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Fixed Income Outlook: Opportunity Amidst Q3 Bond Rout

Quarterly Market Update from Nat Beebe, President & CEO – October 2026

Global Bond Rout. Q3 saw interest rates rise across the globe. Rising oil prices, geopolitical tensions, and AI capital spending all contributed to higher rates. Here in the U.S., the 10-Year Treasury yield rose 82 basis points, ending the quarter at 5.28%, a level not seen since 2007 (Figure 1). In fact, it was the single largest quarterly move in nearly 20 years. British, French, and German 10-year yields rose alongside ours. The Bloomberg U.S. Aggregate Bond Index lost roughly 3.5% for the quarter, and nearly all fixed income securities traded down in tandem with rising rates.

Figure 1: Third Quarter 2026 Rate Moves

	6/30/26	9/30/26	Change
Fed Funds Target (upper bound)	3.75%	4.00%	+25 bps
2-Year U.S. Treasury	4.17%	4.89%	+72 bps
10-Year U.S. Treasury	4.47%	5.29%	+82 bps
10-Year Germany (Bund)	2.86%	3.59%	+73 bps
10-Year France (OAT)	3.65%	4.86%	+121 bps
10-Year United Kingdom (Gilt)	4.76%	5.42%	+67 bps

Source: Bloomberg, U.S. Treasury, Federal Reserve.

Longer Got Longer. In July we wrote that the destination for rates had not changed, but that it would take longer to get there, and we raised our year-end U.S. 10-Year target to 4.35%–4.50%. The third quarter went past that. The Federal Reserve raised the federal funds rate by 25 basis points on September 16, its first increase since 2023. The catalyst was energy: crude moved back above $100 a barrel in early September and headline inflation ran at 3.4% in August. The Fed's own projections now point to one more hike before year-end. As a result of the prolonged conflict in Iran and the lack of resolution on the energy side, we are bumping our year-end target once again, to 5.00%–5.25% on the U.S. 10-Year.

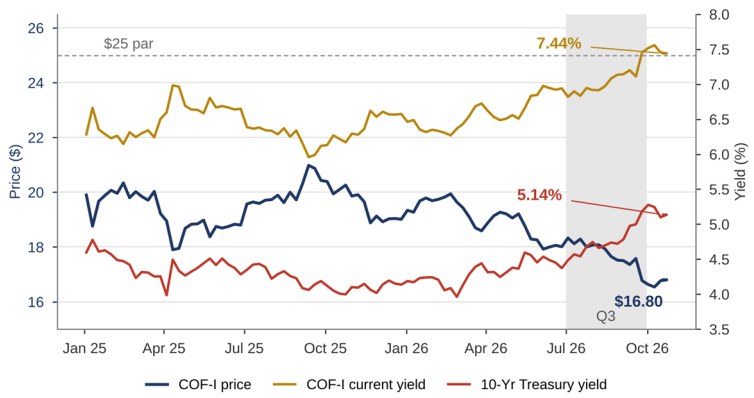
What Could Change in Q4/Q1. Three things could turn the rate picture. First, oil. Energy is the largest swing factor in headline inflation, and gasoline prices follow crude within weeks. Second, base effects. The oil spike began in March 2026, so beginning in March 2027 the year-over-year comparison laps it. Even with oil flat from here, headline inflation falls mechanically through the first half of 2027, and the Fed knows it. Third, cracks in credit. The AI capital spending boom has been financed with record corporate and private credit issuance; a slowdown in that spending, or stress in the credit funding it, would send investors back into Treasuries and take pressure off long rates. Any one of these would bring the U.S. 10-Year Treasury back below 5% into view.

Nearing 7.5% Yield on Capital One Preferred. This quarter we highlight one security we have been adding amidst the fixed income rout. In the preferred stack we continue to favor deeply discounted fixed-rate securities, and one of our favorites is the Capital One 5.00% fixed-rate preferred (Series I). Trading at roughly 67% of par, and with a current yield of 7.44% (Figure 2), investors are being paid to wait, while the Fed fights inflation. If rates fall, we expect price appreciation as well. Capital One is one of the ten largest banks in the country and now the owner of Discover. With more than $100 billion of equity market capitalization ranking below the preferred stock, we feel highly confident in the dividend. COF continues to be a top 10 holding in our Intelligent Fixed Income strategy, and we added to the position in Q3.

Figure 2

Parent	Capital One
Fixed Rate Coupon	5.00%
Price (10/19/26)	$16.80
Current Yield	7.44%
% of Par	67%
Moody's / S&P Rating	Baa3 / BB+

Figure 3



COF-I price and yield vs. 10-Year Treasury, 1/2/25 to 10/19/26. Source: Bloomberg.

One Beneficiary of "Higher for Longer": Intelligent Fixed Income-GOV. If rates stay higher for longer, our cash alternative strategy benefits directly. IFI-GOV invests in U.S. Treasuries with a maximum maturity of 36 months. Treasury bill yields rose 30 to 55 basis points during the quarter to between 4.20% and 4.54% (Figure 4), the highest of the year. An additional benefit is that the interest is exempt from state income tax.

Figure 4: U.S. Treasury Bill Yields

	6/30/26	9/30/26	Change
3-Month	3.82%	4.12%	+30 bps
6-Month	3.97%	4.33%	+36 bps
12-Month	3.98%	4.54%	+56 bps

Source: Bloomberg.

We have seen a marked increase in interest in IFI-GOV this year from a wide range of clients carrying idle cash: individuals, corporations, non-profits and foundations, and even HOAs. Many banks have been slow to pass higher rates through to deposit and sweep accounts, so a large balance earning 1% or 2% is leaving real money on the table. With rates elevated, now is a good time to evaluate what your cash is earning. The current yield on IFI-GOV is over 4.0%, and there is no minimum account size for current clients. We would welcome the chance to compare the after-tax, after-fee numbers with your bank or money market fund.

Connecting with UIA. While Q3 was a difficult period for fixed income, we continue to see the glass half full, with tremendous opportunities for investors. We expect volatility to remain elevated in Q4 and will look to take advantage of dislocations that arise.

If your financial situation or investment objectives have changed, or you would like to meet to discuss your portfolio, please call us at 612-312-1400 or email sarah.stokes@ullandinvestment.com.

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