July 2026

US PENSIONWATCH

A review of Q2 2026 and investment outlook

Higher energy prices reignited inflation concerns in Q2 with markets repricing to anticipate Fed hikes. With the conflict in the Middle East de-escalating, we expect the Fed to remain on hold through 2027. In our view, with supply-side inflation pressures easing, current market pricing looks too hawkish. Should the Fed tighten, we would expect it to be short-lived and quickly reversed as inflation concerns subside. As markets adjust to this point of view, we'd expect yield curves to steepen once again.

In this quarterly, we provide the latest update to our pension indices and highlight key changes at the Federal Reserve. In credit markets we outline the case for emerging market corporates in a world of tight credit spreads, while the continued growth of technology related issuance offers both potential value and risk if issuance continues to run at elevated levels. Our educational feature is on digital assets and how they could potentially change the underlying plumbing of the global financial system.

- **A new regime at the Fed:** The Fed entered a new era under Kevin Warsh, removing forward guidance, reviewing key policy frameworks and adopting a more hawkish stance that preserves flexibility on future rate decisions.
- **A strong quarter for funded status:** Tighter credit spreads more than countered an increase in rates, causing discount rates to decline, but a strong return for growth assets helped both our pension indices outperform their liabilities.
- **Credit update:** As investors search for value beyond increasingly expensive developed markets, emerging market corporates stand out as a potential option for diversification. The case for emerging market corporates rests on three pillars: stronger balance sheets than many developed market peers; favorable supply-demand dynamics; and increasing participation in AI-driven global supply chains spanning technology, energy and critical minerals.
- **Investment outlook:** Geopolitical tensions have reinforced the importance of resilience in a world increasingly exposed to energy bottlenecks and supply-chain disruption, while AI-driven investment is creating a powerful new credit cycle that offers potentially attractive opportunities alongside elevated issuance risk.
- **Key risks:** While our base case remains constructive, policy uncertainty, weaker-than-expected growth and geopolitical shocks remain the key risks that could challenge credit markets and broader risk assets.
- **Educational update:** Digital assets are evolving from a niche innovation into a practical institutional tool, enabling faster settlement, greater programmability and more efficient capital deployment across investment portfolios.

A NEW REGIME AT THE FED

At the June meeting of the Federal Open Market Committee (FOMC) all eyes were on Kevin Warsh's debut as Fed chair. The FOMC voted unanimously to keep the Fed Funds Rate unchanged at 3.5% to 3.75%, as expected.

In the press conference that followed the meeting[1], Chair Warsh indicated the Federal Reserve will simplify its communications, focusing on facts, and no longer provide forward guidance.

Warsh also announced the creation of task forces to reassess how the Fed operates, evaluate alternative approaches and provide recommendations to policymakers. These will cover five key areas:

1. Fed communication,
2. balance sheet policy,
3. the use and reliance on existing data sources,
4. productivity and jobs in an era of transformation, and
5. the Fed's inflation framework.

Warsh refrained from publishing his own dot-plot, but the median projections of the other FOMC members pointed to real GDP growth of 2.2% in 2026 and 2.3% in 2027, with PCE inflation at 3.6% and 2.3% respectively. The Fed funds rate was expected to stand at 3.8% at end-2026 and 3.6% at end-2027, marking a shift from the full rate cut the committee had projected in March (Figure 1).

A SHIFT TO A HAWKISH TILT

The removal of references to potential future rate cuts and elimination of forward guidance was seen by many as a hawkish pivot, allowing the Fed to keep optionality on future tightening.

It was also noted that inflation remained "elevated relative to the Committee's 2% goal, in part reflecting supply shocks that have driven price increases in certain sectors, including energy." Job gains were seen as having "kept pace with the workforce" instead of them having "remained low."

Markets reached by shifting from pricing in around three 25bp rate cuts before the conflict to around one and a half rate hikes at the start of July.

Figure 1: Markets have gone from pricing rate cuts to rate hikes since the Iran war started[2]

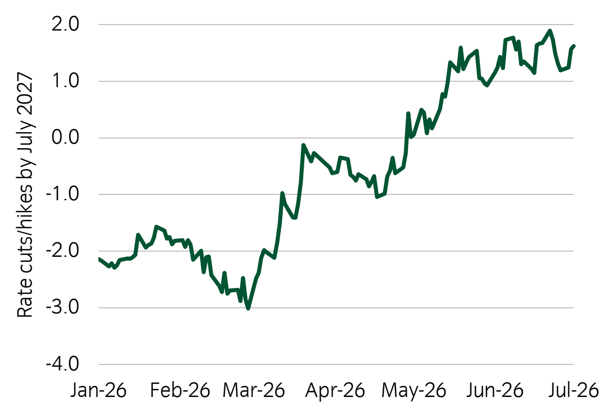
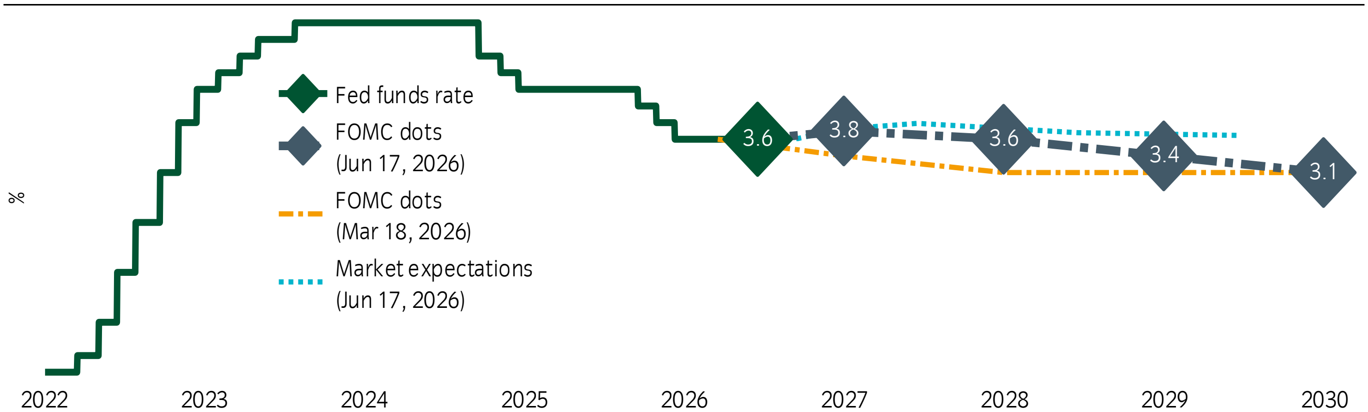


Figure 2: The FOMC moved to project no rate moves in 2026[3]



[1] Source: Transcript of Fed press conference, June 17, 2026.
[2] Source: Insight and Bloomberg. Data as of July 1, 2026.
[3] Source: Federal Reserve, Bloomberg, June 2026.

PENSION INDEX

Insight maintains two model pension indices. The Traditional Pension Index aims to reflect those plans that have not yet adopted LDI. The LDI Pension Index aims to reflect those plans that have adopted LDI in the fixed income portion of their portfolio.

The Traditional Index has a 50% allocation to growth assets and a 50% allocation to bonds. The LDI Index has a 10% allocation to growth assets and a 90% allocation to bonds.

Q2 funded status impact: Rates increased by 6bp over the quarter and spreads decreased by 9bp, resulting in a 3bp decrease in discount rates. Global equities generated a 14.9% return. Both of our pension indices outperformed the liability over the quarter. The Traditional Index, which contains aggregate fixed income, experienced a 7.82% return, while the LDI Index, which seeks to hedge 100% of interest rate and credit spread risk, experienced a 3.20% return. Performance was driven by positive growth asset returns. Both the Traditional and LDI indices have also outperformed the liability YTD, but funded status under the LDI strategy has experienced less volatility.

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Figure 3: Q2 2026 returns[4]

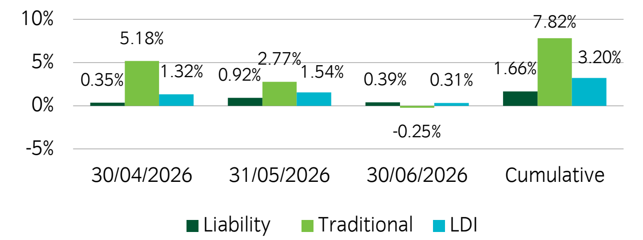


Figure 4: Trailing 12-month chain-linked excess returns[4]

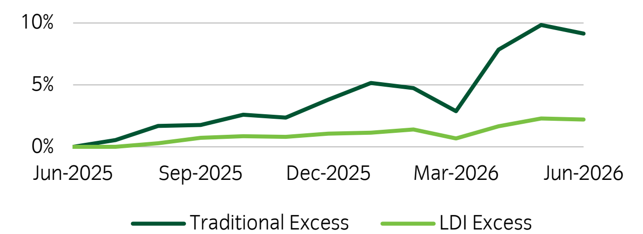
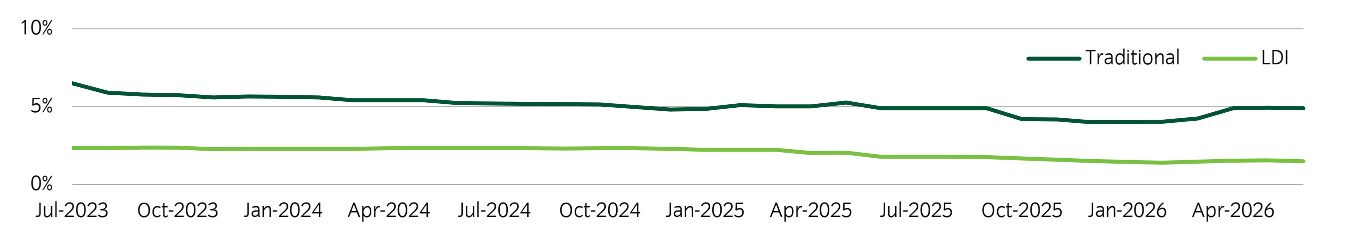


Table 1: Long-term statistics (annualized)[4]

	Return	Volatility	Surplus return	Surplus vol (TE)	Surplus Var95	Max drawdown
Liability	5.50%	8.20%				
Traditional	6.23%	8.33%	0.73%	8.63%	-17.58%	-52.8%
LDI	5.67%	8.81%	0.17%	2.54%	-6.11%	-16.9%

Figure 5: 3-year rolling tracking error[4]



[4] Source: Insight MSCI BarrOne, Bloomberg. Data as of June 30, 2026. Please see page 4 for a description on how performance returns are calculated. The traditional and LDI proprietary indices reflect an assumed 0.40% annualized excess return that is modeled to offset asset management fees and transaction costs. Note: Beginning in 2026, we introduced two indices to provide insight into the impact of rate and market movements on different types of pension plan investors. Traditional Pension Index: The index reflecting those pensions that have not yet adopted LDI. LDI Pension Index: The index reflecting those who have adopted LDI in the fixed income portion of their portfolio. Assumptions behind the Insight indices include an illustrative static defined benefit cashflow profile calibrated to a 10-year duration as of June 30, 2025 and no external cashflows. WHERE MODEL OR SIMULATED RESULTS ARE PRESENTED, THEY HAVE MANY INHERENT LIMITATIONS. CLIENTS' ACTUAL RESULTS MAY BE MATERIALLY DIFFERENT THAN THE RESULTS PRESENTED. UNLIKE AN ACTUAL PERFORMANCE RECORD, MODEL RESULTS DO NOT REPRESENT ACTUAL TRADING AND MAY NOT REFLECT THE IMPACT THAT MATERIAL ECONOMIC AND MARKET FACTORS MIGHT HAVE HAD ON INSIGHT'S DECISION MAKING IF ACTUAL CLIENT FUNDS WERE BEING MANAGED. ALSO, SINCE SUCH TRADES HAVE NOT BEEN EXECUTED, THE RESULTS MAY HAVE UNDER OR OVERCOMPENSATED FOR THE IMPACT, IN ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. MODEL RESULTS ARE ACHIEVED THROUGH THE RETROACTIVE APPLICATION OF A MODEL. MODEL RESULTS SHOWN DO NOT REFLECT MANAGEMENT FEES, TRANSACTION COSTS AND OTHER EXPENSES THAT WOULD REDUCE RETURNS. THIS IS A HYPOTHETICAL MODEL. THE QUOTED BENCHMARKS DO NOT REFLECT DEDUCTIONS FOR FEES, EXPENSES OR TAXES. THE BENCHMARKS ARE UNMANAGED AND DO NOT REFLECT ACTUAL TRADING. THERE COULD BE MATERIAL FACTORS RELEVANT TO ANY SUCH COMPARISON SUCH AS DIFFERENCES IN THE VOLATILITY, AND REGULATORY AND LEGAL RESTRICTIONS BETWEEN THE INDEXES SHOWN AND THE STRATEGY. INVESTORS CANNOT INVEST DIRECTLY IN ANY INDEX.

ECONOMICS AND MARKETS

KEY MARKET MOVEMENTS: Q2 2026

It was a volatile quarter for asset markets as the Middle East conflict disrupted global energy supplies, causing oil prices to spike higher. Sentiment improved by quarter-end as geopolitical tensions eased and robust economic and corporate fundamentals supported strong gains in risk assets.

The Treasury yield curve flattened over the quarter as short-dated yields rose sharply on expectations of Fed tightening. While long-end yields retreated from their highs, 30-year Treasury yields still finished the quarter higher than they started.

Given the more muted move at the long end, the Bloomberg Long Treasury Index outperformed the Intermediate Index. The level of income generated was sufficient to generate a positive return for the index in aggregate.

Credit markets outperformed Treasuries as spread tightening boosted returns across both investment grade and high yield bonds.

Strong corporate earnings drove a strong quarter for equity markets. The S&P 500 Index rallied by 15.2%, taking the year-to-date return into positive territory.

The relative outperformance of US growth and speculation around Fed tightening underpinned the US dollar, with the dollar index rising by 1.2%.

Table 2: Q2 2026 fixed income/equity index total returns and volatility index levels[5]

	Q2 2026 total return	YTD 2026 total return (%)	Q2 2026 excess return (%)	YTD 2026 excess return (%)
Bloomberg US Treasury Index	0.32%	0.28%	-	-
Bloomberg US Intermediate Treasury Index	0.18%	0.23%	-	-
Bloomberg US Long Treasury Index	0.85%	0.44%	-	-
Bloomberg US IG Corporate Index	1.40%	0.86%	1.17%	0.67%
Bloomberg US Intermediate IG Corporate Index	0.98%	0.75%	0.88%	0.66%
Bloomberg US Long IG Corporate Index	2.31%	1.08%	1.81%	0.72%
ICE BofA US High Yield Index (H0A0)	2.45%	1.89%	2.13%	1.61%
S&P 500 Index	15.20%	10.21%	-	-
MSCI Emerging Markets Equity Index	24.05%	23.85%	-	-
Dollar Index	1.23%	2.91%	-	-
VIX	16	15	-	-
MOVE	72	64	-	-

ECONOMICS

Consensus growth expectations for 2026 were revised lower over the quarter, with the eurozone seeing the most significant downgrade. Both the eurozone and Japan are now expected to grow by 0.6% in 2026, reflecting a 0.5% downward revision for the euro area and a 0.2% cut for Japan. US growth has also been downgraded, albeit more modestly, with forecasts reduced by 0.2% to 2.1%, leaving forecasts meaningfully stronger than other developed markets.

Looking ahead to 2027, the growth outlook remained broadly stable for the US, with activity expected to hold at 2.1%. In contrast, growth in both the euro area and Japan is still expected to pick up, but expectations for the pace of acceleration moderated compared with the start of the quarter.

Inflation pressures are expected to increase and remain elevated given higher energy prices, with global inflation expected to peak at 4.3% in 2026 before easing to 3.7% in 2027. Forecasts were significantly raised over the quarter.

In the US inflation is expected to reach 3.4% in 2026, well above the Fed's target, but forecasts for the eurozone experienced the largest change. The consensus 2026 forecast was revised up by 0.7% to 2.9%, while the consensus 2027 forecast was revised up by 0.2% to 2.2%.

[5] Source: Bloomberg. Data as of June 30, 2026. Excess return is relative to US Treasuries (duration adjusted for IG indices). VIX and MOVE are actual value at month end.

Table 3: Consensus GDP and CPI expectations[6]

	Real GDP (%)			Change over Q2 (percentage points)		Inflation (CPI) (%)			Change over Q2 (percentage points)	
	2025	2026F	2027F	2026F	2027F	2025	2026F	2027F	2026F	2027F
United States	2.2	2.1	2.1	-0.2	0.1	2.7	3.4	2.5	0.4	0.0
Eurozone	1.5	0.6	1.2	-0.5	-0.2	2.1	2.9	2.2	0.7	0.2
Japan	1.1	0.6	0.8	-0.2	-0.1	3.2	2.0	2.1	0.0	0.1
China	5.0	4.6	4.4	0.0	0.0	0.0	1.2	1.1	0.3	0.1
Developed markets	1.9	1.6	1.8	-0.2	0.0	3.4	3.6	2.8	0.5	0.2
Emerging markets	4.5	4.1	4.2	-0.3	0.1	2.5	3.5	3.1	0.6	0.3
Global	**3.2**	**2.9**	**3.1**	**-0.1**	**0.0**	**3.4**	**4.3**	**3.7**	**0.7**	**0.4**

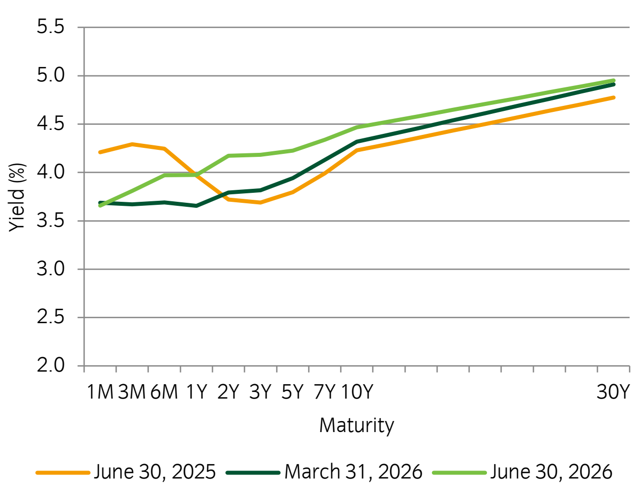
TREASURY MARKETS

The yield curve flattened and shifted upward

Yields were volatile over the quarter. In the first two months, yields spiked upwards as the flow of oil through the Strait of Hormuz ground to a halt, bringing inflation concerns into focus. Markets then calmed as the conflict de-escalated and oil prices declined.

The yield curve flattened and shifted higher as short-term yields rose on Fed tightening risks and inflation concerns pushed rates up across longer maturities, although yields finished the quarter well below their highs. By quarter-end, two-year yields had risen 38bp to 4.17%, and 30-year yields were 4bp higher at 4.95%.

Figure 6: Treasury yield curve change[7]



Net borrowing to remain elevated for years to come

At its May 2026 presentation, the US Treasury Borrowing Advisory Committee estimated that tax receipts for H1 of the 2026 financial year totaled $2,483 billion (+10% versus 2025). Total outlays were $3,651 billion (+2% versus 2025). On a year-on-year basis bills issuance significantly increased, along with issuance in the two-to-five-year maturity bracket.

The median forecast of Primary Dealers was for net privately held marketable borrowing of $2.04 trillion in FY2026, $2.1 trillion in FY2027 and $2.15 trillion in FY2028. This was a small upward revision from the last meeting. It was noted that uncertainty regarding future funding needs remains relatively high.

Table 4: US Treasury net marketable borrowing[8]

Market ($bn)	2024 FY	2025 FY	2026 H1	Yr/Yr change
Bills	744	392	423	571
Floating rate	40	75	14	-55
2-5yr Treasury	-38	409	251	274
5-10yr Treasury	685	783	313	-117
10yr+ Treasury	472	468	235	1
5-10yr TIPS	42	19	15	18
10yr+ TIPS	17	-29	-24	13
Buybacks	-42	-185	-110	-72
Total	**1,921**	**1,931**	**1,117**	**631**

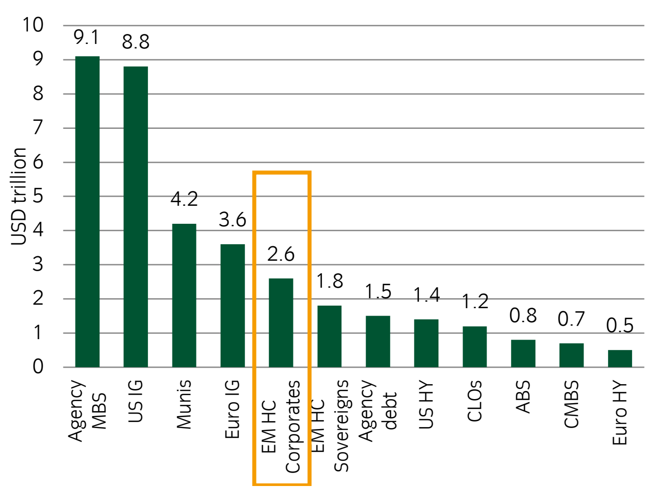
[6] Source: Insight and Bloomberg. Data as of June 30, 2026. F=Forecast. * Bloomberg consensus forecast.
[7] Source: Bloomberg as of June 30, 2026.
[8] Source: Insight and US Treasury. Data as of May 31, 2026. Yr/Yr change is May 31, 2026 versus May 31, 2025.

THE CASE FOR EMERGING MARKET CORPORATE BONDS

The Middle East conflict briefly put the positive story for emerging market corporates on hold. But with a resolution increasingly likely and growth proving more resilient than feared, investors are refocusing on the strong fundamentals of the asset class. In a world of tight spreads, we believe US dollar-denominated emerging market corporates are a potentially attractive option in the hunt for value.

Emerging market corporates now represent a broad and diverse universe, totalling about $2.6 trillion (Figure 7), substantially larger than both emerging market hard currency sovereigns ($1.8 trillion) and US high yield ($1.4 trillion), and comparable to the euro investment grade market ($3.6 trillion). Exposure spans across around 70 countries and a mix of sectors, similar to those in developed markets.

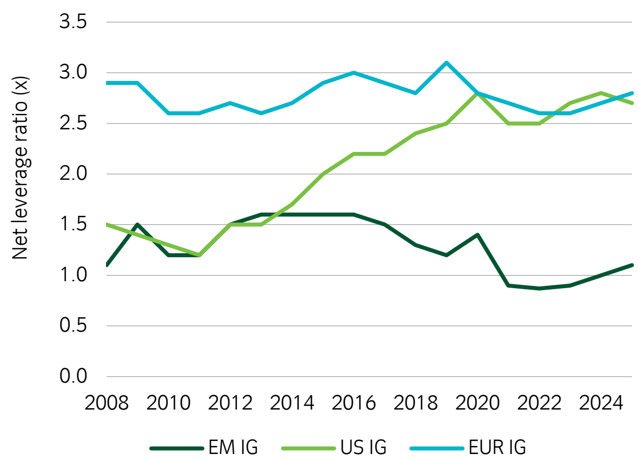
Figure 7: Global fixed income asset classes[9]



Importantly, the investor base is now predominantly domestic, a feature that has typically been associated with greater stability.

Emerging market corporate balance sheets remain healthier than many developed market peers. As Figure 8 shows, in 2024, emerging market investment grade leverage was less than half that of US and euro investment grade corporates. Technical factors are also broadly supportive. We expect net issuance to remain negative for a fifth consecutive year in 2026, as amortizations, coupons and buybacks exceed new supply.

Figure 8: Investment grade leverage[10]



A surprise winner from the AI build-out

When investors think of AI, attention tends to focus on the big US technology firms. But these companies rely on a complex network of chip makers, advanced packaging specialists and hardware manufacturers, much of which is anchored in Asia. Consequently, the US tech titans stand to benefit from AI, but so do the hardware manufacturers in countries such as South Korea and Taiwan.

Supply chains extend further still. Hardware production depends on industrial metals and mined minerals like copper, lithium and rare earths, much of which is exported from other emerging nations. Chile alone supplies over a quarter of the world's copper output, and the demand from AI-related data centers is rising sharply.

As AI investment scales up, emerging markets that produce energy and critical minerals gain pricing power and greater visibility on volumes. These feed into stronger export receipts and better terms of trade. Asian hardware hubs are sourcing commodities from Latin America, Africa and other parts of Asia, supporting trade between emerging markets while reducing reliance on single trade routes.

Rather than being concentrated within a small group of US tech companies, AI increasingly resembles a global network of hardware, software, and infrastructure, contributing to higher prices for commodities and positively affecting emerging markets at both macro and micro levels.

[9] Source: JP Morgan as at December 2025.

[10] Source: JP Morgan as at February 2026. Note: excluding 100% quasi-sovereigns, financials, real estate and defaulted companies. 2022 additionally excludes Russian companies. JP Morgan create their own indices to monitor the size of financial instruments based on internal data.

CORPORATE PROFITS REBOUNDED

Factset[11] data shows analysts expect S&P 500 Q2 2026 earnings to grow 23.1% year-on-year, up from 18.8% at the start of the quarter, with revenue growth revised to 12.3% from 9.5%. After these upgrades, expectations for 2026 as a whole are for profits to grow by 24% on revenue growth of 11.2%. For 2027, profits are expected to grow by 16.8% on revenue growth of 7.7%.

CREDIT MARKET PERFORMANCE

Credit spreads tightened over the quarter despite elevated levels of issuance across credit markets. Aggregate US corporate spreads ended the quarter 15bp tighter. The intermediate component of the credit curve outperformed the long component, with spreads contracting by 16bps and 11bp respectively. BBB credit outperformed other rating categories on a spread basis in long maturities.

Table 5: Average spread (bp) of corporate bonds[12]

Bloomberg Index	Jun 30, 2025	Mar 31, 2026	Jun 30, 2026	Change QTD	Corporate weight (%)
Corporate	83	89	74	-15	100.0%
Intermediate	75	81	65	-16	68.1%
Long	100	105	94	-11	31.9%
- AAA	45	51	50	-2	
- AA	66	78	78	0	
- A	82	87	78	-9	
- BBB	123	131	116	-15	

ISSUANCE BREAKDOWN

Investment grade credit: gross issuance was 18% higher year-on year in the 12 months to end June, with issuance in Q2 42% higher than in Q2 2025. Net issuance was significantly higher, demonstrating the level of new borrowing being undertaken, driven by tech names.

High yield: gross issuance was 36% higher year-on-year, and 28% higher in Q2 relative to Q2 2025. Net issuance was again significantly higher.

Table 6: Gross new US bond issuance

Market	2024 total	2025 total	H1 2026	y/y change (%)
US investment grade	1,758	1,819	1,326	+18%
US high yield	281	330	175	+36%

In high yield, $18.5bn of issuance was upgraded to investment grade (rising stars) in Q1, taking the H1 figure to $45.3bn, well above the $33.8bn seen in the whole of 2025. Issuance totaling $14.7bn was downgraded from investment grade to high yield (fallen angels), taking the H1 figure to $30.1bn. Defaults in H1 totaled $11.1bn.

Table 7: High yield issuance breakdown in $bn

Market	2025 ($bn)	H1 2026 ($bn)
Downgraded to high yield	45.1	30.1
Called/falling below 12mths	156.6	90.2
Upgraded to investment grade	33.8	45.3
Defaults	15.7	11.1

[11] Source: FactSet Earnings Insight, June 26, 2026

[12] Source: Barclays research. Data as of June 30, 2026.

BALANCING GEOPOLITICAL RISK AND DOMESTIC STRENGTH

The world may not run short of oil, but it could run short of resilience

Inflation fears re-emerged during the quarter as conflict in the Middle East drove oil prices higher. Although a ceasefire and initial peace agreement helped reverse much of the spike, lasting damage to regional energy infrastructure and the prospect of future transit charges through the Strait of Hormuz mean the inflationary implications may outlive the conflict itself.

The bigger issue, however, is not oil supply but energy-system resilience. Disruptions are creating bottlenecks that vary by country, fuel type and supply chain, highlighting the importance of refining capacity, logistics networks and trade relationships. In this environment, resilience matters as much as resource availability. For investors, understanding where these vulnerabilities exist may prove increasingly important as global supply chains become more exposed to geopolitical shocks.

The resurgence of energy-related inflation has inevitably brought central banks back into focus. The European Central Bank has already resumed tightening, but we are less convinced that the Federal Reserve will follow. The Fed's dual mandate requires it to balance price stability against employment, and the labor market is not sufficiently strong to justify hikes. Nominal wage growth has slowed, while several leading indicators point to weaker hiring conditions ahead. As a result, we believe the bar for further US rate hikes is materially higher than recent Fed messaging suggests.

The AI investment boom is dominating credit markets

The scale of investment required to support the next generation of computing infrastructure is unprecedented, spanning data centers, electricity generation, transmission networks, telecommunications infrastructure and semiconductor manufacturing.

The financing needs for this build-out are likely to drive a multi-year wave of issuance, and this is starting to dominate credit markets. Unlike earlier technology cycles, which often relied on funding future possibilities, today's borrowing is linked to assets that generate stable and recurring cashflows.

For investors, this could create an opportunity to access attractive yields backed by durable business models and long-term structural growth. However, the sheer scale of financing required means issuance is likely to remain elevated for years, potentially keeping pressure on spreads.

INVESTMENT OUTLOOKS

Investment grade credit

Spreads tightened sharply in the second quarter, supported by strong earnings momentum and hopes of conflict de-escalation. This move returned valuations close to the tightest levels since the global financial crisis. However, elevated all-in yields continued to draw investor demand despite heavy primary supply. This issuance has been led by hyperscaler tech companies, whose capex financing needs remain relentless. They are accessing global markets at pace across a range of different currencies. If this trend persists, then the tech sector's weight in major bond indices will rise materially, albeit from a low base. For now, we favor US dollar issuance, where the market depth provides greater resilience to near term saturation. That said, we are closely monitoring non-dollar markets for emerging relative value opportunities. Strong tech supply is exerting pressure on spreads within that sector, with AA-rated issuers now trading in line with A-rated credits in other sectors, reflecting ongoing supply overhang. Where mandates allow, we see an opportunity to add selectively at these levels. In this environment, dispersion is rising, reinforcing the importance of disciplined active management, careful security selection, and a focus on relative value.

High yield credit

Despite a volatile global backdrop, high yield markets have shown notable resilience, with steady income continuing to underpin returns. Encouragingly, many issuers remain disciplined, actively deleveraging and managing balance sheets in contrast to rising leverage at the sovereign level. However, the market is becoming increasingly differentiated, with rising levels of dispersion among issuers. AI is a key catalyst for this, driving new supply to fund the infrastructure build-out, while also disrupting existing business models, especially in the software sector. Although there are positive signs that the conflict in the Middle East may be on a deescalating path, the outlook remains uncertain. This leaves us with a bias towards US issuance given that the US has a stronger growth outlook and is more insulated from higher energy prices. Defaults remain low by historical standards, and we see little reason for a material deterioration given the improving quality of public high yield debt issuers and the continued migration of weaker credits toward private markets. We see promising opportunities to add exposure in telecommunications, healthcare, and other industries that are likely to be less affected should the conflict flare up once again.

Structured credit

Fears that the outbreak of war could weaken the US growth outlook proved short-lived, as economic data continued to point to resilience while falling energy prices helped ease inflation risks. In the US, the labor market showed signs of improvement, which should counterbalance higher gasoline prices. If the Strait of Hormuz fully reopens, energy prices should decline further, which would take pressure off the Fed to hike. In Europe, the European Central Bank has tightened policy, and while the growth outlook has weakened, we believe the region should avoid recession. Given this relatively benign outlook, demand has shown no signs of softening, with new issues typically well oversubscribed and secondary markets well bid. Issuers have increased supply to take advantage of these conditions, particularly in consumer-related sectors. Our focus remains on senior, well-protected parts of the capital structure, prioritizing transactions with robust underwriting, strong servicing and structural protections that preserve cashflows in downside scenarios. We believe this positioning should help insulate portfolios from ongoing macro, inflation and geopolitical uncertainty, while allowing us to pursue attractive income and relative-value opportunities through 2026.

Municipal bonds

We remain constructive on the municipal market as we expect new-issue supply to remain steady but manageable, supported by continued solid demand from retail investors via flows into mutual funds and ETFs. Municipal credit conditions remain strong. The disruption of traffic through the Strait of Hormuz pushed energy prices higher, raising operating costs for transit systems and utilities, and pressuring household budgets – effects that can soften broad based tax collections. The US-Iran deal has the potential to ease this risk, although markets will likely treat the successful resumption of traffic through the Strait of Hormuz as the acid test. Cybersecurity risk has also increased, with US public finance issuers facing elevated vulnerability to retaliatory attacks tied to the conflict. We continue to prioritize issuers with strong balance sheets, robust liquidity, and meaningful operating flexibility. We believe the municipal intermediate maturity segment (10 to 20 years), one of the steepest parts of the yield curve, remains attractive. We expect this portion of the yield curve to capture the largest roll-down benefit.

KEY MARKET RISKS

Forecasting is increasingly difficult

A heightened level of policy uncertainty is making forecasting increasingly challenging, with significant implications for both investors and the Fed. Chair Warsh’s decision to drop forward guidance could add to challenge and increase volatility at the short end of the yield curve.

Growth softens more meaningfully than expected

Our core scenario remains that the US economy should avoid recession, but there is a risk that growth could decelerate more sharply than expected. This could be driven by a global slowdown, with potentially negative consequences for credit markets.

An unpredictable geopolitical backdrop

Geopolitical tensions remain elevated around the world, creating an unpredictable backdrop where events can quickly escalate or de-escalate, creating significant market volatility. The conflict in the Middle East is an example of how quickly events can change, while the ongoing rivalry between the United States and China continues to dominate global affairs.

EDUCATIONAL

DIGITAL ASSETS: A NEW FRONTIER

Digital assets are moving beyond experiment and into institutional reality. Tokenized money market funds, digital cash, and on-chain representations of traditional assets are no longer theoretical – they are live, regulated, and beginning to influence how capital is allocated, settled and mobilized.

In this Q&A (click here to go to the paper)[13] with Katey Neate, Global Head of Investor Solutions at BNY, we explore:

- **What digital assets actually are:** From cryptocurrencies and stablecoins to tokenized deposits, CBDCs and tokenized real-world assets.
- **Why institutions are engaging now:** How tokenization can improve settlement speed, liquidity management, collateral efficiency and portfolio agility – without changing underlying investment economics.
- **Tokenization in practice:** Why money market funds and highly liquid instruments are the "foothills" of adoption, and how private markets are beginning to follow.
- **Programmability and portfolio design:** How smart contracts enable automated cashflows, conditional payments and more responsive portfolio management.
- **Risk, regulation and governance:** The additional risks introduced by operating on-chain – and why blockchain choice, custody, compliance and reputational considerations matter.
- **Hype versus reality:** Why a long-lasting hybrid world of on-chain and off-chain finance is the most realistic path forward.

Digital assets are not about replacing existing financial markets overnight. But by changing the plumbing – settlement, reconciliation, cash mobility and collateral use – they have the potential to materially alter risk management, liquidity dynamics and operational efficiency for institutional portfolios.

FIND OUT MORE

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[13] https://www.insightinvestment.com/corporate/global-perspectives/digital-assets-a-new-frontier/

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The Bloomberg US Corporate Investment Grade Index measures market performance of USD-denominated investment grade industrial corporate debt publicly issued in the US domestic market.

The Bloomberg US Long Corporate Bond Index measures market performance of USD-denominated investment grade corporate debt publicly issued in the US domestic market with a remaining term to maturity above 10-years.

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The ICE BofA AA US Corporate Index measures market performance of USD-denominated investment grade corporate debt publicly issued in the US domestic market with AA ratings.

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The ICE BofA BB US High Yield Index measures market performance of USD-denominated high yield corporate debt publicly issued in the US domestic market with BB ratings.

The ICE BofA B US High Yield Index measures market performance of USD-denominated high yield corporate debt publicly issued in the US domestic market with B ratings.

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