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Can government bond markets regain their poise?

28 September 2026, 16:52 UTC, written by UBS Editorial Team

Government bond yields rose further last week as stronger economic activity and higher energy prices led investors to anticipate faster central-bank tightening. The 10-year US Treasury yield rose nearly 17 basis points to 5.16%, reaching its highest level since 2007, as the market-pricing implied probability of an October Federal Reserve rate hike climbed from 53% to 64%.

The 30-year yield also rose nearly 17 basis points, its largest weekly increase since May, to 5.49%, the highest level since 2004. In Europe, the spread between 10-year French and German government bond yields, typically a measure of anxiety in fixed income markets, reached around 110 basis points, its widest since July 2012.

This week's inflation data in both the US and Eurozone will help determine whether such headwinds will persist. Investors will scrutinize Wednesday's August US personal consumption expenditures release, a key inflation measure, for signs of whether price pressures are spreading beyond energy. September's Eurozone flash inflation reading will provide a similar test after the prior month's data provided some reassurance that underlying inflation has so far remained under control. A wide range of top officials from the Fed, European Central Bank, and Bank of England are scheduled to speak, and will have the opportunity to respond to recent data and market developments. Contained underlying inflation, particularly if officials push back against expectations for rapid tightening, could help calm bond markets. Firmer readings or more hawkish comments could extend the selloff.

We believe markets are pricing in too much tightening from all three central banks. Our base case is for the Fed to raise rates once more in December before keeping them steady. While higher energy costs may keep headline inflation

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elevated in the near term, they can also constrain growth by reducing household purchasing power and increasing companies' costs. We continue to rate fixed income as Attractive, with opportunities emerging across regions and market segments. The recent rise in yields has created tactical opportunities to add medium- to long-duration exposure to high quality bonds, in our view. Stronger investment grade issuers offer attractive carry across medium maturities, while emerging market bonds offer appealing yields and diversified return potential. We remain more cautious on the longest maturities, and higher-risk credit should remain relatively short dated.

Original report: [Weekly Global: What to watch in the week ahead, 28 September 2026.](#)

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