

Weekly CIO Letter

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Resilience is no longer enough

Global growth is still positive, but higher real yields, sovereign financing needs and uneven inflation are raising the bar for every borrower and every asset class.

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Executive Summary

The October IMF outlook captures the central contradiction in markets. The global economy has not broken: growth is projected at 3.1% in 2026 and 3.4% in 2027. But that resilience is becoming more uneven.

Economies tied to the technology investment cycle or favorable terms of trade are holding up better, while energy importers and highly leveraged borrowers face a much harsher combination of inflation and financing costs.

The inflation shock is also changing character. September U.S. CPI rose 0.6% month over month and 3.7% from a year earlier, but the latest Treasury selloff is not mainly an inflation-expectations story. Franklin Templeton estimates that roughly 44 of the 45 basis points added to the 10-year Treasury yield over the prior month came from higher real yields.

The market is repricing the real cost of capital.

That distinction matters. Higher real rates can coexist with reasonably stable long-run inflation expectations, strong corporate earnings and continued investment. They can also tighten financial conditions through a different channel: a higher hurdle rate for housing, infrastructure, private credit, sovereign refinancing and long-duration equities.

At the same time, bonds have become investable again in a way that was rare during the low-rate era. BlackRock estimates that more than 80% of a broad global fixed-income universe now yields above 4%, versus just 6.3% five years ago. The opportunity is larger, but so is the need to distinguish attractive yield from compensation for deteriorating fundamentals.

Global growth	U.S. CPI	10Y Treasury	Bonds >4%	CBs hiking
3.1%	3.7% y/y	~5.3%	>80%	14 of 33

Snapshot sources: IMF October 2026 WEO and GFSR; J.P. Morgan Private Bank; Morgan Stanley; BlackRock Investment Institute. Observations are not from the same timestamp.

CIO takeaway

The macro regime is shifting from “can growth survive higher rates?” to “which balance sheets can earn their cost of capital at these rates?” That favors income, quality and selectivity over indiscriminate duration or beta.

1. Global growth is holding — but the aggregate hides the split

The IMF still sees a world economy expanding at a respectable pace. Its October World Economic Outlook projects 3.1% global growth in 2026, with advanced economies growing 2.1% and emerging market and developing economies 3.7%. The United States is projected at 2.3%, China at 4.5% and the euro area at only 1.1%.

Those numbers matter less as a ranking than as a map of where the current shock is being absorbed. The IMF argues that the strongest relative position belongs to economies participating in the technology investment cycle or

benefiting from favorable terms of trade. Energy-importing economies outside those channels face the most difficult mix: a negative supply shock, weaker real income and less room to ease policy.

Global headline inflation is projected at 4.7% in 2026 before easing to 4.1% in 2027. That is not a return to the inflation environment of 2022, but it is high enough to keep central banks cautious. The IMF's Global Financial Stability Report notes that 14 of 33 major central banks have raised policy rates since the second quarter, compared with only two in the first quarter.

GLOBAL

The global aggregate hides a wide growth gap

Real GDP growth, 2026 projections, %

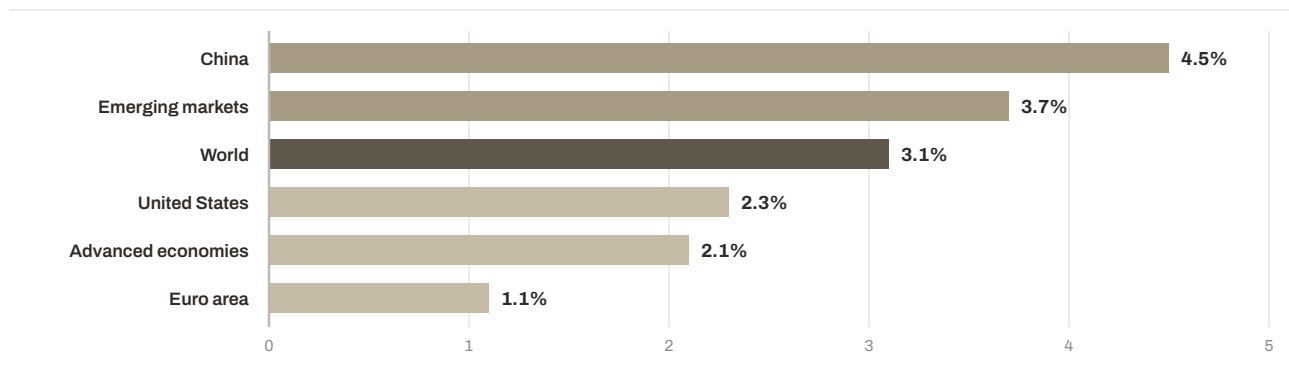


Figure 1. Source: IMF World Economic Outlook, October 2026. Astro Wallenius visualization from IMF DataMapper values.

The portfolio implication is that country labels are becoming less informative than economic exposures. Two companies listed in the same market can face very

different conditions if one sells into the AI, energy or infrastructure capex cycle while the other depends on discretionary consumption or cheap refinancing.

Macro implication

A positive global growth number does not imply synchronized expansion. The current regime rewards economies and businesses connected to scarce capacity, investment and commodity income, while penalizing those that rely on cheap external financing.

2. The bond selloff is mainly a real-rate shock

The most important information in the Treasury market is not simply that the 10-year yield reached roughly 5.3%, its highest level in more than two decades. It is what drove the move.

Franklin Templeton estimates that the 10-year Treasury yield rose about

45 basis points over the prior month to roughly 5.25%. Only about one basis point came from higher long-term inflation expectations. Roughly 44 basis points — about 98% of the move — came from higher real yields.

UNITED STATES

Almost all of the recent Treasury move came from real yields

Decomposition of the roughly +45 bp rise in the 10Y Treasury yield over the prior month, basis points

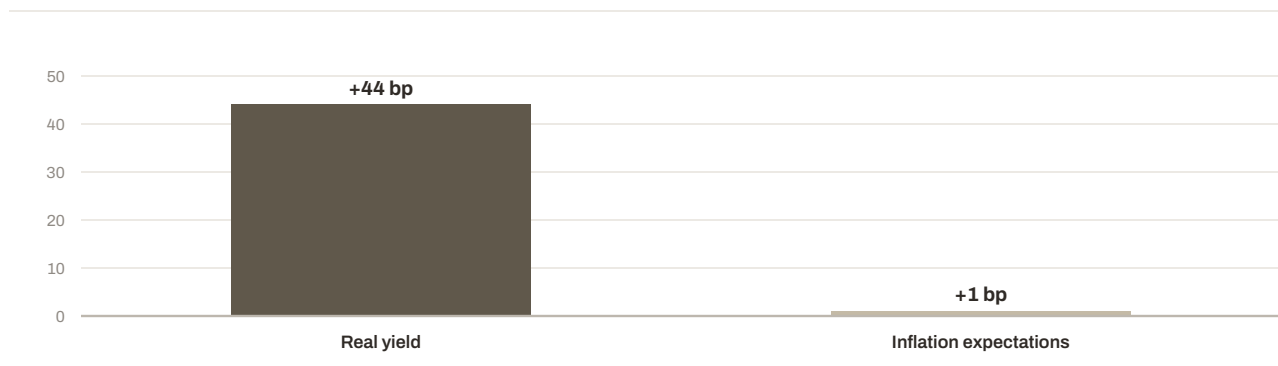


Figure 2. Source: Franklin Templeton Institute, 8 October 2026. Astro Wallenius reconstruction from published decomposition.

That makes the current episode structurally different from 2022. Then, a meaningful share of the rise in nominal yields reflected investors marking up expected inflation. Today, long-run inflation expectations have been far more stable. The market is demanding more real compensation for holding duration.

Several forces can explain that repricing: resilient U.S. growth, heavier Treasury supply, large private-sector financing needs, a less price-insensitive buyer base and a higher term premium after years in which long-duration bonds offered

unusually little compensation for risk. Morgan Stanley reaches a similar conclusion, arguing that the rise in yields reflects stronger growth, heavier borrowing and shifting demand for Treasuries more than a renewed inflation panic.

This is still restrictive. A real yield is the financing rate after expected inflation. When it rises, the hurdle rate rises for every long-lived asset: housing, infrastructure, leveraged buyouts, growth equities and public investment. The economy can remain strong while the valuation and refinancing mathematics become materially harder.

Why it matters

Higher real yields are a cleaner tightening of the discount rate. They can pressure valuations and refinancing even when inflation expectations stay anchored — which is why “inflation is not reaccelerating” does not automatically mean financial conditions are easy.

3. Higher yields create opportunity — and punish weak borrowers

For investors, the same reset that raises the cost of capital has rebuilt the income available in fixed income. BlackRock estimates that

more than 80% of a selected global bond universe now yields above 4%, compared with only 6.3% five years ago.

The income opportunity set has expanded dramatically

Share of a selected global fixed-income universe yielding above 4%, %

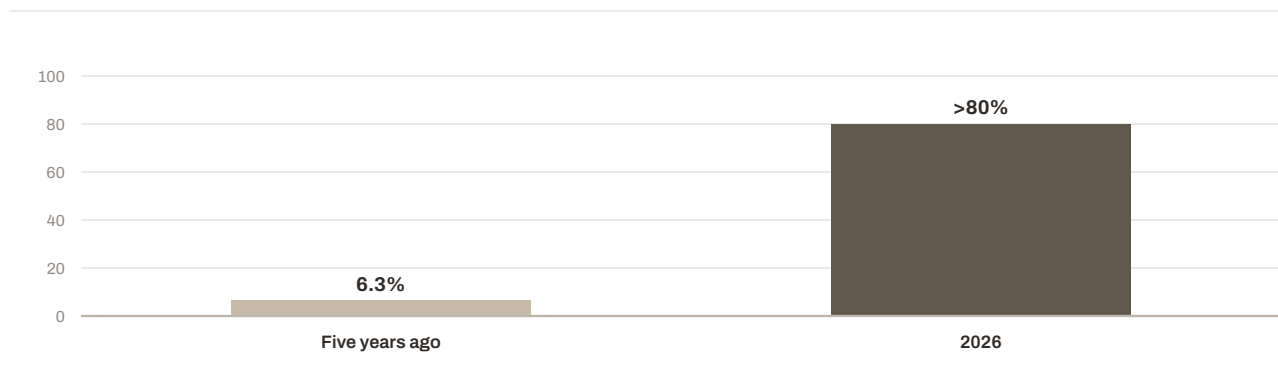


Figure 3. Source: BlackRock Investment Institute / LSEG Datastream, data as of 30 September 2026. The 2026 bar is shown at 80% as a lower bound; BlackRock reports “over 80%.”

This changes portfolio construction. Investors no longer need to move as aggressively into lower-quality credit or very long duration to earn meaningful nominal income. Starting yields offer a larger cushion against moderate volatility, and Morgan Stanley argues that the Treasury selloff may have moved further than fundamentals justify, with its strategists expecting the 10-year yield to move toward 4.7% over the next 12 to 15 months.

But BlackRock’s example of France shows why a high yield is not automatically good value. The French 10-year yield has moved to

nearly 5%, while the spread over German Bunds has widened as investors demand additional compensation for fiscal and political risk. France’s government debt has risen from roughly 89% of GDP in 2011 to about 119% today, while the euro area aggregate is near 89%.

The distinction is essential. A yield that rises because the global risk-free rate has reset can create opportunity. A yield that rises because the issuer’s fiscal or credit fundamentals are deteriorating may simply be paying investors for a larger probability of loss or volatility.

The fixed-income rule for this regime

Do not ask only “what is the yield?” Ask “why is the yield this high?” The source of carry now matters as much as the level of carry.

4. Resilience can coexist with rising financial fragility

The IMF's October Global Financial Stability Report makes the same point at the system level. Markets have remained resilient, corporate earnings are strong and overall financial conditions are still relatively accommodative in several major economies. Yet the report identifies three near-term risks capable of producing a sharp tightening: an AI-driven market correction, a further rise in sovereign bond yields and major cyber disruptions.

The most relevant risk for diversified portfolios is the interaction between assets rather than any single shock. Higher sovereign yields raise discount rates, pressure bond holdings, increase refinancing costs and compete with corporate issuance for investor capital. If that coincides with weaker earnings or a reassessment of capital spending, equity and credit correlations can

rise precisely when portfolios expect diversification to help.

The IMF stress test is deliberately severe, not a baseline forecast. In its bond-yield-spike scenario, long-term yields rise sharply, global growth falls well below baseline and the share of banks classified as weak rises to 22% of global banking assets, from 18% in the prior stress test. The result is a useful reminder: aggregate bank capital can look adequate while pockets of vulnerability become much larger.

This is why liquidity and balance-sheet quality deserve a higher weight than they did when policy rates were close to zero. The cost of carrying leverage is no longer trivial, and borrowers with short maturities, weak interest coverage or dependence on continuous market access have less room for error.

Portfolio Implications

Equities

Earnings remain the best defense against a higher discount rate. Favor businesses with visible cash generation, pricing power, strong balance sheets and investment projects that can earn above today's

higher cost of capital. The environment is less forgiving for long-duration stories that depend on distant cash flows and repeated external financing.

Fixed income

Higher starting yields justify a larger strategic role for high-quality bonds. Intermediate duration offers a balance between income and rate

sensitivity; long duration should be selective and tied to a clear view on term premium and fiscal risk rather than treated as an automatic hedge.

Credit and emerging markets

Spread compression can hide a higher all-in funding cost when risk-free yields are elevated. Credit selection should emphasize maturity walls, interest coverage and refinancing access. In emerging

markets, local-currency debt can remain attractive where inflation credibility and fiscal buffers are improving, but global real yields still set the hurdle rate.

Risks to the Thesis

The first risk is that real yields retreat faster than expected. Softer activity, weaker inflation or a change in Treasury demand could pull long rates down, producing strong duration returns and easing the valuation pressure on growth assets.

The second is the opposite: a renewed energy shock or fiscal repricing could push both inflation expectations and term premia higher. That would be more damaging than the current real-rate-led adjustment because it would reduce the ability of central banks to offset weaker growth.

The third is that the technology investment cycle weakens materially. The IMF explicitly treats a reassessment of AI profitability as a global downside risk because investment and market valuations are now important supports for activity.

The fourth is that markets continue to absorb higher yields through earnings growth. If profits remain strong and productivity improves, equities can tolerate a higher discount rate for longer than conventional valuation models imply.

Astro Wallenius Perspective

The central message this week is that resilience should no longer be confused with comfort. The global economy is still growing, corporate profits remain supportive and the financial system has substantial capital. But the price of financing has reset at the same time that governments and corporations need more capital.

That combination creates a more discriminating market. Higher yields improve the expected return on high-quality fixed income, but they also expose weak fiscal positions and fragile refinancing structures.

Positive growth supports equities, but it does not protect companies whose projects cannot earn the new hurdle rate.

We therefore prefer portfolios built around three ideas: collect income where the balance sheet justifies it; own growth where cash flows can outrun the discount rate; and preserve diversification across currencies, regions and funding regimes. The goal is not to predict one macro path. It is to avoid relying on a world in which every borrower deserves the same price of capital.

Selected sources

IMF, World Economic Outlook, 13 October 2026; IMF, Global Financial Stability Report, 12 October 2026; BlackRock Investment Institute, Global Weekly Commentary, 19 October 2026; Morgan Stanley, “The Upside of Surging Bond Yields,” 14 October 2026; Franklin Templeton Institute, “Bond Market Blues—Real or Inflationary?,” 8 October 2026; J.P. Morgan Private Bank, “Inflation, Yields and Equities,” 16 October 2026.

Glossary

Real yield: nominal bond yield minus expected inflation. **Term premium:** compensation investors demand for holding longer-maturity bonds beyond expected short-term rates. **Duration:** sensitivity of a bond price to changes in interest rates. **Hurdle rate:** minimum expected return required for an investment. **Basis point:** one hundredth of one percentage point.

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