


June 29, 2026

A large, faint background image of a suspension bridge, likely the Manhattan Bridge, spanning across a body of water. The bridge's towers and cables are visible, and the water reflects the structure.

RSW's Q2 2026 Fixed Income Newsletter

The Fed, The Yield, and The Waiting Game

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The Fed's Renovation Project

Since the Federal Reserve always seems to find its way into the conversation, let's start there.

Most investors are aware that the Fed is in the middle of a major shake-up. Kevin Warsh took over as chairman on May 22, 2026, bringing with him a reputation for being tough on inflation and skeptical of easy-money policies. At his first press conference, Warsh left interest rates unchanged, but that wasn't the most important takeaway.

The bigger story was his announcement that nearly every aspect of the Fed would be put under review. He created five task forces to take a fresh look at how the Fed communicates, manages its enormous balance sheet, evaluates economic data, measures employment in an AI-driven economy, and even calculates inflation.

On one hand, a fresh perspective could be exactly what the Fed needs. The central bank has spent years struggling to get inflation forecasts right and has often been criticized for keeping interest rates too high, too low, or in place for too long. Given that track record, it's understandable why many would welcome a chairman willing to challenge old assumptions and rethink how things are done.

The tradeoff is uncertainty. When the rulebook is being rewritten, investors, businesses, and consumers are left wondering what will come next. Chairman Warsh appears comfortable with that. Unlike recent Fed leaders, he has shown little interest in providing detailed roadmaps or signaling future policy moves.

Whether this new approach restores confidence in the Fed or simply creates more questions remains to be seen. For now, the central bank is speaking less, changing more, and leaving everyone to wonder what the new rules of the game will be.

Welcome to the Next Normal

The most recent inflation reading marked the highest level of 2026. That said, it is likely we have already seen the peak for the year, as the acceleration in consumer prices was driven primarily by surging energy costs. That headwind, however, has now begun to reverse as oil prices have fallen sharply from their recent highs.

Even so, inflation remains above the Federal Reserve's target rate, and that alone is likely to keep policy restrictive. With underlying price pressure still proving to be relatively sticky, the Fed has limited incentive to begin easing in the near term.

As a result, interest rates are likely to remain restrictive until policymakers see clearer evidence that inflation is sustainably moving lower. Against this backdrop, we continue to believe that fixed income investors must adapt to a market environment that looks very different from the ultra-low-rate era that defined much of the last decade.

The economy has proven remarkably resilient despite higher borrowing costs. This has been supported by a steady labor market, substantial government spending, and significant private-sector investment in infrastructure and supply chains. If these trends persist, the economy's "normal" interest rate may ultimately settle at a higher level than investors have become accustomed to over the past ten years.

Higher interest rates have restored something bond investors lacked for years: meaningful income. In the decade following the financial crisis, investors often had to take additional risks or lock up capital for longer periods to achieve reasonable yields.

Today, that's no longer the case.

High-quality bonds once again offer compelling income on their own. If market yields settle at a higher long-term level than in the past decade, it could mark a lasting shift for fixed income investors. The result is higher, more reliable income without stretching for yield. Although the transition hasn't always been smooth, we believe it has created one of the most attractive environments for income-oriented investors in years.

Credit Isn't Just Credit Anymore

Over the past year, we've been tracking the strain building in private credit markets and recent data suggests these pressures are not isolated or temporary. Instead, they continue to broaden across the private markets complex.

More recently, several large managers have been forced to limit withdrawals or slow redemptions as investor demand for liquidity has picked up. While each situation is different, the common thread is the same: more investors are trying to get out at the same time than these structures were designed to handle.

These vehicles were built in an environment of abundant liquidity and easy funding conditions, where long lockups didn't really matter. That changes when redemption requests rise because the underlying assets simply don't trade frequently and can't always be sold quickly without significant execution constraints.

At this point, the story isn't about any one fund or manager. It's that redemption pressure is showing up across multiple parts of the private markets at the same time, even as public markets have largely looked past it. Whether that becomes a temporary liquidity issue or something more meaningful is still unclear, but the pressure itself hasn't gone away.

Patience Pays

From a portfolio perspective, our focus remains on high-quality income, and we continue to view rising interest rates as an opportunity rather than a concern. As we entered the year, we maintained a defensive posture while anticipating the possibility that the 10-year Treasury could test the 4.79% to 5.00% range. More recently, however, easing inflationary pressures, helped in part by lower commodity prices (namely oil), have provided us with the impetus to modestly extend duration (measure of interest rate sensitivity) through selective additions to longer-term bonds.

While our position remains cautious overall, this change reflects a more balanced risk-to-reward backdrop. Should yields shift higher toward our target range, we will seek to incrementally extend duration again by lengthening average maturities in client accounts. Our objective is straightforward: lock in attractive income while positioning portfolios to benefit as growth slows and rates eventually decline. Until then, patience, discipline, and a focus on quality remain central to our approach.

Munis: Stable Fundamentals, Strong Technicals

Within fixed income markets, high-quality municipal bonds remain one of the most compelling areas of opportunity. The creditworthiness of these well-rated municipal borrowers continues to be supported by stable tax revenues, strong balance sheets, and resilient credit quality.

Just as importantly, the technical backdrop remains exceptionally favorable. Year-to-date, investor demand for municipal bonds has reached its second-highest level on record, reflecting continued appetite for investment-grade, tax-advantaged income.

This combination of strong credit fundamentals and robust investor demand reinforces our constructive outlook on the municipal market. While absolute yields remain attractive by historical standards, municipals continue to offer a compelling source of after-tax income for investors seeking stability in an environment where economic and policy uncertainty remain elevated.

Robert S. Waas
Chief Executive Officer/Chief Investment Officer

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All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. An investment in any municipal portfolio should be made with an understanding of the risks involved in municipal bonds. Investing in municipal bonds and a municipal bond investment vehicle involves risks such as interest rate risk, credit risk, call risk, and market risk, including the possible loss of principal. The value of the portfolio will fluctuate based on the value of the underlying securities.

All performance referenced is historical and is no guarantee of future results.