

# Behind the Treasury Selloff: A Week, a Wave and a Legacy

MARCOS MOLLIKA • DATA TO 30 SEPTEMBER 2026

Three things are moving Treasuries at once: a week in which the selloff turned from Fed path to term premium, a wave of AI financing that is raising the neutral rate and repricing credit, and a legacy premium built in 2022–24. Through 24 September the Treasury selloff was a Fed-path repricing. Since then its character has changed: the policy path has stopped rising and the long end is doing the work — in the last week term premium accounts for all of the 10-year's rise. It is not the fiscal premium the market fears: Treasuries have not cheapened against swaps, gold has fallen and the dollar is flat. It is a real duration premium, shared with gilts and Bunds, and it is arriving with a credit selloff that discriminates by leverage: high-yield spreads 29bp wider in the week and Oracle's CDS 14bp, while Alphabet, Amazon, Microsoft and Nvidia held. Measured from 2024, before the AI borrowing wave, the level stories separate: a Treasury-specific premium built up in 2022–24 — QT, bank balance-sheet rules and heavier coupon supply all contributed, and the data cannot isolate a fiscal share — and it has partly unwound since; what has built since is a higher neutral real rate and a repricing of AI-issuer credit — the signature of AI investment competing for savings, though not uniquely so.

## The competing stories

Since 31 August the 10-year Treasury is up 55bp, the 2-year 54bp and the 30-year 40bp, with the FOMC hiking 25bp on 16 September. Three explanations compete in the market: the Fed is re-tightening; fiscal risk is raising the price of Treasury duration; AI investment is competing for savings. This note tests each against market prices first, then against surveys, then against deal-level AI issuance, and only then against term-structure models. The results are collected at the end.

Each story leaves a different footprint. A Fed story leads from the front end and flattens the curve. A fiscal or supply story shows up where Treasuries trade against other rates: Treasuries cheapen against swaps, the long end steepens, gold firms and the dollar weakens. An AI or capital-demand story lifts long real rates together with the equities that carry it, with inflation compensation flat.

| Story                             | The argument                                                                                                             | What it should do to prices                                                                                                                                                                                         |
|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Fed path</b>                   | The Fed is re-tightening and the market is pricing more                                                                  | A selloff led by the front end, a flatter curve, higher real yields with breakevens flat, a firmer dollar                                                                                                           |
| <b>Fiscal / supply</b>            | Deficits and heavy issuance raise the price of Treasury duration; in the strong version, doubts about fiscal credibility | Treasuries cheapen against swaps, the curve steepens beyond 10 years, the term premium rises, gold rallies and the dollar weakens; if credibility is at stake, inflation compensation and US sovereign CDS rise too |
| <b>AI competition for savings</b> | Debt-financed AI investment competes for the same savings and lifts the real neutral rate                                | Long real rates up with inflation compensation flat, AI equities up alongside, corporate spreads wider, the borrowers' own credit repriced                                                                          |

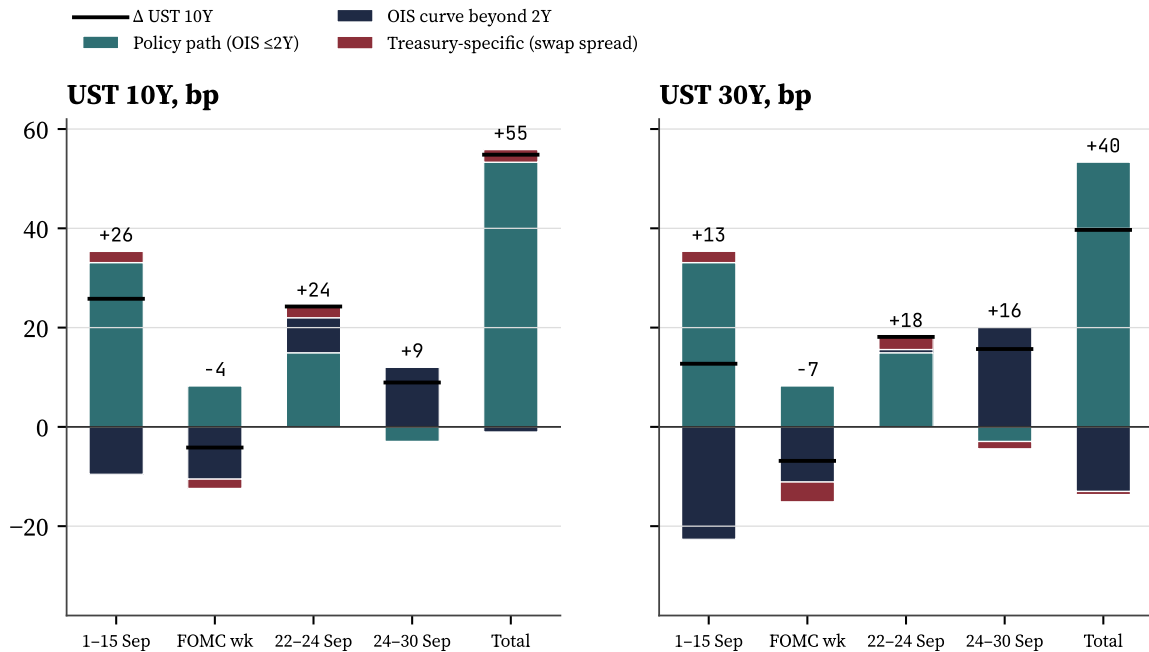
|                         |                                                             |                                                                                                                     |
|-------------------------|-------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| <b>Duration premium</b> | Investors demand more to hold duration, whatever the source | The long end rises with the policy path flat; swaps and Treasuries move together; real, not inflation; often global |
|-------------------------|-------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|

The sections below test the stories over three horizons — the September selloff, the AI-funding era since 2025, and the 2022–24 move — and the last section puts the evidence together in one decomposition.

## 1 • The September selloff

FIGURE 1

### Where the 10Y and 30Y moves came from



Change in UST yields (annual compounding) split exactly into the 2Y SOFR swap rate (the market policy path), the swap curve beyond 2Y, and a Treasury-specific piece (the change in the OIS-UST swap spread). Month, 10Y: +53 / -1 / +2bp; 30Y: +53 / -13 / -1bp. The last bar pair is the break: from 24 to 30 September the policy path fell and the curve beyond 2Y carried the move.

### Signature scoreboard

|           | Fed path |           | Fiscal / supply |            | Long end: real vs inflation |                 | Cross-asset and credit |       |       |       |        |        |        |
|-----------|----------|-----------|-----------------|------------|-----------------------------|-----------------|------------------------|-------|-------|-------|--------|--------|--------|
|           | OIS 2Y   | OIS 2s10s | Swap spr. 10Y   | UST 10s30s | Real OIS 5y5y               | Infl. swap 5y5y | Gold %                 | DXY % | SPX % | SOX % | IG OAS | HY OAS | US CDS |
| 1-15 Sep  | +33      | -10       | -2              | -13        | +11                         | +4              | -3.3                   | +0.2  | -1.3  | -3.1  | +1     | +15    | -1.0   |
| FOMC wk   | +8       | -11       | +2              | -3         | -2                          | -4              | +1.6                   | +1.0  | +2.4  | +13.5 | -4     | -10    | +1.2   |
| 22-24 Sep | +15      | +7        | -2              | -6         | +23                         | -0              | -2.0                   | +0.7  | -0.8  | -1.6  | +2     | +16    | +0.6   |
| 24-30 Sep | -3       | +12       | +0              | +7         | +10                         | +4              | -2.8                   | +0.2  | -0.7  | +1.1  | +3     | +29    | +4.0   |
| Total     | +53      | -1        | -3              | -15        | +42                         | +4              | -6.3                   | +2.0  | -0.5  | +9.5  | +2     | +50    | +4.7   |

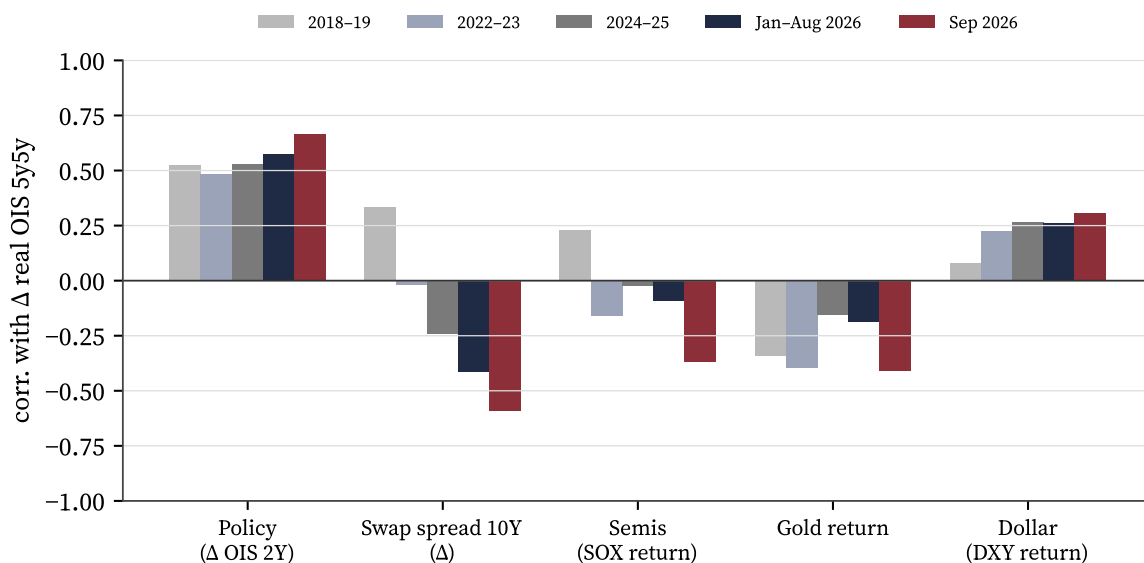
Changes over each window, bp unless marked %. Swap spread = SOFR OIS – UST (negative = Treasuries cheapen). Real OIS 5y5y = OIS 5y5y forward – inflation-swap 5y5y forward. HY OAS = Bloomberg US Corporate High Yield; US CDS = 5Y senior sovereign (EUR).

**To 24 September: the Fed.** A front-led move: the 2Y swap rate up 56bp, the curve beyond it flatter, most of it before the FOMC. The fiscal signs pointed the wrong way — swap spreads -3bp, 10s30s -22bp, gold down, dollar up — and the semis rally came in FOMC week, when real forwards fell.

**24–30 September: term premium, but not a fiscal one.** The 2Y swap rate -3bp, the curve beyond it +12bp, 10s30s +7bp steeper. The steeper long end is the one sign consistent with a fiscal premium; the rest are not. Treasuries did not cheapen against swaps (+0.1bp at 10Y, +1.5bp at 30Y), gold fell 2.8%, the dollar moved +0.2%, and inflation swaps rose only 4bp while the real 5y5y rose 10bp. This is a real duration premium across the whole rates market. What moved with it was credit: high-yield spreads +29bp (and +50bp over the month, from 261bp to 311bp), IG +3bp, Oracle CDS +14bp and Meta +4bp — with no AI bond deal in the window. US sovereign CDS rose 4.0bp to 41bp. That is a fiscal-credit sign, but a small one next to high yield, and on the same days; read together with flat swap spreads, it looks like the sovereign moving with a general credit repricing rather than leading it.

FIGURE 2

## What long real forwards move with



Correlation of daily changes in the real OIS 5y5y with the 2Y swap rate, the 10Y swap spread, semiconductor, gold and dollar returns. In September: policy 0.67, semis -0.37, dollar +0.31 (20 days; indicative). The swap-spread correlation has turned more negative each year since 2024, a supply sensitivity that was absent in 2018-19.

## Who widened, and was it global?

| bp        | ACM TP | 10Y   | UST 30Y | Oracle | Meta | Strong | AI*  | CDX IG | HY    | OAS  | US CDS | Gilt 30Y | Bund 30Y | JGB 30Y |
|-----------|--------|-------|---------|--------|------|--------|------|--------|-------|------|--------|----------|----------|---------|
| 21→22 Sep |        | +2.0  | +1.6    | +6.8   | +0.6 |        | +2.2 | -0.2   | +2.0  | +0.3 | +3.8   | +0.8     | closed   |         |
| 21→24 Sep |        | +16.3 | +19.8   | +19.6  | +5.2 |        | +4.4 | +2.2   | +18.0 | +0.9 | +16.4  | +6.2     |          | +8.9    |
| 24→30 Sep |        | +10.4 | +15.7   | +14.4  | +4.3 |        | -0.7 | +1.7   | +29.0 | +4.0 | +7.8   | +7.1     |          | -1.9    |

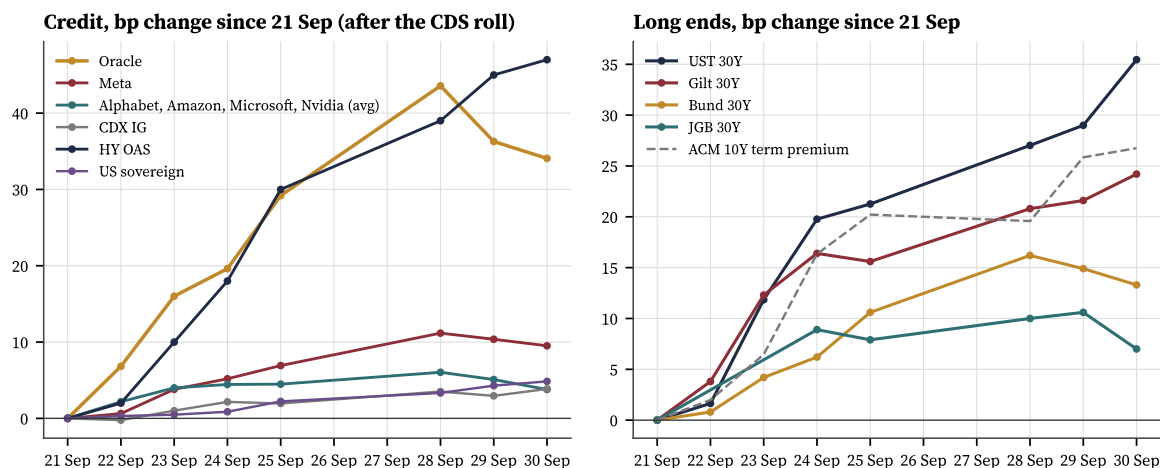
\*Average of Alphabet, Amazon, Microsoft and Nvidia 5Y CDS. Generic 5Y CDS roll to a new maturity on 20 March and 20 September; on 21 September every name and CDX IG stepped up together (Oracle +15bp, CDX IG +6bp), so changes are measured from the 21 September close. JGB markets were closed 21-23 September.

**AI credit moved first — by one day.** On 22 September Oracle's CDS rose 7bp and the strongest AI names about 2bp while broad credit was flat (CDX IG -0.2bp, high-yield OAS +2bp) and the term premium barely moved (+2bp). The joint selloff began the next day, but its trigger was a US macro shock — strong activity data, hawkish Fed commentary, higher oil and a weak 5-year auction — not AI credit. One day in one episode is a hypothesis, not a finding. **Then the market narrowed to leverage.** From 24 to 30 September Oracle (+14bp), Meta (+4bp), high yield (+29bp) and the US sovereign (+4bp) widened, while Alphabet, Amazon, Microsoft and Nvidia were flat to tighter. **The long-end selloff was global.** Gilts sold off with Treasuries (+16bp against +20bp from 21 to 24 September) and Bunds followed; the JGB 30-year

jumped 9bp on 24 September, its first day back from holiday — Japan followed rather than led, so the hawkish-BoJ story does not explain this episode; the UK had its own hawkish-BoE and pre-budget pressures, but gilts moved less than Treasuries on the big day.

FIGURE 3

## Credit and long ends after the CDS roll



Changes since the 21 September close. Left: Oracle, Meta, the average of Alphabet, Amazon, Microsoft and Nvidia, CDX IG, HY OAS and US sovereign CDS. Right: 30-year government yields and the ACM 10Y term premium.

## Putting it together: from the Fed path to the price of risk

The month reads as a chain, and each link leaves a footprint in the data.

**1. An oil shock on an already hot economy.** The Fed is not hiking because of oil alone. The oil shock — WTI from about \$70 at the end of June to \$90–95 in September, on the Iran/Hormuz conflict — hit an economy already running hot, with unemployment (4.1%) below the Fed's own estimate of its longer-run level (4.2%) and core inflation (3.3%) well above target. The Fed hiked on 16 September, the Bank of England leaned the same way, and a strong August payrolls report and September business surveys added to it. Markets priced a policy response to energy, not de-anchored inflation: inflation swaps barely moved all month.

**2. The front end repriced.** Through 24 September the 2-year swap rate rose 56bp, and the ACM put 34bp of the 10-year's rise in expected rates. The 23 September shock — strong activity data, a hawkish Fed governor, higher oil — was still mostly policy: the 2-year rose 13bp, the premium about 4bp.

**3. Then uncertainty about what comes next.** Once the hike was in, the 2-year swap rate swung 5–8bp a day but ended the last week 3bp lower — and option markets priced a much wider range of outcomes. Implied volatility on 1-year options on the 2-year swap rate, a direct gauge of policy-path uncertainty, rose from about 92bp at the end of August to 114bp by 30 September, and on 3-month options on the 10-year from 73bp to 101bp; most of the 10-year jump came on 23–24 September, the first days of the term-premium leg. Realized 10Y volatility rose with it, from 67bp in mid-September to 89bp. A Fed that offers little guidance on its reaction function leaves the market unsure how far it goes, and that uncertainty is priced as compensation for holding duration rather than as a higher expected path: premium up +10bp, expectations flat.

| Implied volatility, bp | 14 Aug | 31 Aug | 15 Sep | 22 Sep | 24 Sep | 30 Sep |
|------------------------|--------|--------|--------|--------|--------|--------|
| 1Y × 2Y (policy path)  | 93     | 92     | 103    | 102    | 113    | 114    |
| 3M × 10Y               | 72     | 73     | 80     | 78     | 97     | 101    |
| 1Y × 10Y               | 80     | 79     | 87     | 85     | 96     | 100    |
| 1M × 10Y               | 66     | 70     | 78     | 74     | 98     | 107    |

USD SOFR swaptions, at-the-money normal volatility (Bloomberg BVOL cube, mid), on each date; expiry × underlying swap tenor.

**4. The belly would not absorb supply.** Auction demand broke where path uncertainty bites hardest. The 5-year sale on 23 September tailed 3bp — it cleared that far above the 1pm when-issued yield, the second-largest 5-year tail since 2017 — with the lowest bid-to-cover and indirect share of any 5-year auction since 2022; the 20-year on 15 September tailed 2bp, among the largest on record for that tenor, and the 7-year was soft. The long end was the exception: the 10- and 30-year reopenings in early September, the week the Treasury expanded its buybacks of 10–30-year debt, cleared well through when-issued (the 30-year by 2.7bp, among the three strongest results since 2017). One reading — still a hypothesis, but one the auction results support — is that Treasury support at the long end pushed the demand problem into the belly. The 10- and 30-year auctions on 7–8 October are the next test.

| Auction | Tenor           | Bid-to-cover | Indirect | Indirect, 2026 avg | Dealers | Dealers, 2026 avg | Bid-to-cover rank since 2022 | Indirect rank since 2022 | Tail, bp | Tail rank since 2017            |
|---------|-----------------|--------------|----------|--------------------|---------|-------------------|------------------------------|--------------------------|----------|---------------------------------|
| 9 Sep   | 10Y (reopening) | 2.71         | 79%      | 72%                | 4%      | 10%               | highest                      | 53 of 57                 | -1.4     | 9th-largest stop-through of 109 |
| 10 Sep  | 30Y (reopening) | 2.61         | 80%      | 67%                | 2%      | 11%               | 55 of 57                     | 56 of 57                 | -2.7     | 3rd-largest stop-through of 109 |
| 15 Sep  | 20Y (reopening) | 2.57         | 52%      | 66%                | 17%     | 11%               | 25 of 57                     | lowest                   | +2.0     | 8th-largest tail of 77          |
| 22 Sep  | 2Y              | 2.63         | 58%      | 58%                | 13%     | 13%               | 28 of 56                     | 19 of 56                 | +0.2     | 40th-largest tail of 109        |
| 23 Sep  | 5Y              | 2.21         | 54%      | 64%                | 16%     | 12%               | lowest                       | lowest                   | +3.0     | 2nd-largest tail of 109         |
| 24 Sep  | 7Y              | 2.42         | 57%      | 65%                | 12%     | 12%               | 9 of 59                      | 3 of 59                  | +0.8     | 34th-largest tail of 109        |

US Treasury auction results (Fiscal Data). Indirect and dealer shares of competitive accepted amounts; ranks among same-tenor auctions since January 2022 (1 = weakest). 2026 averages: January–August. Tail = high yield – 1pm when-issued yield (Bloomberg; positive = tail, weak; negative = stop-through, strong), ranked among same-tenor auctions since September 2017 (20-year: since May 2020).

**5. Higher rates met fragile leveraged credit.** Leveraged AI credit was already under strain — AI-infrastructure CDS widened on 22 September, before the macro shock, and Oracle’s hit a record on 24

September amid reports of a force majeure notice on its New Mexico data-center project. From 24 September the term premium and high-yield spreads rose on the same days (+10bp and +29bp by month-end); leveraged borrowers repriced, strong balance sheets and equities did not (S&P 500 -0.7%). The causality runs both ways — higher rates hit leveraged borrowers, and wider credit raised the price of risk — so this is a loop, not a one-way step.

**6. Globally, and not as a US fiscal premium.** Gilts and Bunds sold off on the same days (the UK with its own hawkish-Bank of England and pre-budget pressures, but moving less than Treasuries on 23 September), and JGBs caught up after Japan's holidays. Swap spreads were flat, gold fell, the dollar held, US sovereign CDS moved with corporate credit, and real forwards (+10bp) did the work rather than inflation compensation (+4bp).

**In one sentence:** an oil shock on an already hot economy turned the Fed hawkish and repriced the path; once the hike was in, uncertainty about what comes next shifted the move from the expected path into term premium, with demand weakest in the belly; higher rates then met fragile leveraged credit, and risk repriced across duration and credit together — globally, not as a US-specific fiscal premium. The buyback reading in step 4 is an interpretation; the rest is in the data.

**What would make it fiscal.** A fiscal leg would add what is still missing: Treasuries cheapening against swaps, gold up and the dollar down, inflation compensation rising with real yields — and US sovereign CDS rising faster than corporate credit rather than with it. On the last week's evidence the premium is being demanded for duration and credit risk across markets, not for US government risk specifically.

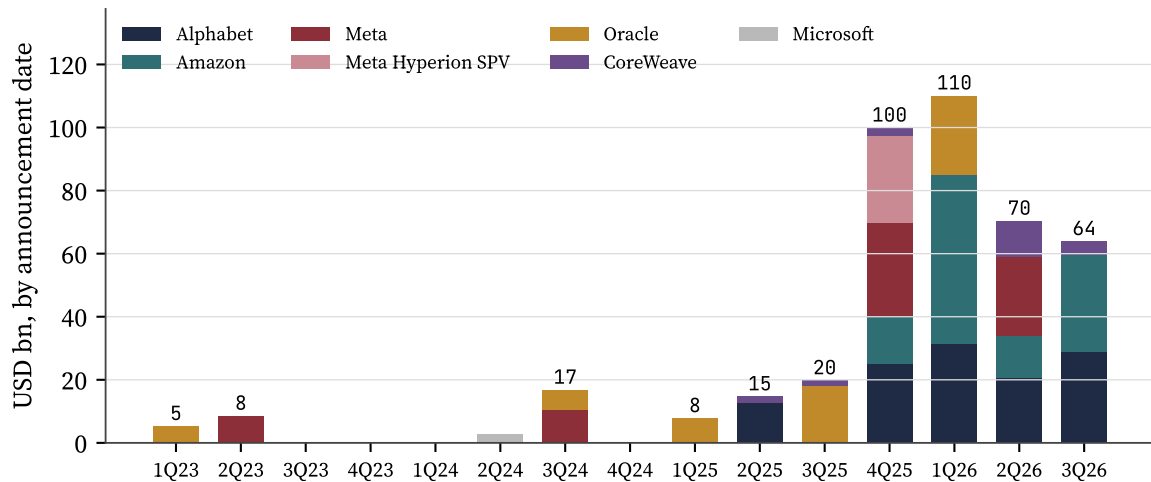
**Does the model lean too hard on the Fed?** Re-estimating the ACM around the survey anchor — yields relative to the SPF 10-year bill expectation, and a version that also moves the anchor with each change in the FOMC longer-run median — gives the same two phases. Over the month, 10-year expectations rise +32 to +35bp and the premium +15 to +18bp; in the last week the premium rises +5 to +12bp while expectations move -4 to +3bp. The level is higher under the survey anchor (2.15–2.16% at 10Y), because surveys expect lower average bill rates than the unconstrained model.

## 2 · AI funding since 2025

The AI borrowing wave starts in 2025: the five hyperscalers issued a few tens of billions a year through 2024, then \$142bn in 2025 and \$244bn so far in 2026 (Figure 4). So the right base for the “competing for funds” story is 2024, not the post-Covid trough. Measured from there, the two level stories separate.

FIGURE 4

### AI-related bond issuance by quarter

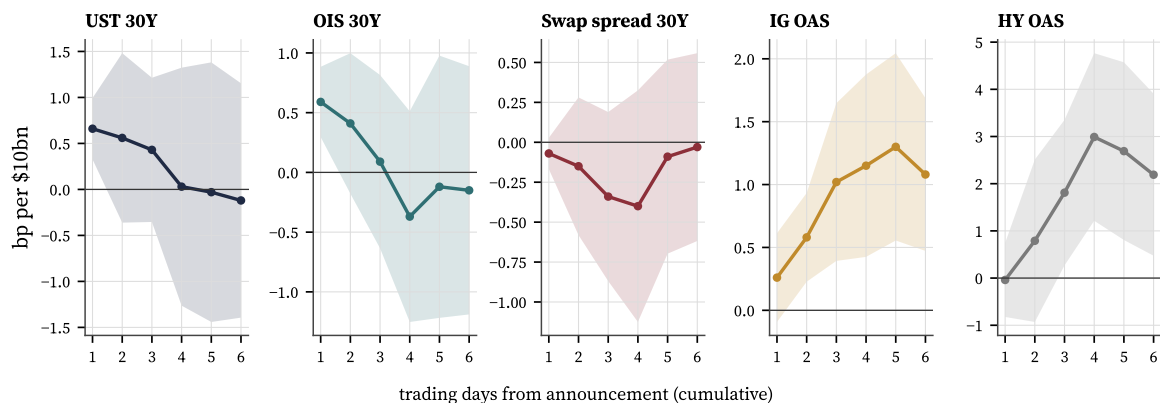


USD bn by announcement date, all currencies. Alphabet, Amazon, Meta, Microsoft, Oracle, CoreWeave and Beignet Investor LLC (Meta’s Hyperion data-center vehicle). 2026 Q3 runs to 30 September.

If AI borrowing were crowding Treasuries, big deal days would show Treasury-specific pressure: Treasuries cheapening against swaps, and a lasting rise in long yields. If it competes mainly with other corporate debt, the pressure should show up in credit spreads. We test both with 15 deal days of \$10bn or more and a regression of daily moves on the amount announced each day, controlling for same-day changes in the policy path.

FIGURE 5

### Response to AI bond announcements



Cumulative change from the announcement day, bp per \$10bn announced, with 95% bands; IG and high-yield OAS on the right. Controls for the same-window change in the 2Y SOFR swap rate. 2024–Sep 2026.

| bp per \$10bn announced | Day 0       | 2 days      | 3 days      | 5 days      |
|-------------------------|-------------|-------------|-------------|-------------|
| UST 30Y                 | +0.7 (3.8)  | +0.6 (1.2)  | +0.4 (1.1)  | -0.0 (-0.0) |
| OIS 30Y                 | +0.6 (4.0)  | +0.4 (1.4)  | +0.1 (0.2)  | -0.1 (-0.2) |
| Swap spread 30Y         | -0.1 (-1.3) | -0.1 (-0.7) | -0.3 (-1.3) | -0.1 (-0.3) |
| UST 10Y                 | +0.4 (3.3)  | +0.2 (1.0)  | +0.1 (0.2)  | -0.4 (-0.8) |
| Swap spread 10Y         | -0.0 (-0.6) | -0.1 (-0.5) | -0.2 (-1.0) | +0.0 (0.0)  |
| IG OAS                  | +0.3 (1.4)  | +0.6 (3.2)  | +1.0 (3.1)  | +1.3 (3.4)  |
| HY OAS                  | -0.0 (-0.1) | +0.8 (0.9)  | +1.8 (2.3)  | +2.7 (2.8)  |

Coefficient per \$10bn announced, t-statistic in brackets. Big-deal days alone: UST 30Y +2.2bp vs +0.2bp on other days (t 1.9); a random-day placebo puts that at p≈0.05.

Limits: 15 large events, several clustered in a few weeks; some pre-hedging happens before announcement; the OAS index is quoted to 1bp. The size regression and the credit result are the robust parts.

**Rates: a one-day duration concession.** The 30Y Treasury rises about 0.7bp per \$10bn on the day, and the 30Y swap rate by nearly as much — this is duration supply to the whole rates market, not to Treasuries. It fades over the following days and is gone within a week, which points to hedging and positioning around pricing rather than a lasting repricing of long rates.

**Swap spreads: nothing.** No move on deal days (-0.1 (-1.3) at 30Y), and monthly issuance barely correlates with monthly swap-spread changes (0.15 at 10Y, 0.08 at 30Y). The richening of Treasuries against swaps since 2024 is not an AI-hedging story; changes to bank capital rules are the more likely cause.

**Credit: a concession that lasts weeks.** The IG corporate spread widens about 1.0bp per \$10bn over three days and stays wider for two to three weeks before fading. High yield reacts later and more: about 1.8bp per \$10bn after three days and 3.0bp after four (t 3.3), consistent with the concession spreading down the credit curve. The aggregate indices are not stretched — IG at 80bp against 89bp in 2024, high yield at 311bp against 304bp: demand has kept up with supply, but each large deal clears at a price. That is where AI competes for funds.

**Issuer credit: repricing, not deal shocks.** The issuers themselves tell a sharper story than the index. Oracle's 5-year CDS averaged 41bp in 2024 and 43bp through August 2025, then started climbing in the week of its \$18bn deal in September 2025 — the start of the AI borrowing wave — and is now 242bp, six times its 2024 level, 34bp above its level after the 21 September CDS roll (peak 251bp on 28 September). Meta's has more than doubled since the end of October 2025, from 47bp to 100bp. Against the 2024 averages, the IG index is at 80bp (from 89bp) and high yield at 311bp (from 304bp). Meta's CDS does not jump on deal days, neither on other issuers' deals nor on its own: the widening is a steady repricing of the most leveraged AI builders as capex and debt plans grow, concentrated in those names rather than spread across the market. The latest leg fits the same pattern: from 24 to 30 September, with no AI bond deal in the window, Oracle's CDS rose 14bp, high yield 29bp and IG 3bp as the duration premium rose — credit repricing alongside rates, not absorbing new supply.

### Oracle's four deals: supply alone does not move its credit

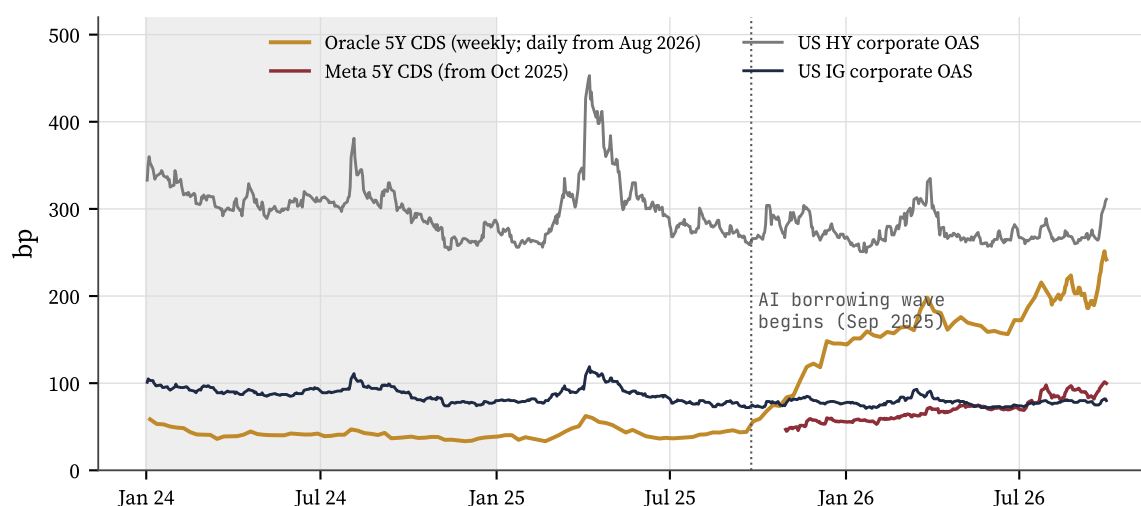
| Announced   | Size, USD bn | Phase    | CDS before, bp | Day 0 | +5 days | +10 days |
|-------------|--------------|----------|----------------|-------|---------|----------|
| 25 Sep 2024 | 6.2          | pre-wave | 37             | +0.1  | +1.3    | +0.9     |
| 30 Jan 2025 | 7.8          | pre-wave | 39             | -0.6  | -1.6    | -3.9     |
| 24 Sep 2025 | 18.0         | AI wave  | 48             | +3.9  | +10.9   | +13.9    |
| 2 Feb 2026  | 25.0         | AI wave  | 155            | -25.4 | -4.2    | +3.4     |

Oracle 5Y senior CDS, daily. Change from the close before the announcement, bp.

Oracle's own history separates supply from leverage. Its two pre-wave deals, \$6bn in September 2024 and \$8bn in January 2025, left its CDS unchanged. The \$18bn deal of 24 September 2025 is where the repricing began: CDS had stayed between 43bp and 48bp through the first three weeks of September — including the days after its \$300bn OpenAI contract was reported on 10 September — and rose 14bp in the two weeks after the deal. The mirror image came on 1 February 2026, when Oracle said about half of its \$45–50bn 2026 funding would come from equity: its CDS fell 25bp the next trading day, the day the \$25bn bond was launched. Credit markets are pricing AI balance-sheet leverage, and they reward less of it.

FIGURE 6

## Issuer credit vs the index

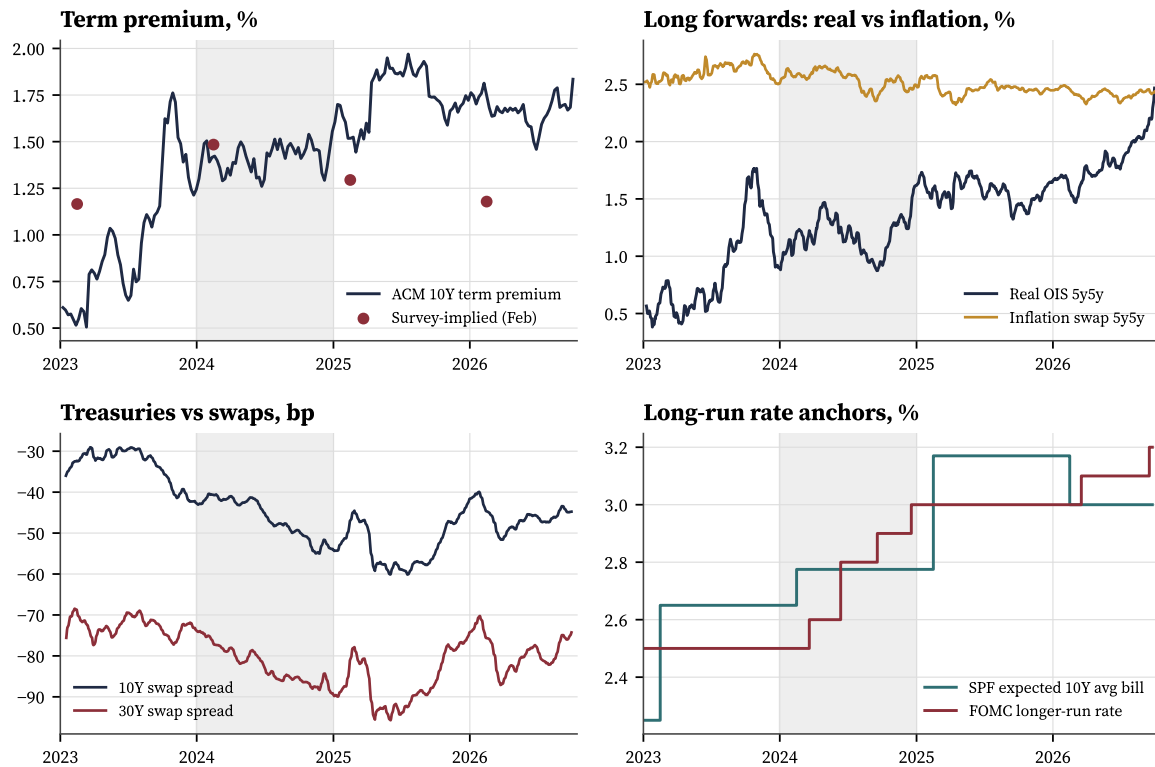


Oracle 5Y senior CDS (weekly from January 2024, daily from August 2026), Meta 5Y senior CDS (daily, from 30 October 2025) and the Bloomberg US corporate IG and high-yield OAS indices. Shaded: 2024. Dotted Line: Oracle's \$18bn deal, 24 September 2025.

|                                     | 2022–23   | 2024    | 2025 | Now  | Since 2024   |
|-------------------------------------|-----------|---------|------|------|--------------|
| ACM 10Y term premium, %             | 0.47      | 1.42    | 1.74 | 1.86 | +0.44        |
| Survey-implied 10Y premium (Feb), % | 1.17      | 1.48    | 1.29 | 1.18 | -0.30        |
| ACM 10Y expectations, %             | 3.09      | 2.83    | 2.59 | 3.45 | +0.62        |
| Real OIS 5y5y, %                    | 0.49      | 1.18    | 1.56 | 2.52 | +1.34        |
| Inflation swap 5y5y, %              | 2.58      | 2.54    | 2.46 | 2.46 | -0.08        |
| 10Y swap spread, bp                 | -29       | -46     | -53  | -46  | +1           |
| Oracle 5Y CDS, bp                   | -         | 41      | 43*  | 242  | +201         |
| 30Y swap spread, bp                 | -66       | -83     | -86  | -74  | +8           |
| IG corporate OAS, bp                | 130       | 89      | 84   | 80   | -9           |
| HY corporate OAS, bp                | 420       | 304     | 295  | 311  | +7           |
| US sovereign 5Y CDS, bp             | -         | 33      | 38   | 41   | +8           |
| FOMC longer-run rate, %             | 2.50      | 2.6–3.0 | 3.00 | 3.20 | +0.2 to +0.6 |
| SPF expected 10Y avg bill, %        | 2.25–2.65 | 2.78    | 3.17 | 3.00 | +0.22        |

Annual averages; survey-implied premium = 10Y zero yield (February average) minus the SPF median expected 3M bill rate over ten years. FOMC longer-run median was 2.6% in March 2024 and 3.0% by December 2024. \*Oracle CDS: January–August 2025 average, before the AI borrowing wave.

FIGURE 7

**What changed since 2024**

Shaded: 2024, the base year. Top left: ACM 10Y term premium and the survey-implied premium. Top right: real OIS 5y5y forward and inflation-swap 5y5y forward (5-day averages). Bottom left: 10Y and 30Y SOFR OIS - UST (10-day averages). Bottom right: SPF expected 10-year average bill rate and FOMC longer-run median.

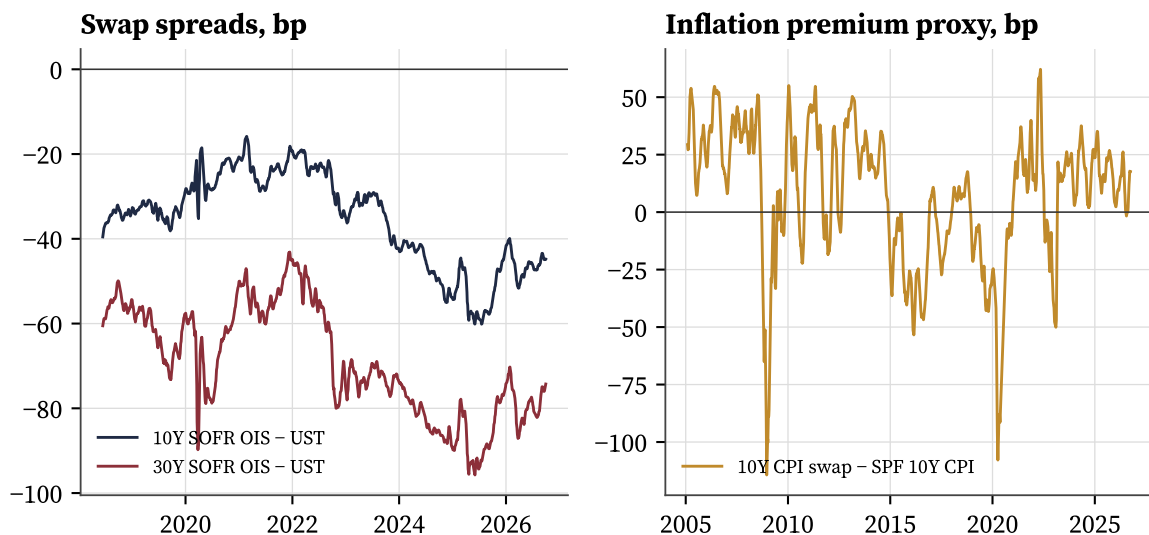
**AI / neutral rate: the change since 2024.** The real 5y5y swap forward has risen from 1.18% to 2.52% while inflation swaps slipped from 2.54% to 2.46%. The ACM puts the 10-year expectations component at 3.45% against 2.83% in 2024, and the FOMC has raised its own longer-run rate to 3.2%. A higher real neutral rate is what an investment boom competing for savings implies. It is not unique to AI: productivity optimism and the Fed's 2026 hikes point the same way, and this evidence cannot separate them. Credit is back to its 2024 levels overall — high yield 311bp against a 304bp average, though 61bp above its January low — while US sovereign CDS has drifted from 33bp to 41bp since 2024.

### 3 · The 2022–24 move

**A Treasury-specific premium, built in 2022–24 — not only by deficits.** The term premium rose from about 0.5% (2022–23) to 1.4% in 2024 and Treasuries cheapened from -29bp to -46bp against swaps. The timing does not single out fiscal policy. The 10Y swap spread fell 13bp (30Y: 25bp) in the second half of 2022, while the Fed’s QT runoff was ramping up and Treasury was reducing coupon auction sizes; it fell another 15bp in the second half of 2023, when larger coupon auctions and the Fitch downgrade coincided with the Basel III endgame proposal and, in December, the SEC’s Treasury clearing mandate; and it rose 14bp (30Y: 17bp) in 2025 as the enhanced supplementary leverage ratio was eased. A reversal that large around a bank-capital change says balance-sheet regulation was a major part of the story. Event days do not settle it: on each refunding, downgrade and rule date the swap spread moved about 2bp at most. Since 2024 the ACM premium is +0.4pp, most of it market-wide and a quarter of it in the last week; the survey premium is -0.3pp, and swap spreads have not widened. A Treasury-specific premium explains why the level is high; it does not explain what has moved since, and the data cannot say how much of it is fiscal.

FIGURE 8

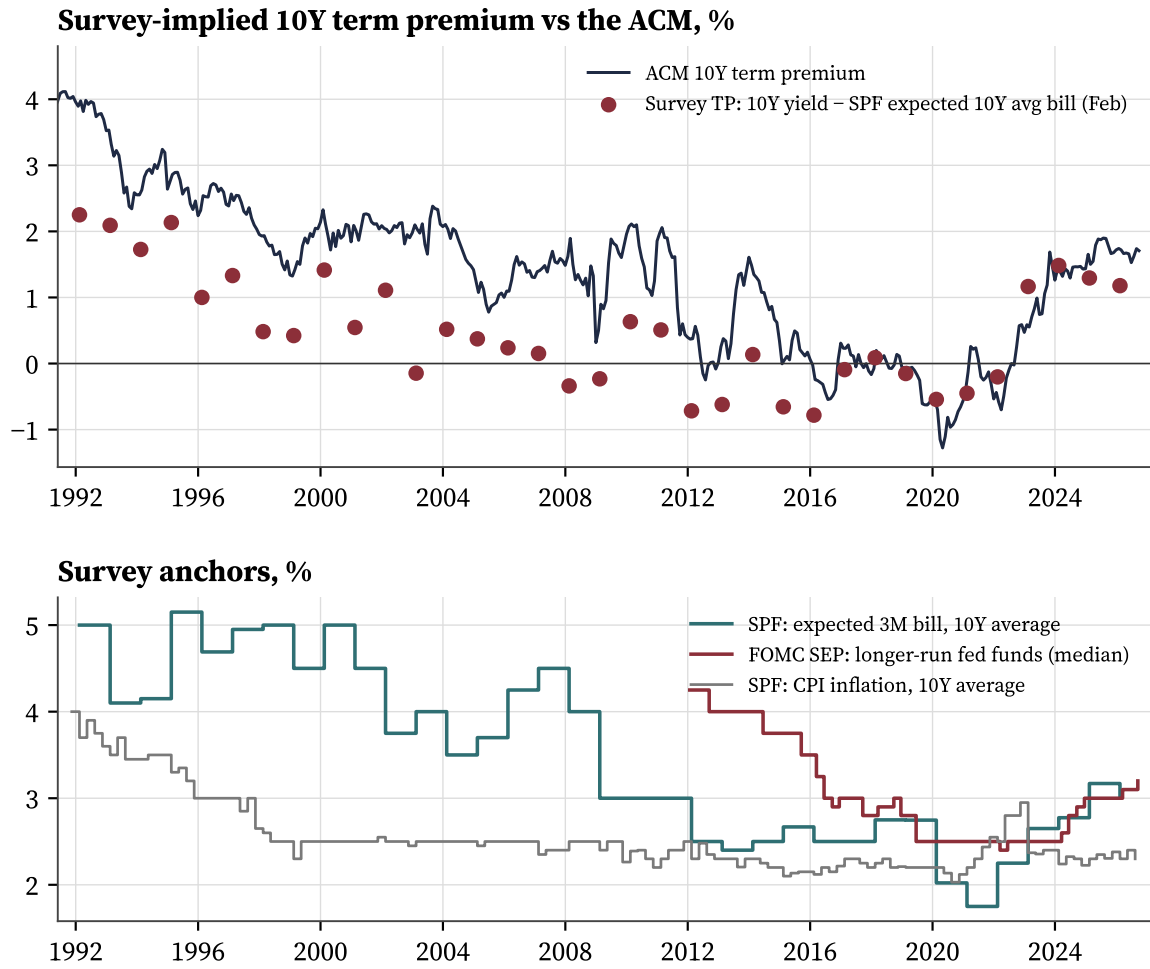
#### Swap spreads and the inflation premium over the longer run



Left: 10Y and 30Y SOFR OIS - UST since mid-2018. The cheapening came in the second half of 2022 (QT, with coupon auctions being cut) and from mid-2023 (larger auctions, Basel III endgame proposal, clearing mandate); the 2025 rebound coincided with the easing of bank leverage rules. Right: 10Y CPI swap minus the SPF 10-year CPI forecast, a model-free inflation premium proxy: 18bp now. No fiscal-inflation premium is priced.

FIGURE 9

## Surveys: the anchor is rising, and the ACM level holds up



Top: survey-implied 10Y premium (dots) against the ACM. The ACM tracks it with a correlation of 0.80 over 1992-2026 and a mean absolute gap of 0.33pp since 2020. Bottom: SPF expected 10-year bill rate, FOMC longer-run median and SPF 10-year CPI.

## 4 · Putting it together

### The model decomposition, period by period

| Change, bp                          | 2022-24<br>end-2021 → end-2024             | AI era<br>end-2024 → 31 Aug 2026                      | September, part 1<br>31 Aug → 24 Sep | September, part 2<br>24 → 30 Sep           |
|-------------------------------------|--------------------------------------------|-------------------------------------------------------|--------------------------------------|--------------------------------------------|
| 10Y zero yield                      | +296                                       | +23                                                   | +42                                  | +8                                         |
| of which expected rates (ACM)       | +80                                        | +17                                                   | +34                                  | -2                                         |
| of which term premium (ACM)         | +216                                       | +6                                                    | +8                                   | +10                                        |
| real term premium                   | +213                                       | -14                                                   | -2                                   | +6                                         |
| inflation risk premium              | +3                                         | +20                                                   | +10                                  | +5                                         |
| 10Y swap spread (Treasury-specific) | -36                                        | +12                                                   | -3                                   | +0                                         |
| 30Y swap spread                     | -45                                        | +15                                                   | -1                                   | +2                                         |
| Real OIS 5y5y                       | +266                                       | +47                                                   | +32                                  | +10                                        |
| Inflation swap 5y5y                 | -8                                         | -6                                                    | -0                                   | +4                                         |
| IG OAS                              | -12                                        | -2                                                    | -1                                   | +3                                         |
| HY OAS                              | +4                                         | -26                                                   | +21                                  | +29                                        |
| Oracle 5Y CDS                       | -20*                                       | +165                                                  | +24                                  | +14                                        |
| US sovereign 5Y CDS                 | +14                                        | +2                                                    | +1                                   | +4                                         |
| <b>What dominated</b>               | Term premium, much of it Treasury-specific | Expected rates and the neutral rate; AI-issuer credit | Expected rates: the Fed path         | Term premium, real and market-wide; credit |

Zero-coupon 10Y split by the 5-factor ACM into expected short rates and term premium; the term premium split into a real premium and an inflation risk premium using the joint Treasury–TIPS model (preferred specification). Swap spread = SOFR OIS – UST (negative change = Treasuries cheapen). \*Oracle CDS for 2024 only (weekly series starts January 2024); the September part 1 change includes about 15bp from the 21 September CDS roll. Endpoints, not averages, so figures differ from the since-2024 table in Section 2, which uses annual averages.

### Verdicts, story by story

| Story                             | 2022-24                                                                             | AI era (2025-Aug 2026)                                      | 31 Aug-24 Sep                                                | 24-30 Sep                                              |
|-----------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------|--------------------------------------------------------------|--------------------------------------------------------|
| <b>Fed path</b>                   | The hiking cycle lifted expected rates, but the premium rose more                   | Contributes: expected rates up modestly                     | <b>Drives the move</b>                                       | Stalled                                                |
| <b>Fiscal / supply</b>            | <b>A Treasury-specific premium</b> — fiscal supply, QT and bank rules not separable | Not building: Treasuries richened against swaps             | Fails: swap spreads, gold and the dollar point the other way | Not in bonds; US CDS rose with credit, not ahead of it |
| <b>AI competition for savings</b> | Pre-wave                                                                            | <b>Neutral rate and issuer credit</b> , not Treasury supply | Early mover in credit (22 Sep)                               | Leverage priced: Oracle, Meta, high yield              |
| <b>Duration premium</b>           | Built the level                                                                     | Little change                                               | Small                                                        | <b>Drives the last week</b> , globally                 |

## Results

- 1. The selloff started as the Fed.** Through 24 September the 2-year swap rate rose 56bp, more than the 10-year Treasury, and everything beyond 2 years flattened. Our ACM put 34bp of the 10-year's rise in expected rates and 8bp in term premium.
- 2. The last week is term premium.** From 24 to 30 September the 2-year swap rate fell 3bp while the swap curve beyond it rose 12bp at 10 years and 20bp at 30. The ACM premium rose 10bp as expectations eased 2bp; a survey-anchored version agrees (+5 to +12bp). It is real and market-wide: swaps rose as much as Treasuries (10Y swap spread unchanged), the real 5y5y rose 10bp against +4bp for inflation swaps, gold fell 2.8% and the dollar barely moved. Gilts and Bunds sold off alongside. Credit sold off in the same days, but selectively — high-yield spreads +29bp, Oracle's CDS +14bp and Meta's +4bp, while the strongest AI names were flat (-0.7bp on average) — and US sovereign CDS rose 4bp, moving with the rest of credit rather than ahead of it. The chain: an oil shock on an already hot economy turned the Fed hawkish and repriced the path; once the hike was in, uncertainty about what comes next moved the selloff into term premium, with option-implied volatility up sharply and auction demand weakest in the belly (the 5-year sale on 23 September tailed 3bp, the second-largest tail since 2017); higher rates then met fragile leveraged credit, and risk repriced across duration and credit together.
- 3. The 2022–24 premium is Treasury-specific, not demonstrably fiscal.** Treasuries cheapened about 17bp against swaps and the term premium rose about 1pp in 2022–24. The largest leg of the cheapening came in the second half of 2022, when QT was ramping up and Treasury was cutting coupon auction sizes; the 2023 leg coincided with larger auctions and the Fitch downgrade, but also with the Basel III endgame proposal; and the partial reversal in 2025 came as bank leverage rules were eased. QT, balance-sheet regulation and fiscal supply all push Treasuries the same way, and swap spreads cannot separate them. Since 2024 Treasuries have not cheapened further — swap spreads are +1bp (10Y) and +8bp (30Y) — and the survey-implied premium is -0.30pp. The ACM premium is up 0.4pp on the 2024 average, a quarter of it in the last week, and none of it Treasury-specific.
- 4. What has built since 2024 is the neutral rate.** The real 5y5y swap forward is up 1.3pp with inflation swaps flat, the FOMC longer-run rate is up to 3.2%, and the ACM books most of it as expected rates. That is the capital-demand signature — though the Fed's own re-tightening pushes the same way.
- 5. AI borrowing competes in credit, not in Treasuries.** Across 189 bonds and \$386bn announced since January 2025, large AI deals lift long yields for a day — Treasuries and swaps alike — and it is gone within a week. IG spreads widen about 1bp per \$10bn and stay wider for two to three weeks, high-yield spreads about 3bp after four days, and issuer CDS has repriced steadily since the wave began: Oracle's is six times its 2024 level, Meta's has doubled in a year. Swap spreads do not move.

## Has it gone too far?

This is the question everyone asks, and the evidence above cannot answer it on its own. What follows is our bias, stated as such: more speculative than anything else in this note.

**Fed path: roughly fair in a well-behaved scenario.** This is the author's macro call. The Fed is not hiking because of oil alone: the shock hit an economy already running hot, with unemployment below the Fed's estimate of its longer-run level and core inflation well above target. A simple Taylor rule with core PCE at 3.3% puts policy near 5¼% today. In an illustrative model — the rule plus standard Phillips and IS curves — the path now priced, a policy rate near 4.9% held for about two years, brings core inflation back to 2–2.5% by late 2028 if inflation expectations stay anchored. The bias is to the upside, though: if the neutral rate is moving higher, as the evidence in Section 2 suggests, or if expectations start to de-anchor, the same model calls for 2–4 additional hikes beyond what is priced, a terminal rate of roughly 5½–6%. The downside case — energy fading, a softer labor market, and wider credit spreads doing some of the Fed's work — would mean fewer hikes than priced, but we see it as the less likely of the two.

**Term premium: the level is not stretched.** Our 10-year estimate (1.86%) is the highest since 2010, but only around the 62nd percentile since 1990 and below its 1990–2007 average (2.36%), a period with comparable inflation and rate volatility. Long forwards already carry a lot of compensation, though: the 5y5y SOFR swap rate (about 5.0%) sits roughly 1.8–2pp above the FOMC's longer-run rate (3.2%) and the forecasters' 10-year bill expectation (3.0%), and the real 5y5y (2.5%) is well above a real neutral rate of about 1.2% implied by the Fed's own numbers.

**The risks are skewed higher.** Two sources of supply are barely priced. Fiscal risk has not shown up: Treasuries have richened against swaps since 2024 and US sovereign CDS (41bp) has only drifted up — if deficits start to be priced, there is room for the premium to rise. And the AI build-out is only beginning to be financed: Morgan Stanley estimates about \$2.9 trillion of data-center spending through 2028, roughly half needing external financing, and McKinsey puts cumulative capex near \$7 trillion by 2030. How much of it is borrowed matters most. In Morgan Stanley's split, hyperscaler cash flow covers about half (some \$1.4 trillion); roughly 40% is debt — about \$800 billion of private credit, \$200 billion of corporate bonds and \$150 billion of securitizations — and the rest equity and other sources. Public bond issuance is already running ahead of that path: the AI issuers in our sample announced \$386 billion since January 2025, against Morgan Stanley's \$200 billion for corporate bonds through 2028. Even if debt were only 30% of the spending, that is close to \$0.9 trillion of new borrowing by 2028 — a large share for one sector. Our evidence says this money reaches rates mainly through a higher neutral rate and wider credit spreads rather than through Treasury supply directly — which still argues for higher real rates and risk premia over time.

**The near-term exception.** The last week's increment came from a volatility and credit shock, and those tend to mean-revert. If leveraged credit stabilizes and rate volatility falls, part of that move could retrace even if the structural level holds. That had not happened by 5 October: implied rate volatility was higher still (1-year options on the 10-year swap rate at about 105bp, against 79bp at the end of August), so the uncertainty behind the premium was still in place.

**Our bias:** a Fed path that is fair if inflation behaves, with the risk of 2–4 more hikes if it does not; a term-premium level that is justified, with risks skewed higher as fiscal and AI financing are priced; and the last week's spike as the part most exposed to a pullback.

**Caveats.** Term-premium levels differ by about ±1pp across models, so "fair value" is loose by construction. Forward rates mix expectations and premium; separating them needs a model. The policy-path numbers come from a small calibrated model (Rudebusch–Svensson dynamics with a Taylor rule), not an estimated one; the timing depends mostly on how anchored inflation expectations are, and on a neutral rate that is itself uncertain and possibly higher than the Fed's 3.2%. AI financing estimates vary widely — industry estimates of the capex cycle run from about \$3 trillion to more than \$5 trillion — and the debt share depends on how much private credit, equity and off-balance-sheet structures take on. Fiscal risk can stay unpriced for a long time. And the evidence for the last week covers a single episode.

## Method and caveats

**Data.** US\_Core Bloomberg pull (v3, closes to 30 Sep): generic UST 3M–30Y (1990–), generic TIPS 2Y–30Y (2004–), CPI-U NSA to August, VIX, FDTR. Rebuilt with the `us_core v3` code on a 1–120 month grid; NS fit RMSE 4.8bp nominal, 2.6bp real.

**Nominal.** ACM, 5 factors, parameters estimated on complete months through 30 Sep (the joint Treasury–TIPS model through 31 Aug, the last CPI month). A 3-factor version gives the same split to within 1–2bp, for the month and for the last week, so the result is not a factor-count artefact.

**Joint.** Abrahams–Adrian–Crump–Moench (2016) via `pyacm RealACM`: 3 nominal + 2 real factors, TIPS NS fitting error as the liquidity factor (the `v2` baseline). The IRP is weakly identified: 4-2, 5-2 and 3-3 factor versions produce explosive or sign-flipped IRPs. The two stable specifications agree on the nominal split ( $\pm 1$ bp) but not on the real/IRP split.

**Preferred spec.** TIPS grid starting at 36 months instead of 24. The generic 2Y TIPS is dominated by carry and CPI seasonality; including it pushes the model's inflation dynamics toward implausible levels. This differs from the `us_core` default (`REAL_MIN_MAT` = 24) that feeds the Mexico and Brazil controls — not changed here.

**Headline real TP** is a hybrid: ACM nominal TP minus joint IRP, using the identity nominal TP = real TP + IRP. It is consistent with the headline nominal decomposition, but mixes two models and should be read that way.

**New data (`us_core v3`).** SOFR OIS 3M–30Y, fed funds and SOFR futures, CPI zero-coupon swaps and the 5y5y inflation swap, DXY, gold, SPX, NDX, SOX, IG OAS; SPF BILL10/BOND10 (Q1) and CPI10 (quarterly); FOMC SEP longer-run median. UST par yields converted to annual compounding before comparison with OIS. OIS before 2018 is a Bloomberg backfill and is not used. MOVE is restricted; 21-day realized 10Y volatility replaces it.

**Survey-anchored ACM.** Kozicki–Tinsley shifting endpoint: 5-factor ACM on zero yields minus the survey anchor, the anchor treated as a random walk, so expected short rates = anchor + model deviation. Sample from February 1992.

Swap spreads also reflect bank balance-sheet costs, not only fiscal supply.

**AI issuance.** Bloomberg SRCH, corporate bonds announced 1 Jan 2023–30 Sep 2026 by Alphabet, Amazon, Meta, Microsoft, Oracle, CoreWeave and Beignet Investor LLC (Meta's Hyperion vehicle); all currencies, amounts in USD; 144A/Reg S duplicates removed. Event date = announcement (pricing) date, moved to the next trading day when needed.

**Swaption volatility.** USD SOFR swaption ATM normal volatility from the Bloomberg BVOL cube, read at six dates (14 August–30 September 2026).

**Auctions.** US Treasury auction results 2016–2026 (Fiscal Data / TreasuryDirect, all fields): bid-to-cover, indirect, direct and primary-dealer shares of competitive accepted amounts for nominal 2–30-year notes and bonds, reopenings mapped to their original tenor; tails (high yield minus 1pm when-issued yield) from Bloomberg auction indices since 2017.

**Event study.** Daily changes 2024–Sep 2026 regressed on the USD amount announced that day (zero on other days), controlling for the same-window change in the 2Y SOFR swap rate; cumulative windows of 1–6 days, Newey–West errors. Deal-day comparison: 15 days with  $\geq \$10$ bn announced against all other days. Credit leg: the Bloomberg US corporate IG and high-yield OAS indices (quoted to 1bp), US 5Y sovereign CDS (EUR) Oracle 5Y senior CDS (weekly from January 2024, daily for the four deal windows and from August 2026), Meta (daily from 30 October 2025), CoreWeave, Alphabet and Nvidia (daily, August–September 2026), all CMAN, transcribed from HP screens; Amazon and Microsoft (CBIN) and CDX IG/HY via Excel. Generic 5Y CDS roll on 20 March and 20 September.

**What is robust.** The model-free real-vs-breakeven split; the ACM reading that 5Y–10Y premium did not rise through 22 Sep, which also holds under the survey anchor; IRP changes of  $\pm 10$ bp. **What is not:** term-premium levels ( $\pm 1$ pp across constructions) and whether the long-end real move is expectations or premium, which is exactly where the ACM and joint models disagree.

## Appendix · The term-structure models

Model detail behind the figures in the main text: the ACM decomposition of the September move and its last week, its comparison with a joint Treasury–TIPS model, and the real and inflation premia. The joint model reads more of the long-end move as term premium; Figure 13 shows why we do not rely on it for the nominal split.

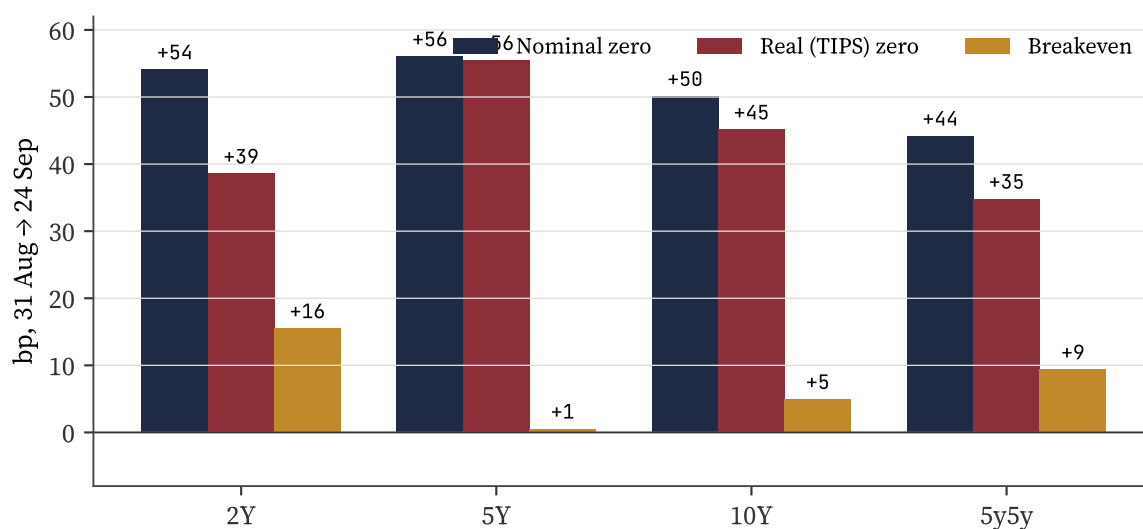
### ACM levels and changes, September

|                                       | 2Y          |            | 5Y          |            | 10Y         |            | 5y5y        |            |
|---------------------------------------|-------------|------------|-------------|------------|-------------|------------|-------------|------------|
|                                       | %           | Δbp        | %           | Δbp        | %           | Δbp        | %           | Δbp        |
| <b>Nominal yield (zero)</b>           | <b>4.73</b> | <b>+54</b> | <b>5.12</b> | <b>+56</b> | <b>5.31</b> | <b>+50</b> | <b>5.51</b> | <b>+44</b> |
| Expectations (ACM)                    | 4.23        | +48        | 3.94        | +47        | 3.45        | +32        | 2.96        | +16        |
| Nominal TP (ACM) — headline           | 0.50        | +6         | 1.18        | +9         | 1.86        | +18        | 2.55        | +28        |
| <b>Real yield (TIPS zero)</b>         | <b>2.34</b> | <b>+39</b> | <b>2.63</b> | <b>+56</b> | <b>3.01</b> | <b>+45</b> | <b>3.38</b> | <b>+35</b> |
| Real TP — headline (ACM – IRP)        | —           | —          | 0.30        | –11        | 1.33        | +3         | 2.36        | +17        |
| <b>Breakeven (zero)</b>               | <b>2.39</b> | <b>+16</b> | <b>2.49</b> | <b>+1</b>  | <b>2.31</b> | <b>+5</b>  | <b>2.13</b> | <b>+9</b>  |
| Expected inflation (+ TIPS liquidity) | —           | —          | 1.60        | –15        | 1.82        | –8         | 2.05        | –1         |
| Inflation risk premium                | —           | —          | 0.88        | +19        | 0.53        | +15        | 0.18        | +11        |

Levels on 30 Sep 2026, %; changes since 31 Aug 2026, bp. Zero yields are continuously compounded Nelson–Siegel fits to generic Treasury and TIPS par yields. Real term premium, expected inflation and IRP come from the joint Treasury–TIPS model (Appendix), which has no 2Y point. Our term-premium estimates sit above published model estimates such as the New York Fed’s, mainly because of how the yield curve is built; they track the survey-based measure more closely (Figure 9), and the conclusions rest on changes rather than levels.

FIGURE 10

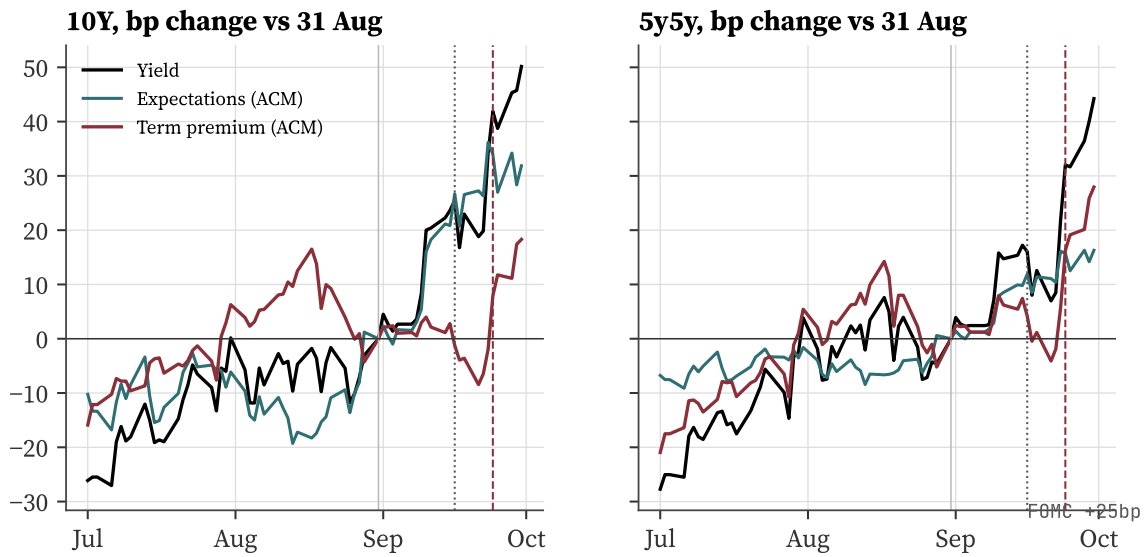
### The move is in real yields



Change in zero yields, 31 Aug → 30 Sep 2026. Model-free: breakevens moved +1 to +16bp across the curve while real yields rose 35–56bp. The front end led through 24 September; the long end has caught up since.

FIGURE 11

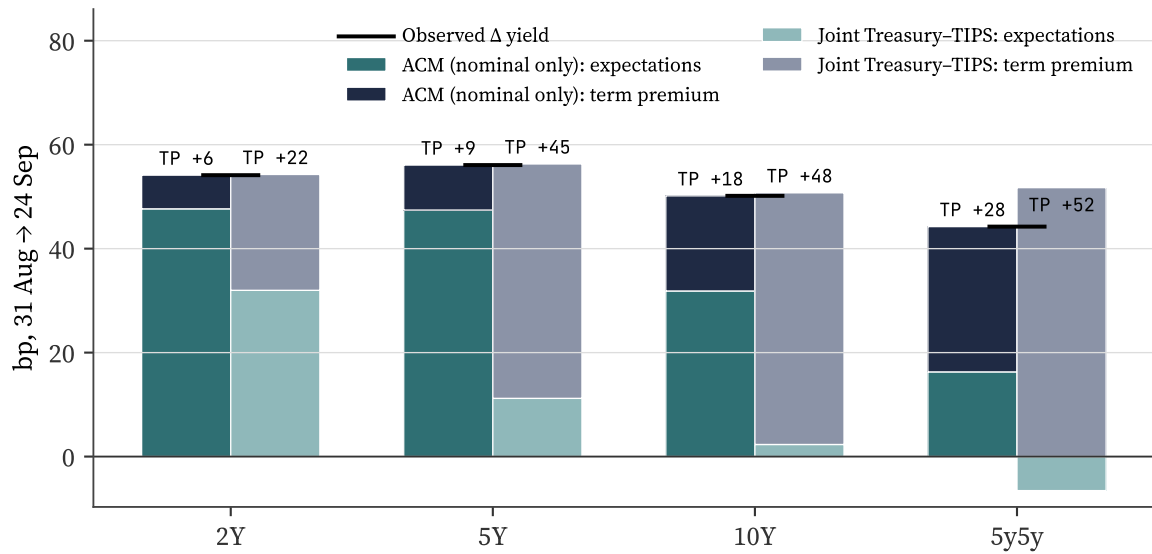
# The ACM split, day by day



Daily bp change vs 31 Aug in the yield and its ACM components; dashed line: 24 Sep. Through 24 Sep the 10Y rose on expectations (+34bp) with the premium +8bp. From 24 to 30 Sep the premium rose 10bp while expectations eased -2bp; at 5y5y the premium added 12bp.

FIGURE 12

## Two models, two splits of the same nominal move

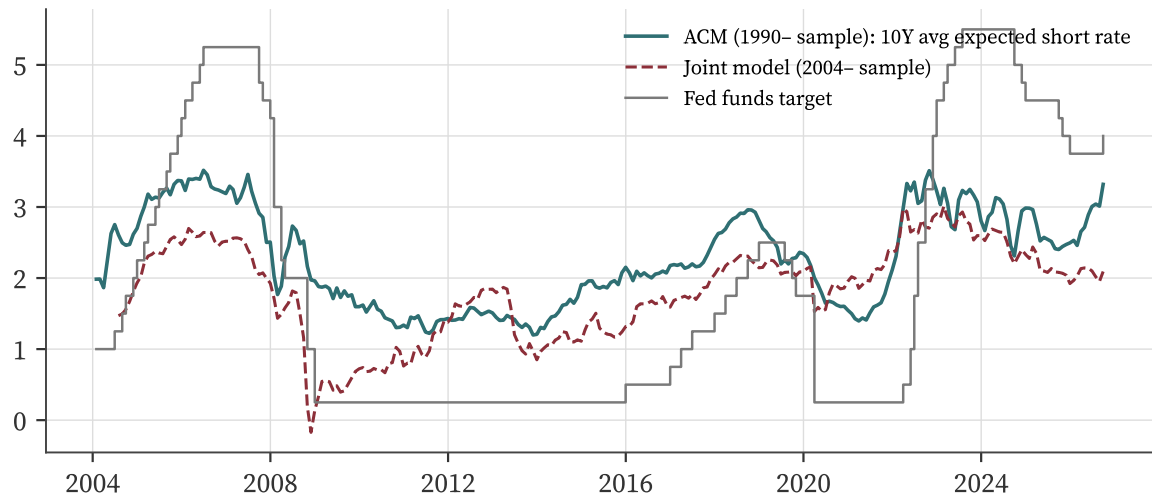


Nominal yield change split into expected short rates and term premium, ACM (nominal curve only, 1990-) vs joint Treasury-TIPS model (2004-). Labels give the TP piece in bp. The two agree at 2Y in total but not at 5Y and beyond, where the joint model places about 48bp in premium.

FIGURE 13

## Why: the joint model mean-reverts to a ZLB-era anchor

### Where the two models disagree: the long-run anchor, %



10Y average expected short rate. Estimated on 2004-2026, the joint model's VAR anchors near the sample mean short rate, which the zero-bound years pull down: it now expects ~2.1% on average over ten years with funds at 4.00%, vs 3.5% for the ACM. With that anchor, any long-end selloff is mechanically term premium.

FIGURE 14

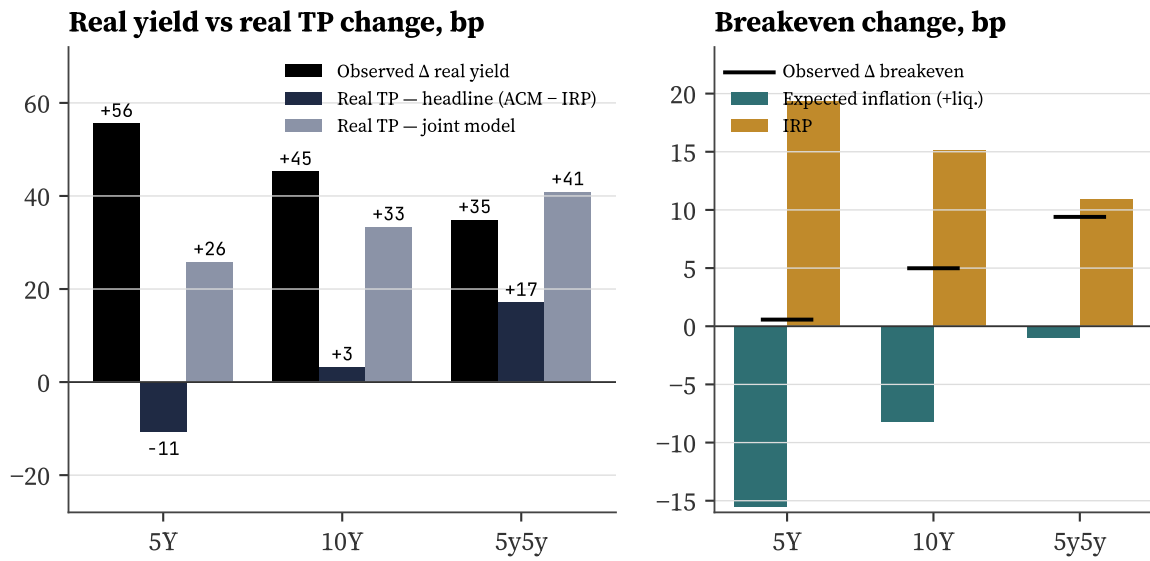
## Nominal term premium in history



Monthly averages. The ACM (headline) against the joint Treasury-TIPS model from 2004. The joint model runs above the ACM for most of the post-2012 period, most visibly since 2023, for the anchor reason in Figure 13. The ACM level is checked against surveys in Figure 9: it tracks the survey-implied premium closely since 2020.

FIGURE 15

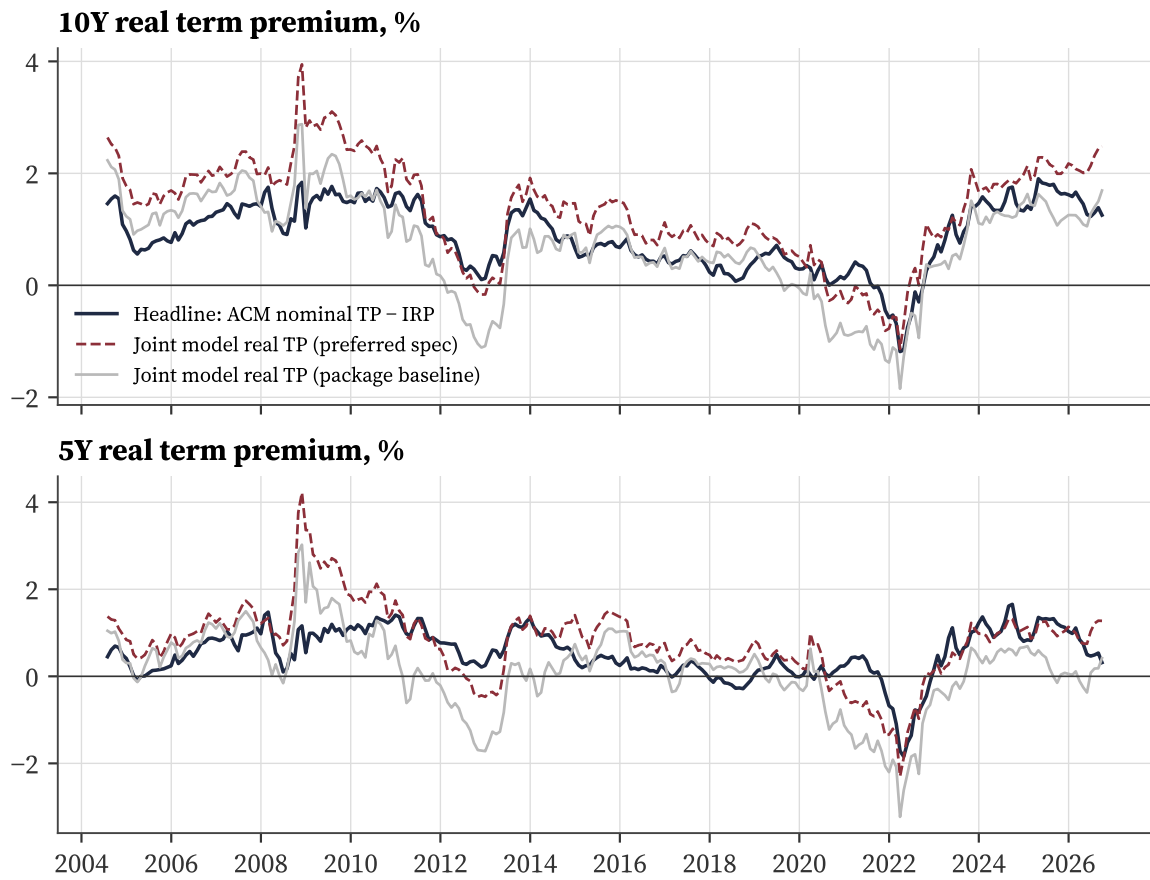
## Real and inflation side of the September move



Left: observed real-yield change and real TP under the headline (ACM nominal TP - IRP) and joint readings. Right: breakeven change split into expected inflation (incl. TIPS liquidity) and IRP, preferred joint spec. IRP rose 11-19bp, offset by lower expected inflation; the net breakeven change is small.

FIGURE 16

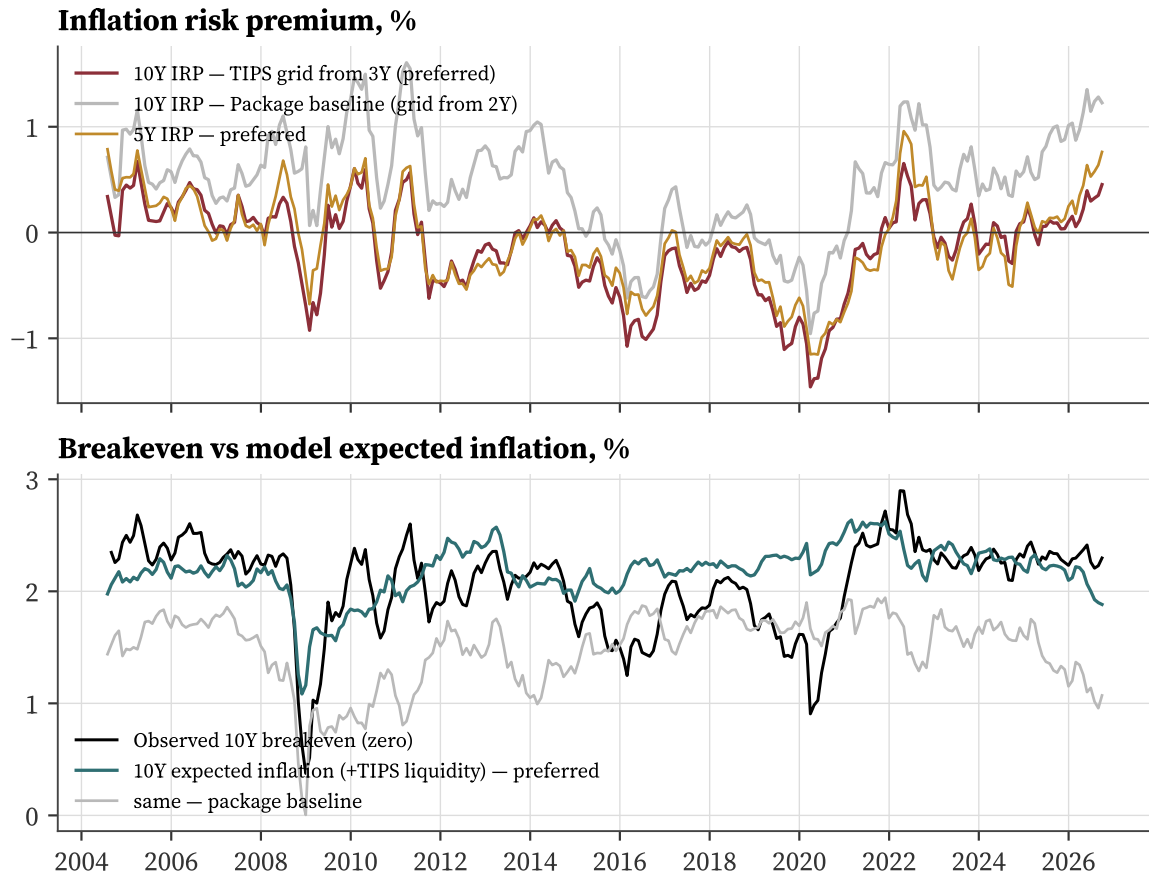
## Real term premium



Headline = ACM nominal TP minus joint-model IRP (preferred spec). Joint-model real TP shown for both specifications. The three agree on the cycle – negative in 2021-22, rebuilding since – and differ in level by up to ~1pp.

FIGURE 17

## Inflation risk premium and expected inflation



Preferred specification drops the generic 2Y TIPS point from the joint model. The package baseline (grid from 2Y) implies 10Y expected inflation near 1% and IRP above 1% in 2026, which is implausible; the preferred spec gives expected inflation of 2.0–2.4% through history and an IRP that is near zero or negative in 2012–21 and positive after 2022, consistent with the AACM literature.