July 2026

Bond Market Review

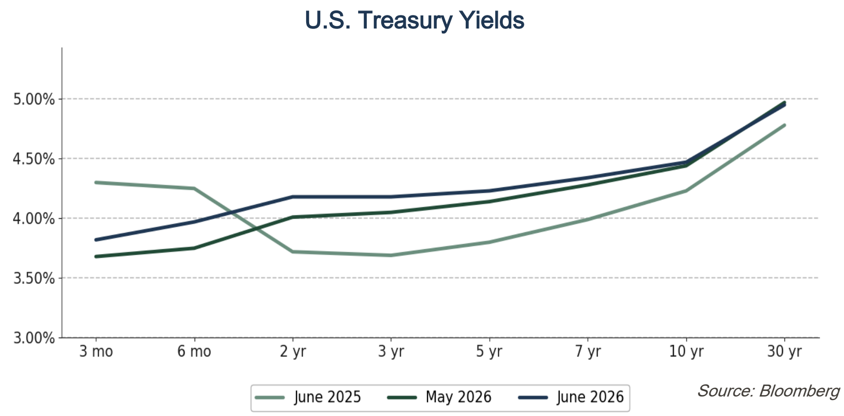
Market Summary

Energy prices and inflation remained the primary drivers of the macro backdrop as the U.S.-Israel-Iran conflict entered its third month, disrupting global oil supply. Headline CPI accelerated at the fastest pace in more than three years, reflecting volatility in the energy component. Crude oil, however, retraced roughly 20% from its May–early June peak as diplomatic progress between the United States and Iran pointed to a potential framework for de-escalation. The labor market remained resilient, with continued payroll growth and subdued jobless claims. Risk assets held firm, as equities hovered near record highs and credit spreads remained historically tight amid broadly better-than-expected corporate earnings. Taken together, the current market environment has further constrained the case for near-term monetary policy easing, leading the Chandler team to push out its expected timing for rate cuts beyond the six-month investment horizon.

The Federal Reserve's June FOMC meeting ended with policymakers unanimously holding the target range at 3.50%–3.75%, a notable shift from the 8–4 split at April's meeting, which marked Jerome Powell's final session as Chair. Under new Chair Kevin Warsh, sworn in on May 22, the Committee released an unusually concise statement that referenced Middle East tensions and energy supply disruptions while removing prior forward guidance that had suggested a bias toward rate cuts. Updated projections leaned more hawkish, with 9 of 18 officials expecting at least one rate hike this year and 6 anticipating multiple increases. The shift signals that restoring price stability has reemerged as the central focus of monetary policy deliberations.

The Treasury yield curve flattened modestly in June as short-term yields responded to a more hawkish shift in Federal Reserve guidance. The 2-year yield rose to 4.18% from 4.01% the prior month, while the 10-year yield was up slightly to 4.47% from 4.44%. As a result, the 2s/10s spread narrowed to 29 basis points, down from roughly 43 basis points a month earlier and significantly below the 69 basis point spread at the start of the year. Meanwhile, the 3-month/10-year spread remained positive at 64 basis points. Front-end rates absorbed the bulk of the Fed's updated rate outlook, while longer maturities were partly anchored by a late-month decline in oil prices.

As of June 30, 2026, the U.S. Treasury market has navigated intermittent volatility seen earlier in the year, though conditions have stabilized relative to the sharp swings in January. Early-year turbulence—driven by geopolitical tensions and concerns surrounding AI-related exposures in technology and software equities—contributed to elevated rate volatility and sharp moves in the MOVE Index. By quarter-end, the yield curve has instead flattened modestly, reflecting a rise in front-end yields alongside more anchored long-term rates. Ongoing geopolitical risks and policy uncertainty remain potential catalysts for episodic flight-to-quality flows, which could place downward pressure on Treasury yields over the balance of the year.



Credit Spreads

Credit spreads were tighter in June

	Spread to Treasuries	One Month Ago	Change
3-month top rated commercial paper	(0.10)	0.01	(0.11)
2-year A corporate note	0.20	0.22	(0.02)
5-year A corporate note	0.49	0.48	0.01
5-year Agency note	0.02	0.04	(0.02)

Source: Bloomberg; data as of 6/30/2026

Treasury Yields

Treasuries Stabilize After Early - Year Volatility as Curve Flattens and Front - End Yields Move Higher

Treasury Yields	Trend	6/30/2026	5/29/2026	Change
3 month		3.82	3.68	0.14
2 year		4.18	4.01	0.17
3 year		4.18	4.05	0.13
5 year		4.23	4.14	0.09
7 year		4.34	4.28	0.06
10 year		4.47	4.44	0.03
30 year		4.95	4.97	(0.02)

Source: Bloomberg

Market Data

Data as of 6/30/2026

	1- Mo Chg	% Chg
S&P 500		
7,499.36	(80.70)	(1.06%)
NASDAQ		
26,213.72	(758.90)	(2.81%)
Dow Jones		
52,319.20	1,286.74	2.52%
FTSE (UK)		
10,497.12	87.84	0.84%
DAX (Germany)		
24,995.81	(108.89)	(0.43%)
Hang Seng (Hong Kong)		
22,881.02	(2,301.37)	(9.14%)
Nikkei (Japan)		
70,062.32	3,732.82	5.63%

World Stock Market Index Descriptions

S&P 500–The S&P 500 is a market value-weighted index of 500 large-capitalization stocks. The 500 companies included in the index capture approximately 80% of available US market capitalization. NASDAQ–The NASDAQ Composite Index is the market capitalization-weighted index of over 3.300 common stocks listed on the NASDAQ stock exchange. Dow Jones–The Dow Jones Industrial Average is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange and the NASDAQ. The Financial Times Stock Exchange Group (FTSE)–The FTSE is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. DAX–The Deutscher Aktienindex (DAX) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. Hang Seng–The Hang Seng Index is a freefloat-adjusted market-capitalization- weighted stock market index in Hong Kong. It is used to record and monitor daily changes of the largest companies of the Hong Kong stock market and is the main indicator of overall market performance in Hong Kong. Nikkei–Japan's Nikkei 225 Stock Average is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

Economic Roundup

Equities

U.S. equities closed the first half of 2026 at record highs, led by continued strength in growth sectors. The S&P 500 finished June 30 at 7,449.36, up 8.82% from its December 31, 2025 close of 6,845.50. The Dow Jones Industrial Average rose 8.85% year to date to 52,319.20, while the Nasdaq Composite outperformed with a 12.79% gain, ending at 26,213.72. The rally was supported by robust first-quarter earnings with a broad majority of companies exceeded consensus estimates on both revenue and earnings per share, even as higher energy costs and geopolitical tensions weighed on consumer sentiment.

Consumer Prices

Inflation firmed in May, with the Personal Consumption Expenditures (PCE) price index rising 0.4% on the month and 4.1% year over year, up from 3.8% in April and marking the highest annual rate of the current cycle. Core PCE, which excludes food and energy, increased 0.3% in May and 3.4% over the year. Energy prices remained the primary driver of the headline acceleration, reflecting supply disruptions tied to the Iranian conflict. A similar pattern was evident in the headline Consumer Price Index (CPI), which rose 0.5% on the month and 4.2% year over year, the fastest annual pace since 2023. Energy prices climbed 3.9% in May and 23.5% from a year earlier, largely due to crude oil reaching a four-year high. In contrast, core CPI rose a more modest 0.2% on the month and 2.9% year over year, indicating that inflation pressures remain concentrated in energy rather than broad-based.

Retail Sales

Retail sales increased 0.9% in May, surpassing the 0.6% consensus estimate and pointing to broad-based consumer spending, according to the Census Bureau. April was revised up to a 0.4% gain. The control group, which feeds directly into GDP, rose 0.7% month over month. Gasoline stations led with a 3.4% increase amid elevated fuel prices, while nonstore retailers climbed 1.5% and were up 12.2% year over year. Meanwhile, the Conference Board's Consumer Confidence Index edged down to 93.1 in May from a revised 93.8 in April. The survey period captured the preliminary Iran ceasefire and an equity market rebound, which helped offset earlier pressure on sentiment from rising energy prices.

Labor Market

The May employment report depicted a labor market more resilient than recent months had suggested. Nonfarm payrolls advanced by 172,000, well above the consensus estimate for an 88,000-gain, while unemployment held at 4.3% for the fourth of the last five months. Revisions reinforced the strength, as March moved up from 178,000 to 214,000, and April rose from 115,000 to 179,000. Leisure and hospitality led the gains, joined by local government and health care, while financial activities shed positions.

Housing Starts

Housing starts declined 15.4% in May to an annualized rate of 1.177 million units, down from a revised 1.392 million in April, with single-family starts at 882,000 and multifamily at 295,000. Building permits totaled 1.413 million units. Home price growth continued to soften, with the S&P CoreLogic Case-Shiller 20-City Composite Index rising 0.8% year over year in March, down from 0.9% in February and marking the slowest pace since July 2023. Chicago led gains at 6.1%, while Seattle lagged at -2.5%. Meanwhile, the Freddie Mac 30-year fixed mortgage rate averaged 6.44% in May, down from 6.81% a year earlier.

Economic Indicator	Current Release	Prior Release	One Year Ago
Trade Balance	(55.88) $B Apr. 30	(56.59) $B Mar. 31	(60.34) $B Apr. 30
Gross Domestic Product	2.10% Jun. 30	2.10% Mar. 31	3.80% Jun. 30
Unemployment Rate	4.20% Jun. 30	4.30% May 29	4.10% Jun. 30
Prime Rate	6.75% Jun. 30	6.75% May 29	7.50% Jun. 30
Refinitiv/CoreCommodity CRB Index	353.61 Jun. 30	380.45 May 29	297.28 Jun. 30
Oil (West Texas Int.)	$69.50 Jun. 30	$87.36 May 29	$65.11 Jun. 30
Consumer Price Index (YoY)	4.20% Jun. 30	3.80% May 29	2.40% Jun. 30
Producer Price Index (YoY)	9.10% Jun. 30	6.50% May 29	1.20% Jun. 30
Euro/Dollar	1.14 Jun. 30	1.17 May 29	1.18 Jun. 30

Source: Bloomberg

CHANDLER ASSET MANAGEMENT