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US Economics and Fixed Income Strategy | North America

September FOMC Reaction: Further hikes ahead

We now expect two additional 25bp rate hikes in December and March, bringing the target range to 4.25-4.5%. The repeated language around removing accommodation, mentions of geopolitical risks, and a revision up of the neutral rate in the projections all leaned hawkish.

Key points

- The Fed hiked its policy rate by 25bp to 3.75-4.0%. We now project 50bp of further tightening for a terminal target range of 4.25-4.5% in 1Q27.
- The median dot showed one additional hike this year followed by a hold next year, but 8 out of 18 participants who submitted forecasts expected an additional hike next year. The neutral rate estimate in the projections was revised higher.
- Chairman Warsh characterized today's rate hike as removing accommodation, which we think suggests the Fed has more work to do. Combined with the discussion of ongoing geopolitical risks, we think this leans in the direction of more hikes than we previously expected.
- Our rates strategists think the market is now likely to price in the probability of more hikes in the short term, given Chairman Warsh's emphasis on inflation trends. A pull-forward of rate hike pricing should lead investors to think more about downside risks to growth in the medium term. They suggest investors enter SFRZ6Z7 flatteners at 40bp, exit September/October FOMC flatteners, and stay long 2y UST-SOFR swap spreads.
- Our FX strategists recommend staying long USD/JPY and believe the September FOMC may make further rises in energy prices increasingly USD-positive.
- Agency MBS: Stay neutral, but with yields on the index near the highs since the GFC and spreads on the index at the wides of the past year, prefer to get long basis on further weakness than sell on strength.
- Munis: Our muni strategists are neutral the tax-exempt basis, and prefer a duration-neutral barbell.

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September FOMC meeting: Two more rate hikes for a terminal target range of 4.25-4.50%

The Fed hiked its policy rate by 25bp to 3.75-4.0% and we now project two more 25bp rate hikes in December and March for a terminal target range of 4.25-4.50%. We expect this target policy rate to remain in place for all of 2027, before progress on inflation opens the door for normalization in 2028. Three things stood out to us as leaning in the direction of more hikes than less going forward. First, the chair said today's decision was about removing accommodation. If policy is not yet restrictive, then the Fed still has work to do. Second, Chairman Warsh repeatedly pointed to geopolitics (e.g. oil and commodity prices) as an important driver of inflation and, in turn, his reaction function. Resolution of the conflict in the Middle East remains elusive. Third, FOMC participants revised higher their assessment of the neutral rate to 3.25% from 3.06% previously. In our view, this tilts things in the direction of two more 25bp rate hikes. A hike in October cannot be ruled out either, in our view.

The decision: The Fed raised its policy rate by 25bp to 3.75-4.0%, a decision that was widely expected after the August inflation data was released last week. The dot plot pointed to one additional 25bp rate hike in 2026, and 8 of the 18 participants that submitted a projection think a third hike in 2027 is appropriate.

We entered the September meeting expecting 50bp of cumulative tightening, consisting of 25bp hikes in September and December. We now expect 75bp in total, adding a third 25bp hike to the path. We lean in the direction of more hikes than less since today's move was presented as the beginning of the removal of accommodation. Combined with Warsh's focus on uneven inflation performance, geopolitical risks, and the increase in the longer-run neutral rate to 3.25%, we think stopping after one additional hike runs the risk of leaving the policy response incomplete.

Today's hike "removed a dose of accommodation"

The communication turned hawkish, in our mind, when Warsh characterized the stance of policy. In his prepared remarks, he said he would be "hard-pressed to describe broad financial conditions as restrictive" and that this view was "widely shared by the

Committee." He therefore described the September action as removing "a dose of accommodation." While we do not want to over-interpret any language choice, he used this phrasing twice, suggesting it was intentional. He could have said the committee was moving policy into restrictive territory or further into restrictive territory, but chose not to. Hence, we take some signal from the word choice and think it leans in the direction of more cumulative hikes than we thought going in.

> "I found it difficult to describe financial conditions as restrictive.... What I heard around the table in the last couple of days is my colleagues were hard-pressed to describe it that way, too. We removed a dose of accommodation."

We acknowledge that later in the press conference, Warsh downplayed the idea of a neutral rate as important in setting policy. When asked if he was thinking in a short-run versus long-run neutral rate framework, he replied:

> "I have always been interested in a neutral rate as an academic matter, a real equilibrium rate. It is useful academically, a discussion to help us think about policy. Do I think it has any operational effect on decisions we make today? No, I don't."

We are hard-pressed to come up with a framework that allows for the discussion of restrictive versus accommodative without the concept of a neutral rate. The chair could be using imprecise language – referring to broad financial conditions as opposed to the federal funds rate – but until we know more, we assume the language choice was intentional.

Warsh's reaction function is still incomplete, but it is clear it includes geopolitics and commodity-price transmission to inflation

Warsh identified geopolitics as one of the three developments that changed between July, when the committee held steady, and September, when it raised rates. He said:

> "The third thing that has changed in seven weeks is geopolitics. There is no hiding from hot spots around the world, and our judgment about what is the most likely, or least likely, of the geopolitical situation has changed."

His concern also extends beyond the direct effect of energy prices on headline inflation. In discussing the factors driving the increase in long-term yields, Warsh cited geopolitics as a leading explanation and emphasized transmission through commodity-processing margins:

> "The third [reason behind higher interest rates] is geopolitics. The situation, hot spots around the world, are driving long-term yields. It is not simply spot prices of energy... but it is the difference between those spot prices and so-called crack spreads. What that means for products that find their way into a store across the country."

He said that the strengthening economy, unfavorable inflation trends, and a changed geopolitical assessment had together contributed to the "firm, unanimous decision" to raise rates. If one believes that the current conflict in the Middle East and resulting elevated oil prices are unlikely to resolve quickly, this part of the reaction function points toward continued tightening. Should oil come back down, then less tightening would be appropriate.

A higher neutral rate also raises our view of the likely terminal rate

The upward revision to the longer-run neutral rate to 3.25%, in our view, strengthens the case for a higher terminal policy rate (two additional 25bp hikes rather than one). The upward revision of roughly half a 25bp rate hike suggests that any given nominal policy rate represents less restraint than previously assumed. Although the chair refuses to provide projections and downplays the importance of the neutral rate as a concept, others on the committee have more traditional views and it points to the risk of more hikes to deliver the desired amount of policy restriction. We also see some linkage between the committee's view of the neutral rate and the chair's view of financial conditions: an upward revision to the neutral rate is directionally consistent with Warsh's view that financial conditions remained accommodative before the meeting and could not yet be described as restrictive afterward.

An October hike cannot be ruled out

Our revised monetary policy forecast now has 25bp rate hikes in December and March. The bulk of the committee – through the dot plot – seems to be comfortable with a quarterly decision cycle. Hike, assess data, take action again or not. The dot plot does not appear to point to actions at successive meetings.

That said, the median participant sees one more rate hike as appropriate and 8 of the 18 see two additional rate hikes as appropriate. If the chair truly believes that policy is not restrictive, inflation is a choice, and today's decision "took a step in delivering it", then market-implied probabilities for a hike in October should remain elevated.

If so, our anticipated 75bp in cumulative hikes could come in September, October, and December and the hiking cycle could be completed by year-end. We think patience will prevail and project a more leisurely pace of rate hikes, but we would chalk up a potential October rate hike to the chair's prerogative. If he wants to hike, we think he could make it happen.

We also cannot rule out fewer hikes

With the situation in the Middle East being a primary driver of inflation risk, any resolution to the conflict or de-escalation of the conflict could bring much lower energy prices and inflation prints. We could also be reading too much into the chair's description of accommodation versus restriction and the upward revision to a very uncertain neutral rate. If so, our anticipated hike in March 2027 may not materialize and the Fed only hikes one more time in December. An even more rapid de-escalation of the Middle East conflict or faster disinflation than we project could mean a one-and-done hike in December (e.g. no further hikes).

Global Macro Strategy

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Turning your trend foe into a friend

Chair Warsh made it clear again: trends matter more than individual data points. "I said in Jackson Hole, trends matter… I'll just reiterate: Trends matter; data points are noisy. Data point dependence is a dangerous preoccupation. It's not something that concerns me."

If the inflation trend hasn't improved up to this point, when will it improve enough to stop further rate hikes? Our economist's updated projections suggests that the inflation trend should improve sooner rather than later.

- They expect two more hikes – one in December 2026 and one in March 2027 – with the risk skewed toward those hikes happening earlier, in October and December 2026.

The thing about trends? Whether in economic data or markets, trends are most likely to change the longer you look out on the horizon. As a result, markets should price the probability of additional hikes higher in the near term, and lower in the medium term.

To a certain extent, market prices reflect that idea already (see Exhibit 1). However, we think market pricing for policy in 2027 places too little probability on the inflation trend changing to the other direction – and requiring the Fed to either end the hiking cycle or embark on an easing cycle.

Exhibit 1: FOMC participants' assessments of appropriate monetary policy: midpoint of target range or target level for the federal funds rate, September 2026, medians, and market pricing



In light of Chair Warsh's comments that underscored the importance of trends in his mind: "I am not a data-point dependent guy" and given the risk our economists outline for the potential for hikes to happen earlier, we now suggest investors close September-October FOMC OIS flatteners.

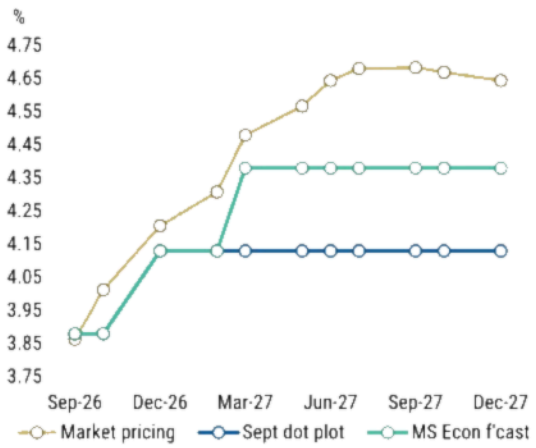
- When we compare the current market-implied path of Fed policy relative to the latest dot plot and our economists updated forecast for the Fed, we see much more rate hike risk premium over 2H27 (see Exhibit 2).

We think SFRZ6Z7 has steepened quite aggressively as markets repriced the terminal (peak) rate for the Fed higher, due to uncertainty over the manner with which the September hike would be delivered (see Exhibit 3).

- We think this expression captures risk of a front-loaded rate hike cycle now and consequently more downside risks to growth in the medium term, while also benefitting from hike risk premia that appears elevated over 2H27.

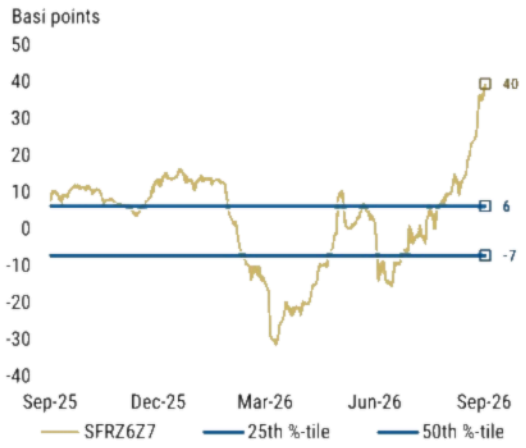
We suggest investors enter SFRZ6Z7 flatteners at +40bp with a target of +10bp and an initial stop of +50bp. The main risk is a prolonged pause that eventually results in the Fed playing catch-up in bringing inflation back down to 2%.

Exhibit 2: Market-implied Fed funds OIS, September 2026 FOMC median dot plot, and Morgan Stanley economist Fed path



Source: Morgan Stanley Research, Bloomberg Finance L.P.

Exhibit 3: SFRZ6Z7 curve over the last year and 25th and 50th %-tiles



Source: Morgan Stanley Research, Bloomberg Finance L.P.

A story of inflation trends and geopolitics

Chair Warsh signaled that commodity prices are an input to his decision-making. He said that commodity prices bear watching and that many key input prices have risen over the past weeks. A rise in energy, fertilizer and metal prices increases the risk of pass-through into core inflation by lifting transport, farming and construction costs.

He said that too many categories are still running above 3% on both a 6m and 12m basis (Exhibit 4). He also mentioned that the inflation compensation in market prices stays low, potentially referring to the breakeven rates in the belly of the curve. This hawkish tone of the Fed pushed real yields higher and tightened breakevens across the curve (Exhibit 5).

We maintain long 1y1y versus short 5y5y CPI swap forward as a relative value trade in CPI swap forward space. The risk of inflation pass-through from higher commodity prices can push 1y1y higher, while the Fed's credibility story keeps 5y5y contained.

Exhibit 4: Breadth of inflation in PCE

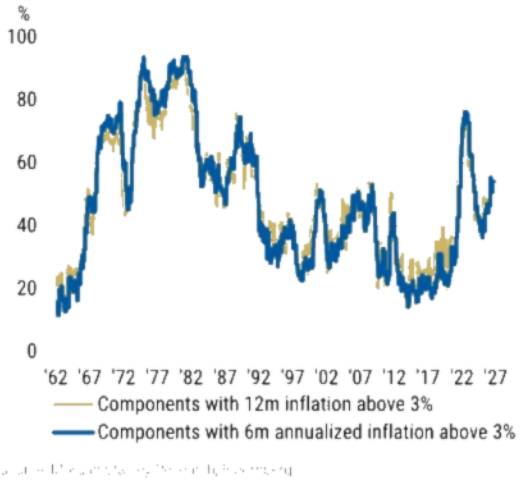
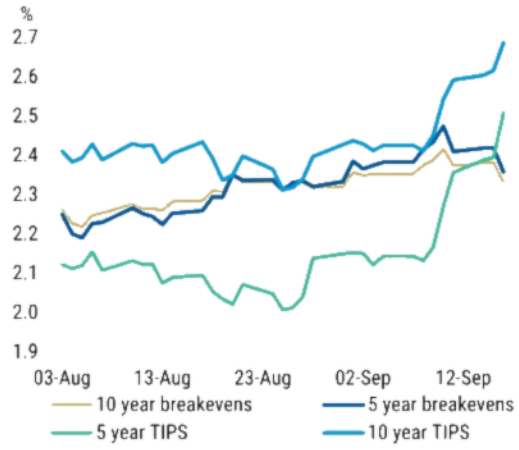


Exhibit 5: Real yields move higher and breakevens tighten



- **Trade idea: Enter SFRZ6Z7 curve flattener at +40bp with a target of +10bp and an initial stop of +50bp.**
- **Trade idea: Maintain long 2-year (Sep '27) UST SOFR swap spreads at -1.4bp with a target of +1bp and a trailing stop of -5bp.**
- **Trade idea: Exit pay fixed September FOMC OIS vs. receive fixed October FOMC OIS at +13bp (FOMC OIS flattener).**
- **Trade idea: Maintain long 1y1y vs short 5y5y CPI swap forward at 8bp with a target of 25bp and stop of 0bp.**

USD outlook

We see the outcome of the September FOMC meeting as consistent with a rising USD, particularly versus JPY.

Our rates team's expectation that markets will price additional near-term UST curve flattening is likely to boost the USD versus low yielders like JPY. We recommend remaining long USD/JPY, as discussed here.

- **Trade idea: Maintain long USD/JPY at 156.23 with a target of 163.00 and a stop of 150.00.**

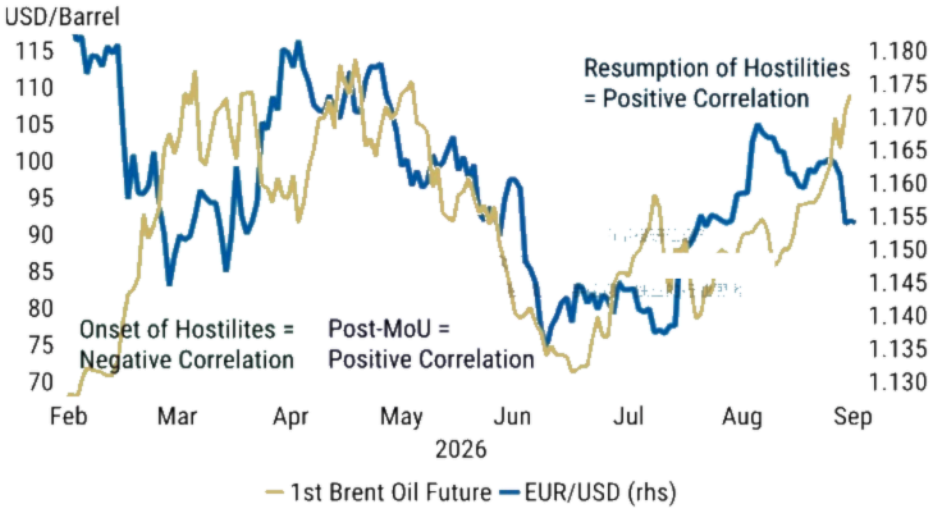
We also think that Chair Warsh's communication regarding inflation trends may displace a market perception that the recent rise in inflation swaps in Europe relative to inflation swaps in the US means that further rises in energy prices will be USD negative.

More broadly, Chair Warsh's communication on inflation may also matter for how markets translate renewed increases in energy prices for EUR/USD. In recent months, markets appear to have treated the energy shock as EUR-bullish via a differential impact on front-end ECB vs. Fed rates. As energy prices have risen, Euro Area inflation expectations have risen sharply relative to US inflation expectations, ECB pricing has moved higher, and EUR has remained resilient despite a deterioration in real yield differentials.

Chair Warsh emphasized that the Fed's "predominant focus" is price stability, specifically noted that commodity prices bear watching, and reiterated that the Committee wants to prevent relative-price shocks from broadening into more persistent inflation. If the September FOMC leads markets to perceive the Fed as highly sensitive to renewed energy-related inflation pressures, that EUR/USD asymmetry may shift. We think that outcome would make further increases in energy prices less EUR-positive and more USD-positive.

Over the past six months, EUR/USD has traded surprisingly closely with energy prices (Exhibit 6). EUR declined in May and June as oil prices eased, before recovering in July and August as energy prices rose.

Exhibit 6: EUR has traded in line with energy over the past six months



That relationship is somewhat counterintuitive. Oil's USD denomination mechanically biases its relationship with EUR/USD positively, but Europe remains a large net importer of energy. Historically, rising higher energy prices have represented a deterioration in the region's terms of trade, a drag on real incomes and growth, and therefore a headwind for EUR especially when energy price movements result from fluctuations in global supply mediated by conflict. In other words, an increase in energy prices associated with geopolitical risk in the Middle East would normally be expected to support the USD and vice versa.

We think the recent EUR-energy price relationship is best understood through a perceived asymmetry in central bank reaction functions. Higher natural gas prices have raised Euro Area inflation expectations much more than US inflation expectations. One-year US inflation swaps are around 2.6%, not far from February 2026 levels, while equivalent Euro Area inflation swaps are around 3.5%, roughly 175bp above their February levels.

Exhibit 7: Inflation expectations have risen more in Europe than in the US

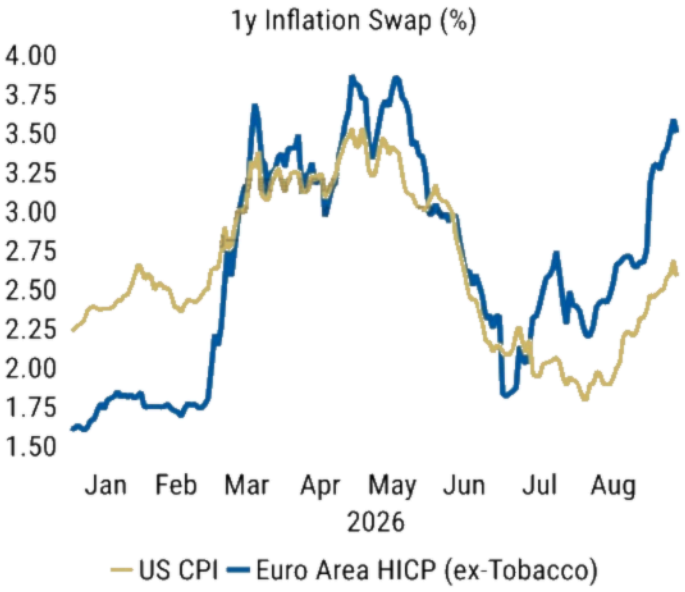
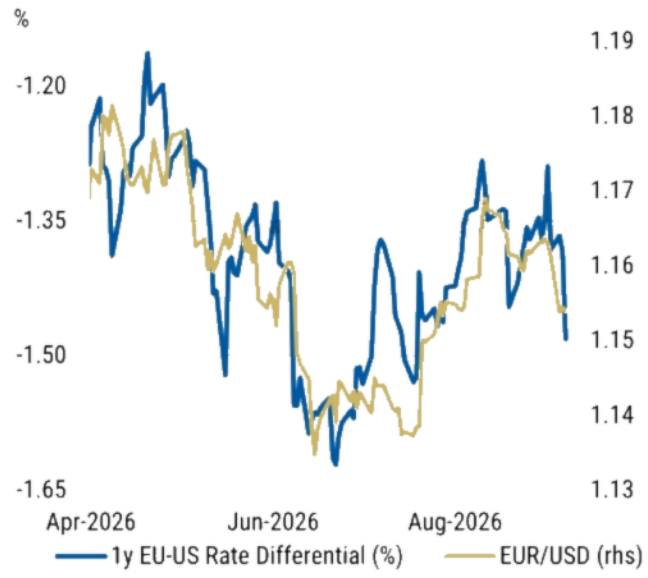


Exhibit 8: Near-term policy differentials have been key for EUR/USD, and they have reflected inflation differentials



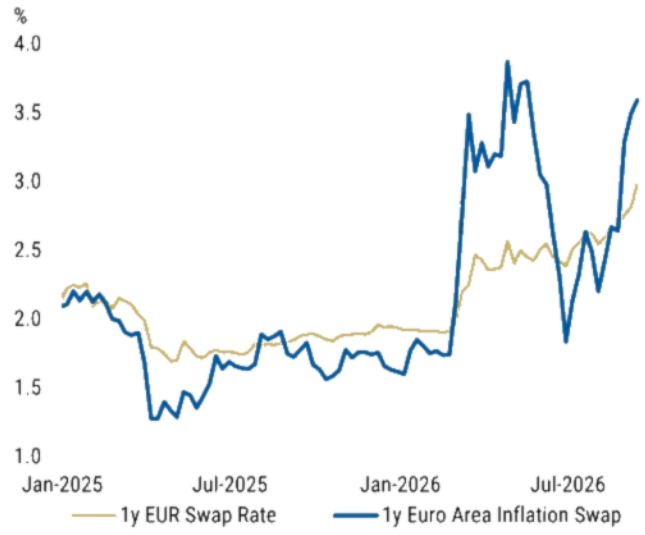
That divergence has been consistent with a market perception that the ECB reaction function is more sensitive than the Fed reaction function to the inflationary consequences of the energy shock. EUR/USD has consequently traded more closely with near-term ECB-versus-Fed policy expectations than with real yield differentials in recent months.

This also helps explain an otherwise striking divergence: EUR has remained resilient even as European real yields have fallen substantially relative to US real yields. In part, the deterioration in European real yields is itself a consequence of the energy shock. Higher gas prices raise European inflation expectations; unless nominal European rates rise one-for-one, real yields fall. EUR/USD has therefore been trading more closely in line the expected ECB response to the inflation shock more than with the deterioration in real rates and the underlying terms of trade.

Exhibit 9: EUR has stayed resilient despite real yield differentia s moving against it...



Exhibit 10: ...as markets have priced an ECB response to higher energy prices



Europe's greater exposure to natural gas explains much of the divergence in inflation pricing. European gas prices have risen sharply over the past six months, as our energy strategy colleagues discuss here. Gas storage remains well below historical levels for mid-September, while European buyers had expected additional supply from Qatar's Ras Laffan facility to return to the market (Exhibit 11). Our energy strategists notes that this dynamic leaves risks to gas prices skewed higher.

Exhibit 11: Inflation expectation differentials have tracked with European natural gas

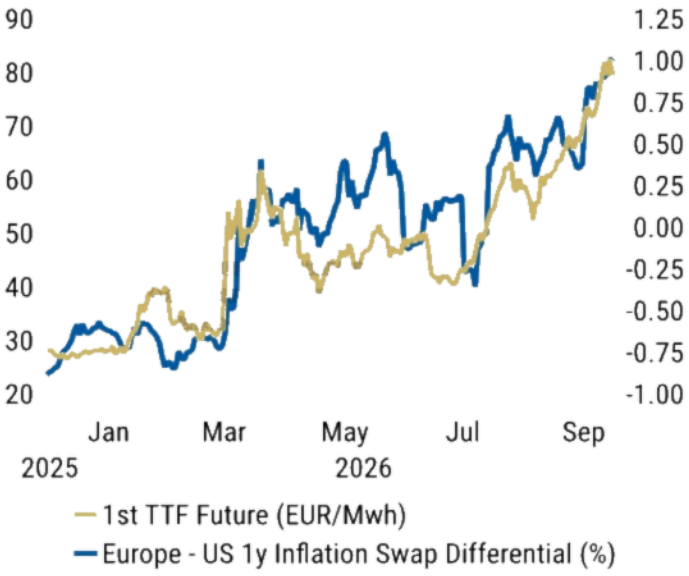
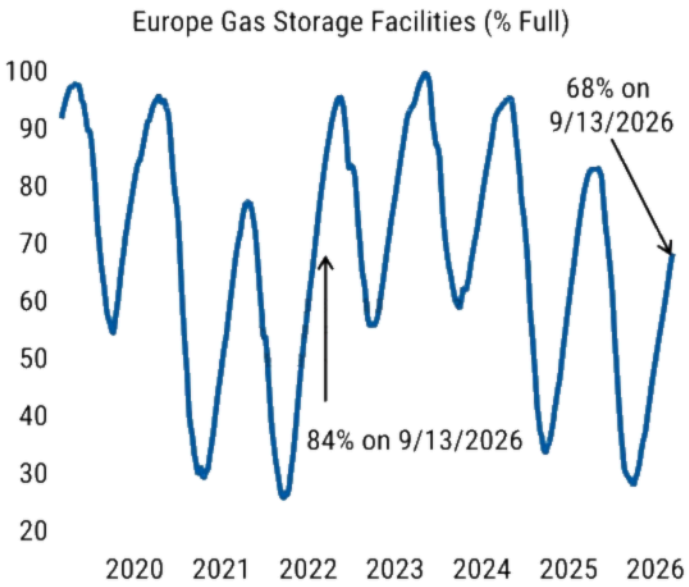


Exhibit 12: Natural gas storage looks low



Our economists currently expect one further ECB hike this cycle and note that additional tightening could become appropriate if gas prices remain elevated. A rise in TTF toward our €85/MWh forecast (or potentially our €100/MWh bull case) could therefore put further upward pressure on ECB pricing.

There are good reasons why markets have so far focused on the ECB response rather than the growth cost of higher energy prices. Europe avoided recession in 2022 despite much higher gas prices (see our discussion here and our economists' discussion here); market pricing suggests subdued concerns about ECB-overtightening (see our discussion here and Exhibit 13); European corporates are less energy-intensive than they were in 2022 and better prepared for another energy shock; and global growth has remained relatively resilient (see the resilience of global labor markets in Exhibit 14). Together, those factors have reduced the perceived growth sensitivity of the Euro Area to higher energy prices and allowed the relative policy-rate channel to dominate.

Exhibit 13: Yield curves remain upward sloping in most G10 economies

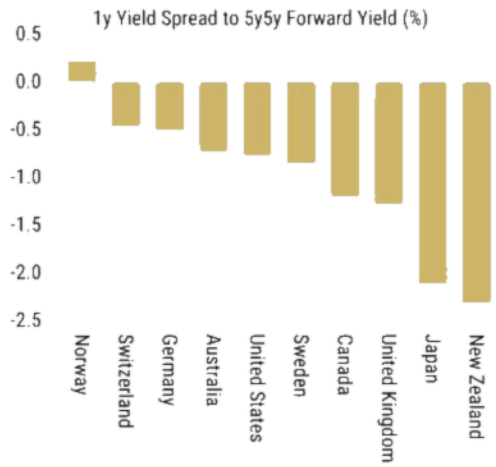
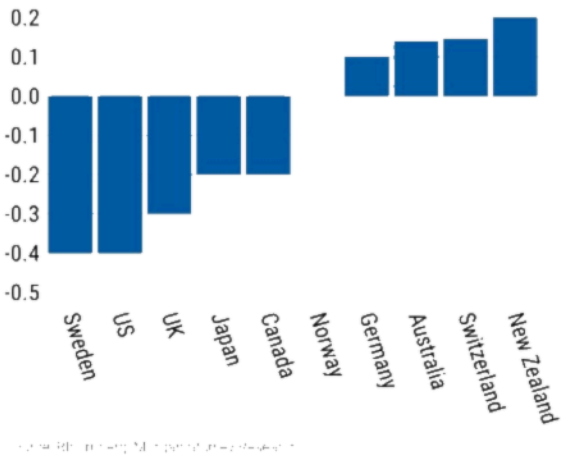


Exhibit 14: Labor markets have held firm



But that interpretation depends on the ECB reaction function *and* on the Fed reaction function. If markets view the ECB as more responsive than the Fed to the inflationary consequences of higher energy prices, the shock can support EUR through relative front-end rates. Warsh's communication may make that perceived asymmetry less pronounced.

We think Warsh's September communication may begin to shift that perception. A market perception that the Fed will be more reactive than before to moves in energy prices may diminish the recent positive EUR/USD beta to energy prices, even if European inflation pricing remains more sensitive to the shock.

The potential for energy prices to stay elevated may therefore increase USD-positive risks – the opposite of the recent correlation. We therefore see our energy strategy colleagues' forecast for 88 EUR/MwH TTF and 100 $/bbl Brent oil forecasts for year-end as providing tailwinds to the USD over time.

US Agency MBS – No Need To Step In Yet

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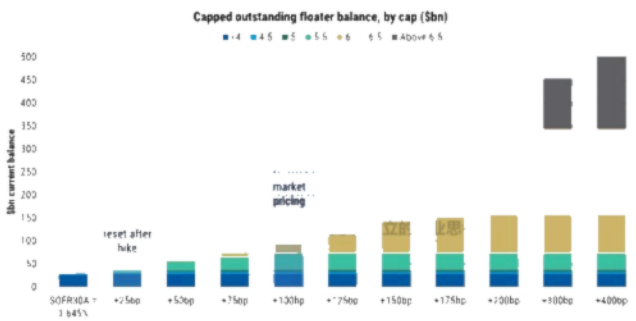
We had thought that mortgages would prefer a hike to a hold given the hike was what the market was expecting, but the hawkish language from Chair Warsh was the real surprise. Markets are now pricing in a greater than 50% chance of a hike in October and three more hikes this cycle, reversing the insurance cuts in 2025 and then some. Recognizing markets need term premium, it's hard to not look at two-year yields approaching 4.75% and say they are attractive amid a dot plot released today where the most hawkish member has a 4.375% policy rate forecast.

However, market participants seem to have been caught wrong-footed on front-end risk for the better part of this year – at the end of February markets were pricing a policy rate of effectively 3% by year-end 2026, or two cuts from the beginning of the year, and now markets are pricing 4.2%. It's been a rough move, and our concern is what happens if this momentum continues. Chair Warsh spoke to the geopolitical risk driving long-term yields and global energy prices, things which could be elevated for some time. Furthermore, when asked the impact of hiking rates given that it wouldn't reopen the Strait of Hormuz, he said: "*We cannot affect any individual price, whether it be oil prices, whether it be foodstuffs at the grocery store. But what we can do and will do is ensure that any change in relative prices don't broaden out, don't have second- and third-order effects on the economy.*"

Exhibit 15: Yield on mortgages doesn't look as attractive to the forwards



Exhibit 16: As more hikes get realized (technically priced in), floaters pick up more duration



Basically, the concern we have is that markets could get caught off-guard again on front-end pricing. Beyond the data changing or energy prices remaining elevated for longer, the other concern is more about the Fed's reaction function. Specifically, given that Chair Warsh is unlikely to give much forward guidance, we can imagine a scenario where as the Fed hikes markets need to price in a more sustained hiking cycle. This would be exacerbated if the Fed were to hike in October given the >50% chance currently priced in.

If the Fed were to realize the three more hikes priced into the markets, the carry profile would erode further, but that should be mostly priced in given it is the current market. At this point, were that to happen, we think mortgages would perform fine, but the performance is probably closer towards the end of the hiking cycle than the beginning when the peak rate is hopefully more clear. The other concern with the Fed hiking rates is the impact on floaters.

We show our estimate of how many floaters will get capped out as a function of where SOFR will set in Exhibit 16 . Now, it's important to remember that floaters will pick up duration much before they get capped out, but we're getting closer to an inflection point where some of the investors who owned floaters to get mortgage exposure that is easier to hedge may get stopped out of their trades due to mark-to-market losses on floaters. In effect, this is another example of mortgages having duration and convexity causing issues into a hiking cycle, but at a (hopefully) much smaller scale than the 2022-2023 experience.

Exhibit 17: Mortgage spreads have moved wider, especially vs. IG credit

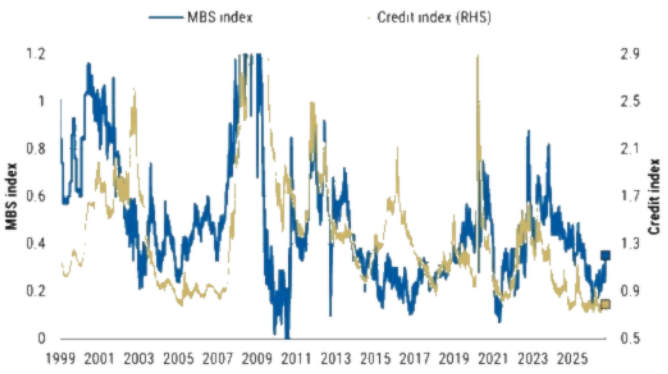


Exhibit 18: Bank deposit growth is still outpacing loan growth



Otherwise, when we look at the mortgage basis, we're biased to get long, but think that investors may get a slightly better entry point if they wait. Why aren't we long now? A few reasons:

- Deleveraging flows could come from either floater holders, investors long mortgages outright, or leveraged players
- Uncertainty around the policy rate will likely delay bank demand while GSE demand has stagnated, making finding the marginal buyer harder
- Comparable risk assets are still snug and vol is still low on a longer term lookback; if either change then mortgages would likely widen in sympathy

On the positive side, which we think is more consequential, the catalysts may be more likely to materialize in 2027 than in Sep/Oct 2026.

- Yields on the index are at the highs since the GFC if you exclude fall 2023, and spreads on the index are at the wides of the past year. Mortgages look attractive vs comparable asset classes
- At this rate level supply will be very low while comparable asset classes will see continued supply (IG)
- Bank demand will likely be stronger going forward as they get Basel clarity and the ability to hedge interest rate risk in HTM, especially given the strength in deposit growth this year vs loan growth (Exhibit 9)
- GSE demand and overseas pension funds changing their benchmark could combine to buy the entire net issuance.

This leaves us neutral right now, but with a bias to buying on weakness rather than selling on strength.

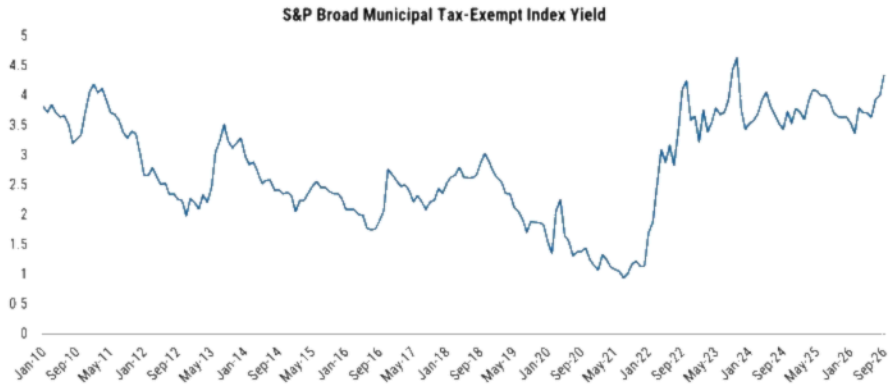
Munis: A Few Hikes Won't Dent Supply

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We see a better entry point for tax-exempts: The rise in yields is historically unusual, and presents investors with the among the best entry points in the past 15 years.

Exhibit 19: Index yields approaching 4.5% make for one of the best entry points in the past 15 years



We prefer a barbell: We see additional opportunities for the curve to flatten as the FOMC restores its inflation-fighting credibility. That keeps us preferring barbells instead of ladders here.

Exhibit 20: Bear flattener (100bp): 6M total return by tenor

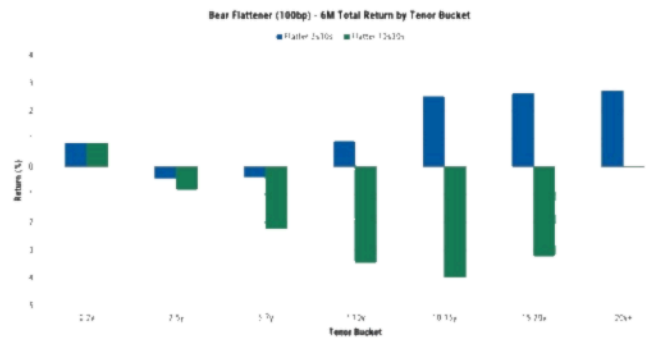
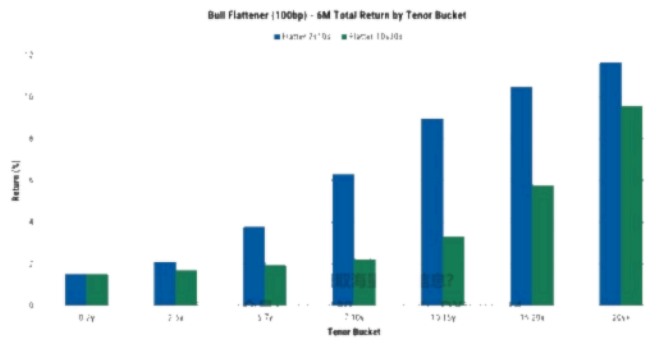


Exhibit 21: Bull flattener (100bp): 6M total return by tenor



Although starting yields are compelling, we are only neutral towards tax-exempt munis here. Two reasons why:

- **Supply may rise post-FOMC, which precludes a bullish stance:** Supply typically dips heading into "live" Fed meetings. Although it's early, the data points to a pick-up in the calendar next week.
- **It's been a rough quarter for total returns – flows may be sluggish for a few more weeks:** Inflows slow (or stop) when total returns are this negative. Offsetting this risk is the fact that very high yields create a compelling entry point.

Exhibit 22: Flows have followed returns historically

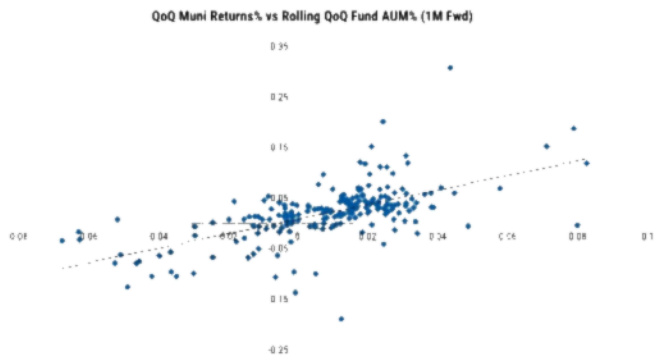
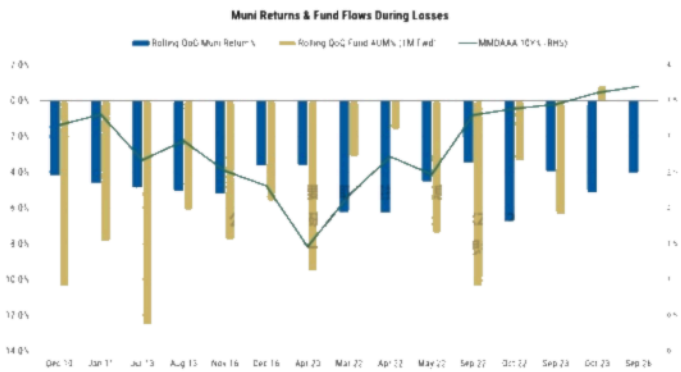


Exhibit 23: Fund flows have been, on most occasions, weaker following losses

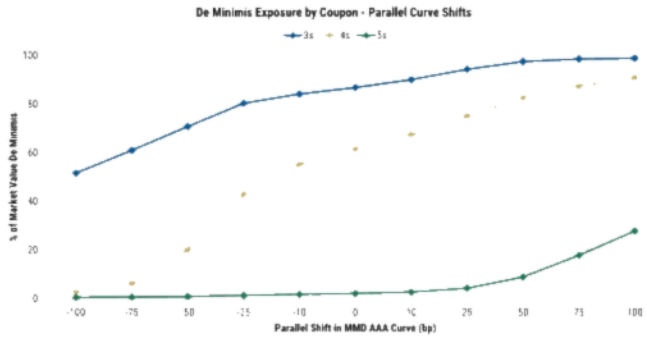


If investors position for higher rates across the curve, de minimis risks could further dent performance: Were rates to rise 50bp or more, the increase in bonds subject to additional incremental taxation (*de minimis*) could negatively impact broad market performance. That keeps us favoring a mix of 3% and 5% coupons to 4% coupons. (See *A Rising Rates Playbook*, September 15 2026)

Exhibit 24: The next 25bp is fine – if yields across the curve rise more than that, then things get tricky



Exhibit 25: We favor a mix of 5s and 3s to 4s. The risk of falling into de minimis (4% coupons) strikes us as a headwind for liquidity



Valuation Methodology & Risks

Exhibit 26: GMS live trades and recommendations

Interest Rate Strategy				
TRADE	**ENTRY LEVEL**	**ENTRY DATE**	**RATIONALE**	**RISKS**
SFR7677 flattener	40bp	9/16/2026	We think this expression captures risk of a front-loaded rate hike cycle now and consequently more downside risks to growth in the medium term, while also benefitting from hike risk premia that appears elevated over 2H27.	The main risk is a prolonged pause that eventually results in the Fed playing catch-up in bringing inflation back down to 2%.
Long 2y (Sep 27) UST SOFR swap spread	-21.6bp	10/3/2025	We expect softer funding conditions and a steepening of the very front end to cause swap spreads in the front end to widen given recent relationships.	Risks to the trade include firmer funding than expected or a stabilizing job market.
Currency and Foreign Exchange				
TRADE	**ENTRY LEVEL**	**ENTRY DATE**	**RATIONALE**	**RISKS**
Long USD/JPY	153.40	9/11/2026	We think expectations for GPIF repatriation looks too speculative, while rising oil prices and markets' pricing of a high US terminal rate continue to support the pair.	A key risk to this trade is that JPY carry positions continue to be unwound, driven by the further speculation about repatriation from GPIF and Japanese investors more broadly.
Inflation-Linked Bonds				
TRADE	**ENTRY LEVEL**	**ENTRY DATE**	**RATIONALE**	**RISKS**
Long 1y1y vs short 5y5y CPI swap forward	11bp	9/14/2026	This pair appears attractive based on our fair value model. A passthrough of higher commodity prices into inflation expectations and a mildly hawkish Fed	The risks to this trade is a more than expected hawkish Fed policy or a rapid decline in energy prices

Exhibit 27: Agency MBS live trades and recommendations

Trade	Entry Date	Rationale	Risks
Short FNCL 5.5s vs Tsy tactically	6/17/2026	Market underpriced for Fed hikes, mortgages perform poorly in that scenairo, bank and GSE demand could wane	Mortgage valuations cheap to competing assets, risk assets outperform, Fed cuts
Replace index exposure with multifamily	6/17/2026	Less negative carry way to short MBS, bank demand for multifamily still strong	Multifamily spreads near tights due to postiive technicals
Long DW5/FNCL 5.5	6/17/2026	Long vol, 15yr issuance should dry up amid higher rates, 15s reasonable OAS	give liquidity, carry
Buy 250-350k 5.0 vs roll	5/29/2026	Cheap/fair vs TBA OAS likely near wides of possible range given technicals of worsening TBA deliverable	5.0 roll goes special
Buy seasoned 5.0 and 5.s vs roll	5/1/2026	Pick OAS vs TBA, take advantage of pools seasoning vs deliverable	Roll goes special