Treasury Commentary

QIC Asset Management

September 2026

Macro Overview

August was shaped by a familiar tension between resilience and risk. Oil prices swung sharply through the month as Iran–US diplomatic progress repeatedly gave way to renewed standoffs, keeping energy costs elevated and inflation expectations unsettled. Beneath this, the US economy continued to demonstrate underlying strength — consumer spending held up, corporate profits rose, and business activity accelerated — even as headline growth moderated and the labour market showed an isolated but notable soft patch. Globally, growth broadly surprised to the upside, particularly in Western Europe, though persistent energy pressures and rising borrowing costs kept the outlook fragile. Across asset classes, equities advanced on the back of strong AI-linked earnings, gold extended its rally on safe-haven demand, and bond markets sold off as investors demanded greater compensation for fiscal and inflation risk. Markets ended the month broadly pricing a tighter-for-longer rate environment, with geopolitical developments remaining the key swing factor.

Numbers Behind the Narrative

US Treasury yields extended their climb to multi-decade highs. The 30-year yield topped 5.33%, a new 19-year high, driven by worsening fiscal concerns and persistently elevated inflation, while the 10-year closed August at 4.75%. The US Treasury doubled its buyback of longer-dated securities to at least $4 billion per operation, but the relief was short-lived as underlying borrowing pressures persisted.

On inflation, headline CPI rose 0.1% in July, placing the annual rate at 3.4%, with core CPI at 2.5% YoY — both in line with consensus. The PCE price index rose 0.2% MoM with an annual rate of 3.7% — a touch above consensus — while core PCE held at 3.3% YoY. Nonfarm payrolls fell by 23,000 in July — a rare outright decline — with unemployment rate dropping to 4.1%. Three upcoming data releases — the August jobs report , August CPI, and August core PCE — will shape both the Fed's September 16 decision and the ECB's September 10 meeting.

Central Bank Watch

Fed Chair Warsh's Jackson Hole speech was broadly hawkish - vowing to return inflation to 2% and called interest rates the Fed's "predominant tool," sending fed funds futures to price in around 60% probability of a 25bp hike at the September 16 FOMC meeting, up from around 35% before the speech. The 2-year Treasury yield jumped sharply in response.

On the the ECB, all policymakers agreed to hold rates unchanged at the July meeting following June's first hike in three years, though the minutes made clear the pause was not the end of the tightening cycle, with another hike remaining likely. The ECB's next decision is September 10, with the forward curve pricing in around 40 basis points of cumulative hikes by end-2026.

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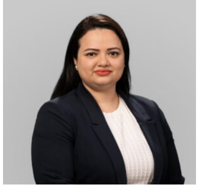

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