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Separately Managed Accounts | Global Fixed Income

Investment Grade Corporate

Marketing communication | As of 30 Jun 2026

Key takeaways

- During the second quarter, the Investment Grade Corporate strategy underperformed its benchmark, the Bloomberg U.S. Intermediate Investment Grade Corporate Index.
- The strategy's higher-quality bias negatively impacted performance.
- Duration positioning contributed to performance.

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Market review

U.S. economic growth remained healthy in the second quarter, supported by a steady labor market, slightly lower unemployment and a robust pace of job creation. The dominant theme shaping fixed income markets, however, was the U.S.–Iran war, which sparked a sharp increase in oil prices early in the quarter and brought stagflation concerns to the forefront. That narrative shifted meaningfully in mid-June when an interim peace deal was signed, triggering a collapse in oil prices, receding stagflation fears and a broad rally in both bonds and risk assets. Inflation moved materially higher over the period, with the most recent Consumer Price Index running above 4% year-over-year, reflecting the volatility in energy prices. Although rising inflation weighed on consumer purchasing power, U.S. spending proved resilient, with real consumer spending rebounding to approximately 2.0% annualized in the second quarter after tracking near 0.5% annualized in the first.

The rate backdrop was volatile for the quarter, with the 10-year Treasury yield peaking at 4.68% in mid-May before retreating to end the period only 14 basis points higher at 4.44%. Yields rose more sharply at the short end of the curve, as expectations for Federal Reserve (Fed) rate cuts gave way to anticipation of at least one hike. Two-year Treasury yields rose 35 basis points over the quarter, while 30-year yields finished only three basis points higher.

The shift in rate expectations was catalyzed by the first meeting under new Fed Chair Kevin Warsh in June, which struck a more hawkish tone than markets anticipated. While Fed policymakers continued to hold rates steady in the 3.50%–3.75% range, they upgraded their median core inflation forecast for the year to 3.3%, and half of the 18 committee members favored a rate increase by year-end. Sticky inflation, resilient economic data and a solid labor market underpinned this shift. Other global central banks broadly signaled more hawkish intentions as well. The European Central Bank (ECB) and Bank of Japan (BoJ) each raised rates by 25 basis points in June, while the Reserve Bank of Australia delivered its third consecutive hike in May before pausing to assess the impact. Despite the volatile rate environment, credit spreads tightened, leading to positive total returns across fixed income asset classes. The broad-based Bloomberg U.S. Aggregate Bond Index returned 0.67% for the quarter.

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Investment grade corporates demonstrated notable resilience throughout the quarter, returning 1.40% as measured by the Bloomberg U.S. Corporate Bond Index and outperforming Treasuries. Spreads began the period at 89 basis points, tightened meaningfully following the initial April ceasefire, and subsequently held in a tight range to end at 74 basis points. Supply was the defining story of the quarter, as hyperscalers continued their extraordinary pace of issuance. Total investment grade corporate new-issue volume reached $1.2 trillion in the first half of 2026, with June alone adding a record $200 billion. Despite this elevated supply, market technicals remained broadly supportive. The strategy's benchmark, the Bloomberg U.S. Intermediate Investment Grade Corporate Index, returned 0.98% during the quarter.

Portfolio review

During the second quarter, the Investment Grade Corporate strategy underperformed its benchmark, the Bloomberg U.S. Intermediate Investment Grade Corporate Index, on a gross and net of fees basis.

As the market rebounded in the second half of the quarter, lower-quality and higher-beta bonds outperformed, causing the strategy's up-in-quality bias to detract from performance.

Following a surprisingly hawkish Fed meeting, new Fed Chair Kevin Warsh committed to maintaining price stability, pushing Treasury yields higher. The strategy's neutral to slightly shorter-than-benchmark duration stance aided performance amid this move.

Outlook

We maintain a broadly constructive macroeconomic outlook. Although the Middle East conflict has weighed on growth and boosted inflation, recent developments suggest a more favorable trajectory on both fronts. We still expect a modest drag on overall growth this year, but the impact appears more contained than previously anticipated, and upside risks to inflation have moderated. Technology investment related to AI continues to support growth, partially offsetting oil-induced weakness, though AI-driven demand is also exerting upward pressure on select inflation categories. We now forecast U.S. real GDP growth at 1.8% for 2026 and core Personal Consumption Expenditures (PCE) Price Index inflation at 3.0%.

In response to resilient labor market data, persistent inflationary pressures and hawkish rhetoric from central bank officials, we have revised our Fed forecast. We now expect the Fed to remain on hold for the remainder of 2026 before resuming rate cuts in the first half of 2027. We expect the BoJ to hike rates at least once more this year and to continue hiking in 2027. For the ECB, we view risks as skewed toward an additional rate increase, though likely not before 2027. In line with our updated Fed forecast, we have raised our broad Treasury yield projections, now forecasting a range of 4.25%–4.50% for the 10-year Treasury yield at year-end 2026.

Entering the third quarter, Middle East geopolitics remain the most consequential macro risk for investment grade credit. The Iran situation is fragile, and any resumption of hostilities could jolt energy markets and drive spreads wider. The recent drop in oil prices, while welcome from an inflation perspective, could be more than offset by AI-driven demand across semiconductors, construction labor and broader "picks and shovels" supply chains. Spreads near historic tights should remain firm near term, but with a widening bias given potential rate volatility. Supply is expected to moderate from its first-half pace, with dealers projecting roughly $100 billion in July issuance, a meaningful decline from June. AI-driven capital expenditures remain a structural supply force, with hyperscaler and data center issuance dominating new supply alongside incremental merger and acquisition (M&A) activity. All-in yields of roughly 5.20% continue to offer compelling income for buy-and-maintain investors, supported by robust balance sheets, healthy profit margins and historically low default rates.

We continue to favor positioning that emphasizes higher credit quality and liquidity. Our preferred high-quality sectors include banking, consumer noncyclical and utilities. We maintain a more selective stance in the basic industry, energy and transportation sectors, given rich valuations and ongoing cyclical risks.

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Glossary

The **Bloomberg U.S. Intermediate Investment Grade Corporate Index** is a broad based benchmark that measures the investment grade, fixed-rate, taxable corporate bond market. It includes U.S. dollar-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers that have between 1 and up to, but not including, 10 years to maturity. The **Bloomberg U.S. Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes U.S. dollar-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers. **It is not possible to invest directly in an index.** Clients should consult their financial professional regarding unknown financial terms and concepts.

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