

School's out for summer; the Fed sharpens its pencil.

Economic Highlights

- Markets continued to focus on the implications of higher oil prices, pushing Treasury yields to their highest levels in the past 12 months. Inflation concerns and a more hawkish Federal Reserve (Fed) continue to drive the short end of the curve higher.
- Headline personal consumption expenditures (PCE) rose to its highest level in nearly three years in April, driven by higher gasoline and energy prices. Core PCE, which strips out volatile food and energy components, reached its highest level since November 2023 at 3.3%. Rising gasoline and transportation costs, along with higher commodity input prices, are beginning to pressure other categories, increasing the risk of more persistent inflation.
- Minutes from the Fed's April meeting signaled the Federal Open Markets Committee (FOMC) considered shifting towards a more neutral policy stance. We continue to see a high bar for rate hikes and view a prolonged pause as the most likely policy path.
- Kevin Warsh has been sworn in as Fed Chair and now faces a more hawkish, divided committee ahead of his first FOMC meeting on June 16–17.
- Elevated inflation continues to weigh on household income, with real disposable personal income declining 1.1% year-over-year. While real consumer spending remains positive, momentum is moderating. Some of this resilience reflects a decline in the personal savings rate, which at 2.6% is its lowest level since 2022. The combination of weak real income growth and reduced savings suggests increasing pressure on discretionary spending should consumers realign spending with income. At the same time, equity markets continue to reach all-time highs, which may support consumption among higher-income households through the wealth effect.
- Payroll growth significantly exceeded expectations in May, showing continued labor market resilience despite broader signs of economic moderation. The report continues to give the Fed cover to keep its "higher-for-longer" stance.

Interest Rates

- U.S. Treasury yields continue to trend higher on expectations for a prolonged pause from the Fed and oil-related inflation pressures. The 30 year yield hit an intra-month high of 5.18%, the highest level since 2007. The yield on 3-month, 2-year, and 30-year U.S. Treasuries ended the month at 3.64%, 4.00%, and 4.98%, representing changes of -3 basis points (bps), +11 bps, and -1 bps, respectively.

- The ICE BofA 3-month, 2-year, and 30-year U.S. Treasury indices returned +0.30%, +0.10%, and +0.51%, respectively.

Equity Markets

- U.S. equities advanced through May to fresh record highs, driven by strong corporate earnings, particularly in technology and AI-linked sectors. The Dow Jones increased by +2.8%, the S&P 500 Index was up +5.2%, and the Nasdaq led the stack up +10.5%.
- International equities also rallied higher as the MSCI ACWI ex U.S. Net Index Increased 4.7%.
- Brent Crude Oil declined by over 20% during the month yet remains more than 50% above prices at the end of 2025.

PFMAM Strategy Recap & Outlook

- We view yields as being currently attractive based on our view that the Fed is on hold for the foreseeable future. We continue to maintain portfolio durations in shorter-term strategies slightly long of the benchmark (101%-105%).
- Spreads on federal agencies and supranationals remain quite narrow. Callable agency spreads have edged wider due to heightened volatility, creating opportunities to add selectively in certain strategies.
- Investment-grade (IG) corporate bond spreads continued to retrace notably from mid-March wides, generating strong excess returns for the month. The sector looks less compelling at current valuations and as a result we will likely look to selectively reduce corporate holdings.
- Asset-backed securities (ABS) generated positive excess returns for the month as spreads retraced the widening from earlier in the year. The spread differential between Corporates and ABS is now slightly below two-year averages. We expect carry (income) to be the primary driver of returns going forward.
- The mortgage-backed security (MBS) sector ended the month firmly positive across most collateral and coupon structures despite heightened volatility. We prefer a defensive approach to the sector given the recent strong performance and stretched valuations across most of the sector.
- Credit spreads on maturities of six to nine months are still quite attractive despite modest tightening over the month. These securities offer 20 to 30 bps of incremental yield compared to similar Treasury Bills.

U.S. Treasury Yields

Maturity	May 31, 2025	Apr 30, 2026	May 31, 2026	Monthly Change
3-Month	4.34%	3.67%	3.68%	0.01%
6-Month	4.32%	3.69%	3.75%	0.06%
2-Year	3.90%	3.87%	4.01%	0.14%
5-Year	3.96%	4.01%	4.14%	0.13%
10-Year	4.40%	4.37%	4.44%	0.07%
30-Year	4.93%	4.97%	4.97%	0.00%

Yields by Sector and Maturity

Maturity	U.S. Treasury	Federal Agency	Corporates-AA-A Industrials	AAA Municipals
3-Month	3.68%	3.69%	4.04%	-
6-Month	3.75%	3.75%	4.06%	-
2-Year	4.01%	4.02%	4.23%	2.53%
5-Year	4.14%	4.15%	4.62%	2.65%
10-Year	4.44%	4.50%	5.06%	3.11%
30-Year	4.97%	-	5.72%	3.88%

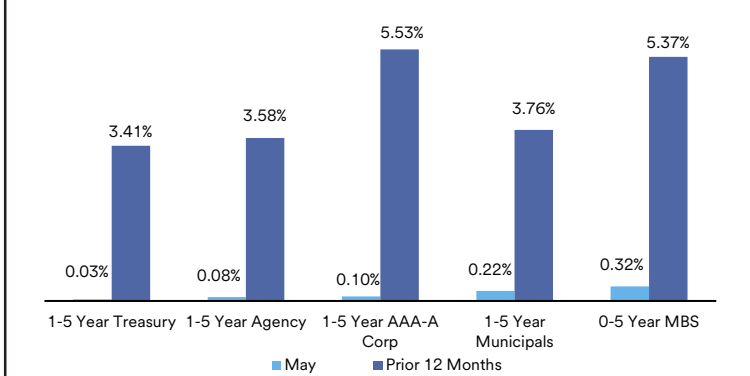
Spot Prices and Benchmark Rates

Index	May 31, 2025	Apr 30, 2026	May 31, 2026	Monthly Change
1-Month SOFR	4.32%	3.65%	3.62%	-0.03%
3-Month SOFR	4.32%	3.66%	3.66%	0.00%
Effective Fed Funds Rate	4.33%	3.64%	3.62%	-0.02%
Fed Funds Target Rate	4.50%	3.75%	3.75%	0.00%
Gold (\$/oz)	\$3,289	\$4,630	\$4,561	-\$69
Crude Oil (\$/Barrel)	\$60.79	\$105.07	\$87.36	-\$17.71
U.S. Dollars per Euro	\$1.13	\$1.17	\$1.17	\$0.00

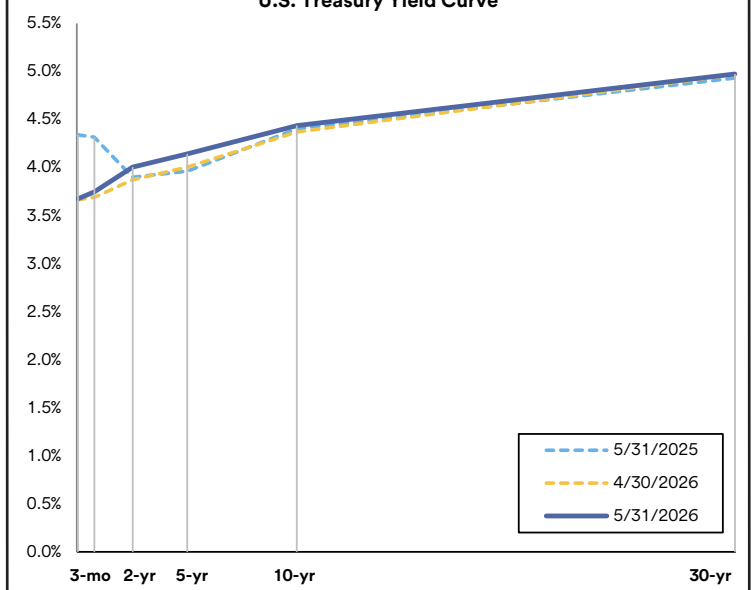
Economic Indicators

Indicator	Release Date	Period	Actual	Survey (Median)
Existing Home Sales MoM	11-May	Apr	0.20%	2.00%
CPI YoY	12-May	Apr	3.80%	3.70%
Retail Sales Advance MoM	14-May	Apr	0.50%	0.50%
U. of Mich. Consumer Sentiment	22-May	May F	44.8	48.2
GDP Annualized QoQ	28-May	1Q S	1.60%	2.00%
PCE YoY	28-May	Apr	3.80%	3.80%
Change in Non-farm Payrolls	5-Jun	May	172k	85k

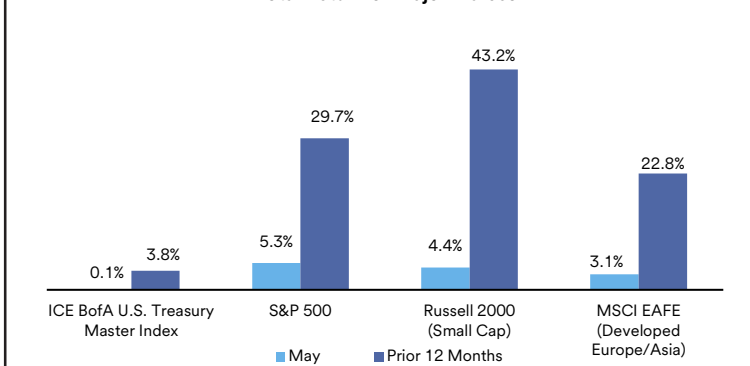
ICE BofA Fixed Income Index Returns



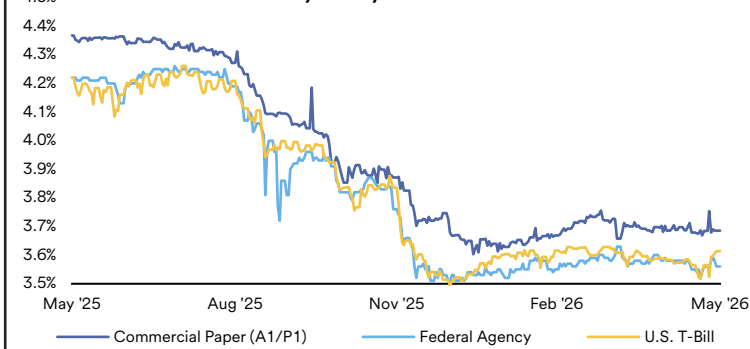
U.S. Treasury Yield Curve



Total Return of Major Indices



30-Day Money Market Yields



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

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