U.S. Fixed Income

June 2026

Economic and U.S. Treasury Market Review

U.S. manufacturing increased more than expected in May, reaching the highest level in in four years. The ISM Manufacturing PMI registered 54.0, up from 52.7 in the prior month, as businesses front-loaded orders amid rising prices and shortages due to the war with Iran. Any result above 50.0 indicates economic expansion. The PMI remained above 50 for the fifth straight month.

The **U.S. labor market** topped forecasts in May, with the economy adding 172,000 nonfarm payroll jobs and hiring in March and April was stronger than previously reported. This resulted in the strongest three-month advance in more than two years. The unemployment rate, meanwhile, held steady at 4.3 percent.

Inflation (CPI-U) climbed further in April, as the Iran conflict kept energy costs high. The consumer price index increased a seasonally adjusted 0.6% for the month, putting the annual inflation rate at 3.8%, the largest gain in three years. Excluding food and energy, core prices advanced 2.8% from a year ago, which was also above forecasts.

Consumer Confidence declined slightly in May as gas prices stayed high and inflation remained elevated. The Conference Board's Consumer Confidence Index slipped 0.7 points to 93.1 for the period, which was ahead of the forecasted 92.0.

Yield Curve

U.S. Treasury yields edged higher across the curve during the month of May. The yield on the 2-year Treasury note, which is highly sensitive to expectations for the Fed Funds rate, started the month at 3.87% and rose to 4.00%. The 10-year U.S. Treasury note, which is typically used as a benchmark for pricing home mortgages, began May at 4.38% and ended at 4.44%. The yield on the 30-year U.S. Treasury bond, which tends to be more sensitive to changes in long-term economic expectations, ticked up from 4.96% to 4.97%.

Inflation remained a dominant concern for the FOMC during the month. Many Fed speakers, for example, emphasized the importance of keeping inflation expectations anchored. An increasingly discussed topic for the committee has been structural change for the U.S. economy, particularly regarding productivity growth. While members could see the potential for Artificial Intelligence to lead to a productivity renaissance at some point, they have expressed uncertainty on the timeline and the impacts to future Fed policy. Lastly, communications has also garnered some attention as new Fed Chairman Kevin Warsh has criticized the FOMC's communication strategy, particularly the use of forward guidance.

ISM Manufacturing Index is based on data compiled from a nationwide survey of purchasing and supply management executives. The Consumer Price Index For All Urban Consumers (CPI-U) measures the changes in the price of a basket of goods and services purchased by urban consumers. The Consumer Confidence Index is a survey that measures how optimistic or pessimistic consumers are regarding their expected financial situation.

TOTAL RETURN PERFORMANCE (%)

	May 2026	YTD	2025	2024	2023	2022
Bloomberg U.S. Aggregate Bond	0.31	0.38	7.30	1.25	5.53	-13.01
Bloomberg Long Govt/Credit Bond	0.96	0.06	6.62	-4.15	7.13	-27.09
Bloomberg Int. Govt/Credit Bond	0.11	0.30	6.97	3.00	5.24	-8.23
Bloomberg 1-3 Year Govt/Credit Bond	0.16	0.69	5.35	4.36	4.61	-3.69
Bloomberg U.S. Credit Bond	0.67	0.65	7.83	2.03	8.18	-15.26
Bloomberg Global Agg (Ex-U.S. Hedged)	0.87	1.08	2.80	4.97	8.32	-9.76
10-Year Treasury	0.01	-0.30	7.82	-1.69	2.83	-16.28
ICE BofA U.S. High Yield Constrained	0.49	1.64	8.50	8.20	13.47	-11.21
J.P. Morgan EMBI Global	0.82	2.19	13.45	5.73	10.45	-16.45
S&P 500	5.26	11.27	17.88	25.02	26.29	-18.11

YIELDS (%)

	May 2026	MTD Change	YTD Change	2025	2024	2023	2022
2-Year Treasury (%)	4.00	0.13	0.53	3.47	4.24	4.25	4.43
5-Year Treasury (%)	4.14	0.14	0.42	3.73	4.38	3.85	4.00
10-Year Treasury (%)	4.44	0.06	0.27	4.17	4.57	3.88	3.88
30-Year Treasury (%)	4.97	0.01	0.13	4.84	4.78	4.03	3.96
3-Month SOFR (%)	3.66	-0.01	0.01	3.65	4.31	5.33	4.59

OPTION-ADJUSTED SPREADS (BPS)

	May 2026	MTD Change	YTD Change	2025	2024	2023	2022
U.S. Corporate	71	-7	-6	77	80	99	130
U.S. Credit	67	-6	-6	73	76	93	121
U.S. Credit AA	42	-4	-4	45	45	51	70
U.S. Credit A	60	-5	-4	64	69	85	108
U.S. Credit BBB	90	-8	-8	98	100	122	158
U.S. MBS	22	2	0	22	43	46	51
CMBS	72	-1	-9	82	88	137	130
ABS	46	-2	-6	52	43	68	75
U.S. High Yield	272	-11	-9	281	292	334	483
U.S. High Yield BB	161	-10	-6	167	186	205	310
U.S. High Yield B	297	-6	5	293	296	343	519
U.S. High Yield CCC	937	28	73	863	726	852	1154
Leveraged Loans	442	1	38	404	405	463	580
Emerging Market Debt	164	-6	-15	179	220	297	446

Source: Bloomberg, as May 31, 2026.

Investment Grade Review

Investment Grade Bonds Up Modestly In May

The Bloomberg U.S. Aggregate Bond Index returned 0.31% during a period in which U.S. Treasury yields edged up modestly and credit sector performance was generally positive versus similar-duration U.S. Treasuries.

Corporate bonds were the top performers, besting similar-duration Treasuries by 56 basis points. Within the sub-sectors, industrials finished ahead of both utilities and financials.

Mortgage-backed Securities (MBS) were next, outperforming same-duration Treasuries by 13 basis points. In the sub-categories, Freddie Macs did better than Ginne Maes and Fannie Maes.

Commercial mortgage-backed securities (CMBS) closed with 9 basis points of excess returns. Within this sector, non-agency CMBS finished ahead of agency CMBS for the period.

Asset-backed securities (ABS) ended the period with 8 basis points of excess returns versus similar-duration Treasuries. Within the sub-sectors, autos outperformed utilities and credit cards.

Government-related securities (GRS) finished with -1 basis point of negative excess returns. For the month, local authority bonds had the highest relative returns.

BLOOMBERG U.S. AGGREGATE INDEX PROFILE

Index Characteristics	Month End	12/25	12/24
YTW (%)	4.66	4.31	4.90
OAS	25	27	34
Modified Duration (yrs.)	5.82	5.89	5.96
# of issues	14,071	13,974	13,703

	Total Return (%)		Excess Returns (BPS)*	
	MTD	YTD	MTD	YTD
U.S. Agency	0.09	0.47	-0.05	0.06
U.S. Credit	0.67	0.65	0.49	0.81
BBg Mortgage	0.30	0.77	0.13	0.52
BBg CMBS	0.13	0.65	0.09	0.65
BBg ABS	0.25	0.86	0.08	0.39

	Total Return (%)		Excess Returns (BPS)*	
	MTD	YTD	MTD	YTD
U.S. Treasury	0.11	0.00	0.00	0.00
Aaa Credit	0.14	0.30	0.03	0.28
Aa Credit	0.54	0.36	0.31	0.55
A Credit	0.64	0.51	0.44	0.68
Baa Credit	0.82	0.91	0.64	1.08

			Excess Returns (BPS)*	
Asset-Backed Sector	%MV	MTD	YTD	2025
Credit Cards	25.8	5	22	63
Autos	52.1	9	37	64
Utility	14.1	5	73	18

* Excess returns relative to similar-duration U.S. Treasury securities.

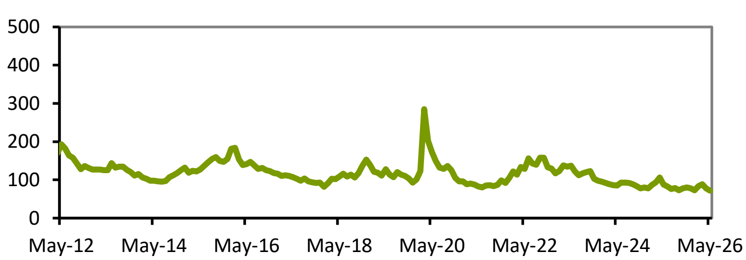
BLOOMBERG CORPORATE SECTORS

			Excess Returns (BPS)*	
	%MV	MTD	YTD	2025
Banks	22.2	39	43	177
Consumer Non-cyclical	15.1	53	81	159
Technology	10.3	84	91	-5
Electric Utilities	9.0	56	103	106
Consumer Cyclical	7.5	54	75	122
Communications	7.2	54	75	122
Energy	7.2	67	180	155
Capital Goods	5.5	46	90	170
Insurance	4.5	74	90	142
REITs	2.7	45	77	155

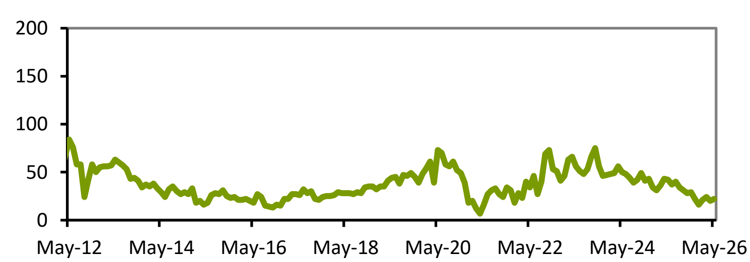
* Excess returns relative to similar-duration U.S. Treasury securities.

			OAS (BPS)	
	Month End	12/25	12/24	12/23
Banks	70	71	80	110
Consumer Non-cyclical	61	67	74	84
Technology	73	76	64	73
Electric Utilities	76	84	82	105
Consumer Cyclical	63	71	71	85
Communications	86	96	97	113
Energy	73	89	92	108
Capital Goods	56	63	70	78
Insurance	81	89	88	105
REITs	69	76	81	121

BLOOMBERG CREDIT OPTION-ADJUSTED SPREAD (BPS)



BLOOMBERG MBS OPTION-ADJUSTED SPREAD (BPS)



Source: Bloomberg, as of May 31, 2026.

High Yield Review

High Yield Bonds Return 0.49% in May

High yield bonds, as measured by the ICE BofA U.S. High Yield Constrained Index, returned 0.49% in May. High-yield bonds gained alongside a 5.3% surge in the S&P 500 amid signs of progress in U.S.-Iran negotiations and as investors absorbed robust earnings, favorable macro data, firmer inflation, and steady inflows. Oil prices finished the month of May at $87.36, down from $105.07 per barrel at the end of April. The decrease in May was primarily due to hopes of a peace plan among the conflict with Iran.

High-yield mutual funds reported an inflow of $0.6B during the month. ETFs accounted for $0.5B of inflows in May and actively managed funds reported a $0.1B inflow. Bond issuance was positive again in May as $27.0B in bonds priced during the period. There were no defaults in May. In May, the top performing industry was technology & electronics. As measured by the ICE BofA U.S. High Yield Constrained credit quality indices, the single-B, double-B, and triple-C and lower credit bonds all posted positive returns of 0.69%, 0.53%, and 0.31, respectively.

The price of high yield bonds finished the month at $97.32, down from $97.33 at the end of April. Spreads decreased -9 basis points to 274 at month-end. Yields decreased -2 basis points to close May at 7.00%. The default rate for the U.S. high yield market as calculated by ICE ticked slightly lower to 1.85% at the end of May.

ICE BofA U.S. HIGH-YIELD CONSTRAINED INDEX PROFILE

	Month End	12/25	12/24
YTW (%)	6.96	6.56	7.43
Modified Duration (yrs)	3.74	3.72	3.74
OAS (bp)	272	279	290
# of Issues	1,881	1,925	1,878

TOTAL RETURN (%)

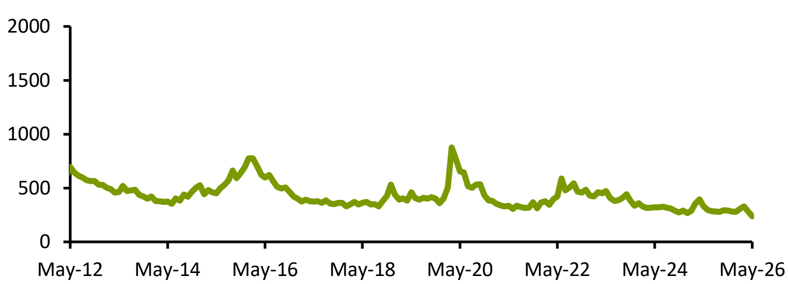
	%MV	MTD	YTD	2025	2024
ICE BofA U.S. High-Yield Constrained	100.0	0.49	1.64	8.50	1.68
Cash Pay	98.3	0.49	1.65	8.55	1.68
BB-rated	59.3	0.53	1.63	8.93	1.52
B-rated	31.9	0.69	2.13	8.38	1.44
CCC-rated	8.8	0.31	0.53	6.46	3.33

ICE BofA HIGH-YIELD CORPORATE SECTORS

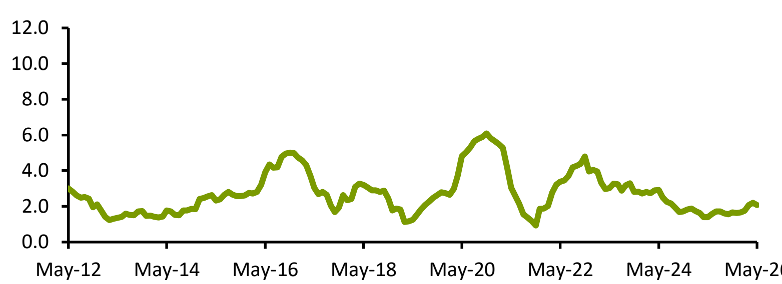
	%MV	OAS (BPS)	MTD	YTD	2025	2024
Energy	10.7	164	0.35	4.52	7.22	7.54
Healthcare	8.9	247	0.53	2.05	11.41	11.20
Technology	7.6	304	1.47	0.43	7.16	8.66
Telecom	7.0	331	0.47	2.95	12.03	8.00
Cable TV	3.6	668	-1.98	-0.29	6.58	8.50
Gaming	3.5	250	0.43	1.24	8.19	6.74
E. Utilities	3.3	164	0.48	2.07	8.21	5.98
Chemical	3.3	248	0.77	2.94	4.32	8.70
Autos	3.0	266	0.79	1.53	8.99	7.07
Paper	0.1	2153	2.62	-13.46	-8.72	9.56

Source: ICE BofA, as of May 31, 2026.

HIGH-YIELD BOND SPREADS (OAS BPS)



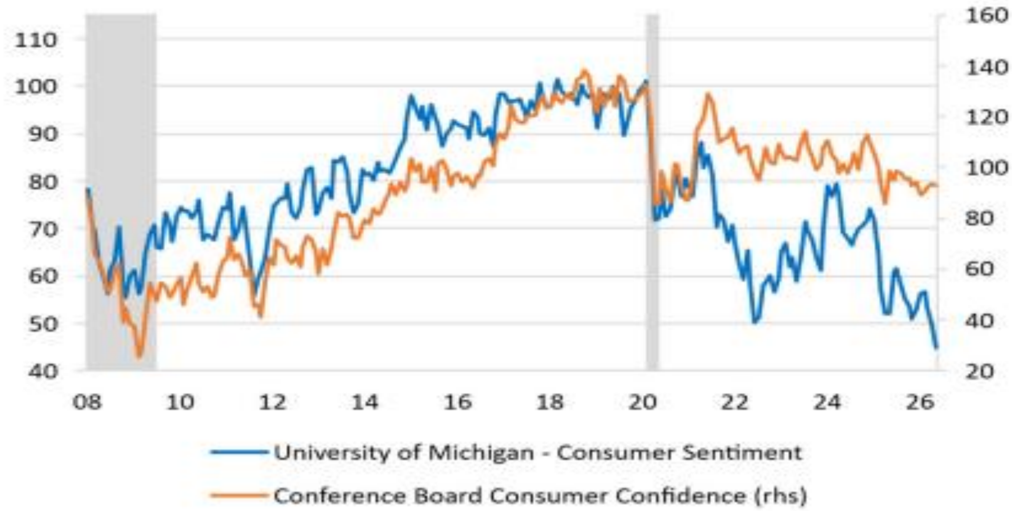
ICE BofA TRAILING 12-MONTH DEFAULT RATE (%)



Source: ICE BofA and Bloomberg, as of May 31, 2026.

Chart of the Month

The University of Michigan's consumer sentiment measure is at record lows. The labor-focused Conference Board's measure of consumer confidence is comparatively more upbeat but remains close to post-pandemic lows.



Source: Haver as of May 31, 2026. Grey lines indicate recessions. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All market indices are unmanaged. Not intended to represent the performance of any Fidelity fund.

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INDEX DEFINITIONS:
Bloomberg U.S. Mortgage-Backed Securities Index is a market value–weighted index of fixed–rate securities that represent interests in pools of mortgage loans, including balloon mortgages, with original terms of 15 and 30 years that are issued by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corp. (FHLMC).
Bloomberg Long Govt/Credit Bond Index: Measures the investment return of all medium and larger public issues of U.S. Treasury, agency, investment-grade corporate, and investment-grade international dollar-denominated bonds with maturities longer than 10 years.
Bloomberg Int. Govt/Credit Bond Index: measures the performance of U.S. dollar-denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.
Bloomberg 1-3 Year Government/Credit Bond Index is a market value-weighted index of investment-grade fixed-rate debt securities with maturities from one to three years from the U.S. Treasury, U.S. Government-Related, and U.S. Corporate indexes.
Bloomberg Global Aggregate Index: Flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.
Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage-back securities (agency fixed-rate pass-throughs), asset-backed securities and collateralised mortgage-backed securities (agency and non-agency).
Bloomberg U.S. Credit Bond Index is a market value–weighted index of investment–grade corporate fixed–rate debt issues with maturities of one year or more.
Bloomberg U.S. Government/Credit Index: A broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index. It includes investment grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities.
Bloomberg U.S. Treasury Index is a market value–weighted index of public obligations of the U.S. Treasury with maturities of one year or more.
ICE BofA U.S. High Yield Constrained Index is a modified market capitalization–weighted index of U.S. dollar-denominated below investment grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch). The country of risk of qualifying issuers must be an FX-G10 member, a Western European nation, or a territory of the U.S. or a Western European nation. The FX-G10 includes all Euro members, the U.S., Japan, the UK, Canada, Australia, New Zealand, Switzerland, Norway, and Sweden. In addition, qualifying securities must have at least one year remaining to final maturity, a fixed coupon schedule and at least $100 million in outstanding face value. Defaulted securities are excluded. The index contains all securities of The ICE BofA U.S. High Yield Index but caps issuer exposure at 2%.
J.P. Morgan Emerging Markets Bond Index Global (JPM EMBI Global) tracks total returns for the U.S. dollar-denominated debt instruments issued by emerging markets sovereign and quasi-sovereign entities, such as Brady bonds, loans, and Eurobonds.
Morningstar LSTA U.S. Performing Loans Index is a market value-weighted index designed to represent the performance of U.S. dollar-denominated institutional leveraged performing loan portfolios (excluding loans in payment default) using current market weightings, spreads and interest payments.
S&P 500 Index is a market capitalization–weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

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