Monthly Market Review

Fixed Income | August 2026

pfm asset management

Oil plays red light, green light. Fed Sheds no light.

Economic Highlights

- Renewed geopolitical tensions lifted oil prices and clouded the inflation outlook in July while reduced forward guidance from the Federal Reserve (Fed) left markets with less clarity on its reaction function. Treasury yields rose and interest rate volatility increased in July as a result.
- The Fed left the federal funds target range unchanged at 3.50% to 3.75%, though the Committee remains divided as three policymakers dissented in favor of a 25-basis-point (bp) increase. The dispersion of views within the Committee is notable, echoing the divided FOMC of the late 1970s and early 1980s — the last era of similarly persistent inflation.
- The post-meeting statement was largely unchanged from June and reflected the Fed's shift away from explicit forward guidance, characterizing economic activity and labor markets as resilient while acknowledging inflation remains above target.
- Chair Kevin Warsh's comments left the policy path open, balancing continued caution on inflation against optimism the AI capex cycle could support productivity, growth, and labor market stability. He pointed to higher Treasury yields since June as evidence financial conditions have tightened on their own, implying the market is doing some of the Fed's work as investors focus on the data and "play the ball, not the referee."
- Headline inflation printed below expectations in June due to lower energy costs, easing to 3.5% year-over-year from 4.2% the prior month. Longer-term inflation expectations rose only modestly and remain anchored.
- The advance estimate of Q2 real gross domestic product (GDP) disappointed at 1.5%, though this was mostly due to softness from net exports, private inventories, and government spending. Consumer spending rebounded while AI-fueled business investment remained a key growth engine.
- The July jobs report came in well below expectations and fell by 23,000, though seasonal factors likely contributed to the weakness. The unemployment rate fell to 4.1%, though this was driven by falling labor force participation. Softer job creation supports our base case for the Fed to remain on hold.
- Slowing income growth, a falling saving rate, and rising energy prices could weigh on consumers and economic momentum in the second half of the year. Meanwhile, we expect corporate investment to remain strong driven by robust debt issuance.

Interest Rates

- The U.S. Treasury curve twisted with short rates falling and longer rates testing two-year highs. Yields on 3-month, 2-, 10-, and 30-year U.S. Treasuries ended the month at 3.75%, 4.29%, 4.73%, and 5.27%, representing changes of -6 bps, +12 bps, +27 bps, and +32 bps, respectively.
- The ICE BofA 3-month, 2-year, and 10-year U.S. Treasury indices returned +0.33%, +0.13%, and -1.73%, respectively.

Equity Markets

- July was defined by a rotation away from technology stocks. The Nasdaq declined -3.2% as investors grew more skeptical of massive hyperscaler capital spending plans, while energy, financials, and other cyclicals helped the Dow (+0.4%) post a small gain and the S&P 500 (-0.1%) finish little changed.
- International equities were also volatile, though a late-month rally pushed the MSCI ACWI ex U.S. Net Index positive to +0.3%.

PFMAM Strategy Recap & Outlook

- Market pricing implies one 25 bp rate hike in 2026 and one more in 2027. Our base case remains for the Fed to remain on hold for the foreseeable future, but the hurdle for a hike has been significantly reduced. The recent increase in yields has made Treasuries more attractive, and as a result we intend to maintain portfolio durations in shorter-term strategies at 101% to 105% of benchmarks.
- Investment-grade (IG) corporate bonds broadly generated negative excess returns as spreads widened off historically low levels. Despite the widening, valuations remain rich. Coupled with our expectation for robust issuance to pressure spreads further, we are less constructive on the sector. As a result, we will likely use this opportunity to selectively trim and build future buying power.
- Conversely, spreads on asset-backed securities (ABS) diverged from IG corporates in July and tightened notably, resulting in the sector generating top-of-class performance for the month. Recent rotation from IG corporates to ABS has benefited portfolios.
- Mortgage-backed securities (MBS) generated negative excess returns as higher volatility and higher longer-end yields weighed notably on the sector. We continue to prefer a defensive approach as current trends are likely to weigh on the sector for the foreseeable future.
- The money market yield curve has steepened as Fed policy expectations have shifted towards a more hawkish stance. Money market credit spreads remain attractive and incremental income partly serves as a hedge against a potential Fed policy pivot.

U.S. Treasury Yields

Maturity	Jul 31, 2025	Jun 30, 2026	Jul 31, 2026	Monthly Change
3-Month	4.34%	3.82%	3.76%	-0.06%
6-Month	4.28%	3.97%	3.95%	-0.02%
2-Year	3.96%	4.18%	4.29%	0.11%
5-Year	3.97%	4.23%	4.45%	0.22%
10-Year	4.38%	4.47%	4.74%	0.27%
30-Year	4.90%	4.95%	5.27%	0.32%

Yields by Sector and Maturity

Maturity	U.S. Treasury	Federal Agency	Corporates-AA-A Industrials	AAA Municipals
3-Month	3.76%	3.77%	4.22%	-
6-Month	3.95%	3.95%	4.26%	-
2-Year	4.29%	4.30%	4.52%	2.69%
5-Year	4.45%	4.46%	4.95%	3.00%
10-Year	4.74%	4.80%	5.40%	3.46%
30-Year	5.27%	-	6.07%	4.05%

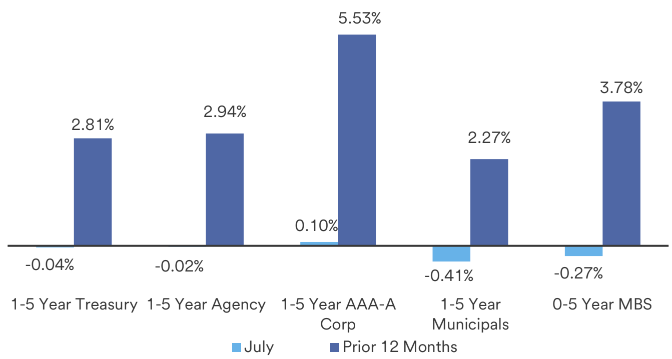
Spot Prices and Benchmark Rates

Index	Jul 31, 2025	Jun 30, 2026	Jul 31, 2026	Monthly Change
1-Month SOFR	4.35%	3.65%	3.66%	0.01%
3-Month SOFR	4.30%	3.73%	3.75%	0.02%
Effective Fed Funds Rate	4.33%	3.63%	3.63%	0.00%
Fed Funds Target Rate	4.50%	3.75%	3.75%	0.00%
Gold ($/oz)	$3,293	$4,039	$4,049	$11
Crude Oil ($/Barrel)	$69.26	$69.50	$84.67	$15.17
U.S. Dollars per Euro	$1.14	$1.14	$1.15	$0.01

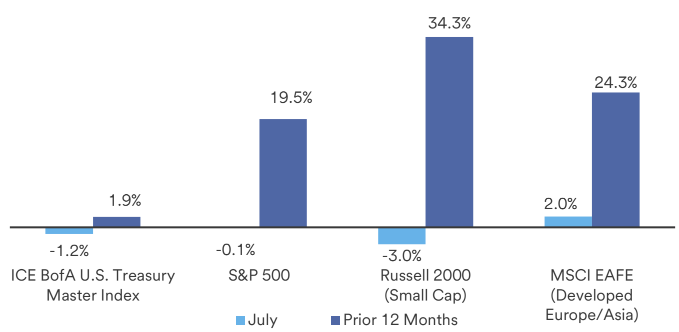
Economic Indicators

Indicator	Release Date	Period	Actual	Survey (Median)
U. of Mich. Consumer Sentiment	26-Jun	Jun F	49.5	50
Existing Home Sales MoM	9-Jul	Jul	-2.40%	1.00%
CPI YoY	14-Jul	Jun	3.50%	3.80%
Retail Sales Advance MoM	16-Jul	Jun	0.20%	0.20%
FOMC Rate Decision	29-Jul	Jul	3.75%	3.75%
PCE YoY	30-Jul	Jun	3.70%	3.70%
Change in Nonfarm Payrolls	7-Aug	Jul	-23K	80K

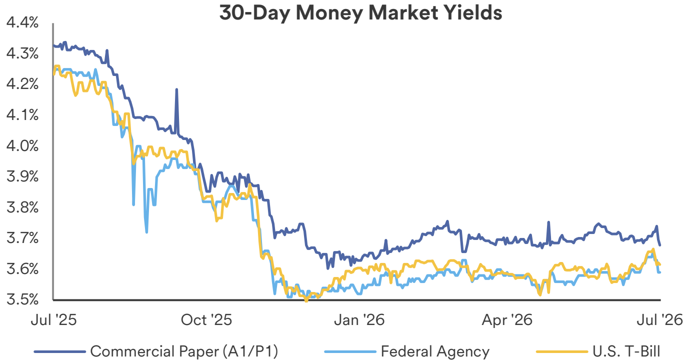
ICE BofA Fixed Income Index Returns



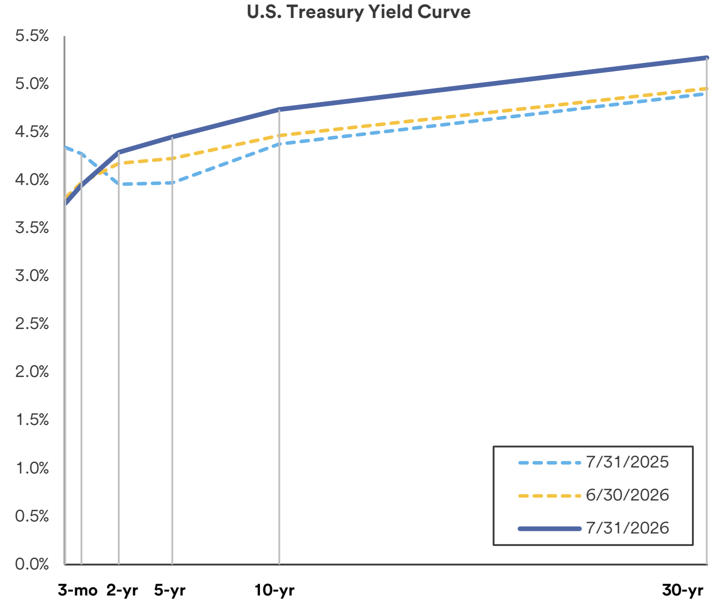
Total Return of Major Indices



30-Day Money Market Yields



U.S. Treasury Yield Curve



Source: Bloomberg. Data as of July 31, 2026, unless otherwise noted.

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