Treasury Commentary

QIC Asset Management

August 09, 2026

Macro Overview

July offered a moment of cautious relief, but little genuine clarity. A US–Iran memorandum of understanding eased the immediate threat of a Strait of Hormuz closure, sending Brent crude back toward the mid-$80s per barrel from Q2 peaks above $100. Yet the geopolitical risk premium has not fully unwound, and physical market conditions remain strained. The oil market continues to price an uneasy ceasefire, with S&P Global forecasting Brent to average $87/b for 2026—well above pre-conflict levels—as infrastructure damage and residual supply risks persist. More broadly, investors have moved past geopolitical risks faster than fundamentals have adjusted, with the macro backdrop still shaped by sticky inflation, geopolitical uncertainty and evolving policy risks. Despite the normalization in oil prices, rates markets have retained much of the earlier hawkish repricing amid resilient US growth, AI-led capex strength and persistent inflation concerns.

Numbers Behind the Narrative

US Treasury yields reached 2026 highs during July. By late month, the 2-year yield had risen to approximately 4.37%, the 10-year touched 4.67–4.70%, and the 30-year surged above 5.20%—its highest level since 2007. Front-end yields remain the primary concern for treasury liquidity planning, as markets moved from pricing one Fed hike by year-end to embedding a ~60% probability of a September move. The yield curve saw a modest bear-steepening, with longer tenors rising more than the short end responded to mid-month ceasefire relief.

The June CPI release—the key macro event shaping July sentiment—surprised to the downside. Headline CPI fell 0.4% MoM, bringing the annual rate to 3.5% from 4.2%, while core CPI was essentially flat (+2.6% YoY). Gasoline was the primary drag. June payrolls were revised down by a combined 74k, and wage growth remains contained at ~3.4% YoY. Consumer spending held up and job openings remained near 7.6mn, keeping recession risk subdued.

Central Bank Watch

At its July 29 meeting—Chairman Kevin Warsh's second at the helm—the FOMC voted 9-3 to hold rates steady at 3.50–3.75%. Three members dissented in favour of an immediate 25bp hike, underscoring a materially hawkish undercurrent. Warsh pledged the committee would not hesitate to act if inflation re-accelerates. Bond markets responded sharply: the 30-year surged 10.5bps post-decision to above 5.20%. The median end-2026 policy rate projection stands at 3.8%, 40bps above the June SEP baseline.

The ECB held all three key rates unchanged at its July 23 meeting (deposit rate: 2.25%), following June's first hike in three years. Eurozone headline inflation eased to 2.8% in June from 3.2% in May, but energy pass-through risks remain elevated. Lagarde noted that energy prices remain well above pre-conflict baselines. Markets now assign a ~70% probability to a September ECB hike if oil prices sustain.

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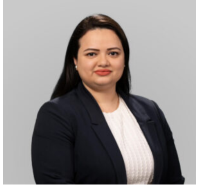

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