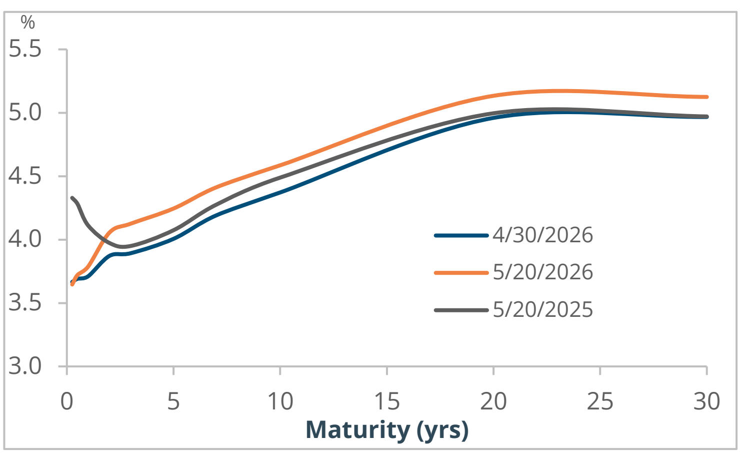
IR+M Weekly Fixed Income Market Update:
May 15 – May 21, 2026

Word on the IR+M Desk

Markets are confronting a growing risk that inflation and interest rates remain structurally higher for longer. Long-dated Treasury yields moved sharply higher this week, with the 30-year surpassing 5% for the first time since 2007, while sovereign yields in the UK and Japan also advanced. Upside surprises in producer and import prices reinforced persistent inflation pressures, contributing to the rise in both real and nominal yields. Investors increasingly interpret this move as the convergence of inflation pressures, elevated fiscal deficits, resilient growth, geopolitical energy risks, and the capital intensity of the AI buildout, pointing to higher term premia. Amidst the rise in yields, the spreads for several issuers reached year-to-date tights, and we took the opportunity to monetize that outperformance.

- Markets experienced heightened volatility amid a global government bond sell-off, pushing Treasury yields higher and reflecting growing uncertainty around inflation and the path of monetary policy
- April's FOMC meeting minutes reinforced a more hawkish tone, as many Federal Reserve (Fed) officials signaled comfort with keeping rates elevated for longer amid persistent inflation concerns
  - Several policymakers supported removing language suggesting an easing bias, highlighted by the three dissents at the April meeting
- Labor market conditions remained stable, with the four-week average of initial jobless claims falling to 203k, the lowest since 2024, although tighter fraud controls and concentrated layoffs in select industries may have distorted claims data
- Treasury yields rose across the curve, led by the long end, as investors repriced Fed expectations; the 10-year rate initially rose to 4.67% before ending the week at 4.59%, 12bps higher week-over-week
  - Markets are pricing in a full rate hike by 2027, and a 50% probability of a hike as early as October 2026
- Investment-grade (IG) issuance remained active ahead of the Memorial Day weekend, with 25 issuers bringing more than $32 billion of supply, though volume fell short of dealer forecasts of $40 billion
  - High-yield (HY) issuance moderated to roughly $2 billion this week, after borrowers issued more than $21 billion of supply during the first two weeks of the month
- Attractive all-in yield levels supported IG corporate spreads, which tightened 1bp to 74bps; HY corporate spreads were more sensitive to the broader volatility, widening modestly by 1bp to 268bps
- Agency mortgage-backed securities (MBS) underperformed other securitized sectors amid convexity hedging after the large rate selloff; MBS spreads initially widened to 29bps before settling at 25bps, 4bps wider week-over-week
- Municipals underperformed Treasuries as muni/Treasury ratios rose across the curve; demand for municipals remained robust, as municipal bond funds reported $1.9 billion of net inflows last week

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
5/20/26	4.06	4.25	4.59	5.13	5.13
MTD Change	0.18	0.24	0.21	0.17	0.16

Month-to-Date Excess Returns