

2026 Fixed Income Cup

An Eventful First Half. Potentially
More Consequential Second Half.



Entering 2026, investors expected a relatively clear path to victory – policy easing, slowing growth, and continued AI-driven investment. Instead, the first half played out more like a congested group stage, with plenty of headlines but few decisive outcomes. While many pre-tournament assumptions remained intact, a handful emerged as surprising contenders. As markets enter the second half, investors not only face unresolved matchups from the opening rounds, but also the potential for new challengers to step onto the pitch.

In IR+M's two-part Fixed Income World Cup series, we will recap the key first-half matchups and preview the risks that could dominate in the knockout rounds.

Part I: Plenty of Headlines – Not Outcomes – in a Tightly Contested Group Stage.

The group stage is not where the tournament is won. It is where pre-tournament assumptions are tested, early surprises capture headlines, and the standings may remain crowded until the final matchday. The first half of 2026 followed a similar script. The field of possibilities narrowed, but few results were decisive. Several competing market forces are still too close to call.



Resilient Labor Market vs. Gradual Cooling

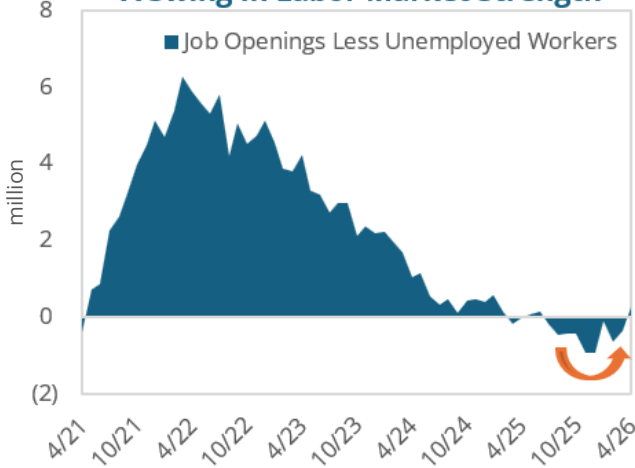
MATCH RECAP

Job market momentum stabilized more than expected.



A firmer backdrop pushes out the timing of a decisive monetary policy shift, especially one with an easing bias.

A Swing In Labor Market Strength



- The labor market was expected to cool gradually in 2026, with slower hiring, less immigration, and weaker worker mobility pointing to a softer backdrop.
- Recently, hiring demand improved more than anticipated. Payroll growth held up, job openings rebounded, and layoffs remained contained.
- The current state was best described as stable rather than hot: demand has firmed, churn remains subdued, and the data no longer points clearly toward deterioration.
- **The Result:** A steady employment backdrop continues to support consumption and broader activity, while keeping the Federal Reserve patient and data dependent.

US Exceptionalism vs. Geopolitical Uncertainty

MATCH RECAP

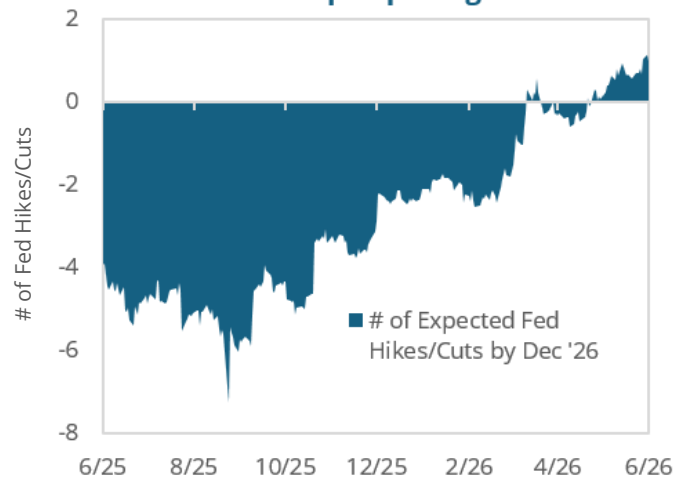
Markets were anchored by stronger US growth, even as the conflict in the Middle East drove periodic volatility.



The Fed must now determine whether recent supply-side pressures are transitory or structural.

- The US economy outperformed expectations, supported by consumer spending, strong corporate earnings, and AI-related investment.
- The US-Iran conflict disrupted energy markets, contributing to a sharp rise in oil and gasoline prices.
- Better-than-expected economic activity reduced the urgency for rate cuts, while higher energy costs complicated the path back to price stability.
- **The Result:** Investors no longer believe current economic conditions justify the easing path that markets had anticipated entering 2026.

A Sharp Repricing



Source: Bloomberg as of 6/9/26. The views contained in this report are those of Income Research + Management ("IR+M") and are based on information obtained by IR+M from sources that are believed to be reliable but IR+M makes no guarantee as to the accuracy or completeness of the underlying third-party data used to form IR+M's views and opinions

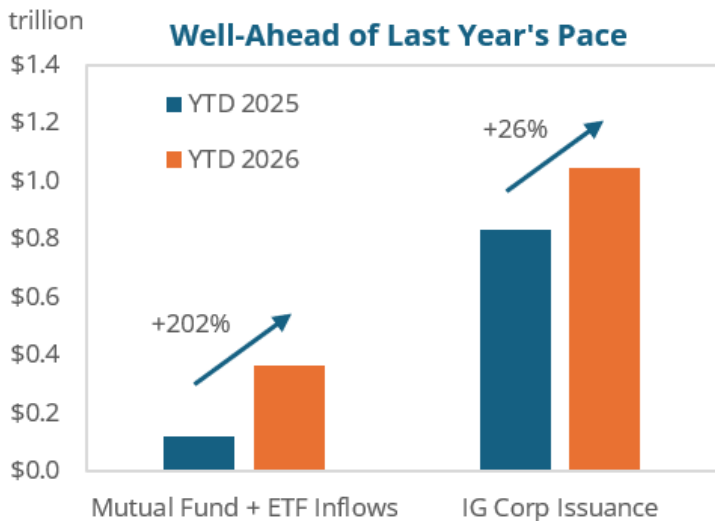
Heavy Supply vs. Investor Demand

MATCH RECAP

Income-oriented buyers provided an important backstop for markets.



Lower yields and/or heavier supply could test how dependent spreads are on technical demand.



- Elevated yields have attracted demand across investor bases. Retail inflows were solid, while annuity sales accelerated.
- That demand helped absorb a steady increase in issuance driven by fiscal needs, tight spreads, and the ongoing AI investment cycle.
- Market stability, however, appeared increasingly tied to current yield levels. Demand looks more yield-dependent than conviction-driven.
- **The Result:** Technical support remains strong, but conditional. If yields fall or supply continues to rise, spreads may become more vulnerable.

Higher- vs. Lower-End Consumer

MATCH RECAP

Consumer spending supported growth despite uneven underlying conditions.



Narrow consumption may leave the economy more exposed to shocks, such as equity market weakness.

- The consumer remained steady despite inflation pressures, higher borrowing costs, and rising energy prices.
- Higher-income households benefited from asset appreciation, stable employment, and stronger balance sheets, sustaining much of the discretionary spending environment.
- Lower-income households faced mounting pressure from high borrowing costs and reduced savings flexibility.
- **The Result:** Consumer strength remained intact, but increasingly concentrated. That supports growth today while creating greater vulnerability beneath the surface.



Source: Bloomberg as of 6/9/26. Inflows measured based on the ICI long-term mutual fund and exchange-traded fund flows. Issuance based on US dollar-denominated investment-grade corporate supply. The views contained in this report are those of Income Research + Management ("IR+M") and are based on information obtained by IR+M from sources that are believed to be reliable but IR+M makes no guarantee as to the accuracy or completeness of the underlying third-party data used to form IR+M's views and opinions.

The story of this cycle is still being written. While much of the market's attention has centered on a handful of well-known themes, some of the most important first-half developments came from places investors least expected. As attention shifts toward the knockout rounds, the question is no longer whether the original favorites can deliver decisive victories. It is whether these challengers continue climbing the table and reshape the remainder of the tournament.

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