

Corporate Bond Market Insight | October 2026

Rising Rates, Resilient Corporate Bond Ladders

Key takeaways

- » Treasury yields rose sharply as persistent inflation, resilient growth, heavy debt issuance and the Fed's renewed tightening cycle pushed rates higher.
- » Higher yields can benefit ladder investors by boosting income, cushioning future losses and creating tax-loss harvesting opportunities.
- » Back-to-back Treasury losses appear unlikely because inflation is not accelerating, growth is uneven and starting yields are near 20-year highs.
- » The Fed likely has more increases ahead, but long-term yields could peak before the cycle ends as tighter policy slows growth and inflation.

Recap

Treasury yields rose significantly in the third quarter as worries around inflation, robust economic growth, rising government debt levels and hyperscaler issuance pressured intermediate- and long-term rates higher. Geopolitical tensions continued to push energy prices higher, increasing inflation fears. In September, short rates rose sharply after the Federal Reserve (Fed) voted unanimously to begin raising rates. This followed Fed chair Kevin Warsh's hawkish August address at Jackson Hole reaffirming the Fed's commitment to bringing inflation back to target. Debt and deficits became a market focus when the national debt exceeded \$40 trillion for the first time. Third quarter economic growth was strong but uneven, and inflation remained stubbornly above the Fed's target. September also saw uneven growth, despite employment and business investment exceeding expectations.

For fixed income investors, the focus has been on the rise in Treasury yields. At 5.28% 10-year yields approached levels last seen just prior to the 2007 Great Financial Crisis. The increase threatens to produce a rare negative total return for Treasury indexes. It's important to remember that losing years are rare, occurring only six times in the last 50 years. While rising Treasury rates have mostly negative connotations for the economy, they create new opportunities for investors. This is particularly true for ladder investors as maturing investment bonds are replaced with new, higher yielding bonds. In a higher rate environment, this can increase the ladders' yield, providing larger cash flow and a cushion against future losses. Rising yields also create significant opportunities to implement systematic tax-loss harvesting strategies across fixed income portfolios.

The good news is that since 1976, consecutive years with negative total returns in the Treasury indexes have been rare. The most notable was 2022-2023, when short rates increased 525 basis points (bps) over the two-year period. During this period, inflation was rising rapidly and the economy, particularly the labor market, consistently exceeded expectations. The current environment is different. While stubbornly above target, inflation isn't rising rapidly, and though growth is solid, it's unevenly distributed. Additionally, the Warsh Fed has made it plain that they are emphasizing price stability over growth. Without the threat of rapidly rising inflation, and with beginning yields for new Treasury investment at 20-year highs, it's unlikely that bonds will produce back-to-back losing years.

Last month we attributed the increase in rates to three primary causes. The rapid growth in national debt is resulting in ever-larger Treasury issuance while at the same time intermediate and long Treasuries are competing with artificial intelligence hyperscalers for capital. Finally, sovereign yields across the G-7 nations are rising, creating even more competition for U.S. bonds.

To this list we can add the Fed initiating a rate-hiking cycle that, if history is any guide, is likely to produce additional increases before it's completed. Fed rate cycles, whether tightening or loosening policy, have almost always included multiple rate changes. Among roughly 20-25 cycles since the mid-1970s, only in 1997 did the Fed stop after one increase. Over the same period, the shortest easing cycle in the last 50 years began in 2019 when the Fed cut rates three times and stopped. Given this history, two to three more increases before the cycle ends are likely with at least one more increase in 2026. However, intermediate- and long-term yields often peak while the Fed is still increasing the federal funds rate.

As discussed last month, while investor fears center on inflation, the increase in ten-year rates isn't an inflation story. Real rates and term premiums continue to drive the increase while inflation expectations have remained flat. For instance, the 30-year Treasury Inflation-Protected Securities (TIPS) breakeven inflation rate of 2.3% is still near the low end of the five-year range. If markets were overly worried about inflation, the breakeven rate would be moving wider. However, 30-year TIPS real yields have risen and now offer a nearly 3% real, or after-inflation, rate of return. Across the Treasury curve, there is a significant yield premium over and above the inflation rate. We attribute much of the stability in inflation expectations to chair Warsh's credibility around price stability.

The Fed unanimously increased the federal funds rate by 25 bps in September, from 3.75% to 4.00%. This was the first increase since July 2023. Chair Warsh continues to emphasize that inflation has been above target continuously since March 2021 and must be dealt with. We think the Fed is worried that the strength in energy, particularly the sharp increase in diesel prices, will begin to work its way into core inflation. We believe the Fed is more concerned with price stability than economic growth in the current environment.

Investment-grade (IG) issuance is still remarkably high. Total September IG issuance was estimated at \$168 billion, roughly a 30% increase over last year. Total 2026 issuance is on pace to exceed \$2 trillion, slightly over the high issuance mark set in 2020. Artificial intelligence (AI) hyperscalers drove issuance again. They have issued over \$400 billion so far in 2026 and are projected to issue another \$1.5 trillion over the next few years.¹ Most hyperscalers have very reasonable net debt/EBITDA ratios and can support significantly more issuance before their ratings come into question.

IG corporate credit spreads widened somewhat, but most of the widening was centered in the AI hyperscalers. Other than the hyperscalers, credit spreads across most sectors are stable but modestly wider and continue to hold near the lower end of their historic range as balance sheets are stable and fundamentals are still sound.

Against this backdrop, the 10-year Treasury yield rose 53 bps for the month and 82 bps for the quarter while one- to 10-year IG credit spreads widened six bps for the month and nine bps for the quarter. The ICE BofA/Merrill Lynch 1–10 Year US Corporate Index returned -1.90% for the month, -2.23% for the quarter and -0.18% over the trailing one year. Over September and the third quarter, higher-quality outperformed lower-quality credit. Spreads across all sectors were wider for both the month and quarter. For the month, performance in the leisure and automotive sectors lagged somewhat, while telecommunications, technology and retail sectors widened the least.

September saw resilient economic growth. With two-thirds of the quarter's data having been reported, the Atlanta Fed's real-time GDPNow estimate is currently tracking third quarter growth at 3.7%. The Institute of Supply Management manufacturing and services Purchasing Managers' indexes are both firmly in expansion with new orders suggesting additional strength to come. Payroll growth remains solid. Nonfarm payrolls added 162,000 jobs, well above the neutral rate. There are signs that the pace of growth is moderating, but the strength in business investment continues to offset the weakness in interest-sensitive sectors like housing.

Looking forward

The Federal Reserve is on the move and rates are rising. The increase in rates continues to offer opportunities for investors to increase portfolio yield and to manage taxes through planned and systematic tax-loss harvesting strategies. We expect the Fed to raise rates at least one more time this year, with more increases possible in 2027. With the midterm elections in November, they may skip a meeting before moving again in December. What could go right? Higher rates not only help to reduce inflation but also slow the economy. Lower inflation and slower growth would serve to depress yields.

¹ JP Morgan as of 9/30/2026

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