Weekly Macro and Markets View

26 October 2026



Highlights and View

The spread between French and German 10yr bond yields reached a new high of 1.75% before retracing slightly

Rating agency Moody's maintained France's rating at Aa3, but noted clear downside risks.

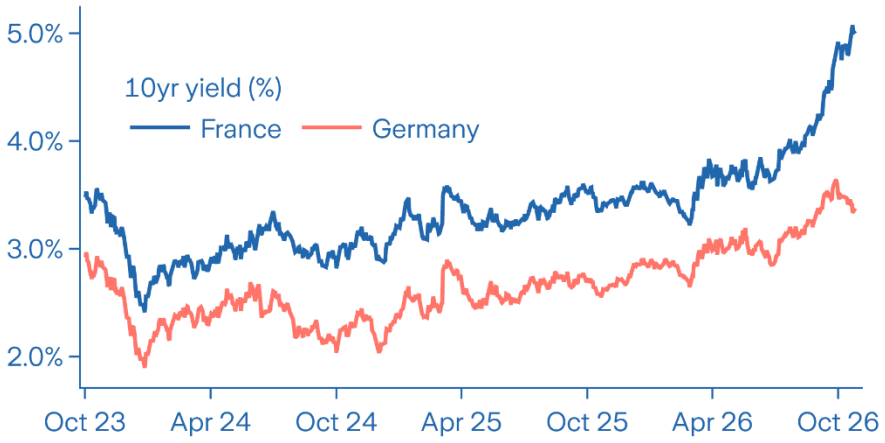
Equity markets are under pressure as investors remain cautious

Despite strong tech earnings, the rotation towards a more defensive portfolio mix continues as investors focus on return on capital spending.

Brazil's election cycle surprises again as Lula's runoff comeback secures his fourth term

Brazilian assets are left exposed to a sharp reversal, with early fiscal signals vital in helping to stabilise sentiment and preserve scope for further BCB easing.

French debt market volatility continues



Source: Bloomberg

French debt weakened further last week, as 10yr yields rose above 5.10% on Wednesday, and the spread to Bunds broke new post-2012 highs of 1.75%. As we write this, the market has retraced some of these losses, highlighting significant volatility. The notional good news over the weekend was a decision by the ratings agency Moodys to maintain France's Aa3 rating, seven notches above a downgrade to High Yield. While protests continued for another weekend, disorder was more limited. This is welcome but does not change the fact that France faces a difficult and fractured political landscape. The macro picture is deteriorating. Natural gas and oil prices moved to new year-to-date highs. We upgrade our inflation forecasts and expect average annual Eurozone inflation of above 3% YoY for 2027. The Eurozone Composite PMI slowed from 53.1 to 51.9. Within that, the French figure was well into contraction at 48.4. While Eurozone activity data is weakening, inflationary pressure makes a further ECB hike likely. This is an unwelcome reality for France. Monetary conditions are set to become more restrictive, while domestic economic dynamics in France are particularly weak. We remain wary of French assets in the near-term. We recently published a paper on the French bond market outlook: 'Le Spread'. High debt, high deficits, and fractious politics all mean risks are skewed negatively as we approach next year's presidential election. However, that same market pressure can ultimately lead to a credible fiscal response.

UK

Business activity remains robust in October

The UK economy has picked up momentum in October according to the latest set of PMI data, with the Composite PMI rising to 53.1, the highest since February. Both manufacturing and services activity have accelerated. The flipside of stronger activity was another increase in input prices across the private sector economy. Headline inflation picked up to 3.5% YoY in September from 3.1% YoY the month before despite a slowdown in the monthly rate. Core CPI rose from 2.6% YoY to 2.8% YoY. Meanwhile, the labour market was holding up with the unemployment rate receding from 4.9% in July to 4.7% in August. Rising inflation rates and a more robust labour market are likely to trigger a reaction by the Bank of England, with a rate hiked expected at their upcoming meeting in November. Households are feeling the weight of rising living costs. Retail sales fell in September, and consumer sentiment deteriorated significantly in October. The FTSE lost 1.8% last week, roughly in line with other markets in Europe.

Indonesia

Keep holding on

Bank Indonesia kept rates unchanged last week despite heavy foreign outflows amid MSCI's consultation on reclassifying Indonesia's equity index from Emerging Market to Standalone Market. This increased pressure on the IDR, with the currency testing historical lows. While the policy rate was unchanged, the decision came along with a patchwork of other measures: a hike in the deposit facility rate to 5%, a 200bp cut in the RRR to 7% to inject liquidity into the banking system, and increased incentives to use a forward instrument to hedge IDR exposures.

The use of the forward instrument should help ease selling pressure on the IDR in the short term. We think currency pressures will remain as the potential downgrade by MSCI could drive further waves of capital outflows, and tightening is needed before the end of the year to prevent IDR weakness from weighing too heavily on bond and equity markets. Furthermore, growth remained resilient despite elevated energy prices. With inflation near the upper range, further rate hikes are warranted.

Brazil

A tale of two surprise election rounds

Brazil's presidential election cycle has delivered another surprise. After Flávio Bolsonaro unexpectedly led the first round, Lula staged a strong comeback, winning with 51.8% of votes against 48.2%. Once again, polls missed the outcome. Lower abstention, stronger government machinery deployment, and recent spending concessions appear to have helped Lula turn the race around. The result preserves policy continuity, although now under more challenging political and fiscal conditions, particularly after recent campaign commitments. The surprise leaves

Brazilian assets vulnerable to a sharp reversal of the post-first-round rally, with pressure expected on the BRL and equities, as well as on higher local yields. Beyond the initial repricing, attention will turn now to economic team appointments and early fiscal proposals. Bolsonaro's decision to contest the result adds near-term uncertainty while a weaker currency and renewed inflation pressure may leave the BCB with less room to continue cutting rates.

Bonds

Government bonds rally despite rising oil prices, led by falling real yields

Government bonds stayed in favour last week as AI jitters remained in place. The 10yr US Treasury yield fell 7.8bps to 5% and is down by nearly 30bps since the end of September, almost entirely driven by lower real yields. Japanese bonds outperformed, with a 17bp drop in the 30yr JGB yield. While falling US yields have been key for the JGB rally, inflows into long-dated JGB bonds picked up further following the BoJ's September rate hike, which eased concerns around inflation. Bund yields also declined but failed to outperform despite mounting pressures on French debt.

ECB rate hike expectations have been tempered modestly. The rally in bonds is happening despite rising oil prices. Brent crude was up 6% last week, and roughly double that since the end of September, with inflation breakevens also edging higher. This limits the prospect of a further decline in yields, particularly as global growth remains resilient.

Equities

Tech struggles on fears of AI overspend

A surge in the oil price above USD 115/bbl, rising inflation fears, and global political challenges have undermined stocks. Declines were modest, however, and inflows still positive, although rotation was clear. Korea's KOSPI fell 2% and the US Nasdaq slipped 0.7%, but the equal-weighted S&P 500 was up 1.1% as investors diversified away from tech names. Earnings season is in full swing but provided more questions than answers last week as investors grow increasingly fickle as to how they interpret the results. US numbers have been extremely

strong, up 30% YoY, though capital spending plans and how they will be monetised are key. Meta's 26% YoY revenue growth was better than expected, but unexpected legal costs and, importantly, negative cashflow and a small rise in capital spending plans, spooked investors, with the stock off 9.5%. While Netflix suffered on revenue guidance despite beating Q3 expectations, Tesla's numbers were treated positively. With investor sentiment towards tech having fallen, and potentially very strong earnings reports still to come, we remain positive on the sector.

What to Watch

- In the US, the Fed is expected to remain on hold while investors will closely watch earnings reports from Alphabet, Microsoft, and Amazon.
- The ECB meets on Thursday and is expected to keep rates unchanged while signalling a possible hike in December. Inflation data will also be released for the large economies this week.
- A key event in Asia this week will be the BoJ's policy rate decision. Inflation data in Tokyo and Australia will be released as well as China's PMI and industrial production figures for Korea and Singapore.
- In LatAm, Chile's monetary policy decision will be this week's main focus.

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