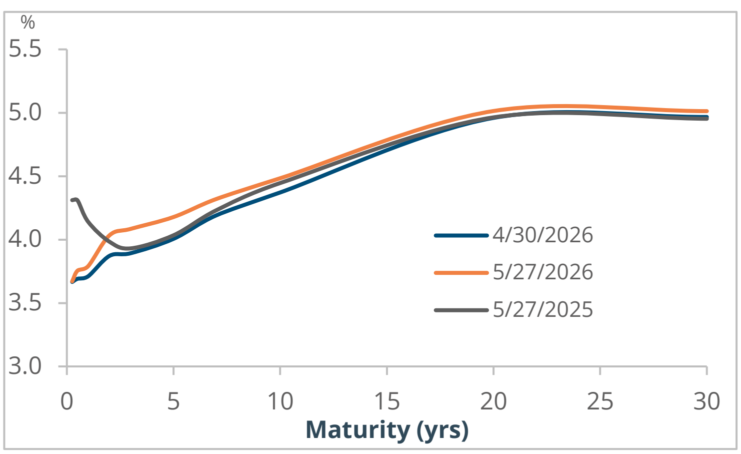
IR+M Weekly Fixed Income Market Update:
May 22 – May 28, 2026

Word on the IR+M Desk

Our latest ***Charted Territory*** highlighted the current stretch of historically tight spreads, with spreads remaining below 125bps for one of the longest periods on record. Predicting what ultimately causes spreads to widen is difficult, and the catalyst is often unexpected. The challenge for investors is that when spreads are this tight, the incremental carry gained from adding risk can reverse quickly once volatility returns. For example, BBB-rated corporates outperformed A-rated corporates by over 120bps from 2003 through 2007 but ultimately underperformed by more than 200bps when the 2008 widening cycle is included. With valuations offering less margin for error, we have built high-quality yield advantages relative to benchmarks driven by sectors offering favorable asymmetric risk profiles.

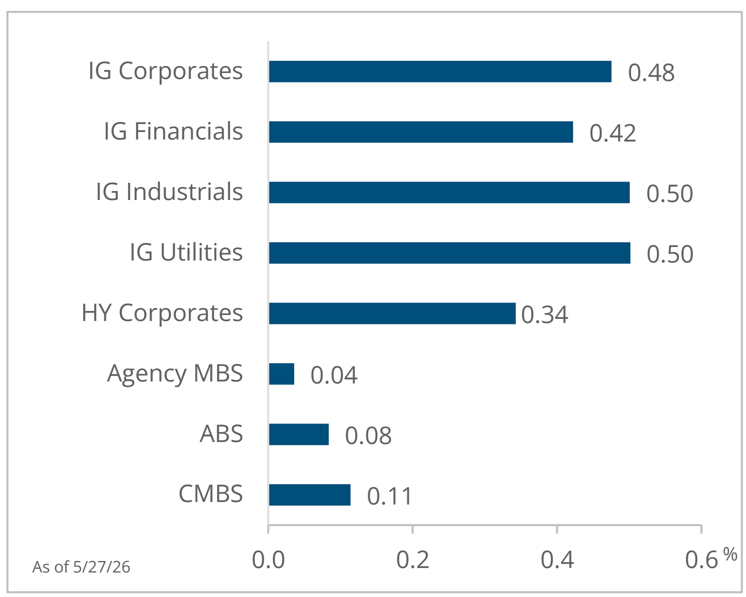
- Progress in US-Iran negotiations to extend the ceasefire by 60 days and reopen the Strait of Hormuz drove a risk-on tone to start the holiday-shortened week, although the agreement still awaits final approval from President Trump
- April PCE rose 0.4%, below forecasts of 0.5%, while personal income remained flat month-over-month, highlighting growing pressure on consumers as uneven hiring and rising living costs tied to the Middle East conflict offset household earnings
    - Consumers grew more cautious in May as sentiment fell to a record low and below projections, while long-term inflation expectations increased from 3.4% to 3.9%.
- The Treasury curve flattened as long-end yields fell due to improving prospects surrounding US-Iran peace talks; the spread between the 2- and 10-year Treasury rates tightened 8bps to 45bps
    - Investors scaled back expectations for future Fed tightening and now price in a 65% probability of a rate hike by 2027
- Investment-grade (IG) supply totaled $41 billion, above dealer forecasts of $30 billion, led by Wednesday's heavy issuance across twelve companies; demand remained robust, as Wednesday's deals averaged 3.7x oversubscribed
    - Attractive all-in yield levels supported high-yield (HY) corporate issuance, as supply surpassed $4 billion
- IG corporate spreads tightened modestly by 1bp to 73bps during the week, while high-yield spreads tightened 7bps to 261bps as improving geopolitical sentiment supported risk assets
- Falling interest rate volatility helped agency mortgage-backed securities (MBS) outperform other securitized sectors, with MBS spreads tightening 2bps to 23bps
    - Higher mortgage rates and uncertainty tied to the Iran conflict continued to pressure affordability, pushing new home sales down 6.2% in April to an annualized pace of 622k, below expectations of 660k
- Municipals outperformed Treasuries as muni/Treasury ratios declined across the curve; the 2-year muni/Treasury ratio fell from 63.9% to 61.3%, while 10-year ratio declined from 68.2% to 67.2%

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
5/27/26	4.03	4.18	4.48	5.01	5.01
MTD Change	0.16	0.17	0.11	0.05	0.05

Month-to-Date Excess Returns



Sources: Bloomberg and Bloomberg Index Services Limited. All commentary and data as of 5/28/26 unless otherwise noted. BBB and A-rated corporate relative returns based on excess returns of intermediate-duration Bloomberg indices. 2003-2007 period only includes the stretch of sub-125bps spreads. Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries. The views contained in this report are those of 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. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research + Management.