24 September 2026, 09:45 UTC
Chief Investment Office GWM
Investment Research

Higher yields need not derail markets

UBS House View - Daily US

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From the studio
Video: Top of Mind in APAC | What Fed hikes mean for Asian assets (6 mins)
Video: Mark Haefele on why the equity rally can continue (3 mins)
Video: Market Playbook | Why we still like Japanese equities (5 mins)
Podcast: Signal over Noise: Takeaways from Silicon Valley, on Apple and Spotify (6 mins)

Thought of the day
US Treasuries sold off on Wednesday as higher oil prices and robust economic data raised expectations of faster Federal Reserve tightening, while a weak bond auction added to the selling pressure. The 10-year Treasury yield rose nearly 15 basis points to above 5.1% for the first time since 2007, and the S&P 500 fell 0.8%.

The S&P Global US flash composite PMI rose to 58.4 in September, marking a fourth consecutive month of acceleration and the strongest expansion in private-sector activity since July 2021. The report also pointed to intensifying price pressures, with input costs rising the most in nearly four years due to higher fuel and transport costs. Meanwhile, the USD 70bn sale of five-year Treasuries came in at the highest auction yield since 2006. Fed funds futures now imply a 70% chance of an interest rate hike in October, up from just below 50% a week ago, when the Fed raised its policy rate to 3.75-4%.

But despite the rise in yields and renewed policy concerns, we think the investment outlook remains constructive.

Policy tightening is likely to be less aggressive than current market pricing suggests. While recent comments from Fed officials have been hawkish, our base case is for the Fed to raise interest rates in December before keeping them steady. The median rate projection from policymakers suggests a hold throughout 2027, and we expect steady disinflation over the next six months. Core personal consumption expenditures (PCE) inflation is expected to be revised down by 0.2 percentage points later this

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What to watch: 25 September
- Germany GfK consumer confidence for October
- US August durable goods orders
- US Michigan consumer sentiment for September

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month as part of the Bureau of Economic Analysis' annual revisions, while favorable base effects in the first half of next year should also weaken the case for a long sequence of hikes.

Higher yields are creating select opportunities in fixed income despite debt concerns. Concerns over government debt levels have partly contributed to rising bond yields this year, but high debt levels do not automatically imply poor investment returns. Depending on how governments choose to manage their debt burdens, the impact on different asset classes varies. We continue to view fixed income as Attractive and see opportunities across regions and market segments, as higher starting yields offer robust portfolio income. While income-focused investors may prefer short-maturity bonds to reduce duration risk, we also see tactical opportunities in medium- to long-duration high-quality bonds, as well as medium-tenor credit from stronger investment grade issuers.

Resilient economic activity bodes well for corporate earnings. The latest PMI reading reinforces our view that the US economy remains on solid footing, providing a favorable environment for companies to grow revenues and profits. With continued AI investment offering an additional tailwind, we forecast S&P 500 earnings growth of 25% this year and 14% in 2027. The earnings cycle is also strengthening globally, supported by structural trends and a broadening cyclical recovery. We forecast MSCI All Country World earnings growth of 26% this year and 14% next year, which should drive global equities higher over the next six to 12 months.

So, we continue to recommend positioning for further equity gains while diversifying and managing concentration risk. Resilient growth and robust earnings should help markets withstand a measured tightening cycle, while higher bond yields provide opportunities to add portfolio income. Investors can also use capital preservation strategies, broad commodities, and alternatives to strengthen portfolio resilience.

Caught our attention

French bond spread over Germany reaches crisis-era high. The gap between 10-year French and German government bond yields widened 6 basis points to 110 basis points on Wednesday, its highest level since July 2012, shortly before then-European Central Bank President Mario Draghi pledged to do "whatever it takes" to preserve the euro amid concerns over the burden of sovereign debt in the region. French 10-year yields rose 15 basis points to 4.66%, compared with a 9-basis-point increase in German Bund yields to 3.55%. The move came as global bond yields rose on stronger economic data and higher oil prices. The Eurozone composite purchasing managers' index reached a three-year high of 53.1 in September, above expectations of 51.7. The improvement in business activity may slow the decline in inflation and therefore raise the chances of a next ECB rate increase at its October policy meeting.

Our view: The broader rise in global yields provides important context, but the widening Franco-German spread primarily reflects concerns over France's fiscal performance and next year's presidential election. Fiscal deficits above 5% of GDP and a sharp rise in the cost of financing its EUR 2.7tr in government bonds could result in further credit rating downgrades. Markets are pricing in fiscal concerns, with French government bonds trading wider than BBB rated Italian ones across the curve. As the highest-yielding EUR government asset, we think French bonds now share Italy's fate as being a high-beta asset during times of general bond market sell-

offs, so that the recent repricing of central bank expectations and higher supply of French bonds over the summer have contributed to the increase in spreads. That said, we do not believe a severe fiscal crisis is imminent. We remain positive on Eurozone equities, where improving activity and earnings growth should help offset the valuation effect of moderately higher yields.

Gold loses ground amid higher yields. Gold fell below USD 4,300/oz as expectations for faster Fed tightening and a firm US dollar weighed on the precious metal. Trading at USD 4,280/oz at the time of writing, bullion has fallen more than 8% over the past month.

Our view: The Fed's hawkish hike last week and a higher-for-longer rate outlook remain near-term headwinds for gold and are likely to increase short-term volatility. But we stay constructive over the next 12 months, supported by central bank buying, reserve diversification, elevated government debt, and geopolitical uncertainty. In our view, gold's strategic role as a portfolio hedge and diversifier remains intact. Pullbacks toward USD 4,000/oz can be seen as opportunities for investors to add exposure as we forecast gold to move toward USD 5,400/oz by September 2027.

White House denies diesel export-ban report. The White House has denied a media report that it is preparing a 90-day ban on US diesel exports. A White House official described the report as incorrect, while Energy Secretary Chris Wright said no blanket ban was under consideration and that discussions were focused instead on voluntary ways to increase diesel supply. The clarification followed comments from President Donald Trump supporting limits on diesel exports and a Politico report that a temporary ban was being prepared as US retail diesel prices reached an all-time high this month. The US exported a record 1.6 million barrels a day of diesel in August, according to Kpler data cited by Reuters, helping supply markets strained by reduced Russian and Middle Eastern refining and export capacity.

Our view: An export ban could lower US diesel prices temporarily, but would not address the global supply constraints behind the price rise and could ultimately prove counterproductive. In fact, lower domestic diesel prices would compress refinery margins, leading them to adjust their product slate and reduce diesel production. Over time, this could tighten domestic diesel supply and offset much of the initial price relief. The policy could also exacerbate shortages in key importing regions, particularly Europe, while raising questions about the reliability of the US as an energy supplier. A similar refined-product export ban was considered in 2022 under the Biden administration but ultimately rejected due to the potential negative consequences. For investors, we maintain a moderately constructive outlook for crude oil prices given the persistent uncertainty in the Middle East and lower global inventories. We also favor actively managed, broad commodity exposure spanning energy, industrial metals, agriculture, and precious metals.

Market update

24 Sep 2026

Percent change. For volatility indices, net change in points. For valuation, change in price to earnings per share. For yields, net change in bps

	Current (*)	1D	5D	1M	YTD
VIX Index	15.2	+1	-0	-1	+0
S&P 500	7706	-0.8%	+2.0%	+0.7%	+12.6%
S&P 500 trailing P/E (**)	22.7x		+0.1x	-0.9x	-2.6x
S&P 500 forward P/E (**)	19.1x		+0.0x	-0.9x	-2.9x
S&P 500 forward P/E ex-Mag 7 (**)	17.5x		-0.2x	-1.1x	-2.2x
Nasdaq-100	30470	-0.9%	+5.3%	+5.0%	+20.7%
Russell 2000	2839	-1.8%	-0.7%	-5.2%	+14.4%
STOXX Europe 600	638	-0.3%	-0.7%	-2.4%	+7.8%
Swiss Market Index	13906	-0.1%	-0.3%	-3.7%	+4.8%
Shanghai Composite	3888	-1.2%	+0.3%	+0.2%	-2.0%
Nikkei 225	65514	+0.8%	+3.2%	-0.0%	+30.1%
US 10-year Treasury	5.12	+0	+19	+42	+95
US 2-year Treasury	4.88	-1	+22	+65	+141
Germany's 10-year Bund	3.54	-1	+7	+29	+69
Germany's 2-year Bund	3.29	-3	+7	+42	+117
EURUSD	1.139	+0.1%	-0.7%	-2.3%	-3.0%
EURCHF	0.94	+0.1%	+0.9%	-0.2%	-0.8%
USDCHF	0.82	-0.2%	-0.1%	+2.6%	+3.9%
USDJPY	158	+0.1%	+1.6%	-0.4%	+1.1%
US dollar index	101	+0.0%	+0.8%	+2.1%	+2.8%
Brent crude, USD/bbl	103	+0.3%	-1.4%	+12.2%	+69.9%
Gold, USD/oz	4284	-0.0%	-1.9%	-7.7%	-1.3%

(*) or last close if not available, (**) weekly update

Source: Bloomberg, Factset, UBS

Appendix

Non-traditional asset classes are alternative investments that include hedge funds, private equity, private credit, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. **An investment in an alternative investment fund is speculative and involves significant risks.**

Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- **Hedge Fund Risk:** There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
- **Managed Futures:** There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- **Real Estate:** There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- **Private Equity:** There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- **Private Credit:** There are risks specifically associated with investing in private credit. This could include losses stemming from defaults on loans, which in significant adverse circumstances could result in a substantial loss of investment.
- **Foreign Exchange/Currency Risk:** Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

Global asset class preferences definitions
The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid and commonly known indices, House View scenarios, and analyst convictions over the next 12 months.
Absolute view
Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.
Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.
Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities.
Note: For equities, we have a five-tier rating system with two additional preferences. When equities are included with the other asset classes in the three-tier rating system, we collapse "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive."
Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
Relative preferences
For the multi asset view, we also include relative preferences to help investors compare between items.
Preferred: We view this item more favorably than others within its asset class.*
Neutral: We see this item similarly to others within its asset class.*
Least preferred: We view this item less favorably than others within its asset class.*
*In the case of cross-asset, compared to other asset classes.
Note: The tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

Appendix

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