

RATES

Oil Shock, Rate Shock—Value Emerges

This report is excerpted from the [Fourth Quarter 2026 Fixed-Income Sector Views](#).

The global fixed-income selloff has left yields at compelling levels.

Third quarter markets were dominated by the Middle East conflict's impact on oil prices, which rose more than 40 percent and reignited global inflation concerns. Multiple G10 central banks resumed tightening, pushing sovereign yields significantly higher and flattening yield curves. Adding to the volatility, Fed Chair Warsh began steering the FOMC away from forward guidance. The global fixed-income selloff has left yields at compelling levels not seen in 20+ years. Energy markets must stabilize and inflation must moderate before yields can move materially lower from here.

Sector Commentary

- The continuing Middle East conflict pushed Brent crude oil prices from \$70/barrel to more than \$100/barrel, reigniting global inflation concerns. In response, the Fed, the European Central Bank, the Reserve Bank of New Zealand, the Reserve Bank of Australia, and the Bank of Japan each raised their policy rate by 25-basis points, with Japan's overnight rate reaching a 31-year high of 1.25 percent.
- Amid market crosscurrents, U.S. Treasury yields rose by 50–75 basis points, and the yield curve flattened. The move was global: 10-year sovereigns across most other G10 markets climbed more than 50 basis points, most strikingly in Japan, where the 10-year note rose above 3 percent for the first time since 1996.
- Compounding the Treasury market's difficulties, Warsh's first few meetings as Fed Chair proved trying as markets questioned the FOMC's resolve to tighten amid elevated inflation, though the Sept. 16 hike was generally welcomed.

Investment Themes

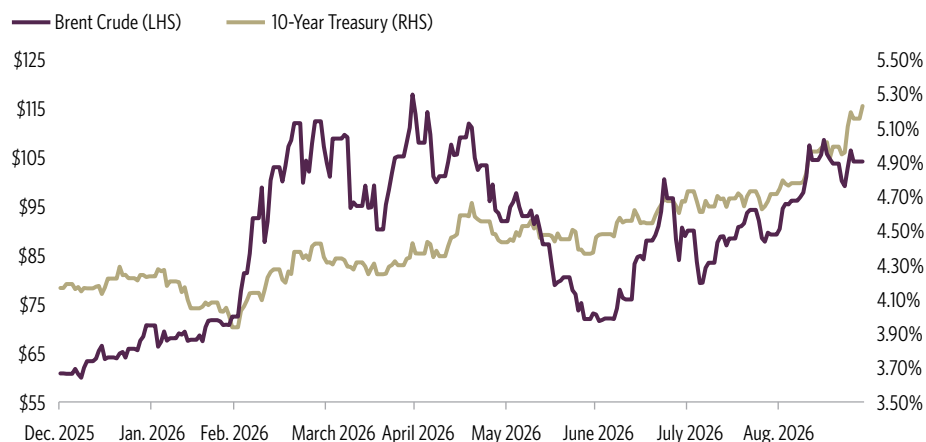
- Yields are unlikely to move materially lower until energy markets stabilize and inflation moderates. We do not expect that transition in the near term, but we believe it will occur before the hiking path currently priced by the market is fully realized. The front end should benefit if that hiking cycle is not fully realized.
- With policy rate pricing and yields now settling into a materially higher range, we think much of the repricing is behind us. Combined with increased Treasury focus on long-end buybacks, multi-decade yield highs, and attractive carry and rolldown in the 15–20 year sector, these factors lead us to favor opportunistically adding duration.
- Agency callable bond spreads to Treasuries have widened to levels not seen in several years. Higher yields across the curve, wider spreads, elevated volatility, and large dealer inventories have left recent callable Agency structures clearing at attractive coupons for yield-oriented investors.

By Kris Dorr and Tad Nygren

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Oil Volatility Triggers a Spike in Yields

Recent Moves in Treasury Yields Following Oil Prices



Source: Guggenheim Investments, Bloomberg. Data as of 9.30.2026.



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One **basis point** is equal to 0.01%.

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