

Global Fixed Income Team

Outlook & Strategy

What if the US Treasury market had a signature song of the summer?

Market Recap & Outlook

If the US Treasury market had a signature song of the summer, it might be Summer-time Sadness, or perhaps Stairway to Yield Heaven. From 4.4% in June, the US ten-year yield has risen to 5.3%, with the rise accelerating in early September. A September Federal Reserve hike plus futures market forecasts of more tightening have not turned around sentiment. Neither, to our surprise, has the news that the Strait of Hormuz is mostly open, with non-Iranian transit volumes approaching pre-conflict levels in recent weeks. Despite these volume gains, Brent oil prices have continued to hover around \$100 per barrel. Maybe this reflects how low inventories have become. Absent a conflict re-acceleration, there seems to be some down-side price room here.

Oil aside, inflation data are improving. The core personal consumer expenditure deflator, the Fed's preferred inflation measure, has stabilized at 3.0% yoy, after rising earlier in the year. Revisions helped. Even better, the core CPI has continued to decline, and is now at 2.4%, lower than where past Fed policymakers have cut interest rates. But that's not all, bond shoppers! Average hourly earnings have fallen to 3.0% year over year, down from 3.8% a year ago. Given that productivity is tracking above 2%, this implies a unit labor cost of less than 1%. Inflation futures are stable, in our view. This bond bear market is a real rate phenomenon.

US growth is accelerating, with booming August retail sales and capital spending driving the Atlanta Fed's GDP Now estimate for Q3 to 3.7% currently. Faster real growth often correlates with higher real rates, so perhaps there is no mystery at all. But after suffering through years of negative real yields not so long ago, we now see real yields of 3% if inflation break-evens are used to deflate the nominal ten-year. We view this as the best value story for bonds since before the GFC. Yield heaven may have been achieved, though it feels more like yield purgatory for most fixed income investors this quarter, in our view.

Sources: Bloomberg, as of October 5th, 2026.
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DAVID ROLLEY, CFA
Portfolio Manager

We believe we are not, however, in credit spread heaven, as the US IG spread index is at 82bp. The Euro-zone offers better value at 100bp, aided by the impressive deterioration in sentiment towards France, in our view. As we have noted before, French politics do not lend themselves to political austerity, which France needs with a 5% of GDP budget deficit. Japan and the United Kingdom are currently seen by economic analysts as better fiscal stories. Not good stories, mind you, just better than France. The US dollar has been stronger lately, aided by the September Fed rate hike, by the improving growth story, and sustained positive equity sentiment. French fiscal woes are not helping the Euro. US exceptionalism is back, with AI characteristics.

Our Strategy

Looking forward, we are positive USD duration and duration more broadly. We remain cautious regarding non-US FX, though local events can materially move currencies, as the strong electoral showing of Bolsonaro just did in Brazil. We are cautious towards credit spreads, and choose to be selective, while finding value in some individual issuers. Once more, the biggest risk for credit spreads as well as the USD would be a deterioration in the US large-cap equity AI story. We await the Anthropic IPO with interest.

Important Disclosure

Key Risks:

Credit Risk, Issuer Risk, Interest Rate Risk, Liquidity Risk, Non-US Securities Risk, Currency Risk, Derivatives Risk, Leverage Risk, Counterparty Risk, Prepayment Risk and Extension Risk. Investing involves risk including possible loss of principal.

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Past market experience is no guarantee of future results.

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About the Team

Our strength is rooted in decades of honing our research and investment processes to consistently navigate ever-changing global markets.

1986

Global Bond Portfolio Established

80+

Institutional Accounts & Commingled Vehicles

\$38.6

Team Assets Under Management (Billion USD)

As of 9/30/2026