

The market stopped expecting a rate rise. Long yields rose anyway.

Inflation came in cooler than expected on Wednesday and hiring nearly stalled on Friday, and by the end of the week the market had largely priced out an October rate increase.

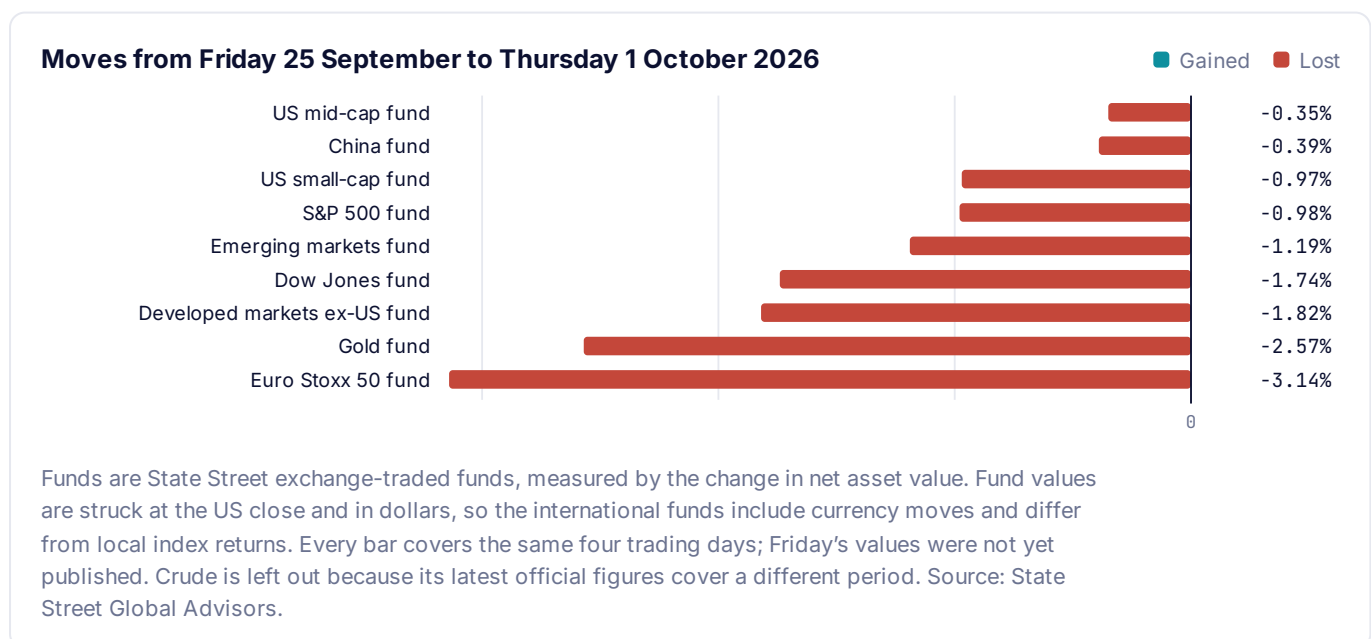
Long Treasury yields rose through all of it, to levels last seen in 2002. The two-year did not move. This issue reports on the two questions left open last week, asks what a rise in long yields means when neither the Fed nor inflation is behind it, and puts the quarter's bond losses into numbers a holder can use.

US 30-YEAR YIELD	US 10-YEAR YIELD	10-YEAR REAL YIELD	SEPTEMBER PAYROLLS
5.63%	5.28%	2.92%	+29,000
+14bp in the week, highest since 2002	+11bp; the two-year +2bp	+9bp; expected inflation +2bp	unemployment 4.2%

01 · CROSS-ASSET

Where the week went

This issue goes out at the weekend, so fund values run to Thursday 1 October; Friday's values are published on Monday and will be carried into next issue's month figures. News reports describe Friday as a strong day for shares. To Thursday the S&P 500 fund lost about 1%, the Dow fund 1.7%, the small-cap fund 1% and the mid-cap fund a third of a percent. Abroad, the Euro Stoxx 50 fund lost more than 3% in dollar terms, the developed-markets fund 1.8% and the emerging-markets fund 1.2%. Gold lost 2.6% to Thursday and, on the two funds that had published Friday's value, finished the week down 1.7%. To Thursday the dollar gained about 1.2% against the euro and was little changed against sterling and the yen.



Crude's official figures run to Tuesday 29 September. Measured by weekly averages, Brent was 5.7% lower in the week to 25 September than the week before, and West Texas between 7.6% and 9.6% lower depending on whether an unusually low Friday assessment is included. News reports put Brent at about \$100 on Friday, after the G7 agreed to release 100 million barrels from emergency stocks over four months and talks on reopening the Strait of Hormuz continued.

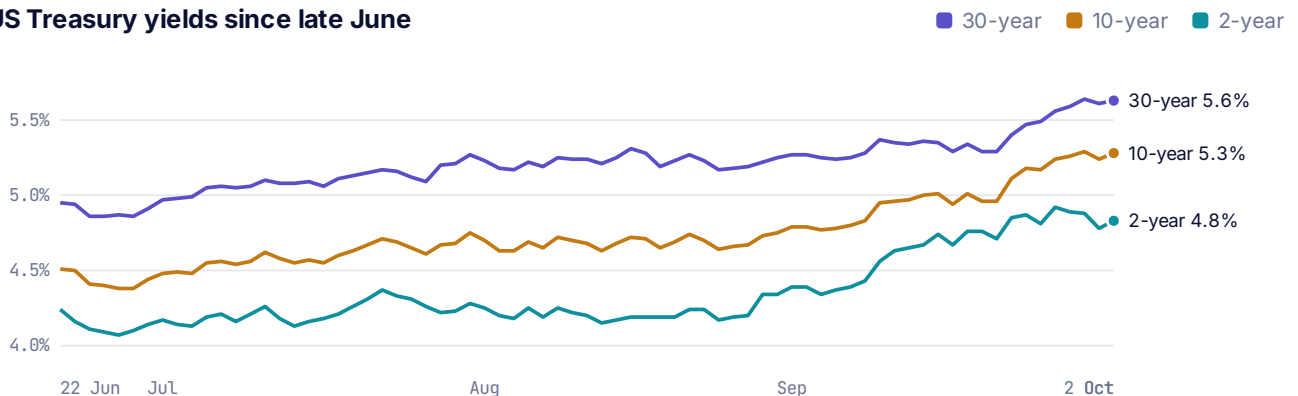
02 · THE WEEK'S STRUCTURAL QUESTION

Neither the Fed nor inflation moved long yields this week. What did?

Take the three pieces of news in order. On Wednesday the PCE inflation measure, the one the Fed targets, came in at 3.4% for August against expectations of 3.7%, with the core rate at 3.0%, down from 3.3%. On Thursday the ISM manufacturing survey confirmed last week's flash reading of strong activity, and its prices index jumped to 77.9, back to where it stood at the start of the war. On Friday the economy added 29,000 jobs in September against about 85,000 expected, with the two prior months revised down by 60,000 and unemployment at 4.2%. New York Fed President Williams said there was no urgency to raise rates again. By Friday afternoon the market had moved from pricing an October increase as likely to pricing it as unlikely.

Last issue set a test: if PCE printed high and the breakeven did not move, the market was trusting the Fed on inflation and worrying about something else. PCE printed low instead, so the test as written did not run. The breakeven still did not move: the ten-year expected inflation rate ended the week at 2.36%, two basis points higher. That is consistent with the reading, not proof of it, and it is reported here as such.

US Treasury yields since late June



The two-year has gone sideways since the Fed's decision on 16 September. The ten- and thirty-year have kept rising. The gap between the lines, which narrowed through the summer, has widened again for two weeks. Source: US Department of the Treasury.

The two-year yield, which follows expected Fed policy, ended the week two basis points higher at 4.83%, after rising to 4.92% on Monday and falling back as the week's news arrived. The ten-year rose eleven basis points to 5.28% and the thirty-year fourteen to 5.63%, each its highest since 2002. The ten-year touched 5.34% on Thursday morning before Williams spoke. The curve steepened for a second week, the gap between ten- and two-year yields widening from 0.36 to 0.45 of a point.

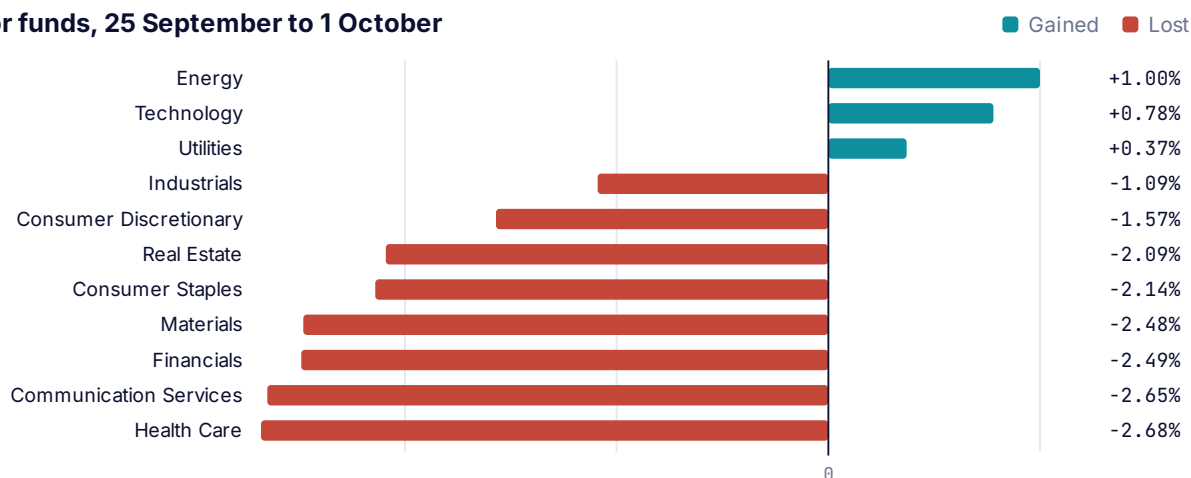
Change in US Treasury yields, in basis points

MATURITY	WEEK TO 2 OCT	MONTH TO 2 OCT
2-year	+2	+44
10-year	+11	+49
30-year	+14	+36
Gap between 10-year and 2-year	+9	+5

One basis point is one hundredth of a percentage point. Week is measured from 25 September and month from 2 September. Source: US Department of the Treasury. Calculations by OHC Trade Room.

So the usual explanations do not fit. A long yield can be thought of as three things added together: the short rates the market expects over the life of the bond, the inflation it expects, and an extra amount for the risk of holding a long bond when either of those turns out wrong. The first fell this week, on the two-year's evidence. The second did not move, on the breakeven's evidence. What rose was the third. Its usual name is the term premium, and its drivers cannot be separated in the data: heavy government borrowing, with ten- and thirty-year auctions due this week; a quarter that by press accounts was the worst for Treasuries in decades, which leaves holders less willing to add; and a demand for more compensation while inflation is 3.4% and the Fed has only just begun raising rates. None of those is a forecast of the economy. All of them raise the cost of long-term money whatever the Fed does next.

US sector funds, 25 September to 1 October



Eight of eleven sectors fell. Technology rose again and is the only sector up over the month. Energy rose with crude early in the week. Change in net asset value of the Select Sector SPDR funds, four trading days. Source: State Street Global Advisors.

The share market's week ran in two halves. Through Thursday eight of eleven sectors fell and the average sector fund lost 1.4% against 1% for the S&P 500 fund. Technology rose again, 0.8% to Thursday, and remains the only sector up over the month, by close to 8%. Friday's rally was led by technology, which is the pattern of the past four issues. The question left open last issue, whether technology would keep carrying the index on its own, has its answer for another week: it did, and nothing else did.

Oil, the dollar and the rest of the world’s bond markets

Yields abroad moved less than in the US this week. Germany’s ten-year rose two basis points to 3.62% to Thursday, Japan’s two to 3.09% and the UK’s four to 5.37% to Wednesday. The US long end moved on its own this week, which fits a story about US borrowing and US bond holders rather than a global growth repricing of the kind seen a week earlier.

Oil eased, with Brent around \$100 on Friday and the G7 release announced, which helps the inflation picture at the margin. Against it, the ISM prices index at 77.9 says manufacturers were paying sharply more in September, so the cooler PCE print has not yet been joined by cooler pipeline prices.

Rates at home

There was no Treasury bill auction this week; the next falls on 7 October on the fortnightly pattern. The 23 September auction cleared the one-year bill at 15.89%, the 91-day at 15.50% and the 182-day at 15.80%.

Last issue suggested a rough check that Nigeria’s market cannot provide directly: subtract the latest inflation rate from the one-year bill rate. The statistics office put headline inflation at 15.39% for August, down from 15.43% in July, with food inflation at 19.57%. Against the 15.89% bill, that leaves about half a percentage point of return above the most recent inflation reading. In the US the equivalent figure for a ten-year Treasury, using the market’s expected inflation, is close to three points. The comparison is rough, since one uses last month’s inflation and the other the next decade’s expectation, but it reframes the gap discussed over the past two issues: the naira investor is paid about 11.4 points more in nominal terms and, on these measures, less in real terms.

One-year rates against inflation

	ONE-YEAR RATE	INFLATION MEASURE	DIFFERENCE
Nigeria	15.89%	15.39%	+0.50
United States	4.46%	2.36%	+2.10

Nigeria: 364-day bill clearing rate at the 23 September auction against August headline inflation (National Bureau of Statistics). United States: one-year Treasury yield on 2 October against the ten-year breakeven inflation rate, the nearest market measure of expected inflation; a one-year expectation is not published. The two inflation measures are not alike, and the table shows the direction of the difference, not a precise figure.

September’s inflation figure is due around the middle of October. If inflation keeps falling faster than bill rates, that half-point grows; if the central bank keeps letting bill rates fall at the pace of the past month, it shrinks. That is the thing to watch in this section over the next two issues.

Duration: what a move in yields costs, and how much yield buys back

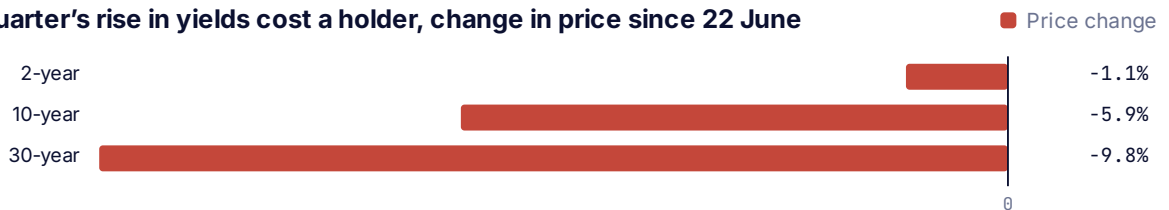
FOLLOWING UP · LAST ISSUE'S WORKED EXAMPLE

Gold against the real yield, 25 September. The reading was that gold tends to fall when real yields rise, with the invalidator being gold rising for several weeks while real yields also rose. This week the ten-year real yield rose another nine basis points to 2.92%, the highest since 2008, and the gold fund fell 1.7% to Friday. The relationship held for a second week. One week is one observation, and the second reading, that war and central bank buying can override the mechanism, remains open. OHC took no position.

The lens

Duration is the number a fixed income desk reaches for first. It says how much a bond's price changes for a one-point change in its yield, and it is roughly proportional to the bond's remaining life. A two-year Treasury loses about 1% of its price if yields rise one point. A ten-year loses about 7.5%. A thirty-year loses about 14%. The same number works in reverse when yields fall, which is why long bonds are held at all.

What the quarter's rise in yields cost a holder, change in price since 22 June



Approximate price change of a Treasury bought at the 22 June yield and held to 2 October, before coupon income of roughly a quarter of a year's yield. Yields rose 59, 77 and 68 basis points respectively. Calculations by OHC Trade Room from US Treasury yields.

Since 22 June, yields have risen 59, 77 and 68 basis points at those three maturities. The chart puts that into price. A thirty-year Treasury bought in late June has lost almost a tenth of its value in a quarter, before counting a quarter's coupon, which is a little over 1.2%. A two-year has lost about 1%, almost exactly covered by its coupon. The press description of the worst quarter for Treasuries in decades is this arithmetic.

The screen

How far yields can rise in a year before the income is gone

MATURITY	YIELD, 2 OCT	PRICE LOSS IF YIELDS RISE 1 POINT	RISE THAT CANCELS A YEAR'S INCOME
2-year	4.83%	about 1%	over 5 points
10-year	5.28%	about 7.5%	about 0.77 points
30-year	5.63%	about 14%	about 0.41 points

Approximate, for a Treasury bought at the yield shown and valued one year later. The last column is the rise in its yield over that year at which the price fall equals the year's coupon income. Calculations by OHC Trade Room.

The second use of duration is the one that matters now that yields are high. A yield is income; duration is the risk to price. Dividing one by the other gives the rise in yield over a year that would wipe out the year's income. For a thirty-year at 5.63%, that is about 41 basis points. For a ten-year at 5.28%, about 77. For a two-year, more than five points. Three months ago the ten-year's cushion was about 60 basis points, so the higher yield has bought more protection, at the cost of the price fall already taken.

The ten-year yield split into its two parts, change in basis points

PERIOD	TEN-YEAR YIELD	REAL YIELD	EXPECTED INFLATION
Week to 2 October	+11	+9	+2
Month to 2 October	+49	+47	+2
Since 22 June	+77	+64	+13

The real yield is the yield on ten-year inflation-protected Treasuries. Expected inflation is the ten-year breakeven rate, the gap between the two. Source: US Department of the Treasury and Federal Reserve Bank of St. Louis via FRED. Calculations by OHC Trade Room.

The split of the ten-year yield, carried over from last issue, says where the risk is coming from. In the week, the month and the quarter, the real yield accounts for nearly all of the rise. Expected inflation has moved 13 basis points since June. The risk a holder is carrying is a real-yield risk, which section 02 argued is mostly a term-premium risk this week. That is not something a cooler inflation print can cure.

ONE WORKED EXAMPLE

How much cushion a 5.6% yield gives

What the data shows

A thirty-year Treasury yields 5.63%, a ten-year 5.28% and a two-year 4.83%. Over the past quarter the thirty-year yield rose 68 basis points, more than one and a half times the 41 basis points of annual cushion its current yield provides.

What it might mean

Two readings. The first is that long yields at 2002 levels, with inflation falling and the Fed on hold, are now high enough that the income covers the likely further rise, and that the pattern of the quarter is unlikely to repeat. The second is that the thing driving yields, the term premium, is not tied to the economic data at all, so the fact that inflation cooled and hiring slowed this week offers no protection; the quarter can repeat. The week itself is evidence for the second: yields rose on a week of soft data.

What the condition generally supports

Matching the cushion to the horizon. For a holder who may need to sell within a year, the table says what each maturity can absorb: 41 basis points at the long end, 77 in the middle, effectively unlimited at the short end. The past quarter exceeded the first two. The question for that holder is not whether yields are high but whether a quarter like the last one can happen again inside their horizon, and section 02 says the driver is one that soft data does not switch off.

For a holder who will not sell, the cushion is a different thing. A fall in price is a loss only on a sale; the thirty-year bought today pays 5.63% a year for thirty years whatever its price does, and that is the highest it has paid since 2002. The quarter's loss fell on the holder who bought in June and may have to sell, not on the one who buys now and keeps.

What would be rejected, and why

Buying the long bond because the yield is a twenty-four-year high. The yield is the reward; the duration is the risk, and a 14% price move per point is the same whatever the yield level. Avoiding bonds because of the quarter's losses. The loss has been taken by someone else; the buyer today starts from the higher yield, with more cushion than the June buyer had. Both rest on looking at one of the two numbers.

What it costs

Staying short while the long yield sits at 5.63% means giving up about 0.8 points of income a year against the ten-year and accepting that if yields fall back, the price gain goes to someone else. Reinvestment risk, discussed on 18 September, is the mirror of the duration risk here.

What would invalidate the reading

For the first reading, another week of long yields rising on soft data: that says the term premium is still building. For the second, long yields falling while the two-year holds, which would mean the premium is coming out and the data has started to matter again.

Nothing here is a view on whether any reader should buy or sell any bond, bill or fund. It is the reasoning a fixed income desk would walk through. The figures are approximate and before tax and costs.

06 • THE WEEK AHEAD

What is scheduled, and why it matters

MON 5 OCT	ISM services survey for September. The larger part of the economy. Its prices index will be read against the manufacturing survey's jump to 77.9.
WED 7 OCT	Ten-year Treasury auction, and the minutes of the Fed's September meeting. The auction is the week's direct test of section 02: if demand is weak at 5.3%, the term-premium reading gains weight. The minutes will show how divided the committee was on the increase. Nigerian Treasury bill auction.
THU 8 OCT	Thirty-year Treasury auction and weekly jobless claims. The second supply test, at the maturity that has moved most.

FRI 9 OCT Preliminary consumer sentiment for October. September's final reading was a four-month low. US consumer price inflation for September follows on 14 October.

Dates are taken from official release calendars and public earnings calendars, and can change.

07 · THE READ

In one paragraph

The economy gave the bond market every reason to rally this week, cooler inflation and weaker hiring, and the long end sold off anyway. That is the signature of a term premium being rebuilt, and it means the cost of long-term money is rising for reasons the Fed does not control and a soft data print does not fix. The share market noticed in the usual way: income sectors fell, technology rose, and the index hid the difference. The thing to follow this week is the pair of Treasury auctions on Wednesday and Thursday. If the thirty-year clears easily at 5.6%, the premium has found buyers and the quarter's move may be close to done. If it does not, the arithmetic in section 05 is the thing to keep in front of you.

OHC Trade Room · Weekly Market Review · Week ending 2 October 2026

Position disclosure. No position was held in any security, fund or commodity named in this review at the time of writing.

Sources. US Treasury yields, including inflation-protected yields: US Department of the Treasury. Breakeven inflation, historical yields and crude oil spot prices: Federal Reserve Bank of St. Louis (FRED), with crude from the US Energy Information Administration, which releases its daily prices weekly, so crude figures run to the latest date published. Employment: US Bureau of Labor Statistics. PCE inflation: US Bureau of Economic Analysis. ISM manufacturing survey: Institute for Supply Management. Fed officials' remarks, market pricing of Fed decisions, oil market developments and the G7 stock release: public news reports. German yields: Deutsche Bundesbank. UK yields and sterling exchange rates: Bank of England, with dollar cross rates calculated by OHC Trade Room. Japanese yields: Ministry of Finance, Japan. Nigerian Treasury bill auctions: Central Bank of Nigeria. Nigerian inflation: National Bureau of Statistics. US equity, sector, international and gold fund returns: change in net asset value as published by State Street Global Advisors, with calculations by OHC Trade Room. Bond price changes and cushions are approximate and calculated by OHC Trade Room.

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