ESADE Master's Finance Club

FIXED INCOME MARKET MONITOR

4 SEPTEMBER 2026

PUBLIC MARKETS

RATES & GOVERNMENT BONDS

NIN

INVESTMENT GRADE CREDIT

PAUL

PRIVATE MARKETS

DIRECT LENDING

GIULIA, TIM AND LIAM

DATA

MARKET WATCH & CALENDAR

LUKA

TEAM PROFILE

The Fixed Income Department



Luka · Head of Fixed Income

PRIVATE MARKETS



Tim · Head of Private Credit



Giulia · Direct Lending



Liam · Direct Lending



Keryann · Direct Lending

PUBLIC MARKETS



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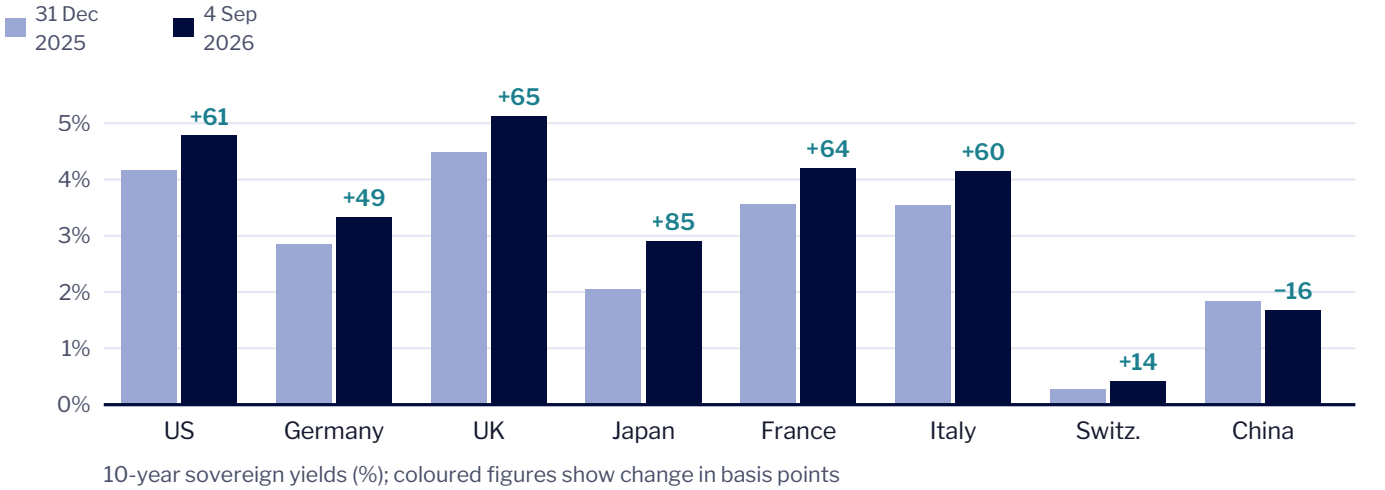


Jules · Corporate Credit



Paul · Corporate Credit

Chart of the Week: The Duration Sell-Off Is Global



10-year sovereign yields (%); coloured figures show change in basis points

Every major market except China has repriced higher this year; Japan has moved furthest, at +85bp.

+61bp
US 10-year yield, year to date, to 4.78%

80bp
US IG corporate spread, 2bp wider YTD

78bp
Direct lending premium over BSL, Q1 2026

Macro backdrop

US nonfarm payrolls (Aug)	+162k
US unemployment rate	4.1%
US headline / core CPI (Jul)	3.7% / 3.3%
Euro area headline HICP (Aug)	3.3%
Euro area core HICP (Aug)	2.4%
Brent crude	$96.28

Payrolls and inflation both surprised upward in August, keeping the September FOMC live.

What we are watching this fortnight

OATs above BTPs at 10 years	4.20% vs 4.15%
US CPI on 11 September	Prior 3.4% YoY
FOMC decision on 16 September	Held five meetings
Brent and the energy inflation shock	$96.28/bbl
Near par BDC paper migrating to discount	Q2 filings
Direct lending premium over BSL	78bp and falling

The six items the desk is tracking into the next issue.

RATES | OUR VIEW

"The medium term risk remains biased toward higher long end yields, but the next move should depend on whether the recent inflation shock becomes persistent."

Nin Sacristan, Rates & Government Bonds

INVESTMENT GRADE | OUR VIEW

"We would therefore favor a defensive IG positioning – shorter duration, a tilt toward higher rating quality (A over BBB)."

Paul Manner, Corporate Credit | Investment Grade

DIRECT LENDING | OUR VIEW

"Favor funds where elevated non-accruals are improving with deleveraging alongside them … over funds worsening with no offsetting discipline."

Giulia, Tim and Liam, Direct Lending

Where yields stand

US 2y 4.37% · US 10y 4.78% · 2s10s +42bp · Bund 10y 3.34% · Gilt 10y 5.13% · JGB 10y 2.91%

Where spreads stand

US IG 80bp · US HY 267bp · EUR IG 81bp · EUR HY 285bp · EMD 236bp

What is next

ECB 10 Sep · US CPI 11 Sep · FOMC 16 Sep · BoE 17 Sep · BoJ 18 Sep

RATES & GOVERNMENT BONDS

A broad duration sell-off, not simply a higher Fed rates story

Nin Sacristan · Rates & Government Bonds · September 2026

FINDINGS

Global government bonds have undergone a broad duration sell-off over the past month. US 10-year Treasury yields rose from 4.68% at the end of July to around 4.81% today, while the German 10-year Bund rose from roughly 3.20% at end July to around 3.38%. Italy's 10-year yield also moved higher, from about 3.94% at the start of August to above 4.0% late in the month. The move therefore extends beyond a single sovereign market and points to a broader repricing of long duration government debt. The US 30-year yield has been particularly weak, reaching 5.327% in late August, its highest level since 2007.

The sell-off has been driven by three overlapping factors. First, fiscal supply and debt concerns have increased the compensation investors demand for long dated bonds: US government debt has approached $40tn, while persistent deficits and heavy issuance have kept pressure on the long end. Second, inflation and monetary policy uncertainty have increased. At Jackson Hole, Fed Chair Kevin Warsh signaled that further tightening could be required if inflation remains persistent, while markets increasingly priced a September hike. Third, the latest escalation in US Iran tensions has pushed Brent crude above $90/bbl. adding a fresh energy inflation shock. In Europe, the same global duration pressure is being joined by country specific fiscal concerns, most notably in France, where French German spreads have widened significantly and French long dated yields have moved above comparable Italian debt.

COMMENTS

The most important point is that this is not purely a 'higher Fed rates' story. The rise in the front end reflects a repricing of the expected policy path, but the stronger pressure at the long end suggests that term premium, fiscal supply and inflation uncertainty are also important. The 2s10s curve is therefore useful: with the 2-year Treasury around 4.3–4.4% and the 10-year near 4.8%, the curve is positively sloped by roughly 40–50bp. This means investors require materially more yield to hold 10-year debt, consistent with a market that is demanding greater compensation for long term uncertainty rather than simply pricing an imminent policy move.

In Europe, the cross market picture is arguably more informative than the absolute level of Bond yields. The rise in Bond yields is consistent with the global duration sell-off, but France is showing signs of additional sovereign specific repricing. French spreads to Germany have reached unusually wide levels, and French 30-year yields have moved above Italian equivalents. This suggests that fiscal credibility is becoming a more important differentiator inside the euro area, rather than investors treating all sovereign debt as one homogeneous duration trade. Italy is worth monitoring as a counterexample: its spread has remained relatively contained despite higher absolute yields, suggesting that the current BTP move is still more consistent with higher core rates than with a major deterioration in Italian credit risk.

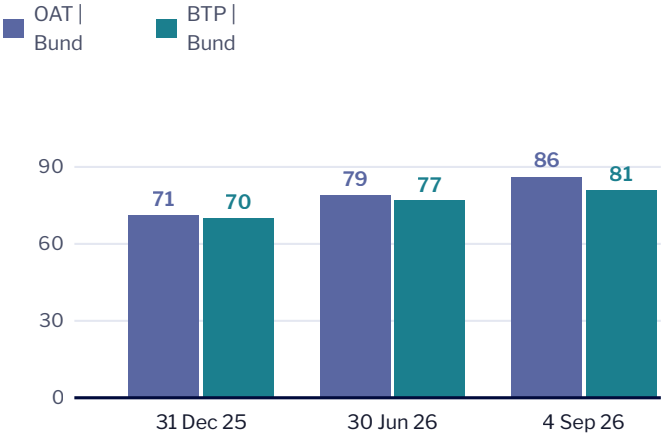
Our view is that the medium term risk remains biased toward higher long end yields, but the next move should depend on whether the recent inflation shock becomes persistent. If oil remains elevated and inflation expectations re-accelerate, the Fed and ECB will have less room to ease, and the curve could steepen further. A rapid decline in energy prices or weaker labor market data would reduce the need for additional policy tightening and could allow duration to recover.

The curve has steepened from the long end

Rates	4 Sep 26	30 Jun 26	31 Dec 25	YTD
US Treasuries 2-Year	4.37%	4.17%	3.47%	+90bp
US Treasuries 10-Year	4.78%	4.47%	4.17%	+61bp
US Treasury 2–10 slope	0.42%	0.29%	0.69%	−27bp
Bunds 10y	3.34%	2.86%	2.85%	+49bp
OATs 10y	4.20%	3.65%	3.56%	+64bp
BTPs 10y	4.15%	3.63%	3.55%	+60bp
Gilts 10y	5.13%	4.76%	4.48%	+65bp
JGBs 10y	2.91%	2.67%	2.06%	+85bp

The whole curve has repriced, but 2s10s is 27bp flatter than at end 2025.

French spreads to Germany now exceed Italian



10-year yield spread over Bunds, basis points

France has moved from 1bp inside Italy at end 2025 to 5bp wide of it.

CORPORATE CREDIT | INVESTMENT GRADE

Investment Grade Bond Market

Paul Manner · Corporate Credit | Investment Grade · September 2026

MARKET SITUATION

The US investment grade market currently displays two opposing dynamics: historically tight spreads alongside record high issuance volume. The ICE BofA US Corporate Index OAS stands at around 81 basis points, with BBBs at 100 basis points, putting the HY/IG spread ratio near 3.5x, roughly in line with its long run average[1]. At the same time, the market posted its third consecutive record month in August 2026: US investment grade bond sales reached $145.2bn by 17 August, surpassing the previous August record of $136bn set in 2020[2]. According to Bloomberg, the surge is driven by AI infrastructure capex needs. Europe shows a parallel record: on 7 January 2026, European borrowers priced over €61bn of debt in a single day, the largest daily volume ever, across a record 42 tranches from 28 issuers[3], underscoring how strong 2026 issuance momentum has been across both regions. On the macro side, the Fed has held rates at 3.50-3.75% for five straight meetings after cutting in late 2025[4], and markets are now pricing possible hikes in September and December amid elevated inflation[5], while the 2010s curve remains positive (+35bp).

OUR VIEW

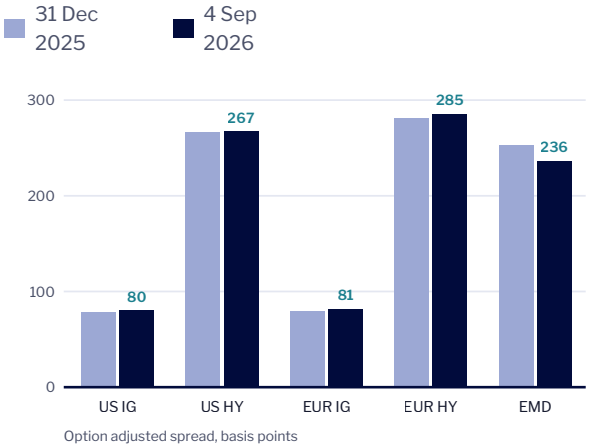
We see the combination of historically tight spreads and record issuance as fragile over the medium term. Tight spreads mean investors are barely compensated for credit risk; the market prices in little recession or default risk. Supply, on both sides of the Atlantic, is increasingly driven by AI related financing, a thematically concentrated source of demand. Should AI sector growth falter, we see an asymmetric risk: limited upside from further compression versus a potentially sharp repricing on negative surprises. We would therefore favor a defensive IG positioning – shorter duration, a tilt toward higher rating quality (A over BBB), since current carry only partially compensates for the thin spread cushion

Investment grade scoreboard

ICE BofA US Corporate Index OAS	~81bp
BBB corporates	100bp
HY / IG spread ratio	~3.5x, near long run average
US IG issuance, to 17 August	$145.2bn
Previous August record (2020)	$136bn
European single day record, 7 Jan 2026	€61bn, 42 tranches, 28 issuers
Fed funds target	3.50-3.75%, five meetings on hold
2s10s curve	Positive, +35bp

The figures cited in the section above, gathered in one place.

Spreads have barely moved while yields repriced



Option adjusted spread, basis points

Only EM debt has tightened this year; the four corporate measures sit within 5bp of where they started.

Spread levels vs. index returns

US fixed income, YTD	Short	Interm.	Long
Government	1.03%	-1.10%	-2.80%
Corporate	1.60%	-0.54%	-2.37%
High Yield	2.81%	2.49%	0.91%

Carry, not spread compression, is doing the work: short and high yield segments are the only positive returns on the US curve this year.

European fixed income, YTD	Short	Interm.	Long
Government	0.29%	-0.95%	-2.90%
Corporate	0.83%	-0.24%	-1.61%
High Yield		1.82%	

Total returns, year to date to 4 September 2026.

DIRECT LENDING

Credit quality vs. price

Giulia, Tim and Liam · Private side · September 2026

WHAT'S MOVING

New issue direct lending spreads have started widening off their 2025 lows: in Q1 2026, 84.4% of sponsor backed LBO loans in the direct lending market priced inside SOFR+550, and market participants expect a further 25-50bp of widening as the year progresses. Direct lending has also lost share of large LBO financing to the syndicated market. Year to date direct lending LBO volume of $30.2bn is running 21% behind last year's pace, deal count is down 17%, and no direct lender has financed a $2bn+ buyout since early March. The clearest sign this is a pricing story, not just a volume story: the extra spread direct lenders earn over comparable broadly syndicated loans has compressed from more than 300bp on 2017-18 vintage deals to roughly 78bp as of Q1 2026, the narrowest gap in the data series and the lowest compensation direct lenders have earned for illiquidity in almost a decade.

Q2 BDC filings

WHAT MOVED

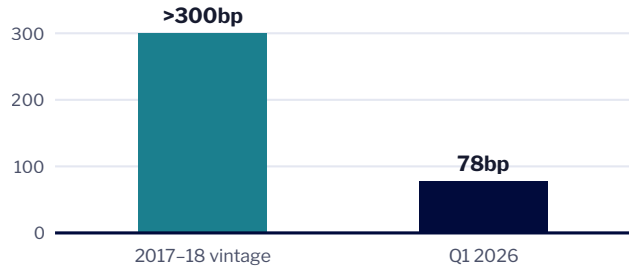
Across the ten largest publicly traded BDCs, non-accrual debt at cost rose to 3.95% in Q2 2026, up 20bp from 3.75% the prior quarter; on an adjusted basis (all debt of a borrower with at least one non-accrual tranche), that figure rose 54bp to 5.95%. Across the broader 213-BDC universe LCD tracks ($516bn of debt), reported non-accrual debt reached 1.9% of total debt at cost in Q1 2026 (+52bp q/q), the share of borrowers with at least one non-accrual tranche rose to 4.69% (up from 4.26% a year earlier), and the adjusted non-accrual measure rose 116bp to 3.3%.

Loan marks have not moved nearly as much as those figures would suggest, and the picture is genuinely two sided. LCD's own data shows non-accrual loans specifically are already marked down meaningfully, a 55.8% fair value to cost ratio in Q1 2026, versus 98.8% for performing loans. But at the portfolio level, BDC valuations remain elevated relative to where comparable loans trade in the public market, and that gap has widened, not narrowed: the 25th percentile of BDC marks sat at $97.51 versus $94.95 for broadly syndicated loans as of Q1 2026. Lenders write down loans already flagged as troubled, but the broader book hasn't repriced to reflect the direction credit quality is moving.

WHY IT MOVED

The non-accrual rise lines up with the maturity wall: loans written in 2021–2022, when SOFR was near zero, are coming due into a base rate that has held near 3.5-3.7% for three years, and some borrowers can't refinance on the same terms. A genuine complication: research decomposing over 6,000 BDC loan positions found that roughly 75% of the discount on loans that entered portfolios below face value reflects entry pricing (OID, fees, embedded illiquidity premia), not deterioration since, while loans that entered near face value show the largest post-origination markdowns, making them the more reliable stress signal. That reframes what to watch: not the deep discount bucket's size, but how much near par entry paper is migrating into it.

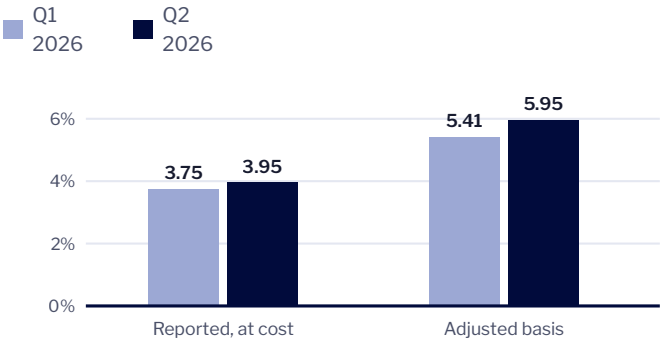
The illiquidity premium has almost gone



Direct lending spread over comparable syndicated loans (bp)

Direct lenders now earn roughly a quarter of the spread pick up they took on 2017-18 deals.

Non-accruals are rising at the ten largest BDCs



Non-accrual debt as % of debt at cost, ten largest listed BDCs

Both the reported and the adjusted measure rose in Q2; the adjusted basis moved further.

DIRECT LENDING | POSITIONING

OUR VIEW

We expect the broader universe adjusted non-accrual exposure metric (3.3% at cost, Q1 2026) to post another sequential increase of 50bp or more by autumn's Q2/Q3 data, concentrated in a subset of managers, not broad based. Crescent Capital BDC's non-accruals fell (5.7% → 4.8%) post-restructuring while Kayne Anderson's rose (+20bp to 2.7%), the dispersion a vintage driven story should produce. Medium conviction, as we lack Q2 loan level data to confirm the near par migration point.

WHAT WOULD CHANGE OUR MIND

Deceleration below 20bp/quarter; broadening across most large managers; or Q2 data showing migration concentrated in already discounted paper rather than near par, pointing to legacy pricing, not fresh stress. Also watching whether the $97.51 vs $94.95 mark gap converges; if not over two issues, that gap becomes the bigger story.

HOW WE WOULD EXPRESS IT

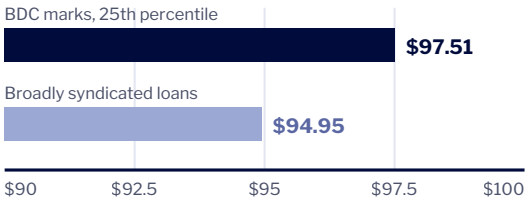
Favor funds where elevated non-accruals are improving with deleveraging alongside them. FS KKR's cost basis non-accruals fell to 7.1% in Q2 from 8.1%, debt to equity down to 127% from 138%, over funds worsening with no offsetting discipline. Senior secured heavy, lower leverage books remain the more conservative expression given how little portfolio level marks have moved.

Manager dispersion, Q2 2026

BDC	Non-accruals	Direction
FS KKR (cost basis)	7.1% vs 8.1%	Improving
Crescent Capital BDC	4.8% vs 5.7%	Improving
Kayne Anderson	2.7%, +20bp	Deteriorating

FS KKR debt to equity also fell to 127% from 138%. The dispersion between managers is the story, not the average.

BDC marks still sit above public loan prices

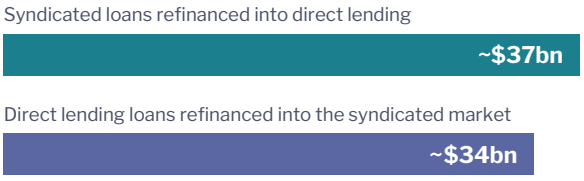


Price as % of par, Q1 2026; a $2.56 gap that has widened, not closed

Private marks have not followed public loan prices down; the gap is $2.56 and widening.

READ ACROSS WITH PUBLIC CREDIT

Refinancing flow between the broadly syndicated and direct lending markets has been close to balanced over the past year (~$37bn moving from syndicated into direct lending against ~$34bn moving the other way), but the composition has shifted in 2026 toward the largest, cleanest credit leaving direct lending for cheaper syndicated execution, while direct lenders are left holding the smaller, harder to syndicate names, consistent with the compressed spread premium above.



Direct lending LBO volume YTD: $30.2bn, 21% behind last year
Deal count down 17%; no $2bn+ buyout financed since early March
84.4% of Q1 sponsor LBO loans priced inside SOFR+550

Balanced in size over the past year, but not in composition.

Q2 2026 scoreboard

Ten largest BDCs, non-accruals at cost	3.95%, +20bp q/q
Ten largest BDCs, adjusted basis	5.95%, +54bp
213-BDC universe, reported (Q1)	1.9% of debt at cost
213-BDC universe, adjusted (Q1)	3.3%, +116bp
Borrowers with a non-accrual tranche	4.69%, from 4.26%
Non-accrual loans, fair value to cost	55.8% vs 98.8%

The deep-dive figures in one place. The broader universe covers $516bn of debt.

Fixed income index returns

Bloomberg / JPM indices	1 Week	MTD	QTD	YTD
US Aggregate	−0.18%	−0.09%	−1.01%	−0.40%
Global Aggregate	0.06%	0.17%	0.09%	−0.13%
Euro Aggregate	−0.34%	−0.08%	−0.45%	−1.83%
US High Yield	−0.15%	−0.12%	0.60%	2.57%
Euro High Yield (€)	−0.33%	−0.32%	−0.05%	1.82%
Muni Aggregate	−0.81%	−0.52%	−2.59%	−0.33%
TIPS	0.04%	0.13%	−0.57%	0.57%
JPM EMBI Global Div.	−0.10%	0.06%	−0.48%	2.82%
JPM GBI-EM Global Div.	0.51%	0.73%	1.94%	3.49%

All data in USD unless noted. Only the credit and EM indices are positive on the year.

Credit spreads

OAS (bp)	4 Sep 26	31 Aug 26	30 Jun 26	31 Dec 25
US HY corporate	267	261	270	266
US IG corporate	80	78	74	78
EUR HY corporate	285	277	284	281
EUR IG corporate	81	80	80	79
EM debt (EMBI GD sovereign)	236	235	235	253

All five measures sit within a few basis points of where they began the year.

Compensation for credit risk, public vs private

Measure	Level	Direction
US IG corporate OAS	80bp	+2bp YTD
US HY corporate OAS	267bp	+1bp YTD
HY / IG spread ratio	~3.5x	Long run average
Direct lending premium over BSL	78bp	From >300bp
BDC non-accruals, top ten (adj.)	5.95%	+54bp q/q
BDC 25th percentile mark vs BSL	$97.51 / $94.95	Gap widening

Neither side is paying much for risk; only the private side is deteriorating.

Commodities

Price	4 Sep 26	31 Aug 26	30 Jun 26	31 Dec 25
WTI crude ($/bbl)	$91.48	$85.76	$69.50	$57.42
Brent crude ($/bbl)	$96.28	$90.49	$72.92	$60.85
Gold ($/oz)	$4,430	$4,437	$4,008	$4,319
Natural gas ($/mmBtu)	$2.98	$2.94	$3.28	$3.69

Brent is up 58% year to date, the single biggest input to the inflation risk running through this issue.

Rates and policy

Yield / rate	4 Sep 26	31 Aug 26	30 Jun 26	31 Dec 25
Policy				
Fed funds effective	3.63%	3.63%	3.63%	3.64%
ECB deposit rate	2.25%	2.25%	2.25%	2.00%
United States				
Treasuries 2y	4.37%	4.34%	4.17%	3.47%
Treasuries 10y	4.78%	4.75%	4.47%	4.17%
2–10 slope	0.42%	0.41%	0.29%	0.69%
Europe				
Bunds 2y	2.95%	2.93%	2.52%	2.12%
Bunds 10y	3.34%	3.32%	2.86%	2.85%
OATs 10y	4.20%	4.18%	3.65%	3.56%
BTPs 10y	4.15%	4.15%	3.63%	3.55%
Gilts 10y	5.13%	5.06%	4.76%	4.48%
Swiss govt 10y	0.42%	0.42%	0.27%	0.28%
Asia				
JGBs 10y	2.91%	2.94%	2.67%	2.06%
Chinese govt 10y	1.68%	1.69%	1.73%	1.84%

Policy rates have barely moved all year; the repricing has happened in the curve.

Currencies

Rate	4 Sep 26	31 Aug 26	30 Jun 26	31 Dec 25
Euro ($/€)	1.1614	1.1618	1.1422	1.1746
Pound ($/£)	1.3519	1.3549	1.3262	1.3475
Yen (¥/$)	156.26	159.74	162.55	156.71
Swiss franc (CHF/€)	0.9405	0.9391	0.9232	0.9307
Renminbi (CNY/$)	6.7112	6.7197	6.7870	6.9880

The dollar is weaker against the euro and sharply weaker against the yen since June.

Every exhibit in this issue is listed below in the order it appears, with the reference numbers that support it. The numbered list on the right is the full reference list for the whole publication; references 1 to 5 are the ones marked in the investment grade section. Market levels are as of the close on 4 September 2026 unless stated otherwise.

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Full references

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17. Analyst sections written for this issue by Nin Sacristan, Paul Manner, Giulia, Tim and Liam.
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19. Club analysis. The watchlist and the read across table are the desk's own compilation of the figures cited above.

Index definitions

Government, corporate and high yield refer to the Bloomberg US and Euro Treasury, Corporate and High Yield indices. EM debt spreads are the J.P. Morgan EMBI Global Diversified sovereign spread. The direct lending premium is measured against comparable broadly syndicated loans. BSL is the broadly syndicated loan market, BDC a business development company, OAS an option adjusted spread.

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