VERDENCE CAPITAL ADVISORS

Key **Takeaways:**

- Global sovereign yields climbing higher.
- Investors are less tolerant of irresponsible Government spending.
- Prolonged war with Iran keeps oil elevated.
- Treasuries have competition from investment grade debt.
- High liquidity, stubborn inflation and less demand to put upward pressure on long term yields.

What is Behind the Rise in Sovereign Bond Yields?

Government bond yields are rising around the globe. The U.S. 10YR Treasury yield has increased 60 bps year to date, the German 10YR Bund is at the highest since 2011, the UK 10YR Gilt is at the highest level since 2008 and the Japanese 10YR yield is at the highest level since 1996. In this weekly insights we offer the reasons behind the global rise in rates and what we expect through 4Q26.

- **Investors less tolerant of spending :** With interest rates hitting record lows in the recent decade (and negative in some instances) global Governments were able to spend a massive amount of money with little push back from investors. However, there has been no evidence of fiscal discipline in recent years despite elevated inflation pushing interest rates higher. For example, the yield on the Bloomberg Global Government Bond Index was as low as 0.8% in 2020 and has increased to over 4.0%. To put this in perspective, rising yields have led to net interest costs in the U.S. rising to 18.5% of revenue and are expected to reach 26% of revenue over the next 10 years.
- **Oil keeps yields elevated:** The war with Iran was expected to last five weeks and is now in its sixth month. As a result, oil prices have remained high. In fact, the average price of crude oil has been $87 in 2026, up 28% compared to 2025. As a result, the average five year inflation breakeven rate in the U.S., Italy, France, Canada, the UK and Germany is near the highest level seen since 2022 (2.7%) and well above the 10 year average of 2.0%.
- **Investment grade debt surge:** According to Barclays, net U.S. investment grade bond issuance is expected to increase 30% in 2026. This is largely due to hyperscalers using the debt market to fund their AI spending. According to Morningstar, ~15% of the corporate bond universe is now made up of mega-cap tech companies, surpassing financials. As a result, investors have another way to gain exposure to AI and yields are attractive compared to Treasuries.
- **Central banks shrinking:** Due to elevated inflation global central banks are attempting to shrink their balance sheets making demand for sovereigns decline. According to Bloomberg, the combined size of the G5 balance sheets peaked at $26 trillion in 2022 and has declined by $8 trillion since then. This is expected to continue, especially in the U.S.

The Bottom Line:

Unfortunately, we see ongoing upward pressure on long term yields. The war with Iran is keeping oil prices elevated, and high liquidity is keeping inflation stubborn. In fact, the money supply in the U.S. is rising 5.4% year over year, the fastest pace since 2022. The fiscal situation is worsening with the OECD noting global interest expenditures have increased from 2% to 3% over the past four years. According to Bloomberg, the U.S., the UK, France and Italy all spend more servicing their debt than they do on defense. The combination of elevated inflation, no end in sight for the U.S./Iran war, less demand for sovereigns, and central banks shrinking balance sheets should keep yields elevated. As a result, we think it is highly likely that the U.S. 10YR Treasury yield can hit 5% or higher before year end.

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Key Takeaways:

- Manufacturing activity slows in August.
- Service sector remains strong; inflation stubborn.
- Employment data comes in much better than expected.
- Global equities gain on dovish Fed rhetoric.
- Bonds investors are not convinced Fed won't raise rates.
- Geopolitical tensions send crude oil higher.

Weekly Economic Recap –

Jobs Report Comes in Much Better Than Expected

The ISM Manufacturing Index modestly declined in August but has been in expansion territory for the past eight consecutive months (a level above 50). New orders, the backlog of orders and imports led the weakness. The prices paid component (an inflation signal) was unchanged for the month but has been at a level above 70 for the past seven consecutive months.

Job openings as measured by the JOLTS report rose for the first time in three months in July. As a result, there were 355K more job postings than those unemployed for the month of July. Both the quits rate (those voluntarily leaving their jobs) and the layoff rate dipped lower confirming the low hiring, low firing environment.

The ISM Services Index rose to a six month high in August. Business activity, prices paid, an inventory build up and new orders led the increase. The prices paid component (an inflation signal) rose to the highest level since November 2022.

The U.S. economy added 162K jobs in August which was much better than expected (estimate 55K). In addition, the prior two months were revised higher by 55K. This brought the 12 month moving total of jobs created to the highest level since September 2025. In addition, the labor force participation rate rose for the first time since September 2025 as over 500K people entered the labor force.

Weekly Market Recap –

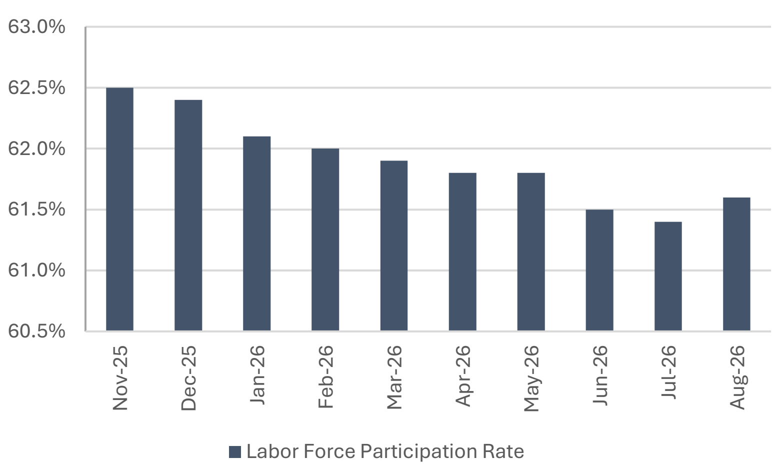
Global Equities Move Higher on Dovish Fed Speak

Equities: The MSCI AC World Index rose for the second consecutive week as dovish late week comments for the Federal Reserve fueled risk sentiment. Japanese equities led the way as the AI rally gained monentum. Within the U.S., technology and small cap stocks (i.e. Russell 2000) led the gains. The Russell 1000 Value underperformed the Russell 1000 Growth after it fell for only the second time in the past eight weeks.

Fixed Income: The Bloomberg Aggregate Index declined for the third time in the past four weeks as a better than expected jobs report overshadowed dovish Fed speak. Long term bonds led the weakness as the two year, floating rate bonds, leveraged loans and TIPS posted gains for the week.

Commodities/FX: The Bloomberg Commodity Index rallied for the third time in the past four weeks led by gains in oil and industrial metals. Crude oil posted its best one week gain in six weeks as fighting between the U.S. and Iran escalated.

Labor Force Participation Rate Finally Moves Higher



Footnotes: Data is as of August 2026.
Data Source: Bloomberg Finance LP, Verdence Capital Advisors.

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Past performance is not indicative of future returns.

Global Equities Rally as Dovish Fed Speak Fuels Rally

U.S. Equities

	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	53,414	-0.2%	-1.0%	4.0%	19.0%	12.4%
S&P 500	7,719	0.1%	-0.1%	2.1%	20.1%	13.6%
Russell 1000 Growth	4,969	0.6%	-0.6%	-2.5%	10.3%	4.7%
Russell 1000 Value	2,527	-0.3%	0.4%	7.3%	29.8%	23.5%
Russell 2500	5,227	0.0%	-1.8%	2.1%	25.5%	21.5%
Russell 2000	2,976	0.2%	-1.8%	1.7%	26.8%	21.0%
Nasdaq	26,507	0.4%	-0.2%	-1.1%	22.9%	14.5%

International Equities

	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	1,154	0.1%	0.8%	2.3%	22.5%	14.8%
MSCI EAFE (USD)	3,239	-0.2%	1.2%	4.9%	22.9%	14.1%
MSCI Europe ex UK (USD)	3,538	-1.0%	-0.3%	3.9%	20.4%	10.5%
MSCI Japan (USD)	5,812	1.5%	4.5%	5.2%	31.0%	22.2%
MSCI UK (USD)	1,739	-0.2%	0.7%	6.0%	22.2%	12.6%
MSCI EM (USD)	1,726	0.3%	4.7%	-1.2%	39.5%	24.6%
MSCI Asia ex Japan (USD)	1,140	0.1%	4.9%	-1.9%	40.3%	26.4%

Fixed Income

	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	5.0%	-0.2%	-0.4%	-0.7%	1.3%	-0.4%
U.S. Govt/Credit	5.0%	-0.2%	-0.4%	-0.7%	0.9%	-0.6%
U.S. 10 Year Treasury	4.8%	-0.3%	-0.8%	-1.2%	-0.4%	-1.9%
U.S. TIPS (1-10YR)	4.6%	0.0%	-0.1%	-0.5%	1.4%	1.2%
U.S. High Yield	7.4%	-0.1%	0.3%	1.0%	4.7%	2.6%
EM Bonds (USD)	6.2%	-0.2%	0.0%	-0.2%	4.7%	1.3%
Municipal Bonds	4.1%	-0.8%	-1.0%	-2.1%	3.2%	-0.3%

Commodities

	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	369	2.0%	11.2%	6.4%	44.2%	33.5%
Crude Oil (USD/bbl)	$96.3	7.0%	16.5%	0.8%	28.9%	35.0%
Gold ($/oz)	$4,430.0	-0.6%	8.6%	-1.0%	24.9%	2.6%
Copper	$14,415.5	0.9%	2.5%	3.5%	45.6%	16.0%
Wheat	$246.3	-1.9%	7.8%	17.7%	14.7%	22.8%
U.S. Dollar	99	-0.5%	-0.7%	-0.2%	0.8%	0.9%
VIX Index	14.5	0.7%	-11.9%	-5.6%	-5.0%	-2.8%

Footnotes: Data is as of September 4, 2026.
Source: Bloomberg Finance LP, Verdence Capital Advisors.

Disclaimer:

 The indexes presented are unmanaged portfolios of specified securities and do not reflect any initial or ongoing expenses nor can it be invested in directly. An investment's portfolio may differ significantly from the securities in the index.

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