

Market and Economic Update

June 2026

Growth remains intact at the headline level. AI infrastructure investment and front-loaded consumer demand ahead of tariffs have provided support, along with tax rebates. The underlying picture is deteriorating, however. Real income growth is slowing, energy costs continue to erode household purchasing power, and the excess savings accumulated after 2022 have largely been depleted. Bankruptcy filings confirm the stress: Chapter 11 filings as of March 2026 are roughly double the pace of two years ago.

April retail sales rose 0.5% month-over-month and 4.9% year-over-year. While nominal growth appears solid, real retail sales are relatively weak after accounting for inflation. Furthermore, composition has rotated from discretionary toward essentials, including gasoline. Even nondiscretionary spending intent has eased for three consecutive months from its January peak.

May payrolls came in at +172k, more than double the consensus of 85k. The unemployment rate held at 4.3%. Prior months were revised sharply higher, adding a combined 93k jobs. Leisure and hospitality led all sectors with 70k jobs, partially reflecting World Cup-driven hiring. The deeper picture is more cautious. The vacancy-to-unemployment ratio has dropped to 0.9, below 1.0 for the first time since the tightening cycle began. Long-term unemployment (27+ weeks) rose to 27.5% of total unemployed, up from 20.4% a year ago. The critical data point for the consumer: posted wage growth has slowed to 2.3% while inflation reaccelerated to 3.8% in April, reflecting that real income is being eroded.

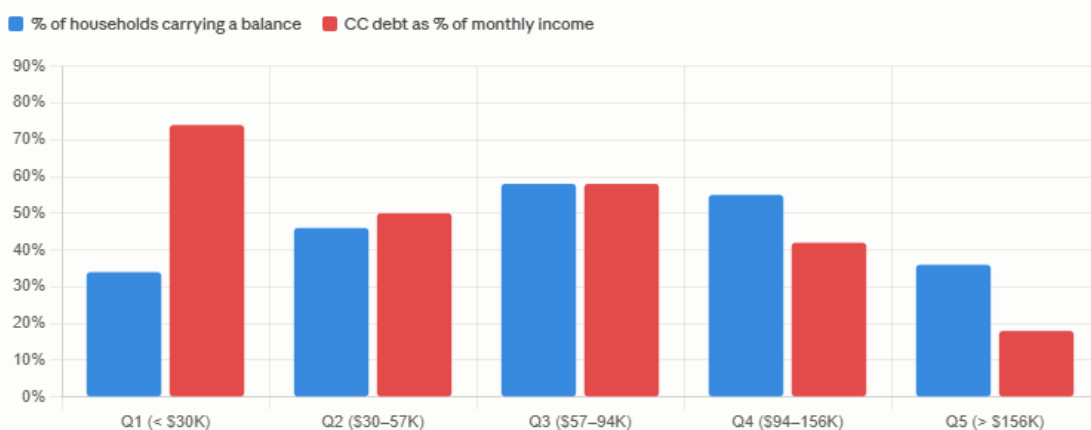
Brent crude has declined nearly 20% from its 2026 peak, settling below \$100 per barrel amid optimism surrounding a ceasefire agreement reached following President Trump's early April deadline ultimatum. While the decline provides some near-term relief, the agreement remains fragile, with several provisions already contested and shipping insurers requiring sustained evidence of reduced geopolitical risk before normal tanker traffic resumes. Elevated energy prices remain a key concern, as higher fuel costs act as a de facto tax on households, eroding disposable income, weighing on consumer spending, and increasing the risk of broader demand destruction.

Inflation expectations have pulled back from recent peaks, which is modestly constructive, but realized data has not cooperated. CPI reaccelerated to 3.8% in April, well above the Fed's 2% target, and the FOMC will not declare victory until core PCE runs consistently at target-consistent levels. Wage growth trailing inflation remains the one meaningful mitigating factor against second-round effects.

Markets entered May pricing in a small chance of a cut before year end, but have since shifted to a 25 bps increase by year-end, partly on the strength of the payroll report. We think the bar for hiking remains high. A hike would require longer-term inflation expectations to become unanchored, core inflation to run persistently above a target-consistent pace, and clear evidence that demand is outpacing supply, with consumer spending reaccelerating, unemployment breaking below NAIRU, and wage growth turning back up. Absent a convergence of those three conditions, we are not in a position to align with market pricing the next move being a hike.

Credit card debt — prevalence and burden by quintile

Source: St. Louis Fed / 2022 SCF; NY Fed 2024



Market Update

Product Views

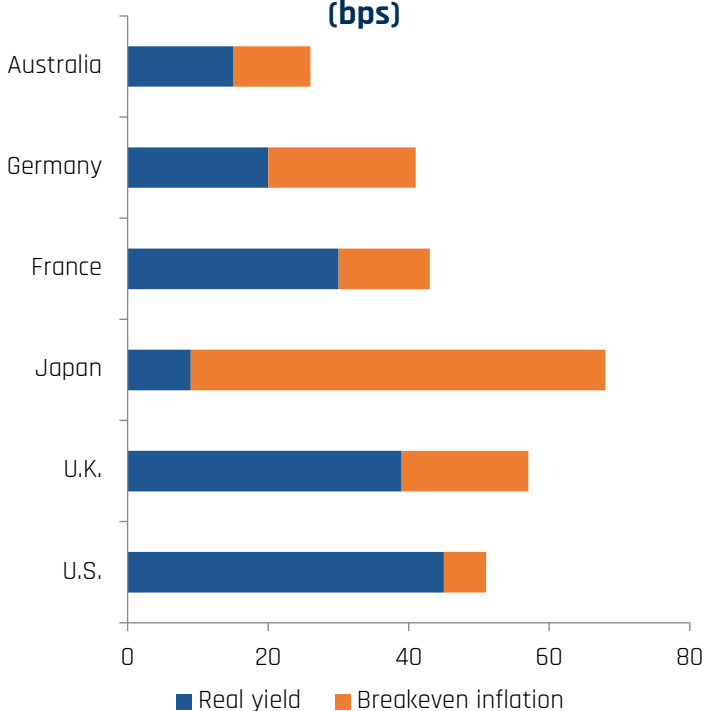
Rates: The May payroll print drove yields sharply higher, with the 2-year crossing 4.15%, its highest level since February 2025. A key dynamic in rates is the real yield story. The decomposition of nominal yield moves since the start of the Iran conflict shows that for the US, real yields are doing the heavy lifting. Of the 51bps of nominal yield movement, 45bps is attributable to real rates and only 6bps to breakeven inflation (BEI). That is distinct from the UK (where BEI accounts for 18bps) and Japan (59bps). It tells you that markets are pricing in a genuine growth/policy tightening premium in the US, not just a tariff-driven inflation fear. Given our view that the bar for Fed hikes is high, we are constructive on the front end of the yield curve (2 & 3yr).

Credit: Credit is back to outperforming securitized assets on a YTD excess return basis. Strong supply-demand dynamics, better than expected economic data, and tariff relief (from the IEEPA ruling) have all contributed to spread resilience. Record IG deal issuance, particularly from AI and data center hyperscalers, has been absorbed with deals oversubscribed five times on average.

HY OAS are down to 265bps, also historically tight. Rising Chapter 11 bankruptcy filings are worth watching, as they are hitting cycle highs. As the consumer weakens and real wages stay the weakest credits will face meaningful fundamental headwinds.

Securitized: CMBS delinquency trends appear to be stabilizing, supporting the sector's fundamentals. However, spreads remain compressed and new issue pricing offers limited compensation for downside risk, leaving little margin of safety if economic conditions or property fundamentals weaken. Data center ABS trades cheap relative to comparably rated corporate IG, representing an opportunity for investors willing to do the underlying due diligence on the collateral. Within consumer ABS, seasonal tailwinds are supporting performance. Tax refund season provides a cyclical boost to consumer ABS collateral performance, reducing early-period delinquencies and improving voluntary prepayments in auto and card ABS. Lastly, within Agency MBS, housing activity remains suppressed, limiting gross MBS supply to the market, which should be supportive of spreads. Prepayment payups have declined materially, which improves the relative attractiveness of prepay protected collateral.

10-Yr yield change since Iran conflict (bps)



Excess return YTD by sector (%)

