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UPDATE

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Global Macro Commentary | North America

October 22 : Equities Selloff Sparks Haven Rally

US Treasuries bull-steepen on AI concerns; Middle East tensions lift oil; French bond stress deepens; JPY leads G10; EM FX weakens; Turkey cuts rates; Brazil runoff nears; DXY at 101.62 (-0.2%); US 10y at 4.95 (-16.6bp).

Global risk sentiment deteriorated as concerns around AI-related capital spending and escalating geopolitical tensions drove a sell-off in equities, a rally in safe-haven government bonds, and broad EM currency weakness.

Developed Markets

- **US rates rallied (2y: -16.6bp; 10y: -16.6bp; 30y: -12.9bp) as investors sought safety amid a global equity sell-off driven by concerns around AI-related capital spending and corporate earnings.** The belly outperformed, with 7y Treasury yields falling 18.1bp, while the 10y yield declined below 5% for the first time in nearly a month. The rally was reinforced by short covering in Treasury futures, with investors increasingly focused on growth risks despite higher energy prices. Inflation breakevens tightened across the curve (2y: -2.2bp; 10y: -2.8bp; 30y: -2.4bp), reflecting the shift in market attention toward weaker growth prospects. Initial jobless claims declined to 194k (C: 200k), while the Kansas City Fed manufacturing index fell to 11 (C: 12), offering mixed signals on economic activity. Markets also reduced expectations for additional Fed tightening, with traders no longer fully pricing another hike before year-end.
- **US equities sold off (S&P 500: -1.2%; NASDAQ: -2.6%) as disappointing reactions to large-cap technology earnings renewed concerns over the sustainability of AI-related investment.** Information Technology and Communication Services both declined 3.0%, while defensive sectors outperformed (Consumer Staples: +3.1%; Utilities: +2.0%). The VIX rose 14.1% to 19.03 as investors reduced exposure to growth-sensitive assets. Meanwhile, escalating Middle East tensions supported oil prices (Brent: +3.8%; WTI: +2.4%) and there were additional concerns around regional energy supplies after suggestions of possible further action against Iran. Despite the geopolitical backdrop, gold weakened 2.8% and silver fell 5.9%, while Bitcoin declined 4.1%, suggesting that haven demand remained concentrated in government bonds and select currencies.
- **The dollar weakened modestly (DXY: -0.2%) as falling Treasury yields reduced support from US rate differentials, while safe-haven currencies outperformed.** JPY led the G10 (USD/JPY: -0.9%), followed by CHF (USD/CHF: -0.5%), as investors unwound risk positions amid the global equity sell-off. The dollar's response contrasted with earlier periods of geopolitical stress, when elevated US yields had supported its safe-haven appeal. Risk-

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sensitive currencies underperformed, particularly NZD (NZD/USD: -0.3%) and AUD (AUD/USD: -0.1%), despite the broader dollar decline. CAD strengthened against USD (USD/CAD: -0.3%), supported by higher oil prices, while NOK also appreciated (USD/NOK: -0.3%). In New Zealand, third-quarter inflation moderated to 3.7% y/y (C: 3.8%), although firm core inflation prompted local economists to revise expectations toward a more aggressive RBNZ tightening path.

- **In Japan, the Tokyo morning session started with a twist-flattening move, extending the trend seen over the past few sessions.** While there was no particular new catalyst, the super-long end continued to outperform against weakness in the front end. The 5-11y liquidity enhancement auction, for which issuance was reduced by JPY150bn from this month, was smoothly digested. As the market had already expected a solid auction, the impact on price action was limited. The super-long-end-led rally continued into the afternoon session, with JGBs ending the day in a bull-flattening move. As of Tokyo 3pm, 2y JGB unchanged at 1.90%, 10y JGB rallied by 1.0bp to 2.88%, and 30y JGB rallied by 3.5bp to 3.89%. TONA-OIS curve also bull-flattened and outperformed JGBs in 10-20y sectors. XCCY basis widened in 5y+ sectors.

- **German government bonds rallied ~8bp in an almost parallel shift along the curve while French and Italian government bonds mostly sold off today in another flight-to-quality move.** Spreads to Germany widened over the day and 10y OAT/Bund, BTP/Bund and Bono/Bund spreads closed the day ~15bp, ~9bp and ~6bp wider, respectively. While there was no single new catalyst, this risk-off move likely reflected a combination of idiosyncratic factors in France, renewed tensions in the Middle East as well as weaker equity markets. The move in swaps was less pronounced with EUR swap curves flattening ~3bp in the 10s30s, with asset swap spreads widening by ~3bp at the 5y point. Even though oil and gas prices reached new highs today, Euro CPI inflation swaps fell by ~3bp at the 2y and 5y points, while rates implied by short-term interest rate futures closed the day ~8bp lower in reds and greens. Also, the market priced out ~5bp and ~7bp of hikes for the December and February ECB meetings, respectively.
- **Gilts also rallied throughout the London session with a slight flattening move along the curve.** By London close, the 30y point closed the day ~7bp lower while the 2y point closed ~3bp lower. GBP swap curves flattened across maturities and closed the day ~2bp flatter in the 10s30s. Hike expectations were also priced out in the UK, although to a lesser extent than in the euro area.

Emerging Markets

- **Most AxJ currencies weakened and rates mostly rallied with curves flattening amid renewed weakness in equity markets and a ~2.7% rise in oil prices as Middle East tensions rose.** Korea rates underperformed; 1-2y NDIRS yields rose 3bp in a bear-flattening move as the BoK flagged likely upside revisions to 2027 growth and inflation forecasts coming and

reiterated an upward structural revision to the potential growth rate shifting the balance for the neutral rate higher. KRW outperformed, staying stable amid modest $33mn foreign equity outflows even as KOSPI declined 3.5%, supported further by BoK Governor Shin reiterating that KRW is still weak. HKD outperformed, gaining 0.1% alongside a 3% decline in the Hang Seng Index and a 2bp move lower in USD-HKD 1y IRS yield.

- **PHP temporarily gave up intraday losses of 0.2% after the BSP delivered a larger than expected 50bp rate hike, before retracing to finish the Asia session 0.3% weaker.** 10y RPGB sold off moderately by 4bp despite the hawkish BSP decision and higher oil prices. TWD, INR and THB underperformed, weakening 0.4%. TWD fell alongside $2.7bn of foreign equity outflows (TAIEX: -1.8%), despite unconfirmed reports of USD sales by state-backed banks. The INR weakness came alongside the rally in oil prices, while 1y INR NDOIS yield fell 2bp as the RBI injected INR500bn liquidity via an overnight VRR auction as planned. THB weakened amid a 1.4% fall in gold prices, while Thailand rates outperformed with 5y NDTHOR yield falling 6bp.
- **FX in the LatAm traded weaker, with COP the only outperformer, appreciating ~0.51% alongside higher oil prices despite domestic political noise,** following a setback over next year's Colombian budget. CLP underperformed, depreciating ~0.63% amid weaker copper and higher oil prices, while MXN fell a more modest ~0.17% following yesterday's larger sell-off and a hotter-than-expected mid-October CPI print. Rates in the region traded mixed, with the Brazilian DI curve underperforming ahead of this weekend's election as Jan 28 and Jan 29 DIs sold off ~14bp. In contrast, CLP CAM outperformed, with the 5y rallying ~12bp.
- **CEEMEA currencies broadly weakened amid global risk aversion and rising energy prices, with ZAR underperforming (USD/ZAR: +0.8%)** despite a rally in South African government bonds following the Treasury's announcement of a buyback program and reduced weekly auction sizes. South Africa's medium-term budget also introduced new fiscal rules and projected a declining debt trajectory, supporting local fixed-income sentiment. Elsewhere, PLN and HUF weakened against USD (USD/PLN: +0.6%; USD/HUF: +0.3%), with Hungary facing additional pressure from higher energy costs and uncertainty around plans for euro-area accession. In Turkey, the central bank resumed monetary easing with a 100bp cut to its one-week repo rate to 36%, in line with consensus, following a moderation in inflation. Meanwhile, EGP weakened to a record low against USD in offshore trading, pressured by escalating Middle East tensions and higher energy prices.

Central Bank Monitor

Developed Markets

- In the Euro Area, **Fabio Panetta (Governing Council, ECB)** said the rise in global bond yields will weigh on euro-area growth, although conditions are not yet critical, while highlighting that unlike in the US, higher interest rates in Europe are not accompanied by stronger

economic growth.

- In the Euro Area, **ECB Governing Council member Pereira** spoke at a seminar on Iberian economic integration in Lisbon, calling for renewed efforts to deepen the EU's single market, citing geopolitical tensions and Europe's technological lag as making further integration increasingly urgent. He highlighted services, transport, and energy as key areas where progress is needed.
- In Sweden, **Riksbank Deputy Governor Jansson** spoke at the National Mediation Office's wage formation conference in Stockholm, noting that Sweden's balanced wage formation during the high-inflation years helped bring inflation down faster than in many other countries, enabling faster and larger rate cuts. He warned of inflation risks stemming from rising demand and supply-side constraints, citing conflicts abroad as worsening the supply-side situation through higher fuel and electricity prices, while also flagging that the SEK has weakened on the rate differential and geopolitical tensions.

Emerging Markets

- **Korea BoK October Rate Decision:** 3.00% (MSe: 3.00%; C: 3.00%; P: 3.00%). BoK kept its policy rate unchanged in a unanimous decision while highlighting that economic growth in 2026 and 2027 is expected to be considerably higher than its August forecasts of 3.3% and 2.9%, respectively, while 2027 inflation is also expected to exceed the prior forecasts of 2.3% on headline and 2.5% on core. It expects inflation to remain above the 2% target for a "considerable time" amid the pass-through of accumulated cost pressures and increasing demand-side pressures. BoK reiterated that it will determine the timing and pace of further rate hikes based on inflation, domestic economic trends and financial stability. **Governor Shin** said the July and August rate hikes have given the BoK room to wait and assess the economy rather than respond to short-term market moves. He noted that KRW is still weaker than past years and appreciation helps curb imported inflation and boost household purchasing power. He added that inflation does not need to return immediately to target next year and is likely to move closer to target in 2028.
- **Philippines BSP October Rate Decision:** 5.50% (MSe: 5.25%; C: 5.25%; P: 5.00%). BSP delivered a larger-than-expected rate hike as it sees need for a stronger monetary policy response to broadening price pressures and further upside risks to inflation to make monetary policy appropriately restrictive. The central bank expects inflation to accelerate further in the coming months, with headline inflation remaining high in 2027 and approaching the 3% target in 2028, and core inflation similarly continuing to rise. It reiterated that it stands ready to take further policy action as necessary to ensure a timely return of inflation to target. **BSP Governor Remolona** said the new inflation forecasts were worse than expected and cited urgency

in dampening price pressures. He said the BSP remains open to further rate hikes and is open-minded on the magnitude. He noted that policy is restrictive, but the BSP is unsure whether it is sufficiently restrictive to return inflation to target. Remolona also reiterated the BSP does not defend a specific PHP level but is concerned about large exchange-rate swings given their potential inflationary impact.

Exhibit 1: G4 Rates Closes

	US			Germany			UK			Japan		
Tenor	22-Oct	1d Δ (bp)	2wk	22-Oct	1d Δ (bp)	2wk	22-Oct	1d Δ (bp)	2wk	22-Oct	1d Δ (bp)	2wk
2y	4.640	(16.6)		3.026	(9.0)		4.886	(3.5)		1.896	0.3	
3y	4.715	(17.3)		3.063	(8.8)		4.929	(3.6)		2.043	(0.6)	
5y	4.771	(17.9)		3.142	(8.7)		4.958	(3.7)		2.280	(0.6)	
7y	4.849	(18.1)		3.217	(8.7)		5.137	(4.5)		2.685	0.0	
10y	4.953	(16.6)		3.332	(8.7)		5.325	(5.2)		2.861	(1.4)	
20y	5.320	(14.7)		3.668	(8.2)		5.700	(6.9)		3.675	(0.5)	
30y	5.280	(12.9)		3.676	(8.1)		5.714	(7.3)		3.883	(1.7)	

Source: Bloomberg, Morgan Stanley Research

Exhibit 2: Macro Closes

	Majors			EM				Equities / Commodities			
Spot	22-Oct	1d Δ (%)	2wk	Spot	22-Oct	1d Δ (%)	2wk	Index	22-Oct	1d Δ (%)	2wk
DXY	101.62	(0.2)		CNH	6.67	(0.0)		S&P	7663.43	(1.2)	
EUR	1.122	(0.1)		INR	94.83	0.4		Stoxx	6087.01	(1.9)	
GBP	1.340	0.1		THB	33.73	0.3		FTSE	10725.03	(0.3)	
JPY	156.77	(0.9)		KRW	1326.40	(0.0)		Nikkei	62907.84	(2.7)	
CHF	0.821	(0.5)		ZAR	16.50	0.8		VIX	19.03	14.1	
AUD	0.702	(0.1)		MXN	18.72	0.2		Gold (S)	4024.85	(2.8)	
CAD	1.401	(0.3)		BRL	5.05	0.4		WTI (Fut)	99.47	2.4	

Source: Bloomberg, Morgan Stanley Research

Exhibit 3: Inflation Closes

	US TIPS				10y Real Yields, BEI							
Tenor	22-Oct	1d Δ (bp)	2wk		10y	22-Oct	1d Δ (bp)	2wk	10y	22-Oct	1d Δ (bp)	2wk
5y	2.380	(15.0)			DBRi	0.985	(5.5)		BTPi	2.549	3.6	
BEI	2.388	(3.0)			BEI	2.204	(3.2)		BEI	2.050	(4.0)	
10y	2.612	(13.8)			UKTi	1.844	(4.4)					
BEI	2.340	(2.8)			BEI	3.426	(0.5)					
30y	3.045	(10.5)			JGBi	0.760						
BEI	2.238	(2.4)			BEI	2.114	(1.6)					

Source: Bloomberg, Morgan Stanley Research

Exhibit 4: G4 Central Banks

				Central Bank OIS													
Fed	Implied	1d Δ (bp)	Total Δ	ECB	Implied	1d Δ (bp)	Total Δ	BOE	Implied	1d Δ (bp)	Total Δ	BOJ	Implied	1d Δ (bp)	Total Δ
EFFR (10/21)	3.880	0.0	--	EONIA (10/21)	2.440	0.0	--	SONIA (10/21)	3.734	0.0	--	TONAR (10/21)	1.227	0.0	--
10/28/26	3.898	3.9	(2.0)	10/29/26	2.445	2.5	(1.2)	11/05/26	3.973	4.0	(0.6)	10/30/26	1.233	(0.5)	0.6
12/09/26	4.085	4.1	(4.9)	12/17/26	2.612	2.7	(5.3)	12/17/26	4.070	4.1	(1.2)	12/18/26	1.396	(3.6)	16.9
01/27/27	4.168	4.3	(8.5)	03/11/27	2.823	2.9	(8.9)	02/04/27	4.280	4.3	(0.6)	01/22/27	1.485	(1.8)	25.8
				04/29/27	2.914	2.9	(3.2)	03/18/27	4.404	4.4	(3.1)	03/19/27	1.629	(2.2)	40.2
												04/28/27	1.710	(0.1)	48.3
												06/16/27	1.771	(6.4)	54.4

Source: Bloomberg, Morgan Stanley Research

Economic Releases

Developed Markets

- 8:30 am EST - **US October Initial Jobless Claims:** 194.0k (C:200k; P:199k) and **Continuing Claims**: 1728.0k (C:1710k; P:1710k): New claims were a bit below our forecast 195k or consensus 200k. Still low, still slipping, and the

four-week average has declined about 10k over the past month. The prior week had shown a temporary surge in new claims in car producing states, and a decline in new claims in those states (to near trend) accounted for this week's drop in claims. Continuing claims are similarly down from earlier levels, even despite the 25k rise in the latest week.

- 7:45am BST **- France Oct Insee Business Confidence: 97.0 (MS: 96.0, P: 96.0)**
- 3:00pm BST **- Euro Area Oct EC Consumer Confidence (Flash):-17.9 (MS: -17.0, C: -16.8, P: -16.5)**

Emerging Markets

- **Malaysia October 15 FX Reserves -**$132.1bn (P: $131.8bn)
- **Thailand October 16 FX Reserves** - $277.1bn (P: $276.9bn)
- **Hong Kong September Unemployment Rate-** 3.9% (C: 3.8%; P: 3.8%); **Composite CPI**: 1.9% y/y (C: 1.8%; P: 1.7%).
- **Mexico 1H Oct CPI -** 0.41% (Mse: 0.4% h-o-h; P: 0.09%; C: 0.38%) Headline inflation came in broadly in line with our economists' expectations, while core surprised to the upside at 0.25% (MSe: 0.19%), driven by firmer services inflation, particularly airfares, professional services, tourism-related categories and housing. Non-core inflation rose 0.98%, largely reflecting the seasonal electricity adjustment (+18.5%), while goods inflation remained contained at 0.17%. On an annual basis, headline reached 3.62% and core 3.78%, above our economists' 3.72% forecast for the latter. Despite the less benign services composition, much of the pressure remains concentrated in volatile or seasonal categories, leaving our economists' call for Banxico to remain on hold unchanged.
- **Mexico September Unemployment Rate -** 2.85% (P: 3.01%; C: 3.00%) Unemployment surprised to the downside, declining from August and pointing to continued resilience in labor market conditions.

The Day Ahead

Developed Markets

- 09:45am EST - **US October S&P Global US Manufacturing PMI** (C:55.5; P:55.9): The regional manufacturing surveys that have been reported suggest slower manufacturing growth in October. Based on the manufacturing surveys reported so far by the New York and Philadelphia Feds, we are estimating that the manufacturing ISM index falls 1 ½points to 53.0. The Philadelphia Fed survey weighs more than the Empire State survey in our ISM estimation. Details of the Philadelphia Fed survey softened. The ISM-equivalent Philly Fed measure (which combines survey details in the same fashion as the ISM) fell from 58.1 to 49.6, its lowest since February. Growth in new orders and in shipments slowed sharply. Employment growth slowed slightly. Inventory contraction accelerated. Also, however, supplier deliveries slowed less broadly, which is probably a positive for factory

activity but counts as a negative in the ISM calculation.

- 7:00am BST - **UK Sep Retail Sales ex Auto Fuel** (MS: -0.4%M, C: -0.2%M, P: 0.6%M)
- 8:15am BST - **France Oct Composite PMI** (Flash) (MS: 50.0, P: 51.1)
- 8:30am BST - **Germany Oct Composite PMI** (Flash) (MS: 52.8, C: 53.6, P: 53.8)
- 9:00am BST - **Euro Area Oct Manufacturing PMI** (Flash) (MS: 52.9, C: 52.5, P: 52.9)
- 9:00am BST - **Euro Area Oct Services PMI** (Flash) (MS: 52.0, C: 52.5, P: 53.0)
- 9:00am BST - **Euro Area Oct Composite PMI** (Flash) (MS: 52.4, C: 52.5, P: 53.1)
- 9:30am BST - **UK Oct Composite PMI** (Flash) (MS: 51.8, C: 51.7, P: 52.0)
- 9:30am BST - **UK Oct Manufacturing PMI** (Flash) (MS: 51.8, C: 52.0, P: 51.9)
- 9:30am BST - **UK Oct Services PMI** (Flash) (MS: 51.8, C: 51.9, P: 52.1)
- 3:00pm BST - **ECB's Cipollone** speaks in a fireside chat about the digital euro with Howard Davies at the International Festival of Economics, Auditorium Vivaldi, Turin, Italy
- **Japan August Nationwide CPI**: core CPI (ex-fresh food; MSe +2.0% y/y, C: +2.1%, P: +1.7%), core-of-core CPI (ex-fresh food and energy; MSe +2.2% y/y, C: +2.3%, P: +1.9%).

Emerging Markets

- 8:00am EST: **Brazil October IPCA-15** (Mse: 0.33% m/m; P: 0.70%; C: 0.45%) Our economists expect inflation to moderate from September and come in below consensus. Attention will focus on core and services inflation to assess the implications for the BCB's policy outlook.
- 8:00am EST: **Mexico August Economic Activity Index** (IGAE) (P: 3.36% y/y; C: 4.00%). Markets expect an acceleration in activity from July. A stronger-than-expected print could reinforce Banxico's cautious stance following today's upside surprise in core inflation.

For more details, please refer to our economists' weekly reports and data previews:

- *US*
- *Europe*
- *Japan*
- *Asia/Pacific*
- *LatAm*
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- EM Sovereign Credit Strategist : A Tale of Two Vols (19 Oct 2026)
- US Rates Strategy : Risk Cracks Revive Treasury Haven Demand (17 Oct 2026)
- Global FXEM Strategy and Global Economics: What FX Moves Are Needed For External Balance? (13 Oct 2026)
- Japan Rates Strategy: From Inflation to Growth Concerns? (16 Oct 2026)
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(as of September 30, 2026)

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1599	43%	455	48%	28%	783	44%
Equal-weight/Hold	1563	42%	394	42%	25%	763	43%
Not-Rated/Hold	2	0%	1	0%	50%	1	0%
Underweight/Sell	570	15%	96	10%	17%	227	13%
Total	3,734		946			1774	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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