credit indices		**YTW**											
Mortgage-Backed (Agency)	5.67	5.25	27	0	-4	2	5	-10	-0.10	0.59	-0.84	0.14	3.94
Global IG Corporate Bonds	5.84	4.97	81	1	1	3	1	1	0.08	0.65	-0.42	-0.25	2.32
U.S. IG Corporate Bonds	6.73	5.47	80	1	2	6	3	4	-0.15	0.21	-1.46	-0.62	2.17
European IG Corporate	4.50	3.74	77	0	-1	-3	-1	-4	-0.24	0.05	-0.92	0.40	1.17
U.S. High Yield Bonds	3.20	7.29	269	3	-10	0	3	-18	-0.15	0.73	0.48	2.44	5.50
European High Yield Bonds	3.06	5.93	279	0	-8	-5	-2	-7	-0.11	0.39	0.16	2.03	3.14
U.S. Leveraged Loans	0.3	9.19	480	-1	-13	-20	25	22	0.14	0.65	1.45	2.83	4.78
European Leveraged Loans	0.3	8.04	473	1	-12	-8	-1	8	0.10	0.39	0.65	2.42	3.53
EM Hard Currency Sovereigns	6.17	7.23	240	5	-4	5	-13	-51	-0.37	0.60	-0.84	2.47	8.21
EM Corporates	4.33	6.71	211	-2	-3	-2	-27	-32	-0.05	0.56	0.07	2.29	4.97
EM Currencies	---	5.15	---	0	-1	-1	-1	-1	0.82	1.63	3.07	4.31	7.30
EM Local Rates	5.26	6.25	6	0	0	0	0	0	-0.15	0.30	-0.05	1.64	4.30
CMBS	3.64	5.05	65	0	-1	1	-10	-14	-0.11	0.37	-0.02	0.75	3.25
ABS	2.99	4.76	44	1	2	0	-8	-7	-0.05	0.30	0.19	1.25	3.52
CLOs	3.95	5.36	126	0	-1	-1	-5	-8	0.10	0.31	0.69	3.10	4.99
Municipal Bonds	6.44	3.90	---	9	-3	33	31	-2	-0.58	0.22	-1.63	0.65	5.00

		Total return (%)				
	Level	WTD	MTD	QTD	YTD	Prior year
Equity / volatility indices						
S&P 500 Index	7,674	-1.4	2.5	2.5	12.9	21.9
DAX	26,137	-1.1	2.0	4.6	6.7	7.6
Stoxx 600	654	-0.5	1.0	2.3	13.5	20.8
Nikkei 225	66,016	-3.9	2.6	-5.8	32.3	57.6
Shanghai Composite	3,905	-0.5	2.0	-4.0	0.0	5.9
MSCI ACWI Index	1,150	-0.9	2.7	2.8	14.7	24.1
FTSE 100	10,817	0.7	0.1	3.8	11.6	19.9
MOVE Index	73	5.5	-11.6	2.0	14.8	-8.8
VIX Index	15	6.2	-5.4	-8.0	1.2	-8.9

		Change (%)				
	Spot	WTD	MTD	QTD	YTD	Prior year
FX / commodities						
EUR / USD	1.2	0.9	1.3	2.3	-0.6	0.6
USD / JPY	159.0	-0.2	1.0	-2.2	1.4	7.1
GBP / USD	1.4	0.8	1.2	2.9	1.3	1.7
EUR / CHF	0.9	-0.6	0.5	1.3	0.5	-0.4
USD / CHF	0.8	-1.5	-0.8	-0.9	1.1	-0.9
USD (DXY)	98.8	-0.9	-1.1	-2.4	0.5	0.2
Oil	88.3	7.2	4.3	27.1	53.8	38.2
Gold	4603.1	5.2	13.8	14.8	6.6	37.9

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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Source(s) of data (unless otherwise noted): PGIM as of August 24, 2026.

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