October 2, 2026

Weekly Investment Insights

Posted as of midday 2nd October.

Thank you for your continued readership. Please note that our weekly insights will pause throughout October, resuming 2nd November.

A sharp sell-off in global bond markets pushed sovereign borrowing costs to multi-decade highs, as investors grappled with the combined impact of higher inflation, rising energy prices and worsening fiscal outlooks. US Treasury yields surged, with the 10-year yield reaching 5.34%, its highest level since 2002, while UK 30-year gilt yields briefly climbed above 6% for the first time since 1998. European bond markets also came under pressure, with France's 10-year government bond yield flirting with 5%, a level not seen in almost a quarter of a century. Inflation data from major European economies surprised to the upside, reinforcing concerns that the global energy supply shock could feed into broader price pressures, thereby increasing the likelihood of further monetary tightening.

Rising government bond yields weighed on equity markets on both sides of the Atlantic, although technology and AI-related companies proved somewhat resilient, supported by strong earnings expectations.

Concerns about fiscal sustainability became particularly pronounced in France, with the spread between French and German government bond yields widened to its highest level since the Euro-Area debt crisis. The French government's latest budget aims to reduce the deficit through a combination of spending cuts and tax increases, but proposals have already been met with student protests across the country. The deficit is expected to remain above 5% of GDP for a fourth consecutive year, while debt-servicing costs are projected to rise sharply, exceeding spending on key areas such as education and defence. The European Union has a 3% deficit ceiling.

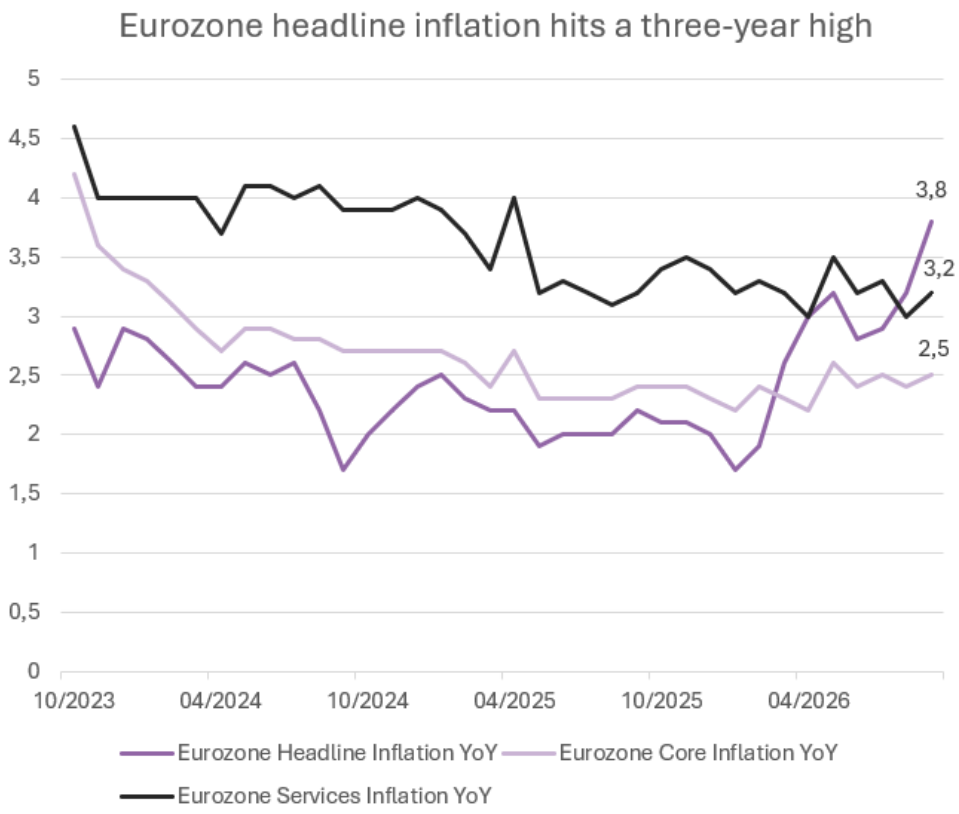
More broadly, the bond market turmoil highlights a growing challenge for governments worldwide. Years of higher borrowing, coupled with rising interest rates, are translating into substantially larger debt-servicing costs at a time when energy-related pressures continue to weigh on households and businesses. According to the OECD's latest Global Debt Report, 78% of total borrowing by OECD governments in 2026 is projected to go toward refinancing existing debt rather than funding new government spending. With sovereign yields in the US, UK, France and Japan all hovering around levels not seen in decades, investors are increasingly demanding greater compensation for fiscal and inflation risks, creating a more challenging environment for both policymakers and financial markets.

MACRO SNAPSHOT

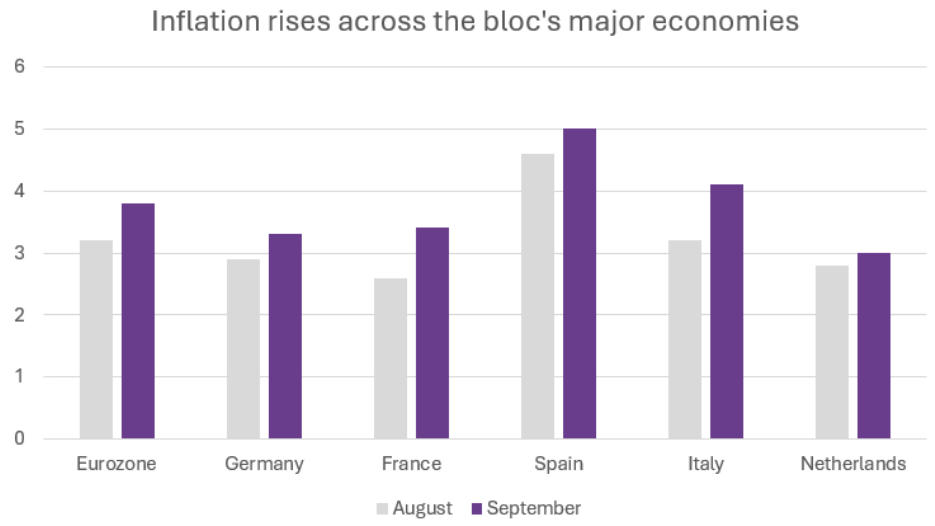
Energy costs continue to pressure Eurozone inflation upwards

Eurozone inflation accelerated sharply in September, underscoring the growing economic impact of higher energy prices. According to flash estimates, annual inflation rose to 3.8%, up from 3.2% in August and above market expectations of 3.6%. The increase was driven primarily by energy costs, with energy inflation surging to 18.8%, the strongest reading since January 2023, amid ongoing conflict in the Middle East. Price pressures also intensified in services and unprocessed food, while core inflation edged up to 2.5%, as expected.

The energy shock is becoming increasingly pertinent. Several European countries have reportedly entered discussions over the potential release of diesel reserves, following pressure from the US administration. European governments are finding it more difficult to shield households and businesses given already stretched public finances and rising borrowing costs. The ECB remains focused on preventing higher energy prices from feeding into broader inflation through stronger wage demands and corporate pricing decisions. As a result, policymakers are expected to tighten monetary policy further in the coming months, although expectations for an immediate rate increase have moderated. ECB President Christine Lagarde recently commented that higher yields should help slow economic activity and reduce the risk of energy-driven inflation becoming entrenched.



Source: Bloomberg, BIL

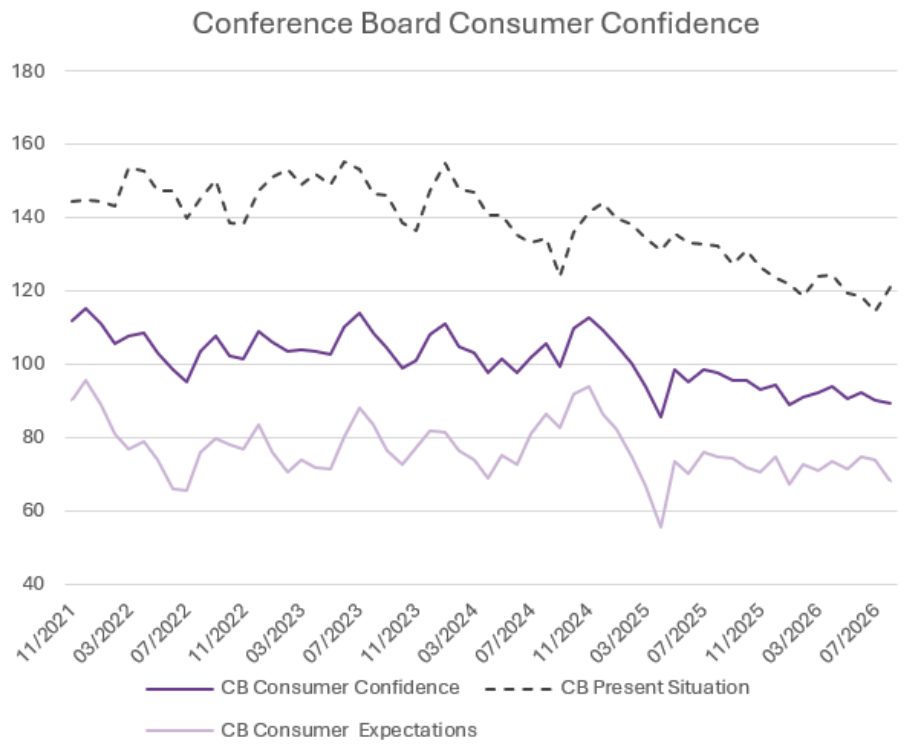


Source: Bloomberg, BIL

US consumer confidence hits lowest level since 2014

US consumer confidence weakened significantly in September, highlighting growing pressure on household sentiment as inflation remains elevated. The Conference Board's Consumer Confidence Index fell to 81.9, its lowest level since 2014, down from 88.6 in August and well below economists' expectations of 89. Much of the deterioration appears linked to persistent inflation and rising energy costs, with concerns about gasoline prices featuring prominently in survey responses. At around $4.50 per gallon nationally, fuel prices are more than a dollar higher than a year ago, weighing on household budgets in a country heavily reliant on car travel.

Looking ahead, consumers have become increasingly cautious. The expectations component of the survey dropped to 63.6 from 69.5 in August, falling well below the 80 threshold that has historically been associated with recession risks. While the strength of higher-income households and ongoing wealth effects may distort traditional recession signals, the decline nevertheless points to growing unease about the economic outlook. Consumers also reported a less favourable view of labour market conditions, a trend echoed by separate data showing job openings fell by 256,000 to 7.1 million, their lowest level in five months. Together, the latest figures suggest that higher living costs and a gradually cooling labour market are beginning to weigh more heavily on the US consumer, a key driver of economic growth.



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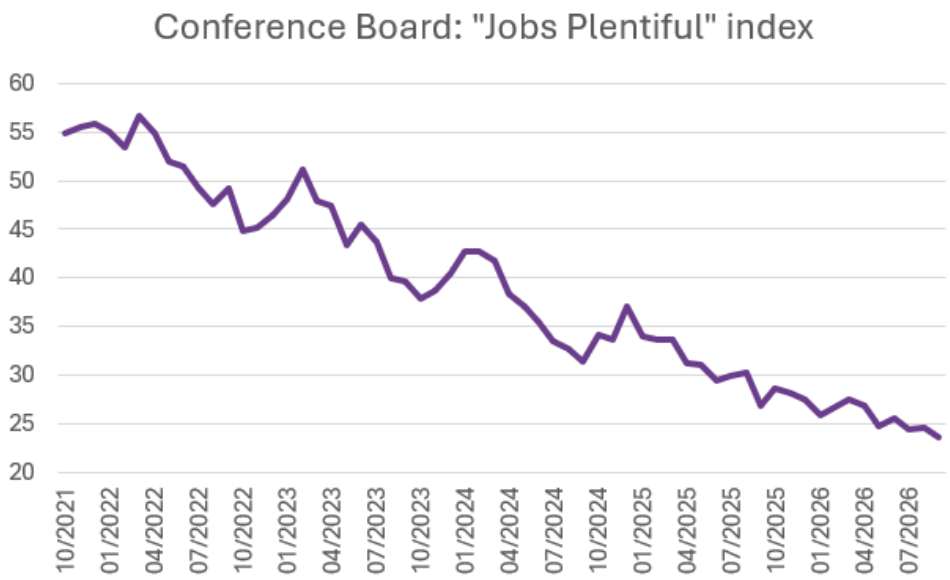

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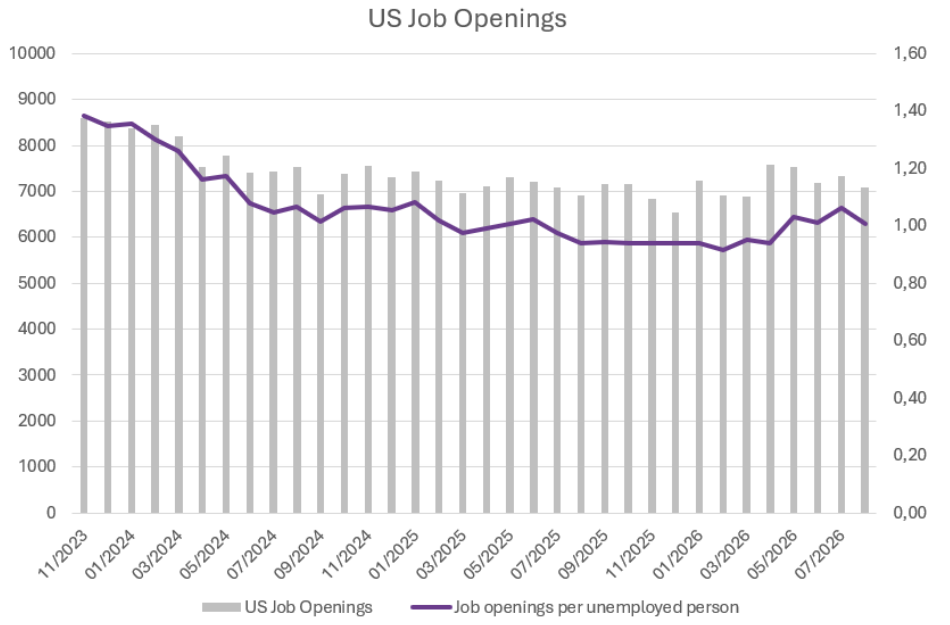

Source: Bloomberg, BIL

China's industrial profits slow further

China's industrial profits grew at their weakest pace this year, expanding just 4.2% YoY in August. It was the most tepid pace of profit growth since November last year, with the auto sector being a major drag. Profits therein dropped by 16% YoY amid intense competition. Consumer sectors also lagged, while the tech sector continues to soar. Profits in the computer, communication and electronic equipment manufacturing industry more than doubled for the

January-to-August period, rising 110% from a year earlier. According to reports, one of the country's most important political gatherings, the fifth plenary session of the party's 20th Central Committee, will be held from October 26-29. At this meeting, we might expect Beijing to provide high-level announcements that set policy direction. Stronger language on supporting consumption or stabilising growth would likely be perceived favourably by markets.

CALENDAR FOR THE WEEK AHEAD

Monday – BoJ Monetary Policy Meeting Minutes. China Industrial Profits.

Tuesday – Spain Inflation (Preliminary, September), Retail Sales and Business Confidence. Italy Industrial Sales and PPI. Eurozone Economic Sentiment, Consumer Confidence. France Unemployment. **US JOLTs Job Openings**, **Conference Board Consumer Confidence** and House Price Index

Wednesday – Japan Retail Sales and Industrial Production. China PMI. Germany Retail Sales and Unemployment. France Inflation Rate (Preliminary, September). Italy Business and Consumer Confidence, Inflation (Preliminary, September). Germany Inflation (Preliminary, September). US GDP Growth (Final, Q2), Personal Income and Spending (August).

Thursday – **Japan Tankan Index** (Q3), BoJ Summary of Opinions. Eurozone PMI (Final, September). Eurozone, UK Unemployment Rate. France OAT Auction. US Weekly Jobless Claims, **ISM Manufacturing PMI** (September).

Friday – Japan Consumer Confidence. **Eurozone Inflation (Flash, September)**. Italy Retail Sales. US Nonfarm Payrolls, Unemployment and Average Hourly Earnings.

Sunday – **Brazil General Elections**. OPEC and non-OPEC Ministerial Meeting.

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