

Oppenheimer Investment Advisers

What Happened?

September turned out to be the month where the market narrative flipped back to everything macro. The focus shifted to higher yields and the growing debt supply threat from both the public sector (global governments) and private sector (hyperscaler issuance). Meanwhile, the labor market left recession risks further behind, while the AI capex-led economic boom brought renewed concerns about higher inflation. Add continued uncertainty around oil supply, and markets were once again questioning the path toward the always elusive neutral interest rate (r^*).

Earlier in the month, the solid increase in nonfarm payrolls (+162k, later revised down to +133k) cleared the first hurdle by signaling a stable labor market. The following week, core CPI came in unexpectedly hot at +0.3% MoM, or roughly 3.6% annualized. That set the stage for new Chair Warsh to follow through on his hawkish Jackson Hole remarks that the Fed “must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed. Otherwise, we have work to do,” signaling that the Fed was prepared to act if inflation moved in the wrong direction.

The result was not only a 12-0 FOMC decision to raise the Fed Funds rate to 3.75%-4.00% in September, but an accompanying Summary of Economic Projections that was decidedly hawkish. The committee, excluding the new Chair, raised its policy rate projections, upgraded its growth and inflation forecasts, and lowered its unemployment projections. The balance of risks shifted further in the same direction: more upside to growth and inflation and downside to the unemployment rate. In our view, at the time of the meeting the new projections seemed to make a case for replacing last year's “risk-management cuts” with the possibility of “risk-management hike or hikes.”

As a result reference yields in Treasuries spiked across the curve:

- 5-year Treasury: 4.50% → 5.09%
- 5-year AAA Muni: 2.84% → 3.74% (Taxable Equivalent Yield ~6.32%)
- 10-year Treasury: 4.75% → 5.29%
- 10-year AAA Muni: 3.37% → 4.10% (Taxable Equivalent Yield ~6.93%)

Taxable Equivalent Yield (TEY) represents the yield a taxable investment would need to provide to equal the yield of a tax-exempt municipal bond. TEY shown assumes the highest marginal federal income tax rate currently in effect and does not account for state or local taxes. Actual tax benefits will vary based on an investor's individual tax situation.

Leading to an ugly month in our Reference Risk/Return Snapshot:

9/30/2026	MTD	YTD	Q3	Q2	Q1	2025	TEY*	YTW**	DUR	#ofHldgs	RTG
ICE BofA Current 2-Year US Treasury Index	-0.59%	0.26%	-0.24%	0.27%	0.23%	4.85%	4.87	4.87	1.89	1	AA1
ICE BofA Current 5-Year US Treasury Index	-2.10%	-2.87%	-2.70%	-0.17%	-0.01%	6.85%	5.07	5.07	4.38	1	AA1
ICE BofA Current 10-Year US Treasury Index	-3.65%	-5.15%	-5.17%	0.13%	-0.11%	7.82%	5.27	5.27	7.77	1	AA1
ICE BofA Current 30-Year US Treasury Index	-5.16%	-7.77%	-8.74%	0.77%	0.30%	3.27%	5.62	5.62	14.63	1	AA1
BBG Municipal Bond	-4.36%	-4.18%	-6.35%	2.50%	-0.18%	4.25%	8.07	4.78	7.01	67,347	AA2/AA3
BBG Municipal Bond: 5 Year (4-6)	-3.17%	-2.51%	-3.56%	1.07%	0.01%	5.03%	7.12	4.21	3.91	7,064	AA2/AA3
BBG Municipal Bond: 10 Year (8-12)	-4.43%	-5.04%	-6.07%	1.90%	-0.79%	5.92%	7.84	4.64	6.52	13,613	AA2/AA3
BBG Muni Managed Money	-4.44%	-4.83%	-6.80%	2.61%	-0.48%	3.94%	7.76	4.59	7.66	28,163	AA1/AA2
BBG Muni Mngd Mny Short	-2.50%	-1.62%	-2.56%	0.78%	0.18%	4.02%	6.42	3.80	2.76	5,239	AA1/AA2
BBG Muni Mngd Mny Shrt/Interm.	-3.68%	-3.97%	-4.56%	1.25%	-0.62%	5.24%	6.71	3.97	4.59	12,337	AA1/AA2
BBG Muni High Yield (non-IG)	-4.31%	-1.68%	-5.55%	3.35%	0.71%	2.46%	n/a	6.21	7.72	6,288	BA2/BA3
BBG U.S. Corp Inv Grade	-2.72%	-3.11%	-3.94%	1.40%	-0.54%	7.77%	6.04	6.04	6.41	8,909	A3/BAA1
BBG Interm. U.S. Gov/Crdt	-1.66%	-1.49%	-1.88%	0.43%	-0.02%	6.97%	5.25	5.25	3.66	6,766	AA2/AA3
BBG U.S. MBS	-3.38%	-3.31%	-4.25%	0.58%	0.40%	8.58%	5.95	5.95	5.90	1,109	AA1/AA1
BBG U.S. Aggregate	-2.61%	-2.91%	-3.51%	0.67%	-0.05%	7.30%	5.56	5.56	5.77	14,254	AA2/AA3
BBG U.S. Corp High Yield	-2.52%	0.10%	-1.82%	2.47%	-0.50%	8.62%	8.35	8.35	3.20	1,949	BA3/B1
BBG U.S. Treasury: TIPS	-2.61%	-2.12%	-3.24%	0.89%	0.26%	7.01%	5.23	5.23	5.05	48	AA1/AA1
BBG U.S. Treasury	-2.24%	-2.77%	-3.04%	0.32%	-0.04%	6.32%	5.13	5.13	5.54	299	AA1/AA1

* (Taxable Equivalent Yield = YTW adjusted for top Federal tax bracket + 3.8% surcharge for approp. Munis)

Source: Bloomberg, ICE and OIA

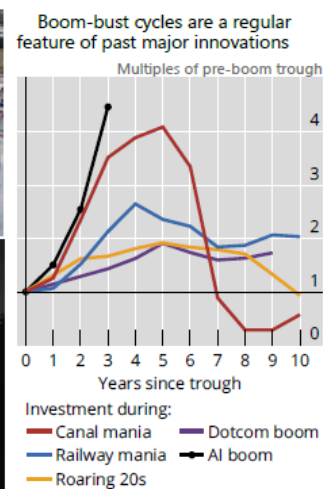
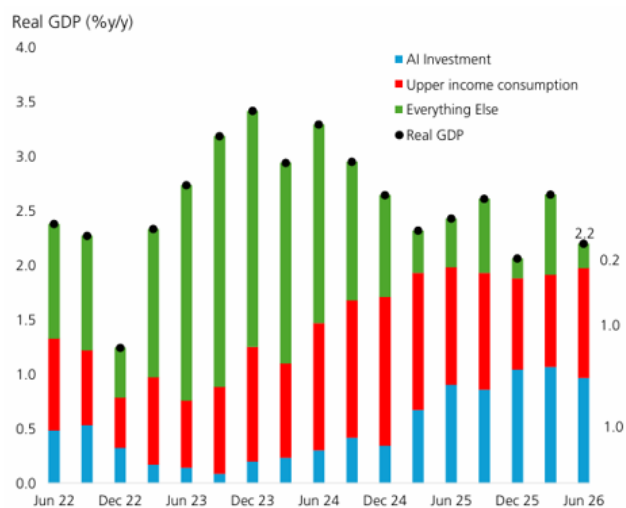
** (Index Performance shown for illustrative purposes only. Indexes are unmanaged and investors cannot directly invest in an index)

All yield figures represent gross market yields and do not reflect the impact of fees or expenses. Index performance is not indicative of the performance of any particular investment. Indexes are unmanaged and their returns do not take into account any of the costs associated with buying and selling individual securities. Individuals cannot invest directly in an index. Past performance is not indicative of future results.

What Are We Thinking?

Even though markets are a bit exhausted from running geopolitical scenarios around oil supply and following every tariff tweak, the 53.5 bp September selloff in the 10-year Treasury tells us something changed. September turned out to be the month where investors accepted that the economy is operating in a very strong nominal growth environment (Q1 GDP 5.7%, Q2 GDP 6.3%), while real growth has remained equally resilient (Q1 GDP 2.5%, Q2 GDP 2.2% and the Atlanta Fed GDPNow estimate currently tracking 3.7% real GDP for Q3).

There is little doubt that much of this strength rests on the AI capex buildout boom, as evidenced anecdotally by the traffic congestion caused by construction crews heading to massive build sites in places like Red Oak, Texas, a town of roughly 20,000 people. Like past major innovations, AI investment will probably follow its own boom-and-bust cycle. But for now, it is very real and moving very fast. AI and technology investment are driving the strength in investment, while equity market wealth is helping support upper-income consumption and powering the K-shaped economy even as consumers absorb the ongoing oil supply shock. Equity market wealth was essentially the main factor behind the increase in household net worth in Q2 and reached an all-time-high 38% share.



Source: Bureau of Economic Analysis, Haver Analytics, UBS, CBS 60 Minutes, Bank of International Settlements Annual Report 2026.

Third Party Information is provided for informational use only and does not necessarily reflect the view of Oppenheimer Asset Management.

Additionally, consumer spending has stayed solid. The front-loaded fiscal expansion from the OBBBA did a good job shielding households from higher energy prices, while tariff pass-through subsided broadly as expected. Meanwhile, the labor market has remained relatively stable, with unemployment falling to 4.2% from 4.5% last November.

Put it all together, and it is not surprising that bond markets experienced one of their most volatile repricings of risk this year. (So much so that Fed Vice Chair Philip Jefferson and New York Fed President John Williams were dispatched to deliver what amounted to “forward guidance” speeches, emphasizing that the central bank has time to assess the economy before considering another rate increase).

Corporate bonds slightly underperformed U.S. Treasuries during the month. Per the Bloomberg U.S. Credit Index, investment-grade corporate spreads widened modestly versus comparable Treasury yields. Corporate spreads remain fairly tight, but we expect underlying fundamentals and technicals to remain supportive into 2027, outside the already well-known problems among the weakest CCC-rated names.



Third Party Information is provided for informational use only and does not necessarily reflect the view of Oppenheimer Asset Management.

As outlined in our monthly Risk/Return Snapshot, municipal bonds experienced their worst monthly return since the collapse of Lehman Brothers in September 2008, with the Bloomberg Municipal Bond Index declining 4.36%. The market was already contending with approximately \$460 billion of year-to-date new issuance when large bid-wanted lists began making the rounds as tax-loss selling fed on itself. Negative credit headlines surrounding Florida private rail operator Brightline's bankruptcy filing added to the pressure. Yet when the 10-year AAA municipal/Treasury ratio approached 81% on September 29, the response was classic Munis: buyers showed up aggressively. Within roughly 72 hours, the same ratio had retraced to approximately 75% by the end of the week.

Bottom Line: With the Bureau of Economic Analysis' September 30 methodology changes lowering the year-over-year inflation rate to 3.0% from 3.4% (much of that coming from changes to portfolio management services and computer accessories & software, two of the more volatile components over the past 12 months) we now believe the probability of inflation falling beyond our acceptable 15-25 bp MoM core inflation range has declined meaningfully.

Coupled with New York Fed President Williams' comment that “there is no need for urgency,” and Vice Chair Jefferson's view that future policy adjustments should be determined by carefully examining trends in the data, the FOMC now appears likely to pause in October. That does not mean the ride in rates gets any smoother. Inflation and labor data will ultimately dictate the December decision, but our framework remains the same: whether monthly core inflation falls inside or outside the 15-25 bp range will be the ultimate decider (as long as labor markets stay stable).

Another interesting question is what the recent backup in yields does to other asset classes. For the first time in a long while, asset allocators have a real reason to look at bonds again as equity hedges, particularly with yields now competing much more favorably against earnings and dividend yields. Whether fixed income can return to its 2000s role as the ultimate equity hedge remains to be seen, especially with growth still this strong. But with the repricing we just experienced, real yields substantially higher and credit fundamentals still holding up, we believe the current environment is a very favorable one for intermediate taxable and tax-exempt fixed income at the moment.



Ozan Volkan

Senior Portfolio Manager
OIA Tax-Exempt Fixed Income



Leo Dierckman

Senior Portfolio Manager
OIA Taxable Fixed Income



Michael Richman, CFA

Senior Portfolio Manager
OIA Taxable Fixed Income

This piece is intended for informational purposes only. This material is not a recommendation to buy or sell any security and does not take into account the particular investment objectives, financial situation, or individual investors. All information provided is subject to change. Investing in securities is speculative and entails risk. There can be no assurance that the investment objectives will be achieved or that an investment strategy will be successful. Securities are offered through Oppenheimer & Co. Inc., a registered broker-dealer and affiliate of OAM. This material is provided for informational purposes only and is not intended as a recommendation or solicitation to buy or sell any security. Investors should consider individual investment objectives, risks, charges, and expenses and consult with their financial professional before making any investment decision.. It is provided to you after you have received Form CRS, Regulation Best Interest disclosure and other materials. Past performance does not guarantee future results. The risks associated with investing in fixed income include risks related to interest rate movements as the price of these securities will decrease as interest rates rise (interest rate risk and reinvestment risk), the risk of credit quality deterioration which is an issuer that will not be able to make principal and interest payments on time (credit or default risk), and liquidity risk (the risk of not being able to buy or sell investments quickly for a price that is close to the true underlying value of the asset). Average credit quality is calculated by considering the proportion of the value of each individual credit rating lower of Moody's or S&P and noting it as a percentage of the entire portfolio, thus producing the average credit quality. Adverse changes in economic conditions or developments regarding the issuer are more likely to cause price volatility for issuers of high yield debt than would be the case for issuers of higher grade debt securities. A credit rating is an assessment provided by a nationally recognized statistical rating organization (NRSRO) such as Standard & Poor or Moody's of the creditworthiness of the issuer with respect to debt obligations. Ratings are measured on a scale that generally ranges from AAA/AAA (highest, depending on the rating organization) to C or D (lowest, again, depending upon the rating organization). Quality Distribution is based on a weighted average of strategy accounts. Bond ratings are categorized by the lower of Moody's or S&P. For more information regarding bond ratings on municipal bonds, please visit www.moodys.com/ratings or www.spglobal.com/ratings.

* (Taxable Equivalent Yield = YTW adjusted for top Federal tax bracket + 3.8% surcharge for appropriate Munis, state and local taxes are not considered in this calculation). The views expressed herein are those of the authors as of the date indicated and may change without notice. They do not necessarily reflect the opinions of Oppenheimer & Co. Inc. or its affiliates and should not be construed as a firm recommendation or investment advice.

** The Bloomberg US Credit Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supra-nationals and local authorities.

Any forward-looking statements are based on current assumptions, expectations, and market conditions, which are subject to change.

There is no guarantee that any projections or views will be realized.

OAM and Oppenheimer & Co. Inc. are both indirect wholly owned subsidiaries of Oppenheimer Holdings Inc. Securities are offered by Oppenheimer & Co. Inc. 9161085.1