

What to watch in the week ahead

Weekly Global

Mark Haefele, Global Wealth Management Chief Investment Officer, UBS Switzerland AG

- Government bond yields reached multi-decade highs before weaker US payrolls reduced expectations for an October rate increase by the Fed. The Fed minutes and ISM services data will test the balance between resilient growth and a more patient policy path. We rate fixed income as Attractive, with duration calibrated to investor objectives.
- European bond markets were volatile as inflation accelerated and concerns over public finances widened sovereign spreads. German industrial production and final business surveys will test the region's improving growth outlook. We remain positive on Eurozone equities and see selective opportunities in European bonds.
- Higher rates are increasing differences among companies, economies, and securities. This week's data and central bank communication may create further divergence across stocks, currencies, commodities, and yield curves. We favor diversified exposure to equity market neutral, discretionary macro, and fixed income relative value strategies.

Will US data support yields at multi-decade highs?

US Treasury yields ended a volatile week close to recent highs. The 10-year yield reached 5.34% on Thursday, its highest intraday level since 2002, after manufacturing activity remained firmly in expansion and initial unemployment claims fell to a 10-week low. September payrolls then increased by 29,000, below expectations for 90,000, while July and August figures were revised down by a combined 60,000. The 10-year yield initially fell after the report before ending Friday at 5.26%, as expectations for an imminent Fed rate hike receded.

The Federal Reserve's September meeting minutes and the ISM services survey will be key tests for bond markets this week. Investors will assess the strength of support for further tightening and the evidence that could persuade policymakers to wait. The services prices component will indicate whether higher input costs are spreading through the economy, while preliminary consumer sentiment data will show whether elevated energy prices and borrowing costs are weighing more heavily on households.

Investors have scaled back expectations for Fed rate hikes over the past week, after signs of patience from top Fed officials and a more subdued US jobs report. Markets are now pricing just one 25 basis point increase this year, in line with our base case. The broader employment picture remains consistent with a solid labor market that is keeping pace with population growth without generating significant wage pressure. We continue to rate fixed income as Attractive. Income-focused investors may prefer shorter maturities to limit duration risk, and we remain cautious on the

US rates and fixed income

- Andrew Dubinsky explains why softer payroll and wage growth, improving labor supply, and encouraging inflation data reduce the urgency for an October rate increase in [Benign data dampen Fed urgency](#).
- Hear Paul Donovan examine the disconnect between a stable US labor market, weak real wage growth, and a falling labor share of the economy in [The labor market anomaly](#).
- Explore the balance between income, potential capital gains, and portfolio diversification in [Where are the opportunities in fixed income?](#)

European bonds and equity markets

- Claudia Panseri and Thomas Wacker examine France's fiscal outlook, rising debt-servicing costs, and the implications for French bonds in [2027 French budget: Government unveils EUR 43 billion package of new measures](#).
- For the wider investment context, see [September 2026: Month and quarter in review](#), including the pressures on European government bonds and the resilience of equity markets.
- Hear our latest views on the Fed minutes, Eurozone bonds, and hedge funds in the four-minute [Jump Start podcast](#).

Hedge funds

- Discover why higher rates and greater market differentiation could favor equity market neutral, discretionary macro, and fixed income relative value strategies

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longest maturities given fiscal concerns, rising issuance, and elevated term premiums.

Can Eurozone sentiment stabilize after a volatile week?

European government bonds ended a volatile week under pressure as higher inflation, fiscal concerns, and widening sovereign spreads pushed French borrowing costs to multi-decade highs. French 10-year yields almost reached 5% for the first time in nearly 25 years, while the spread over German Bunds approached 160 basis points, its widest since late 2011. The divergence reflected stronger demand for German government bonds and a higher risk premium on more indebted sovereigns, including France. Eurozone headline inflation rose to 3.8% year over year in September from 3.2% in August, exceeding expectations for 3.6%, although core inflation increased only modestly to 2.5% from 2.4%.

This week's data will test whether improving activity can offset the drag from higher energy and borrowing costs. German industrial production will provide a check on the recovery in the region's largest economy, while final services and composite surveys will indicate whether growth remains broad across countries and sectors. The German outlook has already improved: Bundesbank President Joachim Nagel said the economy could grow by around 1% this year, roughly twice the central bank's June projection, supported by export demand and government investment. Italy also raised its 2026 growth estimate to 1% from 0.6% and its 2027 forecast to 0.8% from 0.6%. Investors will assess whether firmer growth allows earnings to advance without creating broader second-round inflation pressure.

Our view is that contained underlying inflation, resilient economic activity, and the tightening already delivered by higher yields should help sentiment stabilize. We expect the European Central Bank to raise rates by 25 basis points in December rather than deliver the extended tightening cycle previously reflected in market pricing. While fiscal pressures in France and Italy reinforce the need for selectivity, orderly financing conditions do not point to an imminent funding crisis. We remain Attractive on fixed income and favor short- to medium-term maturities, stronger investment grade issuers, and select French agency, covered, and corporate bonds. We also remain positive on Eurozone equities, supported by an improving earnings cycle, resilient activity, structural investment, and reasonable valuations.

Can higher rates favor hedge funds?

Higher interest rates have created a more differentiated market environment. Financing costs, balance sheet strength, refinancing needs, and the ability to fund growth internally now matter more for individual companies. The average S&P 500 constituent is carrying implied volatility of around 2.5 times index volatility, compared with a more typical 1.8 times. The average pairwise stock correlation is around 0.08, versus a median of 0.23 since 2002. Individual stocks are therefore moving more in response to their own fundamentals and less as a single market. Interest rate changes have also varied across maturities, altering yield curves and the pricing relationships among related securities.

The week ahead may provide further evidence on the degree of differentiation among economies and markets. Economic releases and central bank communication could lead investors to reach different conclusions about consumer demand, business activity, inflation, and policy paths across countries. Those differences can affect currencies, commodities, yield curves, sectors, and individual companies. They may also create opportunities for some hedge fund strategies. Discretionary macro

in [Why higher rates can favor hedge funds](#).

- For a longer-term perspective on our hedge fund preferences and the role of hedge funds in portfolios, see the [CIO View on hedge funds](#).

managers may find opportunities as central banks respond differently to domestic conditions. Equity market neutral strategies may focus on the distinction between companies with strong balance sheets and those facing higher financing or refinancing costs. Fixed income relative value managers may seek to benefit where policy expectations and yields adjust unevenly across maturities and related instruments.

We believe higher rates strengthen the case for diversified exposure to select hedge fund strategies. Hedge funds generated positive cumulative returns during every Federal Reserve tightening cycle since 1994 and generally outperformed global bonds. Equity market neutral, discretionary macro, and fixed income relative value managers can draw on distinct sources of return, while multi-strategy funds can reallocate capital as opportunities change. Higher rates do not guarantee strong performance, and manager selection remains critical. Investors should diversify across managers and strategies, and account for the potential use of leverage, limited transparency, volatility, higher fees, illiquidity, and longer lockup periods. Allocations should reflect each investor's objectives, investment horizon, and liquidity needs.

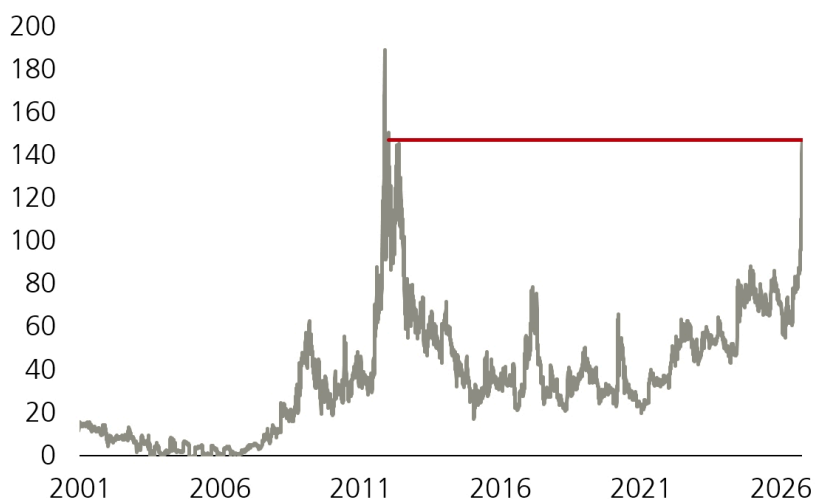
Chart of the week

Political developments in France have been in focus, with French bonds selling off in the wake of Prime Minister Sébastien Lecornu's 2027 budget proposal. The plan aims to reduce the deficit to 5% of GDP through EUR 43 billion of new measures—and EUR 54 billion including previously adopted measures. As of writing, the 10-year French government bond yield is trading 147 basis points above that of the 10-year German government bond, a level not seen since early 2012.

The concerns on borrowing are real. France faces a structural deficit, a rising debt burden, and a growing interest bill. Debt-service costs are projected to increase from around 4.3% of government revenue currently to more than 6% by 2030, making fiscal consolidation progressively harder. Nonetheless, France's latest debt sale attracted solid demand, with around EUR 12 billion of securities between two and three times subscribed, while the region's institutional framework provides tools to limit disorderly fragmentation. We therefore see a case for selectivity within European fixed income, not abandonment of the asset class. Within France, we see attractive risk-reward in select agency, covered, and corporate bonds.

OAT-Bund spread reached a 14-year high

Difference between yields on 10-year French and German government bonds, in basis points



Bloomberg, UBS, as of 5 October 2026

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, 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.
- **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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