

Weekly Macro and Markets View

28 September 2026



Highlights and View

The latest PMI survey shows a marked pickup in US growth momentum

Both services and manufacturing activity have accelerated in September while input costs have soared at the steepest rate in four years.

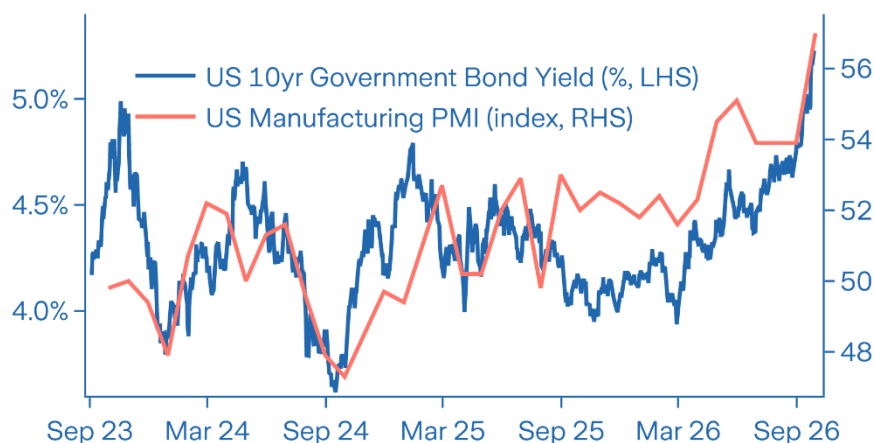
US government bonds sell off sharply, triggered by strong economic data and a weak Treasury auction

While bond markets are set to remain volatile near term, we maintain our view that they offer good value over the longer term as real yields have risen further while inflation remains contained.

The latest trade data from Korea, Taiwan and Hong Kong point to continued robust global demand for semiconductors.

With investment in AI and data centres still running strong, we expect this to remain a tailwind for Asian economies that are well integrated into the supply chain.

Government bonds sell off on solid economic data and weak Treasury auctions



Source: Bloomberg

After settling down following the Fed's hawkish hike, government bonds sold off again last week, with the US 10yr yield breaching the prior cycle high, surging towards 5.20%. Yields rose in other regions as well, though to a lesser extent. The trigger was the strong US PMI print, in combination with a soft Treasury auction and renewed upward oil price pressures. Weakness was most pronounced at the long end of the Treasury curve, with the 5yr5yr forward rate snapping higher by 22bps on the week. Critical for the outlook, last week's sell-off continued to be driven by higher real yields, with inflation breakevens contained. Except for a brief period during the 2008 financial crisis, the real 10yr US yield is at the highest level since 2002 and has risen by close to 120bps since the start of the Middle East conflict. As real borrowing costs have surged, increasingly becoming a headwind for companies and households, we expect this to weigh on economic activity going forward. We would therefore not extrapolate recent trends and maintain our view that government bond yields are in oversold territory in key regions. That said, bond market sentiment remains negative for the time being and dependent on Middle East developments. Further volatility should be expected.

US

Growth momentum picks up in September

The latest PMI survey shows that the economy remains resilient, and activity has picked up momentum in September. The Composite PMI rose to 58.4 from 56.0 the month before, driven by both services and manufacturing. Based on historical comparisons, the latest survey data is in line with an annualized growth rate of around 5%, with a 4% gain now signalled for the third quarter as a whole. Employment rose markedly, and firms reported increasing problems with finding suitable staff. Survey respondents also indicated significant supply

chain bottlenecks. Input costs have soared in September at the steepest rate in four years, with fuel and transport costs spiking higher because of the rise in oil prices. The solid PMI report triggered another leg higher in Treasury yields. The robust economic environment justifies the Fed's more hawkish stance, but we should be cautious not to simply extrapolate the recent trend as other indicators fail to reflect the same strong acceleration in growth momentum.

Eurozone

Resilience

The buzzword for the current state of the Eurozone economy is 'resilient'. Further evidence was provided last week as PMI releases broadly surprised to the upside. The Eurozone composite measure rose to 53.1, the highest since 2023. German and French readings also improved. For Germany, the separate ifo survey rose for both the current assessment and future expectations of the economy. Commentary from this report spoke to the biggest positive driver for firms: external demand related to the AI buildout and, to a lesser extent, defence and

infrastructure spending. Consumer confidence figures were less rosy, falling back even further below long-term averages. This was also true specifically in Germany, where the GfK consumer confidence reading fell to its lowest level since March. High energy prices, hawkish ECB rate expectations and global pressures on bonds are pushing funding costs up considerably. We see current yield levels as restrictive and downgrade our outlook for next year's economic growth.

LatAm

Mexico's activity rebounds as trade talks slip

Mexico's July activity index rose 3.4% YoY, up from 2.8%, with services leading a broad-based rebound. FIFA World Cup spending may have temporarily lifted the economy, but construction's 7.3% YoY gain, supported by stronger public investment after subdued spending in H1, offers a more encouraging signal. The fourth round of US–Mexico trade talks, originally expected for this week, was postponed amid scheduling conflicts involving US–China engagement and the G20 summit. Both Trump and Sheinbaum had recently pointed to a possible interim

deal, but the recent collapse of US–Canada talks underscores the risk of setbacks. Still, Mexican exports to the US continue to rise, benefiting from strong demand for AI capex-related equipment. Banxico unanimously held its reference rate at 6.5%, stating that policy would not need to react mechanically to anticipated Fed moves. This supports our view that Banxico can look through a limited Fed hiking cycle. However, a more sustained US tightening or material MXN depreciation could challenge this outlook.

Credit

A 'higher for longer' yield environment could take a toll

Credit spreads widened last week despite resilient stock markets. The spread widening was largely driven by the surge in government bond yields, especially in the US. There was a quality bias seen within credit, with High Yield (HY) underperforming Investment Grade (IG), and spreads of the CCC rated segment of the Bloomberg HY index widening by around 50bp on the week. Yields of CCCs are now hovering around 14.5%, up from being less than 10% at the beginning of the year. Funding costs as high as these could prove debilitating for weak

borrowers. Indeed, as seen from the bankruptcy data for the US, bankruptcies have been running high for a few years now despite the lack of an economic recession. While high-quality names such as the Hyperscalers would likely be less sensitive to a rise in yields, more leveraged and cyclical parts of the market remain sensitive to yields. Notably, apart from weak borrowers in the CCC segment, the broader credit markets are still trading at tight spread levels, with little risk premium on offer despite rising government bond yields.

US Municipal Bonds

Sell-off draws opportunistic buyers but headwinds remain

September has been one of the most difficult months for US tax-exempt municipal bonds in recent memory, with the asset class caught in a broader bond market sell-off. Last week, for the first time since 2011, the 30yr AAA municipal yield breached 5% and the 10yr AAA yield rose above 4%. The yield spike translated into sharp losses, with the Bloomberg Municipal Bond Index returning -3.63% month-to-date and underperforming both Treasuries and corporate credit. Longer-duration bonds were hit hardest by the rise in yields. Heavy supply added to the pressure.

However, the sell-off left municipals offering their highest tax-equivalent yields since the Global Financial Crisis, prompting opportunistic buying from retail investors, which translated into record ETF inflows, partly offsetting mutual funds outflows. High Yield municipals modestly outperformed the broad index, helped by their shorter duration, although sentiment in the segment remains fragile. Despite the sell-off leaving valuations attractive, rate volatility and unfavourable technicals are likely to remain near-term headwinds.

What to Watch

- In the US, the ISM Manufacturing survey and labour market data will give crucial insights into the current state of the economy.
- Eurozone inflation data is due on Thursday and is likely to rise to its highest level this year due to rising energy prices. PMI data for Italy and Spain are also due.
- CPI and PMI data will be released for Switzerland.
- Asia's PMIs, Japan's industrial production, retail sales, Tankan survey and Tokyo CPI, and Australia's CPI are key to watch.
- In LatAm, Brazil's first-round presidential election next Sunday will take center stage, with a tight race keeping the outcome in focus.

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