

Rising oil prices test fixed income resilience

Market recap

The Middle East conflict remained the dominant market theme last week. Oil prices initially declined on optimism around ceasefire negotiations, but those hopes faded as the week progressed, with WTI crude ending back above \$100 per barrel.

U.S. Treasury yields moved higher as markets continued to price in the risk of oil-driven inflation. 10-year yields rose 5 basis points (bps) to 4.43%, pulling the Bloomberg U.S. Aggregate Bond Index down -0.12% for the week. Spreads widened broadly across fixed income, particularly late in the week as oil prices climbed. High yield corporates underperformed duration-equivalent Treasuries by -46 bps, followed by preferreds at -45 bps and emerging markets at -23 bps. CMBS and MBS were relative bright spots, underperforming by just -1 and -2 bps, respectively.

Outlook

Markets face a busy week of U.S. and global data. March PMI readings for the U.S. and China will offer an early read on how the Middle East conflict is affecting business sentiment. The February Job Openings and Labor Turnover Survey (JOLTS) report should shed further light on labor market conditions, particularly relevant after the slowdown in headline job creation that month. The March jobs report (released at the end of April) will be a key release, where we expect a rebound in job creation and a steady unemployment rate.

We continue to expect two 25-basis-point U.S. Federal Reserve rate cuts this year, though near-term inflationary pressures may extend the current pause and push the second cut into 2027. We still expect core inflation to moderate somewhat by year-end. Combined with potential headwinds to growth and softer labor market data, that should keep long-end yields contained. We continue to forecast a 4.00% to 4.25% trading range for the 10-year Treasury yield this year. While the 10-year currently sits above the top of that range, we still expect it to finish the year near the bottom.

KEY TAKEAWAYS

- The ongoing Middle East conflict pushed oil prices higher, with WTI crude ending the week back above \$100 per barrel.
- Treasury yields rose as markets priced in renewed upside inflation risk driven by higher energy prices.
- Spreads widened across most asset classes, as elevated oil prices also raised concerns about slower economic growth.

What we're watching:

MARCH

31

- China PMI
- JOLTS report

APRIL

01

- Retail sales
- ISM manufacturing survey

03

- Jobs report
- ISM services survey

U.S. Treasury market yields

| Maturity | Yield | Change (%) | | |
|----------|-------|------------|---------------|--------------|
| | | Week | Month-to-date | Year-to-date |
| 2-year | 3.91 | 0.01 | 0.54 | 0.44 |
| 5-year | 4.07 | 0.06 | 0.57 | 0.34 |
| 10-year | 4.43 | 0.05 | 0.49 | 0.26 |
| 30-year | 4.97 | 0.03 | 0.35 | 0.12 |

Source: Bloomberg L.P., 27 Mar 2026. Performance data shown represents past performance and does not predict or guarantee future results.

Treasury yields rose and spreads widened across fixed income markets, as higher oil prices stoked near-term inflation concerns and raised the prospect of slower growth.

Fixed income characteristics and returns

| Index | Yield to worst (%) | Spread (bps) | Effective duration (years) | Returns (%) | | |
|--|--------------------|------------------|----------------------------|-------------|---------------|--------------|
| | | | | Week | Month-to-date | Year-to-date |
| Municipal | 3.83 | – | 6.81 | -0.81 | -2.72 | -0.58 |
| High yield municipal | 5.69 | 150 ¹ | 7.61 | -0.75 | -2.38 | 0.22 |
| Taxable municipal | 5.07 | 54 ² | 7.55 | -0.18 | -3.08 | -0.54 |
| U.S. aggregate bond | 4.69 | 30 ² | 5.87 | -0.12 | -2.49 | -0.79 |
| U.S. Treasury | 4.24 | – | 5.79 | -0.07 | -2.34 | -0.66 |
| U.S. government related | 4.65 | 39 ² | 5.27 | -0.14 | -2.28 | -0.63 |
| U.S. corporate investment grade | 5.27 | 89 ² | 6.73 | -0.23 | -2.86 | -1.43 |
| U.S. mortgage-backed securities | 4.99 | 26 ² | 5.45 | -0.08 | -2.53 | -0.49 |
| U.S. commercial mortgage-backed securities | 4.78 | 70 ² | 3.78 | -0.07 | -1.79 | -0.19 |
| U.S. asset-backed securities | 4.51 | 50 ² | 2.80 | -0.03 | -1.10 | 0.00 |
| Preferred securities | 6.57 | 184 ² | 5.52 | -0.55 | -2.52 | -0.88 |
| High yield 2% issuer capped | 7.68 | 331 ² | 3.10 | -0.47 | -1.97 | -1.29 |
| Senior loans ³ | 8.80 | 513 | 0.25 | 0.02 | 0.55 | -0.54 |
| Collateralized loan obligations, AA | 5.30 | 154 ² | 0.25 | 0.12 | -0.01 | 0.89 |
| Collateralized loan obligations, BB | 12.36 | 836 ² | 0.25 | 0.31 | -2.23 | -3.36 |
| Global emerging markets | 6.33 | 200 ² | 5.86 | -0.32 | -3.18 | -1.65 |
| Global aggregate (unhedged) | 3.87 | 32 ² | 6.24 | -0.49 | -3.58 | -1.59 |

¹ Yield difference between the Bloomberg High Yield Municipal Index and the 20-year AAA MMD scale. ² Option-adjusted spread to Treasuries. ³ 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, 27 Mar 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: 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. Treasury:** Bloomberg U.S. Treasury Index; **U.S. government related:** Bloomberg U.S. Government-Related Index; **U.S. corporate investment grade:** Bloomberg U.S. Corporate 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; **preferred securities:** ICE BofA U.S. All Capital Securities Index; **high yield 2% issuer capped:** Bloomberg High Yield 2% Issuer Capped Index; **senior loans:** S&P UBS Leveraged Loan 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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