

Global Fixed Income Team

Outlook & Strategy

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Market Recap & Outlook

The establishment employment release on June 5, 2026 was impressively strong. The May increase of 172,000, along with up-revisions to prior months, brought the three-month average monthly gain up to 188,000. This is a jobs boom. Wage inflation, measured by average hourly earnings, remained impressively stable at 3.4% year-over-year. NASDAQ then celebrated this tasty cocktail of great job growth and low wage inflation by falling 4%. What?

NASDAQ is a growth equity index. The NASDAQ 100 trailing P/E is about 35; its forward P/E is about 27. Investors are optimistic that these companies can grow rapidly, producing massive future profits. Current equity valuations depend on future earnings and cash flows as well as the interest rate used to discount them to a present value. The strong jobs data increased the probability that the next Federal Reserve (Fed) policy move will be a hike, rather than a cut, so the discount rate used to value these equities is being pressured upwards. Growth equity is a long duration asset.

The job of the Fed is arguably to minimize misery. The misery index, coined by Arthur Okun back in the Johnson Presidency, is the sum of the inflation and unemployment rates. It is also the basis of the Taylor Rule for Fed policy, in which the interest rate is set to minimize the gaps between target inflation and target unemployment rates. The futures market for the SOFR policy rate is our best predictor for future Federal Reserve policy as it captures the current collective expectations of investors. SOFR futures therefore react to changes in the inflation and labor market outlooks.



DAVID ROLLEY, CFA
Portfolio Manager

Until Friday June 5, 2026, most of the change had been in inflation, where we have seen a series of upward shocks, mostly having to do with the new Gulf War, along with demand pressures on electricity, chips, etc., from the AI server cap-ex boom. Now we seem to have killed off any hopes that labor market weakness might provide an offset.

Our Strategy

For now, we expect the Fed to hold interest rates steady. Headline Consumer Price Index (CPI) is expected to breach approximately 4% later this week, although the oil effects may be transitory. Nonetheless, the risks of a policy hike have risen as the labor market has tightened. Labor demand seems to be improving while labor supply is flat. If wage inflation begins to rise once more, then we would expect the Fed to respond, in our view. SOFR futures markets now believe that the probability of a future hike is greater than a future cut. We agree. We believe the economy and especially earnings, seem to be growing too strongly for wage inflation to remain as well-behaved as it has been, unless AI productivity gains can somehow offset these pressures. This is not a background for a bond market rally, in our view.

Important Disclosure

Key Risks:

Credit Risk, Issuer Risk, Interest Rate Risk, Liquidity Risk, Non-US Securities Risk, Currency Risk, Derivatives Risk, Leverage Risk, Counterparty Risk, Prepayment Risk and Extension Risk. Investing involves risk including possible loss of principal.

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There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return.

Past market experience is no guarantee of future results.

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About the Team

Our strength is rooted in decades of honing our research and investment processes to consistently navigate ever-changing global markets.

1986

Global Bond Portfolio Established

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Institutional Accounts & Commingled Vehicles

\$37.3

Team Assets Under Management (Billion USD)

As of 3/31/2026

