Sector Update:

Fixed Income (Rates & Credit)

Real Yields, Real Risks: Fixed Income at an Inflection Point

Widening TIPs Yield: Over the past year, Treasury markets have shown a shift, with real yields rolling over from cycle highs even as inflation continues to be range-bound. The 10-year TIPS yield peaked above 2.0% in early 2025 but has since dropped to ~1.7%, reflecting easier financing conditions and pricing of future Fed cuts. At the same time, nominal 10-year yields remain above levels from last year but have drifted lower from spring peaks near 4.5%, showing stabilization in rate markets. Breakeven inflation has edged higher, climbing from ~2.2% to ~2.3–2.4%, highlighting that investors do not believe inflation pressures have fully subsided. The widening gap between breakeven and TIPS yields underscores this tension: markets are accepting higher inflation expectations while discounting future real returns. Falling real yields lower the risk-free hurdle rate and encourage issuance, but they also expose potential systematic risk if inflation proves stickier than status quo.

Corps Booming: Corporate bond markets came back from the Labor Day holiday with exceptional force: 27 issuers raised roughly $40.8 billion in a single day, one of the busiest issuance sessions of the year (Tracy). This surge came *ahead* of the Fed's September meeting, when a rate cut was widely expected but not yet delivered. The significance of this issuance boom is twofold. In the short term, it demonstrates how much investor demand there is for credit: spreads stayed compressed despite the flood of supply, underlining strong liquidity conditions. But in the longer term, the wave of refinancing highlights caution. Companies are front-loading debt issuance to push out maturities and reduce their exposure to a looming 2026 maturity wall, when a massive wave of obligations will come due. This front-loading creates resilience now, but it also raises questions about refinancing conditions later. Firms that missed this window may be forced to refinance on much more punitive terms.

Historically Tight Spreads: Despite record issuance, credit spreads remain tight, reflecting strong investor demand for corporate bonds. Investment grade spreads are holding near ~82 bps, while high yield spreads are trading close to 380 bps, up slightly over the year but still well below long-term averages. This ability of the market to digest heavy supply without meaningful spread widening highlights both ample liquidity and investor confidence. The persistence of tight spreads has two important implications. In the near term, it lowers borrowing costs and supports continued issuance, reinforcing easier financial conditions. Over the medium term, however, such compressed spreads may reflect complacency: investors are accepting relatively little compensation for credit risk at a time when inflation expectations remain sticky and a large 2026 refinancing wall looms. If conditions shift, spreads could reprice quickly. For now, spreads signal resilience, but they also highlight how little margin for error exists in credit markets.

Our Take: Credit markets look resilient, with lower real yields and compressed spreads supporting record issuance, yet this strength may prove fragile as sticky inflation and the 2026 maturity wall test refinancing capacity.

Consortium Research Group
Macro | Fixed Income
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Key Indicators (LTM):	
10Y UST Nominal Yield:	+38 bps
10Y UST Real Yield:	+22 bps
10Y Breakeven Inflation:	+13 bps
IG Corporate Spread:	–16 bps
HY Corporate Spread:	+25 bps

Key Indicators LTM %:	
10Y UST Nominal Yield:	+10.2%
10Y UST Real Yield:	14.2%
10Y Breakeven Inflation:	5.9%
IG Corporate Spread:	–17.6%
HY Corporate Spread:	8.9%

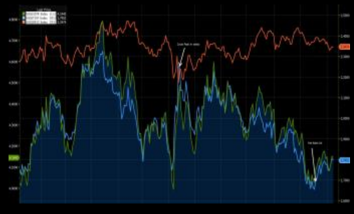

Figure 1.0 (Bloomberg)

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Fixed Income Sector Trends

Rates are rolling over as real yields retreat and capital costs ease: The chart shows the 10Y nominal Treasury yield, the 10Y TIPS yield (real), and the 10Y breakeven inflation rate. TIPS reflect the "true" cost of capital after inflation, while break-evens show what markets expect for future inflation. Over the past year, nominal yields have come down from their spring peak of ~4.5% to ~4.1–4.2%, while real yields dropped from above 2% earlier in 2025 to ~1.7%. At the same time, break-evens edged higher from ~2.2% to ~2.3–2.4%.

Figure 1.0 (Bloomberg)

Real yields fell sharply after peaking in March–April 2025, driven by the Fed's expected rate cuts and a dovish policy stance. That easing lowered borrowing costs across the economy. However, break-evens moved higher instead of lower, suggesting investors still expect sticky price pressures, energy shocks, tariffs, and wage growth all contributed. The combination of easier financing conditions and persistent inflation expectations highlights a key tension in markets currently. Going forward, real yields are likely to stay below their cycle highs if the Fed keeps cutting, but if inflation sticks or surprises higher, break-evens could climb further, forcing real yields back up and tightening conditions.

Issuers are front-loading debt to extend maturities before the 2026 wall: This development focuses on corporate borrowing behavior. Reuters reported that 27 issuers raised ~$40.8B in a single day after Labor Day, one of the busiest issuance sessions of the year. Credit spreads (IG and HY OAS) stayed stable through this period, showing investors absorbed the surge in supply.

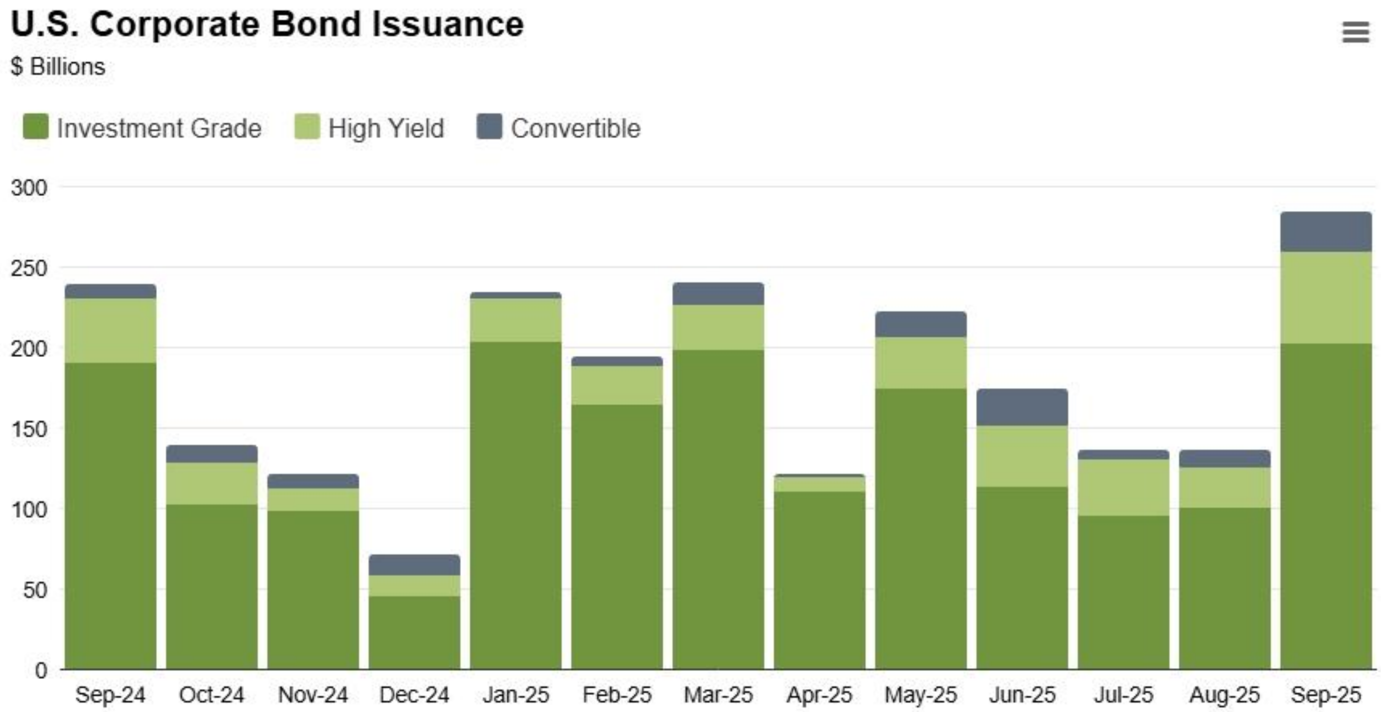

Figure 1.1 (SIFMA Research)

Issuers rushed to lock in funding ahead of the Fed's September rate cut and while spreads remained near historic tights. This front-loading reflects a balance of opportunity (cheap funding) and caution (awareness of the 2026 maturity wall). Firms are pushing out maturities now to avoid a refinancing crunch later, while investors are eager to buy because liquidity is there. Issuance is likely to remain heavy in the coming months. But the more debt is pulled forward, the thinner investor demand could be when 2026 approaches. If spreads widen or the economy slows, late movers may face much higher refinancing costs.

Spreads remain tight with strong demand absorbing record supply: The chart shows the option-adjusted spreads (OAS) of investment grade (IG) and high yield (HY) corporate bonds over Treasuries. IG spreads measure the extra yield required for safer corporate debt, while HY spreads do the same for riskier bonds. Over the past year, IG spreads have stayed near historic lows around ~0.75–0.85%, while HY spreads widened briefly in April 2025 to above 4% before retracing to ~3.0–3.2%.

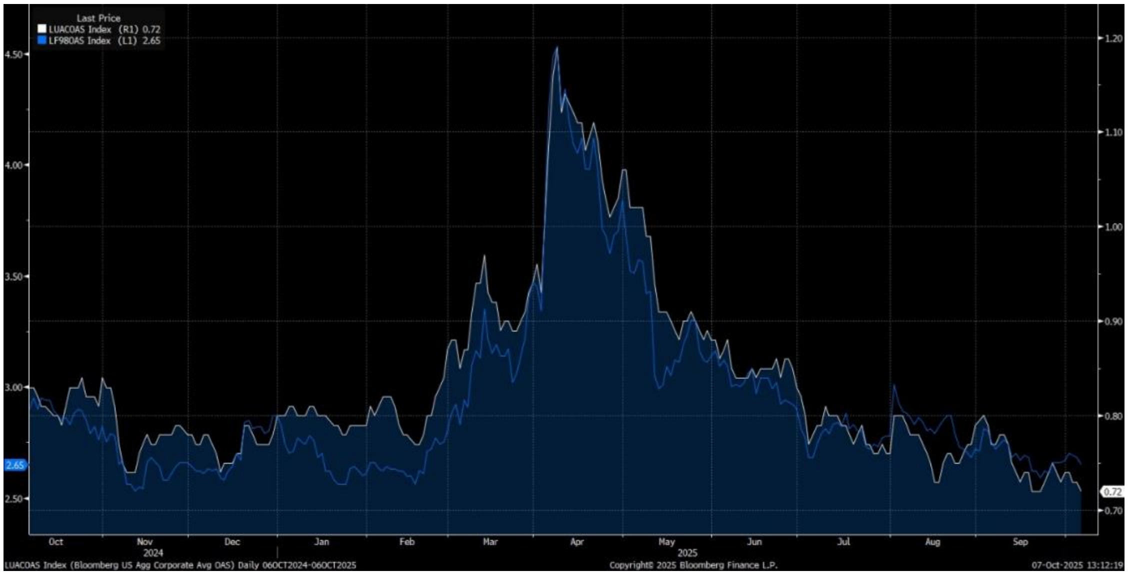

Figure 1.3 (Bloomberg)

The brief spike in HY spreads in April coincided with U.S. talk about tariffs, which temporarily increased risk premiums for lower-rated issuers. IG spreads remained more stable, reflecting stronger investor confidence in high-quality borrowers. Importantly, despite record corporate issuance throughout 2025, both IG and HY spreads quickly tightened again, showing that investor demand was strong enough to absorb heavy supply. This resilience highlights high market liquidity and confidence in investors. In the near term, spreads are likely to remain tight given strong liquidity and potential Fed rate cuts, which support credit conditions. But with spreads already near historical tights, compensation for risk is thin. If refinancing pressures escalate into 2026, spreads could widen sharply, especially in high yield.

Risks are building as sticky inflation and refinancing pressures persist: The chart shows the 2s10s Treasury yield spread (green) and the 10Y breakeven inflation rate (pink). The 2s10s spread stayed positive throughout the year but steepened modestly as 2Y yields fell more than 10Y yields, reflecting Fed cuts. Meanwhile, break-evens rose slightly from ~2.2% to ~2.3–2.4%.

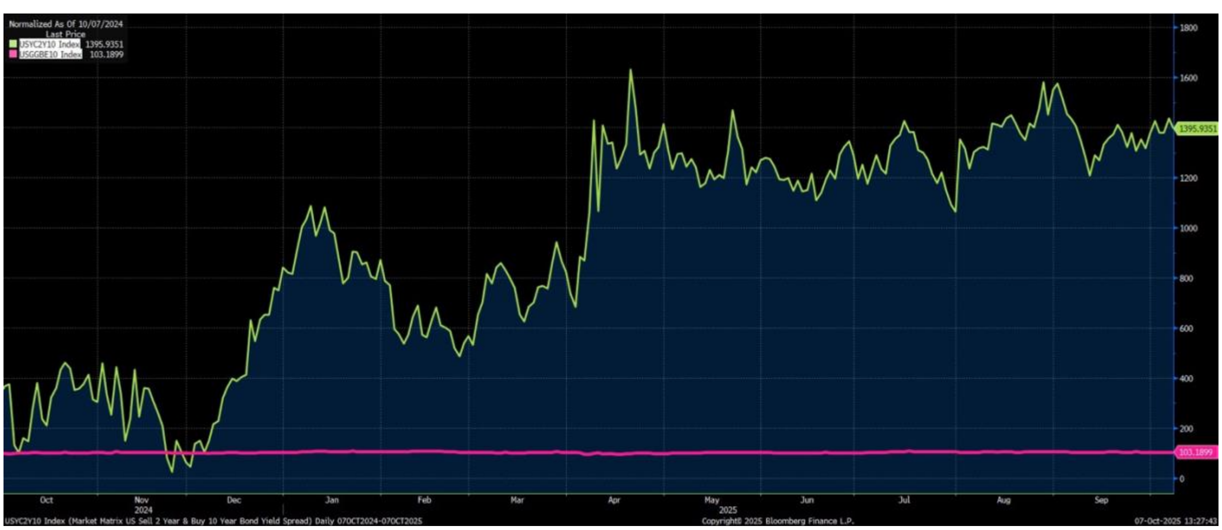

Figure 1.4 (Bloomberg)

The steepening indicates that markets expect easier policy and slower growth ahead, which reduced short-term yields. But break-evens staying stable at the same time shows that inflation expectations remain sticky, even as the Fed eases. This creates a market tension where near-term borrowing costs are falling, but longer-term risks tied to inflation and refinancing are not disappearing. The 2026 maturity wall adds to this concern, with a large share of corporate bonds set to roll over. If inflation expectations stay firm, the long end of the curve may stay elevated, limiting relief from Fed cuts. That means refinancing in 2026 could still be costly, and credit spreads could reprice rapidly if conditions turn.

What's Caught Our Eye

Global Rate Divergence Reemerges Amid Mixed Central Bank Signals: The chart plots the U.S. 10-Year Treasury Yield (USGG10YR, blue), German 10-Year Bund Yield (GDBR10, yellow), and Japanese 10-Year JGB Yield (GJGB10, red) from October 2024 to October 2025. U.S. yields have remained elevated near 4.3%, Bund yields stabilized around 2.5%, and JGB yields have risen sharply, from near 0.8% to almost 1.1%, reflecting global rate differentials

Figure 1.5 (Bloomberg)

This divergence continued after the Federal Reserve's September 2025 rate cut, which contrasted with more cautious stances from the ECB and BOJ. While U.S. policymakers emphasized flexibility in easing amid softening growth, the ECB highlighted lingering inflation pressures in Europe, and the BOJ began scaling back yield-curve control measures as inflation stayed above target. The result has been a widening spread between U.S. and European yields, and a normalization of Japanese long-end rates. Diverging yield paths shape capital flows. Rising foreign yields make non-U.S. bonds more attractive, yet U.S. Treasuries continue to benefit from liquidity and safe-haven demand. This divergence also impacts corporate funding costs, as global investors rebalance portfolios, influencing issuance decisions across USD, EUR, and JPY markets. If the Fed continues its easing cycle while other central banks pause, the U.S. yield premium will likely narrow, supporting further foreign inflows into Treasuries. However, sustained global rate normalization, especially if the BOJ raises rates again, could steepen global curves and pressure long-duration bonds into year-end.

Oil Reignites Inflation Expectations Despite Growth Uncertainty: The chart tracks WTI Crude Oil (CL1, yellow) against the U.S. 10-Year Breakeven Inflation Rate (USGGBE10, white) from October 2024 through October 2025. Oil prices have oscillated between \$70–85 per barrel, while break-even have held near 2.3–2.4%, showing how energy markets continue to anchor medium-term inflation expectations.

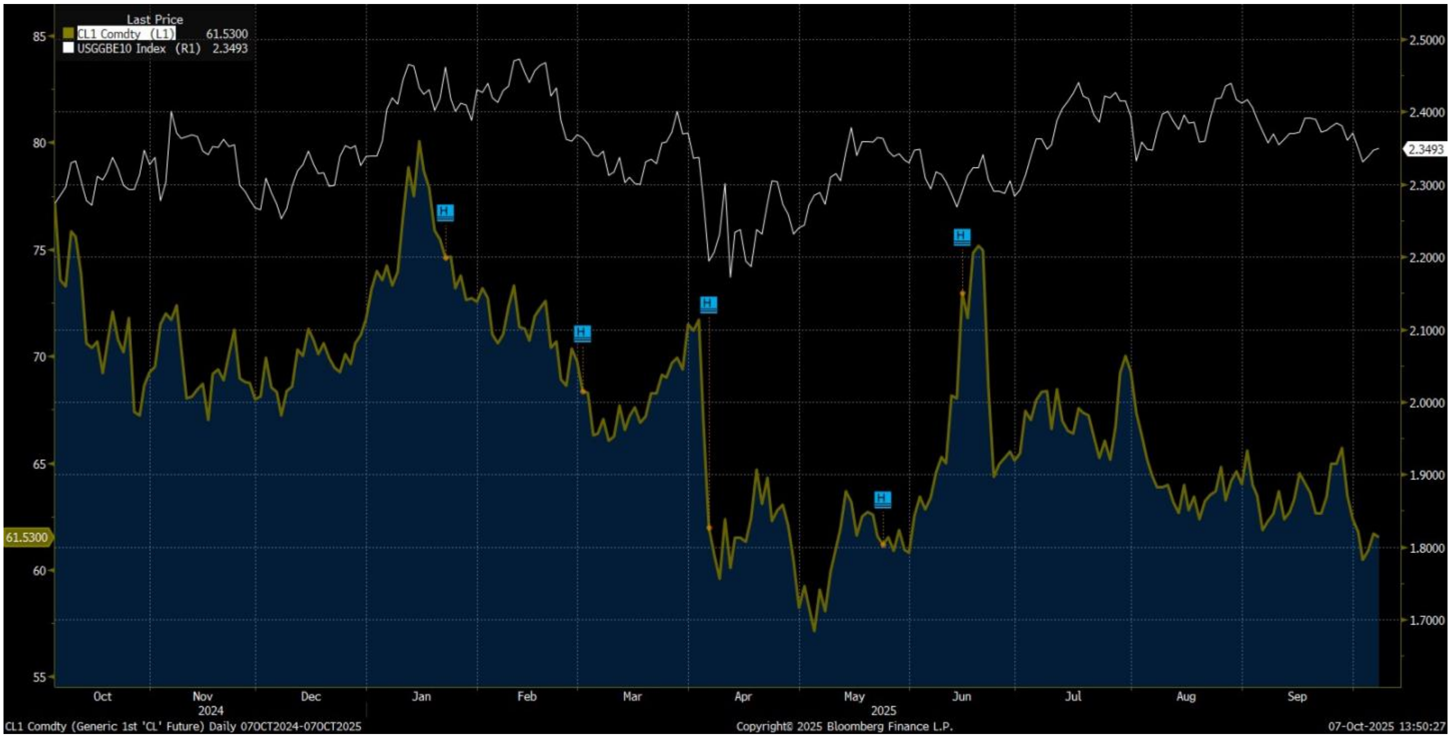

Figure 1.6 (Bloomberg)

The recent upward move in oil was driven by OPEC+ production discipline and heightened geopolitical tensions in the Middle East, which reignited inflation concerns in late September. This story resurfaced across major financial outlets after WTI futures surpassed \$85, marking a two-month high. The inflation-sensitive breakeven rate quickly followed, reflecting renewed investor pricing of energy risk even as core inflation continued to ease. Energy remains a primary driver of headline CPI, and the persistence of high oil prices challenges the Fed's ability to maintain its dovish stance. For bond markets, firm break-evens imply that real yields must adjust lower to sustain risk appetite, meaning easing policy expectations could keep nominal yields sticky even if growth softens. The correlation between oil and break-evens shows the fragility of market confidence in the inflation outlook. If oil stabilizes below \$80, inflation expectations may drift lower, supporting further rate cuts into early 2026. Conversely, a renewed spike in crude prices could stall disinflation, delay Fed easing, and reprice the long end of the Treasury curve, forcing investors to reassess duration risk across their portfolios.

Disclosures & Ratings

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