August 2026

Bond Market Review

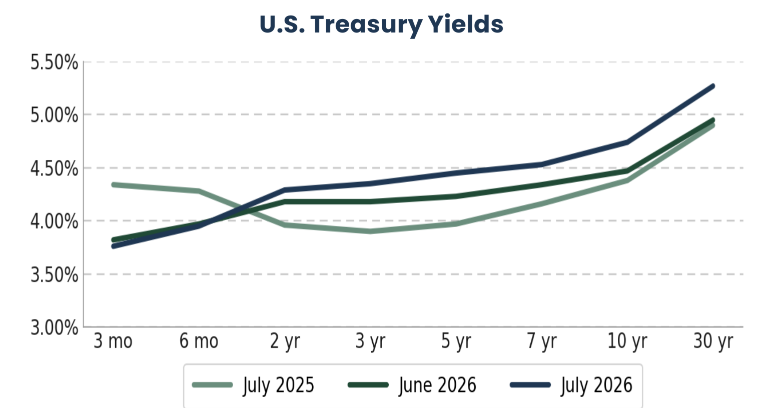
Market Summary

Renewed hostilities between the United States and Iran unsettled energy markets in July, even as domestic data painted a more encouraging picture of the economy. Crude prices retreated from their near-term peak after diplomatic overtures eased fears of a prolonged closure of the Strait of Hormuz, though the conflict continues to fuel market volatility. Inflation cooled meaningfully in June after the recent run-up tied to tariffs and conflict-related uncertainty. Growth slowed from the first quarter's pace, while hiring continued at a moderated clip. The Chandler team continues to expect the Federal Reserve to hold the federal funds rate steady through the remainder of 2026, provided actual and market-based measures of inflation remain contained.

The Federal Open Market Committee held the federal funds rate at 3.50% to 3.75% during its July 28 to 29 meeting, extending its policy pause into a fifth consecutive gathering. Three regional Reserve Bank presidents, Cleveland's Beth Hammack, Minneapolis's Neel Kashkari, and Dallas's Lorie Logan, dissented in favor of raising rates by a quarter point, citing inflation that has stayed above target for more than five years. Chair Kevin Warsh, in his second meeting leading the Committee, again declined to offer explicit forward guidance, preferring instead to let incoming data dictate the timing of any future move. The balance sheet runoff continued without modification. Officials next convene September 15 to 16.

Treasury yields advanced across the curve in July, with the two-year note ending the month at 4.29%, the five-year at 4.45%, and the ten-year at 4.74%. The two-year to ten-year spread narrowed to 45 basis points from 69 basis points at year end, while the three-month bill to ten-year spread widened to roughly 97 basis points. Because the two-year yield rose more than the ten-year yield over the year to date, the curve has flattened rather than steepened, a shift driven by growing expectations that the Federal Reserve may need to raise rates rather than cut before year end. The two-year to ten-year spread has averaged near 95 basis points since 2005, underscoring how compressed the relationship between short and long maturities remains relative to that longer run norm.

The Treasury curve remained positively sloped across its full tenor range through the end of July. The spread between the three-month bill and the 10-year note widened to 97 basis points, while the closely watched two-year/10-year spread widened to 45 basis points after reaching a June low of 24 basis points. That divergence suggests the recent rise in yields has been concentrated in the short and intermediate maturities rather than lifting the curve uniformly. The curve's overall shape continues to signal that markets view a near-term recession as unlikely, even as uncertainty around the Fed's next move has increased since the July meeting. Bond market volatility also rose steadily throughout the month, with the MOVE index ending July at its highest level since the May spike. Higher volatility may persist under Chair Warsh until investors gain greater clarity on the Fed's reaction function under his leadership.



Source: Bloomberg

Credit Spreads

Credit spreads were wider in July

	Spread to Treasuries	One Month Ago	Change
3-month top rated commercial paper	(0.08)	(0.10)	0.02
2-year A corporate note	0.23	0.20	0.03
5-year A corporate note	0.50	0.49	0.01
5-year Agency note	0.01	0.02	(0.01)

Source: Bloomberg; data as of 7/31/2026

Treasury Yields

Treasury Curve Steepens;
Shorter - Dated Yields Rise, Volatility Picks Up

Treasury Yields	Trend	7/31/2026	6/30/2026	Change
3 month		3.76	3.82	(0.06)
2 year		4.29	4.18	0.11
3 year		4.35	4.18	0.17
5 year		4.45	4.23	0.22
7 year		4.53	4.34	0.19
10 year		4.74	4.47	0.27
30 year		5.27	4.95	0.32

Source: Bloomberg

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Market Data

Data as of 7/31/2026

	1-Mo Chg	% Chg
S&P 500		
7,489.72	(9.64)	(0.13%)
NASDAQ		
25,373.85	(839.87)	(3.20%)
Dow Jones		
52,485.03	165.83	0.32%
FTSE (UK)		
10,868.05	370.93	3.53%
DAX (Germany)		
25,623.24	627.43	2.51%
Hang Seng (Hong Kong)		
25,884.43	3,003.41	13.13%
Nikkei (Japan)		
64,362.02	(5,700.30)	(8.14%)

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

Equity indices closed out July on a firm note: the S&P 500 gained 0.7% in the final session to finish at 7,489.72, while the Dow Jones Industrial Average added 0.53% to 52,485.03 and the Nasdaq Composite advanced 1.0% to 25,373.85, leaving the three indices up roughly 9.4%, 9.2%, and 9.2% for the year, respectively. Second quarter earnings season has been unusually strong on the surface, with a blended growth rate near 47%, though that figure is heavily skewed by one-time accounting gains at Alphabet and Amazon; excluding those two companies, blended growth runs closer to 29%, still the second consecutive quarter above 20%. Roughly 88% of reporting companies have topped earnings estimates, comfortably ahead of the five-year average of 78%.

Consumer Prices

Inflation decelerated sharply in June, with the Consumer Price Index (CPI) falling 0.4% on the month – its largest decline since the onset of the pandemic in 2020 – and bringing the annual rate down to 3.5% from 4.2% in May. Core CPI (excluding food and energy) was flat on the month and rose 2.6% year over year, both coming in softer than expected after energy-driven pressures pushed inflation to a three-year high earlier in the quarter. The CPI report suggests at least a near-term reprieve in inflation. The Personal Consumption Expenditures Index (PCE), the Fed's preferred gauge, told a similar story: headline PCE fell 0.1% and decelerated to 3.7% annually, while core PCE rose 0.1% and cooled to 3.3% from a year earlier. Both measures remain well above the central bank's longstanding target, and officials have signaled they are unwilling to declare victory given how quickly the disinflationary trend could reverse if oil prices resume climbing.

Retail Sales

Households grew less optimistic in July even as they kept spending: the Conference Board's Consumer Confidence Index retreated 1.4 points to 90.8, extending a downward trajectory that has persisted since late 2021 amid elevated grocery and fuel costs. Retail sales, by contrast, advanced 0.2% in June and 6.7% year over year, a fifth consecutive month of growth even as gas station receipts fell 5.3% alongside softer pump prices. The divergence between softening sentiment and resilient spending illustrates a familiar pattern this cycle, with consumers still opening their wallets despite voicing unease about the broader economy. A labor market that remains robust, even as hiring decelerates, appears to be underpinning this spending for now.

Labor Market

Nonfarm payrolls increased by just 57,000 in June, well below the 113,000 consensus and marking a sharp slowdown from May's pace. The unemployment rate edged down to 4.2%, though the decline was driven by a drop in labor force participation to 61.5%, its lowest level since March 2021. Revisions further weakened the report's signal. April payrolls were revised down by 31,000 to 148,000, while May was lowered by 43,000 to 129,000, resulting in a combined two-month downward revision of 74,000.

Housing Starts

Home price growth showed further signs of firming, as the S&P CoreLogic Case-Shiller 20-City Composite rose 1.6% year over year in May, marking its second consecutive month of acceleration after an upwardly revised 1.2% increase in April. Housing starts also rebounded in June, rising to a seasonally adjusted annual rate of 1.427 million, a 19% increase from an upwardly revised 1.199 million in May. The gain was driven primarily by multifamily construction, with starts surging more than 76% month over month to 532,000 units, while single-family starts edged down slightly to 895,000. Freddie Mac's average 30-year fixed mortgage rate rose to 6.49% in late June from 6.44% in May, continuing to weigh on affordability for prospective buyers.

Economic Indicator	Current Release	Prior Release	One Year Ago
Trade Balance	(73.26) $B Jun. 30	(77.65) $B May 29	(58.70) $B Jun. 30
Gross Domestic Product	1.50% Jun. 30	2.10% Mar. 31	3.80% Jun. 30
Unemployment Rate	4.20% Jul. 31	4.20% Jun. 30	4.30% Jul. 31
Prime Rate	6.75% Jul. 31	6.75% Jun. 30	7.50% Jul. 31
Refinitiv/CoreCommodity CRB Index	385.10 Jul. 31	353.61 Jun. 30	299.78 Jul. 31
Oil (West Texas Int.)	$84.67 Jul. 31	$69.50 Jun. 30	$69.26 Jul. 31
Consumer Price Index (YoY)	3.40% Jul. 31	3.50% Jun. 30	2.70% Jul. 31
Producer Price Index (YoY)	5.50% Jul. 31	6.60% Jun. 30	1.90% Jul. 31
Euro/Dollar	1.15 Jul. 31	1.14 Jun. 30	1.14 Jul. 31

Source: Bloomberg

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