



October 2026 Bond Market Review

Market Summary

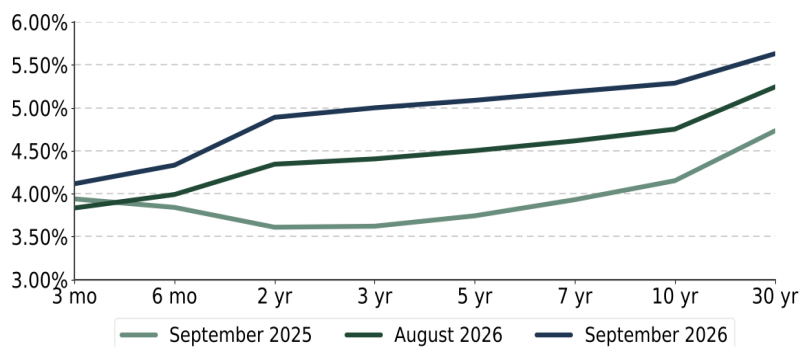
Crude oil topped \$100 a barrel in mid-September as the prolonged conflict between Iran and U.S.-allied forces disrupted shipping through the Strait of Hormuz. The disruption pushed diesel prices to record highs, adding to inflation pressures. Meanwhile, hiring improved after a softer summer. August payroll growth exceeded consensus forecasts, while upward revisions to June and July erased much of the previously reported weakness, easing fears that job creation had stalled. Given this backdrop, the Chandler team expects the Federal Reserve to continue to focus monetary policy on price stability, with at least one more 25 basis-point rate hike likely before year end.

The Federal Open Market Committee unanimously raised the federal funds rate target range by 25 basis points to 3.75%–4.00% at its September meeting, marking its first rate increase since 2023. Chair Kevin Warsh said the move would support a more timely return to the 2% inflation target. He declined to signal the path of future rate moves, saying policymakers would not prejudge upcoming decisions. However, the median projection of Committee members places the federal funds rate at 4.1% at year end, which implies one more 25 basis point increase.

Treasury yields rose sharply across the curve in September. Short-term yields climbed as investors priced in a higher path for the federal funds rate. Longer-term yields rose on fiscal concerns, global spillovers, and inflation expectations, as long maturities absorbed the repricing of inflation risk while bill yields remained anchored near the policy rate. Heavy bond supply pushed intermediate maturities up the most. The 2-year rose +55 basis points to 4.89%, the 10-year rose +54 basis points to 5.29%, while the 5-year gained +59 basis points to 5.09%. The spread between the 2-year and 10-year Treasury yields was at +40 basis points at September month-end. One year ago, the 2s/10s spread stood at +54 basis points. The 3-month bill yield rose to 4.11%, above the top of the new federal funds target range, a sign that investors expect further rate increases. Corporate credit spreads, the extra yield investors demand over Treasuries, also widened to 84 basis points from 80.

U.S. Treasuries sold off sharply in September, pushing yields higher across the curve and longer-term rates to multi-decade highs. The 10-year yield climbed from about 4.79% at the start of the month to 5.29% on September 30. The 30-year yield reached 5.63%, its highest level since 2002, while the 2-year yield closed the month at 4.89%, up from 4.40%. Persistent inflation, tighter Federal Reserve policy and energy disruptions tied to geopolitical conflict fueled the selloff, alongside supply-demand pressures in the bond market. The Fed raised its benchmark rate by 25 basis points, while the spread between short-term Treasuries and the federal funds rate suggested investors were pricing in further increases. A wave of corporate bond issuance added to the supply of debt competing for investor demand, putting additional upward pressure on yields.

U.S. Treasury Yields



Source: Bloomberg

Credit Spreads

Credit spreads were wider in September

	Spread to Treasuries	One Month Ago	Change
3-month top rated commercial paper	(0.17)	(0.10)	(0.07)
2-year A corporate note	0.27	0.24	0.03
5-year A corporate note	0.55	0.52	0.03
5-year Agency note	0.02	0.03	(0.01)

Source: Bloomberg; data as of 9/30/2026

Treasury Yields

Treasury Selloff Sends Long - Term Yields to Multi - Decade Highs in September

Treasury Yields	Trend	9/30/2026	8/31/2026	Change
3 month	▲	4.12	3.83	0.29
2 year	▲	4.89	4.34	0.55
3 year	▲	5.00	4.41	0.59
5 year	▲	5.09	4.50	0.59
7 year	▲	5.19	4.62	0.57
10 year	▲	5.29	4.75	0.54
30 year	▲	5.63	5.24	0.39

Source: Bloomberg

Market Data

Data as of 9/30/2026

	1-Mo Chg	% Chg
S&P 500		
7,651.54	(34.60)	(0.45%)
NASDAQ		
26,861.06	490.17	1.86%
Dow Jones		
50,906.05	(2,279.85)	(4.29%)
FTSE (UK)		
10,606.00	(218.26)	(2.02%)
DAX (Germany)		
25,199.19	(1,058.92)	(4.03%)
Hang Seng (Hong Kong)		
24,613.27	(953.72)	(3.73%)
Nikkei (Japan)		
66,753.72	441.79	0.67%

World Stock Market Index Descriptions

S&P 500—The S&P 500 is a market value-weighted index of 500 large-capitalization stocks. The 500 companies included in the index capture approximately 80% of available US market capitalization. **NASDAQ**—The NASDAQ Composite Index is the market capitalization-weighted index of over 3,300 common stocks listed on the NASDAQ stock exchange. **Dow Jones**—The Dow Jones Industrial Average is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange and the NASDAQ. The Financial Times Stock Exchange Group (FTSE)—The FTSE is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. **DAX**—The Deutscher Aktienindex (DAX) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. **Hang Seng**—The Hang Seng Index is a freefloat-adjusted market-capitalization-weighted stock market index in Hong Kong. It is used to record and monitor daily changes of the largest companies of the Hong Kong stock market and is the main indicator of overall market performance in Hong Kong. **Nikkei**—Japan's Nikkei 225 Stock Average is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

Economic Roundup

Equities

Rising long-term borrowing costs tested equity valuations on the final session of the third quarter. The S&P 500 slipped 0.3% to 7,651.54 on September 30, while the Dow retreated 0.9% to 50,906.05 and the Nasdaq gained 0.2% to 26,861.06, buoyed by technology shares. Year-to-date returns remain constructive at 11.8%, 5.9%, and 15.6%. Fundamentals offer a counterweight, with analysts projecting 29% third-quarter earnings growth, which would mark a third consecutive quarter above 25%, while the forward P/E of 19.2 sits below its five-year average of 19.8.

Consumer Prices

Inflation remained elevated in August as rising energy costs kept pressure on prices. The Consumer Price Index rose 0.4% from July and 3.4% from a year earlier, while core CPI, which excludes food and energy, increased 0.3% for the month and 2.4% annually. The Personal Consumption Expenditures Price Index showed a similar pattern: headline prices rose 0.3% for the month and 3.4% from a year earlier, compared with increases of 0.2% and 3.0%, respectively, for core PCE. The gap between headline and core inflation highlighted the impact of gasoline prices, which climbed 3.9% in August and 16.3% from a year earlier. Persistently high energy costs fueled concerns that inflation could spread more broadly through the economy, a key concern behind the Federal Reserve's September rate increase.

Retail Sales

Consumer confidence weakened in September, even as spending remained resilient. The Conference Board's Consumer Confidence Index fell to 81.9 from a downwardly revised 88.6 in August, with respondents increasingly citing high fuel costs and broader price pressures as key concerns. Retail sales, meanwhile, rose 1.2% in August, buoyed by vehicle purchases and back-to-school spending. The control group used to calculate GDP increased 1.4%, though some of the nominal gains may have reflected higher prices rather than greater sales volumes. The disconnect between weakening sentiment and continued spending has helped sustain growth through much of 2026, but that resilience could be tested if the labor market softens.

Labor Market

Hiring picked up in August, with nonfarm payrolls rising by 162,000, well above the median consensus forecast of 55,000. The Bureau of Labor Statistics also revised June's job growth upward from 20,000 to 31,000 and July's previously reported decline of 23,000 to a gain of 21,000, raising the two-month total by 55,000 jobs. Food services, local government education, and manufacturing led the gains, while the information sector shed 23,000 positions during the month. The unemployment rate held steady at 4.1%, with 7.0 million people unemployed, while the underemployment rate fell to 7.7%.

Housing Starts

U.S. home construction slowed in August, while rising mortgage rates added to affordability pressures heading into the fall. Housing starts fell 2.6% from July's upwardly revised pace to a seasonally adjusted annual rate of 1.275 million units, according to the Census Bureau. Single-family starts rose 7.6% to 918,000. Starts in buildings with five or more units fell 22.5% to 344,000, which drove the overall decline. Home-price growth picked up modestly. The S&P CoreLogic Case-Shiller 20-City Composite Home Price Index rose 2.5% in July from a year earlier, before seasonal adjustment, compared with a 2.2% gain in June. Still, prices fell for the 14th consecutive month after adjusting for inflation, as broader price increases continued to outpace home-price gains. Borrowing costs offered little relief. Freddie Mac's 30-year fixed mortgage rate rose to 7.03% as of September 24, putting further pressure on prospective buyers' purchasing power.

Economic Indicator	Current Release	Prior Release	One Year Ago
Trade Balance	(105.57) \$B Aug. 31	(92.83) \$B Jul. 31	(59.64) \$B Aug. 31
Gross Domestic Product	2.20% Jun. 30	2.50% Mar. 31	4.00% Jun. 30
Unemployment Rate	4.20% Sep. 30	4.10% Aug. 31	4.40% Sep. 30
Prime Rate	7.00% Sep. 30	6.75% Aug. 31	7.25% Sep. 30
Refinitiv/CoreCommodity CRB Index	410.25 Sep. 30	410.57 Aug. 31	300.60 Sep. 30
Oil (West Texas Int.)	\$90.42 Sep. 30	\$85.76 Aug. 31	\$62.37 Sep. 30
Consumer Price Index (YoY)	3.40% Sep. 30	3.40% Aug. 31	2.90% Sep. 30
Producer Price Index (YoY)	6.60% Sep. 30	5.80% Aug. 31	1.90% Sep. 30
Euro/Dollar	1.13 Sep. 30	1.16 Aug. 31	1.17 Sep. 30

Source: Bloomberg

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