
As bonds waver, watch corporates

Market Commentary | October 9, 2026

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Key Observations

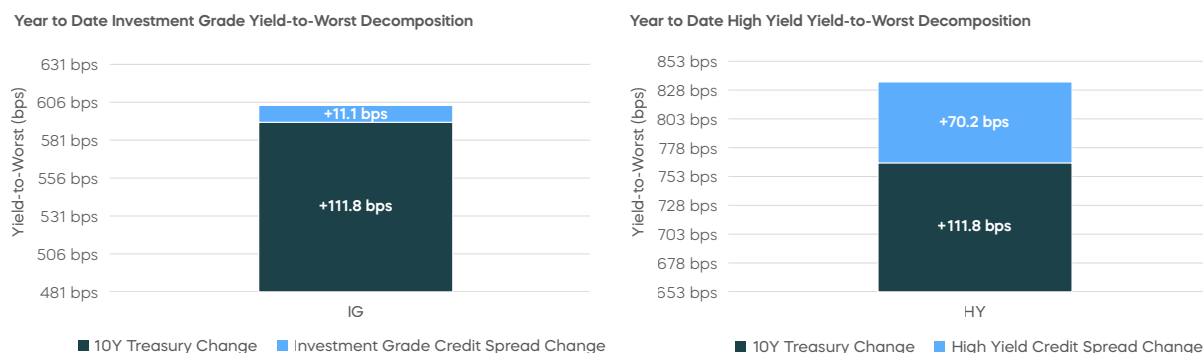
The bond market's sell-off continued in September. The U.S. 10-year Treasury Yield ended the month at 5.28%, an increase of over 50bps.¹ But the reasons behind rate shifts are worth exploring.

Rising rates may be the biggest market story of 2026, but the current cycle includes a particularly interesting aspect: Higher Treasury rates may dominate the headlines, but an important driver has emerged this cycle. Elevated levels of corporate debt issuance may be one of the key factors driving higher Treasury rates as corporate bonds compete with Treasuries for investors' attention.

Typically, a surge in corporate debt issuance would lead to wider corporate credit spreads—the yield over and above “risk free” Treasury rates—as issuers compete with one another. In the current environment, however, massive corporate issuance may actually be pushing the “risk free” Treasury rates higher while leaving credit spreads alone.

Chart of the Month

Rising Corporate Credit Yields Have Been Driven by Treasury Rates, Not Expanding Spreads



Source: Bloomberg, data from 12/31/25 through 9/30/26. Yield-to-Worst (YTW) is the lowest potential yield an investor can receive on a bond without the issuer defaulting. Yield-to-Worst Change Decomposition is a fixed-income attribution technique used to break down the total change in a bond's or bond portfolio's YTW over a specific period into its underlying market and structural drivers.

As the charts here show, for investment grade bonds, credit spreads have barely moved, with nearly the entire increase having come from higher Treasury yields. For high-yield bonds, more than half of the increase in corporate bond yields reflected higher Treasury benchmark yields.

What's the takeaway?

As we made the case in [last month's commentary](#), Treasury yields, while higher than they have been in some time, may still be in a “normal” range. Those elevated yields seem, so far, to have been accommodated by a relatively healthy economy and rising stock market. It's also true that, historically, credit spreads are typically negatively correlated with Treasury yields.

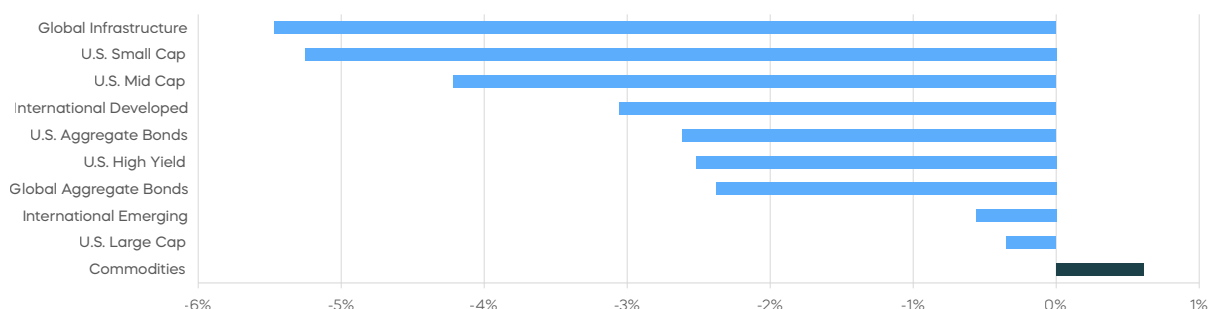
Regardless, evidence suggests that elevated corporate issuance has been a significant factor contributing to increased Treasury yields. This may be particularly true on the investment grade side, where issuers with “fortress” balance sheets may be rationally priced to reflect risk not much higher than U.S. Treasuries.

¹ Source: Bloomberg, data as of 10/1/26.

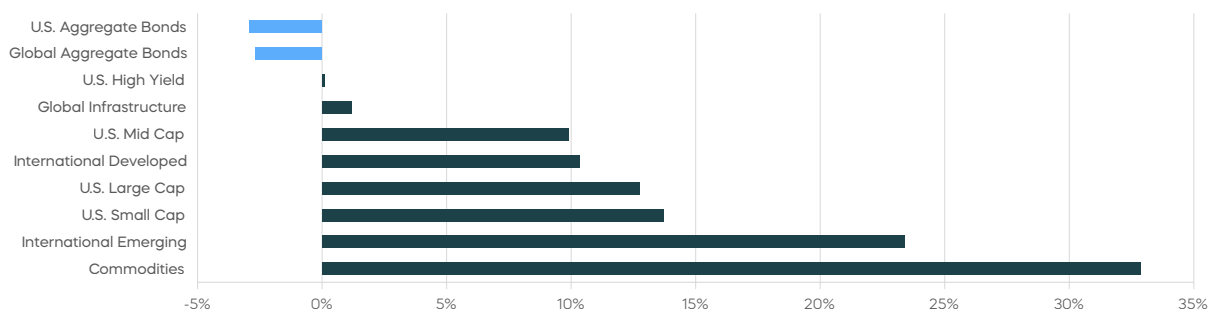
If we are in an environment where corporate bond issuance is influencing Treasury yields, strategies for hedging Treasury rate risk may have added appeal.

Asset Class Perspectives

Asset Class Returns — September 2026



Asset Class Returns — Year-to-Date 2026



Source: Bloomberg. September returns 9/1/26–9/30/26; year-to-date returns 1/1/26–9/30/26. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

The following are observations on a range of asset classes. Green indicates a constructive backdrop and yellow indicates a neutral environment. Red, while not shown here, would indicate a challenging backdrop.

Asset Class		Key Observations
Equity		
U.S. Large Cap	●	Above trend earnings growth is generally anticipated to continue and may offset concerns of rising yields.
U.S. Mid Cap	●	A mid-cap allocation may remain a straightforward offset to historically high large cap concentration risk.
U.S. Small Cap	●	Consider looking to higher quality small caps for a potential to outperform.
International Developed	●	Investors may want to underweight developed markets, as earnings momentum has been stronger in the U.S.
International Emerging	●	Semiconductor concentration may be worth keeping an eye on.
Fixed Income		
U.S. Aggregate Bonds	●	Real yields, not inflation expectations, may have been driving yields higher.
U.S. High Yield	●	Modest spread widening seems to have relaxed valuation pressure.
Global Aggregate Bonds	●	Opportunities may emerge in select countries where markets have aggressively priced in rate hikes tied to energy shocks.
Alternatives/Real Assets		
Commodities	●	A potential end to the U.S. and Iran war could put downward pressure on oil prices.
Global Infrastructure	●	Consider a focus on the owners of infrastructure assets, whose business models are generally inflation and recession resistant.

Economic Calendar

Following is a list of key and upcoming economic releases, which may serve as a guide to potential market indicators.

Date Time	Event	Prior	Date Time	Event	Prior
2026-10-01 05:30	Challenger Job Cuts YoY	-38.5%	2026-10-15 08:30	PPI Ex Food and Energy YoY	4.6%
2026-10-01 08:30	Initial Jobless Claims	197k	2026-10-16 08:30	Import Price Index MoM	0.7%
2026-10-01 10:00	ISM Manufacturing	54.6	2026-10-16 09:15	Industrial Production MoM	0.0%
2026-10-01 10:00	Construction Spending MoM	-0.5%	2026-10-16 09:15	Capacity Utilization	76.3%
2026-10-02 08:30	Change in Nonfarm Payrolls	162k	2026-10-20 08:30	Housing Starts	1275k
2026-10-02 08:30	Average Hourly Earnings YoY	3.1%	2026-10-20 08:30	Building Permits	1403k
2026-10-02 08:30	Unemployment Rate	4.1%	2026-10-20 10:00	Pending Home Sales MoM	0.3%
2026-10-02 10:00	Factory Orders	0.9%	2026-10-22 08:30	Initial Jobless Claims	-
2026-10-02 10:00	Durable Goods Orders	0.0%	2026-10-22 10:00	Leading Index	-0.1%
2026-10-05 10:00	ISM Services Index	55.4	2026-10-23 10:00	U. of Mich. Sentiment	-
2026-10-06 08:30	Trade Balance	-88.6b	2026-10-27 #N/A	Building Permits	-
2026-10-07 14:00	FOMC Meeting Minutes	-	2026-10-27 08:30	Durable Goods Orders	-0.1%
2026-10-08 08:30	Initial Jobless Claims	197k	2026-10-27 10:00	Conf. Board Consumer Confidence	81.9
2026-10-08 10:00	Wholesale Inventories MoM	0.7%	2026-10-27 10:00	New Home Sales	684k
2026-10-09 10:00	U. of Mich. Sentiment	48.1	2026-10-28 08:30	Wholesale Inventories MoM	-
2026-10-13 10:00	Existing Home Sales MoM	-2.0%	2026-10-28 14:00	FOMC Rate Decision (Upper Bound)	4.0%
2026-10-14 08:30	CPI MoM	0.4%	2026-10-28 14:00	FOMC Rate Decision (Lower Bound)	3.8%
2026-10-14 08:30	Core CPI MoM	0.3%	2026-10-29 08:30	Personal Income	0.2%
2026-10-14 08:30	CPI YoY	3.4%	2026-10-29 08:30	Personal Spending	0.9%
2026-10-14 08:30	Core CPI YoY	2.4%	2026-10-29 08:30	PCE Price Index YoY	3.4%
2026-10-14 14:00	Fed Releases Beige Book	-	2026-10-29 08:30	Initial Jobless Claims	-
2026-10-15 08:30	Retail Sales Advance MoM	1.2%	2026-10-29 08:30	Core PCE Price Index YoY	-
2026-10-15 08:30	Philadelphia Fed Business Outlook	37.8	2026-10-29 08:30	GDP Annualized QoQ	-
2026-10-15 08:30	Initial Jobless Claims	-	2026-10-29 08:30	Personal Consumption	-
2026-10-15 08:30	PPI Final Demand YoY	5.4%	2026-10-29 08:30	GDP Price Index	-

Source: Bloomberg, data as of 10/1/26.



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Equity Perspectives

Can equity markets continue to shrug off rising rates?

The bond market rout, with Treasury yields rising to multi-year highs, has been a dominant story for the past month. Nonetheless, U.S. equities seem to be entering the fourth quarter in a position of relative strength. Solid year-to-date gains seem to be supported by a resilient economic backdrop and solid corporate fundamentals.

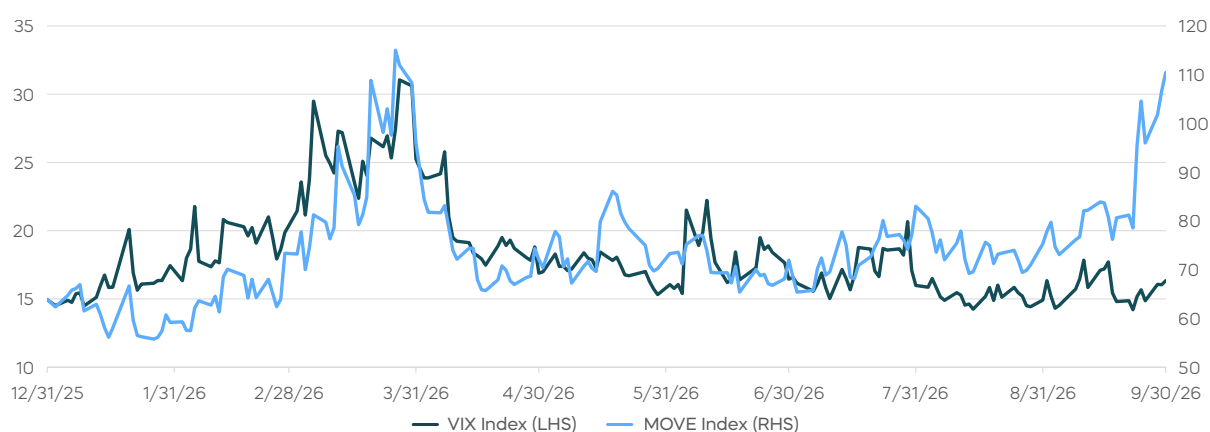
In a reversal from second-quarter trends, September's equity market leaders were mostly mega-cap growth and high-momentum stocks. Mid- and small-cap stocks declined during the month, as did quality and dividend-oriented stocks.²

Notably, a divergence has emerged across equity and bond market implied volatility levels that warrants close attention.

In [last month's commentary](#), we noted that equity performance has been influenced more by the pace and volatility of changes in interest rates, rather than by direction alone. Let's look at the relationship between those trends again in the chart that follows. Before September, the general level of volatility in interest rate movements (as measured by the MOVE Index) had been relatively well contained and paralleled the changes in the level of equity volatility (as measured by the VIX).

That changed in late September, though. The MOVE Index surged to levels on its scale that are more typically associated with periods of elevated macroeconomic uncertainty. Meanwhile, the level of VIX remained relatively subdued and ended the month near 16, indicating that risk may be manageable.

Bond and Equity Volatility Diverged in September



Source: Bloomberg, data from 12/31/25 through 9/30/26. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

Which index is sending the potentially more accurate signal? While the relationship is imperfect, elevated bond-market volatility has frequently preceded a more challenging environment for equities. A further rise in bond-market volatility could increase pressure on already elevated equity multiples.

But to be clear, the earnings outlook seems to remain robust and there does not appear to be any overt threat pointing to a potential deterioration in equity markets. If Treasury yields stabilize and the MOVE Index retreats, equities could advance through the end of the year.

² Source: Standard & Poor's as of 9/30/26.

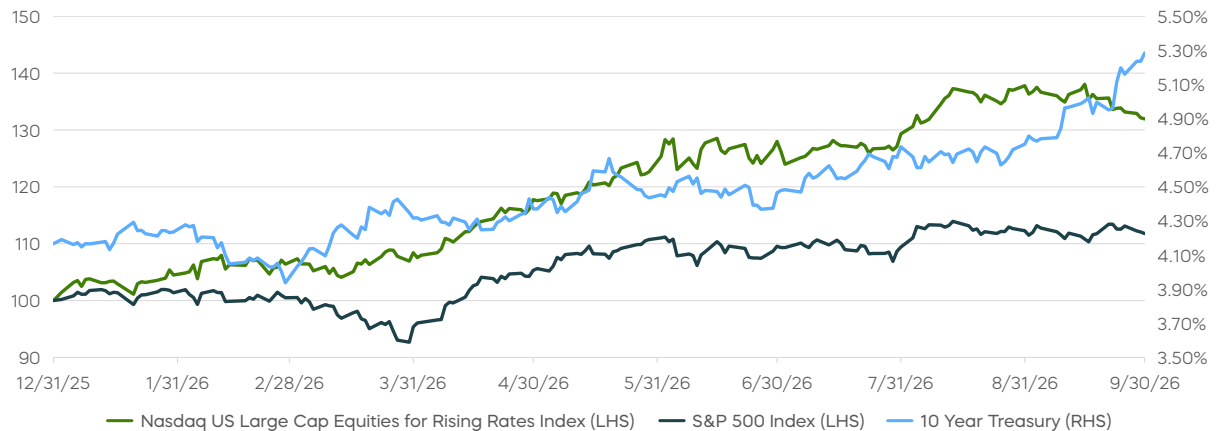
How can investors actively defend against rising rates?

As interest rates rose in September, market action underscored the need for investors to consider the implications in their equity portfolios. The large-cap-focused S&P 500 produced modest gains, while mid- and small-cap stocks declined. Historically, equity performance has varied during periods of rising rates. The financials and energy sectors have generally performed well, while rate-sensitive sectors like utilities and real estate investment trusts (REITs) typically have not. Third-quarter results were no different. Energy stocks produced returns of 17% for the quarter while utilities declined by over 12%.³

Investors may be able to take advantage of these dynamics by focusing on a strategy specifically designed to outperform when interest rates rise: the Nasdaq U.S. Large Cap Equities for Rising Rates Index. The strategy targets the five sectors with the highest recent correlations to changes in 10-year U.S. Treasury yields, and within those sectors the stocks that have tended to outperform as rates have risen. Reconstituted every three months, this approach produces an index with a dynamic portfolio of 50 stocks from five sectors. The sectors with the highest correlation to rates have the highest weighting and the stocks within each of the five sectors are equally weighted.

The index's recent performance illustrates how an equity strategy specifically designed for a rising rate environment may help investors go on the offensive when Treasury yields are on the rise.

The Nasdaq U.S. Large Cap Equities for Rising Rates Index Has Outperformed This Year



Source: Bloomberg, data from 12/31/25 through 9/30/26. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

³ Source: Bloomberg data as of 9/30/26.



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Fixed Income Perspectives

There are plenty of concerns across the bond landscape. But some corners of the market that have given investors pause recently, including fixed-rate mortgages and private credit, still seem to be working as intended.

There's no denying the U.S. housing market is moribund, as potential buyers navigate mortgage rates above 7% against a backdrop of record-high prices. Low turnover in existing homes isn't helping either, as long-time homeowners are staying put in their homes enjoying the 3% to 4% fixed mortgage rates they secured years ago.

But is that "locked-in" effect, for current homeowners who refuse to sell, really such a bad thing? Not necessarily, if you consider the alternatives.

Faced with fewer (and costlier) options for housing, some buyers are starting to turn once again to floating-rate mortgages to access more reasonable rates. This sparks memories of the Great Financial Crisis, when failures of the securitized versions of such loans sent the economy into a tailspin.

The use of adjustable-rate mortgages remains relatively low

So far, the share of new adjustable-rate mortgages being issued continues to be low, and any risk of a return to past failures seems well contained.

Adjustable-Rate Mortgage (ARM) Share of U.S. Mortgage Applications Remains Low



Source: Bloomberg, data from 2/17/06 through 9/25/26.

As for the millions of homeowners who retain fixed mortgages locked in at less than half of today's rate? Their spending power may be contributing to broad economic resilience.

Private credit is growing, and that's OK.

Over the past decade, private credit has grown nearly three times faster than overall corporate borrowing.⁴ So how should investors frame its rising popularity?

⁴ Source: JP Morgan, "Why private credit remains a strong opportunity," 7/31/25.

Again, a broader perspective is important. First, private credit still only amounts to roughly 9% of corporate borrowing.⁵ Second, that expansion of private credit is probably a direct result of the Great Financial Crisis, which prompted tighter financial market regulation designed to move potentially challenging debt away from large banks. As a result, if any stress emerges among private credit issues, damage could be less widespread among systemically important lenders.

Also, the underlying fundamentals for the larger public market are generally quite strong.

Net debt to EBITDA for S&P 500 companies averaged 4.3X at the beginning of this century and leading up to the Great Financial Crisis. Today, that metric stands at around 1.5X and is forecast to fall even further by the end of the year.⁶ Earnings have been strong, as has cash flow growth. And lower debt ratios may be a sign of increased corporate financial prudence. Some lessons seem to have been learned.

When you combine today's increasingly strong fundamentals with the apparently solid economy and meaningfully positive structural changes, you get a supportive backdrop for corporate credit, even if Treasury rates continue to tick upward.

⁵ Source: JP Morgan, "Why private credit remains a strong opportunity," 7/31/25.

⁶ Source: Bloomberg, data as of 10/1/26.

Sources for data and statistics: Bloomberg, FactSet, Morningstar, and ProShares.

The different market segments represented in the performance recap charts use the following indexes: U.S. Large Cap: S&P 500 TR; U.S. Large Cap Growth: S&P 500 Growth TR; U.S. Large Cap Value: S&P 500 Value TR; U.S. Mid Cap: S&P MidCap TR; U.S. Small Cap: Russell 2000 TR; International Developed Stocks: MSCI Daily TR NET EAFE; Emerging Markets Stocks: MSCI Daily TR Net Emerging Markets; Global Infrastructure: Dow Jones Brookfield Global Infrastructure Composite; Commodities: Bloomberg Commodity TR; U.S. Bonds: Bloomberg U.S. Aggregate; U.S. High Yield: Bloomberg Corporate High Yield; International Developed Bonds: Bloomberg Global Agg ex-USD; Emerging Market Bonds: DBIQ Emerging Markets USD Liquid Balanced.

The different market segments represented in the fixed income returns charts use the following indexes: Global Agg Bond Market: Bloomberg Global-Aggregate Total Return Index Value Unhedged USD; Mortgage Backed Securities: Bloomberg U.S. MBS Index Total Return Value Unhedged USD; Treasury Bonds: Bloomberg U.S. Treasury Total Return Unhedged USD; U.S. Agg Bond Market: Bloomberg U.S. Agg Total Return Value Unhedged USD; Corporate Bonds: Bloomberg US Corporate Total Return Value Unhedged USD; High Yield Bonds: Bloomberg U.S. Corporate High Yield Total Return Index Value Unhedged USD; Interest Rate-Hedged High Yield Bonds: FTSE High Yield (Treasury Rate-Hedged) Index; Treasury Inflation Protected (TIPS): Bloomberg U.S. Treasury Inflation Notes TR Index Value Unhedged USD; Short term (1-3 Yr) High Yield: Bloomberg U.S. Corporate 0-3 Year Total Return Index Value Unhedged USD; Senior Loans: Morningstar LSTA U.S. Leveraged Loan 100 Index; Short term (1-3 Yr) Corp Bonds: Bloomberg U.S. Corporate 1-3 Yr Total Return Index Value Unhedged USD; Floating Rate: Bloomberg U.S. FRN < 5 yrs Total Return Index Value Unhedged USD; Interest Rate-Hedged Corporate Bonds: FTSE Corporate Investment Grade (Treasury Rate-Hedged) Index.

The S&P 500 is a benchmark index published by Standard & Poor's (S&P) representing 500 companies with large-cap market capitalizations. The Cboe Volatility Index (VIX) projects the probable range of movement in the S&P 500 over the next 30 days—or the implied or expected volatility—as reflected in the prices of S&P 500 options. The MOVE Index (Merrill Option Volatility Estimate) is a market-implied measure of expected volatility in the U.S. Treasury bond market, often called the "VIX for bonds." The Nasdaq U.S. Large Cap Equities for Rising Rates Index is designed to measure the performance of companies in the Nasdaq U.S. Large Cap Index whose stock prices have historically exhibited relatively high correlation to movements in interest rates. **THESE ENTITIES AND THEIR AFFILIATES MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO PROSHARES.**

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