FIXED INCOME RESEARCH NOTE · 14 JULY 2026

Buy the Panic, Own the *Carry* — Reading Opportunity Into the Yield and Volatility Surge

Portfolio positioning and total return implications across the Treasury and credit curve

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KEY TAKEAWAY

The sell-off in US rates is an entry point, not a warning. All-in yields sit at or near cycle highs, the curve remains positively sloped, and elevated volatility is raising the value of every unit of convexity owned. We recommend moving from neutral to a modest duration overweight — built as a barbell and added in stages — alongside an income-first, investment-grade-tilted credit book, a steepener bias, and a GCC/EM diversification sleeve. Long duration is the only segment with bear-case downside; it should be sized deliberately, not avoided.

EXECUTIVE SUMMARY

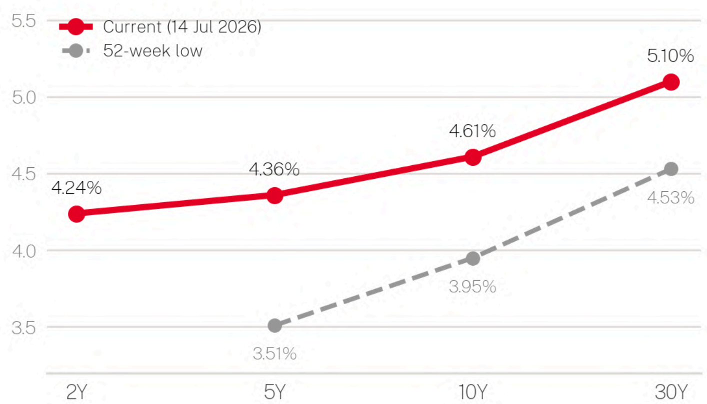
US Treasury yields and rate volatility have surged together. The 10-year stands at 4.61%, up 42bp year-to-date and well clear of its late-February low of 3.96%, while the 30-year has pushed back through 5% to 5.10%. The MOVE index — the bond market's VIX — jumped 11.8% in the latest session to 77.8, roughly a quarter above its January starting level, though still far below the 140-peak reached at the year's most acute point of stress. The trigger is a familiar cocktail: escalating Iran-related geopolitical risk and firmer oil, a sticky inflation print with headline CPI at 4.2% and core at 2.9%, and a swaps market that now leans toward a September hike rather than a cut.

The detail that matters most is composition. This is a real-rate story, not an inflation-expectations story: 10-year real yields have pushed above 2.3%, their highest in over a year, while breakevens have barely moved. That points to a repricing of term premium and policy risk rather than an inflation scare — historically the kind of move that rewards adding duration and quality carry rather than de-risking. Every leg of the curve now pays more than it has for most of 2026, and the pages that follow set out the drivers, the opportunity, the positioning framework and the total return math that supports it.

MARKET SNAPSHOT

INSTRUMENT	LEVEL	1-DAY CHG	52W LOW	52W HIGH	YTD CHG
2Y UST Yield	4.24%	+3bp	—	—	n/a
5Y UST Yield	4.36%	+6bp	3.51%	4.37%	n/a
10Y UST Yield	**4.61%**	+4bp	3.95%	4.69%	+42bp
30Y UST Yield	**5.10%**	+3bp	4.53%	5.20%	n/a
MOVE Index	**77.8**	+11.8%	48.3	140.0	+24.7%
VIX Index	17.3	+0.6%	13.4	35.3	n/a

The Treasury curve versus its 52-week lows: 40–65bp of additional yield across the belly and long end. Data as of 13–14 July 2026.



WHAT IS DRIVING THE MOVE

The proximate catalysts are geopolitical and monetary. Iran-related tensions and firmer oil have injected a fresh inflation-risk premium into the front end, while May's CPI acceleration — headline to 4.2% from 3.8%, core to 2.9% — has broken the disinflation narrative that carried the belly of the curve through the spring. Swaps markets responded decisively: pricing for the September Fed decision has swung toward a hike, with rate futures assigning roughly a 30.5% probability to near-term tightening, up from 26.7% a week earlier. The 2-year yield now sits at its highest level since early 2025.

Beneath the headlines, two structural forces are doing the heavy lifting. First, real yields, not breakevens, are leading the sell-off — a more durable and less mean-reverting signal that marks this as a repricing of growth and policy risk rather than an inflation panic. Second, persistent fiscal deficits keep net Treasury issuance elevated, and the market's repeated failure to defend technical levels such as 4.25% on the 10-year confirms that a structurally higher term premium is being demanded. Equity volatility has barely responded — the VIX sits at just 17.3 — which tells us the stress is concentrated in rates and duration, precisely the environment in which fixed income volatility premia are richest relative to the risk being taken.

MACRO BACKDROP

INDICATOR	LATEST	AS OF	PRIOR
CPI (YoY)	4.2%	May 2026	3.8%
Core CPI (YoY)	2.9%	May 2026	2.8%
Fed Funds Rate	3.75%	Jun 2026	3.75%
GDP Growth (QoQ, SAAR)	2.1%	Q1 2026	0.5%
Unemployment Rate	4.2%	Jun 2026	4.3%

The mix is delicate but not alarming: growth has re-accelerated from a soft Q4/Q1 base, headline inflation has ticked back above 4%, and the labour market remains resilient. This is not a stagflation signal — but it is enough to keep the Fed cautious and the market pricing a wider range of policy outcomes than it did in June, which is exactly the ingredient sustaining the current volatility regime.

WHY THE SELL-OFF IS AN OPPORTUNITY

A sell-off in price is, by definition, a rise in forward-looking yield — and this one has pushed all-in yields to levels last durably seen before the disinflation trades of recent years. Four return sources are opening simultaneously. Starting carry is the first and most powerful: with the 5-year at 4.36% and the 10-year at 4.61%, income alone now absorbs a meaningfully larger share of any adverse yield scenario, and starting yield remains the single best predictor of 5–10 year forward total return in high-grade fixed income. Roll-down is the second: on a curve that slopes upward from 2Y through 30Y, a bond bought today earns additional return simply by ageing into lower-yielding maturity buckets.

The third is convexity. Long-duration instruments gain more in a rally than they lose in an equivalent sell-off, and that asymmetry grows as yields and volatility rise — adding duration now buys more optionality per unit of risk than at any point this year. The fourth is credit carry with contained expectations: investment grade OAS near 75bp and high yield near 270bp are historically tight, so spread compression is not the prize — income is. That argues for owning credit for yield, not for tightening.

Our net view: the entry point for adding duration is the most attractive of 2026 to date, but with the MOVE index re-accelerating, the path will not be smooth. The opportunity is best captured through disciplined, staged additions — not a single directional bet.

PORTFOLIO POSITIONING

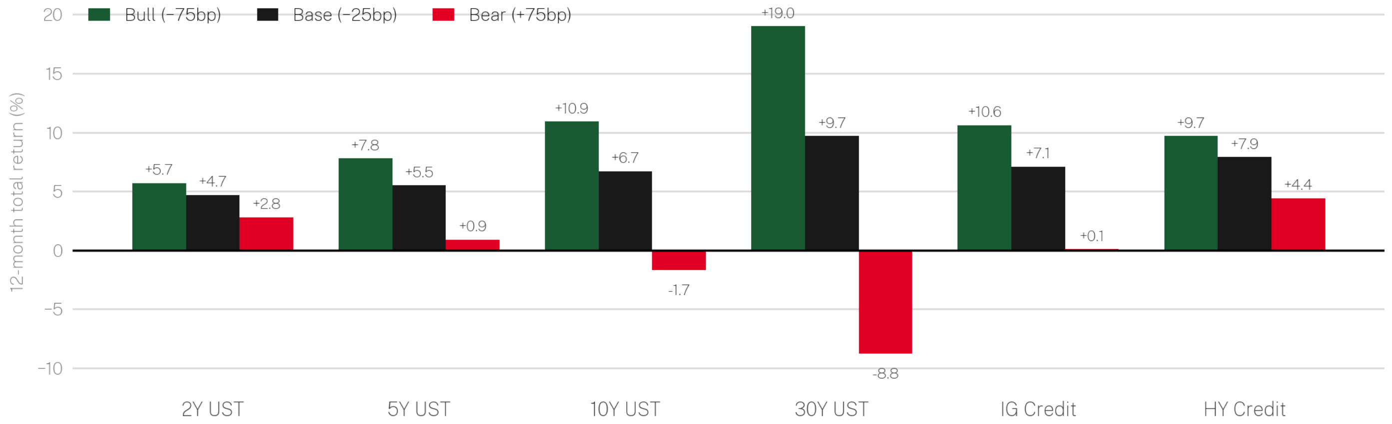
Duration and curve. Move from underweight/neutral to a modest duration overweight, implemented as a barbell rather than a bullet: short-duration instruments (front-end T-bills and 1–2Y paper at 4.24%) paired with selective long-duration exposure (20Y+ Treasuries or the 30Y at 5.10%). The long leg captures convexity; the short leg preserves liquidity and dampens sensitivity to further front-end repricing if September resolves hawkishly. On the curve, a steepener bias — long the belly and long end, underweight the very front beyond a liquidity sleeve — is the right expression; front-end duration is better added after the September decision than ahead of it.

Credit. With spreads this tight, be paid by income, not compression. Tilt the beta sleeve toward investment grade, and hold shorter-duration, higher-quality BB names as a satellite carry position while avoiding CCC given the dispersion in that cohort. LQD and HYG remain the practical liquid proxies for sizing these sleeves tactically.

Diversification and hedging. GCC quasi-sovereign stays a core holding: spreads there are less correlated with the pure US-duration shock and are underpinned by oil-linked fiscal strength. Selective hard-currency EM sovereigns with strong external balance sheets benefit similarly. Maintain a liquidity sleeve covering one to two quarters of expected needs, and cap tail risk on the long leg with modest rate-option protection while volatility remains below its March extremes.

TOTAL RETURN SCENARIOS

Forward total return decomposes into two pieces: the income a bond pays, and the price change driven by yields — the latter scaling with duration. Applying this across three 12-month parallel-shift scenarios (Bull: −75bp; Base: −25bp, consistent with one cut being priced back in; Bear: +75bp on a hawkish September plus term-premium pressure) produces a clear pattern:



Illustrative 12-month total returns assuming parallel yield shifts and representative modified durations (2Y: 1.9, 5Y: 4.6, 10Y: 8.4, 30Y: 18.5, IG: 7.0, HY: 3.5). Scenario labels denote assumed yield-change magnitudes, not house forecasts.

The short end stays positive in every scenario — income dominates, making it the defensive building block. The long end offers the largest bull-case upside (+19.0% on the 30-year) but is the only segment that turns negative in the bear case — the convexity bet, to be sized deliberately. Credit stays positive or flat even in the bear case because running yield offsets a shorter duration profile, confirming income as the resilient return source. A blended barbell — short Treasuries, a long-duration sleeve and a credit income sleeve — participates meaningfully in the Bull and Base outcomes while keeping the bear-case drawdown well contained relative to a long-only duration position.

KEY RISKS TO THE VIEW

Five risks warrant monitoring. A **re-acceleration of the MOVE index** — which has already surged more than 60% in a six-week window once this year — would widen the range of outcomes on the long-duration sleeve beyond what the scenarios above assume. **Entrenched inflation**, via core CPI pushing past 2.9% or a de-anchoring of long-term expectations, would undermine the real-yield thesis and force a more aggressive Fed path than is priced. **Geopolitical escalation** around Iran or a sustained oil shock could add a second-round inflation impulse, driving yields and volatility higher together and blunting the barbell's diversification. **Credit spread normalisation** from historically tight IG and HY levels would erode the income advantage credit currently holds over Treasuries. And **fiscal supply** — heavy issuance funding persistent deficits — could keep upward pressure on term premium independent of the cyclical story.

CONCLUSION

The surge in yields and rate volatility reflects a real, unresolved mix of geopolitical, inflation and policy-path uncertainty — and that is precisely why it is creating opportunity. Yields are at or near cycle highs across the curve, the curve is positively sloped, and elevated volatility is enhancing the value of adding duration at the margin. The right response is not a single directional call but a structured framework: a duration barbell, a steepener bias, an income-first IG-tilted credit book, and a deliberate GCC/EM sleeve. The scenario analysis shows this blend participates fully in a Bull or Base outcome while containing the Bear-case drawdown — a more resilient risk/reward profile than either an all-short or all-long stance can offer.

Sources: Yahoo Finance (^TNX, ^TYX, ^FVX, ^MOVE, ^VIX; TLT, IEF, SHY, HYG, LQD); FRED (BAMLH0A0HYM2); Trading Economics; Bloomberg; CNBC; The Star; PNC Insights; IMF Global Markets Monitor; U.S. Bureau of Labor Statistics; Federal Reserve Board; U.S. Bureau of Economic Analysis. Market levels as of 13–14 July 2026 and subject to movement; scenario returns are illustrative estimates based on simplified duration assumptions and parallel yield shifts, and do not constitute forecasts or price targets. Prepared for internal research and portfolio discussion purposes only; not investment advice or a recommendation to buy or sell any security.

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