

Monthly Fixed Income Market Update

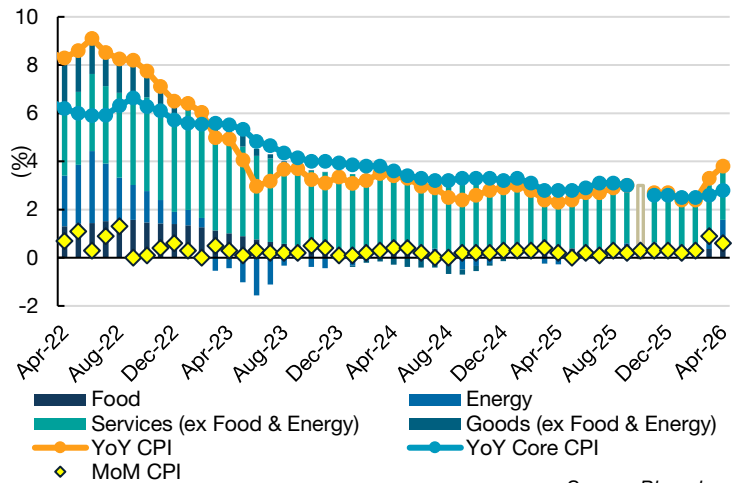
As of May 31, 2026

Key Takeaways

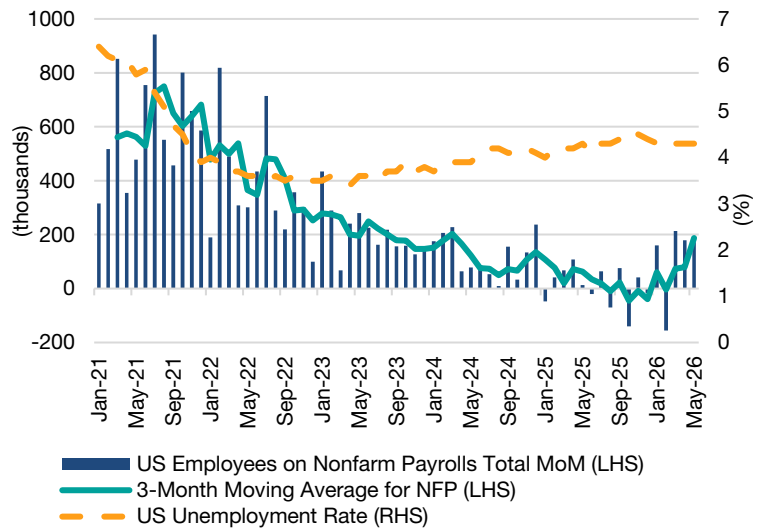
1. Treasury yields rose in May, driven by higher inflation expectations. The 10-year yield ended the month at 4.44%, up from April's 4.37%.
2. Fixed income experienced positive performance in May despite rising yields, as credit spreads tightened sufficiently throughout the month to offset the yield move.
3. Concerned about persistent inflation? We explore how fixed income has responded to higher inflation expectations and investor compensation through yield.

The Month in Charts

April's CPI report, published in May, reflects the continuing impacts of high oil prices and related goods on inflation. Headline CPI rose to 3.8% year-over-year and Core CPI rose to 2.8% year-over-year, as oil price volatility kept the energy component of the inflation measure elevated. The Federal Reserve (the Fed) did not meet in May, and the next meeting in June will be the first overseen by the new Chair, Kevin Warsh. Expectations for future monetary policy have shifted from two cuts in 2026 to potential hikes as elevated inflation persists and the labor market shows limited weakness. While investors are eager to see a deal reached for the conflict in Iran, higher energy prices may persist even once there is an agreement in place.

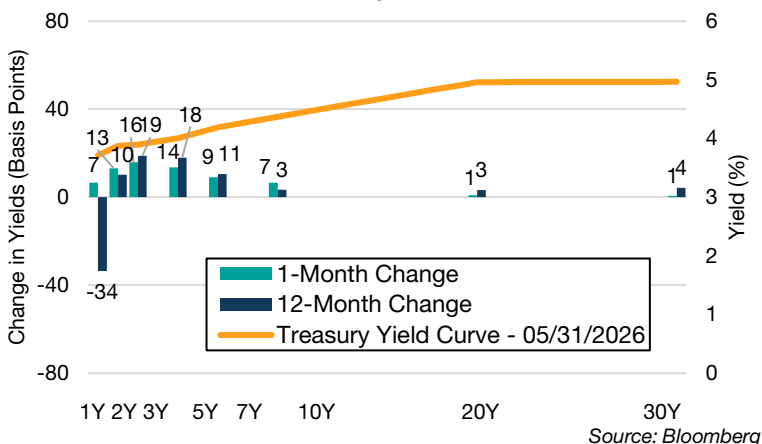


Nonfarm payrolls surprised to the upside in May, showing a marked improvement to the labor market. While one report is insufficient to represent a trend, the below 3-month moving average line shows that the labor market could be moving out of the previous stagnancy we've seen. In our view, strength in the labor market lends credence to market forecasts that the Fed may keep rates steady or hike this year, but notable policy uncertainty remains given price pressures from the conflict in the Middle East.



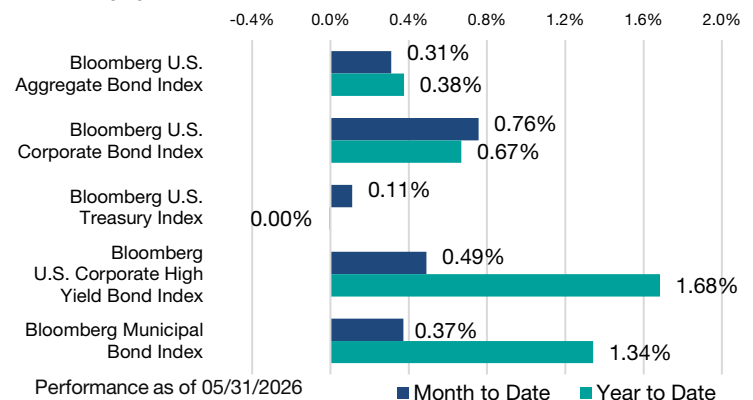
Treasury yields concluded May at higher levels across the curve. In our view, markets are demanding additional compensation for higher inflation risks.

US Treasury Yield Curve



Performance was positive in May for major fixed income asset classes. Corporate credit spreads tightened sufficiently to offset the rise in Treasury yields.

Returns (%) for Fixed Income Indices



Past performance is no guarantee of future results. Source: Bloomberg

Credit spreads tightened month-over-month. Investment grade corporate credit spreads are once again near multi-decade lows at 71 basis points above Treasuries. Strong demand for corporate credit from money managers and yield appetite from insurance and pension buyers supported spreads at these levels. High yield corporate credit spreads tightened the most at 15 bps.

Asset Class	Yield	Spread	Trend	Quarter		Change			Trailing 10 yr avg
				Tight	Wide	MoM	QoQ	YoY	
U.S. Treasury	4.29			17	29	2	1	-20	37
U.S. MBS	4.93	22		71	93	-7	-12	-16	112
U.S. Corporate	5.13	71		256	338	-15	-37	-59	381
U.S. Corporate High Yield	7.29	256		65	72	-1	-3	-22	87
CMBS	4.79	66		45	53	-2	-2	-12	54
ABS	4.53	46		61	79	-5	-10	-14	92
A	5.02	61		90	115	-8	-15	-22	143
BBB	5.32	90		150	212	-11	-26	-43	249
BB	6.16	150							

Source: Bloomberg; Asset Classes represented by: Bloomberg US Treasury Total Return Index, Bloomberg US MBS Total Return Index, Bloomberg US Agg Total Return Value Unhedged USD, Bloomberg US Corporate High Yield Index, Bloomberg CMBS: Erisa Eligible Index, Bloomberg US Agg ABS Total Return Index, Bloomberg US Agg A Total Ret Index, Bloomberg US Agg Baa Total Ret Index, Bloomberg Ba US High Yield TR Index. MoM/QoQ/YoY as of 05/31/2026

What We'll Be Watching in the Month Ahead

- June 5th, Change in Nonfarm Payrolls and Unemployment Rate:** These will provide insight into the status of the labor market, an important consideration for future monetary policy.
- June 10th, May's CPI Report:** This report will provide further insight into the impact of rising oil prices on the different components used to calculate inflation.
- June 17th, the next FOMC Rate Decision:** In our view, the market largely does not expect a cut at this meeting given rising concerns about inflation. We expect the press conference may provide more insight into the future of monetary policy and potentially information on what a Warsh Fed could look like.

All investing involves risk, including the possible loss of principal. An investment should be made with an understanding of the risks involved with owning a particular security or asset class. Interested parties are strongly encouraged to seek advice regarding the best options for their particular circumstances from qualified tax and financial experts.

The views expressed are as of the date noted and are subject to change at any time based on market or other conditions. These views should not be relied upon as investment advice, as securities recommendations, or as an indication of trading intent on behalf of any portfolio.

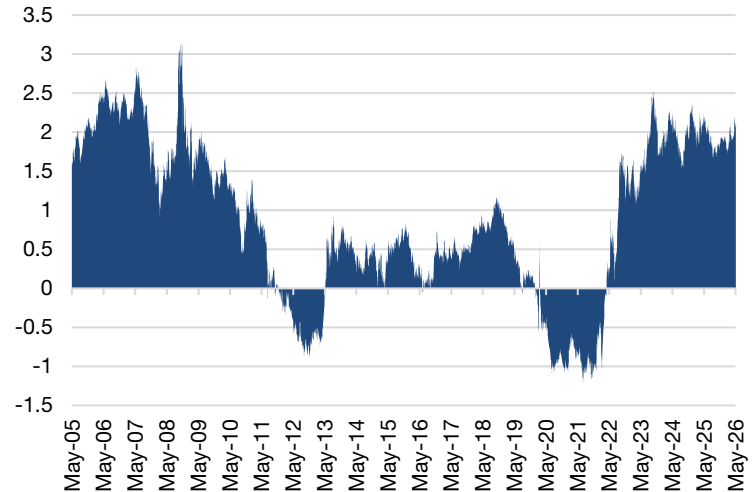
Indexes are unmanaged; their returns include reinvestment of dividends and other income but do not reflect management fees, transaction costs or expenses. It is not possible to invest directly in an index. **Past performance does not guarantee future results.**

Basis point "bps" is 1/100th of a percentage point. **Credit spread** is the difference in yield between a U.S. Treasury bond and another debt security of the same maturity but different credit quality. Credit spreads are the additional compensation that investors require to hold securities that are not as safe and liquid as those issued by the US Treasury. **The Treasury Yield Curve** shows the relationship between the US bond yield and the time to maturity. Yield and price have an inverse relationship. As the yield curve lowers, the price of bonds increase. **Core CPI:** CPI excluding food and energy. **Consumer Price Index (CPI),** a popular measure of inflation and deflation calculated by the Bureau of Labor Statistics, measures the monthly change in prices paid by U.S. consumers. **Personal Consumption Expenditure Price Index** is a measure of

Frequently Asked Questions

Higher oil prices have historically been inflationary, and we are seeing no difference this time around - headline CPI has risen notably since the start of the war in Iran. In fixed income these higher oil prices and inflation worries have translated into higher Treasury yields as investors seek additional compensation for the erosion of their income potential. This is where it is critical to make the distinction between the current yield environment and a time like 2020-2021 when yields were incredibly low. In 2021 the 10-year had a nominal yield of 1.59% at the end of May and a real yield, the yield accounting for inflation, of -0.84%. At the end of May in 2026 the 10-year offered a nominal yield of 4.44% and a real yield of 2.07%.

10-Year Treasury Real Yield



The current level of real yields is higher than we have seen since pre-GFC, as shown in the above chart. The long-term average (since 2005) 10-year real yield is 0.89%. Real yields are not only positive again but also double the long-term average. While we expect to continue monitoring inflation, in our view, relative to this historical average and the lower interest rate regime of 2019-2022, the current yield environment is offering investors an attractive level of compensation for the inflation risks we're seeing.

the prices that people living in the United States, or those buying on their behalf, pay for goods and services and is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior. The **Bloomberg 1-3 Month U.S. Treasury Bill Index** is designed to measure the performance of US-dollar-denominated, fixed-rate, investment-grade public obligations of the U.S. Treasury that have a remaining maturity 1 month to 3 months. The Index is market capitalization weighted, with securities held in the Federal Reserve System Open Market Account deducted from the total amount outstanding. The **Bloomberg U.S. Aggregate 1-3 Year Index** measures the performance of investment grade, USD-denominated, fixed-rate taxable bond market securities with maturities of 1-3 years, including Treasuries, government-related and corporate securities, mortgage-backed securities (MBS; agency fixed-rate and hybrid ARM pass-throughs), asset backed securities, and commercial MBS. The **Bloomberg U.S. Aggregate Bond Index** measures the investment grade, USD-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

Advisory services offered by Victory Capital Management Inc.

© 2026 Victory Capital Management Inc. All Rights Reserved.

V21.047 // May 2026 VINCE Fixed Income Monthly Update COM

