



Did you find this information helpful? Scan the QR code to subscribe to our Quarterly Bond Update email.

Bond Market Update

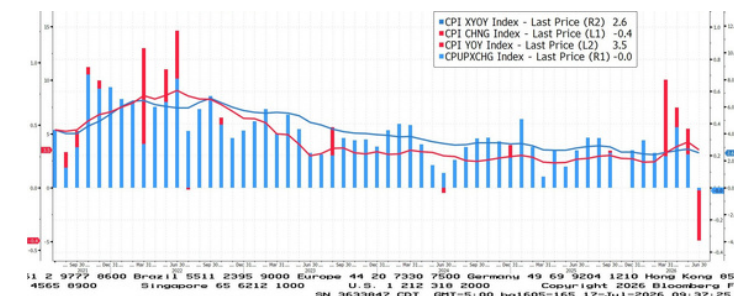
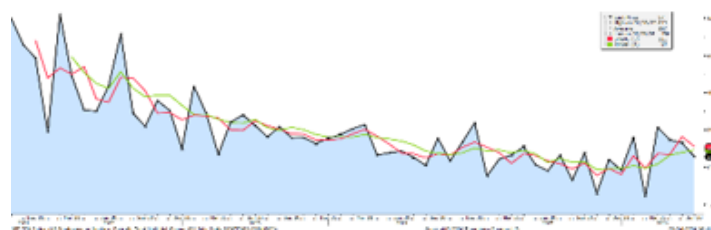
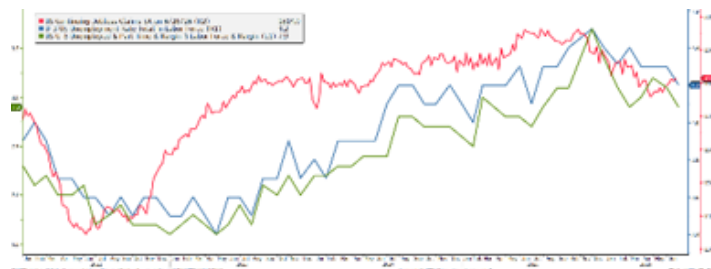


As of June 30, 2026 | Volume 15, Issue 2

In the 2nd Quarter of 2026, total returns for both taxable and tax-free investments were positive. For taxable portfolios, the Barclays Aggregate generated a total return of 0.66% for the quarter. For tax-free portfolios, the Barclays 1-10yr Muni generated a total return of 1.34% for the quarter. YTD returns are 0.62% and 1.10%, respectively. Returns in the quarter were helped by the decline in the price of oil. The economy continues to show its resilience, inflation remains elevated due to the bottlenecks in AI capex and the spike, but subsequent drawdown, in oil. The elevated inflation in conjunction with a stabilization of jobs, albeit at low levels, has muddled the rate outlook for the Fed.

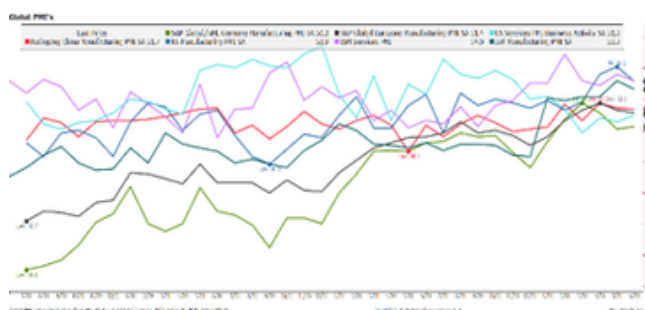
Economy

DP in the 1Q of 2026 came in with a final Q/Q reading of 2.1%. GDP Q/Q projections for the 2Q of 2026 currently reside at 2.5%. GDP Y/Y projections for 2026 currently reside at 2.1%, down slightly from projections earlier in the year of 2.3%. AI infrastructure capex continues to be a nice tailwind to the economy. Consumer spending in the 1Q came in at 0.5%, lower than expected. Consumer spending in the 2Q is projected at 2.0%. US Unemployment and US Continuing Jobless Claims have trended lower, though still elevated, as losses from AI have tempered. The 3- and 6-month payroll growth numbers have improved slightly to +111k and +92K, respectively. The unemployment rate ticked down to 4.2%, mainly from a reduction in participation. Inflation has moved up over the past quarter due to the war with Iran and persistent bottlenecks in the AI infrastructure buildout. Recently, we have seen the oil price decline substantially, and if peace talks hold, inflation from the price shock of oil should peak in July.



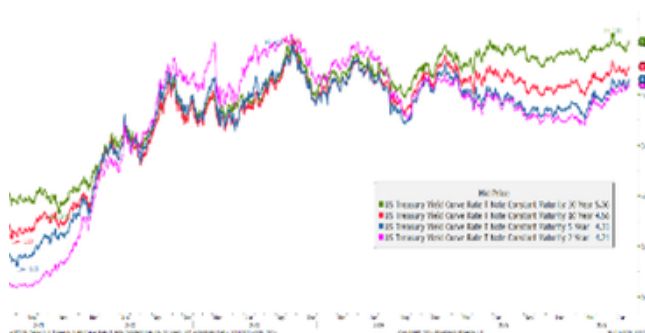
Bond Market Update

The Manufacturing ISM (30% of the US economy) is starting to show some life as it has had six consecutive prints above 50 (expansion). Less restrictive interest rate policy and the AI infrastructure buildout appear to have created a lift off in manufacturing, the bottom is in. The Services ISM (70% of the US economy) is still expanding (reading above 50). All readings in the 1st half of this year have come in better than the 1st half of 2025.



Rates

Taxable - YTD for 2026, 2yr, 5yr, and 10yr U.S. risk free rates (nominal) are up approximately 70bps, 50bps, and 30bps, respectively. The UST yield curve continues to be upward sloping but has flattened considerably in 2Q. The 10yr to 2yr UST spread resides at a positive 29bps. 10yr TIPS are priced at 2.28%. 30yr mortgage rates have moved up slightly from the end of the year and sit at 6.77%. **Taxable rates have become very attractive with the move up in rates; it is highly recommended to lock in these rates now.**



Tax-Free - YTD for 2026, 2yr, 10yr, and 20yr AAA tax-free rates are mixed, approximately -11bps, +16bps, and -21bps, respectively. The tax-free yield curve is nicely upward sloping, encouraging longer duration positioning. The 20yr to 2yr AAA tax-free spread currently resides at a positive 140bps. Tax-free rates on the longer part of the curve continue to be attractive. **Currently, it is possible to buy excellent credits and get 6.50% + Tax Equivalent Yields for individuals in the highest tax brackets.**



The Fed

The Fed had two meetings in the 2nd Quarter, April and June. At both meetings the Fed elected to do nothing, maintaining the cash rate at a range of 3.50% to 3.75%. At the June press conference, the first for our new Fed Chairman, Chairman Warsh communicated that inflation continues to remain above the Fed's 2% target and that the job market appears to have stabilized at very low levels of growth. In addition, Warsh outlined 5 new task forces and repeatedly communicated that the Fed's job is "price stability". These new task forces are 1.) Communication, 2.) The Fed's balance sheet, 3.) Use and reliance on existing data sources, 4.) Productivity and jobs, and 5.) The inflation framework.

Bond Market Update

It became very clear that Chairman Warsh plans to improve upon the framework of the Fed. His press conference was one of the shortest I can remember and as reporters asked him questions, he simply communicated “we have another meeting in 6 weeks, and you will find out more then” or “we have a task force for that”. This is a big change. Key takeaways from his press conference were 1.) The current rate environment wasn’t restrictive, except for housing. 2.) The Fed communicated too much with markets. This over communication did not give the Fed a true picture of how markets were interpreting the data since markets were mostly focused on Fed communication. 3.) The Fed’s responsibility is price stability.

Credit

Credit risk was positive versus risk free in the 2nd Quarter of 2026. For the quarter, IG spreads tightened by roughly 15bps and HY spreads tightened by roughly 53bps. YTD, IG is 4bps tighter and HY is 4bps tighter. Risk premiums for the quarter eased, reversing most of the 1st quarter move, as oil prices declined with possible peace talks between the US and Iran.



Looking Forward

The economy continues to remain resilient. The drop in the price of oil is welcomed as consumer spending did come under some pressure with the higher gas prices. AI capex continues to be a major contributor to growth. GDP going forward should improve due to continued AI capex and the benefit of lower gas prices for the consumer. Kevin Warsh is the new Fed chair and made his mark at the June press conference. Less communication by the Fed should introduce a little more volatility in the bond market as participants are forced to focus on the data, not the Fed. This is a good thing. The task forces introduced by Warsh should add more credibility, over time, to the Fed. Markets are pricing in a Fed rate hike for the 4th quarter of this year. We are still on the fence with this call. However, with the market pricing this in, we think this is an excellent time to put money to work in the taxable markets. We still think credit will perform in 2026, but excess returns will be muted due to credit spreads at historically tight levels. With the rise in yields, forward returns look very attractive. As always, we run a high-quality portfolio that looks to take advantage of opportunities as they present themselves. We have been active in seeking those opportunities and feel good about the changes that have been made.