

## Yields surge as inflation and oil rattle markets

### Market recap

Global bond markets sold off sharply this week as hotter-than-expected April CPI — headline at +0.6% month-over-month and 3.8% year-over-year — combined with surging oil prices to rattle rate expectations. Brent crude oil finished up 8% near \$109 and WTI surged 11% to \$106, driven by the unresolved Iran-U.S. standoff. Treasury yields spiked across the curve, with the 10-year rising 24 basis points (bps) to 4.59% and the 30-year reaching 5.12%. Kevin Warsh was confirmed as U.S. Federal Reserve Chair, replacing Jerome Powell.

Credit spreads were broadly resilient despite the selloff. The Bloomberg Aggregate Bond Index returned -1.14%. Senior loans outperformed at +0.08%, while IG corporates returned -1.04%, high yield -0.49% and emerging markets -0.99%.

### Outlook

The new Fed Chair inherits a difficult backdrop. Inflation is broadening beyond energy, with core CPI accelerating to 2.8% year-over-year, and ongoing uncertainty around the Strait of Hormuz continues to pressure the global energy supply. Although Warsh has signaled a preference for rate cuts, the data may not cooperate in the near term, and markets are actually starting to price the next move as a hike rather than a cut.

We expect the Fed to hold rates steady through the summer as it assesses the persistence of inflation. Growth remains resilient but is likely to moderate as higher energy costs weigh on the consumer. We continue to forecast a 4.00% to 4.25% year-end range for the 10-year Treasury yield, though risks are skewed higher given the current trajectory of oil and shelter inflation.

### Key takeaways

- Kevin Warsh was confirmed as Fed Chair, ending Jerome Powell's eight-year tenure and adding uncertainty to the rate outlook.
- Global bonds sold off sharply as hotter-than-expected CPI and surging oil prices pushed yields 20-25 bps higher.
- Credit spreads proved resilient, with IG tightening 5 bps and high yield 1 bp despite the significant rate backup.

### WHAT WE'RE WATCHING:

#### MAY

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- China activity

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- Japan GDP

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- Euro area and UK CPI
- Federal Open Market Committee minutes

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- Japan CPI
- Flash PMIs

# Weekly fixed income snapshot

18 MAY 2026

## U.S. Treasuries

Yields rose sharply across the curve as hotter-than-expected April inflation data and surging oil prices forced a meaningful repricing of rate expectations. The move was broad-based, with the front end and belly bearing the brunt as markets began pricing a higher probability of a rate hike this year. The 30-year reached 5.12%, matching its 2023 peak and reinforcing the structurally higher rate environment.

**The 2-year Treasury yield rose 19 bps to 4.07%, the 5-year rose 26 bps to 4.26%, the 10-year rose 24 bps to 4.59% and the 30-year rose 18 bps to 5.12%.**

## Tax-exempt municipals

Tax-exempt municipals posted a negative return, pressured by the sharp backup in Treasury yields. Despite the volatility, the sector held up relatively well given its duration profile, with demand remaining constructive as investors continued seeking tax-advantaged income. Supply stayed manageable, and high credit quality continued to attract crossover buyers from the taxable market. Year-to-date performance remains positive, and current yield levels present a compelling entry point for deploying cash into the sector.

**The Bloomberg Municipal Index returned -0.58%.**

## Taxable municipals

Taxable municipals posted a meaningful negative return, weighed down by rising Treasury yields given the sector's longer duration profile. The broader tone remained constructive, however, with crossover demand continuing to provide support. Performance has turned negative year-to-date, though the sector's yield advantage over comparably rated corporates continues to attract interest.

**The Bloomberg Municipal Taxable Index returned -1.44% with spreads at 53 bps.**

## Investment grade corporates

Investment grade corporates declined as the sharp rate backup overwhelmed continued spread compression. Despite the negative total return, credit fundamentals remained strong — spreads tightened 5 bps, fund inflows were robust at \$9.3 billion and \$52 billion in new issuance was well-absorbed at progressively tighter concessions. Insurance companies and all-in yield buyers remained a tightening force, and the primary market saw several standout deals. Spreads now sit just 3 bps off year-to-date tights, well inside long-term averages.

**The Bloomberg U.S. Corporate Bond Index returned -1.04% with spreads at 73 bps.**

## U.S. high yield corporates

High yield posted a negative return, though the sector's short duration profile limited losses relative to longer-duration alternatives. The week began on a firm note with higher-beta credits outperforming, but momentum faded as a heavy new issue calendar and a busy earnings season weighed on the secondary market. A growing divergence between credit and equities became increasingly evident in the back half of the week. Spreads tightened modestly despite the negative total return, reflecting continued demand for income and well-contained default expectations.

**The Bloomberg High Yield 2% Issuer Capped Index returned -0.49% with spreads at 267 bps.**

## Preferred securities

Preferred securities declined, pressured by the significant rate backup with most of the price action concentrated on Friday. Additional Tier 1 securities (AT1s) closed lower, with UK banks lagging on growing political uncertainty. Demand from income-oriented investors remained steady throughout.

**The ICE BofA U.S. All Capital Securities Index returned -0.55% with spreads at 148 bps.**

## Senior loans

Senior loans outperformed all other fixed income sectors, demonstrating the asset class's resilience in a rising rate environment. The floating-rate structure insulated loans from the Treasury selloff, and secondary activity maintained a firm tone. Approximately 50% of the loan market is now trading above par, reflecting sustained demand for the asset class. The default environment remains benign, and appetite for high current income with minimal duration risk continues to support the sector.

**The S&P Leveraged Loan Index returned +0.08% with spreads at 481 bps.**

## Securitized credit

Securitized sectors were mixed, with the sharp rate selloff and volatility spike pushing agency MBS wider. Current coupon spreads widened as the end-of-week move pressured duration-sensitive collateral.

ABS had a strong week with heavy flows in both primary and secondary markets, with the new issue calendar running 25% ahead of last year's record pace. CMBS secondary flows were steady with spreads effectively unchanged across tenors as new issuance remained active.

**The Bloomberg U.S. Mortgage-Backed Securities Index returned -1.39% with spreads at 26 bps. The Bloomberg CMBS ERISA-Eligible Index returned -0.75% with spreads at 64 bps. The Bloomberg Asset-Backed Securities Index returned -0.41% with spreads at 46 bps.**

## Global emerging markets

Emerging markets debt declined as rising U.S. Treasury yields and a stronger dollar weighed on the sector. Hard currency sovereign spreads tightened modestly as markets await clarity on the conflict in the Middle East, though select frontier names struggled with the risk-off tone. EM retail inflows accelerated sharply to \$1.9 billion, with demand split between hard and local currency strategies. New issuance was lighter at \$6.1 billion, though books averaged 4.5x oversubscribed.

**The Bloomberg Global Aggregate Unhedged Index returned -0.99% with spreads at 166 bps.**

## U.S. Treasury market yields

Maturity	Yield	Change (%)		
		Week	Month-to-date	Year-to-date
2-year	4.07	0.19	0.20	0.60
5-year	4.26	0.26	0.25	0.53
10-year	4.59	0.24	0.22	0.43
30-year	5.12	0.18	0.15	0.27

Source: Bloomberg L.P., 15 May 2026. Performance data shown represents past performance and does not predict or guarantee future results.

**Yields surged on hot inflation and rising oil prices, yet credit spreads ground tighter — reflecting resilient fundamentals amid growing uncertainty.**

## Fixed income characteristics and returns

Index	Yield to worst (%)	Spread (bps)	Effective duration (years)	Returns (%)		
				Week	Month-to-date	Year-to-date
U.S. Treasury	4.41	–	5.81	-1.11	-0.84	-0.96
U.S. government related	4.76	35 <sup>1</sup>	5.30	-0.99	-0.73	-0.37
Municipal	3.77	–	6.72	-0.58	-0.37	0.59
High yield municipal	5.62	160 <sup>2</sup>	7.40	-0.68	-0.37	1.71
Taxable municipal	5.20	53 <sup>1</sup>	7.54	-1.44	-0.96	-0.78
U.S. aggregate bond	4.81	26 <sup>1</sup>	5.93	-1.14	-0.78	-0.71
U.S. corporate investment grade	5.27	73 <sup>1</sup>	6.77	-1.04	-0.52	-0.60
High yield 2% issuer capped	7.17	267 <sup>1</sup>	3.01	-0.49	-0.30	0.88
Preferred securities	6.33	148 <sup>1</sup>	5.59	-0.55	-0.19	1.14
Senior loans <sup>3</sup>	8.76	481	0.25	0.08	0.35	1.10
U.S. mortgage-backed securities	5.12	26 <sup>1</sup>	5.63	-1.39	-0.95	-0.48
U.S. commercial mortgage-backed securities	4.89	64 <sup>1</sup>	3.75	-0.75	-0.51	-0.02
U.S. asset-backed securities	4.61	46 <sup>1</sup>	2.81	-0.41	-0.22	0.38
Collateralized loan obligations, AA	5.13	134 <sup>1</sup>	0.25	0.11	0.24	1.94
Collateralized loan obligations, BB	11.58	746 <sup>1</sup>	0.25	0.58	0.97	1.58
Global emerging markets	6.15	166 <sup>1</sup>	5.88	-0.99	-0.41	0.32
Global aggregate (unhedged)	3.92	27 <sup>1</sup>	6.25	-1.52	-0.96	-0.81

<sup>1</sup> Option-adjusted spread to Treasuries. <sup>2</sup> Yield difference between the Bloomberg High Yield Municipal Index and the 20-year AAA MMD scale. <sup>3</sup> Spread refers to the 3-year discount margin. Duration is estimated based on the frequency of the reset date.

Source: Bloomberg L.P. and Standard & Poor's, 15 May 2026. Performance data shown represents past performance and does not predict or guarantee future results. Unless otherwise noted, the index is Bloomberg. All index returns are shown in U.S. dollars. Yield to worst is the lowest potential yield that can be received on a bond without the issuer actually defaulting. Effective duration (expressed in years) measures the price sensitivity of a fixed-income investment to a change in interest rates, considering that expected cash flows will fluctuate as interest rates change. Index performance is shown for illustrative purposes only. Index returns include reinvestment of income and do not reflect investment advisory and other fees that would reduce performance in an actual client account.

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**Representative indexes:** U.S. Treasury: Bloomberg U.S. Treasury Index; U.S. government related: Bloomberg U.S. Government-Related Index; municipal: Bloomberg Municipal Index; high yield municipal: Bloomberg High Yield Municipal Index; taxable municipal: Bloomberg Taxable Municipal Bond Index; U.S. aggregate bond: Bloomberg U.S. Aggregate Bond Index; U.S. corporate investment grade: Bloomberg U.S. Corporate Index; high yield 2% issuer capped: Bloomberg High Yield 2% Issuer Capped Index; preferred securities: ICE BofA U.S. All Capital Securities Index; senior loans: S&P UBS Leveraged Loan Index; U.S. mortgage-backed securities: Bloomberg U.S. Mortgage-Backed Securities Index; U.S. commercial mortgage-backed securities: Bloomberg CMBS ERISA-Eligible Index; U.S. asset-backed securities: Bloomberg Asset-Backed Securities Index; CLO AA: J.P. Morgan Collateralized Loan Obligation AA Index; CLO BB: J.P. Morgan Collateralized Loan Obligation BB Index; global emerging markets: Bloomberg Emerging Market USD Aggregate Index; global aggregate: Bloomberg Global Aggregate Unhedged Index.

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Investors should contact a tax professional regarding the appropriateness of tax-exempt investments in their portfolio. If sold prior to maturity, municipal securities are subject to gain/losses based on the level of interest rates, market conditions and the credit quality of the issuer. Income may be subject to the alternative minimum tax (AMT) and/or state and local taxes, based on the state of residence. Income from municipal bonds held by a portfolio could be declared taxable because of unfavorable changes in tax laws, adverse interpretations by the Internal Revenue Service or state tax authorities, or noncompliant conduct of a bond issuer. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

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