SEPTEMBER 2026

Fixed Income Focus

Summary

1. **The Fed hawkish :** We continue to anticipate a single rate increase in December, as oil and energy prices are projected to fall gradually. The recent Fed communication also supports that.
2. **ECB to hike in September:** The ECB's latest bulletin underscores resilient growth, even as recent inflation data remains significantly above the 2% target. Consequently, we now anticipate a rate hike in September.
3. **Sharp rise in government bond yields especially in the US:** The move was driven by rising real yields. Mainly due to increased demand for capital and a higher term premium due to Fed policy uncertainty. We reiterate our 12-month target of 4.50% for the 10-year U.S. The 10-year Treasury yields could briefly overshoot toward 5% in the near term.
4. **We upgrade again core Eurozone govies from Neutral to Positive.** The 10-year German Bund yield rose to 3.30%, while the Eurozone average 10-year yield was above 3.7%. We reiterate our 12-month target for the German 10-year yield at 2.75%
5. **We keep a Neutral opinion on UK bonds:** U.K. Yields followed the global trend rising above 5.20%.
6. **Selective opportunities in corporate bonds:** We prefer EUR IG corporate bonds (Positive view) over USD IG bonds (Neutral view). We downgrade UK IG bonds to neutral.
7. **We keep a neutral opinion on high yield corporate and Emerging Market bonds:** Spreads remain very low and expected return are too low. EM bonds, the three primary drivers—valuation, currency outlook, and monetary policy expectations— are not supportive at this stage.

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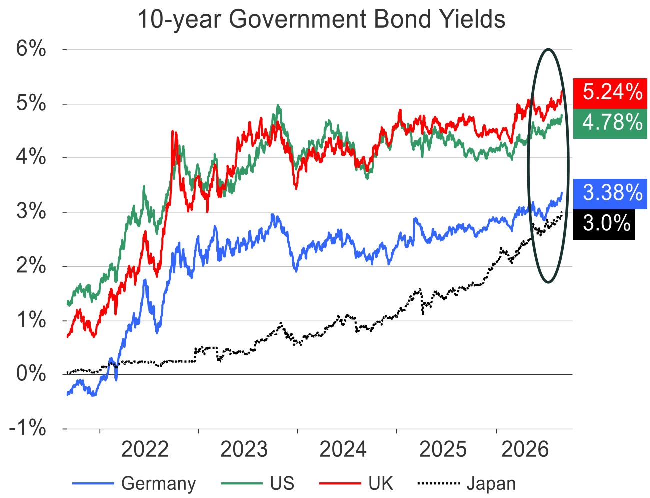
CHART OF THE MONTH: SHARP RISE IN YIELDS



Source: LSEG Datastream, 02/09/2026

Writing completed on 02nd September 2026

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BNP PARIBAS WEALTH MANAGEMENT

The bank for a changing world

Central banks

The ECB and the Fed with one more rate hike

European Central Bank (ECB)

The latest economic bulletin broadly reinforces the Governing Council's assessment from the July meeting. The Council notes that the US-Iran conflict has had uneven but overall limited effects on euro area activity, leaving growth more resilient than initially feared. Inflation is projected to hover around 3% this year, though the outlook remains clouded by energy price volatility and the speed of price pass-through. While the energy shock has not yet generated clear second-round effects, the Council cautions that wage adjustments may lag and that a temporary easing of tensions could mask underlying pressures. The latest inflation data for August reinforces recent trends: preliminary headline inflation was 3.3%, compared to 2.9% in July, which was in line with expectations. Core inflation fell to 2.4%, down from 2.5%, meeting the expected figure.

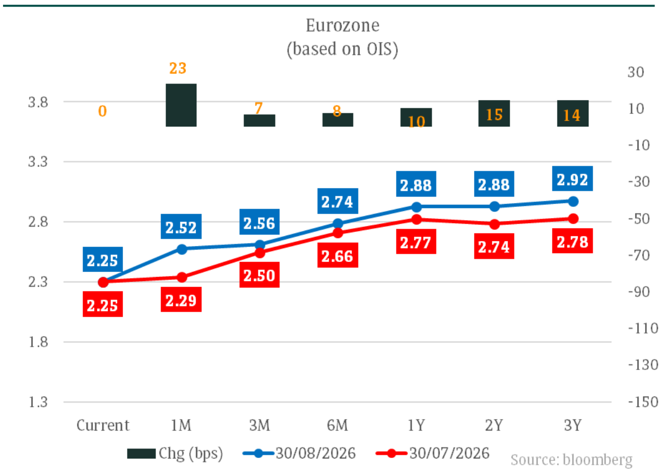
Outlook: We believe the ECB will act preemptively rather than waiting for these second-round effects to materialize. Consequently, we have revised our outlook for the ECB and now anticipate a single rate increase in September.

US Federal Reserve (Fed)

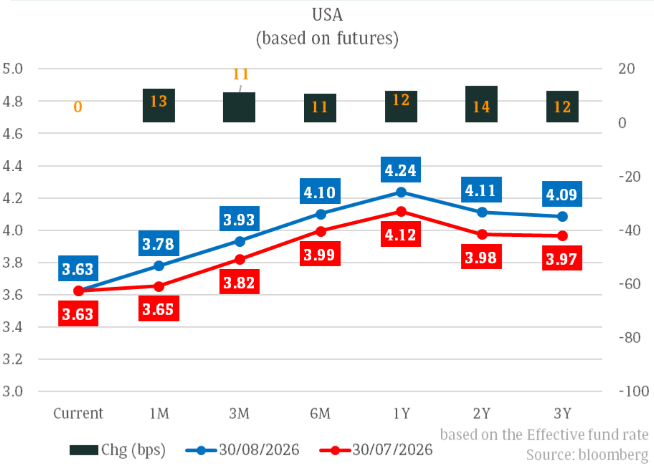
Chair Kevin Warsh surprised markets with a hawkish speech at the Jackson Hole symposium, triggering a repricing of expectations for the September meeting (see chart below). Warsh noted he was "impressed" by economic resilience despite mixed data and declining economic surprise indicators. He also expressed unease regarding the 0.246% month-on-month July core CPI print. Other Fed members have similarly stressed concerns regarding core inflation, suggesting a more hawkish stance. In our July report, we warned that a shift in Fed communication could increase uncertainty and exert upward pressure on bond yields; this has indeed materialized recently. Notably, Warsh used the Jackson Hole speech to add nuance, reiterating a commitment to the 2% PCE inflation target and hinting at a reaction function consistent with previous FOMC policy. At this stage, however, markets remain unconvinced, and further commitment may be required to compress the term premium in the bond market (see next page).

Outlook: We continue to anticipate a single rate increase in December, as oil and energy prices are projected to fall gradually. In contrast, markets are currently pricing in approximately two hikes (see chart below).

MARKET PRICING FOR THE ECB



MARKET PRICING FOR THE FED



INVESTMENT CONCLUSION

The ECB's latest bulletin underscores resilient growth, even as recent inflation data remains significantly above the 2% target. Consequently, we now anticipate a rate hike in September. Similarly, the Fed's Jackson Hole remarks highlighted unexpectedly strong economic fundamentals and persistent concerns over core inflation, driving expectations for one additional increase in December as energy prices are projected to ease.

Topics in Focus

Understanding the Recent Upswing in U.S. 10-Year Treasury Yields

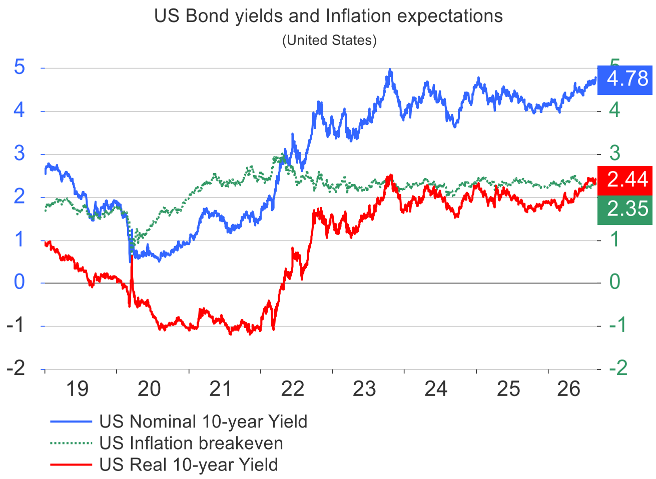
U.S. 10-year Treasury yields rose sharply since late June. At its most basic, a bond's yield can be broken down into two components: expected inflation and the "real" yield, which is the return after inflation is stripped out. Despite renewed Middle-East tensions and elevated oil prices, long-term inflation expectations have remained surprisingly steady, indicating that the recent increase is driven primarily by higher real yields (see chart below). What is behind the rise in real yields? In practice, the real yield incorporates a term premium for committing capital over longer horizons rather than rolling over a series of short-term bonds. By subtracting this term premium from the observed real yield, we obtain a "core" real yield[1]—the purchasing-power return that reflects the underlying balance of capital demand and supply in the economy. U.S. yields have been pushed upward primarily by higher real rates, which in turn reflect an increasing demand for capital and a widening term premium.

Demand for capital is being amplified by two factors: (1) the massive AI related spending and (2) the sustained high level of public deficits. Assuming supply remains roughly unchanged, this heightened demand helps explain a large part of the recent yield increase. At the same time, the term premium has been climbing over the past few weeks. We think that the shift in Fed communication policy has generated more uncertainty and lifted the premium.

The Treasury's newly announced program to purchase long-dated bonds is unlikely to exert a lasting influence; market participants are expected to respond more to policies aimed at fiscal consolidation and to clearer guidance from the Federal Reserve. The nuances provided by Warsh at Jackson Hole have had little impact at this stage.

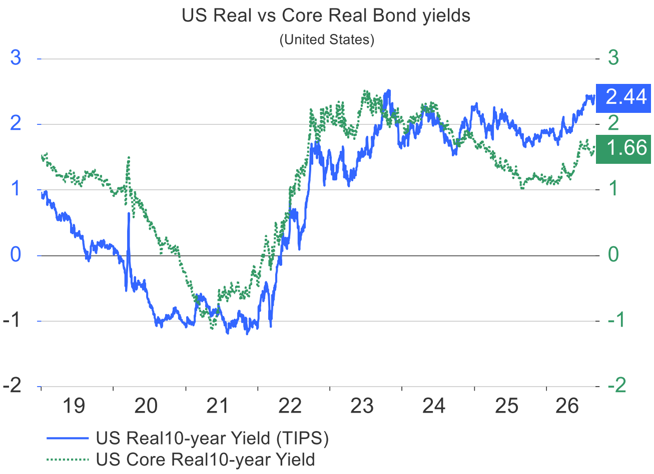
We maintain our 12-month target of 4.50% for the 10-year U.S. Treasury yield, while acknowledging the risk that yields could temporarily overshoot toward 5% in the coming months.

BOND YIELD DECOMPOSITION



Source: LSEG Datastream, 03/09/2026

REAL VERSUS CORE REAL U.S. YIELDS



Source: LSEG Datastream, 03/09/2026

INVESTMENT CONCLUSION

The recent rise in yields has been driven by higher real yields—specifically, an increase in the demand for capital and a rising term premium stemming from heightened Fed policy uncertainty. The Treasury's recent announcement regarding long-dated bond purchases is unlikely to have a lasting effect; markets are expected to be more sensitive to fiscal consolidation measures and clearer Fed policy guidance. We reiterate our 12-month target of 4.50% for the 10-year U.S. Treasury yield, while noting that yields could temporarily overshoot toward 5% in the coming months..

[1] For more details see Arthur Budaghyan, « Will Bessenomics Avert A Stock-to-Bond Collision?, BCA Strategy Report August 2026.

Government Bond yields

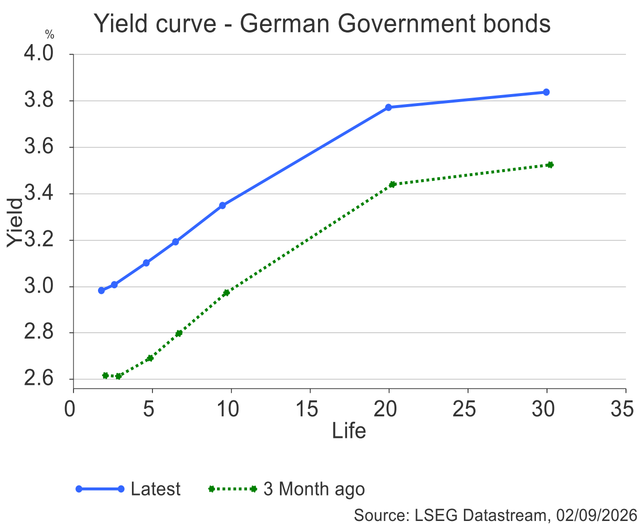
Upgrade to positive on core eurozone Govies

Upgrade Core Eurozone government bonds to positive: Eurozone core sovereigns upgraded from Neutral to Positive. Yields have rebounded due to oil price volatility and higher issuance from increased capital needs. As we believe the German Bund's fair value remains below 3%, we expect attractive returns at these levels. We favour maturities of 7-10 years.

Neutral Stance on UK Government Bonds: U.K. Yields followed the global trend rising above 5.20%. Markets are expected to remain cautious; lingering fiscal uncertainty ahead of the next budget may sustain a small risk premium.

Neutral Stance on US Government Bonds: U.S. 10-year yields rose sharply, driven by increased demand for capital and a higher term premium. Yields may overshoot our 12-month target of 4.50% in the near term. Too early to come back.

GERMAN BOND YIELD CURVE SHIFTED UP



	Maturity (years)	02/09/2026	3-month target	12-month target
USA	Policy rate	3.75	3.75	4.00
	2	4.37	4.10	4.10
	5	4.54	4.20	4.20
	10	4.78	4.50	4.50
	30	5.26	4.95	4.95
Germany	Policy rate	2.25	2.50	2.50
	2	2.98	2.60	2.50
	5	3.10	2.70	2.60
	10	3.38	2.90	2.75
	30	3.84	3.50	3.25
UK	Policy rate	3.75	3.75	3.75
	2	4.62	4.15	3.90
	5	4.73	4.35	4.10
	10	5.24	4.80	4.40
	30	5.87	5.40	5.20
Japan	Policy rate	1.00	1.50	1.75
	2	1.86	1.90	2.5
	5	2.31	2.10	2.60
	10	3.00	2.75	2.75
	30	4.15	4	4

Source: Refinitiv Datastream, BNP Paribas WM

Investment Conclusion

We are returning to a positive outlook on core Eurozone government bonds. Yields have risen once again, driven by heightened uncertainty and increasing issuance, which has rendered expected returns attractive. Conversely, we remain neutral on U.S. Treasuries. We maintain our 12-month target for the 10-year U.S. Treasury yield at 4.50%, though we note that yields could overshoot toward 5% in the coming months.

Selected opportunities in corporate bond markets

Prefer eurozone high grade corporate bonds

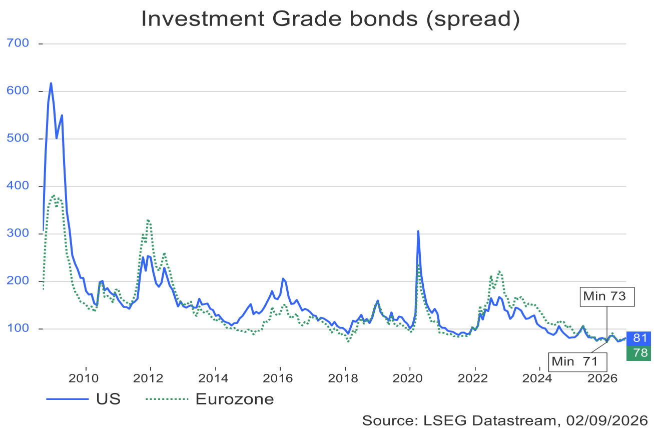
The macro-fundamental environment remains benign for credit. The central question moving forward is whether increasing corporate supply is effectively crowding out Treasuries. We anticipate that higher net IG issuance will lead to a further expansion in corporate bond supply, increasing their relative share within total fixed-income supply. UBS expects duration-adjusted Treasury supply to remain relatively stable through 2027 thereby mitigating the near-term risk of excess supply. The key to estimate the future supply of corporate bonds is the expected return on AI investments relative to current yields. While we see no imminent risks at this stage.

We prefer eurozone IG: Fundamentals improved following strong earnings across most sectors, which helped to moderate the upward trend in net leverage. In light of this earnings recovery, we expect net leverage to remain broadly stable. Consistent with the previous quarter, EBITDA growth underpinned a modest improvement in leverage, even as net debt edged higher.

We are neutral on US IG: Fundamentals remain resilient overall. Hyperscalers delivered a strong Q2 earnings season, bolstered by accelerating growth in cloud and AI revenues, with capital expenditures projected to surge beyond $800bn in 2026. While secular AI funding requirements continue to climb, valuations remain near recent highs. Robust earnings growth is helping to contain net leverage, despite accelerating debt growth. As noted in previous sections, we see a risk of an overshoot in Treasury yields, which poses a secondary risk to US IG given its high duration sensitivity.

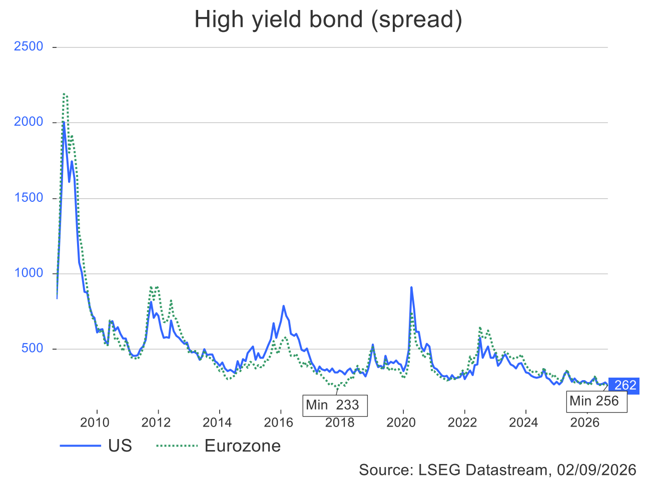
We keep a neutral stance on High yield bonds: We do not expect these bonds to outperform on a risk-adjusted basis. High-yield corporate spreads remain near historical lows; while this tightness can be partially justified by ongoing improvements in credit quality across the asset class, the potential for further spread and yield compression appears limited. Consequently, any deterioration in the economic or interest rate environment could have a disproportionate impact on valuations.

INVESTMENT GRADE CORPORATE BONDS



Source: LSEG Datastream, 02/09/2026

CORPORATE HIGH YIELD BONDS



Source: LSEG Datastream, 02/09/2026

INVESTMENT CONCLUSION

The macro-fundamental environment remains favorable for credit, and we maintain a preference for Eurozone IG. Fundamentals have strengthened following a series of robust earnings across most sectors. In the U.S., the primary uncertainty lies in the projected returns on AI investments and whether they remain sufficiently high to justify the capital being raised at current yields. Finally, we remain neutral on corporate high yield bonds, as expected returns are muted following recent valuation expansions.

EM Bonds remain quite resilient

We keep a neutral stance on Emerging Market Bonds

Emerging market (EM) growth has remained resilient over recent months; however, the recent oil shock has been quite severe. While inflation has remained contained thus far, rising costs for fertilizers, petrochemicals, and transport threaten to trigger broader price pressures, a risk exacerbated by the recent climb in key commodity prices.

Most EM central banks have either held rates steady or implemented cuts in recent weeks, with the notable exception of South Africa, which recently hiked rates. We see little potential for further easing over the coming months.

EM local currency bond spreads moved higher, likely reflecting heightened global currency uncertainty. Conversely, EM hard currency bond spreads declined, reaching a 20-year low (see chart below).

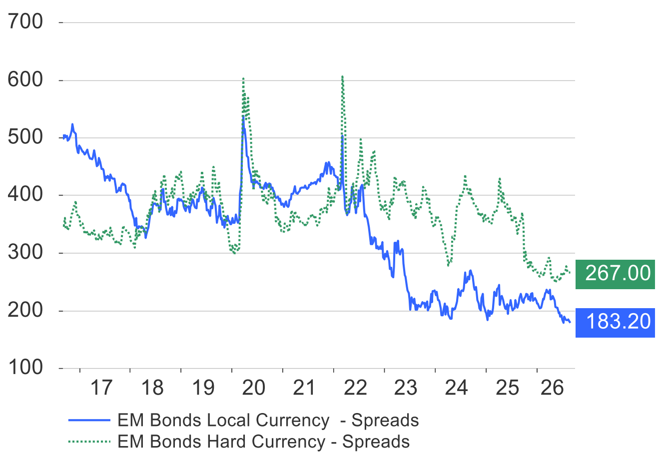
Neutral Stance: The three key performance drivers are: (1) valuation, (2) the outlook for the dollar, and (3) the potential for EM central bank rate cuts.

Valuation is not supportive: As shown in the chart below (left), the risk premia—measured by yield spreads—remain compressed especially for EM hard currency bonds. This suggests limited upside for future returns.

Currencies are range-bound: A weaker dollar would benefit EM local-currency bonds, but dollar upside appears limited for the coming months.

No support from Monetary policy : Inflation has reversed course, and the risks are biased to the upside. Market expectations suggest further hikes going forward (see table below). This outlook may shift in the coming months, however, as we anticipate a de-escalation in geopolitical tensions and a gradual reopening of the Strait of Hormuz.

EM BONDS - VALUATION



Source: LSEG Datastream, 03/09/2026

MONETARY POLICY EXPECTATIONS

Emerging Central bank	Current Policy rate (%)	Market pricing			
		end 2026		+12m	
		Expected policy rate (%)	Cumul bp	Expected policy rate (%)	Cumul bp
Brazil	14.00	14.07	7	13.56	-45
Chile	4.50	4.50	0	4.73	23
Colombia	12.00	12.26	26	12.04	4
Czech	3.75	3.86	11	3.74	-1
Hungary	5.50	5.29	-21	5.36	-15
India	5.25	5.74	49	5.99	74
Indonesia	5.75	5.87	12	6.30	55
Korea	3.00	3.18	18	3.42	42
Mexico	6.50	6.69	19	6.74	24
Poland	3.75	3.95	20	5.41	166
Thailand	1.00	1.07	7	1.08	8
Turkey	37.00	32.50	-450	36.08	-92

Source: LSEG Refinitv 02/09/2026

Investment Conclusion

We keep a neutral stance on EM bonds. The three primary drivers — valuation, currency trends, and monetary policy expectations — do not offer a compelling case for investment. More opportunities could emerge if we see a de-escalation in the Middle-East conflict.

Our Investment Recommendations

Asset class	Zone	Our opinion	
Government bonds	Germany and core eurozone	+	We upgarde core Eurozone govies from Neutral to Positive. Yields rose again well above our targets, and the expected return is attractive again. We favour maturities of 7-10 years.
	Non-core Peripheral countries	=	Neutral on non-core peripheral debt (Portugal, Italy, Spain, Greece).
	United Kingdom	=	Neutral on UK government bonds.
	United States	=	We are Neutral and prefer 2-5 years maturities. Neutral on TIPS.
Corporate bonds Investment Grade (IG)	Eurozone/United Kingdom United States	+ =	• Positive on eurozone. We downgrade UK IG corporates to neural. We are Neutral on US corporate bonds. • We prefer maturities up to 7 years in the eurozone and up to 5 years in the US. • Neutral on convertible bonds.
Corporate bonds High Yield (HY)	Eurozone and United States	=	• Neutral on corporate HY bonds. • Neutral on fallen angels and rising stars.
Emerging bonds	In hard currency	=	Neutral on EM hard currency bonds (sovereign and corporate).
	In local currency	=	Neutral on EM local currency government bonds to neutral.

Market Data

	10-year rate (%)	Spread to bund (bp)	Spread change 1 month (bp)
United States	4.78	---	
Germany	3.38	---	
France	4.25	87	9
Italy	4.22	85	5
Spain	3.83	45	2
Portugal	3.74	36	2
Greece	4.07	69	2

02/09/2026

Source: Refinitiv Datastream

	Yield (%)	Spread (bp)	Spread change 1 month (bp)
Corporate bonds IG EUR	3.93	78	1
Corporate bonds IG USD	5.54	81	3
Corporate bonds HY EUR	5.79	262	-5
Corporate bonds HY USD	7.25	262	-11
Emerging government bonds in hard currency	6.97	219	0
Emerging government bonds in local currency	6.37	183	0

02/09/2026

Source: Refinitiv Datastream, Bloomberg

Valuation

	Yield	Spread	10yr Avg Spread	2yr Spread Range		Spread Change			2yr Z-Score*
				Min	Max	Chg 1W	Chg 1M bp	Chg YTD	
Euro Corporate	3.93	78	117	71	125	2	1	0	
Single-A	3.84	71	100	64	113	2	2	0	
Euro High Yield	5.79	262	373	248	429	4	-5	-8	
BB	4.80	160	274	155	303	-1	-8	-9	

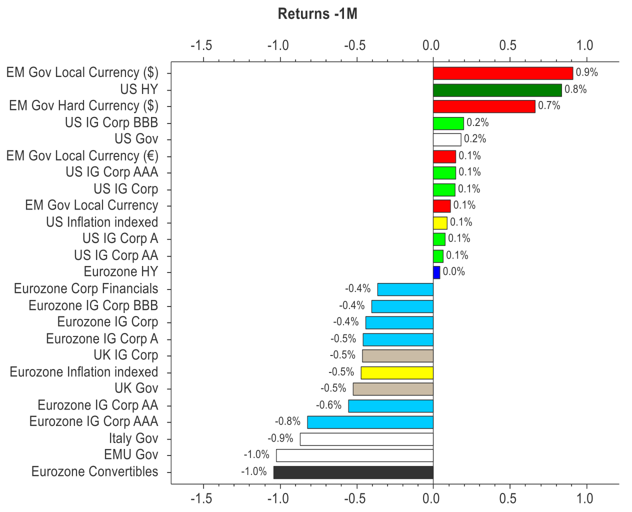
* Z-score 2y is based on the spread Source: LSEG Datastream , BNP Paribas WM, 02/09/2026

Credits	Yield	Spread	10yr Avg Spread	2yr Spread Range		Spread Change			2yr Z-Score*
				Min	Max	Chg 1W	Chg 1M bp	Chg 3m	
US Corporate	5.54	81	115	73	121	1	3	2	
Single-A	5.40	69	92	59	102	2	4	4	
US High Yield	7.25	262	381	256	456	-2	-11	-14	
BB	6.19	153	250	150	306	-3	-13	-16	
EM HY ($)	6.97	219	341	207	356	0	-3	-12	

* Z-score 2y is based on the spread Source: LSEG Datastream , BNP Paribas WM, 02/09/2026

Return

OVER ONE MONTH



Source: LSEG Datastream, 02/09/2026 Index source: JPMorgan for Government Bonds and Emerging Markets (EM); Bloomberg Barclays for Investment Grade (IG) credit; ICE BofA for High Yield (HY) credit; Exane for Convertibles.

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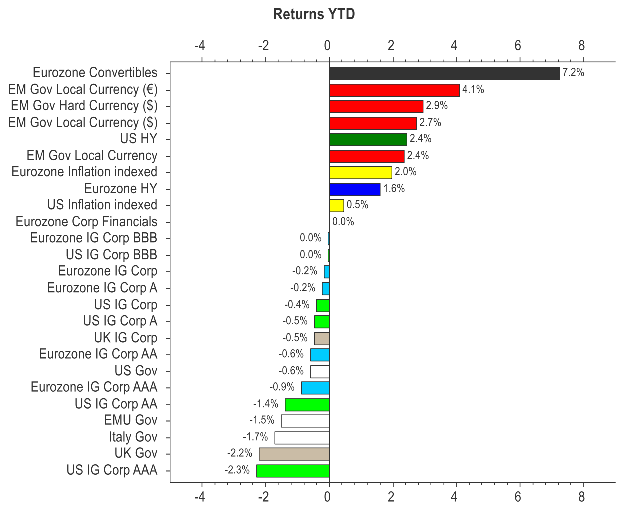

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