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Global Markets Strategy

02 October 2026

J.P.Morgan

Treasuries

Try to catch the deluge in a paper cup

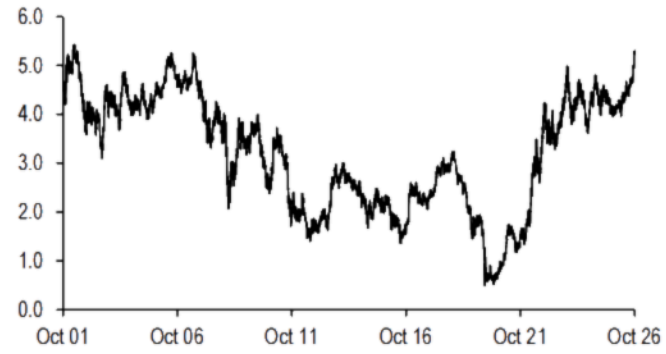
- The repricing higher of Fed expectations explains nearly all of the move in 10-year yields over the past month, alongside some mean reversion, and the 10-year now looks fairly valued for the first time in six months
- ...Terminal Fed expectations also neatly explain the moves in the 5s/30s curve, and on this basis curve valuations also appear entirely fair
- ...Thus, we do not see evidence that current levels have overrun moves in Fed expectations, and on the contrary, we believe current pricing looks appropriate
- Position technicals remain a major headwind to lower yields. Thus far, evidence of de-risking in crowded trades has been felt more aggressively in Europe than in the US, and a more wholesale unwind of long positions poses a bearish risk for Treasuries
- More material weakness in either the macro data or in the equity market could provide a ceiling for rate moves, as could more interventionist actions from Treasury, though we do not think cuts to long-end auction sizes would produce more than a temporary reaction in the term structure
- We continue to hold 10s/20s/30s belly-cheapening butterflies: the 20-year sector tends to underperform along the curve as yields rise, and looks expensive after adjusting for the level of yields, the slope of the curve, and the level of implied volatility

Market views

10-year Treasury yields this week traded at their highest levels since 2002, and struggled to reverse lower on Friday even amid weaker-than-expected employment data and falling oil prices (**Figure 1**). In totality, September saw the largest monthly volatility-adjusted rise in Treasury yields since the onset of the taper tantrum in May 2013 (**Figure 2**). It is an ominous comparison, but at its core, fundamentals remain the primary driver in our view, although we believe technical factors have also helped add pressure amid the forced unwind of consensus trades in both Europe and the US. Over the week, 2-year yields declined 4bp, while 5-, 10-, and 30-year yields rose 5bp, 10bp, and 13bp, respectively.

Figure 1: 10-year yields reached levels not seen since 2002 this week, as the growth backdrop continued to firm

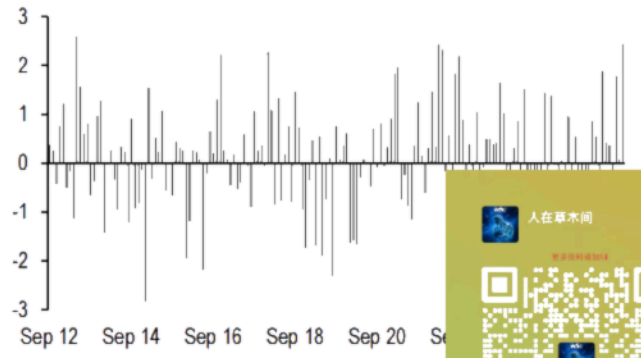
10-year Treasury yields; %



Source: J.P. Morgan

Figure 2: September was the largest volatility-adjusted rise in Treasury yields since May 2013

Rolling 1-month change in 10-year Treasury yields over the 1-year standard deviation of monthly changes;



Source: J.P. Morgan



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On fundamentals, the ISM manufacturing composite ticked down to 54.5 (consensus: 55.0), but remained elevated overall, while the final September PMI moved down to 55.9 (consensus: 57.0), still the best level since mid-2022 (see *US: Strong manufacturing in the face of inflation*, Abiel Reinhart, 10/1/26). In the annual GDP revisions, the 2Q26 savings rate was revised from 2.8% to 4.4%, giving a stronger picture of the US consumer than was previously appreciated. There were also some positive developments for inflation, as PCE rose an in-line 0.25% m/m (consensus: 0.3%), and BEA revisions to over-year-ago inflation brought the measure to 3.0% oya (consensus/JPMC forecast: 3.3%) (see *US: Core PCE lower but still sticky; affirming 3.5% 3Q GDP*, Abiel Reinhart, 09/30/26). While the September employment report was softer than anticipated, as nonfarm payrolls rose just 29k (consensus: 90k) and the unemployment rate ticked 3bp higher to 4.18%, (consensus: 4.1%) there were positive signs in the workweek, and the increase in unemployment can be accounted for by new entrants and re-entrants into the labor force, alongside a decline in marginally attached or discouraged workers (see *US: Walk, don't run*, Michael Feroli, 10/2/26)

If we take a step back, 10-year yields rose 53bp over September, marking the largest monthly rise since September 2022, in the middle of the Fed's historic tightening cycle. Over the period, as the outlook for growth and the picture for the consumer have improved, it's unsurprising that long-term yields have repriced higher as 1y1y OIS repriced nearly 66bp higher over the month. As we have argued over the last few months, given the ongoing resilience of the US economy amid another major supply shock, there is room for markets to price in a cycle much like 1999-2000, when the Fed delivered 100bp of hikes after taking back its insurance cuts. In this context, the front end looks fairly priced at current levels. **The same holds further out the curve: Figure 3 shows that the move in 10-year yields over the past month has been almost entirely driven by this repricing of Fed expectations, alongside some mean reversion, and the 10-year now looks fairly valued, after having appeared rich in our framework for the past six months**. Terminal Fed expectations also neatly explain the moves in the 5s/30s curve, as 1y1y OIS pricing has explained 86% of the variation in this curve pair over the last year, and on this basis curve valuations also appear entirely fair (**Figure 4**). **Importantly, we do not see evidence that current levels have overrun moves in Fed expectations, and on the contrary, we believe current pricing looks appropriate. While this is an important step and creates more of a value proposition, we are not sure what drives yields materially lower over the near term.**

Figure 3: The repricing in Fed expectations has explained much of the bearish movement in 10-year yields over the last month...

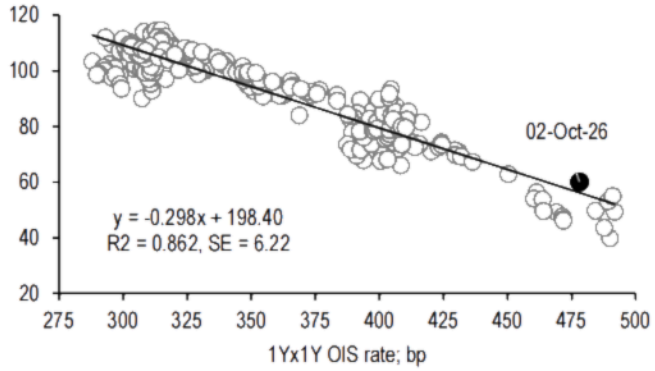
Attribution analysis of 10-year Treasury yield changes 9/1/26 - 10/2/26*

Variable	Current value	Chg since 9/1	Coeff.	T-stat	Expected chg; bp
Intercept			**7.03**	**11.2**	
1y1y OIS rate; %	4.83	0.53	0.663	88.0	35
JPM US FRI; % pts	**92.8**	**0.2**	**-0.04**	**-5.5**	**-1**
5y5y TIPS breakevens; %	2.00	-0.06	0.122	2.5	-1
Fed B/S as share of US economy	**20.7**	**0.0**	**-0.092**	**-33.3**	**0**
Tariff dummy variable	0.0	0.0	0.116	7.5	0
Expected change from all factors; bp					**33**
Actual chg; bp					48
Residual on 01-Sep-26					**-14**
Residual on 02-Oct-26					**2**

Regression from 9/1/21-9/1/26, R-squared = 97.3%, S.E. = 14.0bp
Source: US Treasury, Federal Reserve Bank of New York, J.P. Morgan

Figure 4: ...Medium-term Fed expectations have similarly explained 86% of 5s/30s variation over the last year, and the curve appears fairly valued on this metric

5s/30s Treasury curve regressed on 1y1y OIS, regression over the last year; bp



Source: J.P. Morgan

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Indeed, technicals remain a major headwind to lower yields, as positions continue to lean long. Thus far, evidence of de-risking in crowded trades has been felt more aggressively in Europe than in the US. Many consensus carry trades, mainly 10s/30s Euro swaps curve steepeners as well as longs in short-end OATs on asset swap basis and longer-term OATs versus Bunds, have experienced moves far outside any normal distribution of outcomes, marking likely forced liquidations (see **Figure 5** and Euro Cash, *Global Fixed Income Markets Weekly*, Aditya Chordia, 10/2/26).

In contrast, the volatility-adjusted moves in the US appear more benign, which is striking as it appears that investors remain broadly overweight duration in the US. Unlike what we have observed in prior hiking cycles, our *Treasury Client Survey* remains long, though the share of week-over-week position changes in the survey has moved higher in recent weeks, suggesting there has been some churn in the holders of these positions (**Figure 6**). **While our survey index is not currently long enough to provide us with a systematic sell signal, a more wholesale unwind of these positions poses bearish risks to the curve.**

Figure 5: Multiple global consensus trades have displayed increased volatility in recent weeks, a hallmark of derisking...

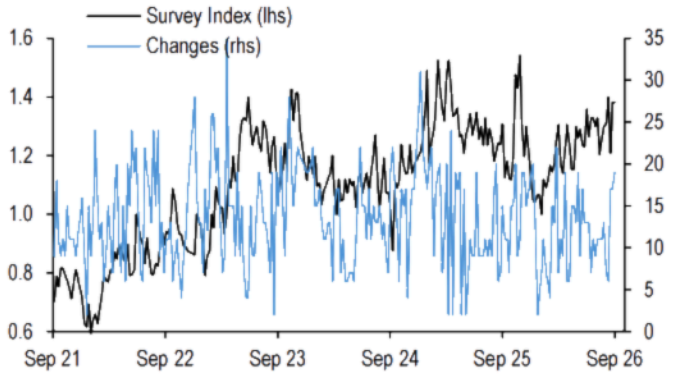
Current levels, 1-month changes, 5-year standard deviation of monthly changes, and vol-adjusted changes* in various crowded trades; units as indicated

	Current	1mo chg	5y SD	Vol-adjusted chg
1y1y ESTR; %	**3.201**	**19.2**	**34.1**	**0.6**
10s30s EUR swaps; bp	-14.3	-19.3	10.0	-1.9
10y OAT/bund; bp	**139.9**	**52.0**	**7.2**	**7.2**
3y OAT asw vs ESTR; bp	73.0	34.9	6.6	5.3
2y yields; %	**4.8**	**43.9**	**30.3**	**1.4**
10y yields; %	5.276	48.3	27.0	1.8
2s/30s; bp	**80.5**	**-7.7**	**23.1**	**-0.3**

* One-month change / 5-year standard deviation of monthly changes
Source: J.P. Morgan

Figure 6: ...while US portfolios still do not appear braced for a sustained series of hikes

J.P. Morgan Treasury Client Survey Index* (lhs) and share of week-over-week changes to underlying Survey (rhs, %);



* (Longs + Neutrals)/(Shorts + Neutrals)
Source: J.P. Morgan

As for what might arrest the bearish momentum in Treasuries, more material weakness in either the macro data or in the equity market could provide a ceiling for rate moves. To that end, our equity strategy team has found that rising yields initially support higher multiples, reflecting stronger underlying economic growth and reflation. At an inflection point, however, rising rates become a headwind for both growth and multiples, as higher discount rates and higher inflation begin to compress valuations. Depending on the growth regime, this happens between 5 and 6% on 10-year yields (see *Global Equity Strategy: Implications of Higher Rates for Equity Fundamentals, Valuation, and Positioning*, Dubravo Lakos-Bujas, et al., 9/14/26). If equities weakness becomes apparent at the lower end of this estimate, this could put downward pressure on rates.

Finally, we must also consider the potential for more interventionist actions from Treasury, in light of Secretary Bessent's public priority of lowering long-end rates, his advisors' recent focus on Treasury's control of the term structure, as well as Treasury's surprise off-cycle decision to increase the size of long-end buybacks. We do not think it would be prudent to cut sources of longer-term funding given that growing maturities, alongside still-wide deficits, are likely to create a multi-trillion dollar funding gap for Treasury in the coming years. Certainly, cutting long-end auction sizes would likely have a short-term impact on the shape

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of the curve, as evidenced by similar actions undertaken in the UK and Japan in recent years (see Treasuries, *US Fixed Income Markets Weekly*, 8/21/26). However, the reaction to actions taken by other DMOs has been short-lived and often reversed within weeks. Thus, unless any action is accompanied by serious fiscal consolidation, we do not think it would have a lasting effect on the term structure, and in fact could contribute to higher term premium and yields over time should Treasury become more opportunistic in its approach to debt management and move further away from its "regular and predictable" tenet.

Overall, with valuations fundamentally fair, we think there is some value emerging in the Treasury market for the first time in months. However, we are not ready to step in at current levels as bearish momentum remains strong, position technicals remain long and we think risk appetite will remain constrained given the deleveraging observed in other DM government bond markets. Accordingly, we continue to recommend holding 10s/20s/30s belly-cheapening butterflies: the 20-year sector tends to underperform along the curve as yields rise, and looks expensive after adjusting for the level of yields, the slope of the curve, and the level of implied volatility.

Trade recommendations

- **Maintain 10s/20s/30s belly-cheapening butterflies**

-Stay long 50% risk, or $32.1mn notional of T 4.625% Aug-36s
-Stay short 100% risk, or $41.2mn notional of T 5.125% Aug-46s
-Stay long 50% risk, or $16.9mn notional of T 5.125% Aug-56s
- (*US Treasury Market Daily*, 9/4/26: P/L since inception: -1.6bp)

- **Maintain 2.375% May-51 / 5.0% May-56s curve flatteners**

- Stay short 100% risk, or $25.1mn notional of T 2.375% May-51s
- Stay long 100% risk, or $16.6mn notional of T 5% May-56s
- (*US Fixed Income Markets Weekly*, 5/15/26: P/L since inception: -1.5bp)



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Figure 7: Closed trades in the last 12 months

P/L reported in bp of yield unless otherwise indicated

TRADE	ENTRY	EXIT	P/L
Duration			
10-year duration short	09/12/25	10/16/25	-8.4
50:50 weighted 2s/5s/10s belly-cheapening butterflies	11/25/25	12/10/25	4.9
2-year duration shorts	02/12/25	03/05/26	13.9
2-year duration longs	03/20/26	04/02/26	9.4
50:50 weighted 2s/5s/10s belly-cheapening butterflies	03/06/26	05/15/26	3.7
2-year duration longs	05/15/26	06/04/26	3.8
Short 10-year Treasuries versus 10-year Bunds	06/05/26	09/25/26	13.8
Curve			
5s/20s steepeners	07/25/25	11/24/25	0.6
2s/5s flatteners	12/16/25	01/05/26	-2.6
10s/30s flatteners	01/09/26	01/20/26	1.9
5s/20s steepeners	01/28/26	02/06/26	6.2
5s/20s steepeners	02/20/26	03/11/26	0.7
10s/30s flatteners	06/12/26	07/13/26	-0.4
5s/30s flatteners	07/24/26	07/29/26	-5.8
2s/10s steepeners	07/31/26	08/28/26	-7.6
Relative value			
53:54 3.25 Jun-27s/4.875 Oct-30s/3.5 Feb-33s belly-cheapening butterflies	07/11/25	10/03/25	1.2
67:37 4.00 Jun-32s/4.25 Aug-35s/4.75 Aug-55s belly-cheapening butterflies	10/03/25	12/19/25	-3.4
50:50 weighted 5s/10s/30s belly-cheapening butterflies	10/31/25	06/12/26	-5.8
Term premium			
64:11 weighted 3s/10s/30s belly-cheapening butterfly	05/02/25	11/24/25	-18.3
Number of positive trades			11
Number of negative trades			8
Hit rate			58%
Aggregate P/L			7.8

Source: J.P. Morgan