

Treasury yields whipsaw on inflation, oil news

Market recap

Bond market volatility dominated as Treasury yields surged to multi-decade highs midweek before partially recovering Friday. Stronger-than-expected U.S. PMI data, a weak Treasury auction and volatile oil prices stoked inflation fears, with Brent crude prices oscillating between \$100 and \$107 per barrel amid Strait of Hormuz disruption concerns. Late-week reports of a phased U.S.-Iran deal to reopen the Strait eased pressure on both bonds and risk assets.

The Bloomberg Aggregate U.S. Bond Index returned -0.82%. Investment grade corporates returned -1.07% and preferreds -1.04%. High yield returned -0.92% and emerging markets -1.03%. MBS returned -0.96%. Senior loans held nearly flat at -0.01%, insulated by their floating-rate structure, while tax-exempt municipals lagged the broader complex at -1.81%. Excess returns were negative across credit, with the Aggregate lagging -14 basis points.

Outlook

The U.S. Federal Reserve's 25 basis point hike to 3.75% to 4.00% anchors near-term rate expectations. While we have viewed this as a rare one-and-done hike, we acknowledge the risk of another increase this year should elevated energy prices persist. For 2027, we see Fed risks biased toward a rate cut, though uncertainty around oil prices, tariffs, tech spending and fiscal policy remains. Upcoming PCE inflation and jobs data should steer the near-term path.

We forecast the 10-year Treasury yield at 4.75% by year-end 2026 and 4.50% by end-2027, with the 2-year at 4.50% this year and 4.00% next year, pointing to modest steepening in 2027. Fundamentals remain solid, and we favor high-quality income given still-attractive yields despite tight spreads.

Key takeaways

- Treasury yields surged to multi-decade highs before recovering late in the week as Iran-related oil supply fears eased.
- The Federal Reserve's 25 basis point hike may be a one-off, with 2027 risks skewed toward rate cuts.
- Despite negative excess returns across credit sectors, high-quality income remains attractive given compressed but still meaningful spread levels.

WHAT WE'RE WATCHING:

SEPTEMBER

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- JOLTS report

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- China PMI, U.S. PCE inflation, U.S. personal spending

OCTOBER

01

- ISM manufacturing

02

- Euro area CPI, U.S. jobs report

Weekly fixed income snapshot

28 SEPTEMBER 2026

U.S. Treasuries

Yields sold off sharply across the curve, with intermediate maturities underperforming most, hitting multi-decade highs midweek before partially recovering Friday. Strong PMI data, a soft auction that pushed the 5-year above 5% for the first time since 2007, and fiscal concerns drove the repricing. Rate volatility spiked to its largest weekly jump in years.

The 2-year rose 11 bps to 4.85%, the 5-year 13 bps to 4.99%, the 10-year 17 bps to 5.16%, the 20-year 18 bps to 5.55% and the 30-year 17 bps to 5.49%.

Tax-exempt municipals

Municipals declined sharply and underperformed the broader market as rising rates pressured the sector's longer-duration profile. With the Bloomberg Municipal Index yielding 4.69% and high yield municipals at 6.13%, absolute yields remain at levels that have historically attracted buyers. We view this technical weakness as a potential opportunity to add high-quality duration.

The Bloomberg Municipal Index returned -1.81%.

Taxable municipals

Taxable munis fell alongside the broader repricing, with the sector's long duration leaving it exposed to the rate move. Higher absolute yields near 5.73% are drawing demand from crossover investors and providing a natural clearing mechanism. We see the current backdrop as an opportunity to lock in elevated yields.

The Bloomberg Municipal Taxable Index returned -1.07% with spreads at 52 bps.

Investment grade corporates

Spreads widened from recent lows and index yields rose to a near three-year high, with a sharp rate move over the final two sessions driving most of the damage. Primary issuance fell short of weekly forecasts as higher rate volatility dampened issuer sentiment.

The Bloomberg U.S. Corporate Bond Index returned -1.07% with spreads at 80 bps.

U.S. high yield corporates

High yield opened firm on light volume before Wednesday's sharp rate move triggered a heavy risk-off session. Higher-quality credits bore the brunt of the selloff, signaling the move was rates-driven rather than a sign of credit deterioration. The primary market stayed active, with issuers pricing across sectors and weekly supply reaching roughly \$17 billion.

The Bloomberg High Yield 2% Issuer Capped Index returned -0.92% with spreads at 294 basis points.

Preferred securities

Preferreds, hybrids and Additional Tier 1 (AT1) bonds broadly sold off as rising rates drove weak flows, with AT1s underperforming the complex. Two new deals priced, with shorter-call tranches outperforming post-issuance while longer tranches slipped. Buyer demand stayed scarce, concentrated mainly in new issue switches and selective yield-buying in long-end paper.

The ICE Preferred Index returned -1.04% with spreads at 160 basis points.

Senior loans

Loans were largely insulated from the volatility hitting high yield, supported by favorable technicals and their floating-rate structure. That resilience broke down modestly midweek as renewed AI-related concerns weighed on subscription-based and higher-beta technology credits. The market found its footing Thursday as accounts stepped in at lower levels, and new issue activity stayed robust in a historically strong month for primary supply.

The S&P Leveraged Loan Index returned -0.01% with spreads at 473 bps.

Securitized credit

Agency MBS spreads widened relative to Treasuries as rate volatility spiked to a one-year high midweek, before intermediate- and longer-maturity mortgages led Friday's recovery; mortgage credit new issuance slowed. ABS deals mostly priced into strong demand and tighter spreads, though data center paper softened as heavier supply weighed on mezzanine bonds.

CLO secondary volumes were heavy as more sellers brought bonds to market, though top-tier A and BBB rated paper stayed in high demand. CMBS secondary flows rose again on continued selling, with spreads firm most of the week before widening marginally.

The Bloomberg MBS Index returned -0.96% with spreads at 37 basis points. The Bloomberg CMBS Index returned -0.30% with spreads at 63 basis points. The Bloomberg ABS Index returned -0.21% with spreads at 39 basis points.

Global emerging markets

EM debt declined with the global rates selloff, though hard-currency sovereign spreads tightened as the asset class lagged the rate move rather than reflecting improving fundamentals. Local markets underperformed as the dollar strengthened. Retail outflows moderated meaningfully, and issuers took advantage of a brief early-week reprieve to come to market, though demand was more lackluster than usual.

The Bloomberg Global EM Index returned -1.03% with spreads at 164 basis points.

U.S. Treasury market yields

Maturity	Yield	Change (%)		
		Week	Month-to-date	Year-to-date
2-year	4.85	0.11	0.51	1.38
5-year	4.99	0.13	0.49	1.26
10-year	5.16	0.17	0.41	0.99
30-year	5.49	0.17	0.25	0.65

Source: Bloomberg L.P., 25 Sep 2026. Performance data shown represents past performance and does not predict or guarantee future results.

Reports of a phased U.S./Iran deal to reopen the Strait of Hormuz sparked a sharp Friday reversal, easing oil-driven inflation fears that had gripped markets all week.

For more information, please visit nuveen.com.

All market and economic data from Bloomberg, FactSet and Morningstar.

Representative indexes: **U.S. Treasury:** Bloomberg U.S. Treasury Index; **U.S. government related:** Bloomberg U.S. Government-Related Index; **municipal:** Bloomberg Municipal Index; **high yield municipal:** Bloomberg High Yield Municipal Index; **taxable municipal:** Bloomberg Taxable Municipal Bond Index; **U.S. aggregate bond:** Bloomberg U.S. Aggregate Bond Index; **U.S. corporate investment grade:** Bloomberg U.S. Corporate Index; **high yield 2% issuer capped:** Bloomberg High Yield 2% Issuer Capped Index; **preferred securities:** ICE BofA U.S. All Capital Securities Index; **senior loans:** S&P UBS Leveraged Loan Index; **U.S. mortgage-backed securities:** Bloomberg U.S. Mortgage-Backed Securities Index; **U.S. commercial mortgage-backed securities:** Bloomberg CMBS ERISA-Eligible Index; **U.S. asset-backed securities:** Bloomberg Asset-Backed Securities Index; **CLO AA:** J.P. Morgan Collateralized Loan Obligation AA Index; **CLO BB:** J.P. Morgan Collateralized Loan Obligation BB Index; **global emerging markets:** Bloomberg Emerging Market USD Aggregate Index; **global aggregate:** Bloomberg Global Aggregate Unhedged Index.

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Fixed income characteristics and returns

Index	Yield to worst (%)	Spread (bps)	Effective duration (years)	Returns (%)		
				Week	Month-to-date	Year-to-date
U.S. Treasury	5.05		5.59	-0.66	-1.76	-2.28
U.S. government related	5.42	38	5.10	-0.71	-1.78	-1.69
Municipal	4.69		6.97	-1.81	-3.82	-3.63
High yield municipal	6.13	135	7.66	-1.79	-3.56	-0.92
Taxable municipal	5.73	52	7.37	-1.07	-2.31	-2.41
U.S. aggregate bond	5.46	30	5.79	-0.82	-1.98	-2.28
U.S. corporate investment grade	5.93	80	6.46	-1.07	-2.05	-2.44
High yield 2% issuer capped	8.10	294	3.14	-0.92	-1.84	0.80
Preferred securities	6.92	160	5.46	-1.04	-1.87	-0.70
Senior loans ³	9.48	473	0.25	-0.01	0.40	3.56
U.S. mortgage-backed securities	5.77	37	5.84	-0.96	-2.43	-2.36
U.S. commercial mortgage-backed securities	5.60	63	3.61	-0.30	-1.28	-0.69
U.S. asset-backed securities	5.28	39	2.90	-0.21	-0.77	0.46
Collateralized loan obligations, AA	5.55	126	0.25	0.08	0.32	3.89
Collateralized loan obligations, BB	12.26	748	0.25	0.24	1.17	5.47
Global emerging markets	6.70	164	5.66	-1.03	-2.08	-0.66
Global aggregate (unhedged)	4.40	31	6.11	-0.76	-1.98	-2.27

1 Option-adjusted spread to Treasuries. **2** Yield difference between the Bloomberg High Yield Municipal Index and the 20-year AAA MMD scale. **3** Spread refers to the 3-year discount margin. Duration is estimated based on the frequency of the reset date.

Source: Bloomberg L.P. and Standard & Poor's, 25 Sep 2026. Performance data shown represents past performance and does not predict or guarantee future results. Unless otherwise noted, the index is Bloomberg. All index returns are shown in U.S. dollars. Yield to worst is the lowest potential yield that can be received on a bond without the issuer actually defaulting. Effective duration (expressed in years) measures the price sensitivity of a fixed-income investment to a change in interest rates, considering that expected cash flows will fluctuate as interest rates change. Index performance is shown for illustrative purposes only. Index returns include reinvestment of income and do not reflect investment advisory and other fees that would reduce performance in an actual client account.

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Investors should contact a tax professional regarding the appropriateness of tax-exempt investments in their portfolio. If sold prior to maturity, municipal securities are subject to gain/losses based on the level of interest rates, market conditions and the credit quality of the issuer. Income may be subject to the alternative minimum tax (AMT) and/or state and local taxes, based on the state of residence. Income from municipal bonds held by a portfolio could be declared taxable because of unfavorable changes in tax laws, adverse interpretations by the Internal Revenue Service or state tax authorities, or noncompliant conduct of a bond issuer. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

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