



Asset Management Market Flash:

Pressure on Interest Rates Is Mounting

02 October 2026

- **The strength of the U.S. economy is driving yields higher, despite a PCE reading that fell short of expectations. However, markets expect the Fed to maintain its current policy stance in October, with yield curves steepening.**
- **Long-term rates are rising, particularly in France, where the spread over Germany exceeds 140 basis points. Fiscal and political uncertainties are fuelling concerns about the sustainability of French debt.**
- **Oil prices are stabilizing at high levels, while tensions over diesel remain.**

The main concern on markets this week was the higher-rates-for-longer scenario. Rising government bond yields, especially in the US, rekindled worries of a more restrictive monetary environment with a lasting impact on risk assets. 10-year US Treasury yields hit 5.20% while the 2-year Treasury broke above 4.90%. Yields on the 10-year German Bund also rose sharply. The tension reflects better-than-expected US indicators, soft demand for Treasury auctions and a persistently restrictive Fed. Growth stocks suffered, the US dollar rose and gold came under pressure.

The end of the third quarter saw renewed volatility on equity and fixed income markets. Interest rate volatility hit highs last March during the first month of the Middle East conflict. Government bond yields continued on the trend established by last week's upbeat advanced indicators. The final estimate of US GDP for the second quarter provided confirmation that the economy was in fine form and consumption was even revised higher. This week's weekly jobless claims fell below 200,000. And yet, the Fed's preferred inflation gauge, the PCE, came in below expectations in August, thereby favouring the idea of no move from the Fed when it meets this month. Consumer confidence, however, as measured by the *Conference Board*, hit a 12-year low. But as investor expectations for an October rate hike retreated, short rates fell and the yield curve steepened. It was the same story in Europe. Long bond rates hit highs with France suffering the most. The OAT-Bund spread even broke above 140bp, reaching the level last seen in 2012 at the height of the eurozone debt crisis. Against this backdrop, the French government presented its draft budget for 2027 with a 5% deficit target. The problem is that the Presidential elections next year and a fractured national assembly could make it difficult to get the draft approved, exacerbating fears on how sustainable France's debt is. France's woes spread to other eurozone countries, and they saw their 10-year spreads with Germany widen.

News on oil supplies was better this week thanks to indications that Middle East shipments were getting nearer to pre-conflict levels. But there was no real impact on oil prices, which remained at high levels. Worse, prices for refined products like diesel started to rise again. Several news reported a possible curb on US diesel exports if European countries refused to release some of their strategic stockpiles. European officials met to tackle the question and energy prices eased a little at the end of the week.

We remain slightly positive on risk assets. The US economy is fundamentally strong, and the approaching results season should underpin equities. We are also upbeat on duration as it now offers interesting yields and could provide protection should the economy slow.



European equities

Bond market yields continued to rise in a week which also saw the beginning of the *Capital Markets* season.

France remained centre stage as the first draft of the 2027 finance bill was released. The government is forecasting a deficit at 5.4% but it is targeting a return to 5% next year. Investors are, however, still wary about the fiscal trajectory. The 10-year OAT-Bund spread shot above 140bp today, up from 85bp at the beginning of September, a level not seen since 2012 and a token of how seriously perception of French risk has worsened. Yields on the 10-year OAT are now flirting with 5% and putting pressure on French assets and companies which are the most exposed to tax rises and/or financing costs.

In company news, the data centre theme remained topical. **Rexel** acquired **GCG**, a cable specialist in the US. At its *Capital Markets Day* in Singapore, **Legrand** satisfied investor expectations by upping guidance on growth, margins and acquisitions. European semiconductor plays rose after **Micron**'s results highlighted the imbalance between supply and galloping demand, especially for artificial intelligence solutions. **Technip Energies** won technological and engineering contracts for a Turkish petrochemical complex, a reflection of strong demand for its proprietary solutions. On the other hand, **Vinci**, **Eiffage** and **ADP** came under pressure on a possible rise in levies on long distance transport that could significantly hit earnings. **Capgemini** bounced after **Accenture**'s reassuring figures showcased how much *IT services* were benefiting from AI demand.

In M&A news, **LVMH**, **L'Oréal** and **Essilor Luxottica** could start talks with **Armani** over taking a stake. One option is for the three groups to share 15% of Armani's capital. In healthcare, **AstraZeneca** paid \$2bn for 12% of **Summit Therapeutics** to accelerate the development of *Ivonescimab*, an experimental drug for certain cancers. **Sanofi** expanded its global alliance with **Regeneron** to cover four new antibodies. The deal could be worth as much as \$8bn.

US equities

The S&P 500 shed 0.5% and the Russell 200 ended the period 1.1% lower, but the Nasdaq was practically unchanged (+0.1%). Manufacturing PMI came in at 54.5, yet another sign of a robust economy. The dollar jumped 1% while 10-year US Treasury yields hovered around 2007 levels at 5.2%. Brent crude remained at \$100.

Tech jumped 1.37% and the SOX index rose 2.7%. **Accenture** (+19.7%) surprised on the upside by reporting a 5% increase in quarterly bookings at constant exchange rates when analysts were expecting a drop. Results at **Micron** (+1.6%) swept past expectations and boosted investor optimism on the semiconductor equipment sector. Donald Trump convened a meeting with heads of AI tech companies to get them to sign an agreement on establishing technology and data security checks.

Healthcare (2.8%) led declines as investors rotated into tech and AI plays. **Eli Lilly** lost 2,7 % and **Johnson & Johnson** tumbled 4.4%.

Financials shed 0.1% due to sector rotations, persistently high interest rates and worries over the possible impact of autonomous agents on their deposit-taking model. **JPMorgan** shed 1,6% and **Goldman Sachs** 2.9%. **Blue Owl Capital** (-3.2%) lost further ground after **Oracle** (-1.1%) claimed *force majeure* and the private credit segment remained fragile.



Emerging markets

The MSCI EM was down 1.34% in USD on the week to Friday. Brazil was up 1.32%. Mexico, India, Korea, Taiwan and China were down 4.64%, 3.77%, 2.67%, 0.35% and 0.21% respectively.

In **China**, Manufacturing PMI rose to 50.1 (est. 50.1, prior 49.8), and non-manufacturing jumped to 50.2 (est. 49.2, prior 49.0) for September, with export orders the strongest since February. The PBoC cut the PSL rate by 25bp to 1.50% and extended PSL support to “Six Networks” infrastructure. The government delivered a pre-holiday easing package, in a calibrated rather than transformative manner. Exporters cancelled some October gasoline and diesel cargoes, and refiners suspended refined-product exports outside Hong Kong and Macau “until further notice”. Tencent agreed to a five-year lease from Oracle data centres in Southeast Asia, enabling Tencent to access around 100,000 advanced AI chips. The healthcare sector saw a flurry of positive news items: Hengrui licensed obesity/diabetes candidate to Novo Nordisk for up to \$2.6bn, AstraZeneca agreed a \$2bn equity investment in Summit Therapeutics to collaborate with Akeso, and Novartis licensed Abogen’s mRNA autoimmune therapy for up to \$7.8bn.

In **South Korea**, September trade growth was extraordinary — exports jumped 83.5% YoY, the fastest growth in nearly 50 years. Manufacturing PMI rose to 53.9 from 52.3, a four-month high, with export orders growing at the sharpest pace since March 2011. Trump unveiled plans for \$200bn in Korean investments in US energy under the 2025 deal that capped tariffs at 15%.

In **Taiwan**, TSMC is reportedly weighing a new Texas campus that would add tens of billions of dollars of investment.

In **India**, Manufacturing PMI for September continued strong at 55.1. Industrial activity remained strong in August, printing above expectations at 8% YoY (consensus: 7.0%). Hospitals were hit after the Supreme Court questioned steep markups on cancer drugs.

In **Mexico**, August manufacturing PMI edged back into expansion at 50.3 from 49. Officials are increasingly confident of a US deal cutting tariffs. Finance minister Amador outlined \$300bn over 2026–30

In **Brazil**, the final polls point to a 25 October runoff too close to call. The BRL2.12/l diesel subsidy was extended for at least 30 days. Sigma Lithium suspended Brazilian operations after a 15-day court delay in an environmental-licence case.

Corporate debt

France’s political and fiscal instability has raised market concerns. The OAT-Bund spread dominated bond markets as it surged to 151bp, its widest level since 2012. Risk appetite declined significantly over the week due to a combination of geopolitical and macroeconomic headwinds. Mounting US-Iran tensions were centre stage. President Trump rejected Tehran’s proposal to reopen the Strait of Hormuz and the Pentagon deployed a third aircraft carrier to the Middle East. Elsewhere, China’s stimulus plan disappointed markets. It was seen as trying to stabilise rather than accelerate growth across the board.

Credit markets had so far generally proved resilient but things changed radically this week. The **CDS Main** (+5.3bp) and **Xover** (+22bp) underperformed their US equivalents. Excess returns were heavily negative (EUR IG -0.4%, Corp Hybrids -1.1%, CoCos -1.25%, EUR HY -1.28%) and there were signs decompression had begun.



Weak markets had an obvious impact on new issuance. Yields on the Paramount and Rémy Cointreau deals widened significantly, a very rare occurrence for a deal as large as Paramount's where issuers usually offer a premium.



GLOSSARY

- Investment Grade: bonds rated as high quality by rating agencies.
- High Yield: corporate bonds with a higher default risk than investment grade bonds but which pay out higher coupons.
- Senior debt benefits from specific guarantees. Its repayment takes priority over other debts, known as subordinated debt.
- Debt is considered to be subordinated when its redemption depends on the earlier payment of other creditors. To offset the higher risk, subordinated Senior debt has priority over other debt instruments.
- Tier 2 / Tier 3: subordinated debt segment.
- Duration: the average life of a bond discounted for all interest and capital flows.
- The spread is the difference between the actuarial rate of return on a bond and the rate of return on a risk-free loan with the same maturity.
- The so-called "Value" stocks are considered to be undervalued.
- EBITDA: Earnings before Interest, Taxes, Depreciation, and Amortization.
- CTA: quantitative strategy which uses futures to invest in a wide range of financial assets, including equity indices, short-term and long-term interest rates, currencies, and commodities.
- The PMI, for "Purchasing Manager's Index", is an indicator of the economic state of a sector.
- AT1s belong to a family of bank capital securities known as contingent convertibles or "Cocos". Convertible because they can be converted from bonds to shares (or depreciated entirely) and contingent because this conversion only occurs if certain conditions are met, such as the issuing bank's capital strength falling below a predetermined trigger level.
- RT1s: perpetual bond issues with early redemption possible after 10 years. Coupon payments are discretionary and non-cumulative.



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