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Source: Bloomberg Finance L.P., data as at 2 October 2026.

OATs - You Reap What You Sow

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What does the chart show?

The chart plots the spread of the 10-year OAT (French government bond) against Germany's 10-year Bund, serving as a widely watched measure of the risk premium investors demand to hold French debt rather than German debt. The chart captures a sharp deterioration in France's position in European sovereign bond markets. It plots on the left axis, the sharp pickup in yield of France's 10-year 'OAT'.

That spread has now moved above 140 basis points*, its widest level since the eurozone sovereign debt crisis of 2012. At the same time, the 10-year OAT yield has climbed to around 4.6%, an 18-year high. The significance of the move is not simply that French borrowing costs are rising: it is that they are rising substantially faster than Germany's, signalling that investors are demanding additional compensation for France-specific fiscal and political risks.

The widening has been particularly rapid. France's spread over Germany has almost doubled since the start of 2026, taking it above equivalent maturity spreads for Italy and Greece. The chart therefore illustrates a shift in how markets are pricing French sovereign risk. Germany remains the eurozone's benchmark safe-haven issuer, while France is increasingly being treated as a sovereign credit story in its own right.

Importantly, this does not yet replicate the scale of the 2011-12 crisis: French spreads approached 190 basis points during that period. But the fact that the spread has returned to levels last seen during that episode makes the chart an important warning signal for European markets.

Why is it important?

The underlying concern is France's difficult combination of high debt, a large fiscal deficit and political fragmentation. Public debt reached almost 120% of GDP in the first quarter of 2026, while the government expects the deficit to remain around 5.4% of GDP this year. In addition, investors have expressed concerns that the government's proposed €54 billion spending reduction, intended to bring the deficit towards 5% of GDP in 2027, will be unlikely to get parliamentary support.

That political difficulty matters because higher yields increase the cost of servicing an already substantial debt burden, potentially creating a feedback loop: fiscal deterioration raises borrowing costs, higher interest payments worsen the deficit, and investors then demand an even larger risk premium.

There is also a broader European dimension. France is a much larger sovereign borrower than the countries at the centre of the original crisis, meaning sustained market stress could affect banks, corporate financing conditions and other European government bond markets. French bank credit spreads and insurance on government bonds (so-called credit-default swaps or CDS) have already risen, while Italian CDS have also increased, although the moves remain far below 2012 levels.

The comparison with 2012 should therefore be treated as a risk scenario rather than a forecast. Today's Eurozone has stronger institutional safeguards, including the ECB's Transmission Protection Instrument (a backstop allowing the ECB to step in and buy the affected country's government bonds on the secondary market to address spiking borrowing costs), while current market stress remains substantially more France-specific. Nevertheless, the chart shows how quickly fiscal and political concerns can become embedded in sovereign borrowing costs – and why investors are watching France for signs that a country-specific problem could become a wider European debt-market event.

*At the time of writing 01/10/2026.

Slower US employment growth, energy-led inflation and rising sovereign borrowing costs shaped markets, while resilient technology shares contrasted with broader weakness in bonds and rate-sensitive sectors.



US

- » September payroll growth slowed sharply, and unemployment edged higher, prompting investors to reduce expectations for another immediate Federal Reserve rate increase despite continuing inflation concerns.
- » August underlying inflation was softer than first reported, but consumer spending remained firm. This combination eased near-term policy pressure without removing longer-term inflation uncertainty.
- » Long-term Treasury yields reached their highest levels in more than two decades as markets weighed persistent inflation, high energy costs and government financing needs, tightening conditions across the economy.
- » Equity leadership remained narrow: artificial-intelligence and semiconductor shares were resilient, while broader market participation weakened as higher borrowing costs weighed financials and other rate-sensitive sectors.



UK

- » Gilt yields rose to multi-decade highs alongside the global bond sell-off, increasing government debt-servicing costs and reinforcing investors focus on fiscal credibility ahead of the 28th October Budget.
- » The Chancellor used the Labour Party conference to reiterate fiscal discipline, an important signal as markets assessed whether tax or spending measures may be needed to preserve budget headroom.
- » Second-quarter economic growth was revised modestly higher, supported by services and construction, but weaker business confidence suggested that momentum may be difficult to sustain.
- » Housing and household finances remained under pressure: mortgage approvals softened while consumer borrowing accelerated, indicating that higher living and financing costs are affecting households unevenly.



Europe

- » Eurozone inflation accelerated to 3.8% in September, largely because of energy costs, while underlying inflation rose more modestly. This complicated the European Central Bank's policy trade-off.
- » French fiscal concerns intensified ahead of 18 April election, Germany widened sharply, reflecting doubts about deficit reduction and the ability of a divided parliament to approve the budget, the Euro fallen to 17 months low.
- » Spain's PM has called an early election for 29th November after parliament rejected a housing plan that the government had hoped would quell mounting social protests.
- » Stress spread beyond France to Italian and other sovereign bonds, while German debt benefited from safe-haven demand. Tighter financial conditions reduced expectations for rapid further monetary tightening.
- » European equities weakened, and banks came under pressure, while the coordinated G7 release of emergency oil and diesel reserves sought to ease fuel costs and inflation risks.



Rest of the World/Asia

- » China's official manufacturing survey returned to expansion and private-sector measures also improved, offering tentative evidence of firmer activity ahead of the Golden Week market closure.
- » Japan's Tokyo inflation exceeded expectations, reinforcing the possibility of further Bank of Japan tightening and increasing sensitivity in Japanese bonds and rate-exposed equities.
- » The Reserve Bank of Australia raised its cash rate to 4.60%, citing persistent inflation. The decision highlighted how energy costs are keeping policy restrictive across several developed markets.
- » India faced pressure from high oil prices, rising global yields and foreign outflows, while the G7 reserve release underlined the broad global impact of disrupted energy supply.

Weekly market data

Week ending 2 October 2026

Cumulative returns					
Asset Class / Region	Currency	Week ending 2 October	Month to date	YTD 2026	12 months
Developed Markets Equities					
United States	USD	-0.3%	0.9%	13.5%	15.9%
United Kingdom	GBP	-2.2%	-1.3%	8.2%	14.7%
Continental Europe	EUR	-1.1%	-0.3%	8.6%	12.9%
Japan	JPY	0.0%	-0.4%	22.5%	35.5%
Asia Pacific (ex Japan)	USD	-1.1%	0.1%	23.9%	26.0%
Australia	AUD	0.2%	-1.2%	2.5%	0.3%
Global	USD	-0.6%	0.5%	12.3%	15.2%
Emerging Markets Equities					
Emerging Europe	USD	-4.6%	-3.5%	21.1%	29.5%
Emerging Asia	USD	-1.1%	0.4%	27.3%	30.3%
Emerging Latin America	USD	1.0%	1.2%	16.2%	28.4%
BRICs	USD	-1.8%	-1.2%	-11.2%	-14.2%
China	USD	-2.0%	-1.8%	-13.4%	-21.0%
MENA countries	USD	-1.9%	-0.8%	-2.1%	-6.3%
South Africa	USD	-4.7%	-1.4%	-5.5%	8.1%
India	USD	-3.6%	-1.2%	-19.1%	-16.0%
Global emerging markets	USD	-1.2%	0.2%	23.7%	27.5%
Bonds					
US Treasuries	USD	-0.5%	0.0%	-2.7%	-2.3%
US Treasuries (inflation protected)	USD	-0.4%	0.0%	-2.2%	-2.3%
US Corporate (investment grade)	USD	-0.7%	0.0%	-2.8%	-2.5%
US High Yield	USD	-0.6%	0.0%	0.1%	1.3%
UK Gilts	GBP	0.3%	0.4%	-2.0%	1.0%
UK Corporate (investment grade)	GBP	0.1%	0.2%	-1.1%	1.6%
Euro Government Bonds	EUR	0.1%	0.3%	-3.0%	-2.8%
Euro Corporate (investment grade)	EUR	0.3%	0.1%	-1.1%	-1.0%
Euro High Yield	EUR	-0.8%	-0.5%	-0.5%	0.0%
Global Government Bonds	USD	-0.5%	-0.2%	-2.8%	-3.1%
Global Bonds	USD	-0.6%	-0.1%	-3.3%	-2.9%
Global Convertible Bonds	USD	-0.2%	0.8%	13.1%	12.8%
Emerging Market Bonds	USD	-1.4%	-0.4%	-2.8%	-0.1%
Property					
US Property Securities	USD	-1.4%	-0.1%	9.3%	7.6%
Australian Property Securities	AUD	-0.3%	-4.1%	-18.6%	-21.8%
Global Property Securities	USD	-1.8%	-1.0%	1.4%	1.4%
Currencies					
Euro	USD	-1.2%	-0.7%	-4.1%	-3.9%
UK Pound Sterling	USD	-0.1%	-0.2%	-1.6%	-1.5%
Japanese Yen	USD	-0.4%	-0.4%	-0.7%	-6.8%
Australian Dollar	USD	-1.2%	0.0%	4.2%	5.4%
South African Rand	USD	-2.2%	-1.5%	-0.7%	3.8%
Swiss Franc	USD	-0.1%	0.7%	-4.3%	-3.8%
Chinese Yuan*	USD	0.1%	0.0%	4.2%	6.2%
Commodities & Alternatives					
Commodities	USD	-1.5%	0.7%	43.3%	47.6%
Agricultural Commodities	USD	-1.7%	-0.6%	15.8%	14.0%
Oil	USD	-2.0%	-1.2%	68.0%	59.5%
Gold	USD	-3.4%	-0.4%	-4.2%	7.6%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns. *Data as at 30 September 2026.

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