Monthly Fixed Income Market Update

VICTORY income investors®
A VICTORY CAPITAL® INVESTMENT FRANCHISE

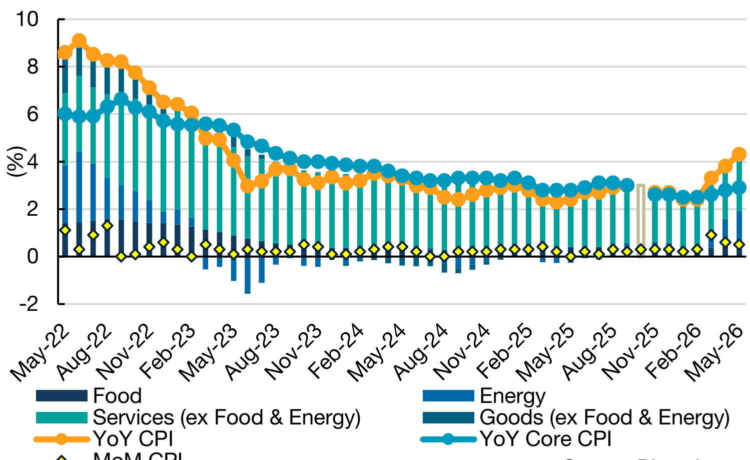
As of June 30, 2026

Key Takeaways

1. Short-term Treasury yields rose in June, driven by growing rate hike expectations. Long-term yields declined slightly from May. The 10-year yield ended the month at 4.47%, up from May's 4.44%.
2. The Federal Reserve held rates steady at their June meeting, as markets expected. Fixed income experienced positive performance in June and credit spreads remained tight quarter over quarter.
3. We have made it through the first half of 2026, what does the rest of the year hold for fixed income? We outline three themes.

The Month in Charts

May's CPI report, published in June, reflects the persistent impacts of high oil prices and related goods on inflation. Headline CPI rose to 4.3% year-over-year and Core CPI rose to 2.9% year-over-year, though oil prices began to decline in June. The Federal Reserve (the Fed) voted unanimously to leave rates unchanged at their June meeting and markets experienced their first meeting with Chair Warsh at the helm. As expected, the policy statement following the meeting was pared back from previous publications and the press conference included the announcement of multiple task forces as Warsh seeks to reform the Fed. At the end of June expectations for future monetary policy firmed slightly with markets pricing in higher chances of a rate hike in September and some even considering a hike in July, a meaningful departure from early 2026 forecasts.



Source: Bloomberg

Credit spreads were mixed in June, but tighter quarter over quarter despite significant issuance led by AI hyperscalers.

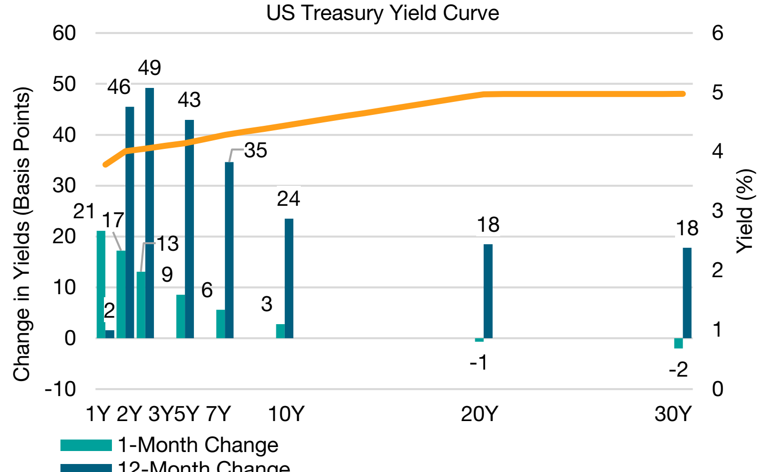
Asset Class	Yield	Spread	Trend	Quarter Tight	Quarter Wide	Change MoM	Change QoQ	Change YoY	Trailing 10 yr avg
U.S. Treasury	4.37								
U.S. MBS	4.97	24		17	29	2	1	-13	37
U.S. Corporate	5.20	74		71	85	2	-15	-11	112
U.S. Corporate High Yield	7.46	264		256	305	8	-56	-27	381
CMBS	4.88	65		63	71	-1	-7	-20	87
ABS	4.65	44		43	53	-3	-9	-13	54
A	5.08	63		61	71	2	-12	-9	92
BBB	5.39	92		90	107	2	-20	-15	143
BB	6.23	155		149	187	5	-42	-13	249

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 06/30/2026

Source: Bloomberg

Treasury yields concluded June higher in the short-term space and slightly lower for longer dated debt. The curve flattened as markets shifted from rate cut expectations to hikes. Though the opening of the Strait of Hormuz has driven lower oil prices, investors are still wary that inflation will persist and are demanding compensation for that risk.

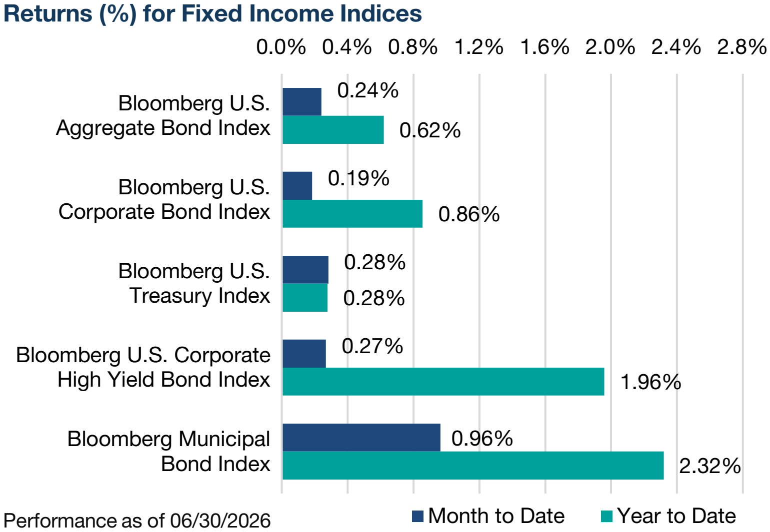
US Treasury Yield Curve



Source: Bloomberg

Performance was positive in June for major fixed income asset classes. Municipal bonds were the strongest performers followed by high yield corporates.

Returns (%) for Fixed Income Indices



Performance as of 06/30/2026

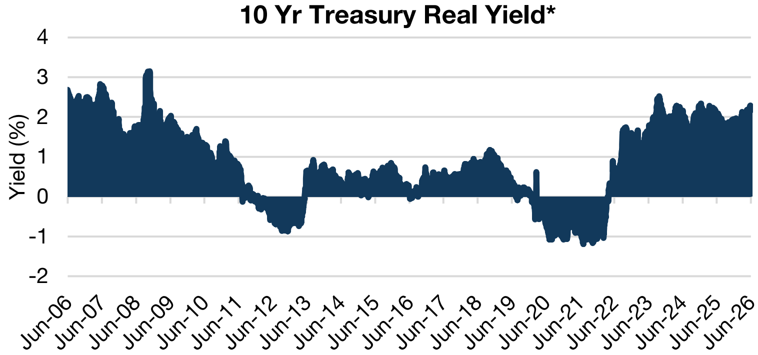
Past performance is no guarantee of future results.

Source: Bloomberg

Frequently Asked Questions

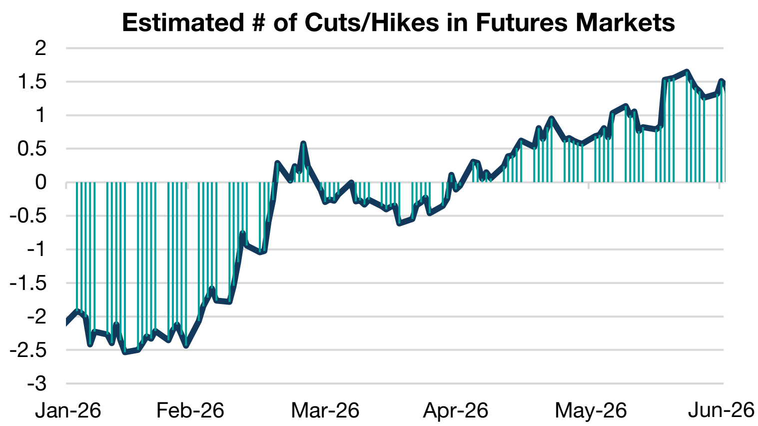
There was no shortage of crosscurrents in the first half of 2026: geopolitical tensions fueled inflation, monetary policy expectations shifted and AI drove much of the market narrative. Amidst the turbulence we continue to see value in fixed income as a potential income driver and ballast to equity risk.

1. Real yields, yield in excess of inflation, are positive and historically elevated which means investors are better compensated for the inflation risk.

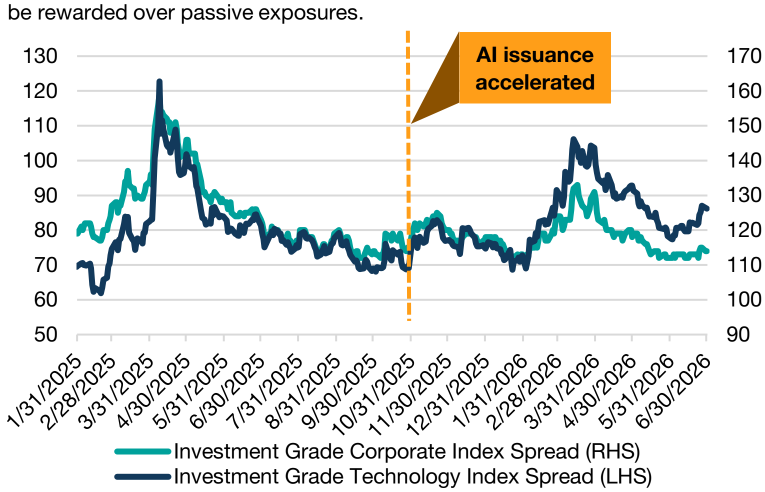


*As measured by the U.S. Treasury Constant Maturity 10-Year Yield Index

2. Market expectations have pivoted from rate cuts to rate hikes in 2026 in response to higher and potentially persistent inflation.



3. AI issuance has accelerated as many expected. In this environment we believe a discerning eye is consequential and active credit selection is likely to be rewarded over passive exposures.



While we are still defensive regarding credit risk given the historically low levels of corporate credit spreads, we are positive about fixed income. For additional information on sector views and additional insights we recommend taking a look at our 2026 Mid-year Outlook.

What We'll Be Watching in the Month Ahead

- **July 8th, FOMC Meeting Minutes:** These will potentially provide insights into how the FOMC is considering the current environment of inflation and labor.
- **July 14th, June's CPI Report:** This report will provide further insight into the impact of rising oil prices on the different components used to calculate inflation.
- **July 28-29th, the next FOMC Rate Decision:** Markets are pricing in a slim chance of a hike at this meeting. We expect the press conference may provide more insight into the future of monetary policy.

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 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.

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