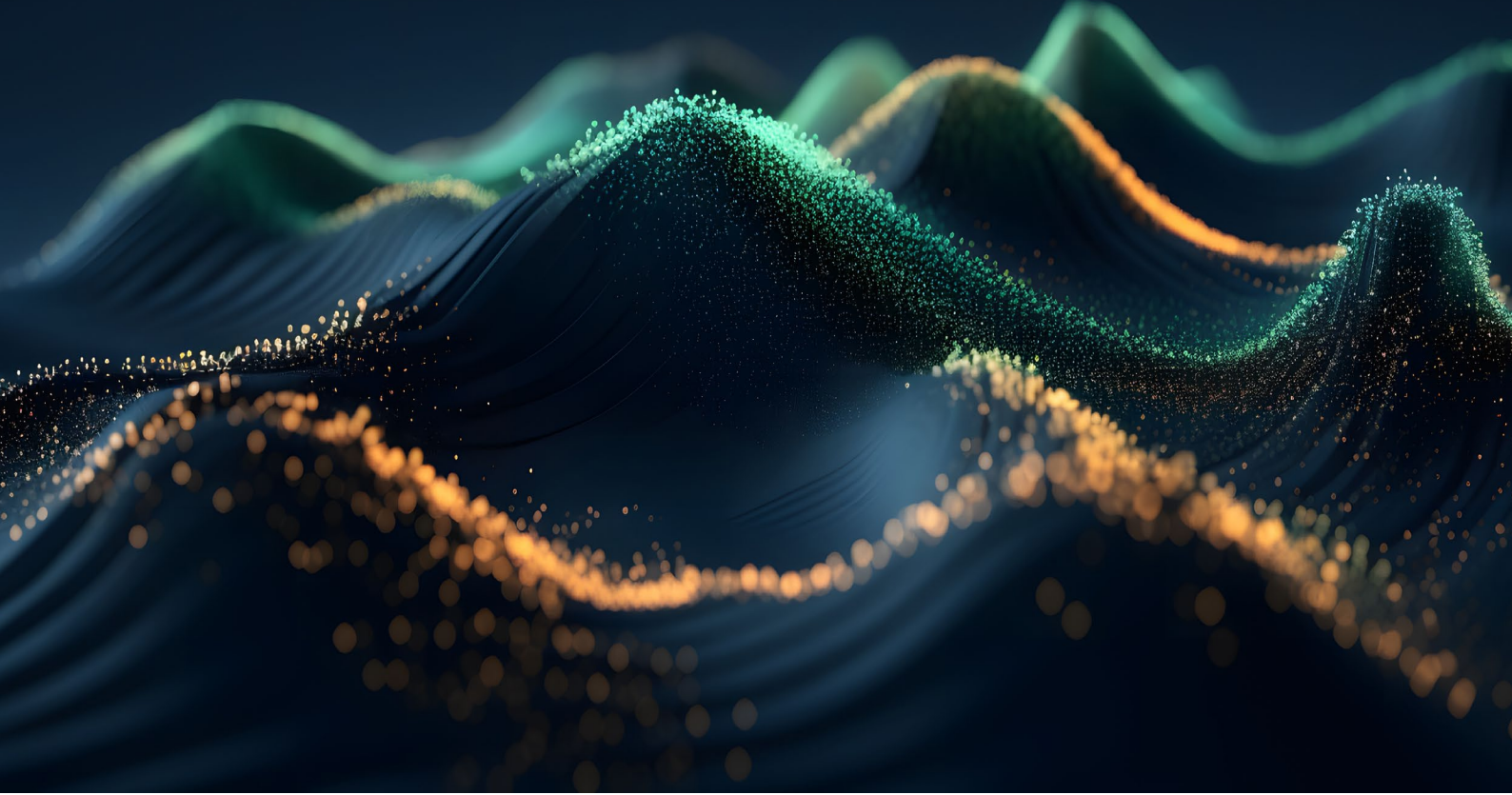


GENVIL

WEALTH MANAGEMENT & CONSULTING



MARKET INSIGHT

October 2026

Cracks in bond markets widen and spread to credit in September

September was far from uneventful for investors, who were confronted with erratic movements across financial assets.

This was due to growing instability in bond markets, driven by strong economic growth, doubts over whether inflation is truly under control, and an uncertain geopolitical environment.

It is therefore hardly surprising that the outlook for monetary policy in developed economies has once again taken centre stage within the financial community. Ultimately, September marked a clear shift towards a more pessimistic view on this front.

Expectations for short-term interest rates show that we have moved from a “benign” assessment of rate hikes to expectations of a monetary cycle that could potentially prove more damaging to the economic cycle and risk assets. Credit has been a prime casualty of this change in perspective.

Similarly, a compression in P/E multiples across the main equity indices could be interpreted as a reflection of a more uncertain fundamental environment for both the economy and equities.

Should we therefore conclude that the overall framework underpinning our assessment of the markets has evolved in a way that warrants greater caution?

It should be noted that the lack of coordination in US economic policies — laid bare for the world to see by the actions of S. Bessent and K. Warsh — is, in our view, not unrelated to the movements in financial markets and the renewed caution among investors.



“The poor performance of the credit segment last month seems excessive to us given the economic conditions.”

FRANÇOIS SAVARY, CIO
GENVIL SA

Beyond this subjective observation, it is important to take an objective look at the most recent economic and financial developments.

Global economic growth remains solid, particularly in nominal terms. It is even surprising on the upside, judging by the revisions to the growth outlook by the ECB and the Fed, on the one hand, and by certain leading indicators (PMIs), on the other.

The latest comments from G7 central bankers clearly point to insufficient control of inflationary pressures, particularly in the United States.

While the global economy is facing a supply shock (energy/Gulf crisis), it is too early to identify second-round effects on the general price level. An inflationary spiral comparable to that of 2022 does not appear to be on the agenda.

Si l'économie mondiale est confrontée à un choc d'offre (énergie/ crise du Golfe), il est trop tôt pour identifier des effets de second rang sur le niveau général des prix. Une spirale inflationniste comparable à celle de 2022 ne semble pas d'actualité.

“While a further increase in rates by the end of 2026 is virtually a given, the consensus on rate hikes appears too pessimistic to us.”

Admittedly, the United States presents a situation that is perhaps more “concerning”, given how strong economic growth remains.

By stating that financial conditions are not yet restrictive, K. Warsh is highlighting the need to curb domestic demand.

The issue of inflation, and the measures central bankers are prepared to implement to contain it, has clearly gained in importance recently.

As illustrated by the marked rise in US 2-year yields, market participants have significantly increased their expectations of monetary tightening over the next 12 months. Although

more limited in scale, the same phenomenon can also be observed in Europe.

Investors are now pricing in three increases in US policy rates over the next year. While an additional increase in rates by the end of 2026 is virtually a given, the consensus appears too pessimistic to us.

Indeed, rate hikes are not particularly effective in countering supply shocks, and conditions in the Gulf remain unpredictable. A resolution of the crisis within a not-too-distant timeframe cannot be ruled out.

Moreover, the flattening of yield curves is contributing to a tightening of financial conditions, something central bankers have been seeking for several months.

This phenomenon should moderate demand somewhat over the medium term. However, policymakers must proceed carefully to avoid weighing too heavily on economic activity.

As mentioned earlier, the deterioration in bond markets has broadened. It is no longer only sovereign bonds that are suffering, but also corporate debt, irrespective of quality.

The widening of credit spreads, combined with higher interest rates, has pushed credit yields to levels close to those seen in 2023.

This reflects a spread of investor mistrust towards fixed income, driven by growing fears of corporate defaults, although there currently appears to be little evidence pointing in that direction.

The sharp increase in corporate bond issuance, partly linked to the financing needs of AI giants, has naturally contributed to downward pressure on bond prices.

Heavy issuance has certainly created a degree of investor “saturation” towards corporate debt.

The poor performance of credit appears excessive to us in light of economic conditions and the outlook suggested by leading indicators.

We are even inclined to believe that opportunities could emerge in this asset class in the relatively near term.

Turning to equity markets, simply looking at index volatility — which remains at historically low levels — may raise questions. Behind this apparent calm, there is considerable dispersion in the performance of individual stocks.

Some see this as a source of vulnerability for the equity rally, which is supported by only a handful of stocks and, in particular, by the AI theme.

Although the performance of the main equity aggregates was negative in September, the scale of the decline remains contained.

The resilience of the indices can be traced back to both economic and earnings growth.

The third-quarter reporting season is approaching, with the first results due in mid-October. Earnings expectations remain strong and revisions continue to trend upwards.

Negative movements in equity markets are more the result of a contraction in valuation multiples (P/E) than of a revision to the fundamental outlook. This point is essential!

As long as the fundamental factors — economic activity and earnings growth — remain positive, equity markets should be able to absorb the increase in the cost of capital relatively “calmly”.

Our assumption is that the marked increase in yields, as they adjust to solid nominal growth, has largely already run its course.

A return to calmer conditions in bond markets could allow equity markets to resume their upward trend, in line with “healthy” fundamentals.

September proved challenging for asset allocators.

While the marked decline in bonds and erratic movements in equity markets would already have been enough to weigh on performance, renewed weakness in precious metals and real estate and/or the appreciation of the US dollar added to an already difficult environment.

We remain convinced that the general conditions underpinning our allocations have not changed radically in recent weeks.

Although we have slightly revised down our assessment of the global economic outlook, the economic cycle is not under threat. Moreover, we do not believe that stagflation and/or recession are scenarios whose probabilities should be revised upwards, yet.

Similarly, adverse developments in the dollar and gold, whose recent movements have not been in line with our expectations, do not lead us to change our medium-term views.

China's appetite for the yellow metal shows no sign of abating; quite the contrary, judging by its significant purchases in August!

The theme of diversifying international reserves away from the USD remains valid in our view.

A stabilisation in bond yields in the near future should limit the increase in gold's opportunity cost.

The deteriorated geopolitical environment in which we are living should encourage further precautionary purchases.

As regards the dollar, the strengthening of its yield advantage is largely priced in.

If expectations for Fed rate hikes prove excessive — as we believe they will — the greenback should return to a trajectory more consistent with its deteriorated fundamentals: twin fiscal and current-account deficits.

Moreover, the burden of Uncle Sam's excessive debt remains a "Sword of Damocles" that has not disappeared!

We are postponing until 2027 a new phase of weakness in the US currency towards levels of 1.18–1.20 against the euro. Nevertheless, we are not questioning our scenario of further medium-term weakness in the greenback.

The Swiss franc continues to consolidate against the euro but remains weak against the dollar.

The recent change in the SNB's communication is worth noting. The pressure for intervention in the foreign exchange market has clearly diminished in the minds of the monetary authority's governing board.

Beyond the short term, the conditions for an appreciation of the CHF are in place over a 6–12 month horizon.

This is all the more the case if the yield disadvantage from which the franc has suffered diminishes as expectations for

monetary tightening in Europe and the United States are reassessed.

In conclusion, to answer our initial question, the various arguments discussed above do not, in our view, justify calling into question the main pillars of our investment policy.

Reducing risk under current conditions would not be appropriate.

On the contrary, we are on the lookout for opportunities in corporate debt, given the more attractive yield levels that investors can now capture.

We maintain our neutral bias on equities.

Geopolitical uncertainties and the risk of an excessive tightening of financial conditions should not be overlooked.

For the time being, there is nothing to suggest that central bankers have moved away from managing monetary policy "with a steady hand". Nevertheless, we should not lose sight of the fact that interest-rate decisions operate with a lag.

In any event, maintaining our focus on managing the overall risk of portfolios does not encourage us to buy on weakness under current conditions.

Geneva, 29 September 2026

GENVIL

WEALTH MANAGEMENT & CONSULTING



Cédric Mondada
Founder

cmondada@genvil.ch

+41 22. 716. 03. 02.

+41 79. 817. 96. 87.



François Savary
Founder

fsavary@genvil.ch

+41 22. 716. 03. 01.

+41 79. 658. 08. 64

GENVIL Wealth management & Consulting S.A

Rue Claudine-Levet 7

1201 Genève

www.genvil.ch

