Citi Research



October 2, 2026

Citi Research Macro Think Tank

Citi Global Research
citiinvestmentresearch@citi.com
+44-20-7500-1400

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations

Top of Mind

- Global Economics: Many storm clouds, but little rain
- US Economics: Cooling Core Inflation Supports a Patient Fed Despite Energy-Driven Risks
- US Rates: Few Catalysts to Shift out of Neutral in the Near Term
- G10 FX: Tail Risks Rising for EUR – we go Short EURCHF
- US High Grade Credit Strategy: Fundamentals Wrap-Up: Deleveraging Despite the Debt Build
- US High Yield Credit Strategy: Reading the UST Leaves
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- US Equity Strategy: Semis lifted to OW and offset by Hardware lowered to UW.
- EM Strategy: A Tougher USD Environment for EM
- Global Macro Strategy: September Asset Allocation Update
- Quant Macro Strategy: Asset Allocator Positioning cautiously pro-risk



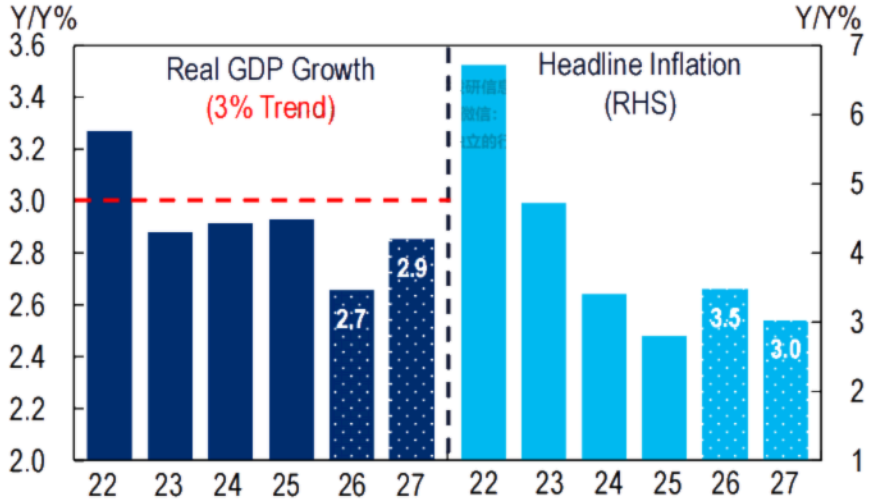
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Global Economics

Global Resilience—Many Storm Clouds, but Still Little Rain

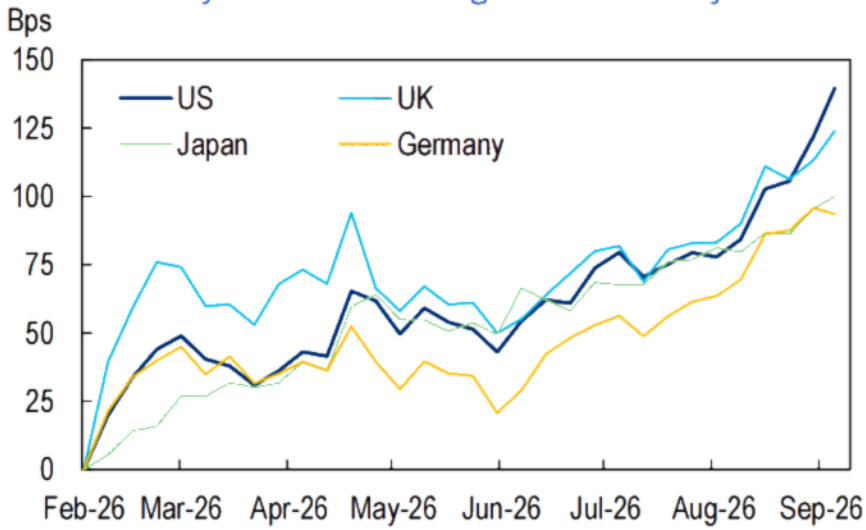
By **Nathan Sheets, Cole Langlois**

Global Real GDP Growth & Headline Inflation*



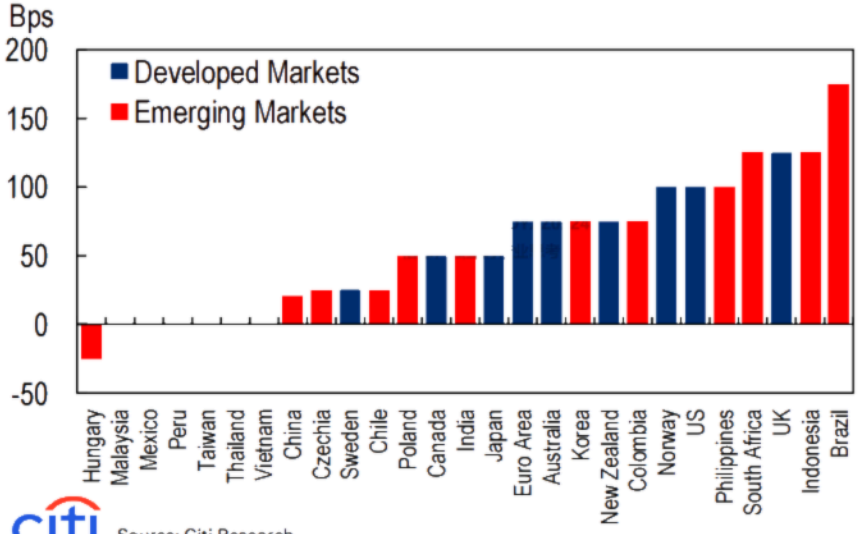
*Dotted bars reflect Citi forecasts.
Source: Citi Research

10yr DM Yields: Change Since February



Source: Citi Research, Bloomberg

2026 Policy Rate Forecasts: Change Since Feb (Citi)



Source: Citi Research

- The global economy is enduring a broad set of challenges. These include oil prices near $100/bbl, tighter monetary policy, and rising long-end yields. Even so, the global economy continues to demonstrate remarkable resilience, with global growth this year tracking at 2.7%, slightly below trend.
- The oil shock has generated inflationary pressures primarily through higher energy prices. We project global headline inflation to rise to 3.5% this year, nearly a full percentage point higher than we anticipated in February. In response to this firmer inflation, central banks have pivoted to tighter policy. Our projections for year-end policy rates are now higher than in February for 20 of the 27 major central banks we track.
- In tandem, long-term yields have risen sharply since February, with increases of 90-140bps in major DM economies. While higher inflation and tighter monetary policy have been key drivers, other factors are also exerting pressure. These include soaring sovereign issuance, burgeoning AI investment, rising term premiums, and higher neutral rates.

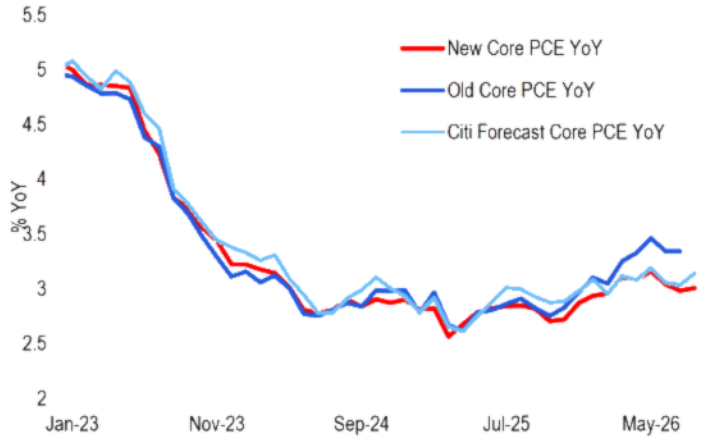
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US Economics

Cooling Core Inflation Supports a Patient Fed Despite Energy-Driven Risks

By **Andrew Hollenhorst, Veronica Clark**

Core PCE inflation was revised even lower than we expected



Source: Citi Research, BLS, BEA

Short-term yields have been sensitive to energy prices



Source: Citi Research, Bloomberg

- Core PCE inflation rose 0.25% MoM and 3.01% YoY in August, both softer than expected, while downward revisions to prior data further reinforced evidence that underlying inflation is cooling.
- The three-month annualized pace of core PCE slowed to 2.05%, the lowest in roughly two years, since before tariff-related price increases in 20256. Core PCE is now running softer than the trajectory implied by recent Fed projections, supporting a more patient policy stance. NY Fed President John Williams also pushed back on the likelihood for another near-term rate hike, suggesting officials can be patient and wait to see more data before raising rates further. Our base case remains that policy rates stay unchanged through the rest of 2026 with cuts resuming in mid-2027.
- Higher energy prices have increased near-term hawkish risks and pushed Treasury yields higher, but we expect cooling underlying inflation to lead to a less hawkish Fed path than markets currently price.

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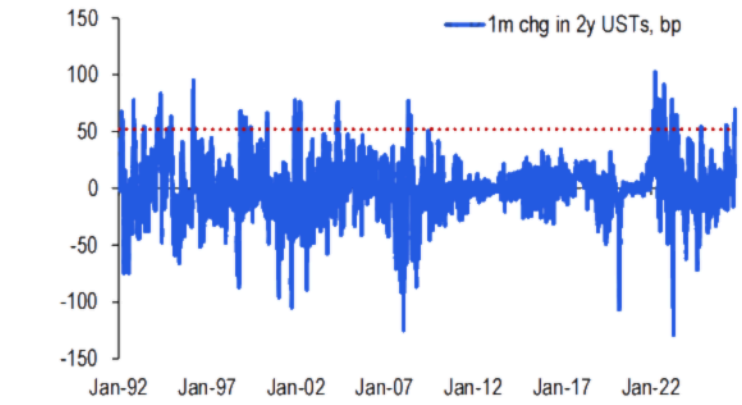
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US Rates

Few Catalysts to Shift out of Neutral in the Near Term

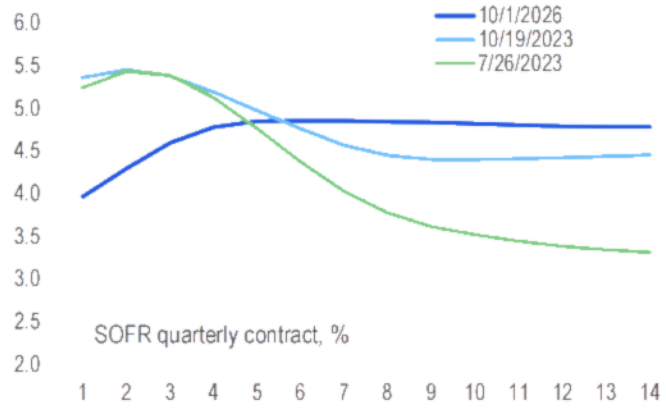
By **Jason Williams**

The past one month move in 2y yields has reached historically stretched levels



Source: Citi Research , Bloomberg

Longer dated SOFR futures are higher today than in the last hiking cycle



Source: Citi Research, Bloomberg. *Note: Futures trading involves substantial risk of loss.*

- We think the Treasury market is going through a light buyer's strike as a string of weak auctions and mixed Fedspeak has kept buyers at bay. We see no obvious catalyst for a large rally unless there is material progress towards lower oil prices Hence, we remain neutral duration.
- The front-end repricing over the past month has reached historic levels since the 90s, so perhaps the recent move is stretched.
- While it is hard to estimate a soft cap on 10y yields we think moving north of 5.5% would be a challenge based on historic analogs such as '99 and '23. We think long investors may have an opportunity, even during the hiking cycle, to get long closer to the end of the year or early Q1 2027 should this hiking cycle continue.

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G10 FX

Tail Risks Rising for EUR – we go Short EURCHF

By **Daniel Tobon, Osamu Takashima, Brian Levine**

The OAT-Bund 10y spread blowout after the 2nd ECB hike and into a commodity shock rhymes with 2011



Source: Citi Research, Bloomberg

EU Bank CDS widening, but without a corresponding VIX spike; this suggests it's an EU -specific shock



Source: Citi Research, Bloomberg

- **Tail risks fattening for EUR.** Widening OAT-Bund spreads, widening European bank CDS, EUR's inability to rally on days when rate differentials move in its favor, and rising geopolitical concerns more broadly all provide incentives to position for EUR downside.
- **Short EURCHF with SNB no longer a headwind.** The 'cleanest' expression for EUR-centric risk premia is EURCHF, in our view, and we go short EURCHF in spot targeting 0.92 (spot ref: 0.9384, 10:37 AM ET, 10/1). We also no longer see the SNB as a headwind with inflationary pressures rising in Switzerland and the SNB softening its stance on exchange rate intervention.

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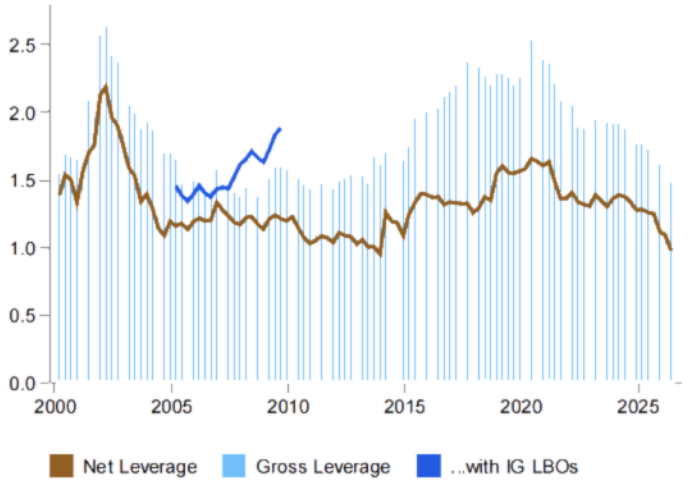
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US High Grade Credit Strategy

Fundamentals Wrap-Up: Deleveraging Despite the Debt Build

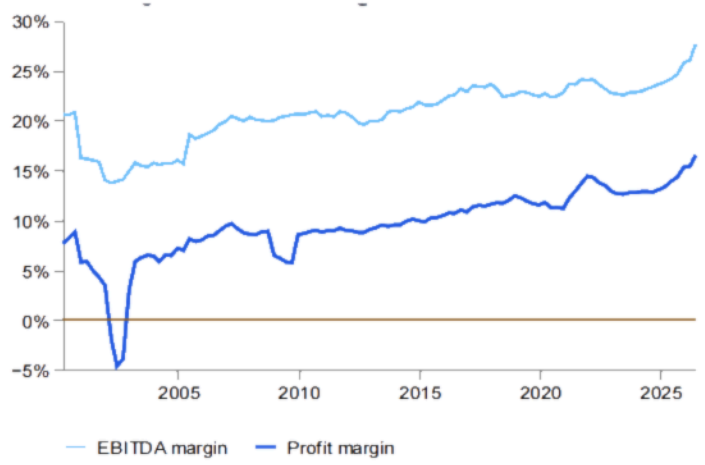
By **Daniel Sorid, Mathew Jacob**

IG trailing 12m gross leverage & net leverage



Source: Citi Research, Bloomberg

IG profit margin, EBITDA margin



Source: Citi Research, Bloomberg

- Trends in Q2 '26 US IG issuers' credit fundamentals reveal a market that is deleveraging even as it spends aggressively, with the AI buildout driving the debt and capex booms. Despite the debt build, earnings are expanding fast enough that the leverage ratios keep improving.
- IG gross leverage fell to 1.48x from 1.63x in Q1, while net leverage dropped to 0.97x from 1.08x, both well below their respective historical norms. EBITDA and profit margins expanded, while cash growth surged to 41%.
- On a sector level: TMT is driving the overall debt and capex growth even while its EBITDA and leverage metrics remain strong. Energy and Materials staged a sharp turnaround with its first quarter of positive EBITDA growth since Q2 '23 while Consumer lagged with sector-low EBITDA growth of 6.1%.

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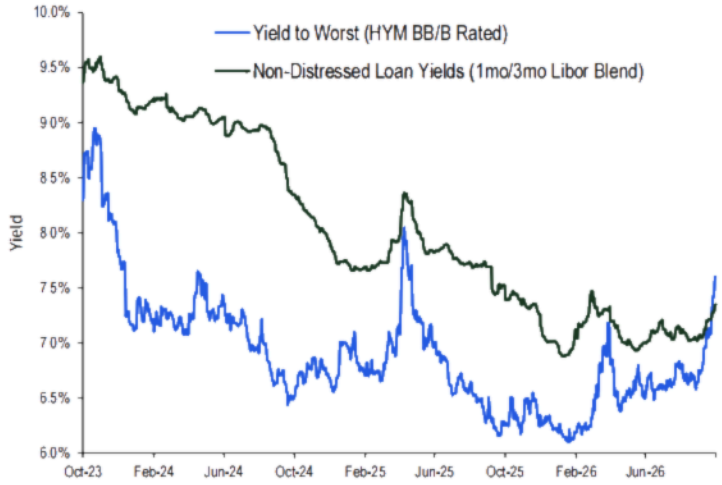
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High Yield Credit Strategy (1/2)

The Speculative Grade Beat: Reading the UST Leaves

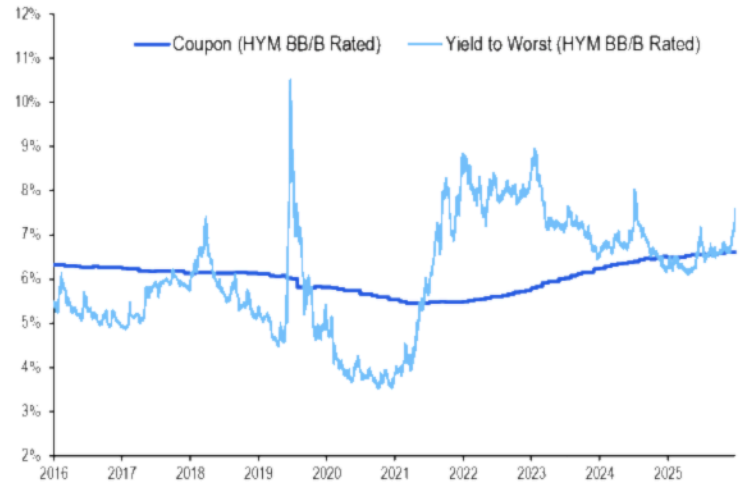
By **Michael Anderson, Steph Choe**

Relative Value Moving in HY Bond's Favor



Source: Citi Research, FTSE Indices, Citi Leveraged Loan Tracker

HY and Treasury Returns Increasingly move in Tandem



Source: Citi Research, FTSE Indices

- A combination of growth, inflation concerns and hefty corporate/sovereign borrowing needs are driving Treasury yields to multi-year and multi-decade highs, depending on the maturity. At the same time, relative value is tilting toward bonds' favor. BB/B bonds now yield more than non-distressed loans for the first time since late 2022.
- First, unlike the 2013 Taper Tantrum or the 2022-23 steep hiking cycle, spreads seemed impervious to the Treasury sell-off. Even with the recent widening, the high yield spread is at the 8th percentile since 2010 while yields are at the 87th percentile.
- Borrowers will face higher financing costs when they refinance debt, though the difference between the BB/B Index's yield to worst (a proxy for current borrowing costs) and coupon is still considerably narrower than it was during 2022-23. Even during that unusual period borrowing costs climbed gradually, which we expect to repeat over the medium term.

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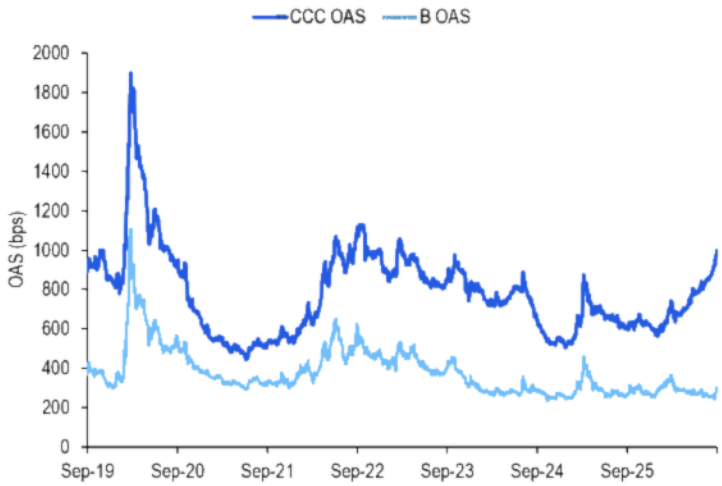
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High Yield Credit Strategy (2/2)

CCC Flashing Red, But Not a Systemic Warning

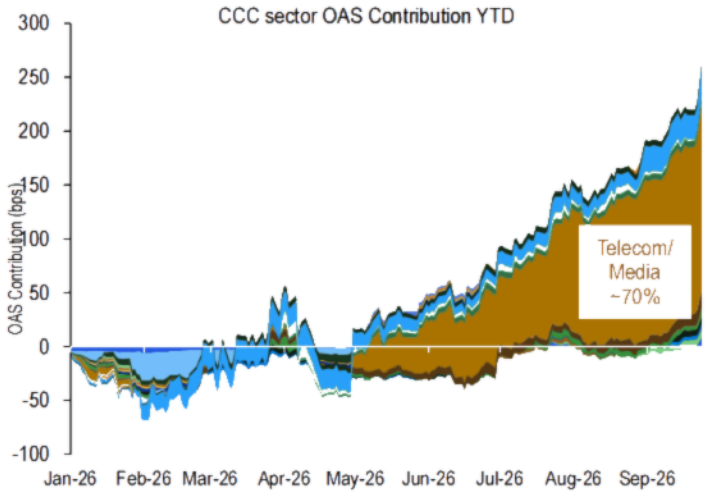
By **Steph Choe, Michael Anderson**

CCC-B Spread Gap at Pandemic-Era Extremes



Source: Citi Research, Bloomberg

The Majority of CCC Widening Is Driven by Telecom/Media



Source: Citi Research, FTSE Indices

- CCC spreads have become a focal point this year as they have sharply diverged from the broader high yield market. Since April, the divergence accelerated, pushing the gap between CCC- and B- spreads to nearly 700bps, the widest since the pandemic.
- Rather than reflecting broad deterioration in credit fundamentals, we argue that CCC spread widening appears driven by two distinct forces: technical distortions created by distressed bond math, and acute stress concentrated in a small number of idiosyncratic issuers in Telecom/Media. The CCC basket has been shrinking within the HY universe, and we expect idiosyncratic factors to increasingly determine spread moves going forward.
- The implication is that the headline CCC spreads are likely overstating systemic risk. Strip out distressed securities and the Telecom cluster, and the remaining CCC universe tells a far more benign story. The signal is red, but the source is isolated.

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Commodities

4Q Outook: SoH Reopening Drives Energy Reset While Skew Favors Ags & Precious

By **Max Layton, Anthony Yuen** and team

End game is Strait of Hormuz Reopens: ~60-70% probability in 4Q'26

Multiple potential paths to SoH re-opening

Pressure points / catalysts for re-opening	How it potentially leads to SoH re-opening
Extremely high diesel prices, broadening diesel shortages globally	May contribute to President Trump dealing with Iran, including dometic pressure from $6.5/gallon diesel, and international pressure from allies
Equity markets weaken on global growth fears from sustained products shortages	May contribute to President Trump dealing with Iran
Middle East ex-Iran economic weakness (few oil producers making money / economies deeply impacted)	Region pressures US to deal and/or comes up with its own deal and pressures US to accept
China exports could fall sharply (as their customers suffer from high energy prices), oil imports cost more	China may pressure Iran (via trade) and US (via magnets?) to deal / broker a deal, as exports are Chinas main GDP growth engine, and exports are EM heavy
Emerging markets growth weakening (see, Pakistan curfews on oil consumption, weakening in Indian economy)	More affected regional players lobbying for deal
Fear of re-escalation resulting in mutual energy and infra destruction	China may pressure Iran and US to deal / broker a deal as they are 5-8 times more exposed to ME ex-Iran than Iran
Turkey and Azerbaijan migration fears	More affected regional players lobbying for deal
Bond markets - Inflation higher / rates higher / govt debt service higher	May contribute to President Trump dealing with Iran
US eventually gains effective military dominance of SoH (via defense / degredation of Irans attack mechanisms)	Allows flows to normalise (especially products)
Changes in the main players	**How it potentially leads to SoH re-opening**
Change of composition of Iran SNSC	Balance of power shifts towards doves, leads to deal
Change of US President	Next President deals/ends war
Change of Iranian regime	Balance of power shifts towards doves, leads to deal

Source: Citi Research, Energy Aspects

- **Strait of Hormuz reopening is the primary energy pivot (~ 70% cumulative base case):** where converging economic, military, and diplomatic pressure points across the US, China , and Middle East compel de-escalation by 4Q'26, bring Brent oil down to $70 /bbl for 2027
- **Severe Refining bottlenecks and surging oil outlays are accelerating the endgame:** with global expenditures doubling to ~ 5tr annualized (~4% of world GDP, up $2.5 tr YTD)- though still roughly half of late-1970s shock levels (7-8% of GDP)- while 55-year record diesel prices ($6.5/gal), squeeze transport networks, curb global activity, and compel international policy intervention.
- **Multiple Diplomatic and structural pathways provide downside protection for global energy consumers:** spanning Chinese diplomatic mediation, domestic US political incentives, and potential shifts within Iran's Supreme National Security Council (SNSC)

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Commodities

4Q Outlook: SoH Reopening Drives Energy Reset While Skew Favors Ags & Precious

By **Max Layton, Anthony Yuen** and Team

Citi all commodities price forecast – Structural Upside in Ags & Precious

		Spot*	Price Targets				Annual Forecasts				LT Price
			0-3M	%chg vs spot	6-12M	%chg vs spot	Q1 2026	Q2 2026	Q3 2026E	Q4 2026E	2025	2026E	2027E	$2025
Energy														
ICE Brent	USD/bbl	106	75	-30%	70	-34%	78	97	95	95	68	68	66	70
NYMEX WTI	USD/bbl	94	71	-25%	66	-30%	75	93	90	90	65	63	62	67
Henry Hub Natural Gas	USD/MMBtu	3.1	2.8	10%	2.5	-19%	3.5	2.8	2.9	3.1	3.6	3.1	2.8	3.9
JKM LNG	USD/MMBtu	10.1	19.2	27%	14.1	47%	11.7	17.6	7.10	10.4	12.4	17.9	11.6	6.0
TTF Natural Gas	USD/MMBtu	9.51	18.7	25%	13.6	46%	11.7	17.6	7.10	10.4	12.0	17.2	11.0	5.0
EUA Carbon	EUR/t	76	85.0	9%	90.0	19%	N/A	N/A	N/A	N/A	N/A	78	90	N/A
Precious Metals														
Gold	USD/troz	4,078	4800	12%	5000	17%	4,863	4,910	4,776	4,800	3,440	4,660	5,000	3,600
Silver	USD/troz	64.1	75.0	17%	90.0	40%	83.7	73.1	62.8	72.0	40.1	73.0	80.0	35.0
Platinum	USD/troz	1768	1950	11%	2100	19%	2,275	1,763	1,750	1,900	1,286	1,935	2,000	1,470
Palladium	USD/troz	1257	1450	15%	1550	23%	1,704	1,439	1,213	1,425	1,154	1,465	1,500	1,420
Industrial and Other Metals														
LME Copper	USD/MT	11,757	15000	27%	14500	24%	12,887	13,117	14,000	14,500	9,960	13,700	14,500	11,000
LME Aluminum	USD/MT	3233	3300	2%	3000	-8%	3,195	3,305	3,229	3,300	2,628	3,300	3,000	3,000
LME Lead	USD/MT	1977	2000	4%	1900	-4%	1,936	1,960	1,960	1,921	1,999	1,970	1,875	2,000
LME Zinc	USD/MT	3048	4000	9%	3800	6%	3,295	3,497	3,581	4,100	2,878	3,660	3,750	2,600
LME Nickle	USD/MT	16383	17000	9%	17000	4%	17,325	18,080	16,600	17,000	15,179	17,250	17,000	17,000
LME Lithium Hydroxide	USD/MT	12,600	17000	2%	16000	8%	16,700	17,000	15,400	17,400	9,400	18,750	17,375	20,000
Uranium	USD/lb	79	100	12%	110	23%	88	88	90	110	73	90	115	90
Bulk Commodities														
Iron Ore (CFR)	USD/MT	97	100	3%	90	-7%	104	106	94	100	102	102	98	95
Thermal Coal (Newc. 6k)	USD/MT	145	140	-3%	115	-21%	134	137	138	140	107	134	120	110
Coking Coal (Aus PHCC)	USD/MT	328	250	-10%	220	-33%	240	238	238	241	188	243	225	200
Agriculture														
CBOT Corn	USd/bu	545	575	11%	600	15%	440	440	414	450	450	482	588	N/A
CBOT Soybeans	USd/bu	1304	1350	4%	1450	18%	1,450	1,462	1,226	1,325	1,052	1,216	1,394	N/A
CBOT Wheat	USd/bu	689	750	9%	800	16%	750	800	679	775	538	641	775	N/A
ICE Sugar	USd/lb	15.7	19.0	7%	22.0	24%	14.7	14.3	16.4	15.3	17.1	16.1	20.8	N/A
ICE Coffee	USd/lb	279	250	-10%	225	-19%	317	203	225	275	371	300	225	N/A
ICE Cocoa	USD/MT	5,485	5750	5%	6500	17%	4,980	4,864	5,750	6,000	8,387	5,375	6,375	N/A

*Spot as of 09-27-2026

Source: Citi Research, Bloomberg,

- Precious metals offer strong structural upside with limited downside risk, with Gold projected to reach $4,800/oz near-term and $5,000/oz by early 2027.
- A strengthening Super El Niño is a bullish agricultural commodity market theme into 2027, with markets still underpricing weather, conflict, and energy-driven supply risks across sugar (+25% vs spot) , corn (+17% vs spot), soybeans (+12% vs spot), and wheat (+16% vs spot) across the agricultural commodity complex on a 12 month horizon.

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US Equity Strategy

Q4 SIGN (Sector and Industry Group Navigator)

By **Scott Chronert, Patrick Galvin**

Q4 Sector and Industry Group Recommendations

Sector Recommendations

Overweight	Market Weight	Underweight
Communication Services	*Industrials*	*Energy*
Health Care	*Materials*	*Financials*
Utilities	Real Estate	Consumer Staples
Consumer Discretionary	Information Technology	

Industry Group Recommendations

Overweight	Market Weight	Underweight
Semiconductors & Semi Equipment	*Pharma, Biotech & Life Sciences*	*Energy*
Utilities	*Media & Entertainment*	*Technology Hardware & Equipment*
Telecommunications Services	*Consumer Durables & Apparel*	*Household & Personal Products*
Consumer Services	*Banks*	*Insurance*
Health Care Equipment & Services	*Materials*	Financial Services
Consumer Disc Distribution & Retail	*Commercial & Professional Services*	Automobiles & Components
	Capital Goods	Consumer Staples Distribution & Retail
	Transportation	
	Food Beverage & Tobacco	
	Software & Services	
	Real Estate	

- Upgrade from prior SIGN
- Downgrade from prior SIGN

Source: Citi Research

- We characterize our Q4 calls as eclectic, but with a bias for gradual unwind of recent oil and rate rallies
- On the AI trade, Tech remains MW, but with Semis lifted to OW and offset by Hardware lowered to UW
- Overweights on Consumer Discretionary, Utilities and Telecom provide leverage to some lessening of Fed hikes
- Our preferred "mid terms" trade is for a HC overweight balanced by Financials UW. Note Banks were lowered to MW

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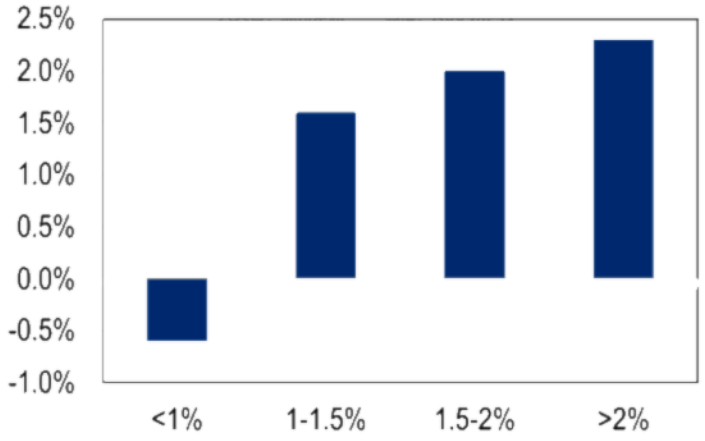
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EM Strategy

A Tougher USD Environment for EM

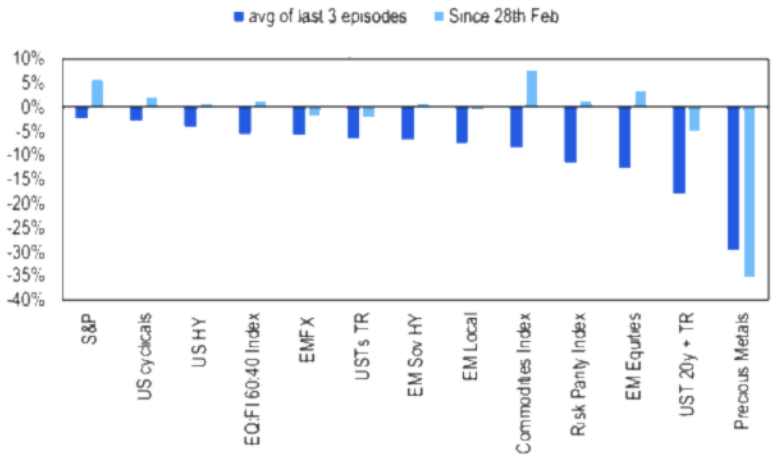
By **Luis Costa** & Team

Average real Fed Funds rate by productivity growth



Source: Citi Research, Bloomberg

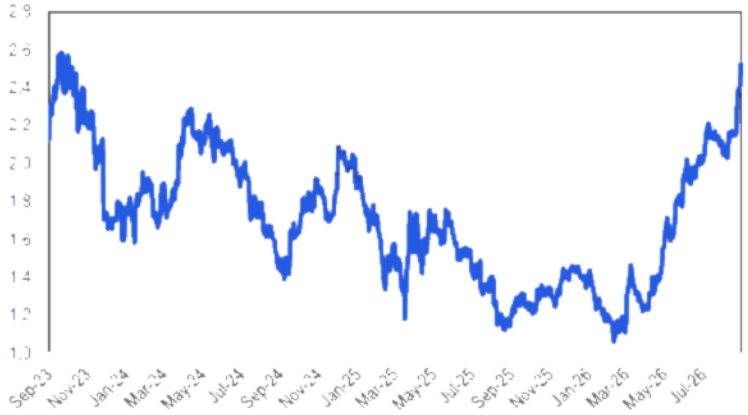
Asset class returns in periods of aggressive upside in 5y real yields



Source: Citi Research, Bloomberg

- Empirically, higher productivity growth is linked with higher real rates in the US. Higher demand for capital, expectations of higher return on capital, thus pushing the equilibrium real interest rates
- Risky asset class returns tend to struggle in periods of quickly rising real yields
- That said, the current period seems to be quite different from the 2023 selloff, in terms of inflation price discovery

5y real yields (nominals adjusted by breakevens)



Source: Citi Research, Bloomberg

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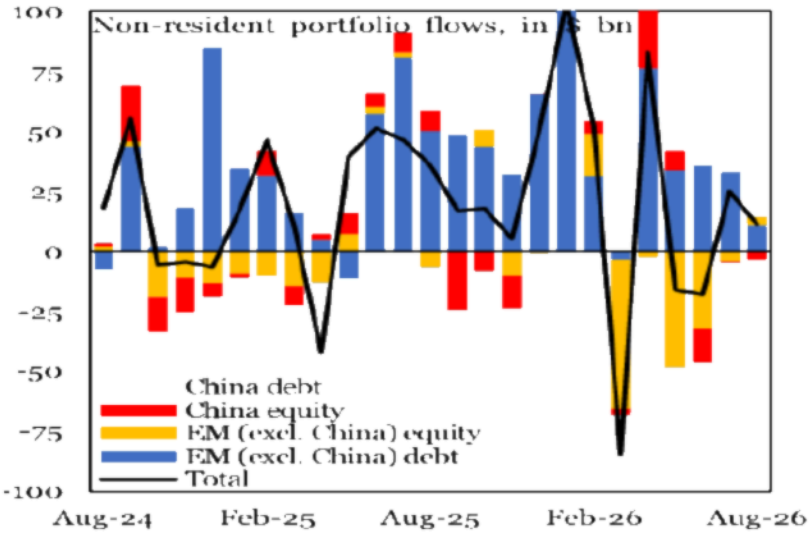
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EM Strategy

EM BoPs Have Been Supported by a Global Comeback to Local Currency Risk

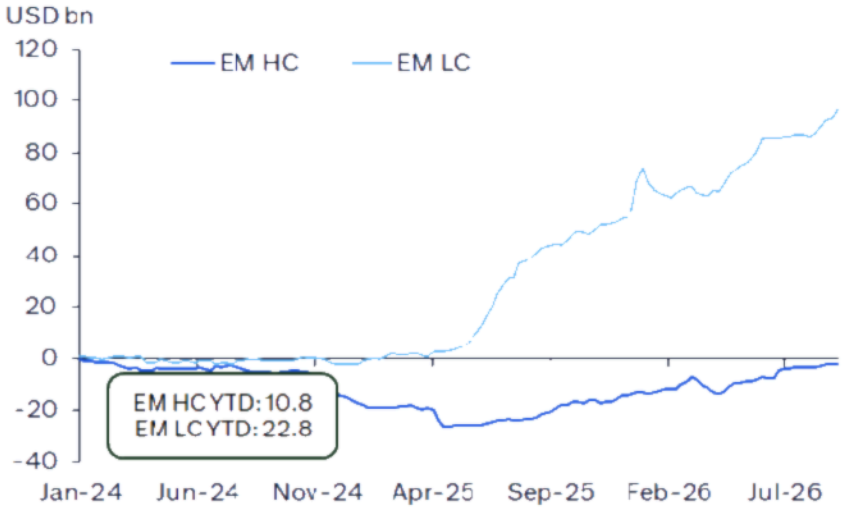
By **Luis Costa** & Team

Non-resident portfolio flows into EM



Source: Citi Research, Bloomberg

Cumulative flows in a sample of EM local currency debt funds since Jan 2024



Source: Citi Research, Bloomberg

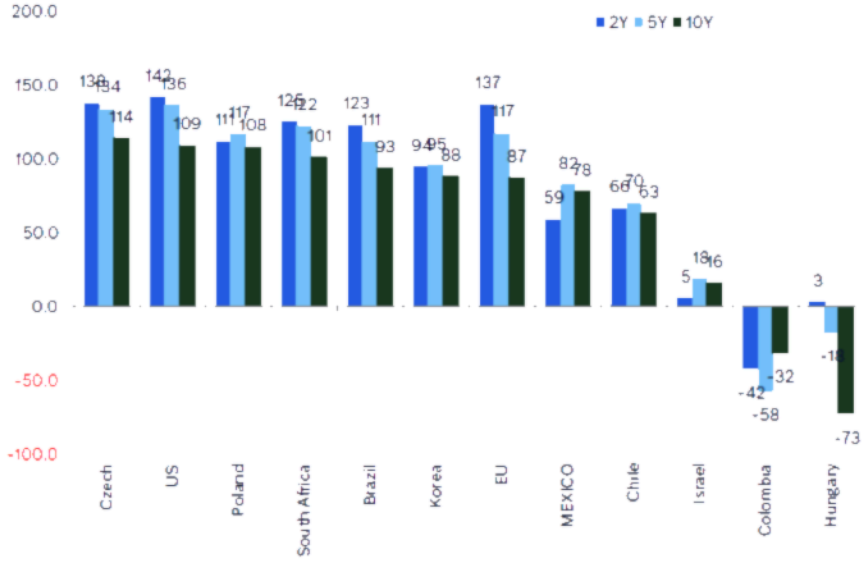
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EM Strategy

Despite the Upside Bias in Rates, many EM Curves are Still Overperforming the Core

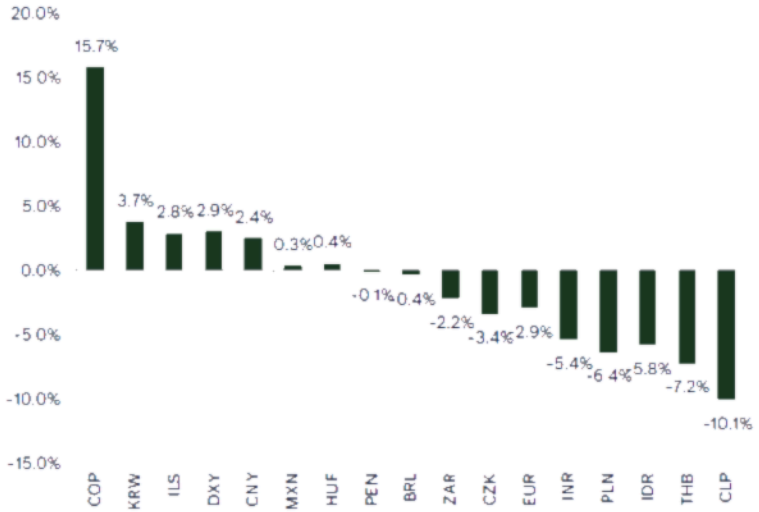
By **Luis Costa** & Team

EM IRS performance vs. core since the start of the Iran conflict (27th of Feb)



Source: Citi Research, Bloomberg

EM FX performance vs. core since the start of the Iran conflict (27th of Feb)



Source: Citi Research, Bloomberg

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Global Macro Strategy - Asset Allocation

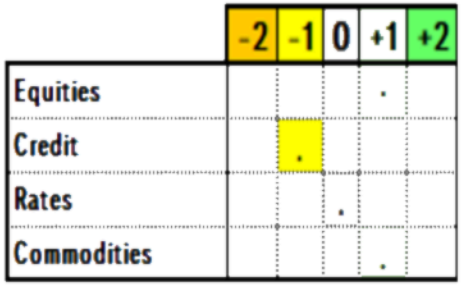
Rates Bite, Equities Fight

By **Dirk Willer**, **Alex Saunders**, **Adam Pickett** and team

Asset Class	Sector Stance	Top Overweights	Top Underweights	Changes vs. Previous Positions
Equities	Overweight	US (MSCI US)	---	---
Government Bonds	Neutral	EM Local	EU Core & Periphery	JGBs from UW to Neutral (9/11) Gilts, EUR Core, & EUR Periphery to UW Gilts to Neutral (9/24)
Credit	Underweight	---	US and EU IG	---
Commodities	Overweight	Base Metals	---	Gold from OW to Neutral (9/14)
FX*	Neutral	---	---	EM Carry from OW to Neutral (9/24)

* FX positioning is based on allocation to other asset classes and an active hedging decision; there is no FX-specific overlay strategy.

Source: Citi Research



* Updated Sep 2026

Source: Citi Research

- **In equities, we stay overweight** — We favor the US as the AI narrative remains strong. We have capacity to add to equity risk, and emerging Asia is a candidate, but prefer to buy the dip as there is usually some indigestion after first Fed hikes and into midterms.
- **In rates, we stay neutral duration** — The sell-off in duration is extended, but volatility is rising and the time to buy duration is towards the end of the hiking cycle, not at the beginning. We stay overweight EM (now FX hedged), versus Europe (core and periphery).
- **In credit, we stay underweight** — Credit remains a hedge for our equity overweight, as issuance by hyperscalers will remain substantial.
- **In commodities, we remain overweight base metals** — We are neutral on energy, as there are also downside risks. We remain long base metals given strong global growth momentum. We cut our gold long earlier this month on rising US rates.

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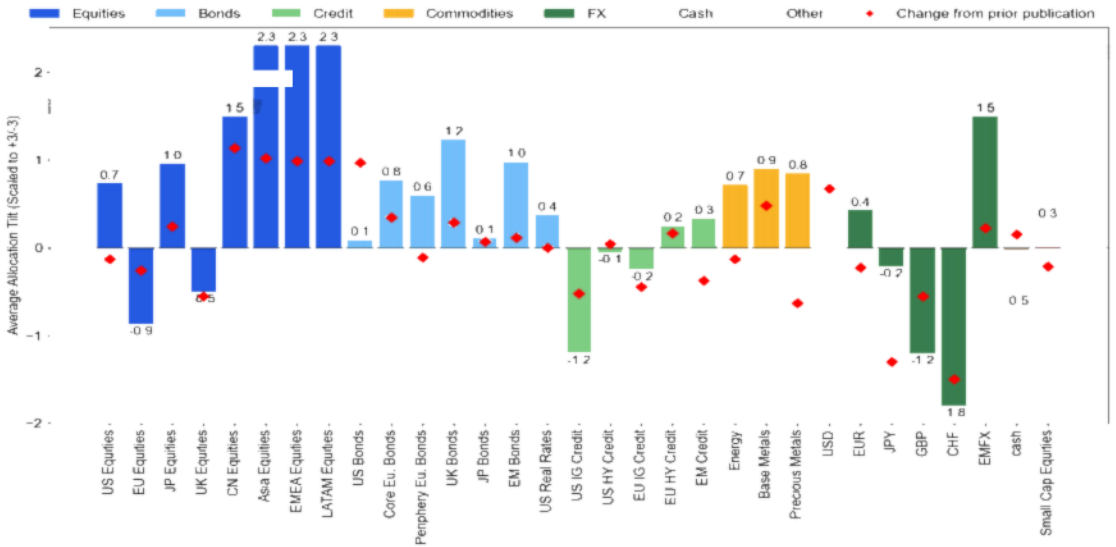
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Quant Macro Strategy

Cautiously Pro-Risk

By **Alex Saunders, Vinh Vo**



Source: Citi Research

Risk-on, EM/commodities favored — Managers stayed broadly overweight equities, adding to EM this month, plus positive on energy, base and precious metals. US equities are preferred over Europe; in duration the US underweight was reduced.

Consensus: long EM equities/EMFX/precious metals, short IG credit — EM equity longs and US IG shorts are widely held with little debate; EMFX longs are also consensus. DM equities and G10 FX views more split. In terms of themes; Recent growth worries has been shrugged off on earnings resilience, though cost-of-capital concerns linger.

Cross-asset: hawkish repricing lifts USD — Central bank hawkishness pressured rates and precious metals as markets price longer tightening cycles. USD strength dragged FX-hedged returns lower (EUR, GBP hit hardest). Energy rose on Middle East tension/supply risk.

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