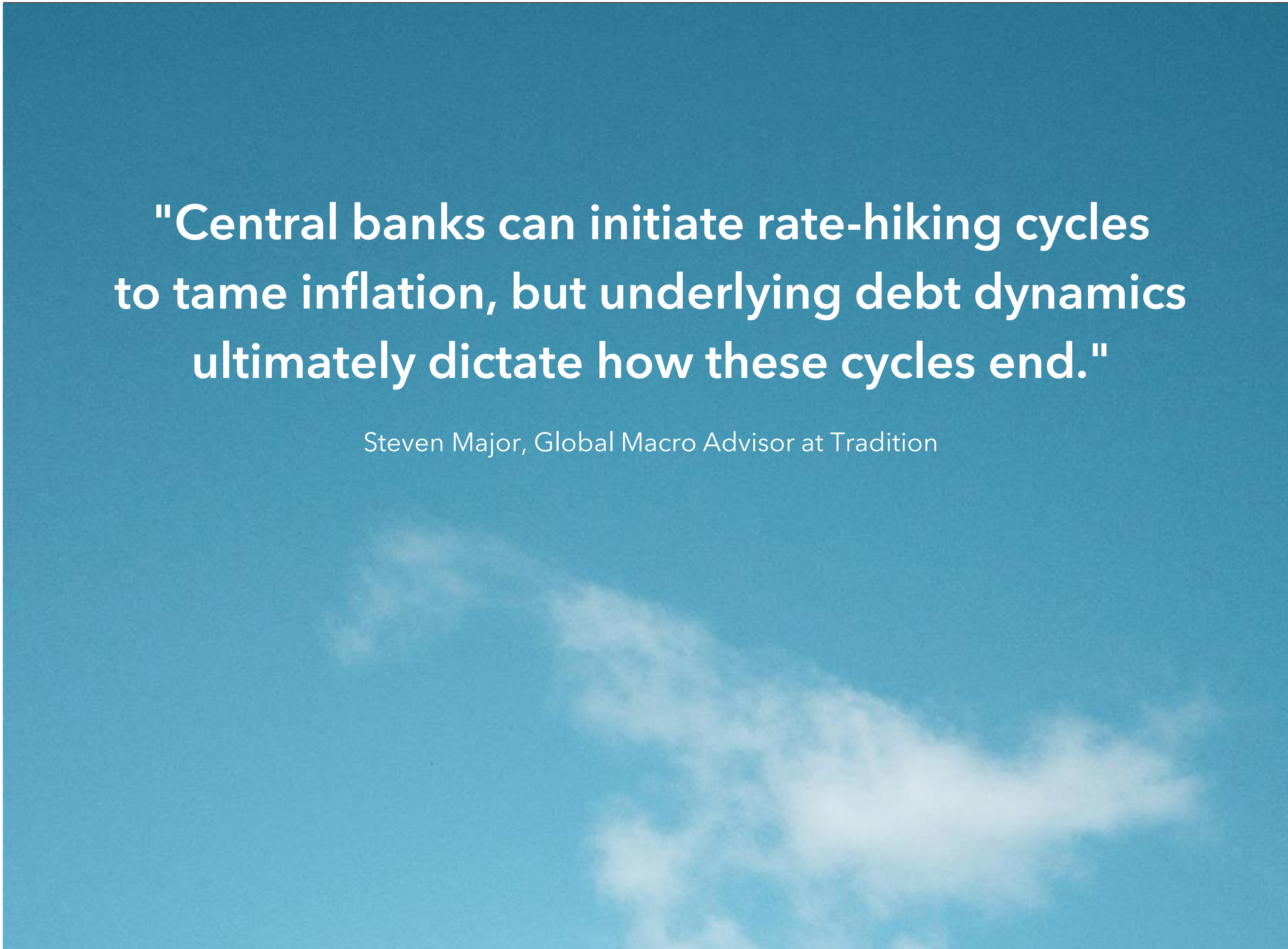
Capital Markets Strategy
Essential inCights for the C-Suite

MUFG

Drifting, Loudly

Global Bond Yields Soar to Multi-Decade Highs

SEP 2026


"Central banks can initiate rate-hiking cycles to tame inflation, but underlying debt dynamics ultimately dictate how these cycles end."
Steven Major, Global Macro Advisor at Tradition

Global Corporate & Investment Banking
Capital Markets Strategy Team

Tom Joyce

Managing Director
Capital Markets Strategist
New York, NY

Tom.Joyce@mufgsecurities.com
(212) 405-7472

Stephanie Kendal

Director
Capital Markets Strategist
New York, NY

Stephanie.Kendal@mufgsecurities.com
(212) 405-7443

Angela Sun

Associate
Capital Markets Strategist
New York, NY

Angela.Sun@mufgsecurities.com
(212) 405-6952

Click or scan to view our website and access past reports, policy notes and more.

AUTHORS

Contents

Treasury Secretary Alexander Hamilton's First Report on Public Credit to the US House of Representatives, January 1790

"That an adequate provision for the support of the Public Credit, is a matter of high importance to the honor and prosperity of the United States…

And as on the one hand, the necessity for borrowing in particular emergencies cannot be doubted, so on the other, it is equally evident, **that to be able to borrow upon good terms, it is essential that the credit of a nation should be well established.**

For when the credit of a country is in any degree questionable, it never fails to give an extravagant premium, in one shape or another, upon all the loans it has occasion to make. Nor does the evil end here; the same disadvantage must be sustained upon whatever is to be bought on terms of future payment.

From this constant necessity of borrowing and buying dear, it is easy to conceive how immensely the expenses of a nation, in a course of time, will be augmented by an unsound state of the public credit…

…This reflection derives additional strength from the nature of the debt of the United States. It was the price of liberty. The faith of America has been repeatedly pledged for it, and with solemnities, that give peculiar force to the obligation…"


1
The Bond
Vigilantes are Back

Multi-Year Step-up in Long Duration UST Yields

While the ebb and flow of economic data remain relevant, the repricing of duration in global rates markets is increasingly structural, driven by forces that transcend the current business cycle.

20-year US Treasury yield-to-worst

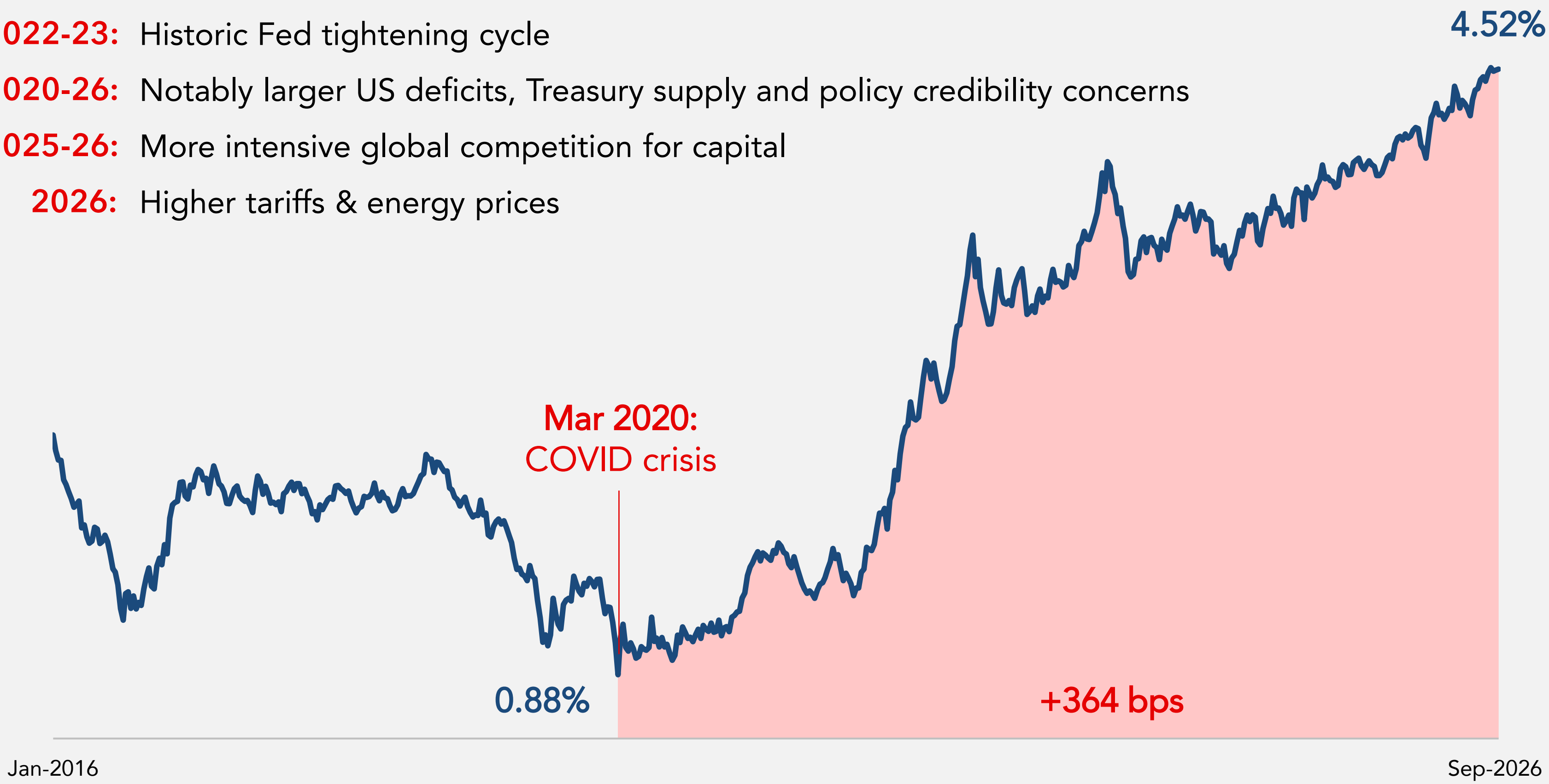
2020-21: Immediate post-COVID inflation surge

2022-23: Historic Fed tightening cycle

2020-26: Notably larger US deficits, Treasury supply and policy credibility concerns

2025-26: More intensive global competition for capital

2026: Higher tariffs & energy prices

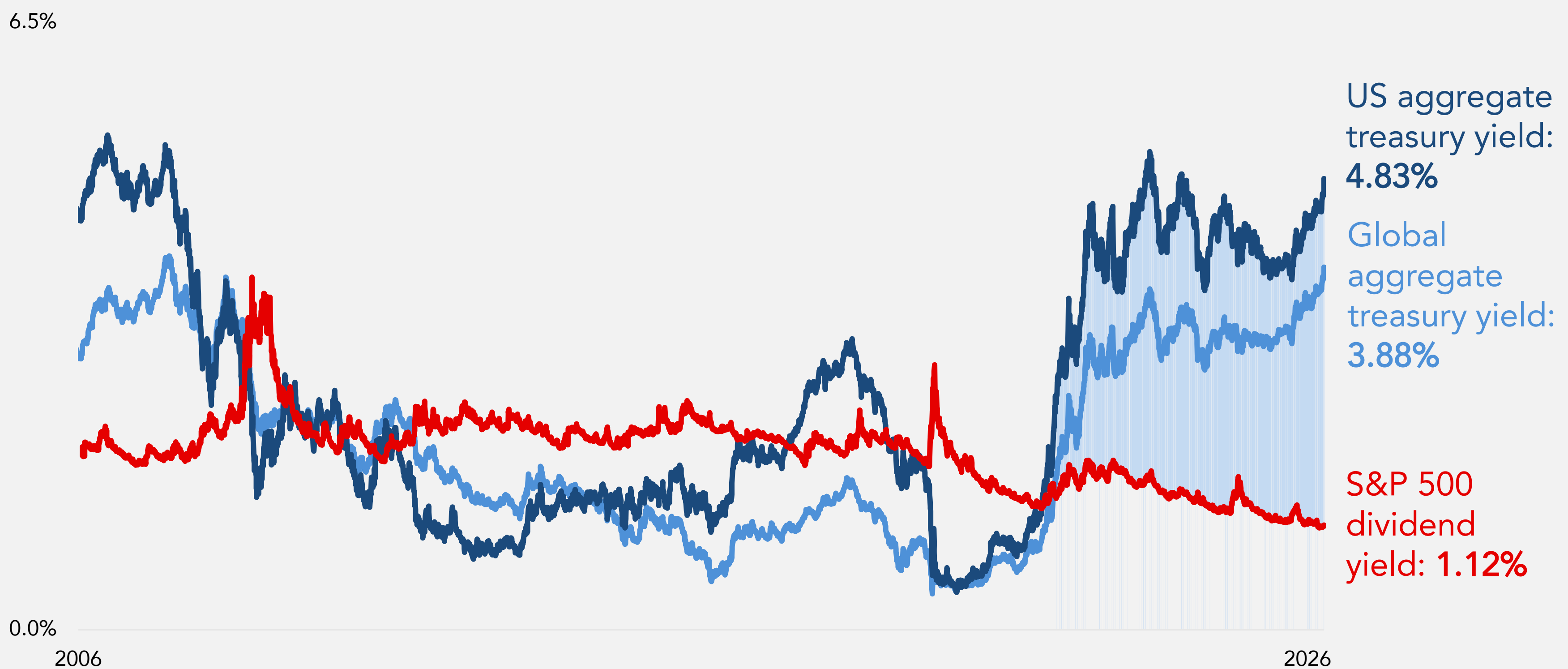


Source: (1) Bloomberg. Data as of September 11, 2026.

Widest Yield Gap in Over 20 Years

The yield gap – the difference between risk-free UST yields and the S&P 500 dividend yield – has widened to levels not seen in over two decades. Key drivers include: (1) structural shift in capital returns toward buybacks over dividends; (2) equity market valuation expansion, accompanied by compression of the equity risk premium (i.e., investors accepting equity risk and volatility with less compensation); and (3) persistent “higher-for-longer” rates driven by numerous factors including higher deficits & UST supply.

Government bond yields vs. S&P 500 dividend yield



Source: (1) Bloomberg. Data as of September 11, 2026. Yield to worst.

On Fiscal Sustainability and Rising UST Supply & Auctions

Reuters — Global bond markets put governments on notice over fiscal, inflation risks

FT FINANCIAL TIMES — US sells 30-year bonds at highest borrowing costs since 2001

Reuters — As US debt mounts, investors demand higher returns to lend

FT FINANCIAL TIMES — US borrowing costs 19-year high as Federal Reserve defies inflation fears

Reuters — US Treasury buyback strategy falls short as debt worries persist

Reuters — US Treasury bill issuance grows, heightens long-term risk

The New York Times — *U.S. Debt Hits $40 Trillion as America's Borrowing Binge Continues*

Bloomberg — **Costliest US Bond Sale Since 2001 Is Investor Warning to Bessent**

On Geopolitical Risk and Inflation Concerns

WSJ — U.S., European Government Bond Yields Rise After Trump Says U.S.-Iran Ceasefire Is Over

WSJ — Mounting Inflation Pressures Deepen Global Bond Slide

FT FINANCIAL TIMES — Oil price surge drives global bond sell-off

FT FINANCIAL TIMES — Global bonds tumble on fears of inflation shock from Iran war

Reuters — US 30-year yields hit highest level since 2007 as war, oil worries fester

The New York Times — *Bond Yields Hit Highest Level Since 2007 as Inflation Fears Set In*

The New York Times — Bond Market Stress Returns and Oil Rises in Edgy Day for Markets

Bloomberg — US 30-Year Yield Raises Alarm in Longest Run Above Above 5% Since 2007

On Competing AI Debt Supply, Hawkish Fed Policy Repricing, and BoJ Policy Normalization

Bloomberg

AI Is Driving Up Treasury Yields: 'It Just Touches Everything'

Reuters

Treasury yields rise after Warsh's debut meeting brings hawkish shift

The New York Times

How the A.I. Borrowing Binge Helps Drive Up Government Bond Yields

Bloomberg

Bond Yields at 19-Year High Send Warsh Credibility Warning

Bloomberg

Long-End Treasury Yields Reach Multiyear Highs on IG Supply, Oil

FT FINANCIAL TIMES

Record high Japanese yields trigger bets on repatriation

WSJ

U.S. Treasury Yields Soar as Market Struggles to Interpret Fed

Reuters

US yen intervention signals perfect storm rising in FX and bond markets

The View from Bond Market Professionals

"Watch the long bonds. Treasuries pressured by AI's debt explosion, rising inflation vol. Basis Trade's shaky state, oil back near 100, many factors, many charts. Not sure how much longer PE and PC can hold their breath."

Michael Burry, Investor & Founder of Scion Asset Management (July 2026)

"Slowly and steadily, the 30-year US Treasury yield is heading toward 5.30%, a level the economy – and the housing market in particular – has not seen in decades."

Mohamed El-Erian, Chief Economic Advisor at Allianz (August 2026)

"And I've been saying this for five years now, that the secular decline in interest rates at … long-term maturities is over. In fact, in the next session, long-term interest rates are likely to go higher, not lower. …"

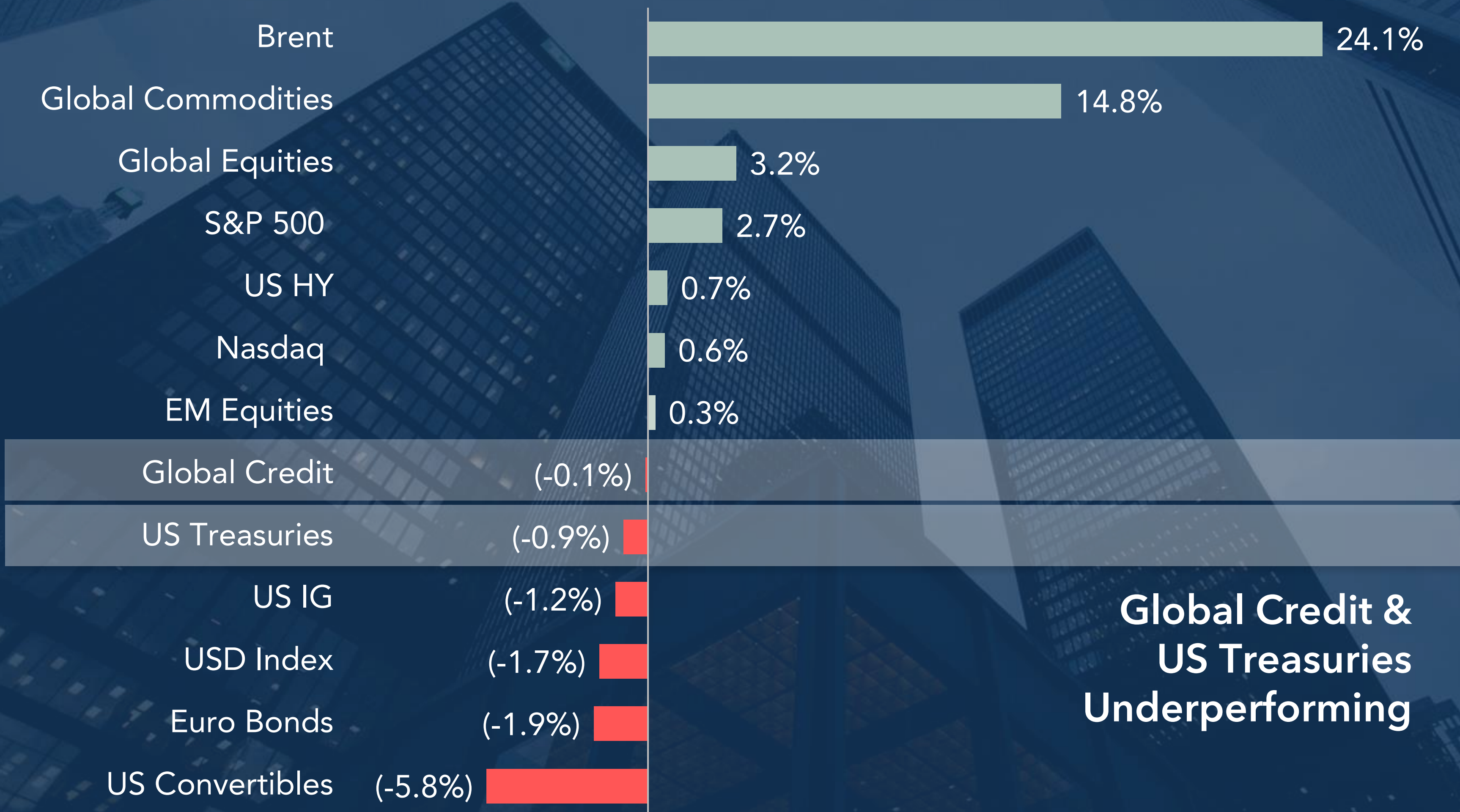
Jeffrey Gundlach, CEO & CIO of DoubleLine Capital (November 2025)

Summer Doldrums for Credit Returns

2

Summer Doldrums for Credit Returns

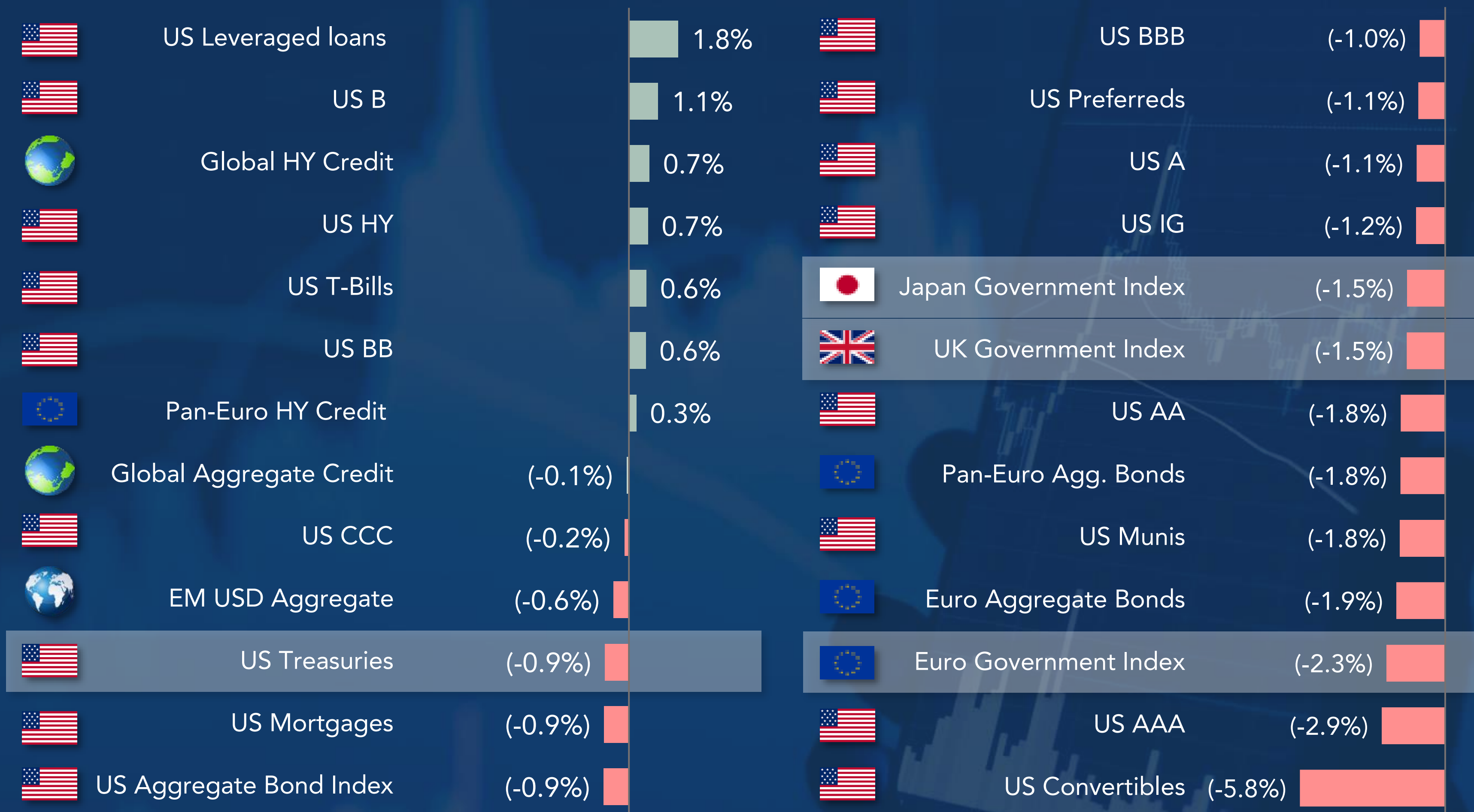
Performance in Jul-Aug 2026



Source: (1) Bloomberg. Data as of August 31, 2026.

Summer Doldrums for Credit Returns

Credit market total returns in Jul-Aug 2026



Source: (1) Bloomberg. Data as of August 31, 2026.

Longer Duration Benchmarks Underperforming

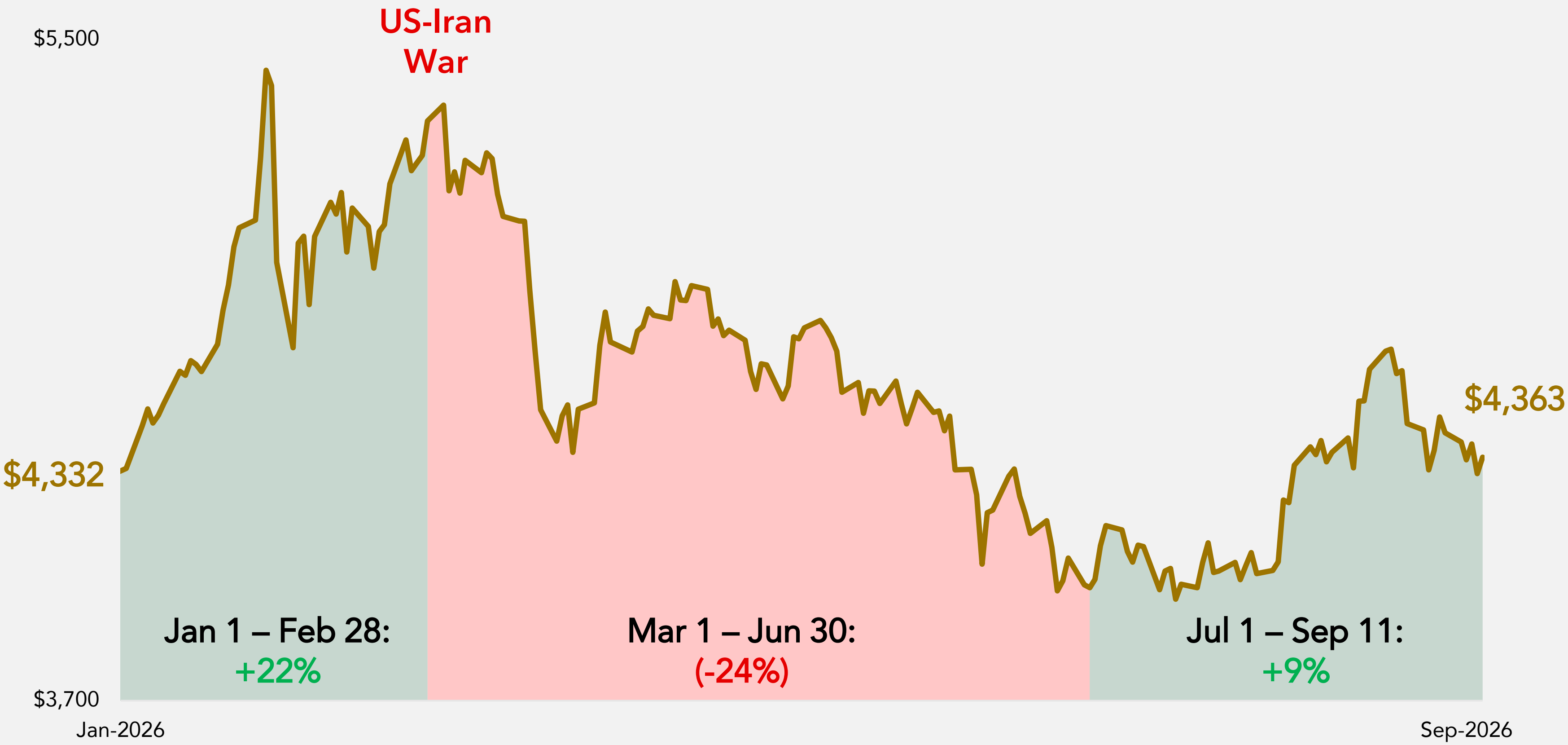
2026 YTD US treasury total returns, by tenor

Source: (1) Bloomberg. Data as of August 31, 2026. Total return indices are Bloomberg.

Gold Advances As Debasement Trade Returns

After bottoming near $3,942 in late June, spot gold has staged a powerful recovery in July-August on the back of policy pivots and lingering fiscal concerns in the US. Fiat currency credibility concerns have become a core macro theme in recent years, an enduring mega-trend that we expect to continue at a gradual pace of multi-year diversification.

Gold since Jan 1, 2026



Source: (1) Bloomberg. Data as of September 11, 2026.

3 Summer Steepening at the Long-End

Summer Steepening at the Long End

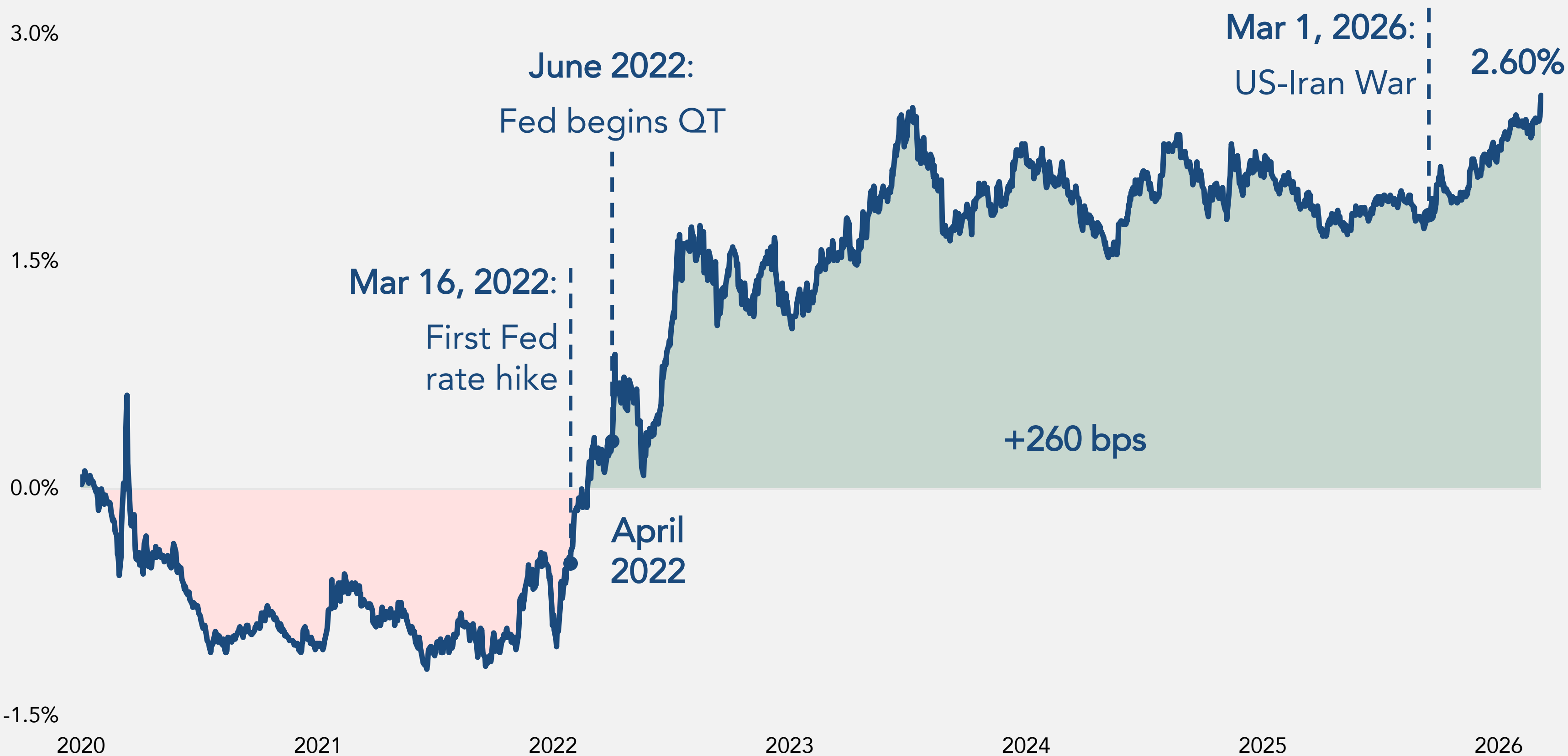
Key drivers of higher yields at long-end of UST curve

1. Geopolitical risk premia; war-induced **supply shocks**
2. **Inflation trifecta** (energy prices, tariffs, AI buildout)
3. Hawkish repricing of **Fed policy** expectations
4. Fed-Treasury **policy ambiguity**
5. Fiscal sustainability concerns (**debt & deficits**)
6. Rising sovereign & **UST supply**
7. Global **competition for capital**
8. Competing long-duration **AI debt supply**
9. Evolving **UST buyer base**
10. **BOJ policy normalization** weakens long duration anchor

Structural Regime Change in US Real Rates

Real yields represent nominal yields adjusted for inflation expectations. The structural regime change in US real rates has become a pervasive post-COVID megatrend in global markets, marking a departure from the post-GFC era of deeply negative real yields.

Real 10-year UST yields

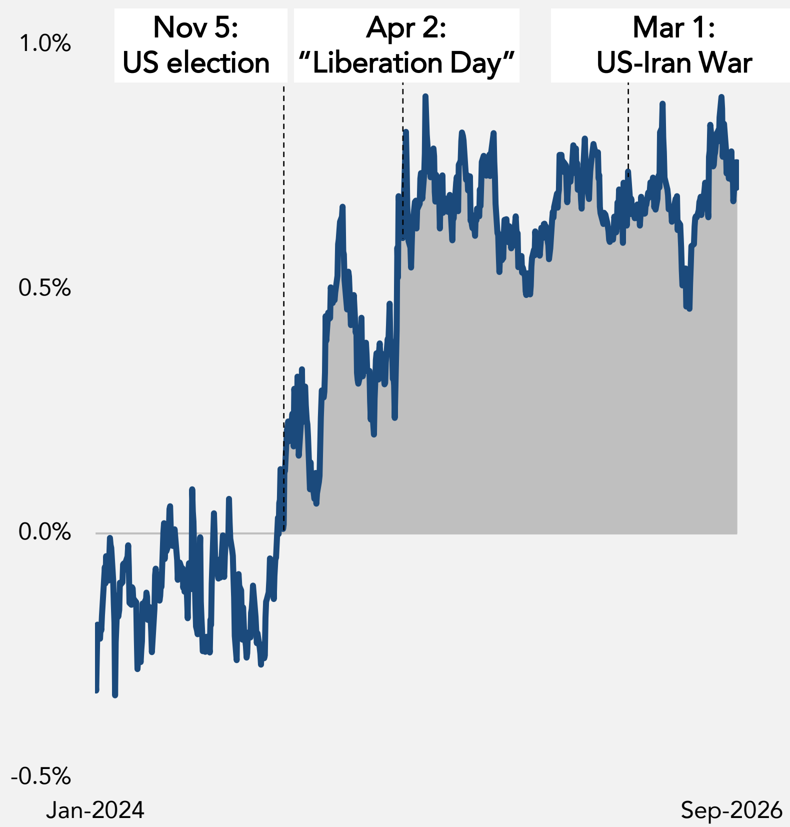


Source: (1) Bloomberg. Data as of September 11, 2026.

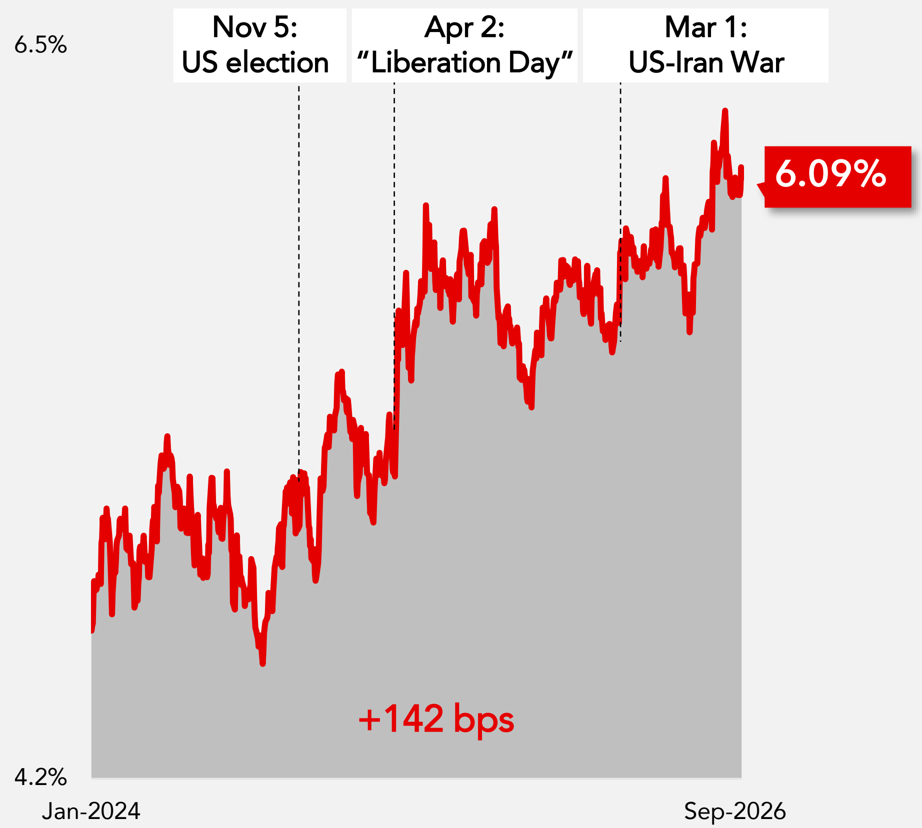
Term Premium Resetting Higher

Fed Chair Warsh's policy framework may drive a structural reset higher in term premium by dismantling the three pillars that artificially suppressed it for over a decade: **(1) the balance sheet backstop; (2) the forward guidance anchor; and (3) the implicit "Fed put" on bond volatility.**

10-year term premium estimate



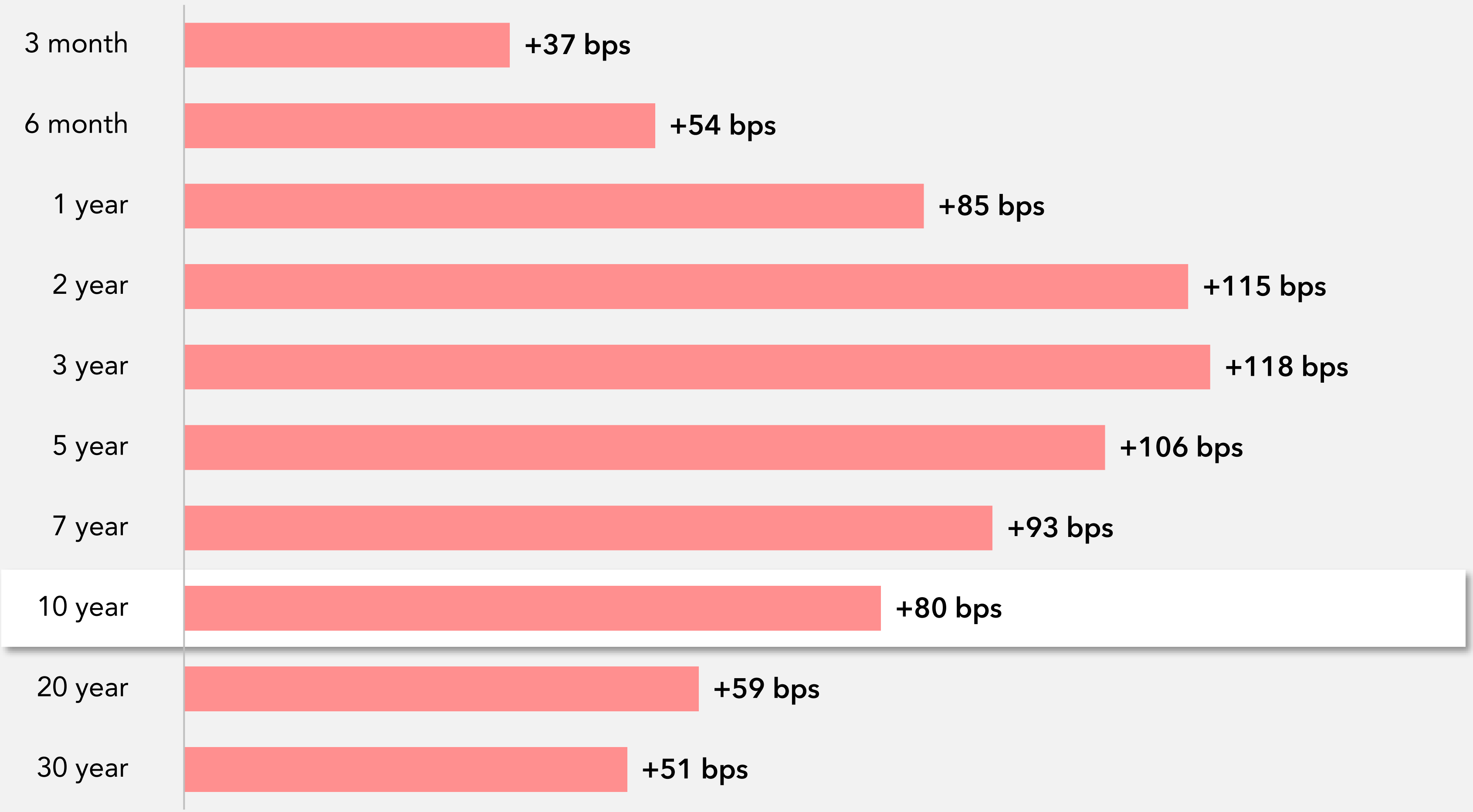
US 10y10y forward



Source: (1-2) Bloomberg. Data as of September 11, 2026.

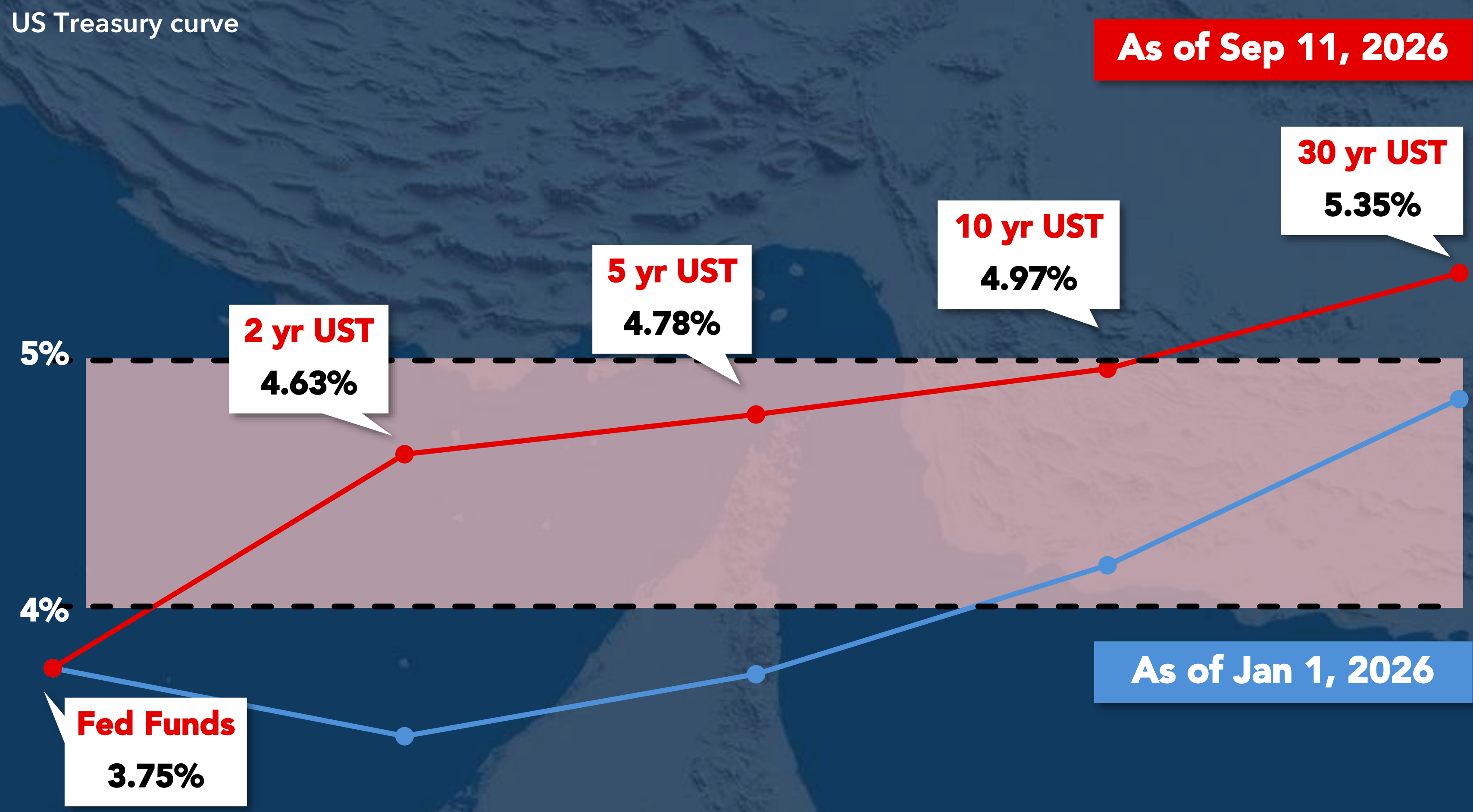
UST Yields Wider Across the Curve

Change in UST rates in 2026 YTD



Source: (1) Bloomberg. Data as of September 11, 2026.

Hormuz Quagmire Reprices UST Curve

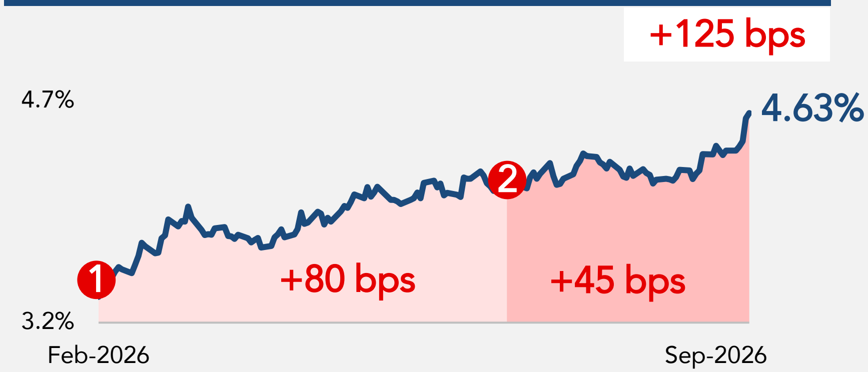


Source: (1) Bloomberg. Data as of September 11, 2026. Fed funds is upper bound.

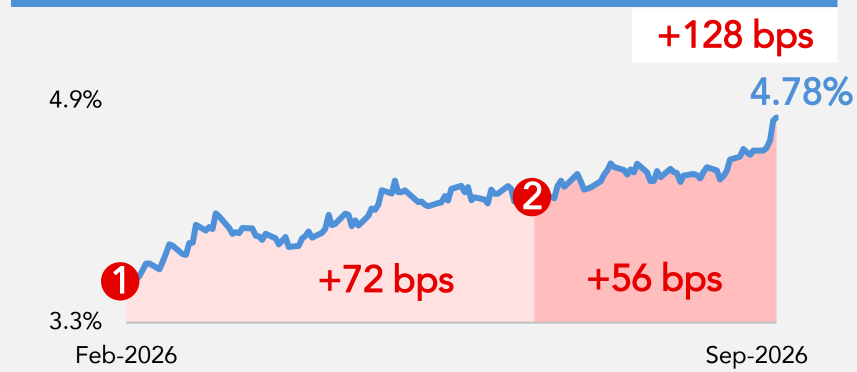
Longer Duration More Vulnerable in Summer 2026

With the front-end more anchored by Fed policy, longer-duration UST yields became more vulnerable to bear steepening in July-August 2026 with term premia rising as a result of: (1) a return of geopolitical risk; (2) renewed US trade & tariff policy escalation; (3) the persistence of structurally higher US debt & deficits; and (4) Fed-Treasury policy ambiguity.

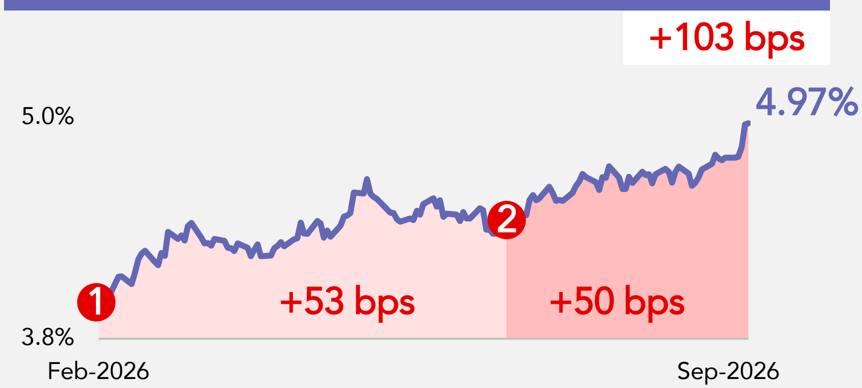
2-year UST



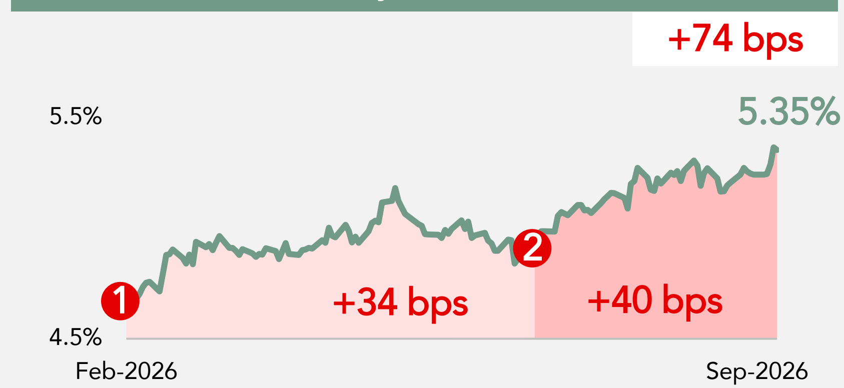
5-year UST



10-year UST



30-year UST

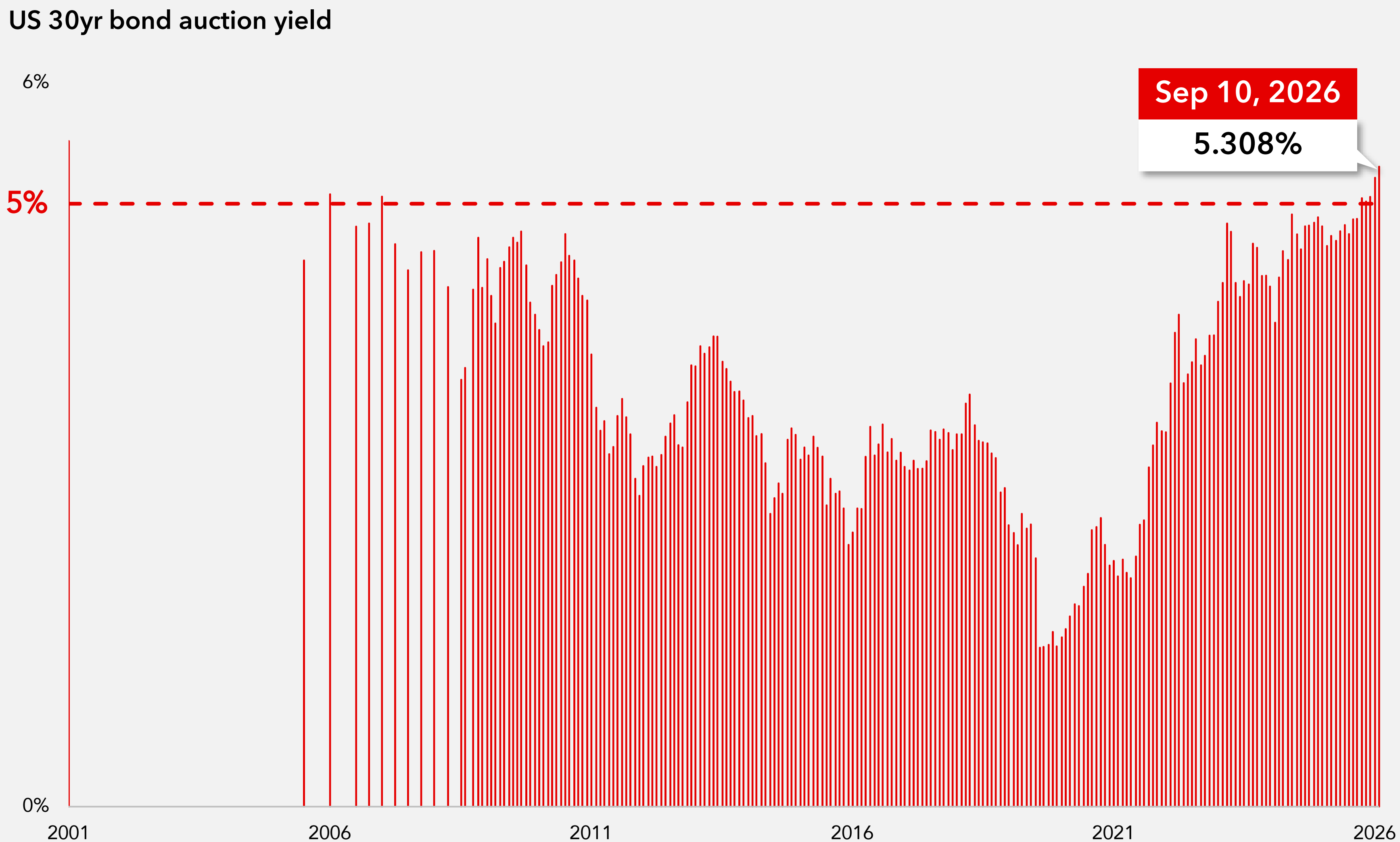


Source: (1-4) Bloomberg. Data as of September 11, 2026. Stage 1 is Feb 27 – Jun 30, Stage 2 is June 30 – September 11, 2026.

1 **Stage 1:** US-Iran war; US fiscal concerns

2 **Stage 2:** Renewed geopolitical risk; hawkish Fed repricing

Highest 30yr UST Auction Since 2001

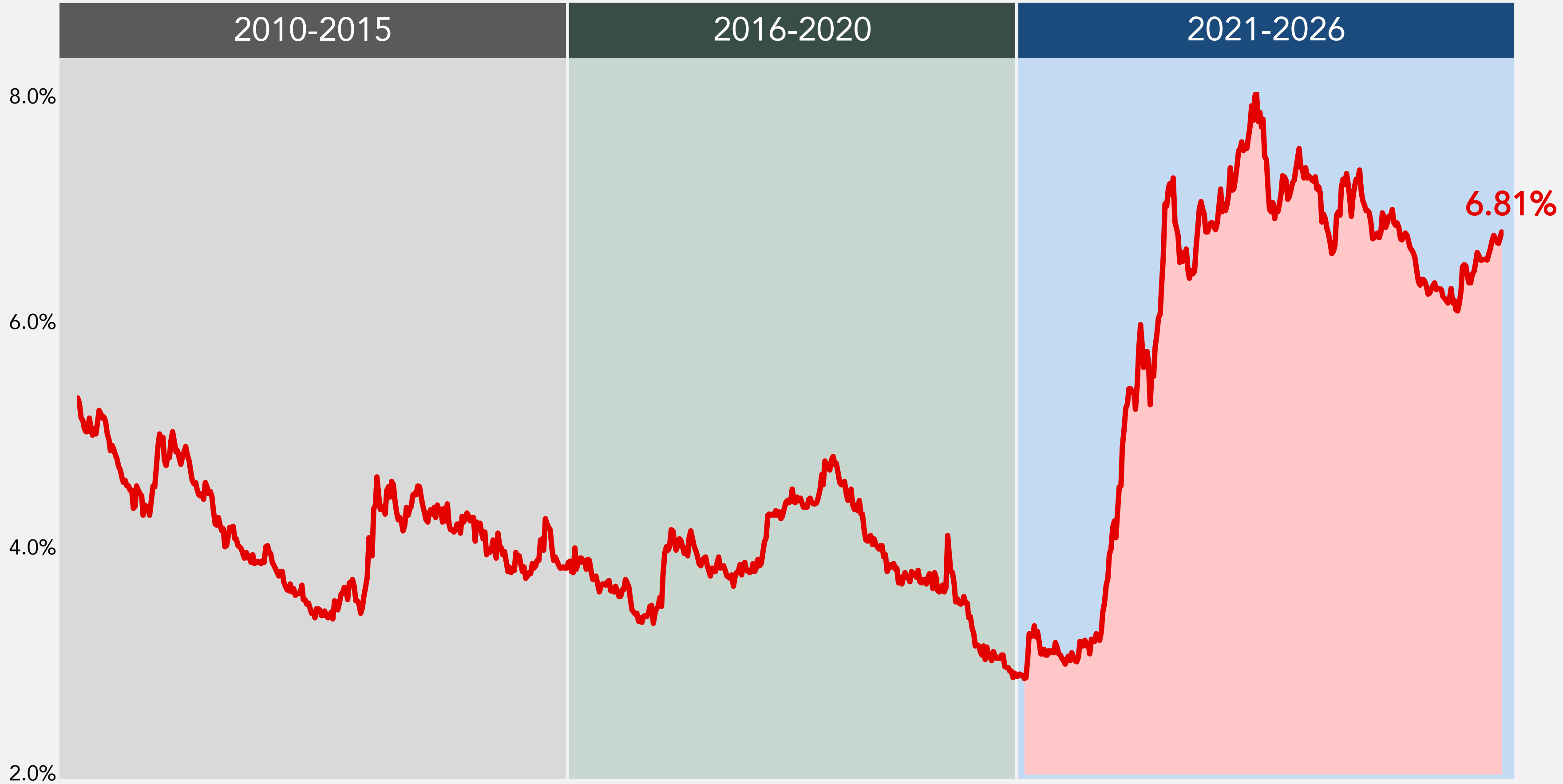


Source: (1) Bloomberg. US Treasury. Data as of September 11, 2026.

Elevated US Mortgage Benchmark

The impact of higher 10 year UST yields – driven by higher term premia, fiscal supply and an evolving buyer base – has rippled through US mortgage and housing markets.

US 30-year fixed mortgage rate, national average



Source: (1) Bloomberg. Data as of September 11, 2026. Bankrate.com US Home Mortgage 30 Year Fixed National Average.

4 Rising Yields a Global Phenomenon

New Era of More Intensive Competition for Capital

The world's 10 largest government bond markets are approaching $100 trillion in aggregate size, with nearly $30 trillion of annual issuance. The sheer scale of issuance underlines a new era of intensive competition for capital with several notable trends: (1) crowding-out effect of increased sovereign issuance; (2) higher yielding trap for developed nations; (3) growing shift to fragmented and local capital pools; and (4) index inclusion by larger EMs (China, India) becoming a competitive lever.

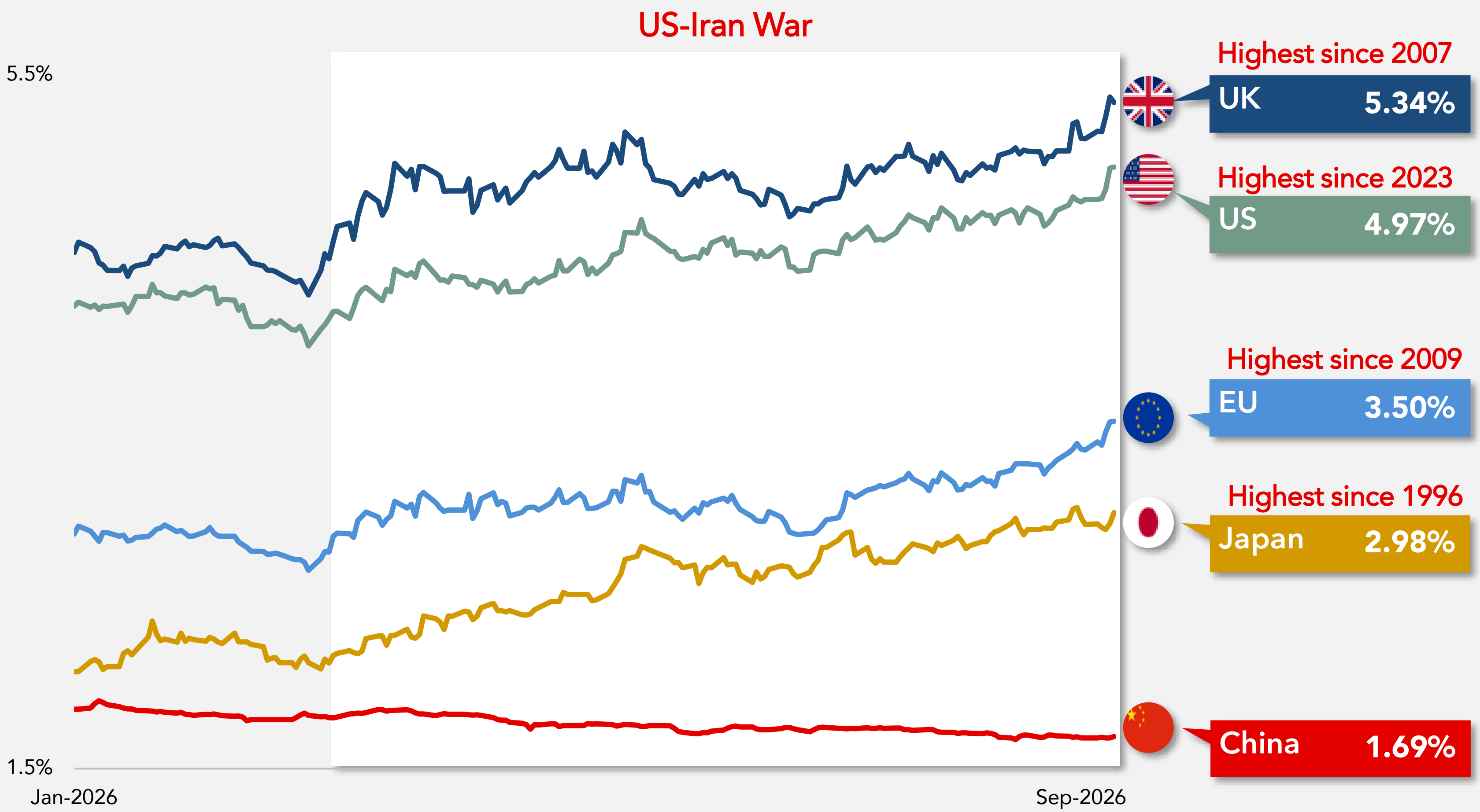
Global government bond markets by amount outstanding, USD tn

1	US	**$35.4tn**
2	China	**$19.1tn**
3	Japan	**$11.8tn**
4	UK	**$3.9tn**
5	France	**$3.8tn**
6	Italy	**$3.1tn**
7	Germany	**$2.9tn**
8	India	**$2.9tn**
9	Canada	**$2.8tn**
10	Brazil	**$2.0tn**

Source: (1) Bloomberg. Data as of August 2026.

Global Markets Repricing Duration Risk

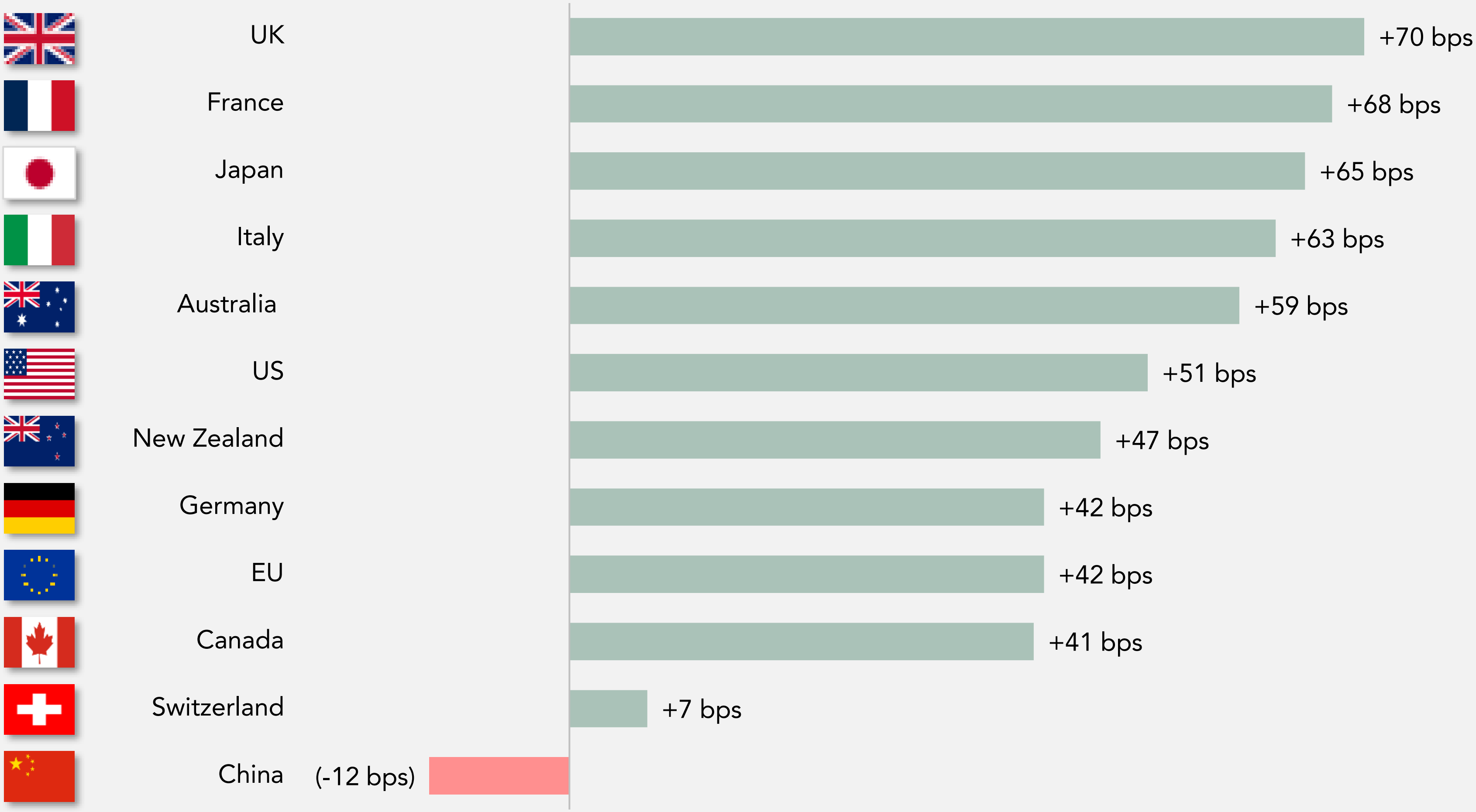
10 yr global government bond yields



Source: (1) Bloomberg. Data as of September 11, 2026.

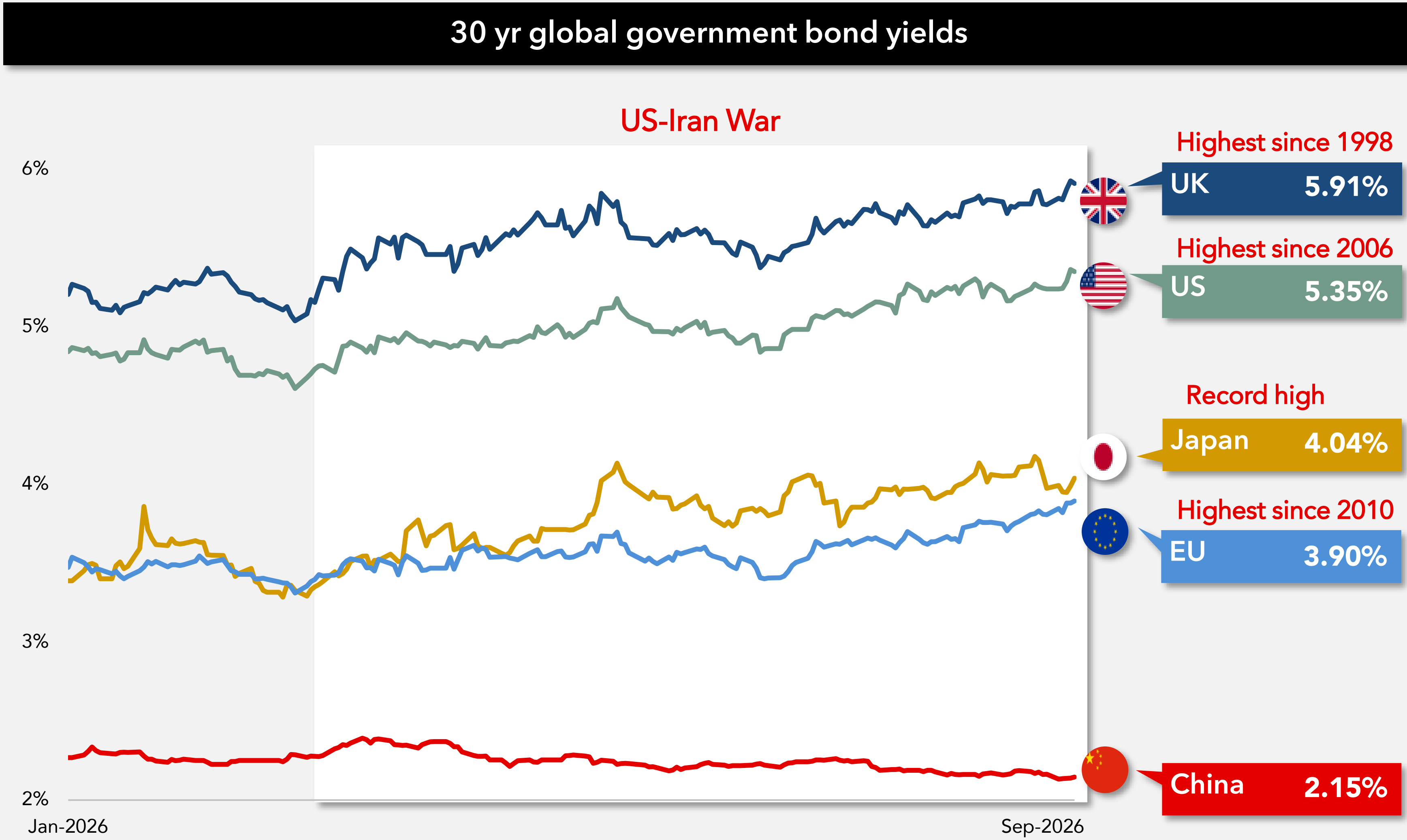
Longer Duration Maturities More Vulnerable

Change in global government 30-year yields in 2026 YTD



Source: (1) Bloomberg. Data as of September 11, 2026.

Global Markets Repricing Duration Risk



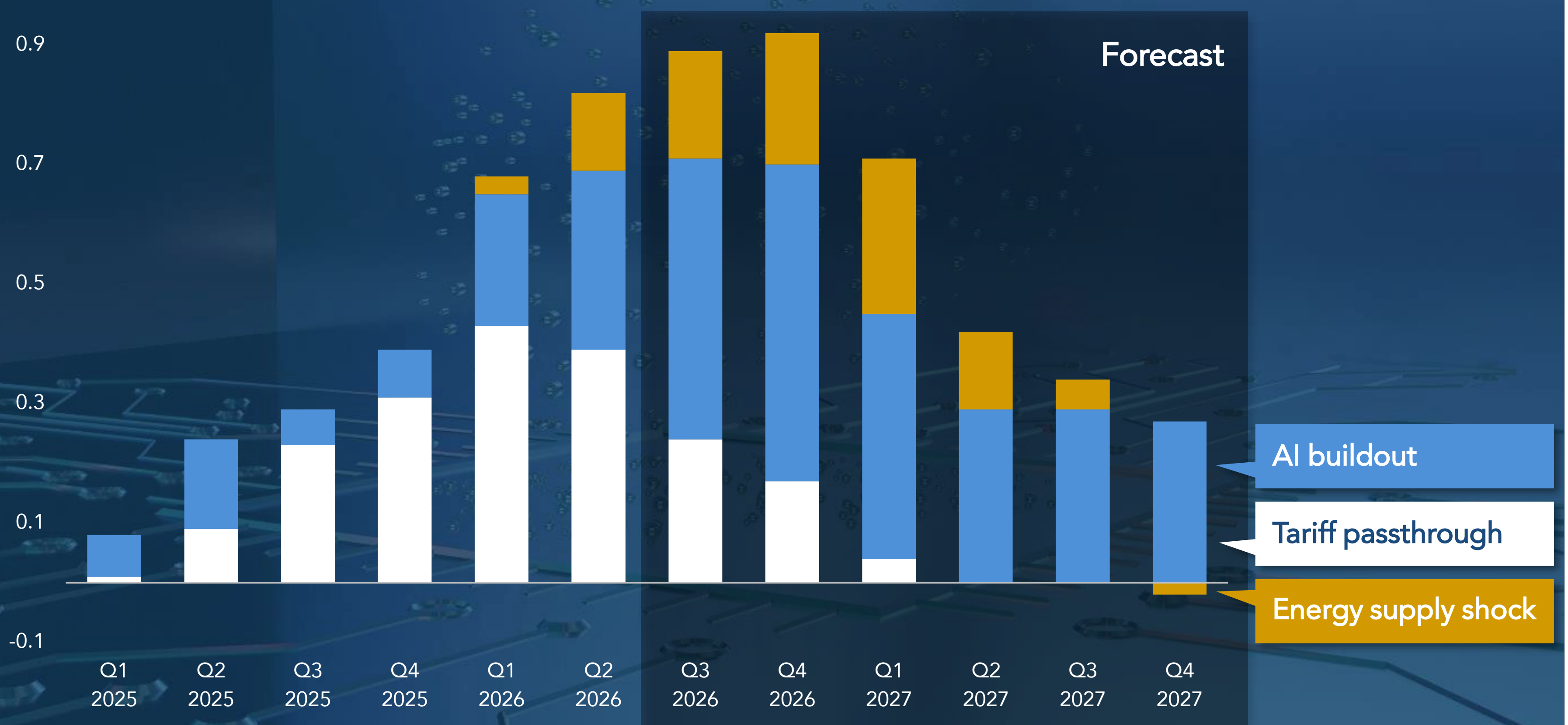
Source: (1) Bloomberg. Data as of September 11, 2026.

5 The Inflation Trifecta

Real Wars, Trade Wars & AI's Expansion

Based on current facts and circumstances, the AI buildout is expected to be a more durable driver of US inflation over the near term, as compared to policy miscues on trade and geopolitics.

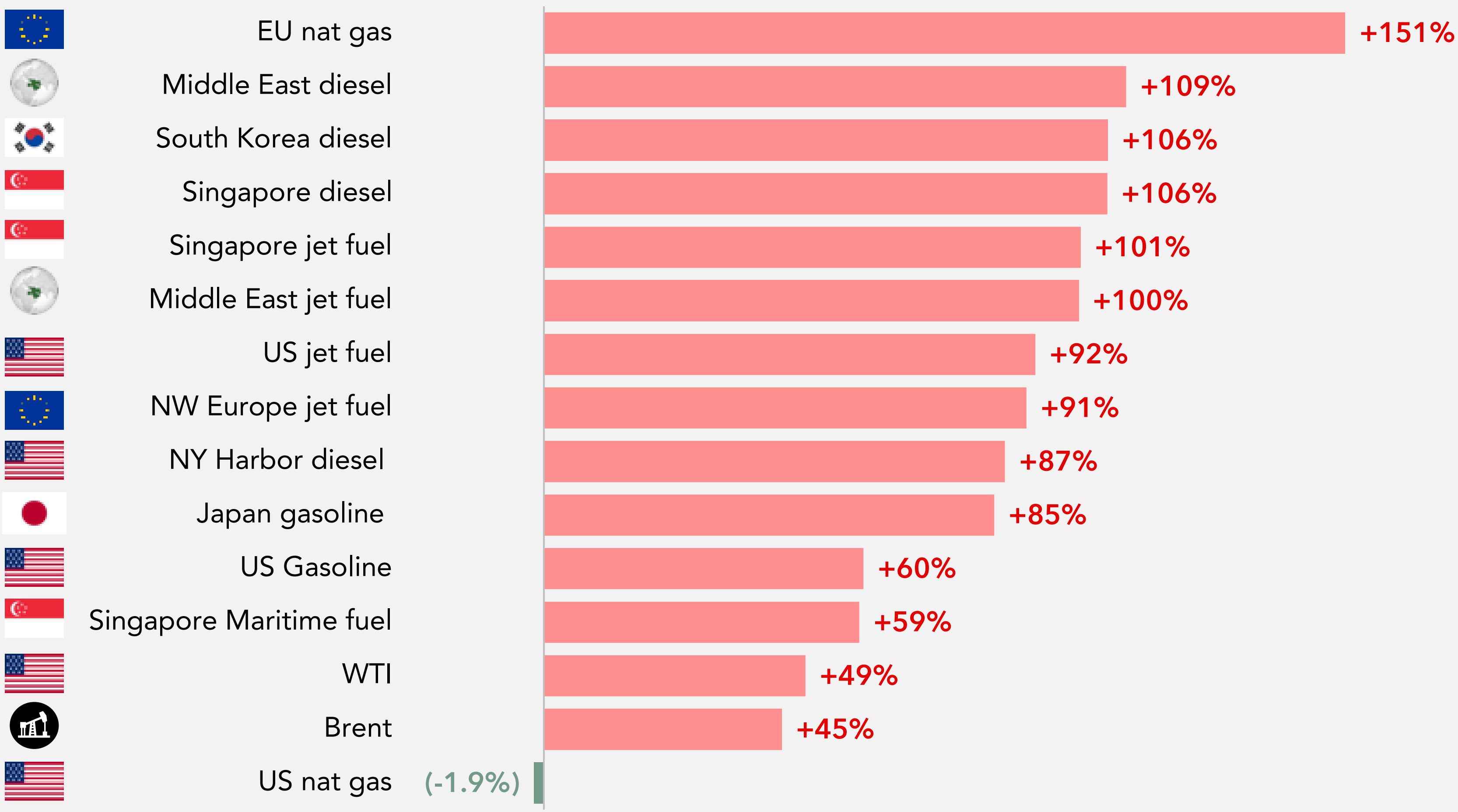
Contributions to US inflation, ppts



Source: (1) St. Louis Fed. Dallas Fed. Goldman Sachs, "AI will save the economy someday. First it has to stop inflating it". Data shows percentage point contributions to annual core PCE. Assumes events are independent drivers.

Hormuz Shutdown Has Raised Risk Premia for Global Energy Commodity Prices

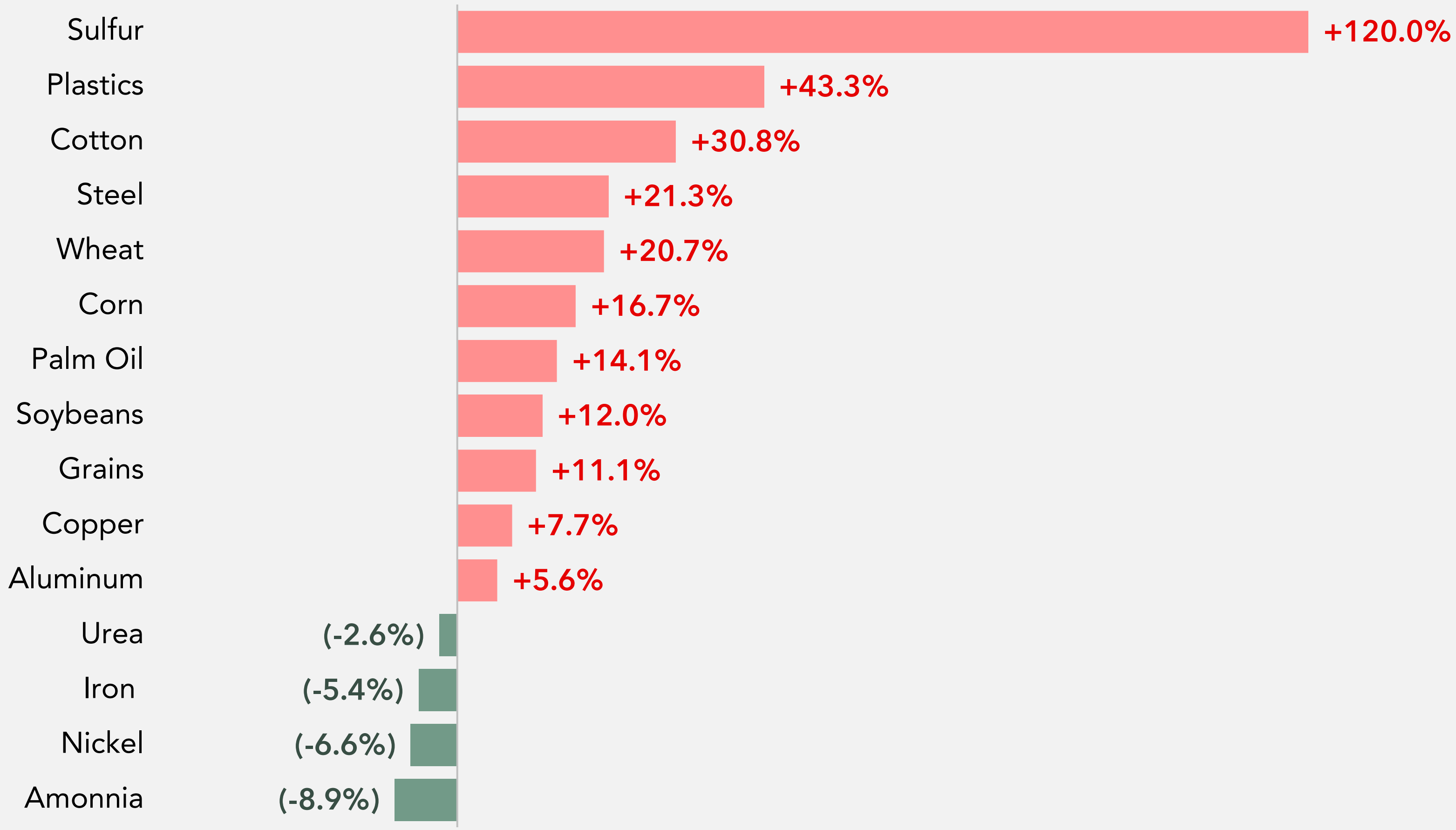
Energy commodity price performance since US-Iran war



Source: (1) Bloomberg. Data since February 27, 2026 and as of September 11, 2026.

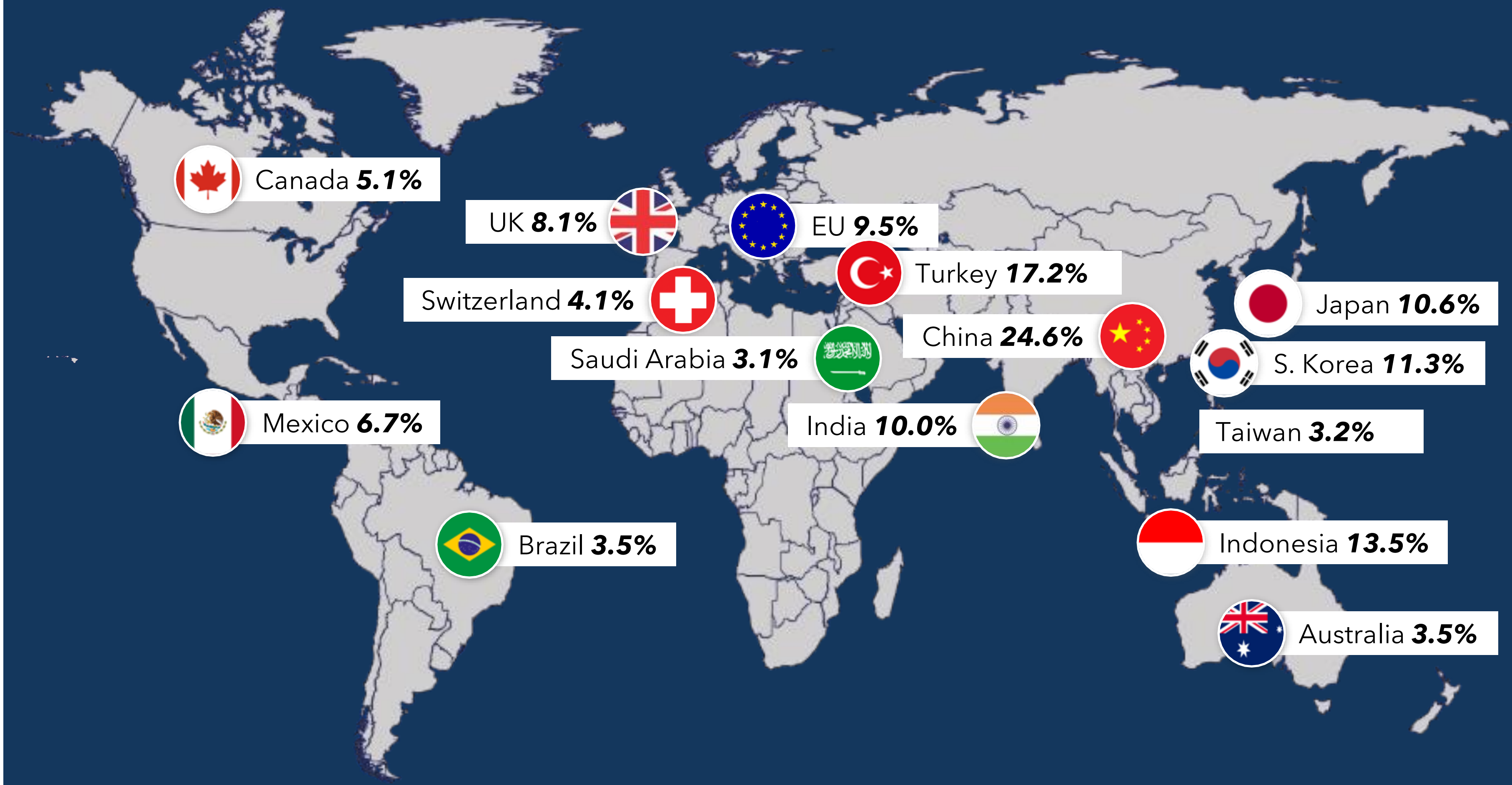
Hormuz Shutdown Has Raised Risk Premia for Global Non-Energy Commodity Prices

Non-energy commodity price performance since US-Iran war



Source: (1) Bloomberg. Data since February 27, 2026 and as of September 11, 2026.

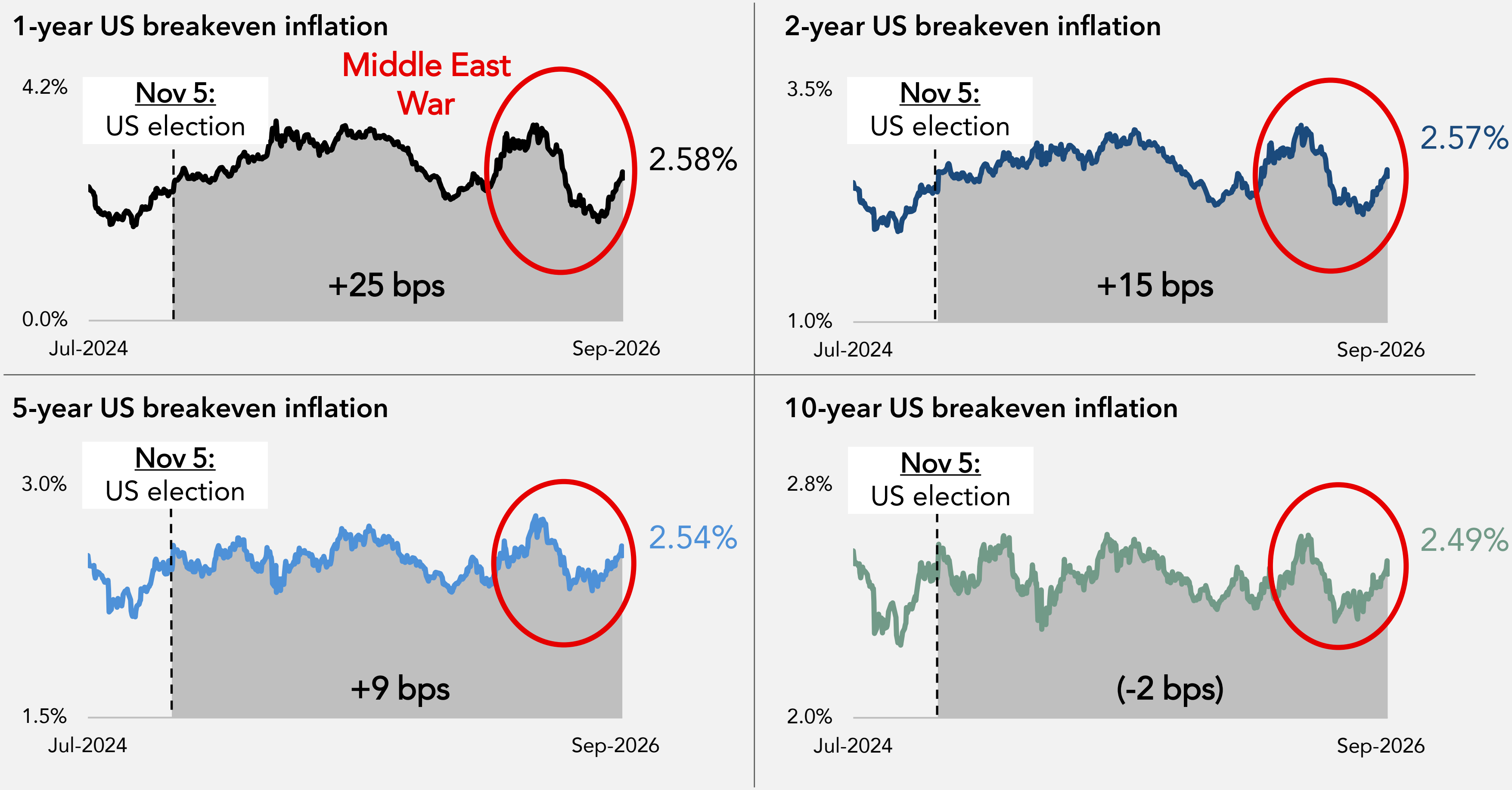
Effective US Tariff Rates on World's Largest Economies



Source: Oxford Economics, Tariff Monitor – Why recent headlines haven't changed our outlook" (July 24, 2026). Census Bureau.

US Inflation Breakevens Rising

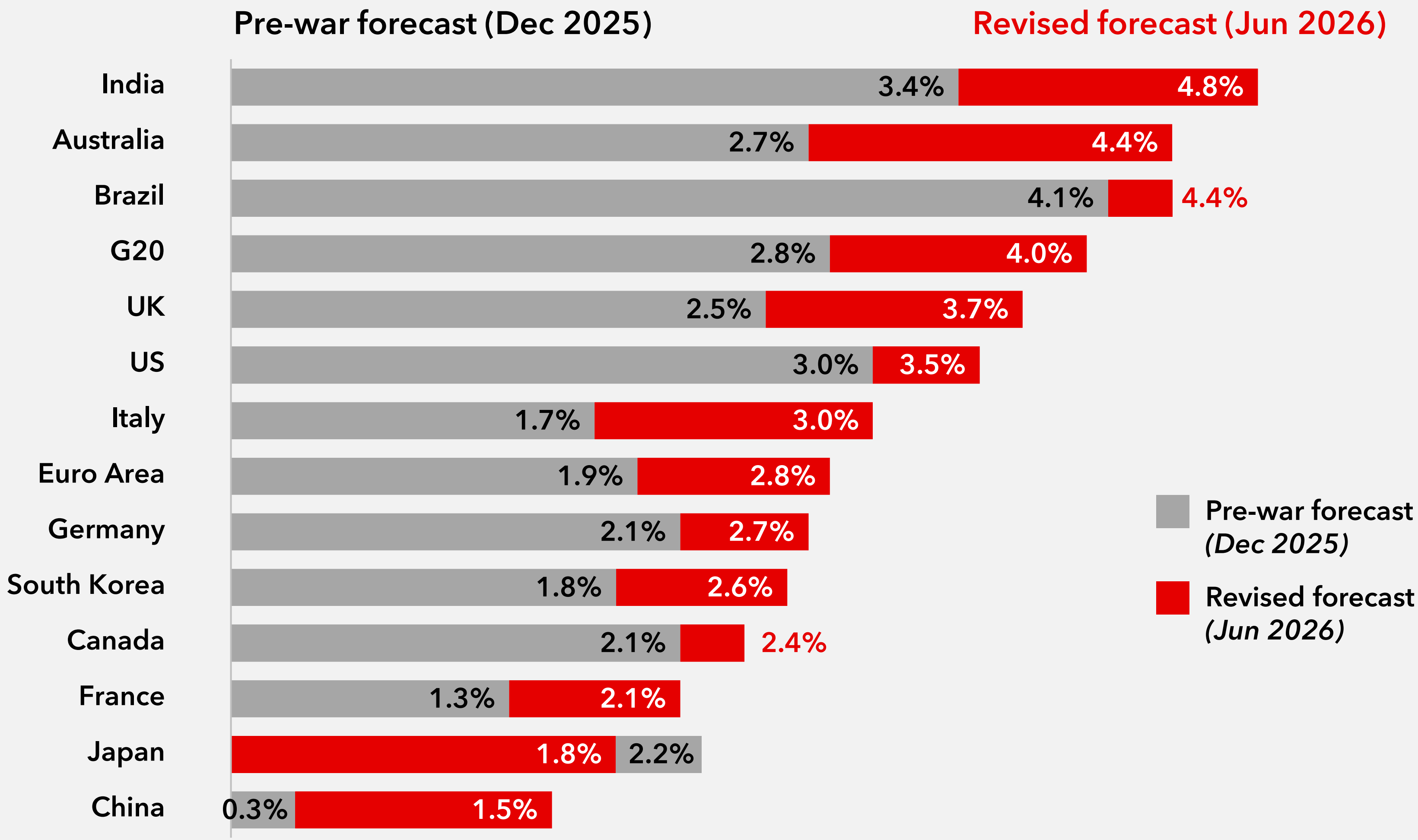
Following the release of the August CPI report, market-based inflation breakeven rates moved higher across the curve. This upward shift was primarily driven by the hotter-than-expected core CPI print and sticky services inflation, which signaled to the market that pipeline price pressures may take longer to cool.



Source: (1-4) Bloomberg. Data as of September 11, 2026. Inflation breakevens are USD inflation swap zero coupon.

Persistent Inflation Headwinds Abroad

OECD revised forecast for 2026 inflation



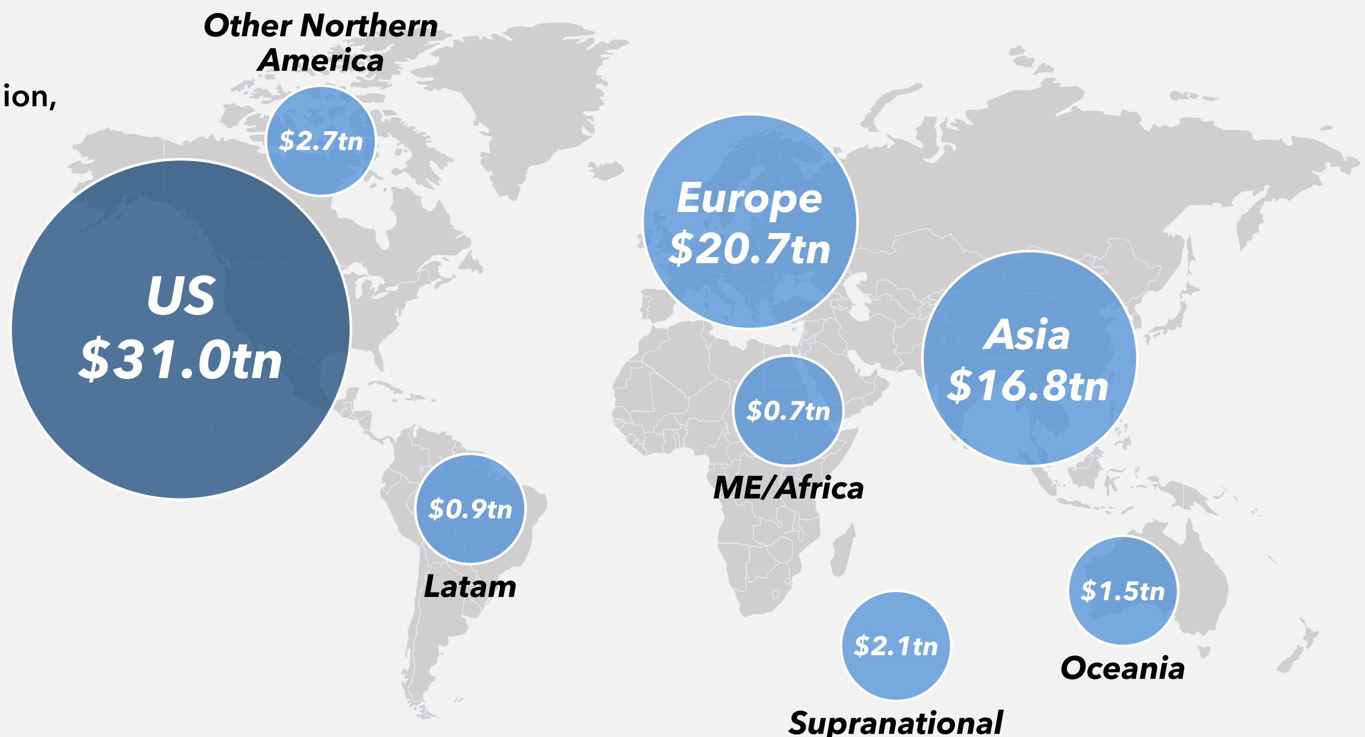
Source: (1) OECD, "Economic Outlook, Volume 2026 Issue 1 (June 2026)".

6 Global Competition for Capital

The High Barrier to Entry of Index Inclusion

Established in 1990, the Bloomberg Global Aggregate Bond Index (30,000 securities from more than 3,100 issuers with market cap > $70 trillion) serves as the central circulatory system for global fixed-income allocation, directing trillions of dollars in passive and benchmarked institutional capital across sovereign, corporate and securitized debt markets. Investment grade ratings are among several gatekeeper thresholds that create high barriers to entry, with index inclusion becoming a geostrategic weapon for sovereigns in particular. Mega-cap, big tech AI issuance has had a dual-front crowding out impact for non-tech corporates: (1) large scale sovereign debt issuance from above, and (2) rising scale of big tech AI issuance from within.

Bloomberg Global Aggregate Bond Index total market value by region, USD tn

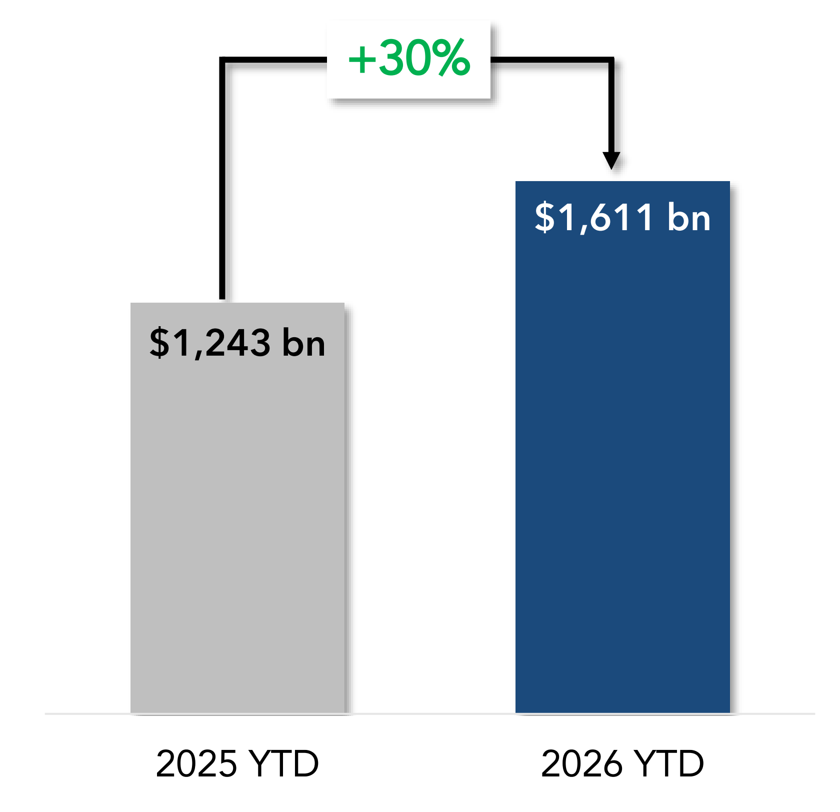


Source: (1) Bloomberg. Data as of August 2026. Mexico is grouped with Latam.

Record Corporate Issuance Competing with Treasuries

While corporate and sovereign debt markets traditionally operate in distinct channels, the sheer volume of record USD IG corporate supply in 2026 has created direct friction with US Treasuries, reshaping yield dynamics, concession mechanics and global portfolio allocations.

2026 YTD IG deal volume, USD bn



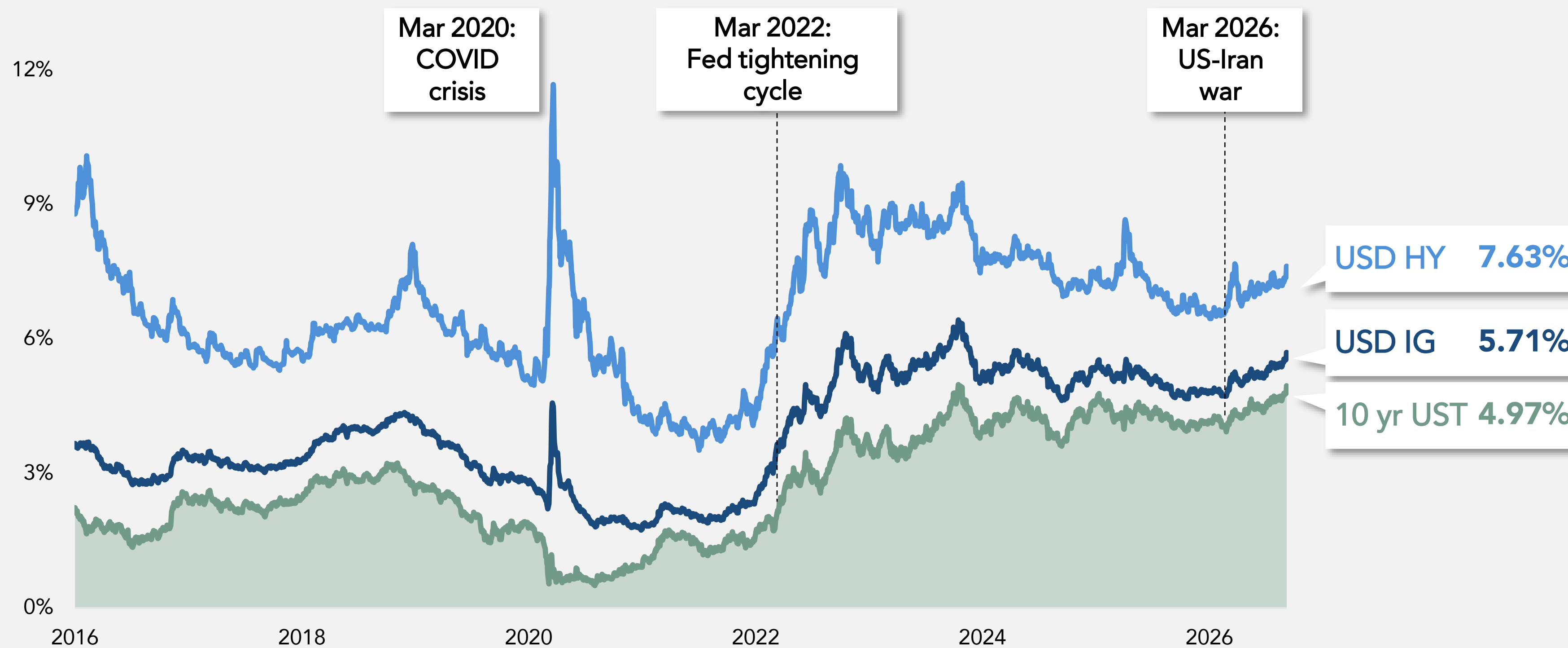
2026 YTD HY deal volume, USD bn

Source: (1-2) IG and HY bond data are CFR. Data as of September 10, 2026.

Yield-Focused Investors Exacerbate the Competition for Capital

Though UST yields remain elevated, credit spreads do not need to be wide to pull capital away from Treasuries. The absolute yield cushion of corporate paper allows institutional managers to better absorb short-term rate volatility, encouraging them to move down the credit spectrum rather than hold lower-yielding Treasury benchmarks. With all-in yields above 7%, high yield debt is competing with two asset classes at once: Treasuries and equities.

USD IG & HY bond yields vs. 10 yr UST

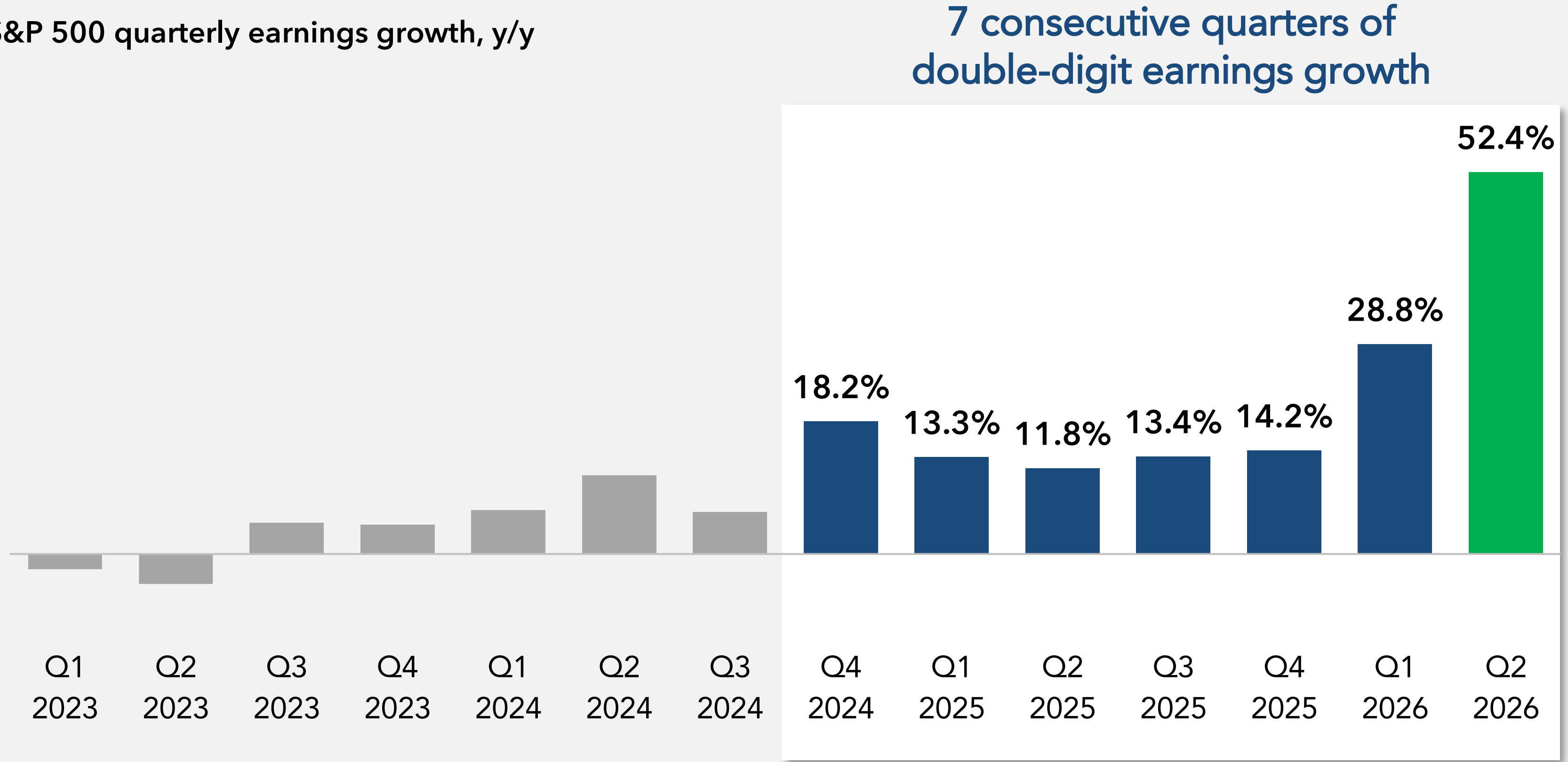


Source: (1) Bloomberg. Data as of September 11, 2026. IG & HY bond yields are yield to worst.

Exceptional Q2 2026 Earnings Growth

Q2 2026 marked the strongest corporate profit performance in five years with S&P 500 earnings growth at 52.4% y/y, the second consecutive quarter of earnings growth above 25% and the seventh straight quarter of double-digit expansion. This historic surge was driven by the massive buildout in AI infrastructure, near-record net profit margins and resilient underlying economic demand. Profit growth extended well beyond Big Tech, as non-Mag 7 earnings growth expanded at 33.8% y/y and 87% of S&P 500 companies reporting a positive EPS surprise.

S&P 500 quarterly earnings growth, y/y

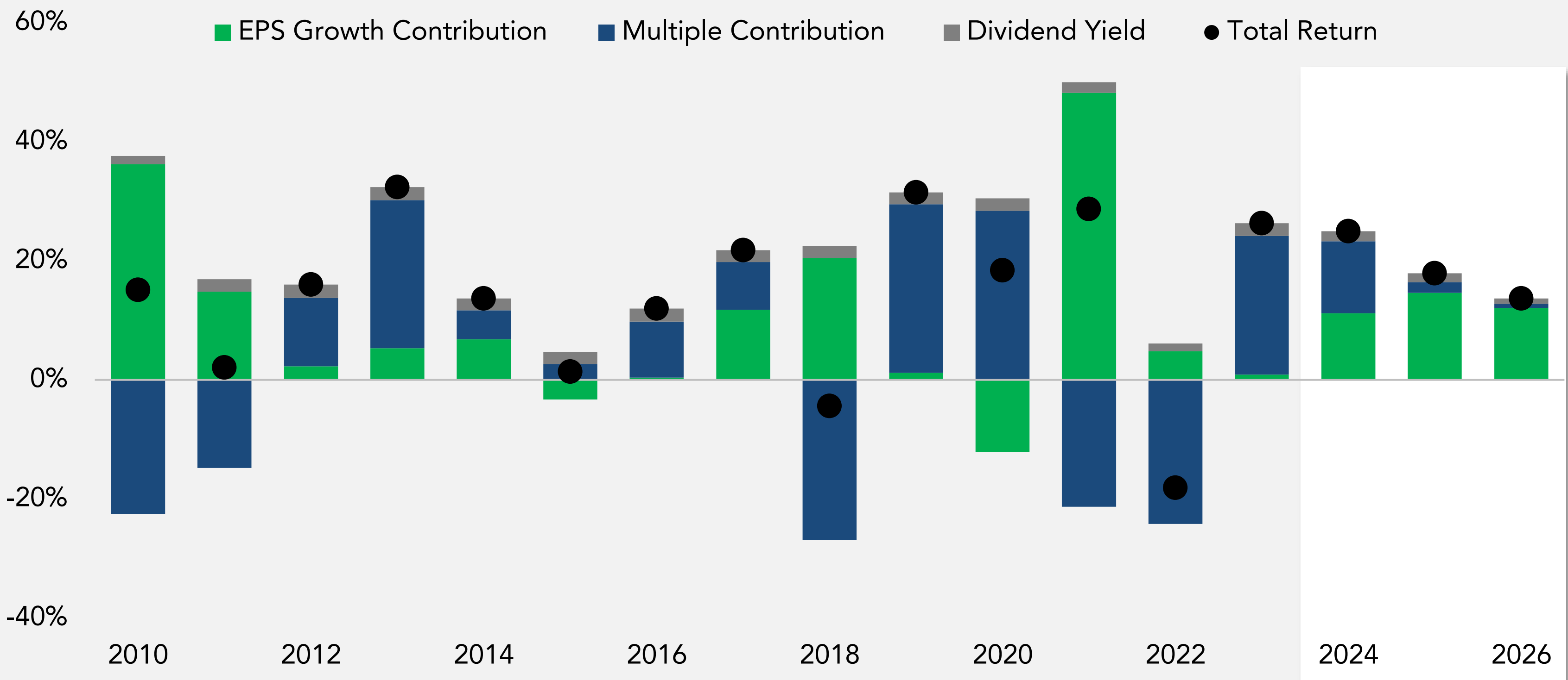


Source: (1) FactSet, Earnings Insight Report (September 4, 2026).

Earnings Supplant Multiple Expansion as Primary Driver of Equity Markets

Over the last two years, equity markets have undergone a structural regime shift as double-digit corporate earnings growth replaced valuation expansion as the primary engine of stock returns. As P/E multiples remain elevated but somewhat anchored, future equity market returns will depend almost entirely on corporate earnings performance and the continued broadening of profit growth across broader market sectors.

Annual S&P 500 return decomposition

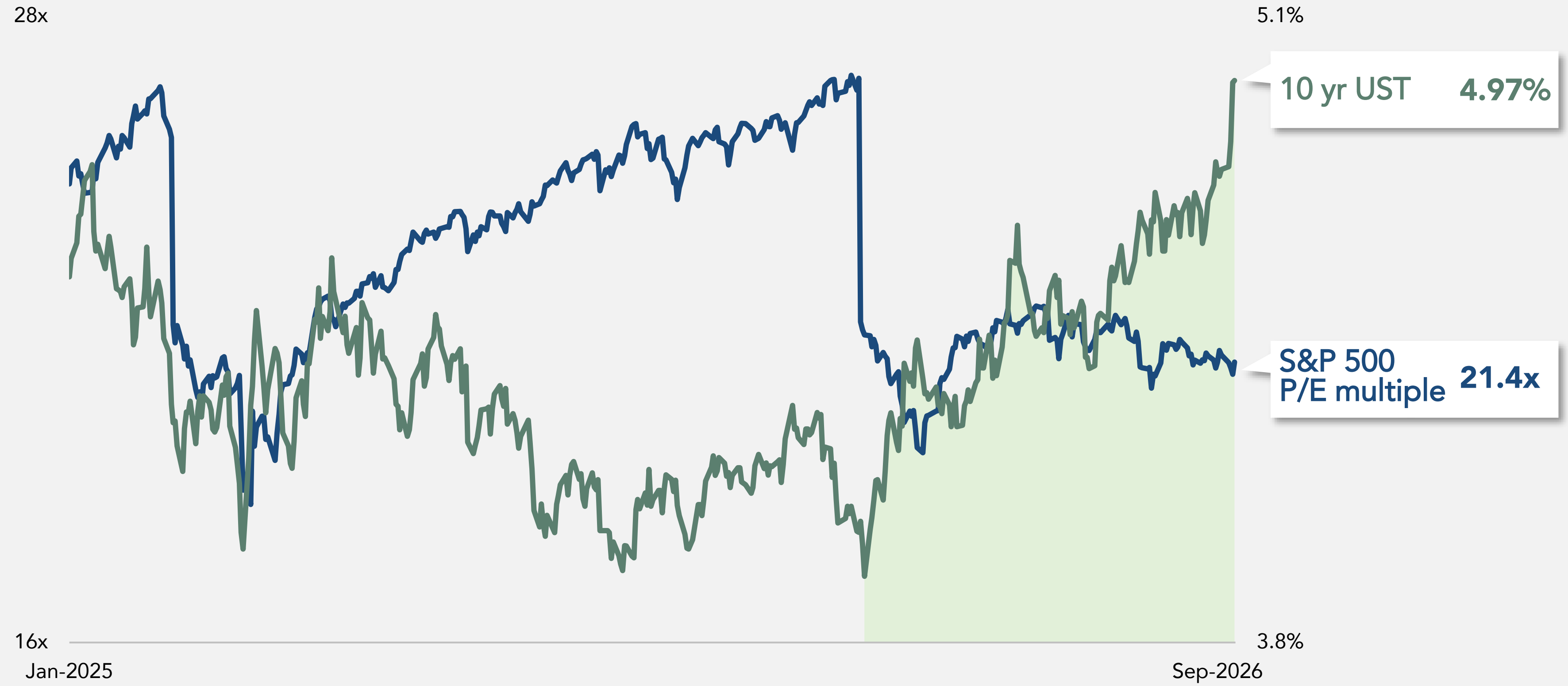


Source: (1) S&P Dow Jones Indices. FactSet. Bloomberg. 2026 data is through August 31, 2026.

P/E Multiples Hold Flat as Rates Move Higher

Despite higher US treasury yields, resilient earnings growth has kept stock multiples anchored at elevated levels. Strong corporate cash flows, led by mega-cap technology and AI expansion, have generated enough earnings momentum to directly offset the downward pressure higher interest rates normally exert on valuations. As a result, stock prices continue to move in tandem with rising rates rather than compressing.

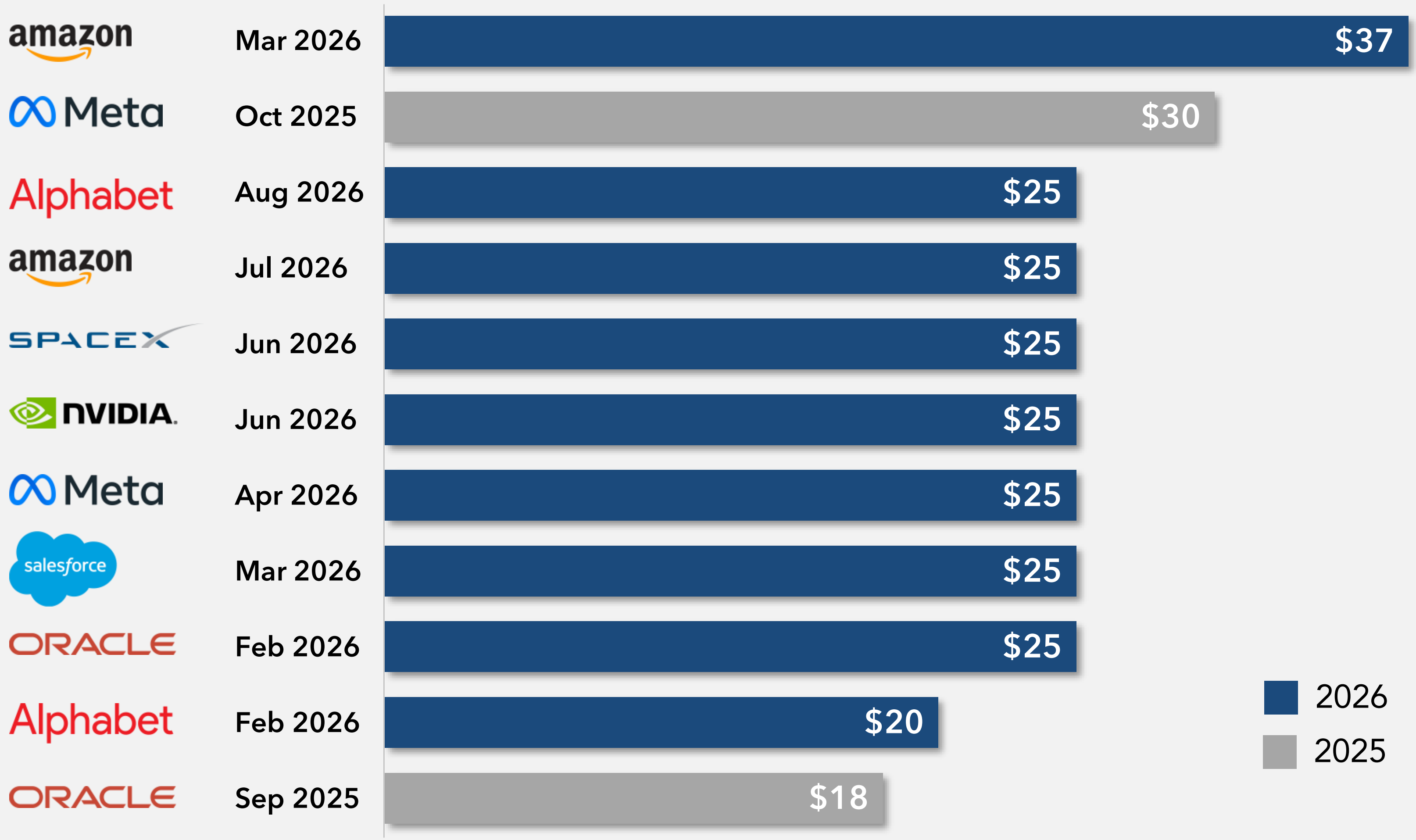
S&P 500 P/E multiple (LHS) vs. 10 yr UST (RHS)



Source: (1) Bloomberg. Data as of September 11, 2026.

Big Tech Issued USD Bonds in Unprecedented Size

Largest USD IG tech deals since Jan 2025, bn

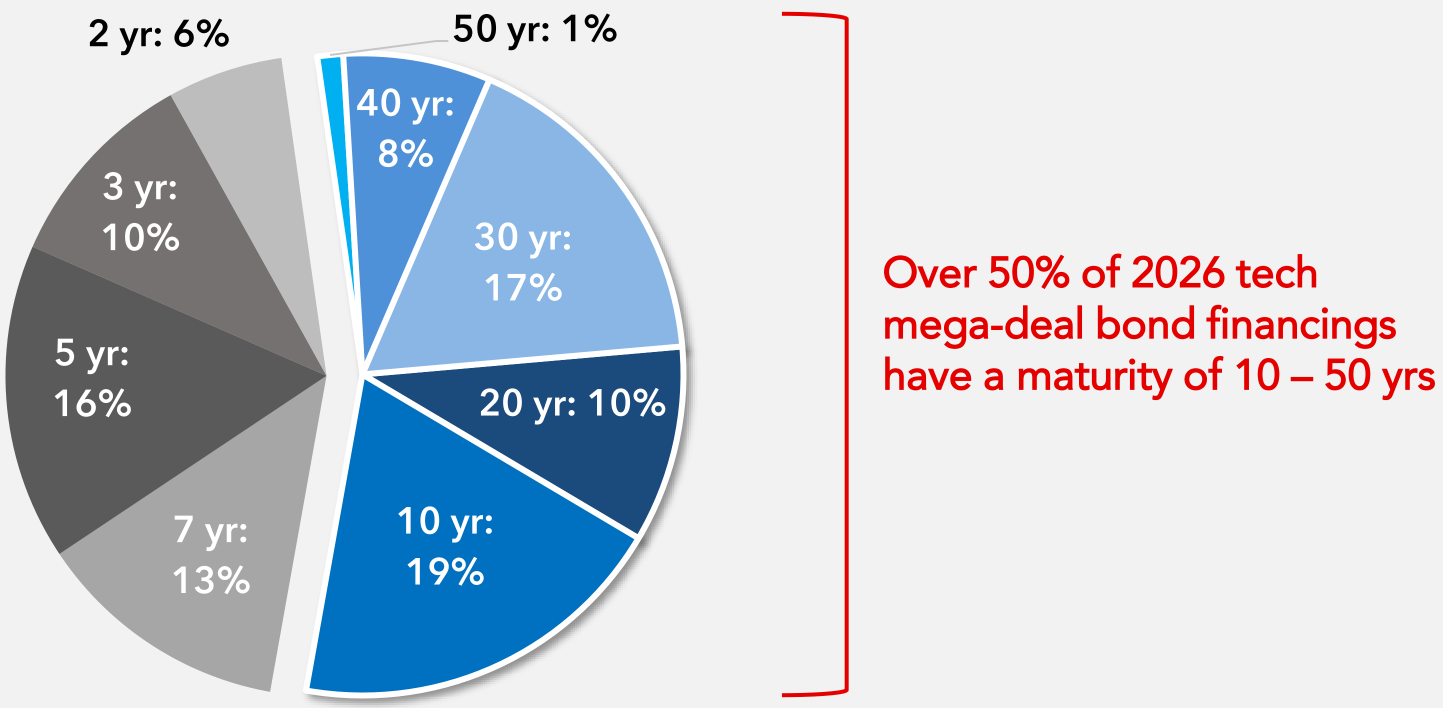


Source: (1) CFR. Data as of August 26, 2026.

AI Scale Capital Reshapes Longer Duration Demand Dynamics

The rapid pivot by large cap hyperscalers from cash-funded operations to issuing long-duration debt (i.e., 10 to 100 years) has fundamentally altered the supply-demand balance at the long end of the yield curve, creating direct structural competition between the strong balance sheets of big tech and long-dated US Treasuries.

2026 average tenor for IG hyperscaler financings, % of total



Source: (1) Bloomberg. Data as of August 26, 2026. Based on 2026 IG issuance from Amazon, SpaceX, Nvidia, Meta, Salesforce, Oracle, & Alphabet. Numbers may not add up to 100% due to rounding.

Observations on AI Debt Financed Scale Capital

1. **Megadeal sizes redefined** from $10bn to $30-40bn

2. **Longer tenor curves**, aligning long duration infrastructure economics

3. **Robust technical dynamics**, as evidenced by spreads, new issue premia and over-subscription levels

4. Tech as **core index pillar** and structural driver of credit cycles

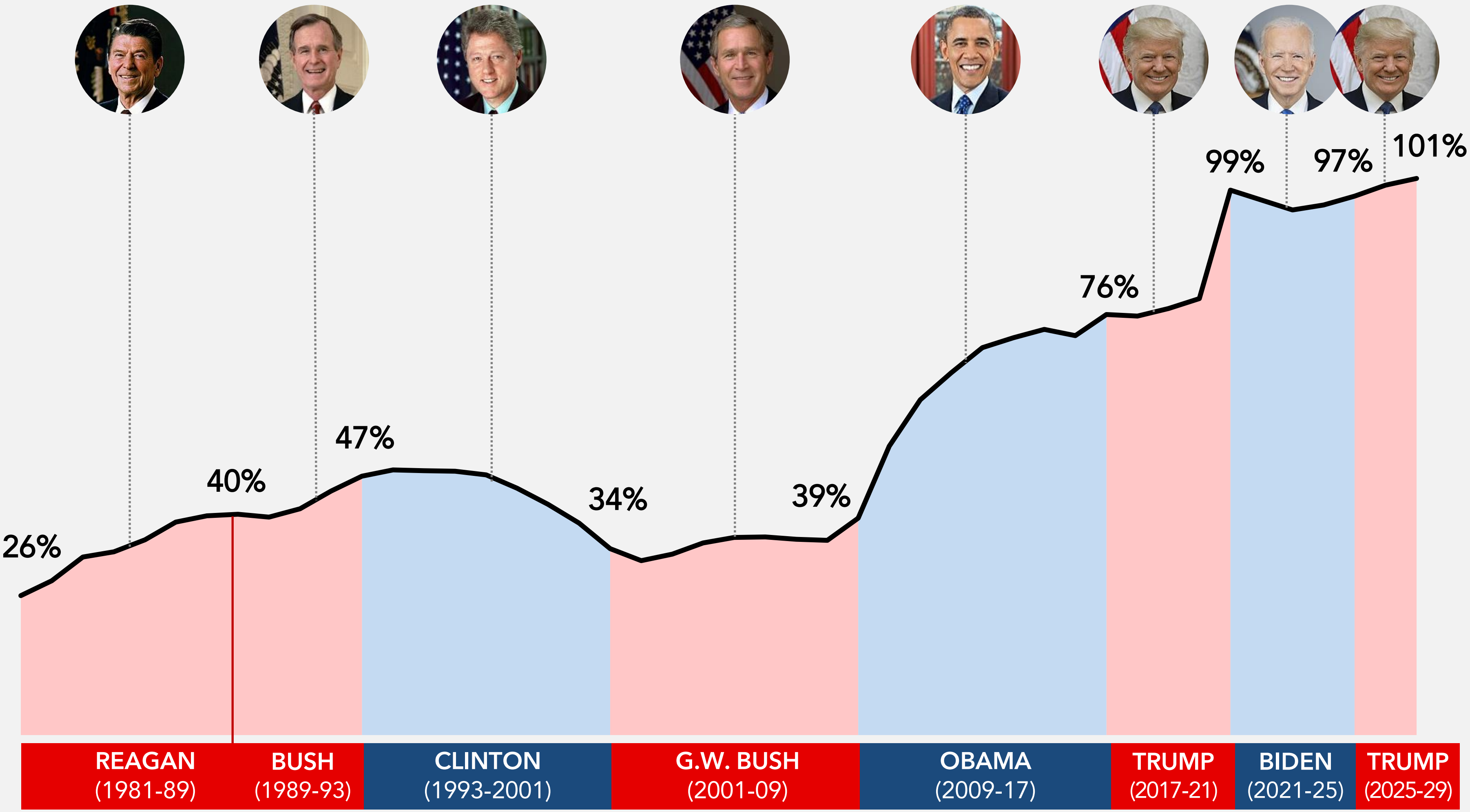
5. **Blended execution strategies** across multiple markets & currencies, public & private

6. 10 year UST yields becoming **the de facto discount rate** on future AI revenue

7 Losing Patience with Fiscal Profligacy

US Gov Debt Above $40 Trillion Threshold

Federal debt held by the public, % of GDP

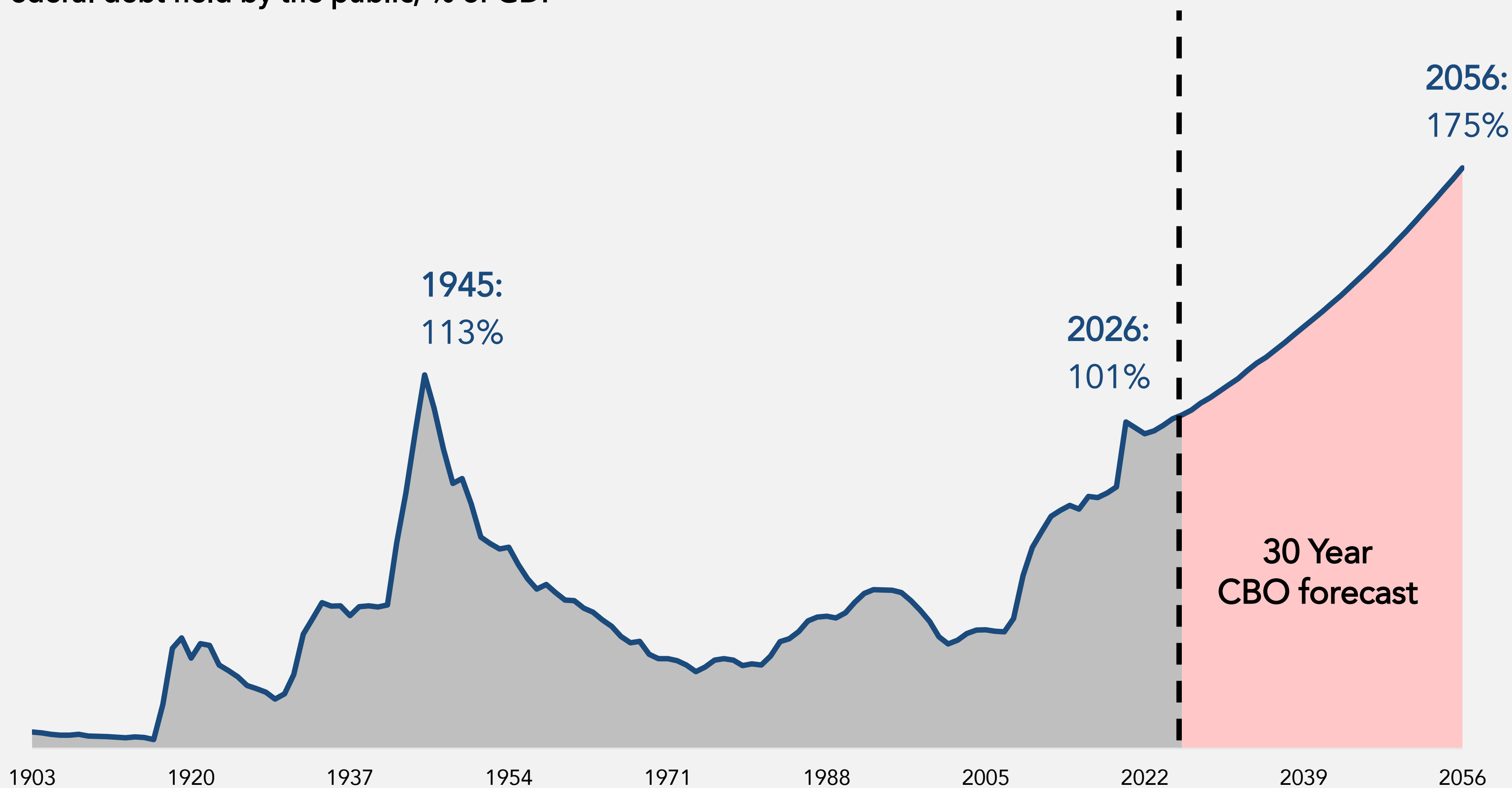


Source: (1) Congressional Budget Office. Long-Term Budget Projections (Feb 2026). Historical Data on federal Debt Held by the Public. 2026 federal debt is CBO estimate.

Federal Debt to Reach 175% of GDP in 2056

Over the six years since COVID began, US Government debt/GDP increased from approximately 75% to over 100% today, a milestone previously not expected to be reached for a decade. Current CBO projections have US debt rising to 120% in 2036, and 175% in 2056.

Federal debt held by the public, % of GDP

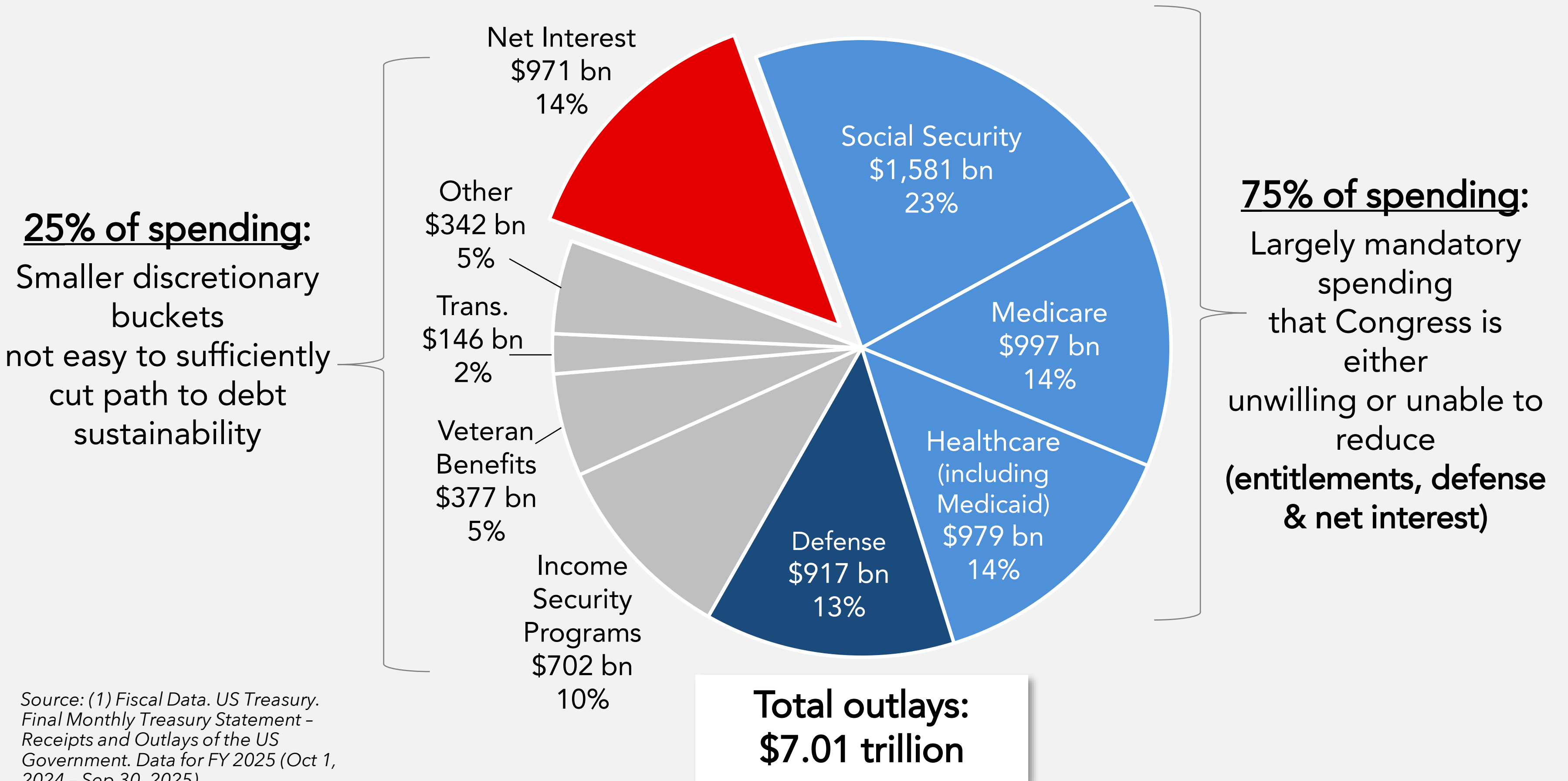


Source: (1) Congressional Budget Office. Long-Term Budget Projections (Feb 2026). Historical Data on federal Debt Held by the Public.

Breaking Down US Government Spending

The three largest categories of "mandatory US spending" – Social Security, Medicare and Medicaid – accounted for 50% of US Government outlays in 2025. Defense spending, which Congress is highly unlikely to reduce, accounts for an additional 13%. In the years ahead, net interest expense on US Gov't debt will rise to become the US government's largest individual outlay.

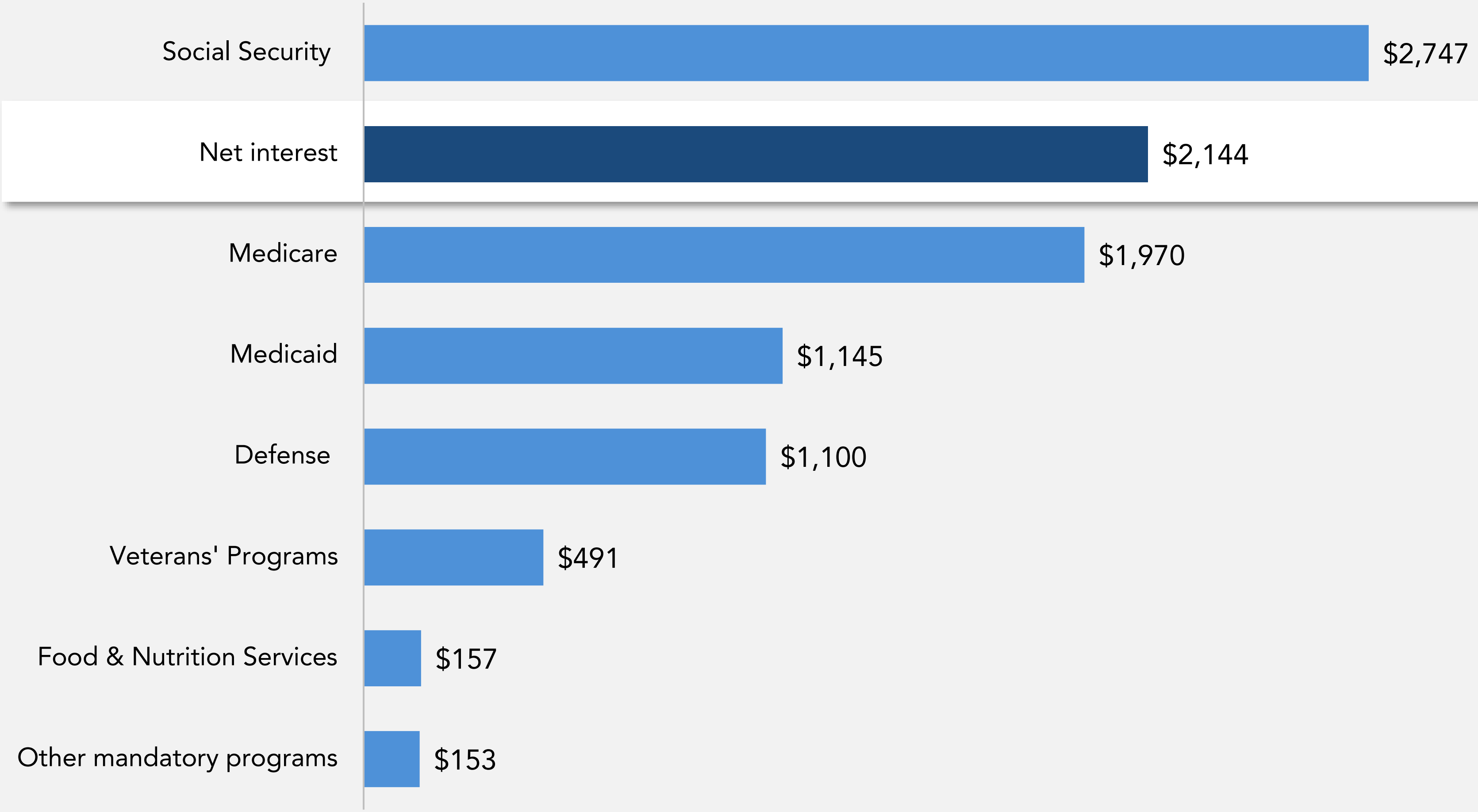
US federal budget in fiscal year 2025, USD bn



Source: (1) Fiscal Data. US Treasury. Final Monthly Treasury Statement – Receipts and Outlays of the US Government. Data for FY 2025 (Oct 1, 2024 – Sep 30, 2025).

Net Interest Will Exceed Key Programs in 2036

Cost of key programs, USD bn (2036)

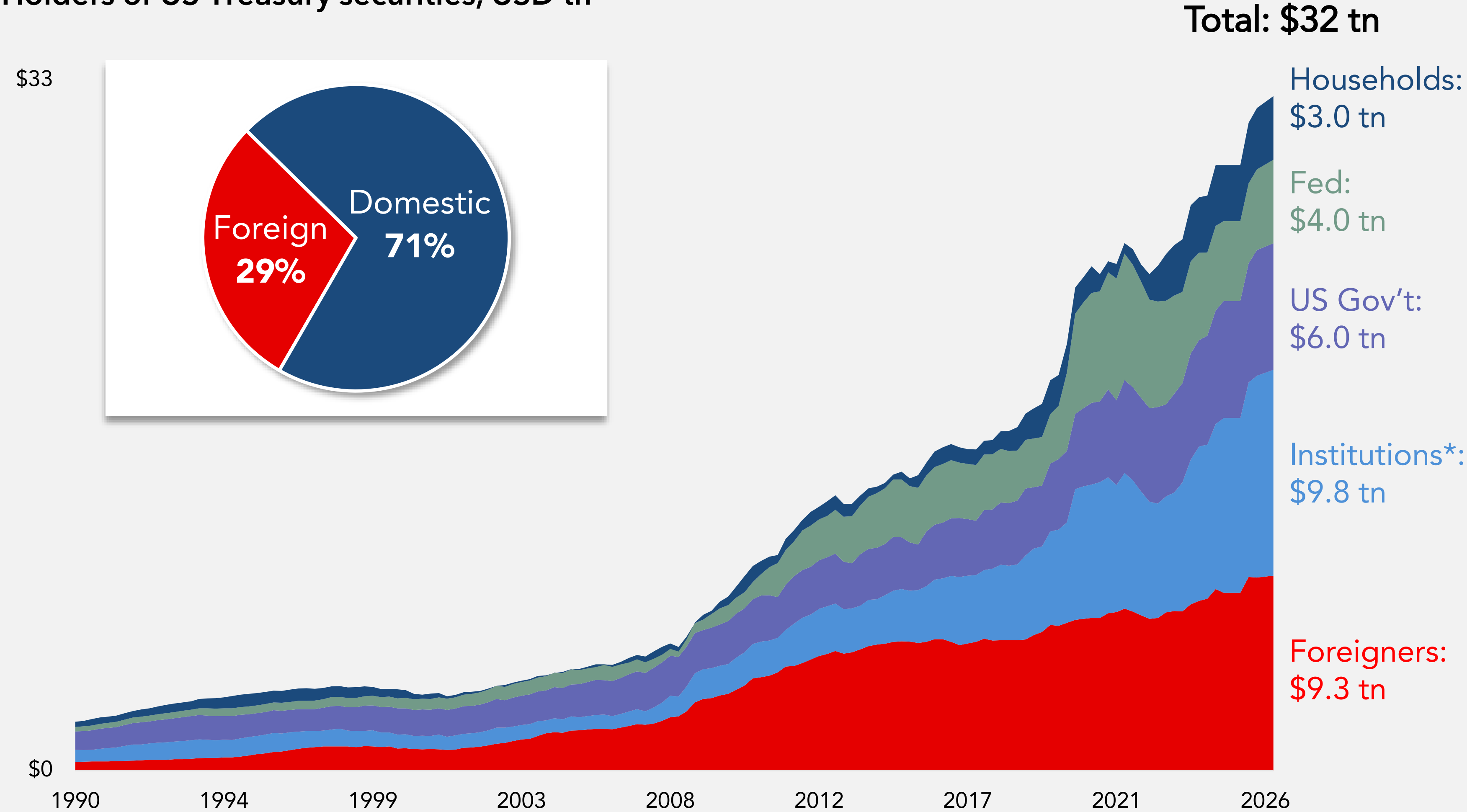


Source: (1) CBO, "10-year Budget Projections" (February 2026).

8 Evolving & More Price-Sensitive UST Buyer Base

Structural Shifts in $32 Trillion UST Market

Holders of US Treasury securities, USD tn



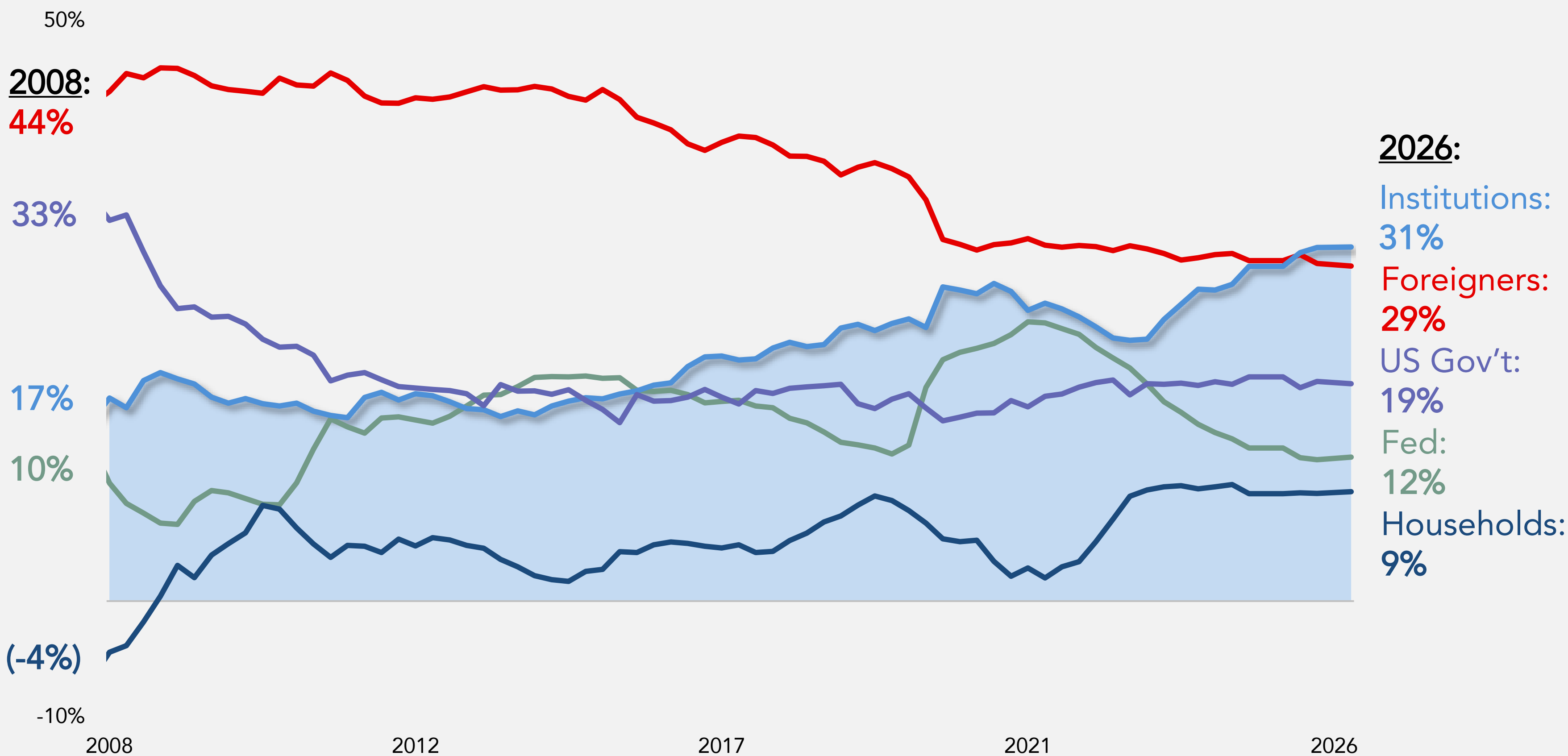
**Institutional ownership includes banks, mutual, closed-end & ETF funds, pensions, insurance, ABS issuers & broker-dealers*

Source: (1) Federal Reserve. Data through Q1 2026. Financial Accounts of the United States, L.210 Treasury Securities. Gov't includes Federal, State & local governments, retirement funds and gov't sponsored enterprises. Total represents total marketable US Treasury debt.

More Price-Sensitive Institutional Buyers

As the Fed and foreign investors reduce their ownership of US Treasuries (relative to prior decades), more price-sensitive institutional funds and levered buyers have become more important in driving UST prices.

Holdings of Treasuries as a % of total Treasury debt outstanding

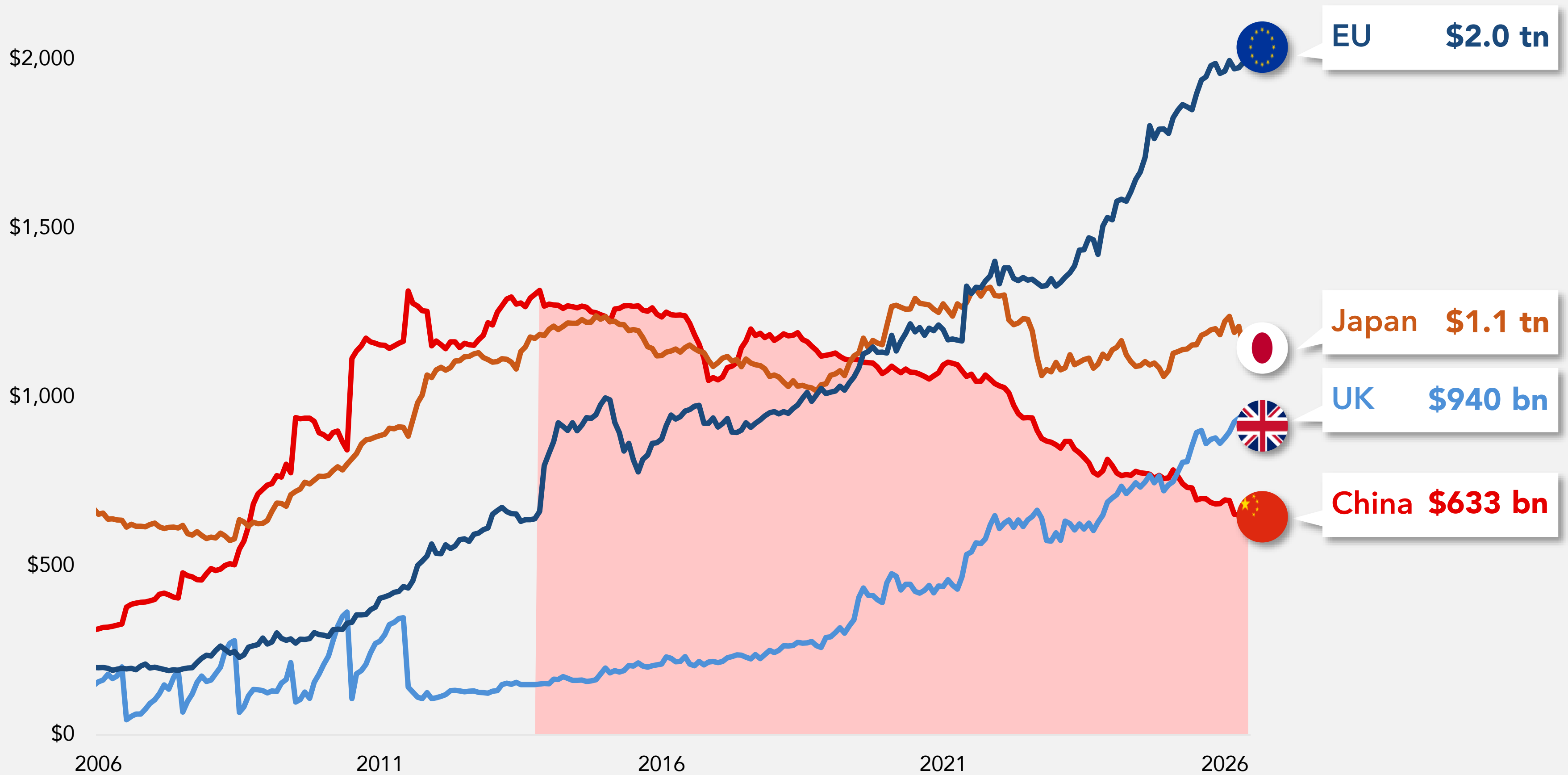


Source: (1) Federal Reserve. Data as of Q1 2026. Financial Accounts of the United States, L.210 Treasury Securities. US Government includes Federal, State & local.

Evolution in Overseas Ownership of USTs

Chinese holdings of USTs have declined precipitously over the prior decade, while Japanese ownership has declined over the last year. Eurozone and UK ownership has risen over the same period.

Foreign holders of US Treasury securities, USD bn

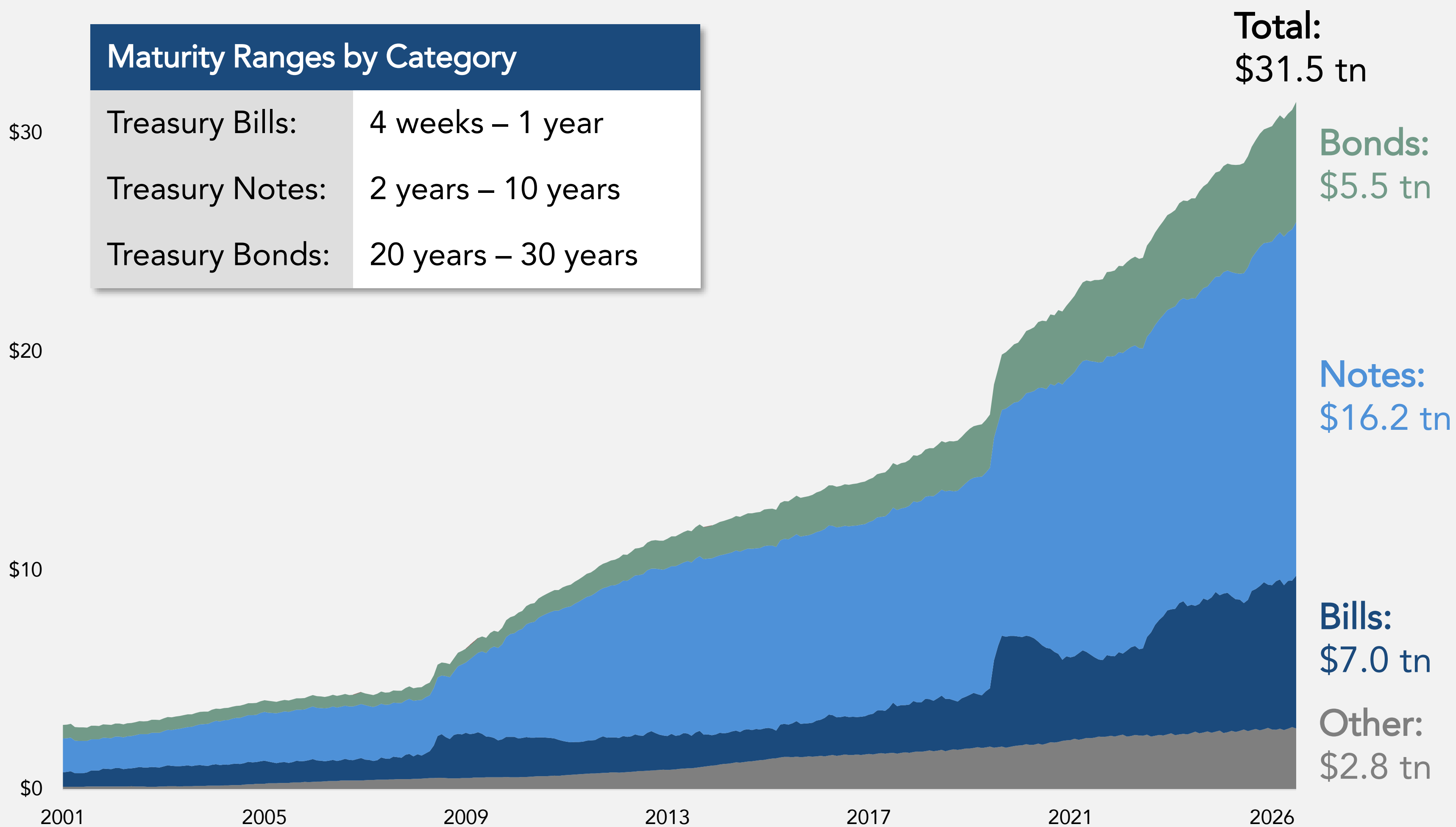


Source: (1) Bloomberg. FRED. Data is latest through June 2026.

More Reliance on Shorter Term Issuance

US Treasury debt outstanding, USD tn

Maturity Ranges by Category	
Treasury Bills:	4 weeks – 1 year
Treasury Notes:	2 years – 10 years
Treasury Bonds:	20 years – 30 years

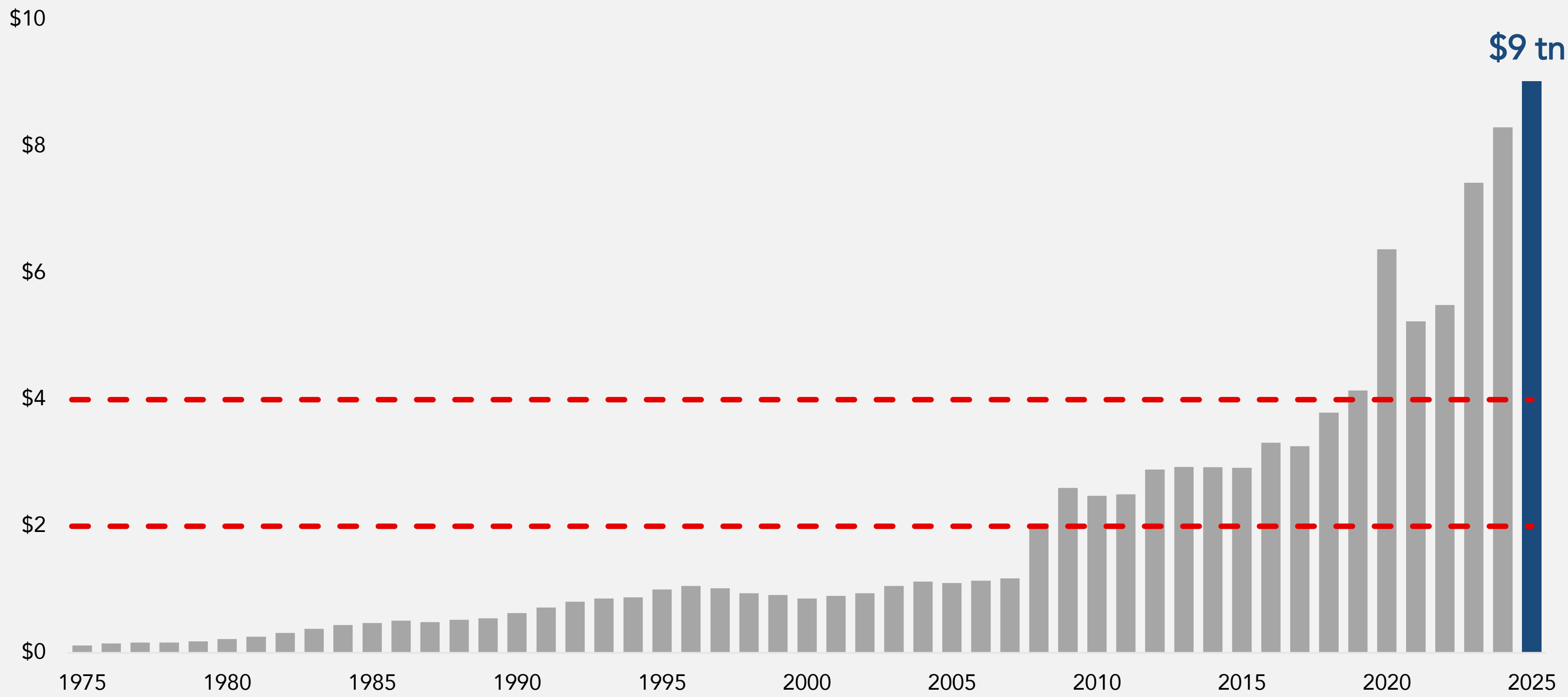


Source: (1-2) US Treasury. Total marketable debt outstanding. Data available through July 31, 2026.

More Reliance on Shorter Term Issuance

The US Treasury's funding profile has become remarkably front-loaded, with over $9 trillion of marketable securities maturing per annum (~30% of US GDP). Consequently, the US Treasury has become: **(1)** more rate sensitive, vulnerable to rapid market repricing; **(2)** more auction and liquidity-dependent given sharply higher annual issuance; and **(3)** more reliant on more price-sensitive short-duration investors such as MMFs, hedge funds and other entities.

Privately held marketable US Treasury debt maturing within one year, USD tn



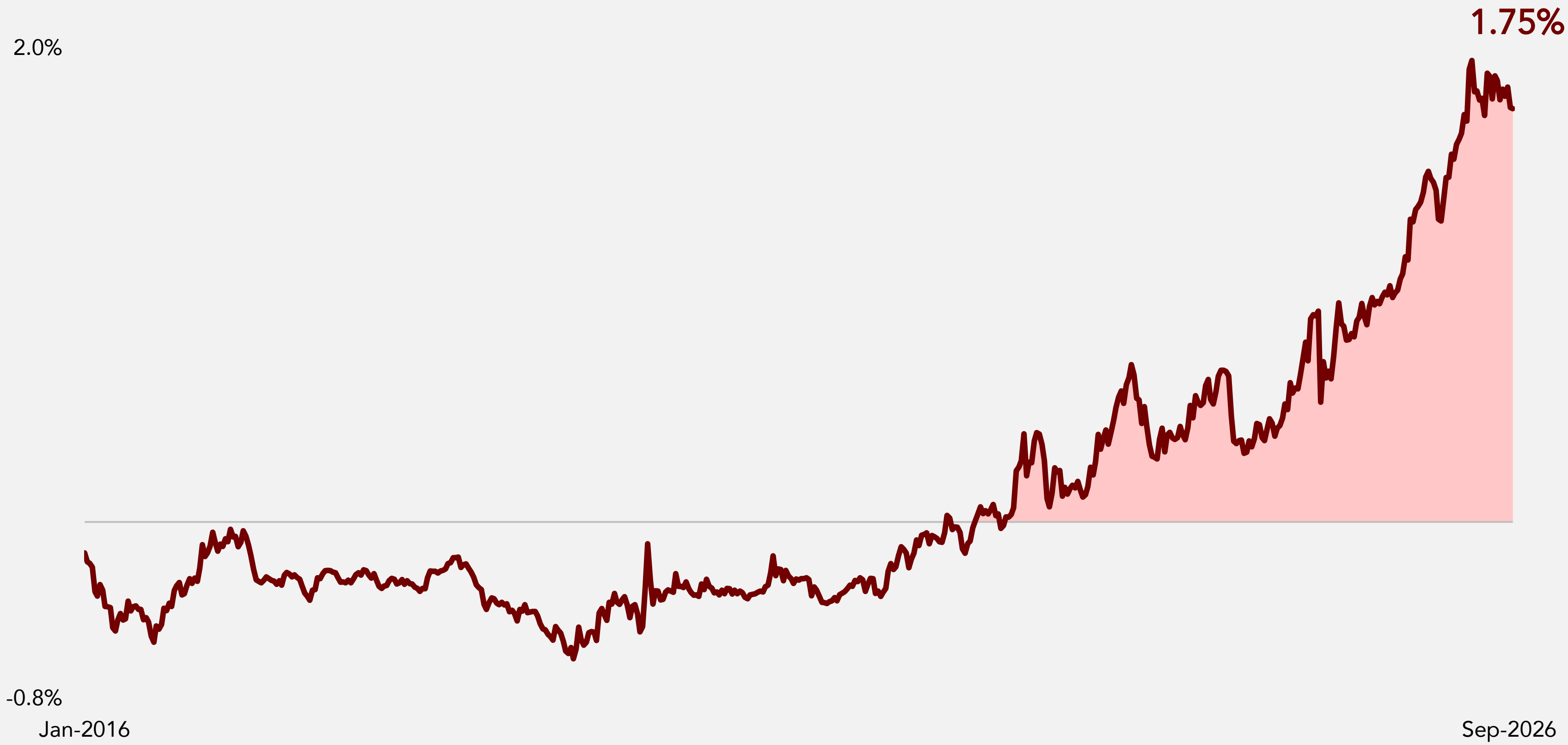
Source: (1) US Treasury. Data through 2025, based on fiscal year-end data.

9 Weakening of the Japanese Duration Anchor

Structural Paradigm Shift in Japanese Fixed Income

The rise in 10-year Japanese Government Bond (JGB) term premium represents a structural paradigm shift in Japanese fixed income with implications for global markets. Key driving factors include: (1) BOJ quantitative tightening (scale back in JGB purchases); (2) Formal BOJ exit from yield curve control (YCC) policy; (3) structurally higher post-COVID headline and wage inflation; and (4) fiscal sustainability and JGB supply concerns.

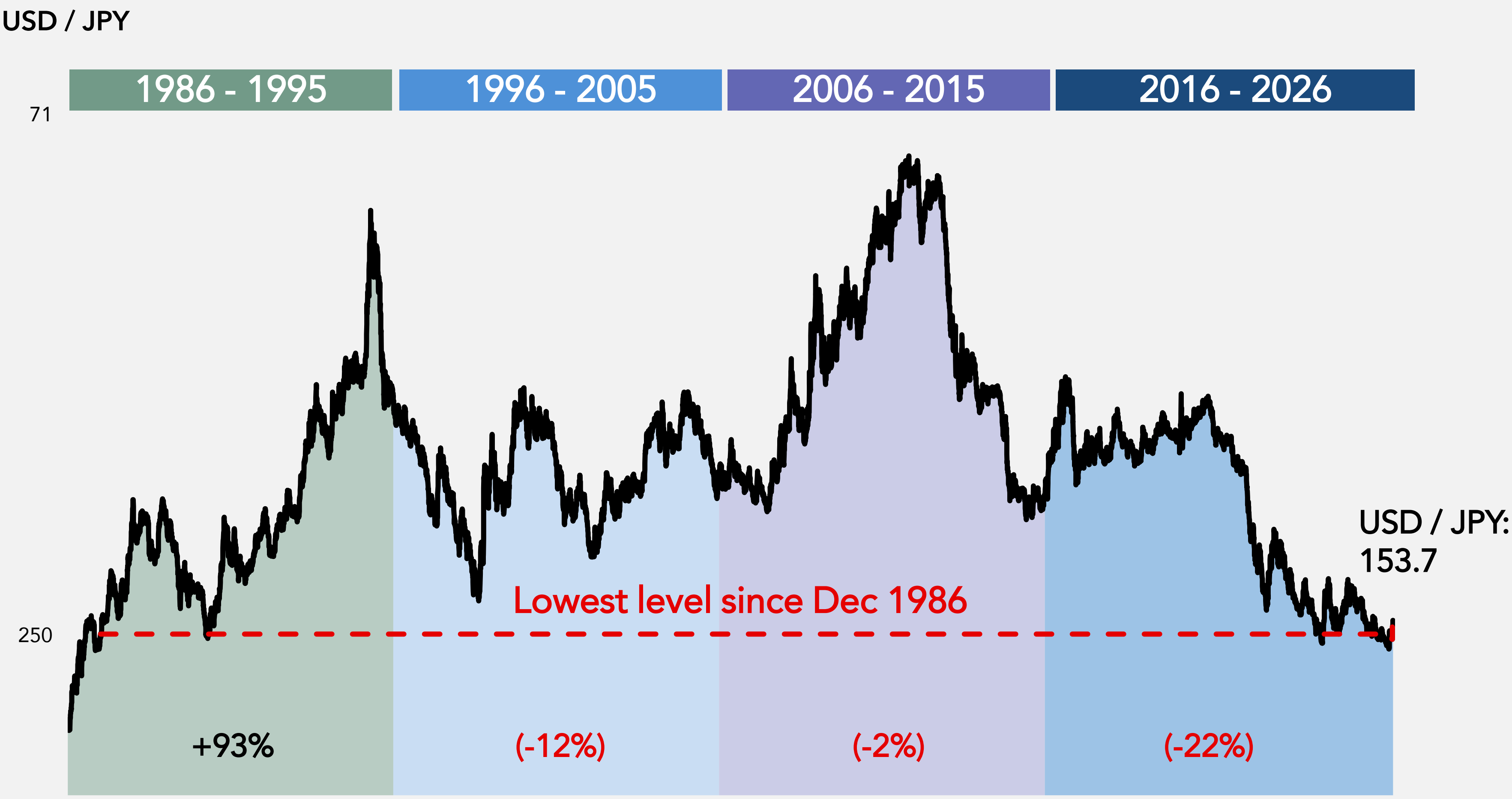
10-year JGB term premium



Source: (1) Bloomberg. Data as of September 11, 2026.

Yen Drops to Lowest Level Since 1986

Driven by entrenched policy and yield differentials, USD/JPY's drop to the low 160s marks a four-decade low with Yen trading at its weakest level since December 1986.



Source: (1) Bloomberg. Data as of September 11, 2026. Appreciation & depreciation data is JPY vs. USD. Graph shows USD vs. JPY, inverted.

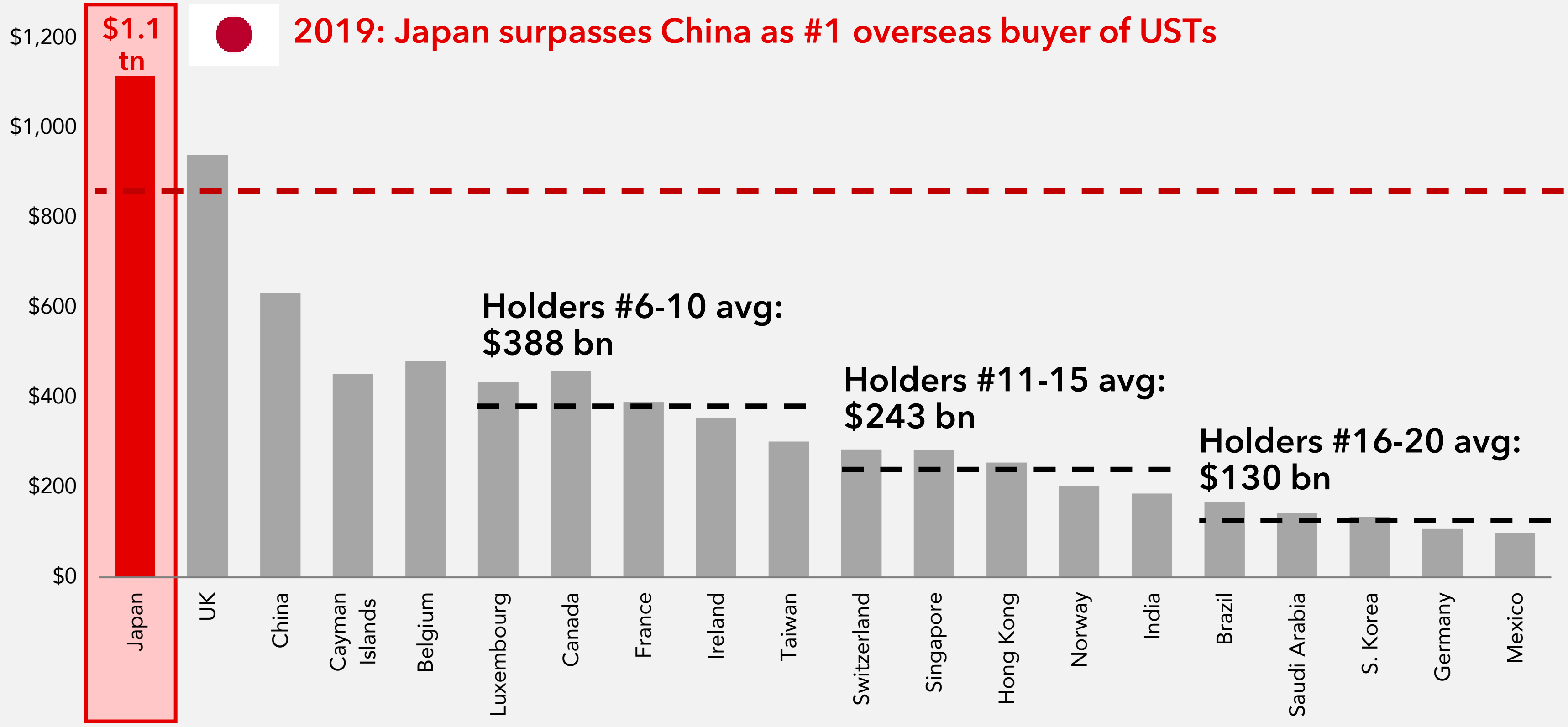
Implications of Yen Weakness for Global Markets

1. Super-charges an **over-crowded global carry trade** (G10 & EMFX, higher beta equities such as tech, EM & HY credit, structured & leveraged risk assets)
2. **Heightened MoF / BoJ policy & intervention risk**, disorderly carry unwind & forced deleveraging across global risk assets
3. Reinforces US Dollar strength, **tightening financial conditions** for dollar-exposed economies
4. Higher FX-hedging costs can adversely impact **demand for US Treasuries**
5. Increased **volatility & correlation shifts in G10 FX**; Asian currency contagion
6. Stronger Japanese export earnings driving **repatriation flows into Japanese equities** (at expense of DM equities)
7. Nudges **EM central banks** in more hawkish policy direction
8. BOJ policy credibility, domestic inflation pressure, **disorderly moves in critically important JGB market**

Japan is #1 Overseas Buyer of US Treasuries

Japan is the largest non-US holder of US Treasury securities, with a position of $1.1 trillion that plays a structurally core role in funding the UST curve. The combination of Yen weakness, yield differentials and regulatory treatment make Japan's holdings a key macro lever: large enough that shifts in Japanese demand or policy can matter at the margin for US long-end rates.

Foreign holders of US Treasury securities , USD bn

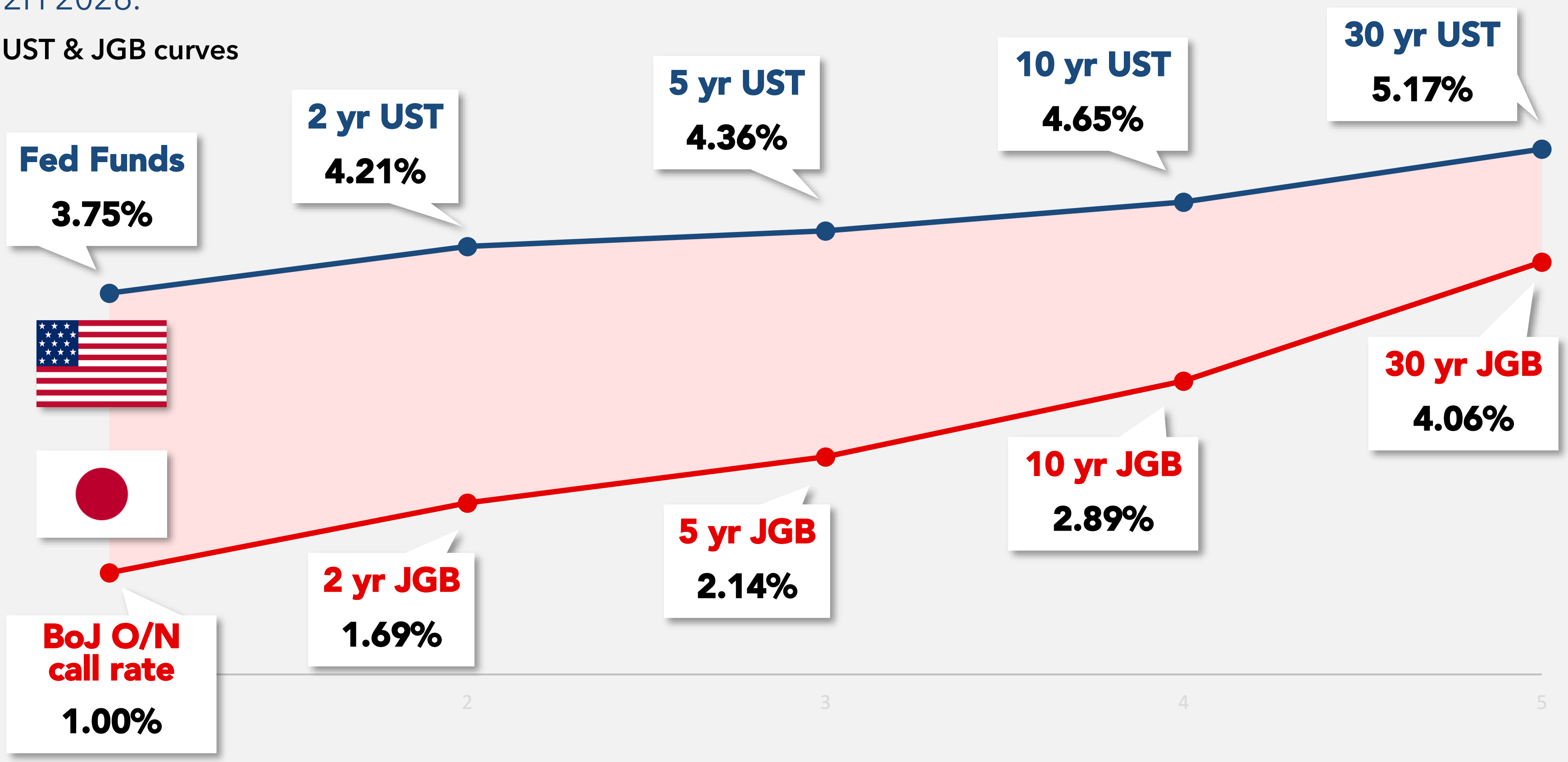


Source: (1) US Department of the Treasury. Data is latest available – June 2026. Reuters "China slips away from Treasuries but sticks with dollar bonds".

Wide & Persistent UST-JGB Rate Differentials

Among numerous drivers of Yen's weakness, rate differentials are a core structural problem. Wide interest rate and yield gaps between Japan and the US continue to fuel carry trades – borrow cheaply in Yen, invest in higher-yielding assets elsewhere – that have driven persistent outflows. Despite large Ministry of Finance interventions in April-May, and a BOJ tightening in June that moved rates to the highest level since the mid-1990s, Yen weakness remains a core global macro theme going into the 2H 2026.

UST & JGB curves



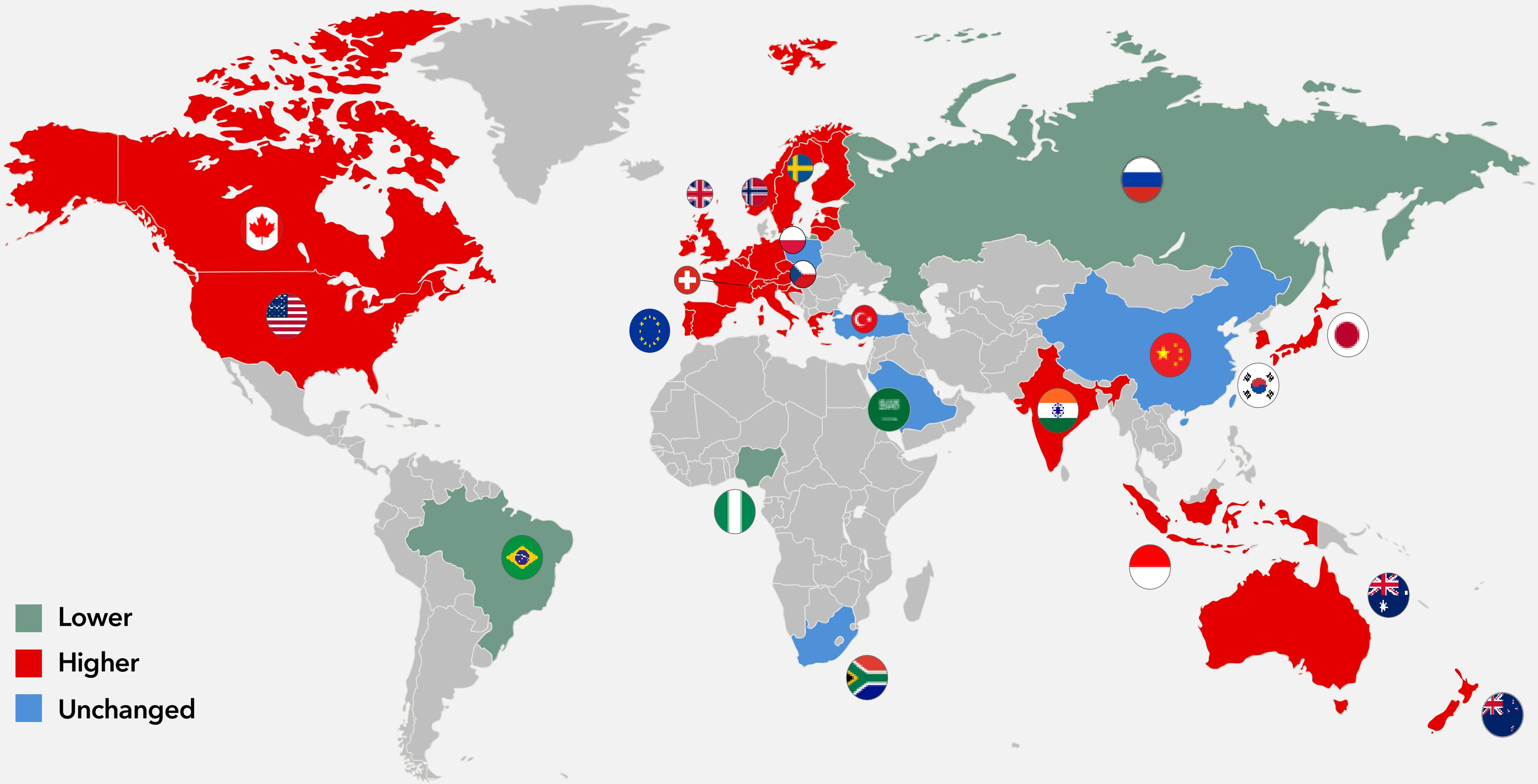
Source: (1) Bloomberg. Data as of August 26, 2026.


10
Asynchronous
Pivot in Global
Monetary Policy

Asynchronous Pivot in Global Monetary Policy

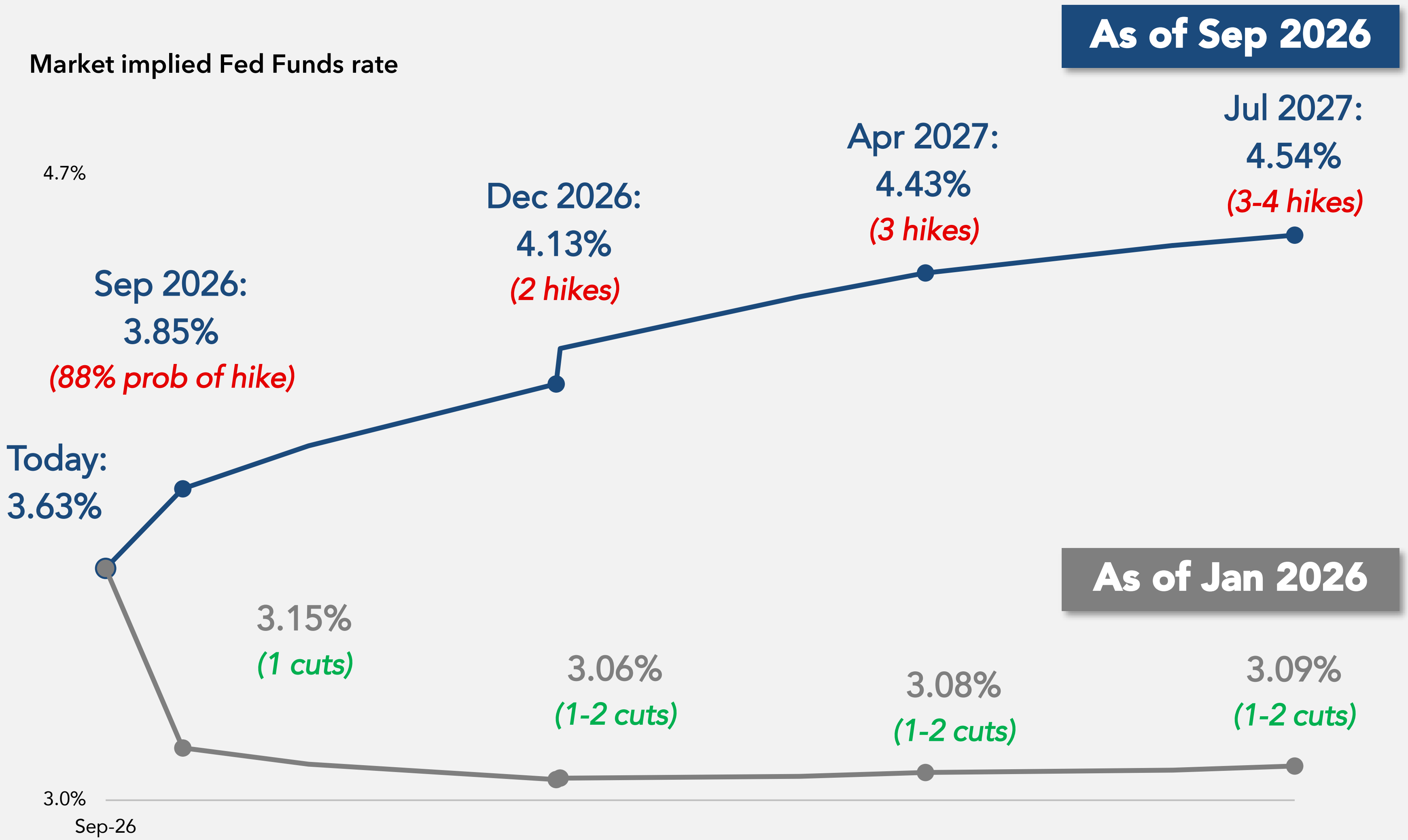
Just six months ago, more than 70 central banks had been actively engaged in synchronized global policy easing, with only Australia and Japan expected to modestly increase rates in 2026.

Expectations for YE 2026 central bank policy rates



Source: (1) Bloomberg. Data is based on economic forecasts, market-implied rates, and global central banks. Data as of August 2026.

More Hawkish Fed Policy Pivot

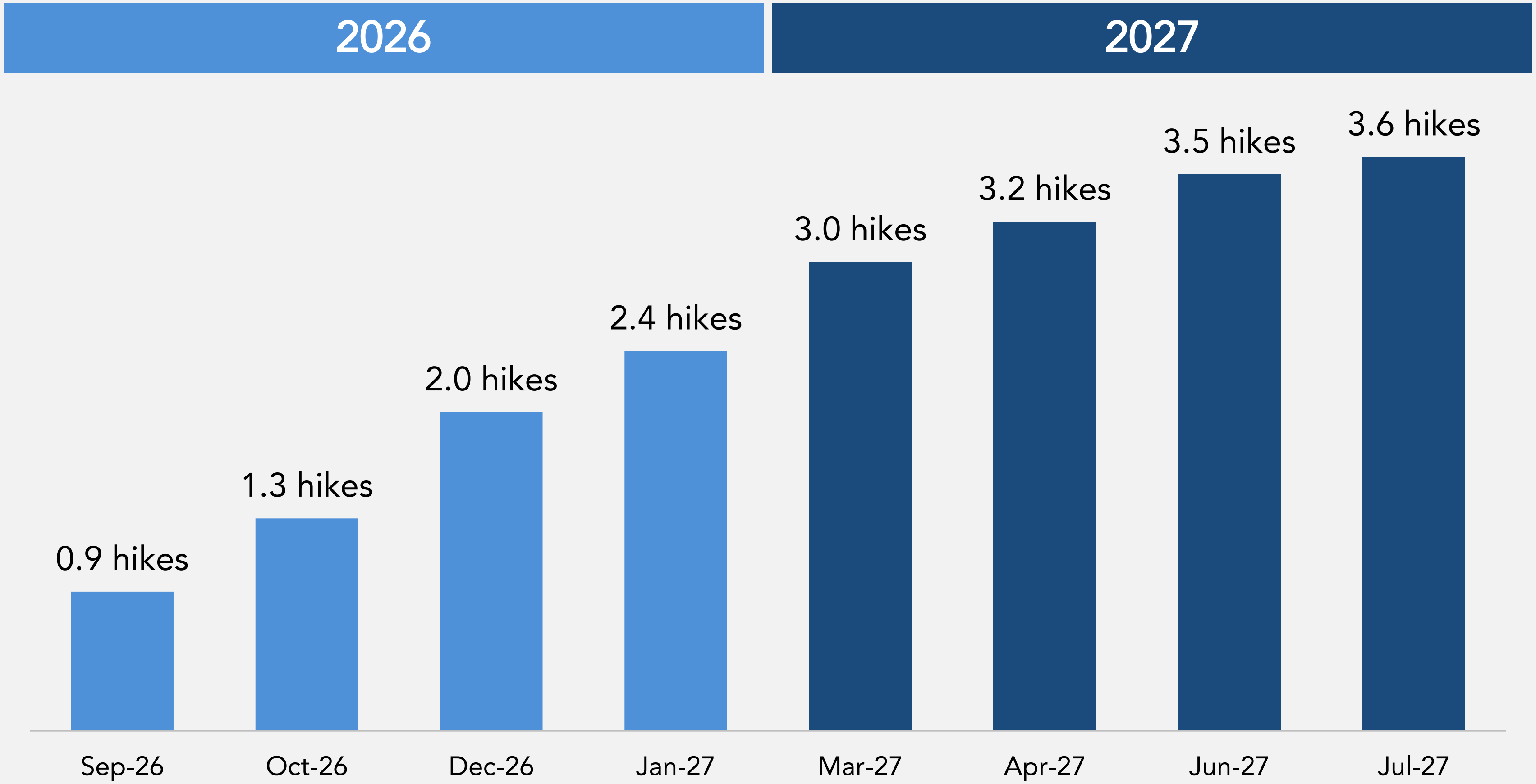


Source: (1) Bloomberg. Data as of September 11, 2026. First data point is Fed Funds effective rate. Data for grey line is as of January 2, 2026.

Markets Pricing Modest Fed Tightening

The market is now pricing in 2 **rate hikes** by year-end 2026, a reversal from the 2-3 **rate cuts** expected in January 2026.

Market implied Fed Funds rate moves, # of hikes



Source: (1) Bloomberg. Data as of September 11, 2026.


Appendix

2026 Global Growth Revised Lower

GDP growth forecasts, y/y (January 2026 vs. September 2026)

Region	Jan 2026	Sep 2026	
North America			
US	2.5%	**2.2%**	↓
Mexico	1.4%	**1.2%**	↓
Canada	0.9%	**1.0%**	↑
Eurozone	0.9%	**1.0%**	↑
Spain	2.4%	**2.7%**	↑
Germany	0.7%	**1.0%**	↑
Italy	0.6%	**0.9%**	↑
France	0.8%	**0.5%**	↓
Other Europe			
Poland	3.8%	**3.4%**	↓
Sweden	2.4%	**2.4%**	—
Norway	2.2%	**1.4%**	↓
Switzerland	0.9%	**1.2%**	↑
UK	1.0%	**1.0%**	—
Russia	(-0.1%)	**0.7%**	↑
LatAm			
Colombia	3.0%	**3.0%**	—
Argentina	2.3%	**2.2%**	↓
Brazil	1.6%	**2.0%**	↑
Chile	2.2%	**0.4%**	↓

Region	Jan 2026	Sep 2026	
MENA			
Iran	2.1%	**?**	↓
Israel	4.2%	**4.8%**	↑
Saudi Arabia	4.3%	**(-2.4%)**	↓
UAE	4.5%	**(-1.5%)**	↓
Qatar	6.4%	**(-22.1%)**	↓
Kuwait	3.4%	**(-21.2%)**	↓
Oman	2.3%	**2.3%**	—
Bahrain	3.0%	**(-16.0%)**	↓
Egypt	4.9%	**4.6%**	↓
Türkiye	3.0%	**2.5%**	↓
APAC			
India	6.5%	**7.6%**	↑
Singapore	3.1%	**5.2%**	↑
Indonesia	5.1%	**5.1%**	—
China	4.5%	**4.7%**	↑
South Korea	2.1%	**3.4%**	↑
Philippines	5.4%	**3.0%**	↓
Thailand	1.5%	**2.1%**	↑
Australia	2.5%	**2.0%**	↓
Japan	0.7%	**0.5%**	↓

Source: (1) Oxford Economics. Data as of September 11, 2026. Bahrain, Iran, Israel Jan 2026 forecast is Bloomberg consensus.

Global Currency Forecasts

Currency pair	Spot (Sep 11)	Q3 2026	Q4 2026	Q1 2027	Q2 2027
EUR / USD	**1.16**	1.15	1.18	1.20	1.20
GBP / USD	**1.35**	1.35	1.36	1.38	1.37
USD / JPY	**154**	158	156	154	152
USD / CNY	**6.71**	6.70	6.65	6.60	6.60
AUD / USD	**0.72**	0.71	0.72	0.73	0.74
NZD / USD	**0.58**	0.58	0.59	0.60	0.61
USD / CAD	**1.39**	1.41	1.39	1.38	1.36
USD / NOK	**9.29**	9.48	9.32	9.25	9.25
USD / SEK	**9.68**	9.74	9.58	9.25	9.08
USD / CHF	**0.82**	0.81	0.79	0.77	0.76
USD / MXN	**16.97**	17.10	17.00	16.85	16.50
USD / BRL	**5.10**	5.25	5.15	5.00	4.90
USD / CLP	**942**	930	915	880	870

Source: (1) Bloomberg. MUFG Foreign Exchange Outlook – September 2026 (Derek Halpenny). Data as of September 11, 2026.

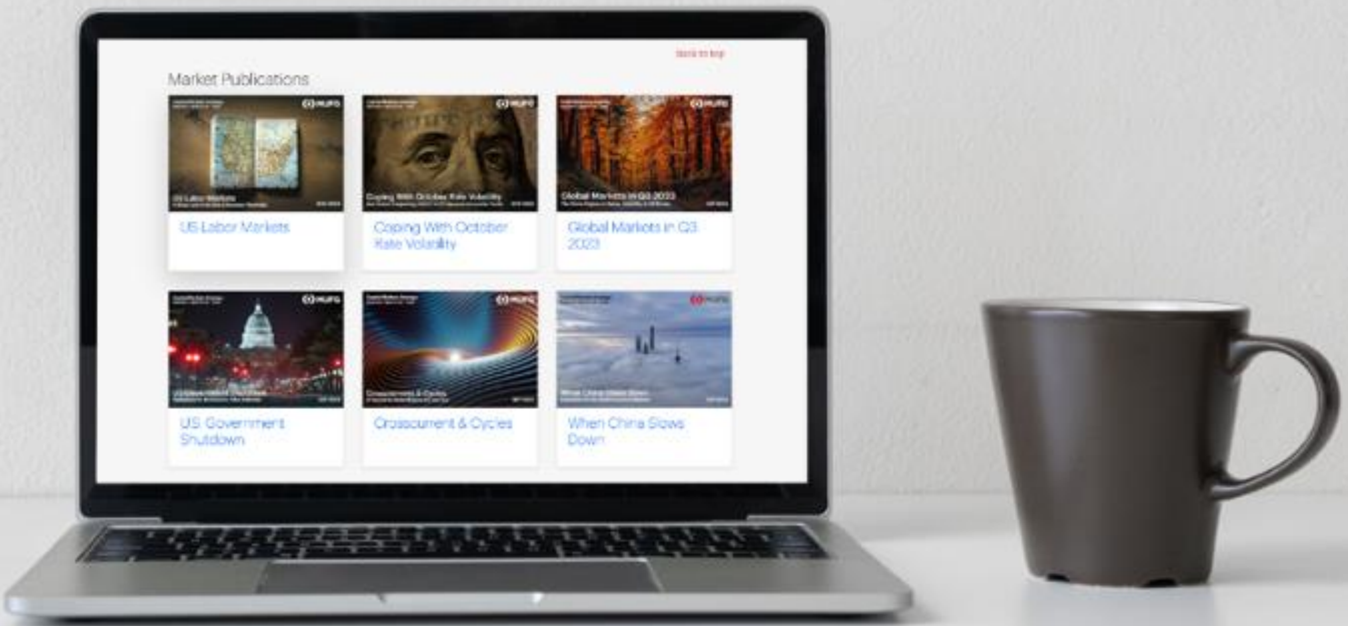
MUFG Global Rates Forecasts

	Spot (Sep 11)	Q3 2026		Q4 2026		Q1 2027		Q2 2027	
		MUFG	Consensus	MUFG	Consensus	MUFG	Consensus	MUFG	Consensus
Fed Funds	3.75%	3.75%	3.86%	3.75%	3.91%	3.50%	3.85%	3.25%	3.72%
2 yr UST	4.63%	4.13%	4.25%	3.88%	4.13%	3.63%	4.02%	3.50%	3.90%
5 yr UST	4.78%	4.25%	4.37%	4.13%	4.26%	3.88%	4.17%	3.75%	4.07%
10 yr UST	4.97%	**4.50%**	**4.69%**	**4.38%**	**4.61%**	**4.25%**	**4.53%**	**4.13%**	**4.46%**
30 yr UST	5.35%	5.00%	5.15%	4.88%	5.12%	4.63%	5.04%	4.50%	4.98%

Source: (1) MUFG Global Macro Research (George Goncalves). Bloomberg. Data as of September 11, 2026. Fed funds is upper bound.

LEARN MORE

Click or scan the QR code to view past reports, policy notes and more.



About the Authors

Tom Joyce
Managing Director
Capital Markets Strategist
New York, NY

Tom.Joyce@mufgsecurities.com
(212) 405-7472

Role

Tom Joyce is a Managing Director and Capital Markets Strategist within MUFG's global capital markets and investment banking business. Based in New York, Tom heads a team that creates customized analytical content for multi-national S&P 500 companies. His team provides in depth analysis on the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Tom has over 30 years of Investment Banking experience in New York, London, Hong Kong, and San Francisco. Tom created and built the Capital Markets Strategy role, advising corporate C-Suite executives (Boards, CEOs, CFOs, and Treasurers) on the pervasive macro forces driving markets. Tom also presents at dozens of corporate events each year including Board meetings, CEO ExCo sessions, CFO and Treasury off-sites, corporate leadership events and conferences.

Education

Tom's educational background includes a year of study at Oxford University from 1991 - 1992, a Bachelor of Arts in Political Science from Holy Cross College in 1993, and a MBA from Kellogg Business School, Northwestern University in 2000.

Personal

Tom resides in New Canaan, CT with his wife and four sons, where he previously served on the Board of Trustees of the New Canaan Library. Tom also serves on the President's Council of Holy Cross College.

About the Authors

Stephanie Kendal

Director
Capital Markets Strategist
New York, NY

Stephanie.Kendal@mufgsecurities.com
(212) 405-7443

Role

Stephanie Kendal is a Director in MUFG's Capital Markets Strategy group within the global capital markets and investment banking business. The team provides market based content for corporate clients to assist in strategic decision making. Focus areas include the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Stephanie has spent nearly 10 years as a Capital Markets Strategist. She is an active member of the University of Michigan recruiting team and is focused on the diversity recruiting effort at MUFG. Stephanie is also a part of MUFG's DEI, Culture & Philanthropy (DCP) Council.

Education

Stephanie graduated with honors from the University of Michigan's Ross School of Business with a BBA .

Personal

Stephanie is involved in NYC's iMentor program, mentoring high school students with their journey to college graduation. She also volunteers at Experience Camps, a free summer camp program for grieving children, as the associate program director.

Angela Sun

Associate
Capital Markets Strategist
New York, NY

Angela.Sun@mufgsecurities.com
(212) 405-6952

Role

Angela Sun is an Associate in MUFG's Capital Markets Strategy group within the global capital markets and investment banking business. The team provides market based content for corporate clients to assist in strategic decision making. Focus areas include the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

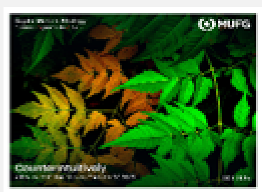
Experience

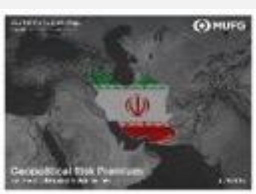
Angela previously interned at MUFG working in Capital Markets within the Equity Capital Markets and Leveraged Finance divisions. She is also an active member of the Carnegie Mellon University recruiting team.

Education

Angela graduated with honors from Carnegie Mellon University's Tepper School of Business with a BS in Business Administration with an additional major in Statistics and a minor in Media Design. She was a member of Alpha Kappa Psi business fraternity and the Undergraduate Entrepreneurship Association.


Click or scan the QR code
to view past reports,
policy notes and more.



Disclaimer

The information herein provided is for information purposes only, and is not to be used or considered as investment research, a proposal or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. Neither this nor any other communication prepared by MUFG Bank, Ltd. (“MUFG Bank”), MUFG Securities Americas Inc., or other MUFG group companies (collectively, "MUFG") is or should be construed as investment advice, a recommendation or proposal to enter into a particular transaction or pursue a particular strategy, or any statement as to the likelihood that a particular transaction or strategy will be effective in light of your business objectives or operations. Before entering into any particular transaction, you are advised to obtain such independent financial, legal, accounting and other advice as may be appropriate under the circumstances. In any event, any decision to enter into a transaction will be yours alone, not based on information prepared or provided by MUFG. MUFG hereby disclaims any responsibility to you concerning the characterization or identification of terms, conditions, and legal or accounting or other issues or risks that may arise in connection with any particular transaction or business strategy. MUFG is not acting and does not purport to act in any way as an advisor or in a fiduciary capacity.

Certain information contained in this presentation has been obtained or derived from third party sources and such information is believed to be correct and reliable but has not been independently verified. While MUFG believes that factual statements herein and any assumptions on which information herein are based, are in each case accurate, MUFG makes no representation or warranty regarding such accuracy and shall not be responsible for any inaccuracy in such statements or assumptions. Note that MUFG may have issued, and may in the future issue, other reports that are inconsistent with or that reach conclusions different from the information set forth herein. Such other reports, if any, reflect the different assumptions, views and/or analytical methods of the analysts who prepared them, and MUFG is under no obligation to ensure that such other reports are brought to your attention. Furthermore, the information may not be current due to, among other things, changes in the financial markets or economic environment and MUFG has no obligation to update any such information contained in this presentation. This presentation is not intended to forecast or predict future events. Past performance is not a guarantee or indication of future results. Any prices provided herein (other than those identified as being historical) are indicative only and do not represent firm quotes as to either price or size. This presentation has been prepared by members of our capital markets strategy team and does not necessarily represent the MUFG “house” view.

This presentation is proprietary to MUFG Securities and may not be quoted, circulated or otherwise referred to without our prior written consent. Notwithstanding this, MUFG Securities shall not be liable in any manner whatsoever for any consequences or loss (including but not limited to any direct, indirect or consequential loss, loss of profits and damages) arising from any reliance on or usage of this presentation and accepts no legal responsibility to any investor who directly or indirectly receives this material.

IRS Circular 230 Disclosure: MUFG Securities does not provide tax advice. Accordingly, any discussion of U.S. tax matters included herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone not affiliated with MUFG Securities of any of the matters addressed herein or for the purpose of avoiding U.S. tax-related penalties.

The MUFG logo and name is a service mark of Mitsubishi UFJ Financial Group, Inc., and may be used by it or other MUFG group companies for branding or marketing purposes. Group companies include MUFG Bank, MUFG Americas Capital Leasing & Finance, LLC, Mitsubishi UFJ Trust and Banking Corporation, MUFG Securities Americas Inc., and deposit activities performed by banking affiliates of MUFG, including, in the United States, MUFG Bank.

MUFG Bank is NOT a member of the FDIC and its deposit products are NOT insured by the FDIC or by any other government agency.