



RFO Market Roundup

29 September 2026

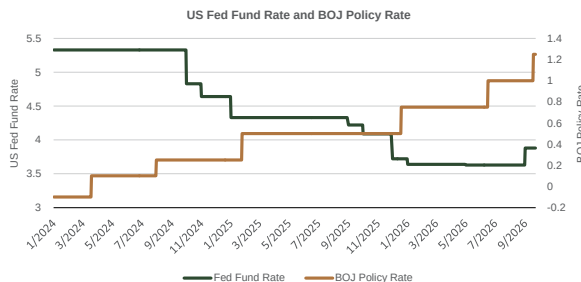
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Higher rates and paler gold

Key takeaways

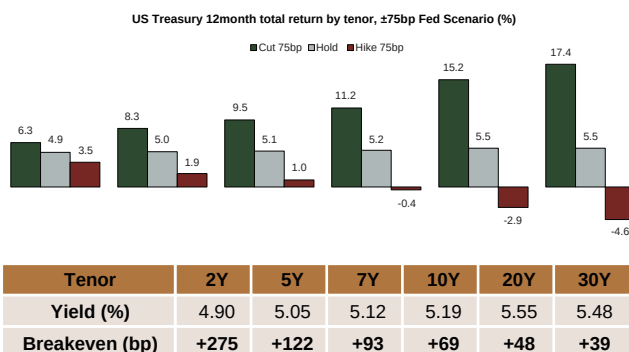
- After the Fed rate hike, a short-lived calm was disturbed by escalating Iran conflict and robust US data, sending yields surging
- However, we continue to believe that these drivers are temporary. Current yields offer notable cushion against rate hike risks
- As yields surged, gold prices took another hit. But central bank purchases have returned, as may investors when Fed fears subside

Figure 1. Fed and BOJ hiked in September



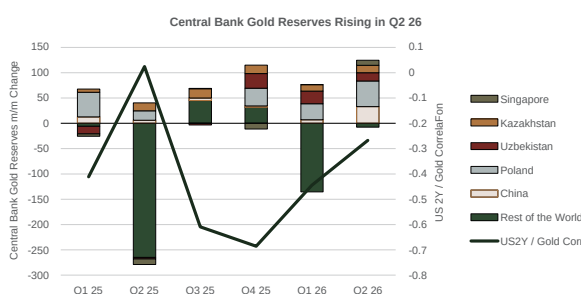
Source: Bloomberg, as of 25 Sep 2026

Figure 2. Current yields cushion a 75bp policy shock; belly offers best risk to reward



Source: Bloomberg, as of 25 Sep 2026

Figure 3. Gold responding less consistently to real yields



Source: Bloomberg, as of 2Q 2026

Yields rise on Iran conflict and data beat

- As we noted in the previous edition, the Fed raised rates to 4%, cited elevated inflation concerns, and the median FOMC forecast (dot plot) pointed to one more hike for 2026. Markets anticipated these and yields came down slightly.
- However, the escalation of military conflict in Iran upset the calm and sent treasury yields surging 25bps in the past week. Stronger than expected US data, such as retail sales, jobless claims and new home sales also lifted yields. The USD similarly was unchanged on FOMC day, but rallied thereafter.
- The BOJ also raised rates to 1.25%, with two dissenting governors and a dovish readout. The yen weakened, as fiscal concerns weigh on the currency.

High rates, high income, cushions for Fed risks

- Short term volatility notwithstanding, we continue to see growing opportunities for investors. Geopolitical tensions and economic data both tend to go in cycles, and are always compared to expectations. The market has priced another 100bp of rate hikes in the coming year. We doubt the Fed is that aggressive.
- Even if the Fed hikes 75bps in the coming year, current yields would provide a significant cushion for total returns. The 2-year duration gives investors the largest defensive ballast (see Figure 2). If Fed fears subside, the belly of the curve (5–7Y) would give investors comfortable upside, while also staying positive if yields do rise 75bp. (The table to the left shows how much rate hikes in one year would bring total returns to zero.)
- Throughout the recent tumult in the treasury market, credit spreads had remained stable and historically narrow. As such, we continue to like investment grade short to medium duration credit to take advantage of this high rates, high incomes market.

Central banks resume net buying amid dimming gold prices

- Gold has fallen by a quarter after a wild 3-year 230% rally that ended in Feb 2026. The retreat was driven by a combination of deleveraging the gold bubble and money flowing into AI equities and debt. The surge in US real yields this September presented another hit on the gold price.
- However, central banks have quietly resumed net buying into gold reserves in Q2 26 includes China, Poland, Uzbekistan, Kazakhstan and Singapore, totalling 124.58 tons. The gold selling by others have also stopped.
- When Fed fears subside and USD moderates, investor interest in commodities like gold and alternative assets like crypto may return.

IMPLICATIONS FOR INVESTORS

- **Rates:** With futures pricing 100bps of rate hikes in the coming year, we believe the market is far overestimating the inflation threat and the Fed's hawkishness. Both Fed expectations and treasury yields are likely to moderate in the coming 3-6 months.
- **Credit:** For investors who expect high yields to remain or rise further, staying short duration (2-year) would provide stronger defense. For investors who agree that rates fears may subside, extending to the belly of the curve would offer stronger returns and still defensive. Given still tight credit spreads, investors can stay high quality and not take additional credit risk.
- **Gold:** As gold fell to \$4000 in 2Q, buyers emerged from including central banks, driving a rally in August, but faded as yields surged. As we approach \$4000 again, this opportunity may be rising again.

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Post-summit update: A look at the currency

Key takeaways

- The Xi-Trump summit extended the trade war truce, as widely expected. Status quo had been largely supportive of risk appetite.
- However, risks may be rising in the currency market, where US real yields had risen far above China's, making CNY look expensive.
- Though the CNY still has structural and central bank support, the marginal investor may return to the carry trade.

Xi-Trump: See you soon!

- Concrete progress from this summit is limited to a two-month extension of the trade truce and lower tariffs on \$30bn of nonstrategic goods in both directions.
- But the greatest outcome is that the two leaders would meet each other nearly every month. Next at the Shenzhen APEC on Nov 18-19, then at the Miami G20 on Dec 14-15. A potentially longer deal can be made, with more commercial agenda.
- Developments like the AI dialogue, and the lack of mentioning of major geopolitical hot spots were likely intentional to enable continued talks.
- In summary, the summit essentially opened the doors for more talks, which is not far from already muted expectations going in.

The surprisingly strong CNY

- Heading into the summit, market expectations were soft. Chinese equities underperformed and government bond yields were near record lows, with the 10-year at 1.67%, not far from the record low of 1.59% at the start of 2025.
- The major exception is the currency. The Chinese yuan (CNY) had appreciated by 4.3% versus the USD so far this year, while the USD index DXY was 3.4% stronger against a broad spectrum of currencies.

Carry vs. Appreciation

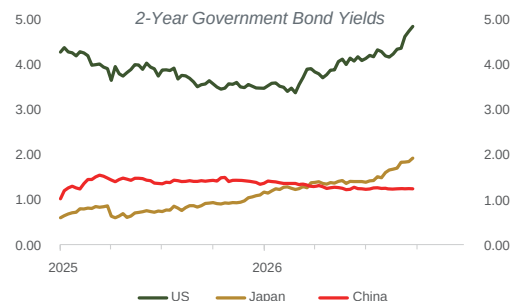
- The CNY strength happened despite real rates surging in the US and falling in China. As a result, CNY deviated from real rate gap by the largest amount since 2018. There are several structural factors driving investors to capture potential appreciation despite negative carry (see box below).
- But now, the USD-CNY carry is so large, that it's beginning to eclipse expected further CNY appreciation. For example, the 2-year US treasury yield is 4.92%, while its Chinese counterpart is at 1.24%, a 368bp spread. By comparison, consensus forecast for CNY in a year is 6.62, or 140bp of expected appreciation, no longer sufficient to offset the negative carry.
- Of course, the People's Bank of China (PBOC) has significant power to manage the currency. The RMB internationalization project and the AI race would also continue (see box below). For the sake of the upcoming APEC, G20 and the new trade truce deadline, there remains a need for stability.
- Still, we believe this deviation would start to close relatively soon because marginal investors may return to positive carry, likely through a combination of narrower yield gap and higher USDCNY. It is difficult to predict the exchange rate, but the market consensus of uninterrupted mild appreciation is likely wrong.

Figure 4. Historical forward six-month performance over sharp rise in yields over prior three months



Source: Bloomberg, as of 30 Sept 2026

Figure 5. Chinese yields are lower than that of Japan, providing a candidate for funding carry trades



Source: Bloomberg, as of 30 Sept 2026

IMPLICATIONS FOR INVESTORS

- **Carry trade:** 2-year US treasury is yielding 4.92%, a 368bp spread over the Chinese counterpart is at 1.24% (Japanese 2-year government bond yield is 1.96%). Offshore, the availability of CNH is relatively limited, which likely raises the cost, but the potential narrowing of the valuation gap could improve returns.
- **Hedging:** For investors and businesses with CNY income and assets, hedging might help to lock in recent CNY strength. Especially CNH bond investors who enjoyed currency appreciation to offset negative carry.
- **Equities:** sustainable earnings growth becomes more important in an environment where currency may potentially weigh on the broader market.

STRUCTURAL REASONS FOR CNY DEVIATION FROM YIELD GAP

- **Demand for offshore CNY bonds:** China is increasing issuance inpush to internationalize the RMB. Persistently low growth and in a push in China also increases demand for bonds. Foreign investors are capturing CNY strength despite negative carry.
- **Inflows to Chinese equities:** The AI race revived investor interest in Chinese equities. IPOs in HK amounted to \$85bn in 2026 so far (not far from NASDAQ's \$105bn). About half of the money was raised by mainland domiciled firms, of which, a majority was repatriated to Mainland China as required by regulation.
- **PBOC's toolbox:** Daily mid-price setting keeps markets within 2% on either side. Window guidance on banks and businesses to delay USD purchase by importers and encourage CNY purchase by exporters. Open market operations to enforce guidance.

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Equities

Key takeaways

- While the AI safety debate continues, AI hardware stocks have rebounded, as the supply-demand dynamic remains favorable. Meanwhile, investors are focusing on the next AI catalyst from agents and spatial intelligence.
- China's AI story is becoming more comprehensive, as chip development advances, while cloud and agentic AI expand.

US AI: Supply/Demand still Outweighs Safety Concerns

- The AI safety debate continues in the background, but its drag on the stock prices of AI hardware companies seems to have already dissipated.
- When Anthropic CEO Dario Amodei called to "pace the frontier," with Sam Altman and Elon Musk publicly backing a slower development cadence. AI-linked semis and infrastructure sold off globally. Yet, key chip names rebounded after hyperscalers reaffirmed capex plans. Demand concerns were further eased when a major infrastructure software firm reported strong growth in AI-cloud contracts and cloud infrastructure revenue.
- Supply-tightness also helped to reverse the effect of the AI safety concerns. The CEO of a major chip producer said the company can meet only about half of customer CPU demand and warned the memory shortage could worsen next year. When the firm reportedly was planning to increase US memory production capacity, the whole chip industry rallied.
- Still, some concerns remain about safety, not yet about humanity, but more about debt sustainability. Markets have punished firms that have may have strong capex, but also negative free cash flow, with financing challenges and questionable ability to convert order backlogs to cash flows.

US Retail dispersion

- US retail sales beat expectations in August, with a whopping 10.5%/y growth, highest since the recovery from pandemic.
- But not all retailers are doing well. Corporate results in 2Q showed a bifurcation. Lower-cost retailers benefited more from tariff refunds, but not performing well excluding that, which was punished by markets. Some department stores and key brands did much better, as their customers tend to be less sensitive to inflation, which enables more pass through, keeping margins and revenues robust.
- These widened stock-level dispersion and highlights the importance of stock selection.

AI catalyst: Agents and Spatial Intelligence

- AI development is clearly shifting from rapid infrastructure buildout towards application. Agents and physical AI are two such applications that are gaining a lot of investor attention.
- The announcement that a personal AI agent by a major social media firm topped Apple's U.S. App Store sent its stock surging 16%, then fading about half of the performance. The market is still seeking convincing and monetizable AI agent solutions for consumers and businesses.
- On the hardware side, AI adoption is focusing on spatial intelligence or physical AI or robotics. However, pureplay firms in this space tend to be small and many are not listed. But multiple deals are being announced where listed major hardware makers are acquiring private firms.

Chinese AI supply chain becoming more comprehensive

- In the AI race with the US, China's key bottleneck is chip supply, as the US export curbs are unlikely to be lifted any time soon. Yet, this is pushing China's own chip development on an accelerated path.
- At the Apsara Conference in Hangzhou just concluded, China's largest e-commerce company unveiled its own AI chip. Though actual mass production and release isn't until 1Q 2027, its specs are in between the H200 and Blackwell chips from Nvidia, but can be stacked up to 1000 chips in a single system to deliver more competitive compute. The firm also outlined its next-generation AI models and expanded its agentic-cloud stack, along with new overseas cloud regions and data-center expansion. This broadens the China AI story from models to chips, compute and infrastructure.
- Separately, a Chinese electric vehicle maker's chip subsidiary is raising its first external funding round, with a goal of advancing both vehicle-side and cloud-side self-developed AI chips.

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