US Rates Strategy Weekly

SMBC · 2026-09-04 · English original

US Rates Strategy Weekly September 4, 2026 Joseph Abate, US Rates Strategy Monty Gandhi, US Rates Strategy Troy Ludtka, US Economics joseph.abate@smbcnikko-si.com mgandhi@smbc-cm.com troy.ludtka@smbcnikko-si.com 1 212 893-1592 1 212 224-5114 1 212-224-5483 • Ten-year yields touched 4.80% this week, the highest levels since May 2025, yet the 10y term premium has remained range bound since mid-2025 . Heavy corporate debt issuance, uncertainty with Fed's reaction function and oil prices pushed the premium towards the upper end of its range. • Treasury's buyback announcement reversed the updrift in the premium even as many in the market are skeptical of Treasury's ability to pull interest rates sustainably lower . Likewise Chair Warsh's hawkish speech at Jackson Hole also pulled the premium lower. • Concern about the unsustainability of the fiscal path has yet to push the premium outside its post- 2025 range . • We believe that 4.80% to 5.00% might be a near-term multi-month peak in 10-year Treasury yields. There are some signs that demand for global bonds may emerge with yields at attractive levels. • Bonds have sold off for six consecutive months since March. Since 1970, there have been only three other such instances. Only two of these episodes extended into a seventh month. We think this suggests a favorable risk-reward in positioning for lower yields. • We expect headline CPI to increase 0.3% m/m (3.3% y/y) with the core up 0.2% m/m (2.4% y/y) . In August, gasoline prices rose 3.2% m/m, while used car prices declined -1.2% m/m. Housing remains a critical source of disinflationary pressure. While inflation is making some progress toward the Fed's target, we do not think the August reading will prevent the FOMC from hiking rates this month . Yields near highs, term premium rangebound Despite 10y yields reaching new highs and revisiting levels last seen in May 2025, term premium has not participated meaningfully in the move. The Fed's ACM model estimates the 10y term premium is about 70bp currently (Figure 1). This is within the 50-90bp range where it has traded since May 2025. A variety of factors had recently pushed the premium towards the upper end of the range . Heavy corporate debt issuance is crowding out Treasury issuance. Likewise, uncertainty about the Fed's reaction function coupled with oil price uncertainty may be adding to this upward pressure. But the upward drift in the premium was reversed following the Treasury's buyback announcement . Although Chair Warsh did not provide any forward guidance at his Jackson Hole appearance, his hawkish tone seemed to alleviate concern that the Fed had lost some of its inflation-fighting credibility, pulling the premium lower. Markets have since grown more skeptical about the Treasury's ability to pull term interest rates lower through buybacks. And while the Treasury Secretary has reminded markets that he has a large arsenal at his disposal, he has not followed up the mid-August buyback announcement with additional actions.

SMBC US Rates Strategy Weekly 2 This back-and-forth in the term premium mostly reflects technical factors – not the bigger issue of the unsustainability of the fiscal path. Markets appear no more worried about the deficit outlook than they were earlier this year. Indeed, swap spreads have widened this summer rather than tightening as they might if markets were growing more concerned about deficit spending. This is in contrast to late 2024- early 2025 when a repricing of fiscal risk pushed the 10y term premium up 90bp. As the buybacks are sui generis we would expect the cross-market picture to look very different (Figure 2). In Germany and France, term premia have also been range-bound since 2025, and like the US, are at their upper-ends. French premia moved higher this summer amid political uncertainty and higher energy prices. By contrast, Japanese term premium have risen 100 bps since mid-2025. Long end – Risk reward is shifting We believe that 4.80% to 5.00% might be a near-term multi-month peak in 10-year Treasury yields. We think outright yield levels are increasingly attractive. On the global front, there were reports that GPIF, one of the world's largest institutional investors, may step up JGB purchases, with yields near 3% appearing attractive to many investors. Irrespective of when actual buying materializes, elevated yield levels alone could encourage investors with short positions to begin covering. Similarly, 10-year Bund yields recently touched 3.40%, a level where we expect demand to emerge. Corporate supply should also be largely priced-in over the next week or two. Historically, issuance-related pressure tends to be absorbed during the first week of September, and this year the adjustment may occur slightly later due to the timing of Labor Day. Higher oil prices driven by geopolitics remain a key risk. At the same time, attractive outright yields, signs that the rise in global yields may be nearing exhaustion, and increased Treasury buybacks targeted toward the long end should provide support. Yields have risen for six consecutive months. Since 1970, there have been only three other instances of such a streak, and only two episodes that extended to a seventh consecutive monthly increase. History suggests that the risk-reward increasingly favors positioning for lower yields following such an extended move higher. Figure 1: US 10y term premium (%) Figure 4 : Global 10y term premia (%) Source: Bloomberg, SMBC Nikko Source: Fed, SMBC Nikko 0.00 0.25 0.50 0.75 1.00 Jan-25 Apr-25 Jul-25 Oct-25 Jan-26 Apr-26 Jul-26 US 0.00 0.25 0.50 0.75 1.00 1.25 1.50 1.75 2.00 Jan-25 Apr-25 Jul-25 Oct-25 Jan-26 Apr-26 Jul-26 France Germany Japan

SMBC US Rates Strategy Weekly 3 Week ahead • Producer Prices Report (Aug, Thurs) : We are forecasting a 0.4% m/m increase in headline PPI and 0.3% m/m increase in core PPI. This follows a soft July reading of -0.02% m/m. We expect producer prices to accelerate in August following a 4.1% m/m gain in crude oil. Industrial metals prices also increased in the month (3.7% m/m). PPIL health care costs have slowed since late 2024 (Figure 3). • Consumer Prices Report (Aug, Friday) : We are forecasting 0.3% m/m (3.3% y/y) for headline CPI and 0.2% m/m (2.4% y/y) for core CPI. In August, gasoline prices rose 3.2% m/m, while used car prices declined -1.2% m/m. Housing remains a critical source of disinflationary pressure (Figure 4). We look for CPI shelter to rise 0.2% m/m. We expect core CPI to cool to 2.1% y/y in 2027. Figure 3: PPI Health Care Prices (%y/y) Figure 4 : Case Shiller Home Prices (%y/y) vs. CPI Shelter (%y/y) Source: BLS, Haver, SMBC Nikko Source: BLS, S&P, Haver, SMBC Nikko -2 0 2 4 6 8 -15 -10 -5 0 5 10 15 20 25 2000 2005 2010 2015 2020 2025 Case Shiller National Home Prices (16m lead) CPI: Shelter (%YoY, rs) 1.5 2.0 2.5 3.0 3.5 2022 2023 2024 2025 2026

SMBC US Rates Strategy Weekly 4 Table 3: Economic indicator forecasts

---