# FCM Market Notes-May 22, 2026

**Bad Bond Expectations**

Expectations for what the Fed might do this year by the December meeting have shifted over the past month from a zero percent chance of any rate hikes to a 68% chance of at least one rate hike.  Bond investors need to be clear-eyed about the implications of that shift on return probabilities for the rest of this year.

In 2022, when the Fed began a rate hiking cycle in March that included a total of seven hikes, the total return for the broad US bond market was negative 13%.  While a hiking cycle of that magnitude is highly unlikely from here, its illustrative of the damage to total returns for bonds that comes when the Fed shifts gears.

In the past month as that expectations shift occurred, the total return for the broad bond aggregate was negative 0.84%.

A shift from expecting rate cuts to forecasting rate hikes puts a significant dent into the reason many investors hold bonds—to protect themselves against equity volatility—and is a clear signal your bond strategy should change.

The number of good investing options narrow dramatically in the current environment.  The ability to avoid poor outcomes is dramatically constrained. Over the past month, even 1-3 year treasuries produced a negative return, so hiding in very short maturity instruments, while a better option than longer maturity alternatives, is still not a great defensive device.

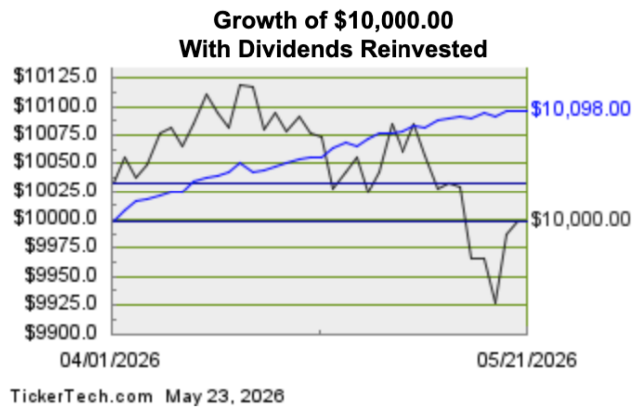
That is why one of our favorite options at this point in the rates cycle are floating rate bonds.  Floating rate bonds have interest payments that periodically reset.  So as interest rates rise, so too do these bonds payments:

## Key characteristics

| Feature | Floating-Rate Bond |
|---|---|
| Coupon | Variable |
| Interest-rate risk | Lower than fixed bonds |
| Best environment | Rising rates |
| Price volatility | Usually lower |
| Income predictability | Less predictable |

The returns generated by high credit quality floating rate bonds (JAAA) versus the broad bond index (AGG) in the past month illustrate that this is the perfect environment for them.

| | AGG | JAAA |
|---|---|---|
| Start date: | 04/01/2026 | 04/01/2026 |
| End date: | 05/21/2026 | 05/21/2026 |
| Start price/share: | $99.00 | $50.37 |
| End price/share: | $98.34 | $50.66 |
| Starting shares: | 101.01 | 198.53 |
| Ending shares: | 101.69 | 199.32 |
| Dividends reinvested/share: | $0.67 | $0.20 |
| Total return: | 0.00% | 0.98% |
| Annualized Gain: | 0.03% | 7.12% |
| Starting investment: | $10,000.00 | $10,000.00 |
| Ending investment: | $10,000.00 | $10,098.00 |
| Years: | 0.14 | 0.14 |




Holding a large portion of your fixed income exposure in floating rate bonds at this point in the cycle restores your ability to protect yourself against equity and market volatility.

There are several other psychological benefits. You don’t need to be able to predict a rate of inflation. If inflation rises substantially, you will be protected by the interest resets as the Fed responds.

Alternatively, if inflation shows signs of slowing, all an investor need do is to watch market expectations of the future path of Fed rates. The lower the odds of future rate hikes, the more you should shift towards a more traditional bond stance.

The Iran conflict, soaring oil and commodity prices, and the resultant higher inflation makes the “fixed” in fixed income more of a risk than a benefit right now. Especially since we are in the context of a highly appreciated equity market, its incumbent upon investors to re-think their bond exposure now.

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### Schedule A Meeting with James Barrineau

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