

Weekly CIO Letter

06 OCT
2026

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The price of capital is becoming the macro variable again

September payrolls softened, but the rate shock did not disappear. Markets are increasingly pricing a world in which governments, AI infrastructure and energy security compete for the same pool of savings.

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Executive Summary

The September U.S. employment report looked like a turning point at first glance. Nonfarm payrolls rose by only 29,000 and the unemployment rate held at 4.2%, while July and August payrolls were revised down by a combined 60,000. The data reduced the urgency for another near-term Federal Reserve hike.

But the long end of the bond market is sending a different message. The U.S. 10-year Treasury briefly reached 5.34% in early October, its highest level since 2002. Amundi estimates that the average yield on global government debt moved close to 4%, the highest since 2007. German, French, British and Japanese sovereign yields have all repriced materially higher.

The distinction matters. A softer labor market can change the expected

path of the policy rate. It does not automatically reverse the structural forces now pushing up the clearing price of long-term capital: persistent inflation risk, large sovereign borrowing needs, the AI and power-infrastructure investment cycle, energy-security spending and a higher term premium.

The market is therefore moving from a debate about “how high will central banks go?” to a harder question: “who gets funded, at what maturity, and at what price?” That shift changes portfolio construction. Income is more attractive, but duration is less reliable as a universal hedge; balance-sheet quality matters more; and long-duration equity stories need earnings and cash flow to justify their cost of capital.

Sep. payrolls	U.S. 10Y peak	Global gov. yield	France-Bund spread	Japan 30Y
+29k	5.34%	~4%	>150 bp	4.235%

Market snapshot sources: BLS; BlackRock Investment Institute; Amundi Investment Institute; Reuters. Values reflect the latest cited observations through 5 October 2026 and are not all from the same timestamp.

CIO takeaway

The rate shock has changed character. Front-end policy expectations can soften while long-term borrowing costs remain structurally high because the competition for savings is intensifying.

1. The bond selloff is global — not a fed-only story

The immediate market reaction to weak September payrolls was rational: a central bank facing slower job creation has less reason to keep tightening aggressively. The more important signal, however, is that sovereign yields had already moved higher across multiple developed markets before the jobs report.

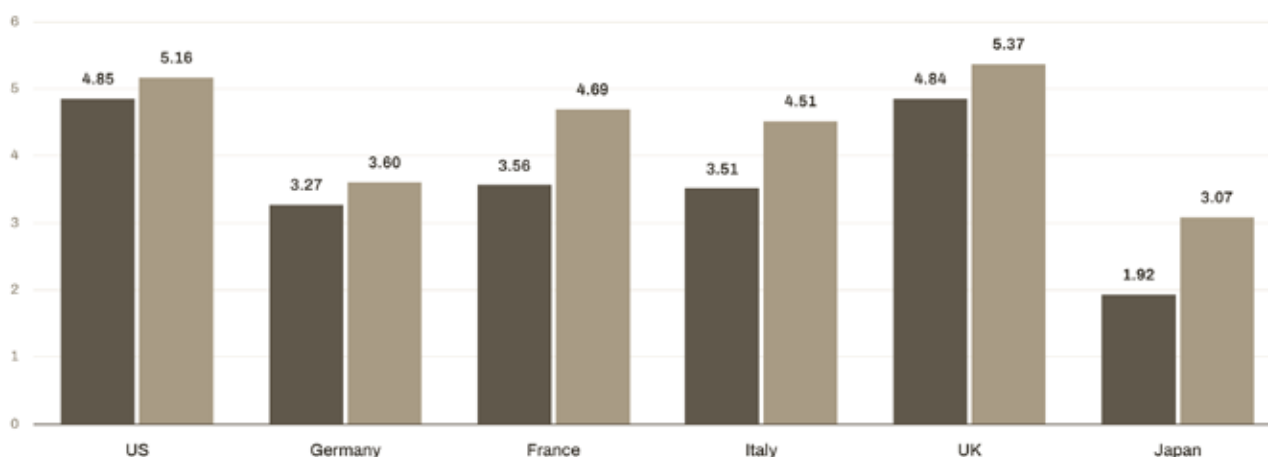
Amundi's 25 September snapshot shows 10-year yields at 5.16% in the United States, 3.60% in Germany, 4.69% in France, 4.51% in Italy, 5.37% in the United Kingdom and 3.07% in Japan. The synchronized move is difficult to explain with a single domestic fiscal story or a single central bank.

GLOBAL MARKETS

Government bond yields moved higher across major markets

Yield, in %.

■ 2-year ■ 10-year



Source: Amundi Investment Institute, Weekly Market Directions; Bloomberg data as of 25 September 2026. Astro Wallenius reconstruction from published values.

What changed?

Three forces are now interacting. First, inflation has not fully normalized: the U.S. PCE price index was still 3.4% year over year in August. Second, real activity remains resilient enough to absorb expensive money: U.S. consumer spending rose 0.9% month over month in August. Third,

the supply of long-duration debt is rising at the same time that private capital expenditure is accelerating. The Federal Reserve's September 25-basis-point increase to 3.75%–4.00% therefore matters, but it is no longer the entire story. Even if softer employment slows the next

policy move, investors still have to decide what compensation they require to hold ten-, twenty- or thirty-year claims in a world with larger

fiscal deficits, higher energy volatility and more competing uses for capital.

Portfolio implication

The front end can rally on weaker labor data while the long end remains under pressure. A single “Fed view” is no longer enough to manage duration risk.

2. The Rate Shock Has Changed Character

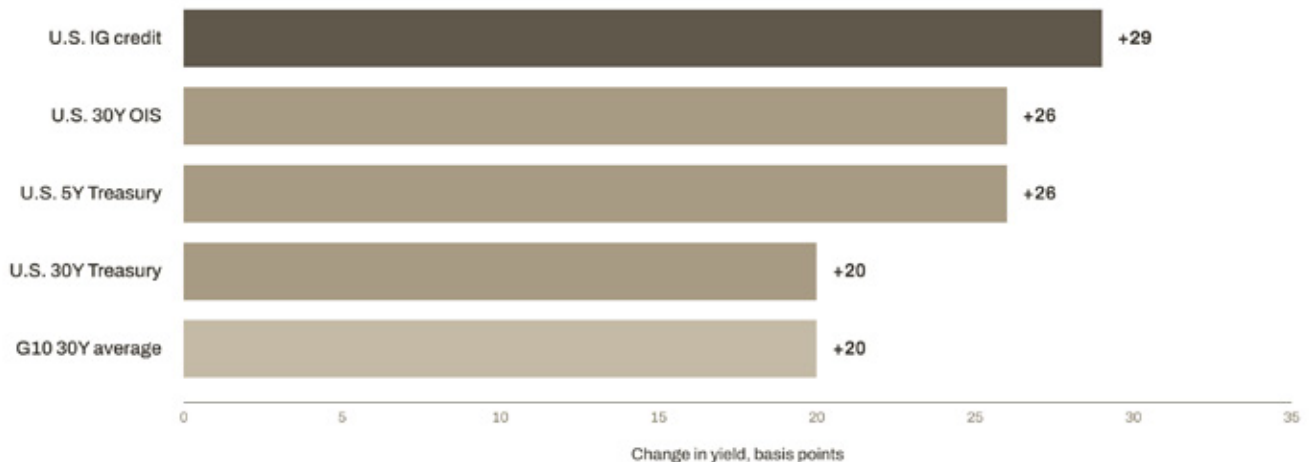
J.P. Morgan Private Bank’s decomposition of the summer move is useful because it tests whether the rise in Treasury yields was uniquely a U.S. sovereign-risk event. It was not. Be-

tween 8 June and 8 September, yields rose across investment-grade credit, swaps, Treasuries and other developed-market government bonds.

UNITED STATES

The recent yield move was broader than Treasuries

Change in yield, basis points.



Source: J.P. Morgan Private Bank, “Deficits, debt and bond yields: Separating headlines from signals”; Bloomberg Finance L.P., data as of 8 September 2026. Approximate published chart values; Astro Wallenius reconstruction.

The pattern points to a broader repricing of nominal growth, inflation uncertainty and duration risk. U.S. investment-grade yields rose slightly more than long Treasuries, 30-year

OIS moved almost in parallel with the 5-year Treasury, and the G10 long-end average also moved higher. That is not the fingerprint of an isolated Treasury funding scare.

Growth is softer at the margin, not collapsing

September payrolls at +29,000 were materially below expectations, and the three-month hiring trend has slowed sharply. But the household side of the economy remains stronger than the employment headline alone suggests. August personal consumption rose 0.9%, and the Fed continues to describe activity and domestic spending as resilient.

This mix is uncomfortable for duration: weaker hiring reduces the probability of repeated near-term hikes, while nominal demand, inflation and term-premium uncertainty keep the equilibrium level of longer yields elevated. In practical terms, the market can price a gentler central bank path without returning to the low-yield regime of the 2010s.

The key distinction

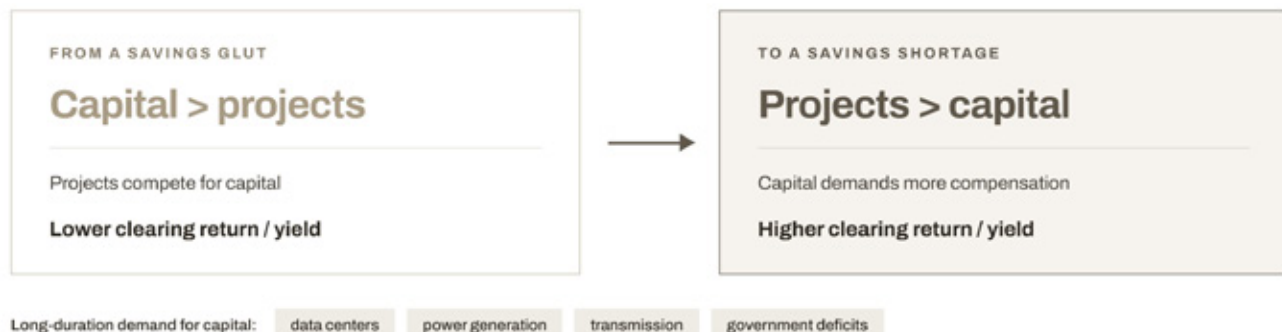
A growth shock usually helps sovereign bonds diversify equity risk. An inflation or term-premium shock can make stocks and bonds fall together. The source of the yield move matters as much as the level.

3. From A Savings Glut To A Savings Shortage

Apollo Chief Economist Torsten Slok frames the regime change in simple supply-and-demand terms. For much of the post-2000 period, there was more savings than attractive investment demand. Capital was abundant, projects were scarce, and the price of capital — the required return — was pushed lower.

That balance is reversing. Data centers, power generation, transmission

grids, semiconductor capacity, defense and energy security all require large, long-lived capital commitments. Governments are simultaneously running larger financing programs. The same investor base is being asked to fund more projects and more sovereign issuance at once.



Source concept: Apollo Chief Economist, "From a Savings Glut to a Savings Shortage," 12 September 2026. Conceptual Astro Wallenius reconstruction; not a measured time series.

Why AI capex matters for bond investors

The AI investment boom is not only an equity story. Hyperscalers are increasingly issuing long-duration debt to fund data centers and related infrastructure. J.P. Morgan notes that private long-term borrowing has become a meaningful additional source of “crowding out” at the same maturities where governments are also heavy issuers.

This does not mean capital is unavailable. In fact, high-quality borrowers continue to raise large amounts successfully. The change is in price. Investors can demand more yield because alternative uses of capital have multiplied.

Regime implication

The question is no longer whether there is enough money to finance the investment cycle. It is how high the return on capital must be to attract that money.

4. Sovereign credibility is back in the pricing function

France: fiscal risk is now visible in the spread

The spread between French 10-year OATs and German Bunds moved above 150 basis points in early October, its widest level since the euro-area sovereign crisis era. France enters the debate with public debt near 119% of GDP, a deficit still above 5% of GDP

and a record planned 2027 issuance program of roughly €340 billion. The point is not that France faces an imminent funding crisis; it is that political and fiscal credibility now carry an observable market price.

Japan: normalization is reaching the long end

Japan's 30-year government bond yield reached a record 4.235% on 5 October, while the 10-year yield has moved above 3%. For a market that spent decades anchored near zero,

this is a fundamental repricing of duration. It also raises the domestic opportunity cost for Japanese investors who previously exported capital in search of yield.

Europe: inflation still constrains the policy response

The ECB raised rates in September and the euro-area inflation mix remains awkward. September headline inflation was 3.8%, with energy inflation at 18.8%, while core inflation

was lower at 2.5%. That combination makes it difficult for monetary policy to offset every fiscal or term-premium shock with easier policy.

The dollar is stronger than the “debasement” narrative suggests

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What this means

Sovereign risk is becoming more segmented. Investors should distinguish global duration risk from country-specific fiscal risk rather than treating all developed-market government bonds as interchangeable “risk-free” assets.

Portfolio Implications

Positioning

- Cash & short duration: Still attractive. High starting yields preserve optionality and reduce the cost of waiting for clearer entry points.
- Core duration: More attractive after the selloff, but add selectively. Intermediate maturities offer income without concentrating all risk in fiscal-sensitive long ends.
- Equities: Higher discount rates raise the hurdle for long-duration growth. Prefer earnings delivery, free cash flow and balance-sheet flexibility over narrative alone.
- Credit: All-in yields are compelling, but spreads remain tight. Favor quality, covenant protection and manageable refinancing needs.
- Real assets & infrastructure: The capital-scarcity regime supports infrastructure demand, but entry valuation and financing structure remain decisive.

What would change our view

- Faster disinflation: A decisive decline in inflation and wage pressure could pull both policy expectations and term premia lower.
- A sharper growth break: A genuine demand contraction would restore the classic bond hedge and favor longer duration.
- Energy normalization: A durable reversal in oil and logistics costs would reduce inflation risk and improve policy flexibility.
- Capex slowdown: If AI and infrastructure spending slows before debt supply expands, crowding-out pressure would ease.
- Fiscal credibility: Credible medium-term consolidation in major sovereigns could compress country risk premia even without immediate rate cuts.

Astro Wallenius' Perspective

We do not read this environment as “higher forever.” We read it as the return of a positive price for capital. The low-rate era allowed duration, leverage and distant cash flows to coexist with minimal penalty. Today, governments and corporations must compete harder for funding, and investors are being paid again to discriminate.

That argues for portfolios built by function: liquidity for optionality, income for carry, selective duration for convexity, quality for refinancing resilience, real assets for the investment cycle, and geographic diversification so that no single sovereign balance sheet or monetary regime dominates the outcome.

The defining question of the previous cycle was where to find yield. In this cycle, the more important question is which borrower deserves the capital.

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