

Monthly Cash Review: October 2026 (USD)

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Rising Treasury yields, Federal Reserve tightening and resilient credit markets continue to shape opportunities for USD cash investors.

September's defining story was not simply that Treasury yields rose. It was that they surged while high-quality credit spreads barely moved. The 2-year Treasury climbed 57 basis points to 4.91%, the 10-year jumped 49 basis points to 5.21%, and the 30-year reached 5.54%. Yet AAA spreads ended exactly where they began, at 27 basis points; AA widened just 2 basis points, A by 4, and BBB by 5. Treasuries pulled the fire alarm. High-grade credit calmly finished its coffee. Lower-quality credit was less relaxed: BB, B and CCC spreads widened 34, 42 and 135 basis points, respectively.

That disconnect matters. A rates move this violent would ordinarily be expected to drag credit spreads noticeably wider as financial conditions tighten. Instead, the damage remained concentrated primarily in the risk-free curve and lower-quality credit. The most reasonable interpretation—without pretending markets ever provide a single clean answer—is that investors were repricing inflation, monetary policy, real yields, Treasury supply, fiscal sustainability and possibly a higher neutral-rate regime, rather than signaling broad concern about high-quality corporate fundamentals. Strong demand, attractive all-in yields and healthy liquidity likely provided additional technical support. In short, this looked more like a price-of-money shock than a credit-solvency shock.

There was no shortage of fuel. Oil remained around or above \$90–100, September PMIs pointed to resilient growth, and the 10-year Treasury broke above 5% for the first time since 2007. A particularly strong PMI release produced a 16-basis-point one-day move in the 10-year, because apparently bond markets now process economic data with the emotional restraint of a group chat. The selloff also reflected higher real borrowing costs, competition for capital, Treasury issuance and greater compensation for fiscal and term-premium uncertainty—not merely a dramatic unanchoring of long-term inflation expectations.

The Federal Reserve added its own contribution, raising the target range 25 basis points to 3.75–4.00%, its first hike since 2023. Chair Warsh described the move as removing “a dose of accommodation,” stressed that inflation had been too high for too long and made price stability the Fed's predominant focus. The updated projections indicated that additional tightening remains possible, with the median participant anticipating another hike before year-end. Warsh nevertheless declined to provide the familiar policy roadmap. The message was essentially: we have a destination, but please stop asking for turn-by-turn directions.

The next move is now the principal uncertainty. Some expect the Fed to skip October and hike in December; others expect another 25-basis-point increase in October; Our Econ Team favors December, while questioning whether rate increases are the correct tool for an oil-driven supply shock. Inflation breadth, labor-market resilience, energy prices, financial conditions and geopolitical developments will determine which forecast survives contact with reality. Choosing October versus December currently resembles selecting the fastest supermarket checkout line: completely obvious once it is too late to switch.

For money markets, the hike and repricing lifted yields across the complex. SOFR rose to 3.90%, three-month Treasury bills to 4.17%, and three-month Tier-1 commercial paper to 4.07%. Meanwhile, money market fund assets remained near \$7.94 trillion, underscoring the depth of demand for liquidity and income. The environment continues to favor flexibility, disciplined liquidity management and selective maturity extension when compensation improves—without building portfolios around heroic duration forecasts.

September's lesson was straightforward: credit did not break; the price of time, liquidity and simply reset higher. Cash investors were not innocent bystanders. They were among the few being paid to watch the plot twist.

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