

Macro Pulse for October 4

- September's jobs report offers a more cautious signal on the labor market. The U.S. economy added 29k jobs, well below consensus estimates, while the unemployment rate edged up to 4.2%. The labor market remains broadly in balance, but the low-hire, low-fire environment supports our caution on a more extended tightening cycle. We expect one further Fed hike by year-end.
- Bond market volatility picked up sharply last week, with the MOVE Index, which measures U.S. bond market volatility, reaching its highest level since the onset of the Iran conflict. The 10-year Treasury yield breached 5.3%, its highest level in two decades, before reversing as oil prices eased and softer labor data tempered expectations for Fed tightening. The moves align with our view that yields are likely to remain elevated and volatile; we explore the rise in long-end yields in greater detail in this week's note.

Resilience meets tighter policy

Our October Macro Pulse is [now available](#), where we delve into the three themes shaping our outlook: a more restrictive rate environment, continued AI investment, and U.S. exceptionalism.

Our focus this month is the rates environment. Global yields have continued to move higher as resilient economic growth and renewed inflation pressures reinforce expectations for tighter monetary policy. For now, economic resilience remains intact, but it is increasingly being tested by a more restrictive rates environment.

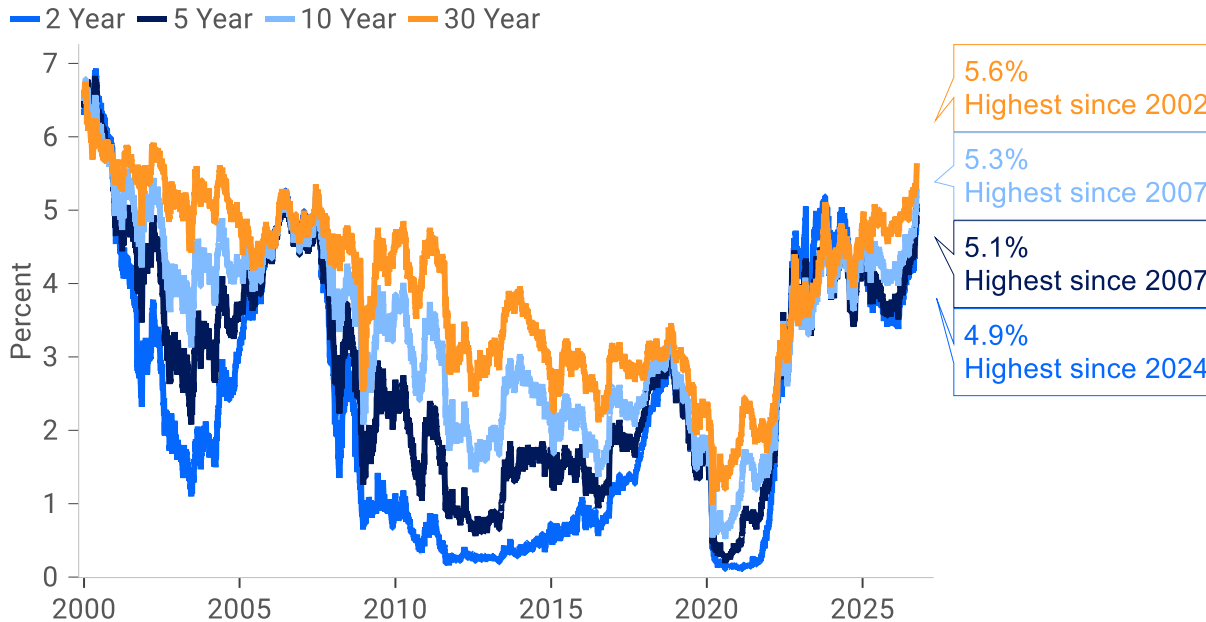
What's happened?

September brought a further repricing of rates across global markets. The Fed raised its policy rate 25 basis points to 3.75%–4.00% and signaled another hike could follow before year-end, joining a broader shift toward tighter policy from the European Central Bank, Bank of Japan, and others.

A combination of policy risks, stronger-than-expected global business activity, and elevated oil prices have also prompted a repricing across global sovereign curves. The result has been a sharp selloff across global bond markets, with long-term yields reaching multi-decade highs in several major economies.



U.S. Treasury yields have climbed back to levels not seen in decades



Sources: New York Life Investment Management, Global Market Strategy, U.S. Department of Treasury, Macrobond, October 2026.

But what is actually driving long-term yields higher? Long-term yields reflect three broad forces:

- Inflation expectations,
- The expected path of policy rates,
- The term premium, or the extra compensation investors demand to hold longer-duration bonds.

All three factors have contributed to the rise in yields, but to very different degrees.

Inflation expectations explain only a small part of the move

Higher inflation can push yields higher as investors seek to protect the purchasing power of future returns. Short-term inflation expectations and breakevens have risen meaningfully as energy prices increase near-term inflation risks. Longer-term inflation expectations, however, have moved only modestly higher, suggesting investors still expect those pressures to fade over time. **While inflation has contributed to the rise in yields, it explains only a relatively small part of the moves we've seen in long-term rates.**

Inflation expectations explain only a small portion of the increase in long-term yields



Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve, Macrobond Financial AB, U.S. Department of Treasury, Macrobond, October 2026.

Higher-for-longer policy expectations are pushing out the yield curve

Long-term yields are influenced by where investors expect short-term interest rates to go over time. Those expectations have shifted meaningfully higher. The Fed raised rates in September and signaled that another hike is likely to follow before year-end. In addition, resilient economic data suggests that the Fed will not have to ease anytime soon. As markets adjust to the possibility that rates stay higher for longer, that expectation is being reflected further out the yield curve, contributing to higher long-term yields.



Long-term yields rose as rate expectations shifted higher



Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve, Macrobond Financial AB, U.S. Department of Treasury, Macrobond, October 2026.

Term premium has become a bigger part of the story

The term premium is the extra compensation that investors demand for holding longer-maturity bonds. We think of it as a “catch-all premium” that reflects uncertainty around the future path of inflation and monetary policy, as well as the supply and demand for government debt.

Today, all of those forces are in play. The outlook for inflation and policy has become less certain, while growing government borrowing and elevated corporate issuance are increasing the amount of debt investors are being asked to absorb. The 10-year term premium has risen meaningfully since the start of the summer, though it remains below historic extremes. Importantly, pressure on the term premium may not disappear when central banks stop hiking. **Long-term yields can remain elevated even with policy rates on hold if investors continue to demand greater compensation to hold longer-term bonds.**

Term premium is on the rise alongside long-term yields



Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve, Macrobond Financial AB, U.S. Department of Treasury, Macrobond, October 2026.

Portfolio strategy

We remain constructive on risk assets, but a more restrictive rates environment is driving a need for selectivity.

The U.S. 10-year yield is up roughly 100 basis points this year. In theory, this creates a difficult environment for equities – or, at least, mathematical downward pressure on valuations due to a higher discount rate. However, earnings growth continues to accelerate and corporate fundamentals are strong. We are still neutral large-cap growth and developed ex-U.S. equities, while we see new capital as an opportunity to broaden exposure toward AI infrastructure, materials, and higher-quality small caps. Financials are our top diversifying sector preference, providing both strong fundamentals and resilience to an elevated rates environment.

In fixed income, higher yields are creating more attractive income opportunities, but we would not treat today's levels as an all-clear to pile into duration. This view is consistent with the more cautious duration stance we have taken for months, as we've been highlighting upside risks to yields. We also note that the Treasury curve has flattened amid this selloff; we continue to like steeper municipal curves to extend duration.

We see this environment favoring buy-and-hold opportunities in shorter maturity credit. The Treasury selloff, combined with questions around how tighter financing conditions will affect credit quality, may create a bumpy environment for spreads – but absolute income potential looks appealing. We've also upgraded our view on floating rate from underweight to overweight: we now see the asset class benefitting from the right mix of resilient growth and rising interest rates, though we believe quality within the asset class is paramount to maintain strong debt coverage.

Finally, a more volatile inflation and rates environment increases the importance of diversification beyond traditional stock and bond exposure. Historically, upside inflation surprises are associated with tighter stock-bond correlations, making alternatives of all kinds potentially more accretive diversifiers. Private markets and commodities exposures can play a larger role for both short- and long-term allocation.



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