FIXED INCOME RESEARCH

August 31 – September 4, 2026

US Bond Market Weekly Update

10yr Treasury	2yr Treasury	IG OAS	HY OAS
4.77%	4.34%	81 bps	265 bps
▼ 2 bps MTD	▼ 5 bps MTD	▼ 0 bps MTD	▼ 0 bps MTD

WORD ON THE DESK

Fixed income markets entered September on a cautiously constructive note, with credit spreads holding steady and rates drifting modestly lower across the curve. The dominant theme this week was a gradual bear steepening dynamic — front-end yields eased slightly while the long end remained anchored near multi-year highs — a configuration that warrants attention for duration positioning and curve strategies heading into the fall supply season. With no Fed speakers on the calendar and no late-breaking macro events to reshape the narrative, markets appeared content to consolidate recent moves ahead of what promises to be a data-heavy September. Portfolio managers should remain attentive to technical supply pressures in investment-grade credit and the durability of risk appetite in high yield as the earnings calendar thins.

MARKET COMMENTARY

01 Treasury yields declined modestly across the curve week-over-week, with the 2-year closing at 4.34% and the 10-year at 4.77% [DATA: as of 2026-09-03], reflecting a mild bid for duration as markets settled into the holiday-shortened week. The 2s10s spread widened to approximately 43 basis points (4.77% – 4.34%) from roughly 40 basis points at month-start (4.79% – 4.39%), confirming a modest steepening bias rather than flattening — with the front end rallying slightly more than the back end. The 30-year yield closed at 5.25% [DATA: as of 2026-09-03], off 2 basis points from its month-start level of 5.27%, leaving the 2s30s spread at approximately 91 basis points and broadly unchanged in shape.

→ Year-over-year, the curve remains dramatically higher across all tenors — the 2-year is up 75 basis points and the 10-year up 60 basis points versus September 2025 levels — underscoring the persistence of the higher-for-longer rate environment.

→ The steepening impulse, while modest in magnitude, is consistent with markets beginning to price incrementally more term premium into longer maturities as the Fed's policy path remains uncertain entering the autumn.

02 Investment-grade corporate spreads held firm at 81 basis points OAS [DATA: as of 2026-09-03], with month-to-date change flat at 0 basis points, suggesting the market absorbed any post-Labor Day primary supply with minimal technical concession. Total returns for IG corporates came in at +0.13% [DATA: as of 2026-09-03], a modestly positive outcome driven largely by the front-end rate decline rather than spread compression. September is historically one of the heaviest issuance months of the year, and the stability of spreads at the open suggests a healthy demand backdrop as borrowers race to market ahead of the anticipated macro event schedule.

→ With spreads flat MTD and supply expected to ramp meaningfully in coming weeks, investors should monitor whether new issue concessions begin to widen — historically a leading indicator of spread volatility in the secondary market.

→ At 81 basis points, IG OAS remains near post-GFC tight territory; at these levels, incremental carry is meaningful but the asymmetry of spread widening risk deserves careful consideration in duration-extended mandates.

03 High-yield spreads also held steady, closing the week at 265 basis points OAS [DATA: as of 2026-09-03] with month-to-date change flat at 0 basis points, reflecting a resilient risk appetite despite the absence of clear positive catalysts. HY total returns of +0.14% [DATA: as of 2026-09-03] marginally outpaced IG on a weekly basis, consistent with carry advantage in a week where underlying rates provided a modest tailwind and no credit-specific dislocations emerged.

→ At 265 basis points, HY OAS sits well inside long-run historical averages, leaving limited cushion against a deteriorating macro backdrop or a sharp repricing of default risk expectations.

→ The flat MTD spread performance across both IG and HY at the very start of the month suggests market participants are in a 'wait and see' posture — neither adding risk aggressively nor reducing it — ahead of key September data releases.

04 Agency MBS and broader securitized credit returns data were not available in this week's payload; however, the rate context is instructive. With the 10-year Treasury at 4.77% and the 30-year at 5.25%, current coupon MBS remain well out-of-the-money for most outstanding pools, keeping prepayment speeds subdued and extension risk elevated for lower-coupon vintages. This rate environment continues to favor higher-coupon MBS on a carry basis, though spread performance relative to IG corporates will depend heavily on whether the Fed signals any near-term pivot toward accommodation.

→ Absent a meaningful drop in mortgage rates — which would require a sustained rally in the 10-year well below 4.50% — the structural backdrop for MBS prepayment speeds and convexity profiles remains challenged heading into the fall.

→ Investors in agency MBS should continue to monitor Fed balance sheet runoff pace, as any adjustment to QT policy would have an outsized impact on MBS supply-demand technicals.

05 No Federal Reserve speakers were scheduled or reported during the holiday-shortened week ending September 4, 2026, leaving markets to interpret the rate backdrop through the lens of recent data rather than fresh policy guidance. The absence of Fed communication in the first week of September is not unusual, but it creates a vacuum that will be quickly filled as the September FOMC meeting approaches and officials begin to signal their reactions to the latest inflation and labor market data.

→ Market participants will be particularly focused on any Fedspeak in the week ahead for confirmation of whether the September meeting remains 'live' for a rate adjustment or whether the committee is firmly in a holding pattern.

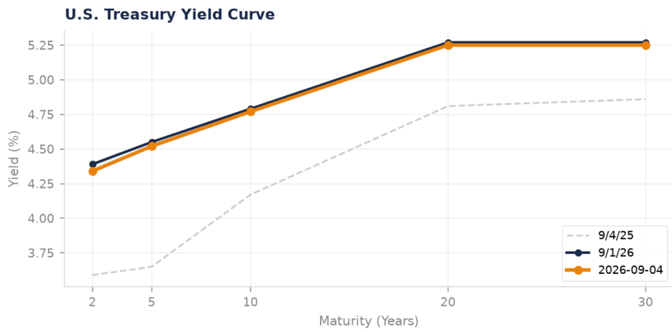
→ The front-end rate move this week — the 2-year declining 5 basis points from 4.39% at month-start to 4.34% — may partly reflect speculative positioning ahead of anticipated Fed commentary rather than a fundamental shift in expectations.

06 No late-breaking geopolitical or macro events were recorded in this week's data payload, leaving the market to trade on technicals and positioning as the new month began. The calm open to September is a relative luxury that may prove short-lived given the historically dense macro calendar that typically defines the post-Labor Day period, including CPI, PPI, retail sales, and the FOMC meeting itself.

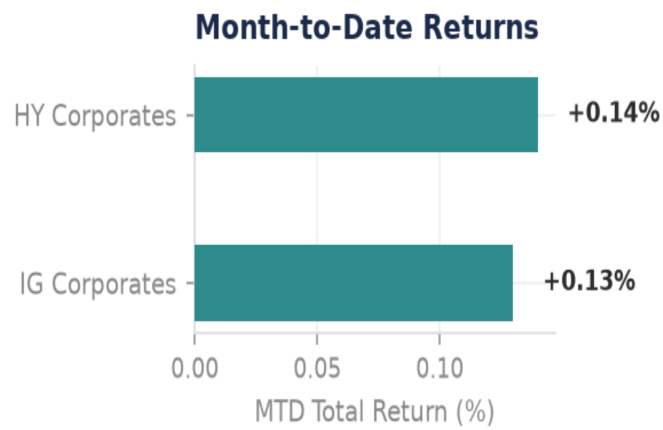
→ Absent exogenous shocks, the primary risk to the current constructive credit backdrop is a stronger-than-expected inflation print that forces the market to reprice the Fed's terminal rate higher, pressuring both duration and spread simultaneously.

→ Portfolio managers should use this period of relative calm to reassess hedging structures, particularly options-based rate protection that may have cheapened as realized volatility has compressed.

MARKET DATA



	2yr	5yr	10yr	20yr	30yr
Yield (%)	4.34	4.52	4.77	5.25	5.25
MTD (bps)	-5	-3	-2	-2	-2



Sector	OAS (bps)	MTD Chg
IG Corporate	81	0
HY Corporate	265	0

DATA SOURCES

Series	Value	As Of	Source
2yr Treasury	4.34%	2026-09-03	FRED:DGS2
5yr Treasury	4.52%	2026-09-03	FRED:DGS5
10yr Treasury	4.77%	2026-09-03	FRED:DGS10
20yr Treasury	5.25%	2026-09-03	FRED:DGS20
30yr Treasury	5.25%	2026-09-03	FRED:DGS30
IG OAS	81.0 bps	2026-09-03	FRED:BAMLC0A0CM
HY OAS	265.0 bps	2026-09-03	FRED:BAMLH0A0HYM2
IG Corporates MTD Return	+0.13%	2026-09-03	FRED:BAMLCC0A0CMTRIV
HY Corporates MTD Return	+0.14%	2026-09-03	FRED:BAMLHYH0A0HYM2TRIV