

Weekly Macro and Markets View

14 September 2026



Highlights and View

Surging oil prices and hawkish central bank guidance create further sell-off pressure in government bond markets

While bond markets are set to remain volatile near term, they offer good value over the longer term given elevated real yields and contained inflation.

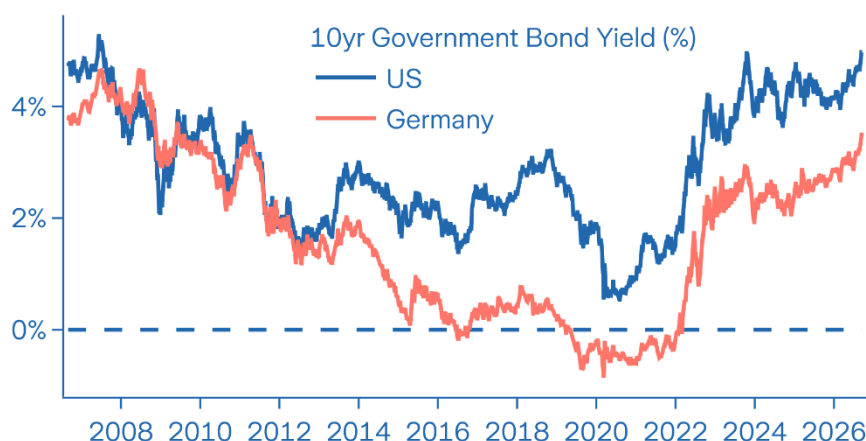
The ECB raises its deposit rate by 0.25% to 2.5%, citing a combination of higher energy prices and economic resilience

Further increases are possible if energy prices stay elevated, but we anticipate a slowing economy and tightening financial conditions to complicate any future decisions.

Annual headline inflation remains at 3.4% in the US while core inflation slows to 2.4% YoY

Though broader price pressure remains contained, the Fed is expected to hike rates this week given stubbornly high inflation.

Bond markets are back to an old normal



Source: Bloomberg

Government bonds continued to sell off last week, with the key drivers being surging oil prices and hawkish signalling from central banks. The Brent oil price breached USD 100/bbl, triggering a hawkish reassessment of the policy rate outlook and the 2yr yield to jump by around 25bps in major markets, with Japan a key exception. The repricing at the short end triggered higher yields across the curve. The US 10yr yield surged 18bps but failed to break above 5%, ending the week at 4.97%, just below the 2023 high. The US Treasury did a smaller than expected buy-back operation at the long end of the curve, weighing on sentiment, while US CPI was a tad stronger than expected. The ECB delivered a hawkish hike, emphasising that further tightening may be needed. Bunds sold off, with the 10yr yield breaching 3.50%, reaching the highest level since 2009, with similar moves across the region. For France, the 10yr OAT/Bund spread widened further and is now trading close to 100bps, adding pressure on an already weak economy. While inflation breakevens rose on higher energy prices last week, real yields are elevated, weighing on financial conditions. We maintain our view that yields are capped to the upside as economic activity remains sensitive to higher borrowing costs and inflation remains contained. However, bond market volatility is set to remain high, with prior highs continuing to be tested.

Eurozone

The hawks reign

The ECB hiked interest rates by 0.25%, in a move that President Lagarde described as a 'no-brainer'. Although she stressed nothing was pre-committed, after the meeting 'ECB sources' suggested October was live. We think this is a stretch, but economic data need to come in weaker to prevent a December hike. Higher energy prices and resilient economic data are the immediate reasons for the hike. The former is clear, with natural gas prices up 150% since the advent of the Iran war and inflation forecasts now above 2% throughout 2028. We are sceptical

of economic resilience. The combination of higher energy prices and interest rates will likely weigh considerably on activity. Higher bond yields are a concern, and one that was surprisingly batted away during the press conference. German fiscal policy is boosting growth, but government finances are being squeezed across the bloc. Spain and Italy have been resilient, but risks are rising from falling real incomes. France is already nearing recession with little reason to forecast an imminent improvement. All of this makes a prolonged hiking cycle unlikely.

US Headline inflation reaccelerates as energy prices soar	Headline CPI inflation accelerated from 0.1% MoM in July to 0.4% in August while core CPI ticked up from 0.2% MoM to 0.3%. This left annual headline inflation at 3.4%, with core inflation slowing to 2.4% YoY. While broader price pressure still looks contained, the Fed is expected to tighten policy with a rate hike this week given the central bank's recent emphasis on price stability and a number of hawkish statements from Kevin Warsh and other FOMC members. 10yr Treasury yields rose to almost 5% last week, the highest level in three years, as the size of	the Treasury's buyback operation disappointed. Meanwhile, consumer sentiment fell back to the second lowest on record in September, weighed down by a substantial drop in expectations as inflation worries continue to weigh on households' minds. Finally, small business optimism also fell according to the NFIB's latest survey, with both hiring intentions and capital expenditure plans softening.
China Targeted policy support is coming through	China's growth remains increasingly export led. August exports rose 25.0% YoY, with US-bound shipments accelerating sharply and high-tech goods and autos driving the gains. Inflation also picked up. CPI rose from 0.5% YoY in July to 0.8%, while PPI accelerated to 3.8%, largely reflecting higher energy prices rather than stronger domestic demand. Food prices remained in deflation. Policy support is focused on repairing balance sheets and sustaining credit growth. Beijing announced a CNY 360bn capital injection into state-owned banks and insurers	while regulators extended the maximum mortgage tenor from 30 to 40 years and eased Housing Provident Fund withdrawal rules. These measures should lower repayment burdens, improve access to housing-related savings and support credit availability. Taken together, mild deflation, bank recapitalisation and targeted property easing point to further stimulus. Yet the scale remains narrow. While the measures should help stabilise the property market and faltering demand, they are unlikely to deliver a broad-based recovery near term.
Equities Bond yields and policy rates cast a cloud over stocks	Stocks were broadly softer last week, and the MSCI World index slipped 1%. With oil prices jumping back above USD 100, bond yields marching higher, and a hawkish rate hike by the ECB, there was little to cheer about. Even a stellar earnings report from Oracle, beating expectations on all metrics bar cash flow, left the stock down over 5% on the week. We maintain that Oracle is one of the weaker hyperscalers, but a 30% jump in revenues, 121% jump in cloud revenues, and very strong guidance for the coming quarter showed that the AI story continues apace	with good earnings visibility. Korea's Kospi was one of the few bright spots, up over 3% on the week as semiconductors tracked higher. It is currently a quieter period for corporate news-flow, with economic data and geopolitics taking centre stage for the time being. We remain constructive on stocks but are concerned by the rise in bond yields, which has the power to undermine the bull run should they gap higher.
Credit Bond jitters fail to dent resilience, although Municipals suffer	Last week credit remained resilient despite a sharp government bond selloff and persistent oil price volatility. Corporate credit spreads held stable, although yield volatility drove negative total returns. European IG spreads widened modestly amid heavy primary supply. Supply was led by a wave of deals from US companies, including Amazon and Uber, making debut sales in GBP and EUR, respectively. Fund flows were mixed. US IG funds attracted solid inflows while US HY and European funds saw outflows. Securitised credit also remained resilient despite	government bond volatility, with heavy but well-absorbed issuance across ABS and CMBS. Municipal bonds were the notable underperformer as tax-exempt yields rose sharply amid heavy supply and weak technicals. The selloff pushed the municipal-to-Treasury yield ratio to the highest level in a year and erased the YTD outperformance of municipal bonds versus corporates and Treasuries. Looking ahead, risk-reward in credit continues to be asymmetric, given tight spreads and headwinds coming from higher yields and persistent elevated supply.

What to Watch

- The Fed is expected to tighten policy as inflation rates remain elevated.
- This week brings the German ZEW sentiment measure, alongside the ECB's inflation expectation survey.
- All eyes will be on the BoJ rate decision this week. China's activity data for August will be released. India's trade balance and labour data are also key to watch.

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