

Views from our Alpha Pods

May 2026

Macroeconomic outlook

Fixed income markets reflect both geopolitical uncertainty and resilient economic fundamentals.

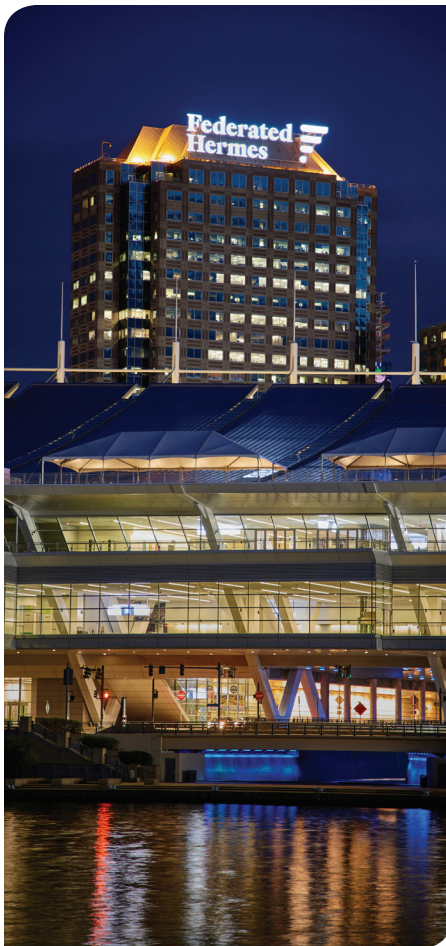
To date, risk assets have largely looked through the Iran conflict, supported by exceptionally strong corporate earnings and stable labor market conditions. At the same time, elevated energy prices are beginning to seep into inflation data, keeping Treasury yields high and complicating the Federal Reserve's policy calculus amid an ongoing leadership transition. The result is a market environment defined less by directional conviction and more by constrained ranges, heightened sensitivity to data, and shifting policy expectations.

The Federal Reserve may remain paused on interest rates for some time.

The April FOMC meeting was characterized by the most dissension in more than 30 years. Three Fed regional presidents objected to the easing bias retained in the FOMC statement, backing a more balanced message. Outgoing Chair Powell characterized the disagreement as consistent with the center of the FOMC moving toward neutral, but sentiment likely reflects a growing shift toward concerns about the inflationary impact of the Iran war. Longer-term inflation remains a concern with or without a resolution of the Iran war.

Global central banks are also focused on inflation.

For the eurozone countries and for many Asian nations, the war has produced higher energy prices and diminished available supply. Global investors remain focused on geopolitical risks, which could deepen stagflationary conditions, tighten financial conditions, and widen spreads once again. On the other hand, a resolution to the Iran war could quickly validate the current historical tightness in credit spreads and reverse the current hawkish lean by many of the G10 central banks (X-Japan).



By the numbers

Key fixed income stats and our directional expectations for the next 3 to 6 months.

	Prior data	Current data	Directional change from prior period	Our expectations
Unemployment rate*	4.30%	4.30%	–	–
Inflation (Core PCE YOY)**	3.00%	3.20%	▲	▲
Real US GDP Growth***	0.50%	2.00%	▲	▲
Federal Funds rate range upper bound****	3.75%	3.75%	–	–
2-year Treasury yield****	3.79%	3.88%	▲	▼
10-year Treasury yield****	4.30%	4.40%	▲	▼

*Bloomberg current as of 4/30/26, prior as of 3/31/26.

**Bloomberg current as of 3/31/26, prior as of 2/28/26.

***Bloomberg current as of 3/31/26, prior as of 12/31/25.

****Bloomberg current as of 3/31/26, prior as of 2/28/26.

PCE is Personal Consumption Expenditures.

Past performance is no guarantee of future results.

Alpha Pod overview

Federated Hermes' fixed income investment committees, the Alpha Pods, guide our firm's bond market views and positioning.

- Four independent pods (Duration, Sector, Yield Curve, Currency)
- Consists of portfolio managers, analysts and traders
- Monthly meetings with votes and recommendations
- Aimed at generating alpha from active management
- Security selection by portfolio managers combines bottom-up analysis with the top-down Alpha Pod input

Opportunities in fixed income

There is a range of return opportunities within fixed income that can be sourced from a variety of risk exposures such as sector, duration and quality. Fixed income investors vary with respect to risk tolerances, investment goals and time horizons.

Summary investment views

Based on lively committee discussions, the below themes summarize the views our Alpha Pods are using when making investment decisions.

Duration	Sector	Yield curve	Currency
Neutral on duration given clashing market signals and range bound Treasury yields.	With spread levels similar to the end of 2025, we don't see a reason to change current allocations.	A neutral stance is warranted with ever-changing inflation expectations and more due to the ongoing war.	We remain structurally bearish on the USD, although expect that the weakness will be more muted than in 2025.

The tenor of the conflict and enduring impact on oil supply and price remains unknown, but Treasury and commodity markets are quickly adapting. The credit sectors performed well over the month as markets looked through the conflict and focused on strong corporate earnings and resilient economic data.

Alpha Pod positioning and rationale

Portfolio construction and management are the responsibility of portfolio management teams; however, the Pods provide tactical direction to each team. The below reflects the Pods' positioning following their regularly scheduled meetings, occasionally the Pods change positioning intra-meeting.

Duration management Maintained neutral (100% of benchmark)	Conflicting signals from geopolitics, inflation, central bank policy, and fiscal dynamics have left Treasury yields range-bound, with equity markets expressing optimism while bond markets remain cautious about lingering inflation risks. With risks to yields fairly balanced and no clear catalyst in either direction, remaining neutral on duration remains appropriate.
Sector allocation Overweight: Treasuries Neutral: MBS; IG Underweight: HY; CMBS; EMD	The credit sectors performed well over the month as markets looked through the middle east conflict and focused on strong corporate earnings and resilient economic data. Spreads across the credit sectors are now at or near the closing levels of full year 2025. Given that dynamic, the group opted not to change any recommendation this month. Our active positioning in MBS, IG, HY, EM, and CMBS leaves a residual overweight in Treasuries and agencies, which serves as funding for attractive out-of-index opportunities in our most flexible strategies.
Yield curve analysis Held at neutral on the curve	Uncertainty over the duration of the war, and its impact on both inflation (and potentially inflation expectations) as well as global growth, make it difficult to have strong conviction on how the curve will react near term.
Currency management Underweight: USD	The dollar remains caught between two opposing forces: tactical support from geopolitical stress, versus the medium-term drag of potential Fed easing and the longer-term questions over the stability of the USD. A majority of the Federated Hermes Currency members continue to believe that USD weakness is poised to continue in the months ahead, but the timing will highly rely on the scale and duration of the Iran conflict.

As of 5/6/26.

Mortgage-backed securities (MBS). Emerging markets debt (EMD). Investment-grade corporates (IG). High yield (HY). Commercial mortgage-backed securities (CMBS).

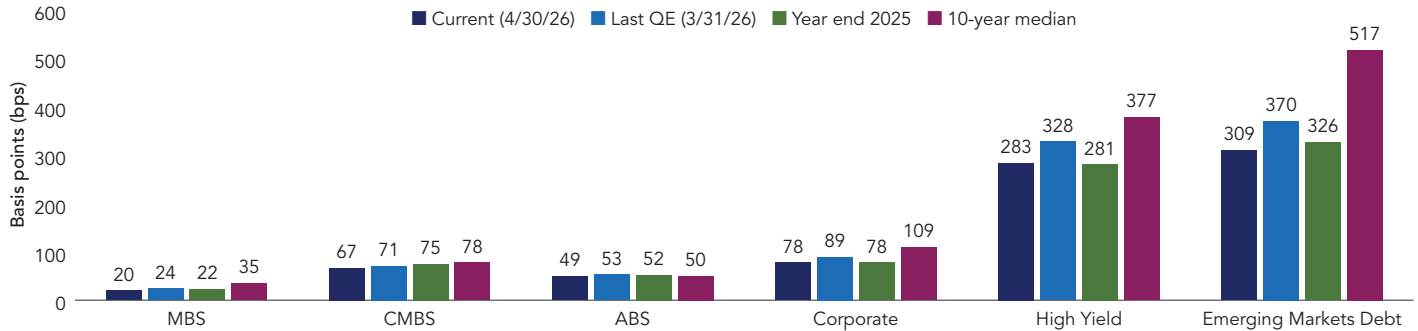
Sector snapshot

Spreads

We expect US Treasury supply to pick up in May and therefore spreads could soften and become more attractive. April was the second busiest month in history for IG supply.

Spread levels by sector (bps)

Compared to similar maturity US Treasuries



Source: Bloomberg indices (MBS, CMBS, ABS, Corporate EMD), ICE BofA (High Yield).

A deeper dive

The Sector Pod focuses primarily on the sectors included in the Bloomberg US Universal Index. Additionally, underlying teams and portfolio managers weigh in on out of index sectors that could be used. The below provides some additional context to our overall views.

MBS

Neutral: We maintain our neutral position to MBS. Higher mortgage rates are slowing refinancings, and the housing market remains slow. Net supply is lower year to date than expected. In April, volatility declined slowly, but still remains higher than pre-war. With that, nominal spreads have tightened and we see little apparent change in relative value.

CMBS

Underweight: We maintain our underweight positioning due to tight valuations and the overall macroeconomic uncertainty from the Iran war. The Fed will likely be on hold until the impact of the war is better understood. Despite the war though, CMBS spreads have not widened materially. CMBS delinquency rates remain high, but limited new issue supply has been a positive technical.

EMD

Underweight: Emerging markets posted a strong April, but we maintain our underweight positioning. There has been dramatic repricing on the hopes of a normalization of oil prices and end to the war in the Middle East. Globally, there has been a commitment to growing regional energy supplies and diversifying, on the margins, away from hydrocarbons. However, there is no pure immunity from a large energy shock.

IG

Neutral: We maintain neutral to IG as the US macroeconomic picture appears resilient, based on data release so far. We have seen strong demand for new issuance so far this year, around \$800 billion year to date, with deals multiple times oversubscribed. Consumer confidence appears relatively stable, but employment and inflation perception will be key.

HY

Underweight: We maintain an underweight but April was a strong month for HY. Credit fears were pushed to the background as the Iran war took center stage, but even concern for that has dropped off from a market perspective. Stocks moved to new highs and credit spreads tightened aggressively. With improvements in April, we saw cash flows into the sector turn positive.

Treasuries

Residual overweight: The process of our active sector decisions imply a suggested overweight to US Treasuries. In practice, this allocation serves as a funding source for out of index sector holdings such as trade finance, Treasury Inflation-Protected Securities (TIPS), asset backed securities and more in our most flexible strategies. US Treasury yields peaked following the Federal Open Market Committee meeting at the end of April but then dropped.


Overweight/underweight calls are relative to Bloomberg US Universal Index. Mortgage-backed securities (MBS). Emerging markets debt (EMD). Investment-grade corporates (IG). High yield (HY). Commercial mortgage-backed securities (CMBS). Asset-backed securities (ABS).

Our leadership in fixed income

<p>more than</p> <h1>55 years</h1> <p>managing fixed income products</p>	<p>team of over</p> <h1>100</h1> <p>fixed income professionals</p>	<p>our portfolio managers average</p> <h1>29 years</h1> <p>in the investment industry</p>	<p>our portfolio managers average</p> <h1>21 years</h1> <p>at Federated Hermes</p>
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Alpha Pods are chaired by seasoned leaders

Duration management	Sector allocation	Yield curve strategy	Currency management
11 voting members including Chair	9 voting members including Chair	11 voting members including Chair	7 voting members including Chair
Chaired by: R.J. Gallo <i>Chief Investment Officer, Global Fixed Income</i> Outlook based on: Business cycle analysis, Valuation indicators, Global attractiveness	Chaired by: Mark Durbiano <i>Co-Head of Domestic High Yield Group</i> Outlook based on: Historical spread analysis, volatility analysis	Chaired by: Donald Ellenberger <i>Head of Multi-Sector Strategies Group</i> Outlook based on: Federal Reserve policy, inflation expectations, proprietary multi-factor model	Chaired by: Ihab Salib <i>Head of International Fixed Income Group</i> Outlook based on: US current account/fiscal conditions, interest rate differential, expectations for growth



For dedicated municipal bond or short duration thought leadership from our team, reach out to your Federated Hermes representative.

Forward-looking statements or projections are subject to certain risks and uncertainties. Actual results may differ from those expressed or implied.

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector. Material has been prepared using sources of information generally believed to be reliable, but its accuracy is not guaranteed.

Bond prices are sensitive to changes in interest rates, and a rise in interest rates can cause a decline in their prices.

High-yield, lower-rated securities generally entail greater market, credit/default and liquidity risks, and may be more volatile than investment grade securities.

International investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards. Prices of emerging markets securities can be significantly more volatile than the prices of securities in developed countries and currency risk and political risks are accentuated in emerging markets.

The value of some mortgage-backed securities and asset-backed securities may be particularly sensitive to changes in prevailing interest rates, and although the securities are generally supported by some form of government or private insurance, there is no assurance that private guarantors or insurers will meet their obligations.

Investment-grade securities are securities that are rated at least "BBB" or unrated securities of a comparable quality. Non-investment-grade securities are securities that are not rated at least "BBB" or unrated securities of a comparable quality. Credit ratings are an indication of the risk that a security will default. They do not protect a security from credit risk. Lower-rated bonds typically offer higher yields to help compensate investors for the increased risk associated with them. Among these risks are lower creditworthiness, greater price volatility, more risk to principal and income than with higher-rated securities and increased possibilities of default.

2s/10s and 5s/30s spread: The difference in yield between the 2-year and 10-year and the 5-year and 30-year Treasury bonds, respectively, is a measure of yield curve steepness.

2s/30s steepener: Refers to the environment or expectation that the difference between 2-year Treasury and 30-year Treasury yields is widening. Investors employing this strategy aim to benefit from their expectation that the 30-year rate will rise more than the 2-year rate or that the 2-year rate will fall more than the 30-year rate.

Alpha: Measures the excess returns of a fund relative to the return of a benchmark index.

Duration: A measure of a security's price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

Key Rate Duration (KRD): A measure of the sensitivity of a security or the value of a portfolio to a 1% change in yield for a given maturity.

Yield Curve: Graph showing the comparative yields of securities in a particular class according to maturity. Securities on the long end of the yield curve have longer maturities.

Yield Spread: The difference between the quoted rate of return on different debt instruments.

Yield to Maturity (YTM): Used to determine the rate of return an investor would receive if a long-term, interest-bearing investment, such as a bond, is held to its maturity date. It takes into account purchase price, redemption value, time to maturity, coupon yield and the time between interest payments.

Bloomberg US Aggregate Bond Index: Is an unmanaged index composed of securities from the Bloomberg Government/Corporate Bond Index, Mortgage-Backed Securities Index and the Asset-Backed Securities Index. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indices are rebalanced monthly by market capitalization.

Bloomberg US Universal Index: Is an index that represents the union of the US Aggregate Index, US Corporate High-Yield, Investment-Grade 144A Index, Eurodollar Index, US Emerging Markets Index and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment grade or below investment grade.

Indexes are unmanaged and cannot be invested in directly.

Past performance is no guarantee of future results.