PGIM

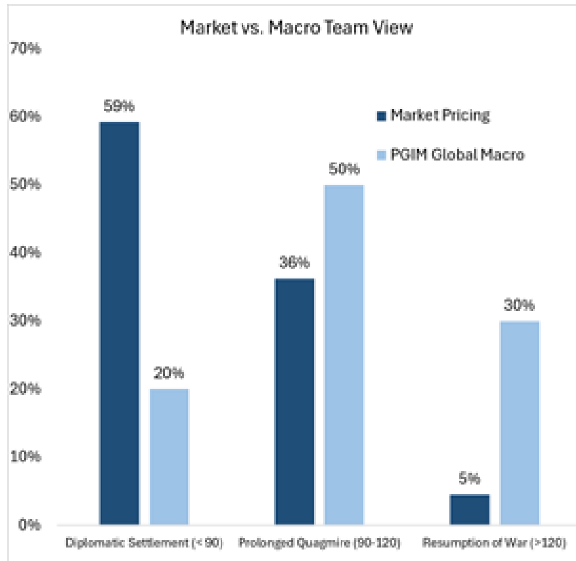
Adjusting Views as Risks Intensify

WEEKLY VIEW FROM THE DESK | September 14, 2026

LINK TO WEEKLY RETURNS TABLE

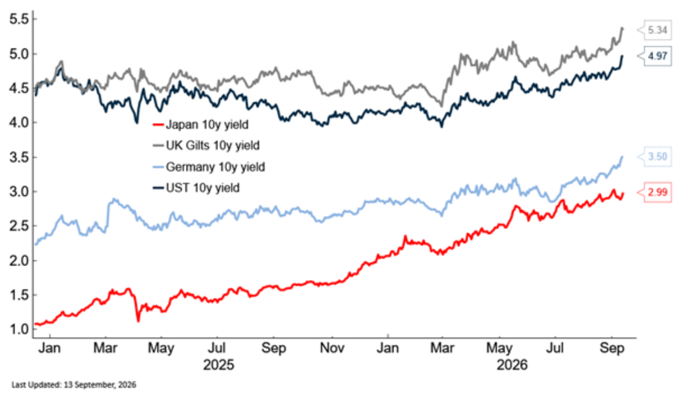
MACRO

- As we unpack the implications of the recent developments pertaining to the Middle East, AI, and interest rates, the contours of the global economy could slightly shift over the coming months. Indeed, our base case for the U.S. economy over the next 12 months is one of "overheating" with a 50% probability, up from our mid-year probability of 40%. Our base case is supported by stronger-than-expected domestic demand, resilient consumers, continued AI-related capital spending, supportive fiscal policy, and relatively easy financial conditions. It also consists of three 25 bps rate hikes by the Fed through the end of the year—we expect one of those hikes to emerge this week—followed by an extended pause. However, the risk is toward additional hikes, not fewer.
- In the euro area, we maintain a "muddle through" base case (35% probability) with a higher risk of "overheating" as stronger economic resilience is accompanied by a greater risk of inflation running above expectations. Muddle through remains our base case for China as well with a 65% probability as we continue to expect fiscal support, but also see a greater tolerance for growth to print at the low end of the official range.
- As we monitor conditions through shipping lanes in the Middle East, the impact of constrained crude oil exports is increasingly visible: Saudi Arabia's August crude output fell to 6.2 million barrels/day, down 1.9 mbd and the lowest level since 1990. Furthermore, we have also updated our scenario ranges and probabilities for the conflict in the Middle East. Our base case is now for a "Prolonged Quagmire," (50% probability and a crude price range of $90-120/bbl). We lifted our "Resumption of War" scenario (>$120/bbl) to 30% and lowered "Diplomatic Settlement" to a 20% probability (see the accompanying chart). From a market perspective, we believe implied pricing six months forward still shows too much optimism for a resolution as the futures curve is once again in steep backwardation.



DEVELOPED MARKET RATES

- The ECB hiked its policy rate by 25 bp last week to 2.5% in a unanimous decision where the Governing Council also downplayed the importance of remaining in the neutral interest-rate range, which suggests a low bar for going above the top of that band. We have adjusted our rate call to one more 25 bps hike in December.
- The rate implications extended beyond Europe. The ECB's hawkish lean pushed European front-end rates higher and contributed to the global rates selloff, which was already being driven by resilient growth, sticky inflation, higher energy prices, and higher term premia due to fiscal worries and higher inflation uncertainty.
- In addition to the ECB, we recently published our view on the Bank of Japan. The BOJ assesses the range of the nominal neutral interest rate for the Japanese economy to be between 1.0-2.5%. Therefore, we see the next three hikes as relatively easy, as this would bring the policy rate only to the midpoint of neutral. From there, if constraints to further hikes continue to ease, we could see additional hikes to the top end of neutral in 2027.



Sources for charts: PGIM and Macrobond

IG CORPORATES

- U.S. IG fundamentals market remain strong, with healthy corporate earnings. YTD supply stands at $1.6T, up about 29% year over year. IG valuations remain tight, but in line with other risk assets. Recently, tech bonds have underperformed non-tech industrial credits, and technology credit curves have steepened significantly as investors demand additional compensation for longer-dated exposure.
- Credit curves remain unusually flat, meaning investors receive relatively little incremental compensation for extending maturity or moving down the credit-quality spectrum. Our preferred positioning is a low-beta, carry-oriented strategy with reduced spread duration, reflecting attractive yields but limited valuation support. Current yields provide a significant cushion, potentially making it difficult for investors to experience negative total returns unless there is either a substantial rise in Treasury yields or meaningful spread widening.
- In Europe, markets saw more than €31B of issuance last week. The dominant macro theme of the week remained the Iran war, with Brent crude spiking above $107 a barrel. In addition, the ECB delivered a 25 bps rate hike on Thursday. Despite being in line with market expectations, hawkish comments following the decision led to increased concerns over the inflationary effects of the ongoing Middle East conflict.

LEVERAGED FINANCE

- Ongoing geopolitical conflicts, elevated oil prices, persistent inflation, rising long-end Treasury yields, and a hawkish pivot in Fed expectations have created a challenging backdrop for high yield bonds thus far this quarter. While lower-quality CCC HY bonds have widened over 100 bps QTD, the overall OAS for high yield, at +265, remains just 24 bps wide of all-time tights.
- Capital markets are functioning well, with QTD gross issuance of $56.7B, with most order books oversubscribed. CCC issuance represents just 3% of gross issuance, and refinancing activity so far this quarter is high at 69.2%. Despite continuing AI and data center-related issuance, the high yield market has returned to a net supply shortfall QTD of $-21.7B.
- From a total return perspective, credit tiers are mixed QTD: BBs returned -0.03%, Bs returned +0.51%, and CCCs returned -1.23%. Total sector returns are mixed. The top sectors are technology (+2.14%), energy (+1.07%), and healthcare (+0.81%). The weakest sectors are Paper (-10.09%), telecom (-2.41%), and cable (-2.09%).
- U.S. bank loans saw another positive week, with the percent of loans bid above par now sitting at approximately 45%. In terms of issuance, $20B of loans priced last week across 15 issuers. Meanwhile loan funds reported inflows of $930M, the 11th consecutive week of inflows.
- European high yield bond spreads have continued to tighten, leaving them modestly tighter for the year. Issuance of €14.1B thus far in Q3 is 59% lower than the same period last year and heavily weighted to refinancing activity. Loan spreads have tightened thus far in Q3, with higher quality remaining well bid while distressed issuers continue to lag. Loan issuance of €13.9B thus far in Q3 is down 58% y/y and down 32% YTD.

EMERGING MARKETS

- While appreciating the consistent resilience of EM hard currency sovereign spreads, looking forward, we have to recognize that spreads are tight. However, carry remains supportive given all-in yields, and carry is likely to be the near-term driver of returns. While we expect more dispersion than spread widening, upside pressure on spreads is certainly possible due to the re-escalating/expanding U.S.-Iran war with Houthi attacks on the Red Sea and its impact on oil prices and inflation. As a base case, we remain constructive on EM hard currency given a stable macro environment characterized by supportive growth.
- The outlook for EM rates remains challenging with Brent crude climbing back above $100 per barrel and long-end yields of DM countries at 20-year highs. Since the U.S.-Iran war started, the correlation between EM rates and U.S. rates has increased substantially. With the exception of China, Hungary and Colombia, most EM local markets traded in tandem with U.S. rates. By and large, the curves bear flattened as the inflation outlook deteriorated, putting pressure on central banks to tighten monetary policy.
- EM corporates exhibit resilient fundamentals and healthy technicals. Fundamentals, as evidenced by the latest quarterly earnings, remain strong and defaults around a 3% run-rate for EM corporate high yield are tracking at the lower end of expectations (and close to DM levels). Earnings have diverged by sector, however. Industries like oil & gas, commodities and chemicals have performed well. Some issuers in consumer, pulp & paper, manufacturing, and retail have been negatively impacted by higher input costs and logistical challenges but with no material credit impact.
- EMFX has been resilient in the third quarter amid the energy supply shock and Fed pricing going from three cuts to two hikes in 2026. Global growth is holding up much better than expected in the face of higher energy prices and higher rates. Also, Fed pricing has lagged or at best kept pace with many other central banks, which has kept rate differentials stable. Going forward, we still lean towards select high-carry currencies doing well, particularly oil exporters (NGN, COP, BRL) and those with high real rates (EGP, UGX).
- With oil retracing its recent highs, we note that Asia and Europe are the two regions most exposed to higher energy prices. We are short THB, PLN, EUR and CNH, among others.

SECURITIZED PRODUCTS

- In CMBS, valuations for most property types have stabilized and we expect 2026 price appreciation to be marginally positive across property types. Near-term rent growth should improve as new supply pressures abate in property sectors such as multifamily and industrial. We continue to find value in high-quality SASB deals with significant structural protection from moderating real estate fundamentals. Conduit AAA spreads screen as fair to corporate bonds.
- In RMBS, relatively tight inventories and strong demographics have supported housing values despite historically high mortgage rates. Recent supply uptick and regional softness in Sun Belt and western MSAs show growing regional divergence. We expect +1% HPA for FY 2026. Non-QM is currently the most scalable opportunity to gain exposure to mortgage credit where we focus on high-credit mortgages across favored doc types, with investor loans featuring embedded prepay penalty protections among the most attractive.
- CLO tranches continue to offer attractive value versus other fixed income assets. Given current market valuations, we find the most value in senior tranches, with selective opportunities in higher-quality mezzanine tranches. AAA spreads remain inside long-term averages but marginally wide of YTD tights. IG mezzanine tranches have retraced to, and in some cases through, all-time tights compressing the credit curve. We expect mixed valuations into year-end which could create opportunities to deploy capital at wider levels.
- ABS spreads remain compressed and credit quality tiering is pronounced. We remain positioned towards top-tier originators and thematically favor commercial obligor exposures/platforms characterized by historically low/net zero collateral losses, real and operating assets with durable cash flow growth, and strong sponsor-backing in asset classes such as fiber, telecom, fleet, and equipment. We are constructive on select, higher-quality issuers across the capital stack within the commercial, auto, and consumer loan sectors.

MUNICIPALS

- Muni YTD returns have turned negative 1.5%, driven by rate pressure. However, HY Munis are still showing healthy 1.0%+ returns YTD on spread tightening.
- While defaults/distress (ex-Brightline) are at record lows (-25%/-50% YoY), the upgrade/downgrade ratio has dropped below 1x, indicating peaking credit quality.
- Net supply will be particularly tricky through the fall, with $24B expected in September and another $25B in October, but that technical should reverse in November and December.

THE RETURNS TABLE AS OF SEPTEMBER 11, 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	1.86	4.63	---	26	28	45	115	108	-0.39	-0.41	-0.06	0.44	1.55
U.S. 5-Year	4.39	4.78	---	24	28	56	106	119	-0.98	-1.15	-1.75	-1.93	-1.45
U.S. 10-Year	7.81	4.97	---	19	22	50	80	95	-1.41	-1.62	-3.17	-3.15	-3.15
U.S. 10-Year Breakeven	--	2.37	---	2	5	14	13	1	---	---	---	---	---
U.S. 10-Year TIPS	4.33	2.60	---	17	17	37	69	94	-1.51	-1.46	-2.62	-1.54	-2.08
U.S. 20-Year	12.21	5.39	---	14	14	42	59	77	-1.61	-1.71	-4.48	-4.05	-5.14
U.S. 30-Year	14.93	5.35	---	11	11	40	51	70	-1.55	-1.60	-5.32	-4.31	-6.17
U.S. SOFR	---	---	---	-3	-6	-6	-25	-79	0.07	0.11	0.74	2.60	3.89
UK 10-Year	7.66	5.34	---	21	28	59	87	74	-1.37	-1.30	-2.45	-1.72	0.40
Germany 10-Year	8.35	3.50	---	17	18	65	65	85	-1.21	-1.28	-3.80	-2.42	-3.24
Switzerland 10-Year	8.50	0.55	---	12	12	28	27	34	-1.01	-1.07	-2.19	-1.54	-2.41
Japan 10-Year	7.50	2.98	---	7	4	30	92	140	-0.28	-0.20	-1.59	-4.17	-7.05
Australia 10-Year	7.86	5.37	---	19	28	65	63	114	-1.28	-1.76	-3.08	-0.70	-3.03
Canada 10-Year	8.12	3.94	---	16	20	56	51	78	-1.07	-1.35	-3.15	-1.00	-1.79
Major fixed income multi-sector indices		**YTW**											
Global Aggregate Unhedged	6.22	4.27	30	1	1	2	2	0	-0.77	-0.60	-0.69	-0.90	-0.93
Global Aggregate Hedged	6.22	4.27	30	1	1	2	2	0	-0.86	-0.89	-1.79	-0.67	-0.04
U.S. Aggregate	5.93	5.27	30	1	1	3	3	1	-1.04	-1.13	-2.04	-1.43	-0.73
Euro-Aggregate (Unhedged)	6.12	3.82	47	2	3	3	5	-1	-1.11	-1.19	-3.11	-1.84	-1.72
Japanese Aggregate	7.86	2.66	1	0	0	1	0	0	-0.40	0.03	-1.42	-4.17	-6.36
Major fixed income credit indices		**YTW**											
Mortgage-Backed (Agency)	5.71	5.57	35	7	6	10	13	4	-1.43	-1.44	-2.33	-1.37	-0.06
Global IG Corporate Bonds	5.83	5.27	81	0	1	3	1	1	-0.90	-1.04	-1.56	-1.39	-0.84
U.S. IG Corporate Bonds	6.71	5.74	78	-1	1	4	1	3	-0.93	-1.12	-2.35	-1.52	-1.09
European IG Corporate	4.53	4.11	82	2	3	2	4	1	-0.91	-1.01	-2.18	-0.88	-0.54
U.S. High Yield Bonds	3.34	7.62	265	-2	4	-4	-1	-2	-0.54	-0.66	0.05	2.01	3.54
European High Yield Bonds	3.25	6.33	286	1	9	2	5	-5	-0.56	-0.88	-0.61	1.25	2.23
U.S. Leveraged Loans	0.3	9.49	470	0	-7	-30	15	24	0.15	0.25	2.02	3.41	4.83
European Leveraged Loans	0.3	8.05	463	-1	-11	-18	-11	-3	0.13	0.23	1.03	2.81	3.75
EM Hard Currency Sovereigns	6.17	6.78	169	-10	-9	-15	21	55	-0.88	-0.82	-1.36	2.00	5.24
EM Corporates	3.92	6.47	155	-2	-2	-2	8	14	-0.48	-0.52	-0.39	1.81	3.27
EM Currencies	---	5.40	---	0	0	-1	0	0	-0.08	0.49	3.50	4.74	6.60
EM Local Rates	5.23	6.43	6	0	0	0	1	1	-0.46	-0.30	-0.58	1.10	3.02
CMBS	3.61	5.40	64	0	-2	0	-11	-14	-0.76	-0.80	-0.96	-0.21	0.94
ABS	2.92	5.10	42	-2	-2	-2	-10	-7	-0.48	-0.50	-0.33	0.73	1.99
CLOs	3.88	5.71	125	0	0	-2	-6	-8	0.09	0.15	0.99	3.41	4.97
Municipal Bonds	6.89	4.28	---	21	30	71	69	70	-1.23	-1.75	-3.78	-1.55	-0.04

		Total return (%)				
	Level	WTD	MTD	QTD	YTD	Prior year
Equity / volatility indices						
S&P 500 Index	7,657	-0.8	-0.3	2.3	12.8	17.6
DAX	25,569	-1.8	-2.6	2.3	4.4	7.9
Stoxx 600	639	-1.7	-1.8	-0.1	10.9	18.8
Nikkei 225	64,011	-1.6	-3.5	-8.6	28.3	46.7
Shanghai Composite	3,888	-1.0	-2.4	-4.3	-0.4	2.6
MSCI ACWI Index	1,143	-0.9	-0.5	2.3	14.1	19.7
FTSE 100	10,650	-1.6	-1.6	2.2	10.0	18.2
MOVE Index	82	12.5	9.1	14.2	28.5	9.5
VIX Index	16	9.0	6.2	-3.7	6.0	7.7

		Change (%)				
	Spot	WTD	MTD	QTD	YTD	Prior year
FX / commodities						
EUR / USD	1.2	-0.1	-0.2	1.5	-1.3	-1.2
USD / JPY	153.6	-1.7	-3.8	-5.5	-2.0	4.3
GBP / USD	1.4	0.0	-0.2	2.0	0.4	-0.4
EUR / CHF	0.9	0.7	0.8	2.6	1.7	1.4
USD / CHF	0.8	0.8	1.0	1.0	3.0	2.6
USD (DXY)	99.1	-0.1	-0.3	-2.0	0.8	1.6
Oil	100.1	9.4	16.7	44.0	74.2	60.4
Gold	4349.1	-1.8	-2.0	8.5	0.7	19.7

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 September 14, 2026.

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