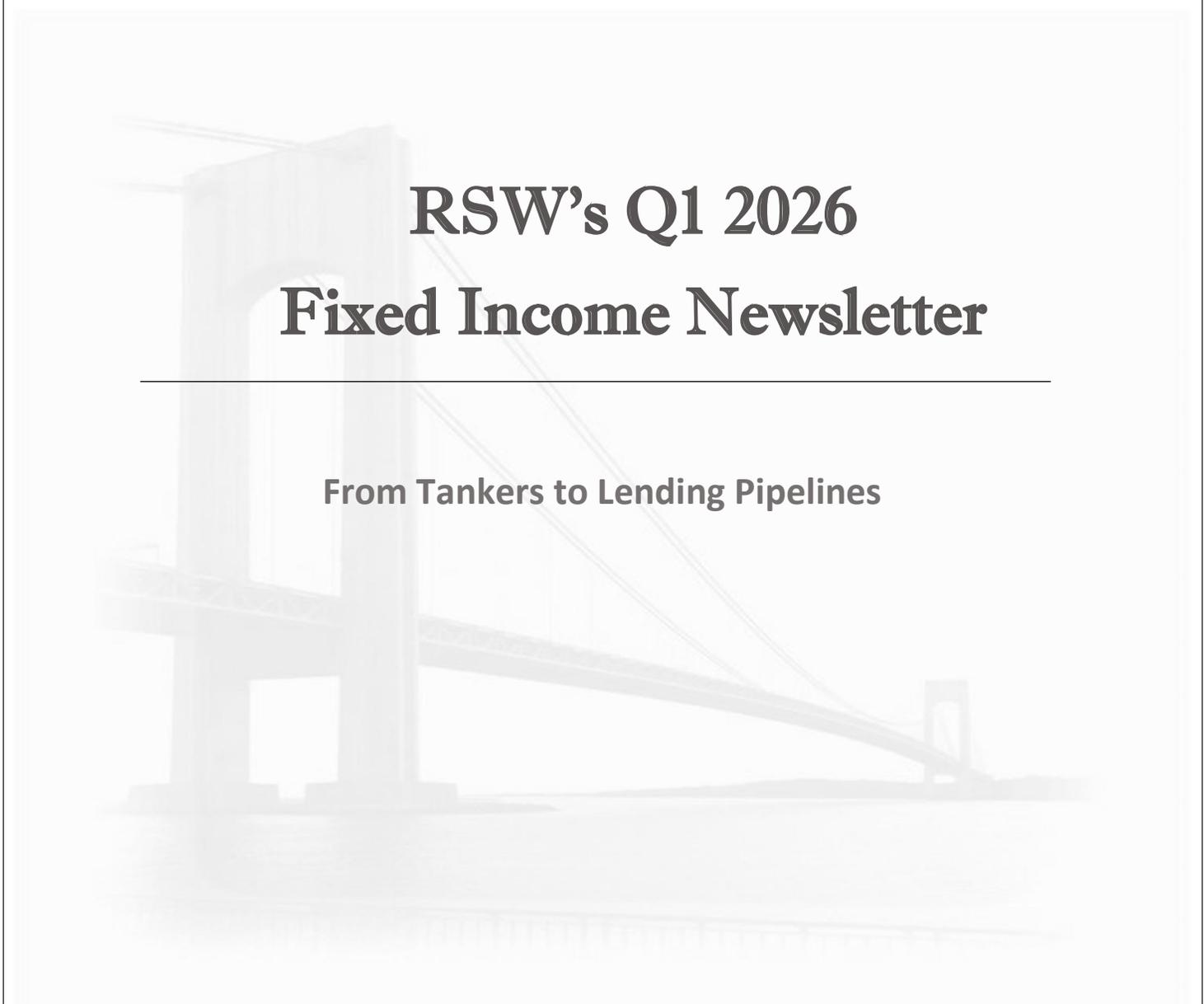


March 27, 2026



# RSW's Q1 2026 Fixed Income Newsletter

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From Tankers to Lending Pipelines

## From Tankers to Lending Pipelines

### A Different Kind of Market Tightening

In recent weeks, markets have delivered a clear reminder that conditions can evolve faster than headlines can keep up.

A significant source of recent market turmoil began on February 28, 2026, when a coordinated military operation struck multiple sites inside Iran. Retaliatory action followed almost immediately, and by the first week of March, one of the world's most important oil routes — the Strait of Hormuz — was effectively shut down.

Traffic through the area quickly dried up. With ships coming under fire and insurers backing away, tanker movement fell to nearly zero. Ports around the Gulf slowed their activity, and major shipping firms hit the pause button on new bookings. This blockage in a vital artery served to push oil dramatically higher, with prices peaking, at least for now, at \$120 per barrel.

### The Stagflation Narrative: Not So Fast

With oil moving higher, inflation still elevated, and the labor market cooling, it's easy to see why some observers are concerned that a long period of "stagflation" lies ahead. There's just one problem with that conclusion: just because it's popular doesn't mean it's accurate.

Yes, the inflationary pressures are disturbing, but the issue is more nuanced. Actual stagflation requires something very specific: a pace of inflation that continues to accelerate at the same time as the economy stalls. Historically, those two conditions don't coexist for long. When job growth slips and wages cool, inflation tends to follow, not surge.

Oil shocks tend to have a predictable pattern. First, prices spike. Then, after a few months, high fuel costs begin to pull spending out of the rest of the economy. If energy eats more of a household's budget, discretionary spending, such as dining out and travel, gets cut.

If past cycles are any guide, the real risk isn't stagflation at all; it's policymakers misreading this setup and treating it as structural inflation rather than a temporary shock. At that point, the cure (Federal Reserve decisions) tends to become worse than the disease.

### The Quiet Disruption: Pressure in the Private Credit Pipes

While geopolitical tensions have dominated the headlines, an equally important story has been developing under the surface of private credit. The market has grown from roughly \$1.3 trillion to more than \$2 trillion

(source: *Federal Reserve 2/6/2026*) in the past fifteen years, and the long standing, underemphasized question has always been the same: what happens when investors ask for liquidity? We're now finding out.

Over the past few weeks, several constraints have emerged. One large fund received redemption requests equal to about 14% of its assets. Another activated a withdrawal cap (a "gate") limiting redemptions to 5% and returning only roughly half of what investors requested (source: *WSJ 3/23/2026*). As concerns picked up, more managers began putting similar limits in place across the industry.

A gate may sound ominous, but it's not inherently a problem. These funds were never meant to operate like a money market fund that offers same-day liquidity. A gate simply slows withdrawals, so managers aren't forced to sell illiquid loans at fire sale prices.

That said, when multiple funds start gating at the same time, it's a sign that pressure is building. For years, capital flowed smoothly through the system with few surprises. That calm ended once a wave of investors turned on the faucets to access their cash at the same time.

This all fits a classic late cycle pattern. Credit channels that expanded rapidly are showing strain. Leverage that once looked brilliant now appears fragile. Illiquid loans are being confronted with investors who are no longer politely asking for liquidity. As a result, valuations are being questioned more often, and banks are starting to pull back on the same financing lines that helped private credit expand so quickly. It doesn't signal a crisis, but it does suggest the easy-money phase may be behind us.

As private credit funding conditions tighten, the importance of liquidity, discipline, and thoughtful positioning only grows.

### **Rates and the Path Ahead**

In earlier commentaries and in RSW's 2026 Outlook, we highlighted the key forces shaping the economy and interest rates. Specifically: "Aging demographics, massive public debt, persistent inflationary pressures, thinning levels of liquidity, fiscal insanity, and limited policy flexibility are themes spreading across the developed world."

These dynamics helped shape RSW's 2026 Investment Outlook, where we reiterated our view that 10-year U.S. Treasury yields would likely move above 4.50% in the early part of the year. At this juncture, we haven't settled on a precise endpoint for market rates, but we do expect the peak to reach or exceed last year's high of 4.79%.

Even with all that, our broader expectations remain intact. We expect rates to peak sometime in the back half of the year before beginning to drift lower. Historically, when inflation is elevated and market rates climb with it, the economy tends to lose momentum. That slowdown is often what sets the stage for yields to fall, and often once that move begins, it can happen fairly quickly.

It appears the bond market is seeing things the same way. Since the conflict with Iran started, the yield on the 2-year U.S. Treasury has risen approximately 56 basis points, while the 30-year has increased by only about 35 basis points. When short-term rates rise faster than long-term ones, it's known as a "bear flattener."

Frequently, this behavior sends a clear signal: the market expects oil to push inflation higher in the near term, but not over the long term. If we were heading into a 1970s spiral, the 30-year would be on fire. It's not! The long bond is skeptical, and historically, that's been a very reliable indicator.

### **RSW's Projected Path Through 2026**

For municipal bond participants, the story isn't simply about the fundamental health of issuers, which of course will be addressed shortly. It's really about a kind of "all at once" moment for markets, where energy supply, supply chains, inflation expectations, and risk appetites are shifting simultaneously.

While municipalities aren't shipping crude through Hormuz or participating in private credit structures, the crosscurrents can create ripple effects that touch the tax-exempt market in subtle but important ways.

Higher energy prices operate like a tax on households and businesses that can soften sales tax and income tax receipts and pressure other economically sensitive municipal issuers. At this juncture, we remain confident that these pressures will not meaningfully affect the financial health of the issuers that RSW lends monies to, but of course we're keeping a watchful eye.

For municipal investors, yields should continue to react quickly to headlines and inflation numbers that can swing from month to month.

For active municipal managers and investors, that's not necessarily bad news. Municipal credit strength remains sound for high-grade issuers, income remains compelling and is becoming more so, and bouts of interest rate fluctuations should afford RSW with the very opportunities that we have been waiting for.

Right now, we are maintaining a relatively defensive posture as we wait for the right setup, as highlighted in our 2026 outlook. As we expect conditions to improve in the second half of the year, we plan to extend the average portfolio duration (measure of interest rate sensitivity) and maturity of our client portfolios.

If our forecast proves correct, this will allow us to lock in higher yields for longer and better position our clients to capture greater levels of price appreciation when yields abruptly "about-face" and decline.

Robert S. Waas  
Chief Executive Officer/Chief Investment Officer

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