

Monthly Interest Rates Chartbook

October 2026

Joseph Abate

US Rates Strategy
SMBC Nikko Securities

(212) 893-1592
Joseph.Abate@smbcnikko-
si.com

Monty Gandhi

US Rates Strategy
SMBC Capital Markets

(212) 224-5114
Monty.Gandhi@smbc-
cm.com

Troy Ludtka

US Macroeconomics
SMBC Nikko Securities

(212) 224-5483
Troy.Ludtka@smbcnikko-
si.com

Economic summary

Economic outlook summary

- We look for GDP to increase 2.3% Q4/Q4 this year and 1.9% in 2027
 - AI-related capex is strong
 - And consumption is remains healthy despite poor sentiment and higher prices
- Inflation as measured by the Fed preferred gauge (PCE) is expected to increase 3.4% Q4/Q4 in 2026 and 2.1% in 2027
 - Excluding food and energy, we look for core PCE to rise 3.1% Q4/Q4 and 2.3% in 2026 and 2027, respectively
 - *Inflation remains above the Fed's 2% target*
- The economy is at full employment despite non-farm payroll growth averaging 70,000/mo this year
 - The unemployment rate has held around 4.2% since mid-2024
 - But wage growth is subdued

Fed forecast

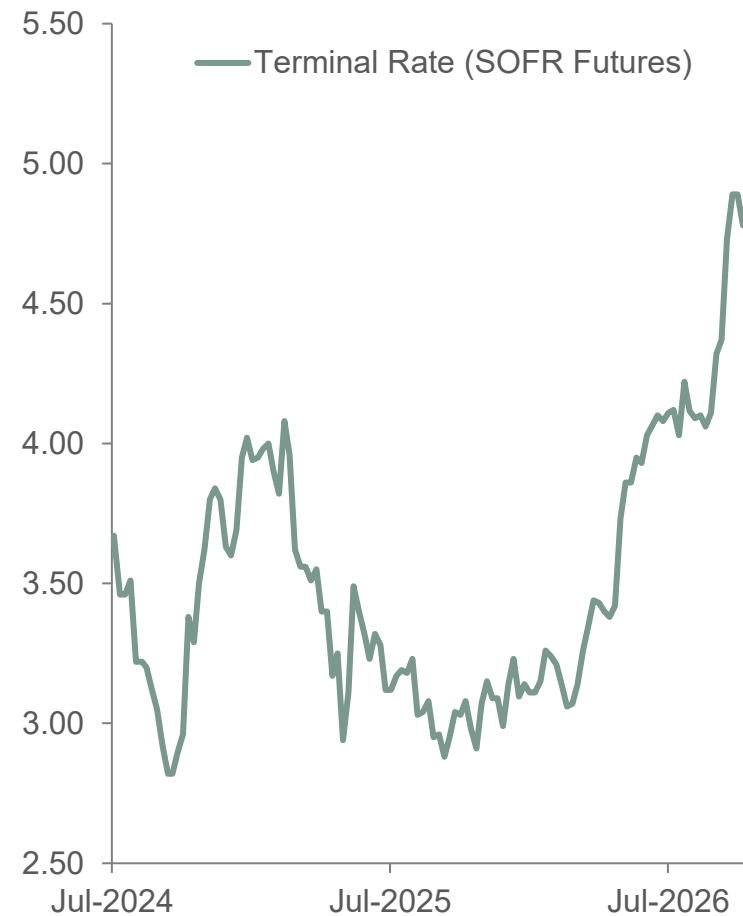
- *Our economics team looks for the Fed to raise interest rates three more times*
 - With the next rate increase expected at the December FOMC meeting
 - We think the Fed wants to avoid a politically-sensitive increase ahead of the mid-term elections
 - In addition, some FOMC members are in favor of waiting and assessing the economy's trajectory following the September rate hike^{1/}
- Financial conditions have tightened since summer with 10y yields up 60bp since August 1
 - But there are few signs (yet) of a pull back in consumption or business investment
 - And growth remains solid despite headwinds from higher oil prices and tariffs
 - Fed Chair Warsh reiterated his view that conditions are not tight at the September FOMC
 - And his concern that the Fed's inflation fighting credibility is in jeopardy with persistent above target inflation

^{1/} Notably Federal Reserve Vice Chair Jefferson, Governor Waller, and New York Fed President Williams.

Fed policy expectations

- The market looks for the Fed to hike an additional 80bp through December 2027

Terminal rate pricing (%)



Note: Using SOFR futures. Sources: Bloomberg, SMBC Nikko

“Less is more” communication

- At the Jackson Hole Conference in August, Chair Warsh emphasized his approach to policy communication
 - “Less is more” – less management of market expectations and more “listening” to the market’s signals
 - Less forward guidance implies a more data dependent Fed that follows trends
 - Less emphasis on the “dot plot”
 - Indeed, we think Fed’s communications task force could recommend eliminating the plot
 - Although it is not clear what or how this might be replaced
 - Or how the FOMC might communicate its growth and inflation forecasts
- The market is still adapting to terser policy statements and post-FOMC press conferences with no forward guidance^{1/}
- Recent commentary from Williams and Jackson suggests that other Fed officials may have different views about the usefulness or structure of forward guidance
 - Both indicated that they were not considering a rate hike at the October FOMC meeting and market probabilities fell steeply afterwards

1/ See slide 24

PCE inflation remains above target...

PCE (% y/y)



Sources: BEA, SMBC Nikko.

Core PCE and other measures (% y/y)



Sources: BEA, Federal Reserve Banks of Cleveland and Dallas, SMBC Nikko.

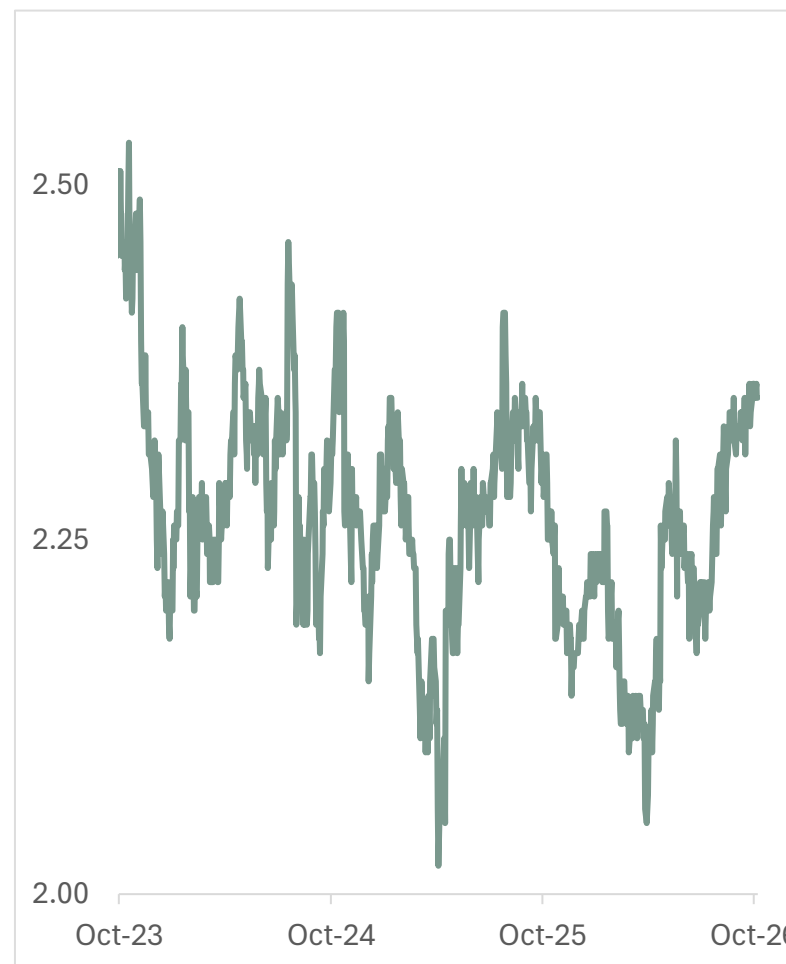
...but inflation credibility remains anchored

HH median inflation expectations (%)



Sources: Federal Reserve Bank of New York, SMBC Nikko

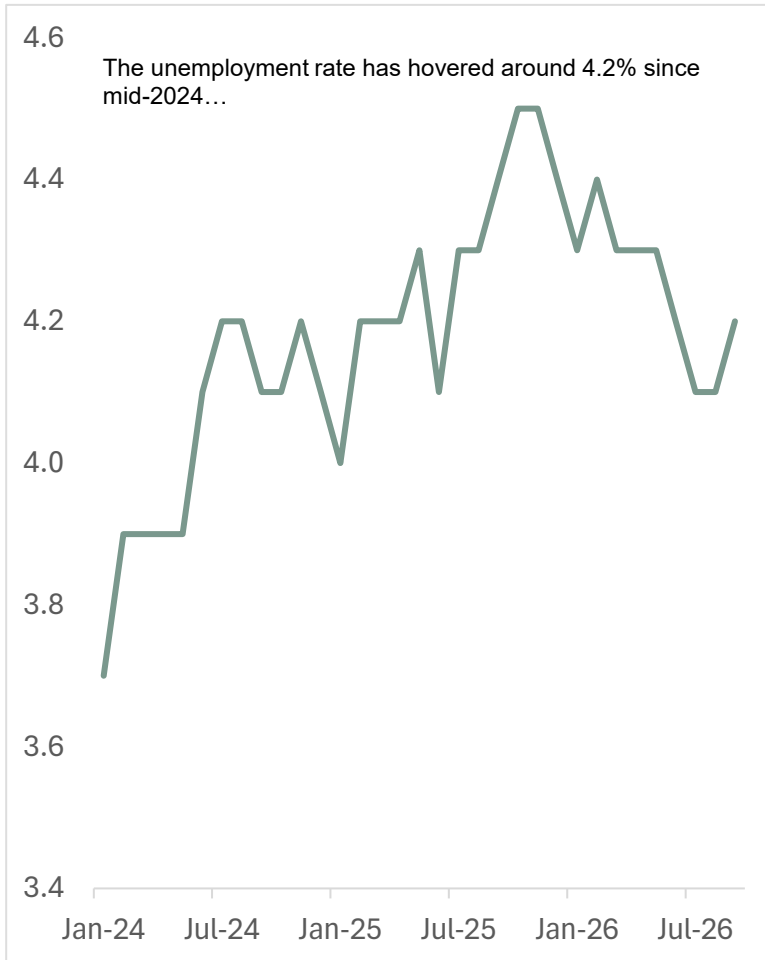
5y/5y inflation expectations (%)



Sources: Bloomberg, SMBC Nikko

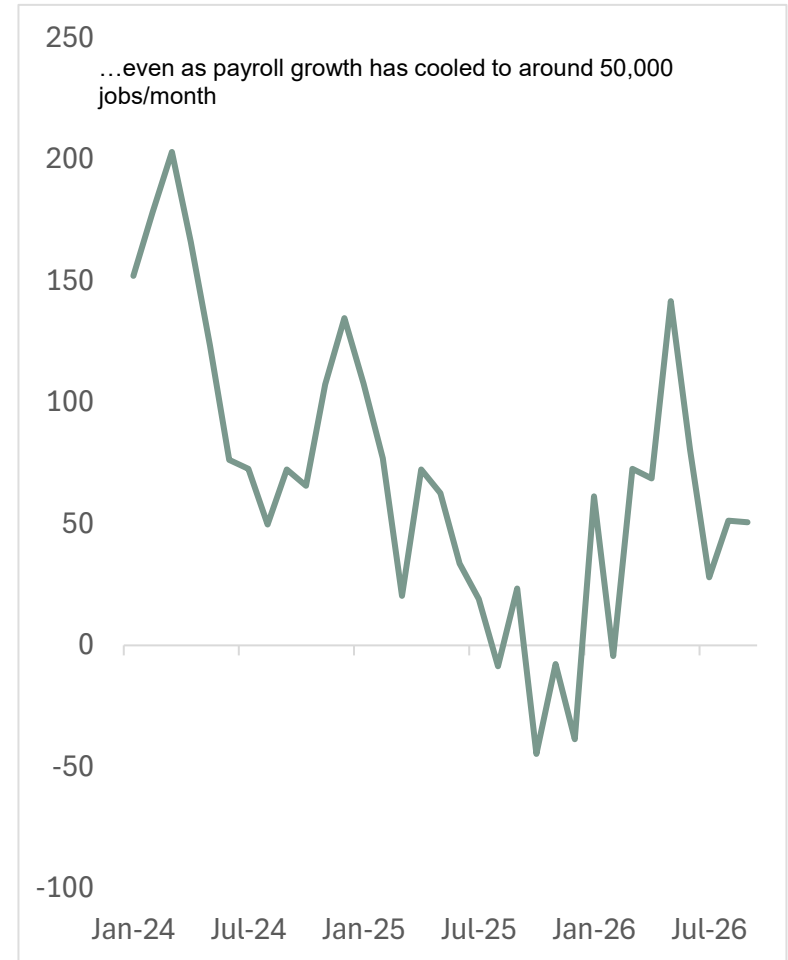
Full employment...

Unemployment rate (%)



Sources: BLS, SMBC Nikko

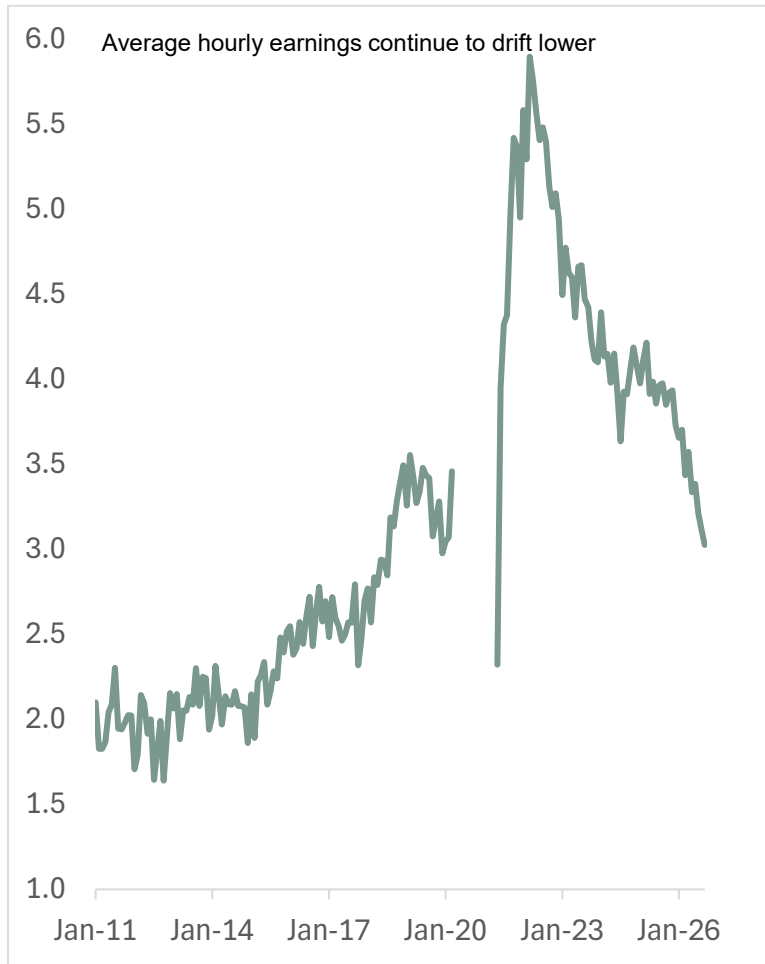
Nonfarm payrolls (3m chng, 000)



Sources: BLS, SMBC Nikko

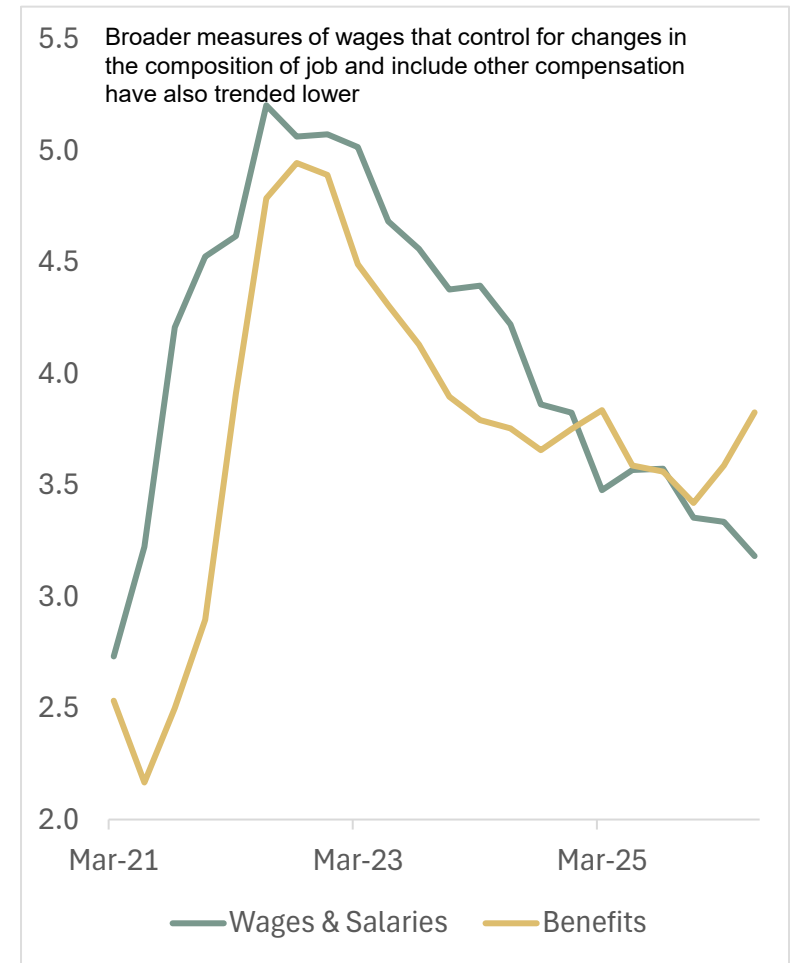
...but subdued wage inflation

Average hourly earnings (% y/y)



Note: We exclude the COVID period when average hourly earnings spiked and then retreated. Sources: BLS, SMBC Nikko.

Employment cost index (% y/y)



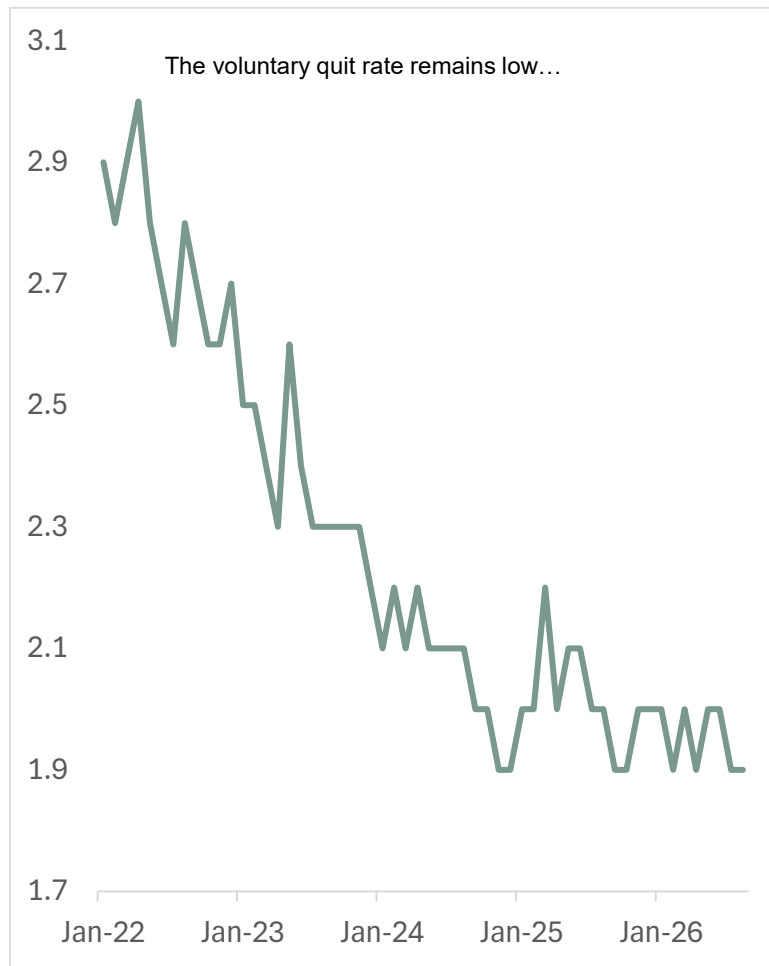
Sources: BLS, SMBC Nikko

Worker insecurity

- The labor market is balanced at full employment with the jobless rate hovering around 4.2% since last year. Yet wage measures are decelerating.
- **The cause may be psychological; in a low-hire environment, workers may be more reluctant to leave their jobs as they fear not finding an adequate replacement.** This could be exacerbated by AI fears.
- **Some estimates suggest that job insecurity reduced wage growth by 0.3-0.7%/year in the mid-1990s because of fear about globalization and downsizing.** However, the effects are difficult to disentangle from other labor market changes.
- **Evidence of AI-related firing is weak. Instead, it seems to be suppressing the hiring of junior and less experienced workers.**
- Thus, while we think AI-fears *may* be suppressing wage growth, it is possible the softening simply reflects low demand in a low hiring environment.

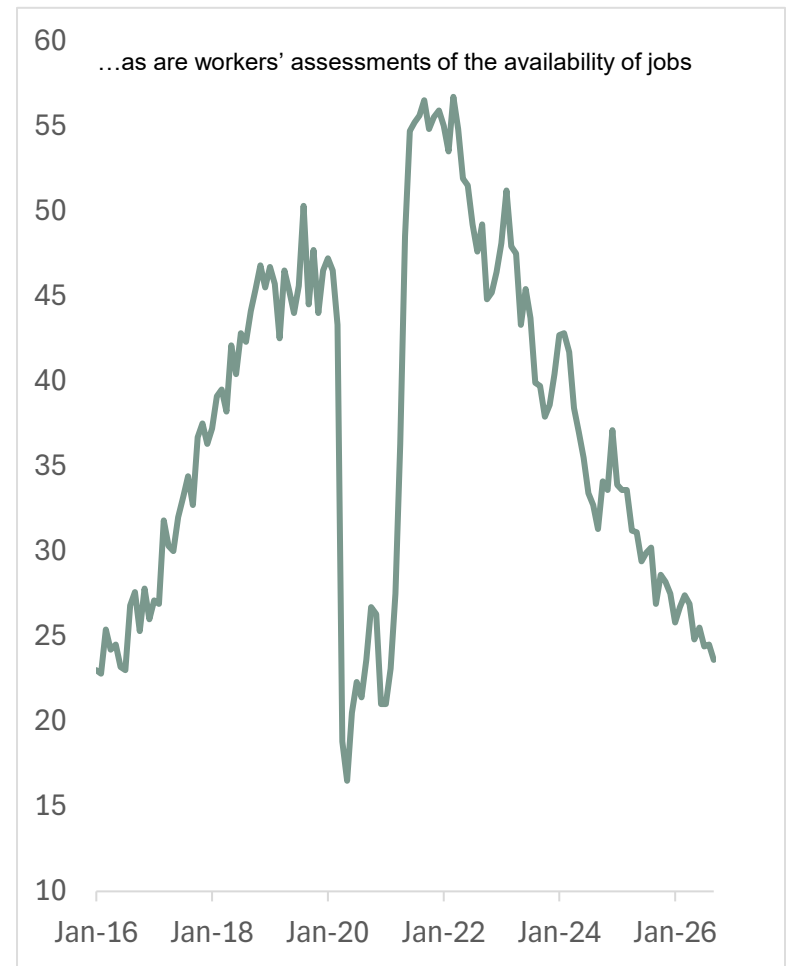
Low confidence

Quit rate (%)



Sources: BLS, SMBC Nikko.

Jobs plentiful (%)



Sources: University of Michigan, SMBC Nikko

QRA: Will the Treasury increase its buybacks?

- *We think the Treasury may increase the size of its buyback operations at the November quarterly refunding*
 - The August increase occurred outside the quarterly refunding and surprised markets
- The Treasury could also remove the maturity cap on its cash management buybacks
 - Cash management buybacks are designed to smooth out the Treasury's cash flows while flattening out seasonal swings in bill issuance
 - The Treasury uses \$150bn/y of these cash flows to retire bills and short coupons (<2y)
 - Individual operations are between \$12.5bn and \$15bn (par)

QRA: Bolder actions?

- *We do not expect the Treasury to start trimming coupon auctions at the November refunding*
 - Changes to auction sizes or coupon offerings are made only after careful deliberation and in consultation with dealers and investors
 - The Treasury keeps its issuance “regular and predictable” which in the long-run helps to anchor term premia
- That said, we believe the Treasury will eventually increase bill issuance while slowing growth in long-term debt
 - We think the Treasury will keep coupon auction sizes steady through year-end 2027
 - And pushing the bill/debt ratio to 23.2% from 22.4% currently
- We think the Treasury has room to increase bill auctions given strong demand from several investor types^{1/}

^{1/} See slides 41-45

QRA: Investing Treasury cash in repo

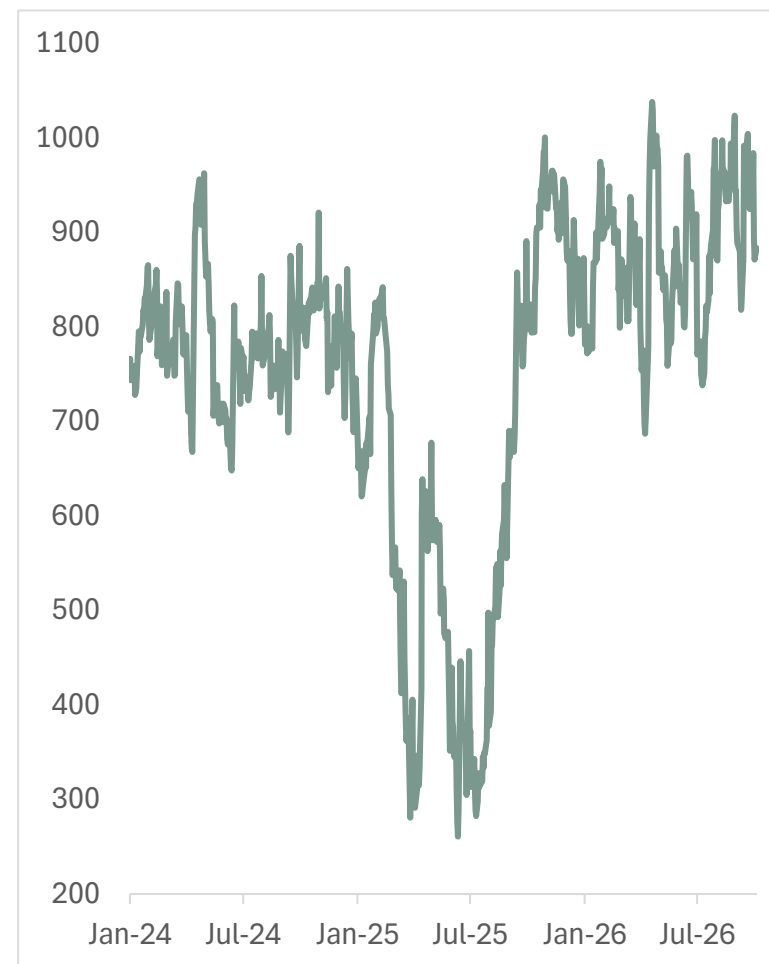
- Investing the Treasury's surplus cash in the repo market has been discussed more than once at recent quarterly refundings^{1/}
- It is possible that the Treasury uses next month's refunding to map out the structure of these operations
 - Asking dealers and investors about their preferred operational frequency^{2/}
 - Auction structure
 - And details related to clearing, margin, and rate
- It is a bit unclear why investing in repo is better than shrinking the size of its surplus cash (through reduced bill issuance)^{3/}

1/ See slide 46

2/ It has already inquired about their preferred size.

3/ See, "[Investing Treasury's cash](#)", July 30, 2026

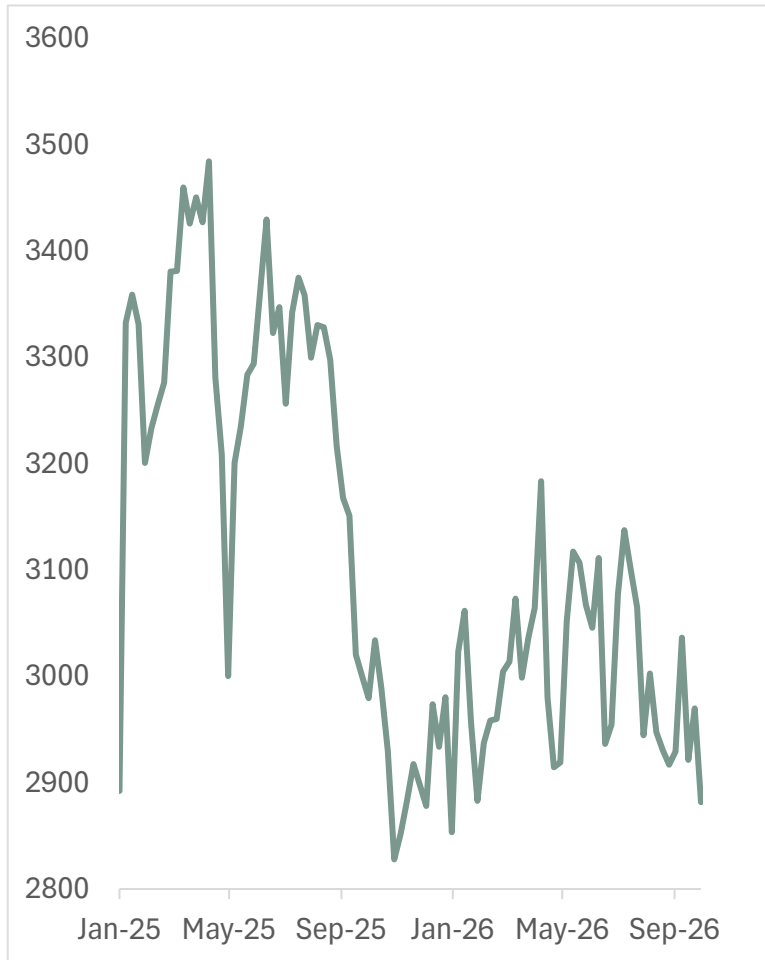
Treasury cash balance (\$bn)



Sources: US Treasury, SMBC Nikko

Bank reserves

Bank reserves (% bank assets)



- The Fed paused its reserve management bill purchases (RMPs) in August
 - We look for the Fed to restart its RMPs in December^{1/}
- Bank reserves have remained ample all summer^{2/}
 - And funding markets have been tame

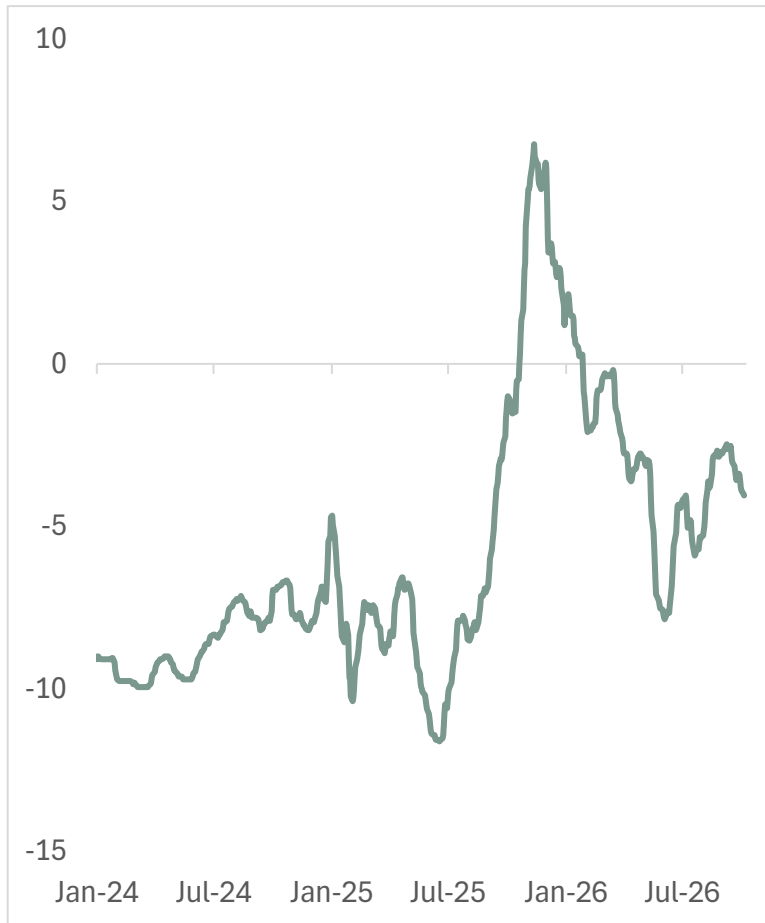
Sources: Federal Reserve, SMBC Nikko

1/ See slide 45

2/ See, September 15-16 FOMC Minutes

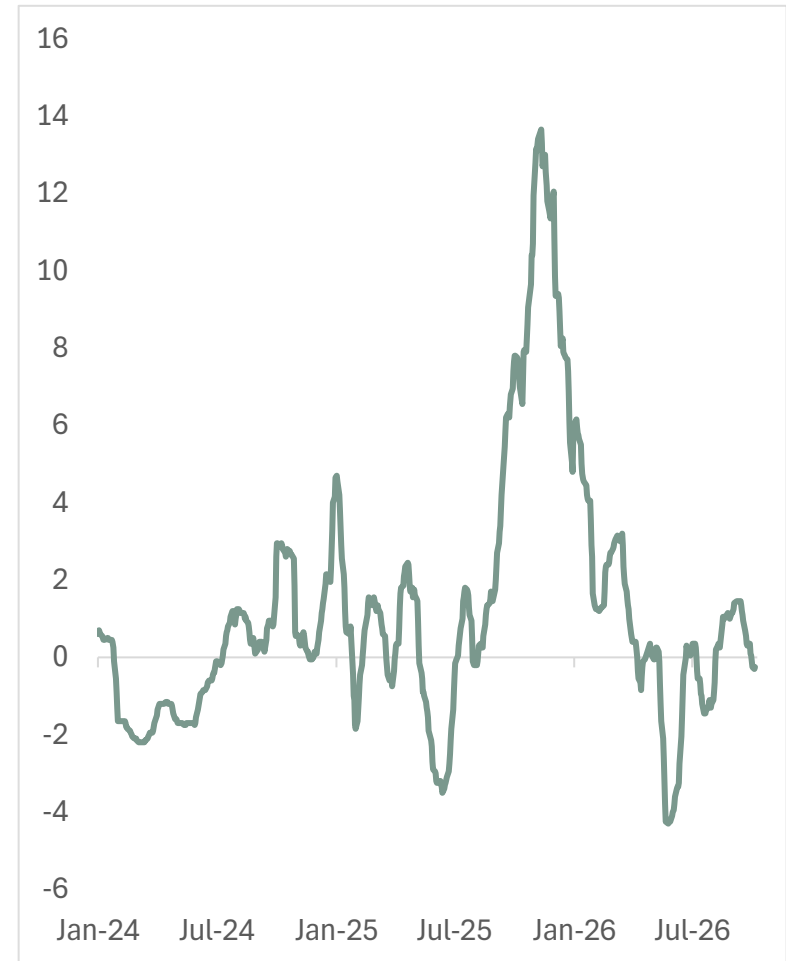
Repo rates

Tri-party less IORB (bp)



Note: 20d average. Sources: Federal Reserve, SMBC Nikko

SOFR-fed funds (bp)



Note: 20d average. Sources: Federal Reserve, SMBC Nikko

Intraday repo^{1/}

- Intraday repo allows banks and dealers to coordinate the timing of their payment and collateral in- and outflows. **It improves repo market efficiency by smoothing out the troughs in funding liquidity while allowing collateral to be (re)used more efficiently throughout the day.**
- **The intraday market is currently small, but we think it could grow to \$1trn as dealers and banks shift to “as needed” temporary repo financing**. Bank lenders can use the market to earn an extra return on cash that still is deposited at the Fed at the end of the day.
- **We expect borrowers to replace their use of the daylight overdraft credit provided by the clearing banks with intraday repo.** Most of this credit is very short-term – generally less than an hour.
- Excluding “late return fees” we think the intraday repo rates might be below (pro-rated) overnight rates. Clearing banks’ daylight overdraft charges are likely the ceiling for intraday repo rates.
- **Operational issues could slow the expansion of intraday repo.** Currently, transactions are not subject to clearing and regulatory reporting is based on end-of-day balances.
- Importantly, transactions must settle seamlessly; **trades that fail to unwind on time could cause a cascade of other fails and a surge in borrowing**

^{1/} See, [“Intraday repo”](#), August 12, 2026

Intraday repo demand

- BNY offers intraday tri-party repo
 - Users specify the maturity of their trade or use the default intraday setting (8.30-15.30)
 - Interest is calculated by the second up to the end time
 - The trade automatically unwinds at the end time provided the borrower has enough cash in its tri-party account
 - If there isn't, the trade maturity is extended
 - Activity is light
- We estimate intraday volume might grow to \$1trn
 - Alexandrova Kabadjova et al calculate the amount of daily intraday liquidity used by US banks at around \$630bn^{1/}
 - Scaling up for the increase in Fedwire volumes since 2020 suggests that intraday liquidity might be around \$1trn
 - In theory, banks might be able to use the intraday repo market to provide this intraday liquidity without the need for maintaining similarly sized precautionary reserve balances
 - The Fed might then be able to reduce the size of its balance sheet

1/ See, "Intraday Liquidity Around the World", B. Alexandrova Kabadjova et al., Bank for International Settlements, April 11, 2023

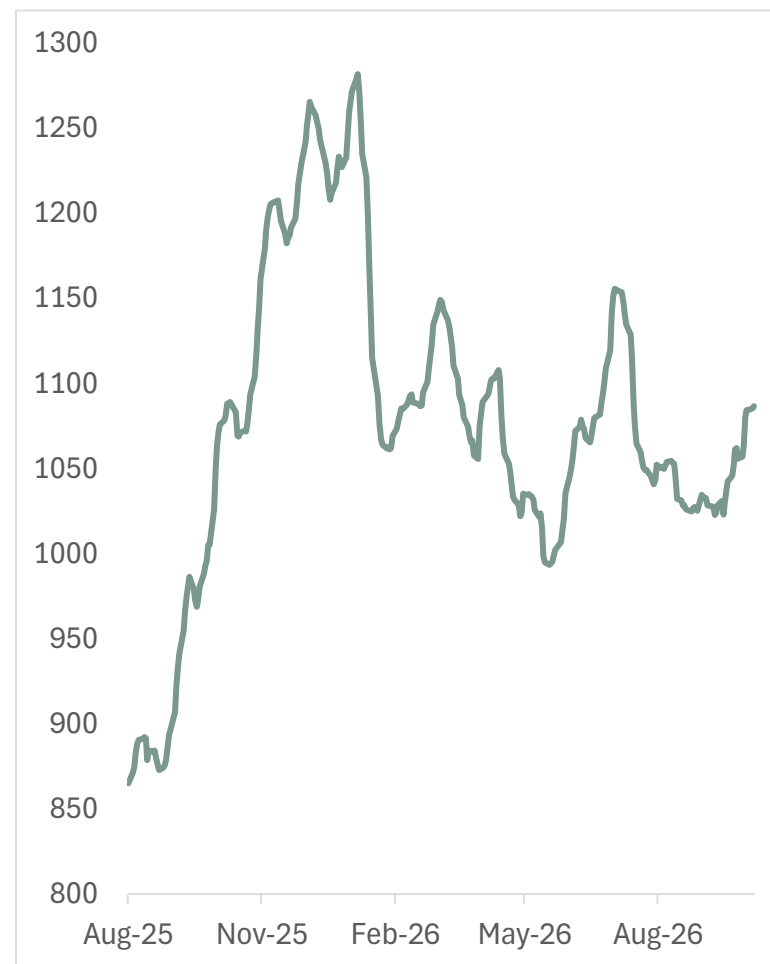
Intraday repo rate

- Provided intraday cash lenders can get their cash back in time, the yield from intraday activity is “extra” – above what they might earn in overnight repo or IORB
 - That said, money funds may be more reluctant to participate in the intraday market as they have few alternatives for late returning money
 - Their cash might be limited to the morning only as later returning cash might miss the RRP backstop
- For borrowers, the cost of intraday cash is their cost of alternative funding
 - Banks have access to the Discount Window with their pre-placed collateral and so they might be unwilling to pay to borrow in the intraday repo market
 - Non-bank borrowers, however, would use the intraday repo market to replace the daylight overdraft credit provided by the repo clearing banks
 - More than half (64%) of daylight overdrafts occur before 10am and 1/3 are resolved within a minute
 - And nearly all (86%) are resolved within an hour^{1/}
- *We think daylight overdraft costs are likely to be the ceiling on intraday repo rates*

1/ See, “TBAC presentation to Treasury, August 2026”, US Treasury

Has the demand for funding declined?

Sponsored repo (\$bn)

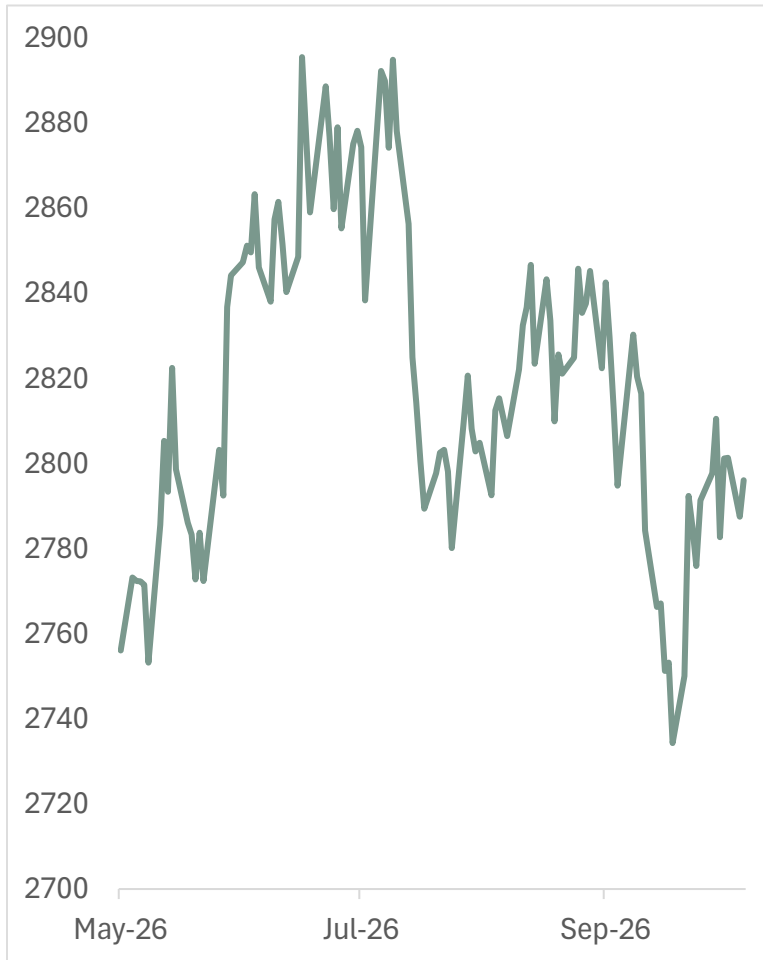


Note: 10d average. Sources: DTCC, SMBC Nikko

- Sponsored repo volumes have fallen since last year
 - And during the Iran-conflict
- Declining volumes may reflect reduced demand for funding and leverage

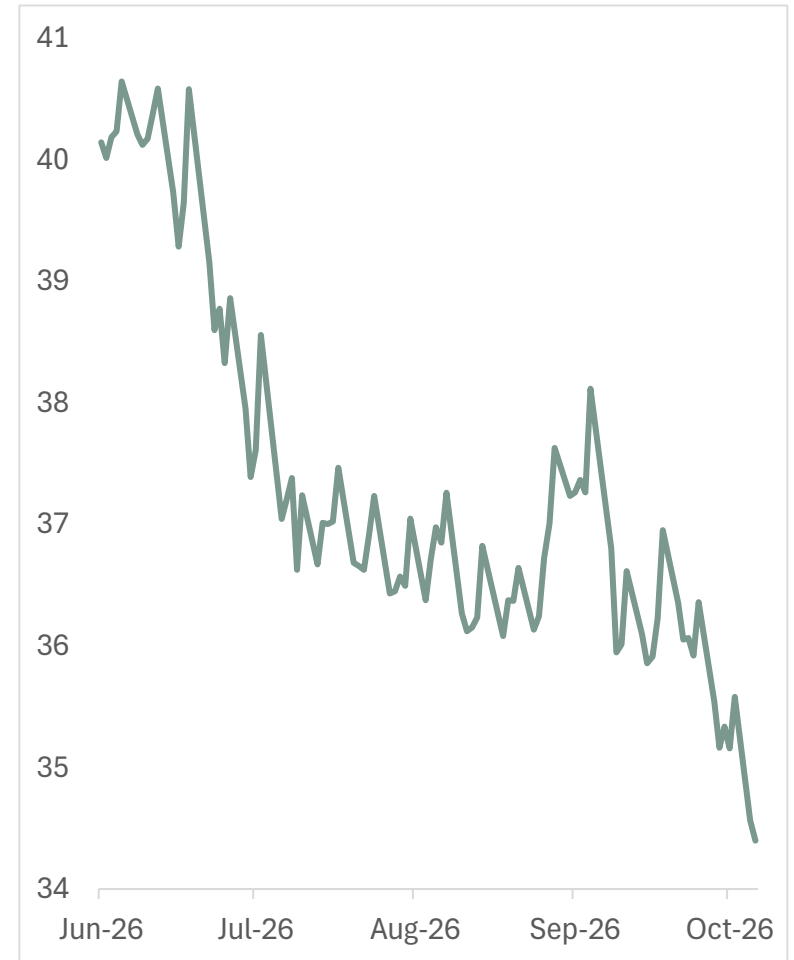
Money fund balances

Gov-only fund balances (\$bn)



Note: Institutional balances. Sources: Crane's Data, SMBC Nikko

WAMs (d)



Note: Institutional balances. Sources: Crane's Data, SMBC Nikko

LLMs and Fedspeak

LLM and Fedspeak

- Can LLMs (large language models) be used effectively to decipher Fedspeak?
- LLMs have several advantages over economists
 - Replicable algorithm
 - Consistent process
 - Can digest large volumes of Fedspeak quickly
 - Unbiased^{1/}
- As a result, these models can be used to detect shifts in sentiment and tone over time
- But the models are “black boxes”
 - Outside of designing the prompts, it is difficult to see how the models arrive at their conclusions

^{1/} In the sense that the analysis is done without outside information or context.

Deciphering FedSpeak^{1/}

- We develop a LLM to analyze Fed commentary through a scoring mechanism
 - (-1) Dovish to (+1) Hawkish
- The model is prompted on all Fed speeches, commentary as well as FOMC minutes from 2009-26
 - It reads the text holistically, looking for phrases and language that is forward-looking and refers to the Fed's dual mandate
 - It focuses on monetary policy-relevant language; ignoring discussions about the discount window and bank capital requirements^{2/}
 - A speech in which the speaker endorses the current policy stance is scored as neutral (0.0)
- It is instructed to read policy dissents based on what the speaker wanted to do and not where they compare to the majority. Similarly, favoring a 25bp hike instead of 50bp is not considered dovish – just less hawkish
- More complicated models use sequential agents to “teach” others how to read Fed communications^{3/}
 - This can include teaching them to interpret monetary policy transmission^{3/}

1/ See [Deciphering FedSpeak](#), September 30, 2026

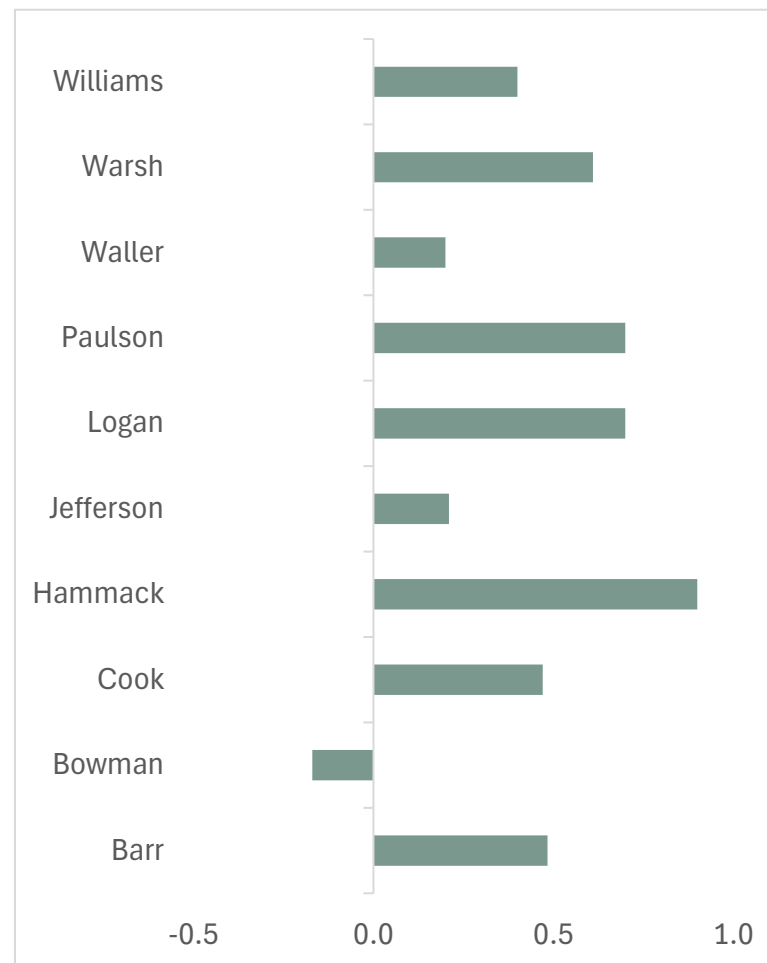
2/ See, “LLM on a Budget: Active Knowledge Distillation for Efficient Classification of Large Text Corpora”, V. Luccioli, R. Iyengar, R. Panely, F. Haberkorn, X. Ge, L. Crane, N. Sinha, and S. Jung Lee, Federal Reserve Board, 2025.

3/ See, “Interpreting FedSpeak with Confidence: A LLM-Based Uncertainty-Aware Framework Guided by Monetary Policy Transmission Paths”, R. Yao, J. Yao, S. Li, J. Chen, Q. Zhang, and H. Wang, Hong Kong University, Shanghai Jiaotong University, and Xi'an Jiaotong University, August 12, 2025

Recent Fedspeak

- Commentary from FOMC members has turned hawkish this summer
 - Their most recent speeches have generally been 0.5 or higher
- *But some FOMC members speak infrequently or only address regulation and non-monetary policy-related topics^{1/}*

Fedspeak scores



Notes: (-1) Dovish, (+1) Hawkish. Source: SMBC Nikko

^{1/} Indeed, Powell has not commented on rate policy since last year. Bowman mostly discusses bank regulation.

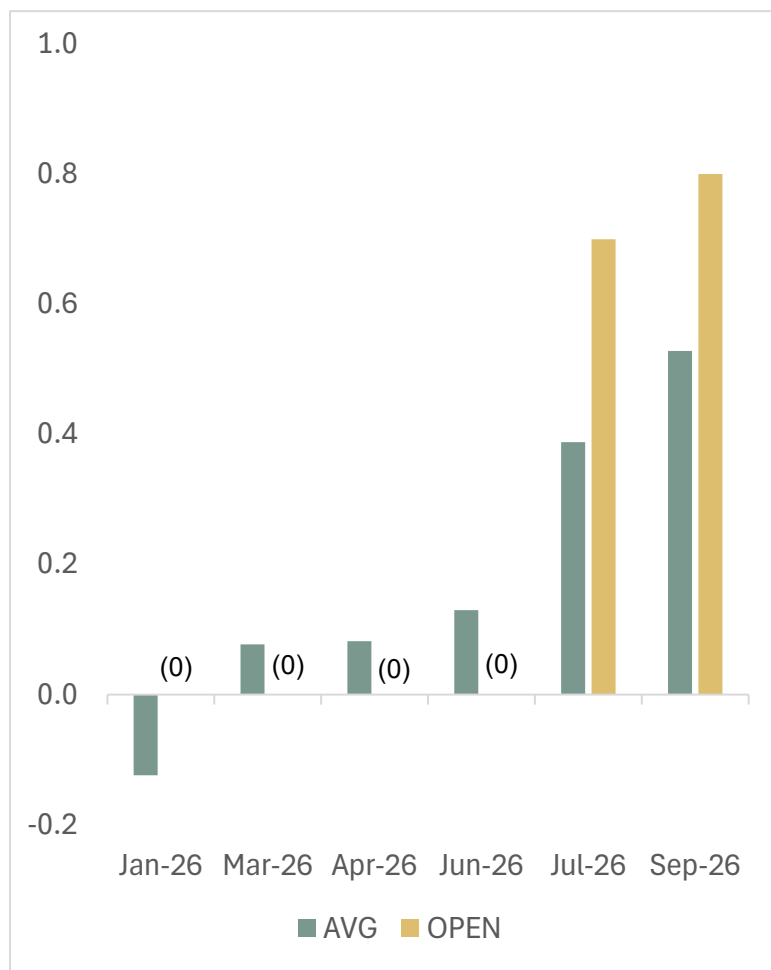
Consistency or data dependence?

- Most FOMC members are not consistent hawks or doves
 - Instead, they change their “feathers” as economic conditions shift
- But this makes identifying a hawk or dove by their speeches difficult because of their frequency
 - An infrequent speaker who hasn’t spoken in several months may have an average score that doesn’t reflect their current view
- We think it may make more sense to score only speaker’s latest commentary without any prior context
 - This is consistent with randomized tests that compare AI models to human judgement in rating the relative hawkishness/dovishness of FedSpeak
 - Studies of this sort find that ChatGPT is consistent with human judgement^{1/}

^{1/} See , “Can ChatGPT Decipher FedSpeak?”, A. Lundegaard Hansen and S. Kazinnik, Federal Reserve Bank of Richmond, April 2023

FOMC press conferences

FOMC press conference scores



Note: Dovish (-1) to hawkish (+1). Source: SMBC Nikko.

- We graded the Fed Chair's press conferences – both his opening remarks and each answer separately
 - Warsh's remarks are more hawkish than Powell's (Jan-Apr)
- Chair Warsh's opening remarks appear more hawkish than this answers
 - And, as a result, the average press conference score is lower

Word-hedging

- We do not think the difference in tone indicates that the Chair is more dovish than his prepared remarks suggest
- Instead, our sense is that the model is picking up the word-hedging the new Chair is using to avoid providing forward guidance
- The average score may also be lower because of low relevance
 - At the September press conference Chair Warsh was asked about AI, long-term bond yields, and the rate decisions of other central banks
 - The answers to these questions were all scored at 0 (neutral) with low relevance
- *LLMs may struggle with a “quieter” Fed*
 - *Where there is less commentary to analyze*
 - *And no forward guidance*

AI FOMC simulation^{1/}

- AI can create simulated FOMC meetings.^{2/} These involve simulating FOMC members interacting with each other in a “lab” structured like an actual FOMC meeting.
 - Creating a simWarsh is complicated because he provides little information about his reaction function and his commentary is terse.
 - At simulated and real FOMC meetings the Fed Chair has two roles
 - As a voter
 - And as the agenda setter who summarizes the Board forecasts and the alternative views of members before submitting everything to a vote
- **AI simulations suggest that political pressure is more likely to change meeting outcomes when the criticism is public.**
 - Simulated outcomes are unaffected when the pressure is privately applied to the Chair; if the view is too out of consensus, other FOMC members will ignore it.

1/ See, “[Sim FOMC](#)”, September 1, 2026

2/ See, ““FOMC in silico: A Multiagent System for Monetary Policy Decision Modeling”, S. Kazinnik and T. Sinclair, Stanford University and George Washington University, July 12, 2026

Treasury's net interest costs

Debt service burden^{1/}

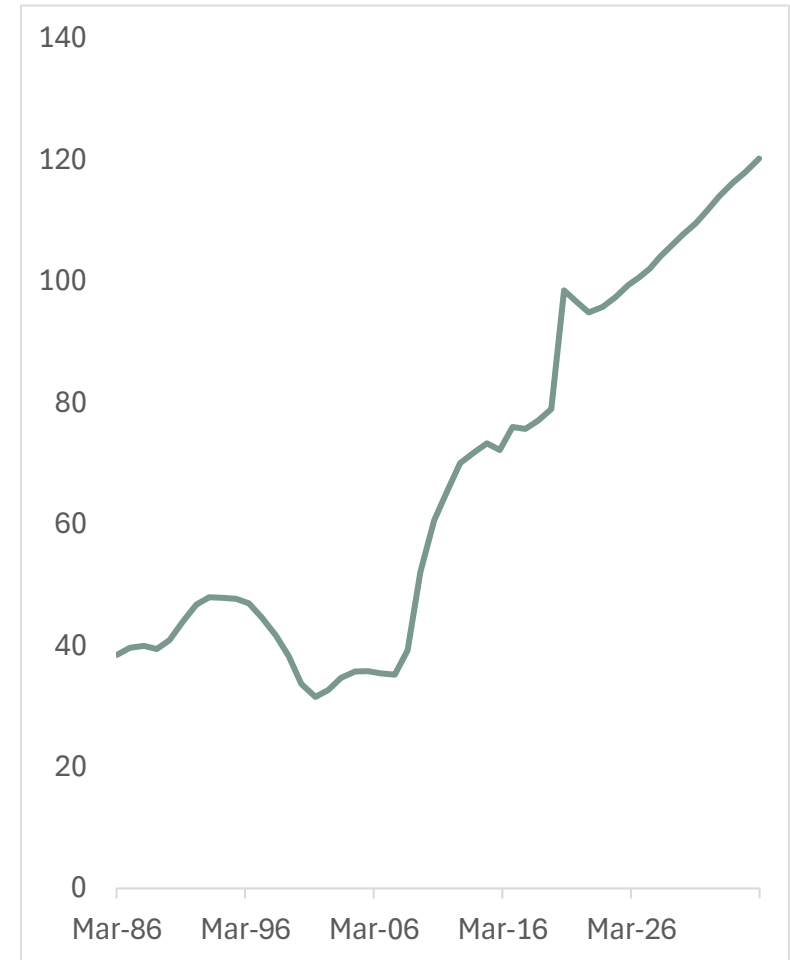
- The Treasury's interest costs are projected to reach 4.6% of GDP in 2036 from 3.2% last year. Interest costs are higher than their prior peak in 1991 when the debt/GDP was less than half as large.
 - About half of this increase comes from higher rates caused by an increase in the debt/GDP ratio. Treasury's debt/GDP ratio is expected to increase to 120% in 2036 from 100% last year.
- The Treasury's future debt costs reflect the size of its primary deficit, the level of its outstanding debt and the portion that rolls over each year.
- The primary deficit may trough in 2030, but without changes in outlays or higher taxes it will remain above 2% of GDP through the next decade.
- Although the WAM of Treasury's debt has lengthened since 2014, about 36% of it matures within a year. This increases the sensitivity of its debt servicing costs to changes in Fed policy.
- **Since the Treasury's maturity mix is already near the efficient frontier between the level and volatility of its debt service costs, it may not achieve much savings by cutting back term issuance in favor of more bills.**

^{1/} See "[The Treasury's debt service cost](#)", September 22, 2026

Debt/GDP ratio

- The US debt stock is growing faster than GDP
 - And the debt/GDP ratio has *tripled* since the financial crisis
- CBO expects it will increase 20% (to 120%) in 2036

Debt/GDP (%)



Sources: US Treasury, CBO, SMBC Nikko

Solvency limit

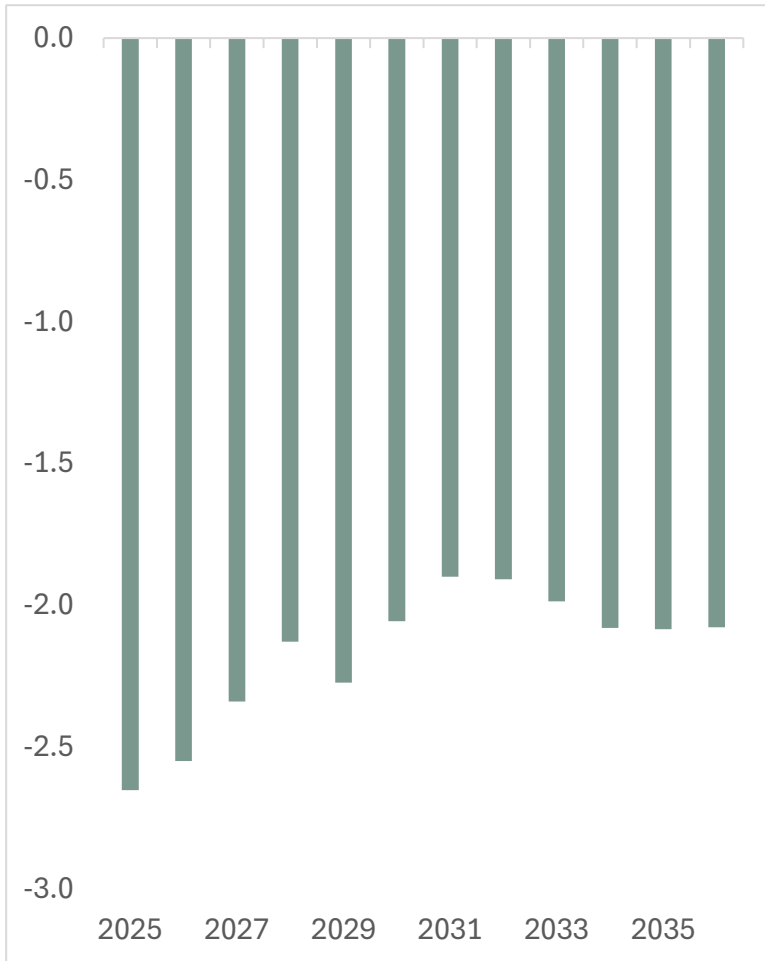
- At what point do investors stop rolling their debt?
- Smetters and He argue that this point is reached when the debt/GDP ratio reaches 210%^{1/}
 - Based on their assumptions about health care costs, they estimate the solvency limit might be reached between 2047-51^{2/}
 - Their debt/GDP ratio is much higher than the CBO's because they include "implicit debt" in the ratio
 - Implicit debt includes pay-as-you-go obligations like Social Security
- Of course, this level is unknowable as it depends on investor confidence
- And has never occurred
 - Investors may lose confidence sooner or later

1/ See, "When Does Federal Debt Reach Unsustainable Levels?", K. Smetters and H. He, Penn Wharton Budget Model, Spring 2026

2/ The CBO's estimate is closer to 150% over the period.

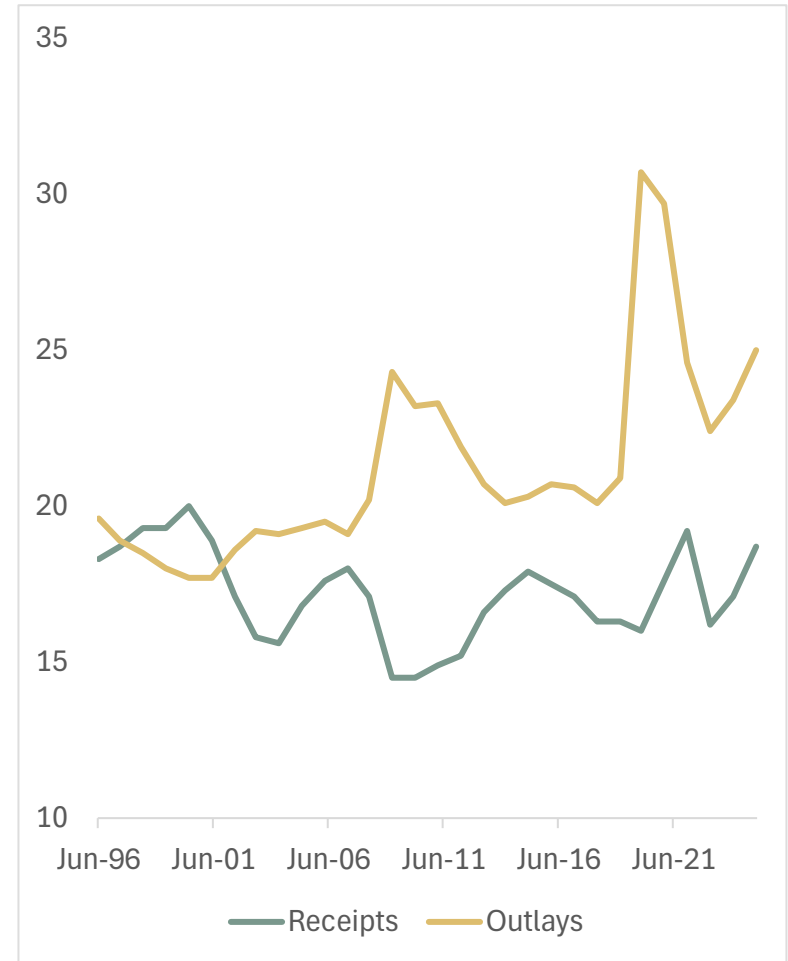
Primary deficit

Primary deficit projection (% GDP)



Sources: Congressional Budget Office, SMBC Nikko

Revenues and outlays (% GDP)

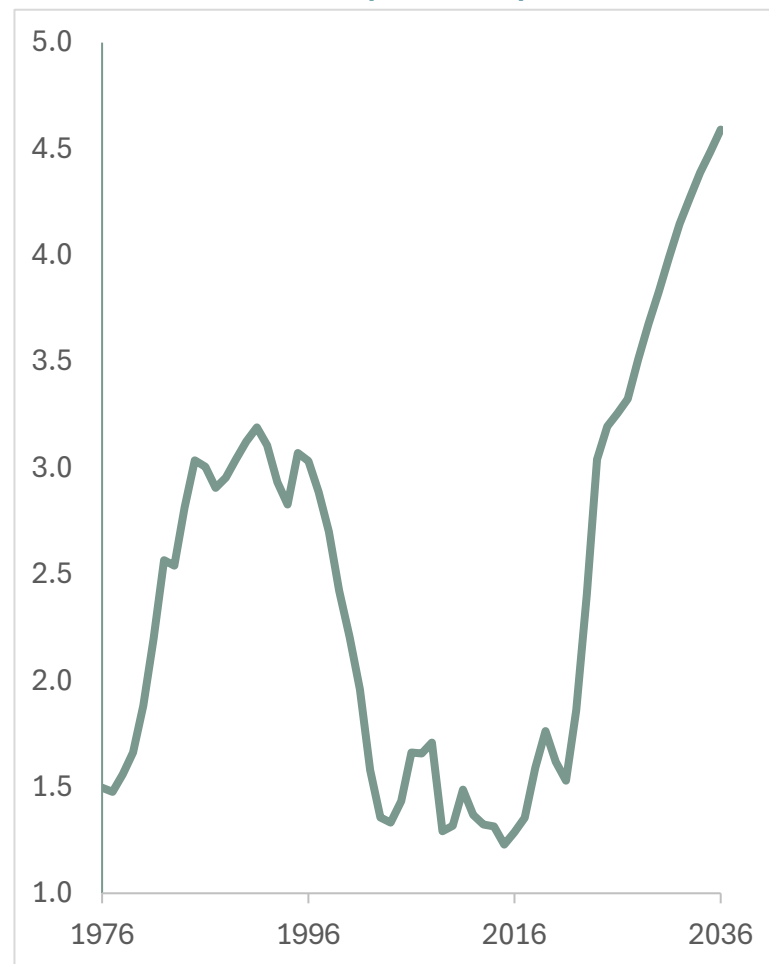


Sources: US Treasury, SMBC Nikko

Net interest costs are rising...

- The Treasury's net interest costs are above their previous (1991) peak
 - Back then, interest rates were higher with the 10y at 6.70%
 - But the debt/GDP ratio was 44% compared to 100% now
- *The CBO expects net interest costs to reach 4.5% of GDP by 2026*

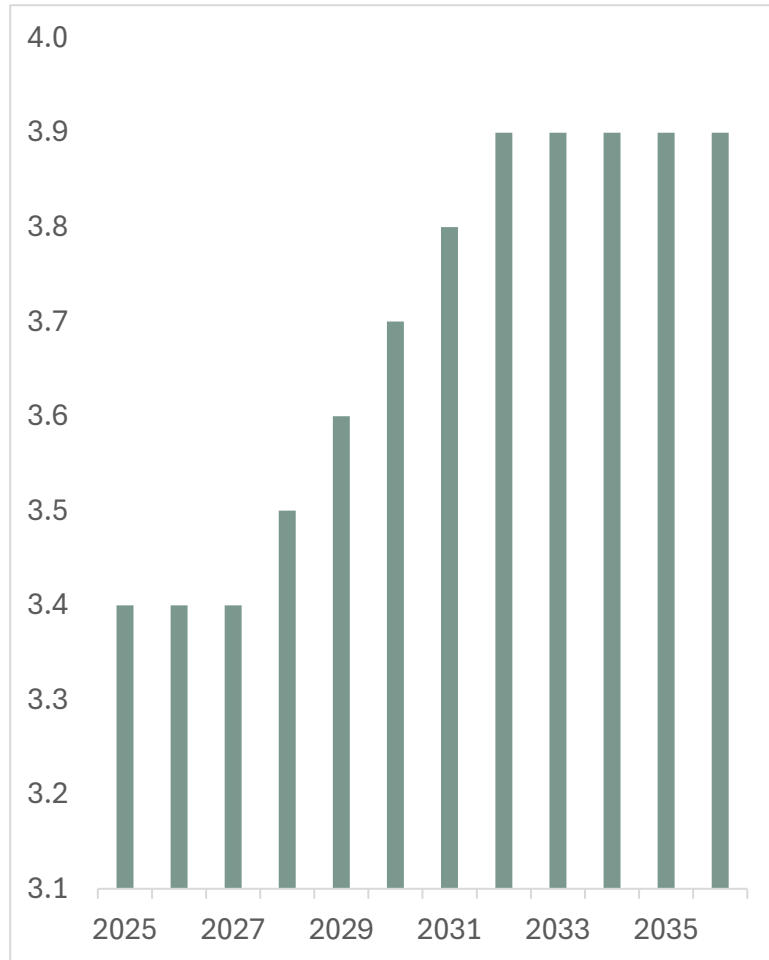
Net interest cost (% GDP)



Sources: US Treasury, SMBC Nikko

...and influenced by the level of rates...

CBO average interest rate forecasts (%)



Sources: US Treasury, SMBC Nikko

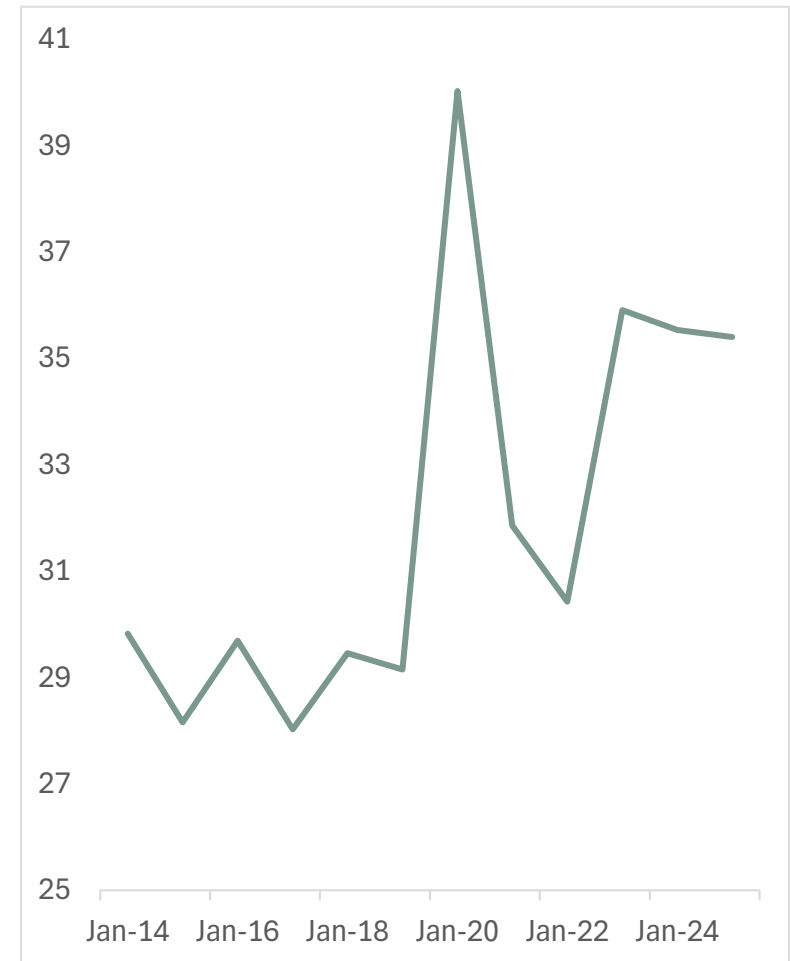
- Each 1% increase in the debt/GDP ratio is estimated to increase term premiums by about 3bp^{1/}
 - So, consistent with their debt/GDP projections, the CBO looks for average interest rates to increase around 50bp through 2036

^{1/} See, for example, "The Causal Effect of Debt on Interest Rates", A. Bhatt, A. Diercks, B. Eyal, and Skaperdas, Federal Reserve Board, May 26, 2026

...as well as the portion of short-term debt

- The Treasury interest costs are influenced by the portion of debt maturing in the next year
- The shift to heavier bill issuance has increased the amount of debt the Treasury has to roll over each year
 - And increased the sensitivity of its interest costs to changes in Fed policy

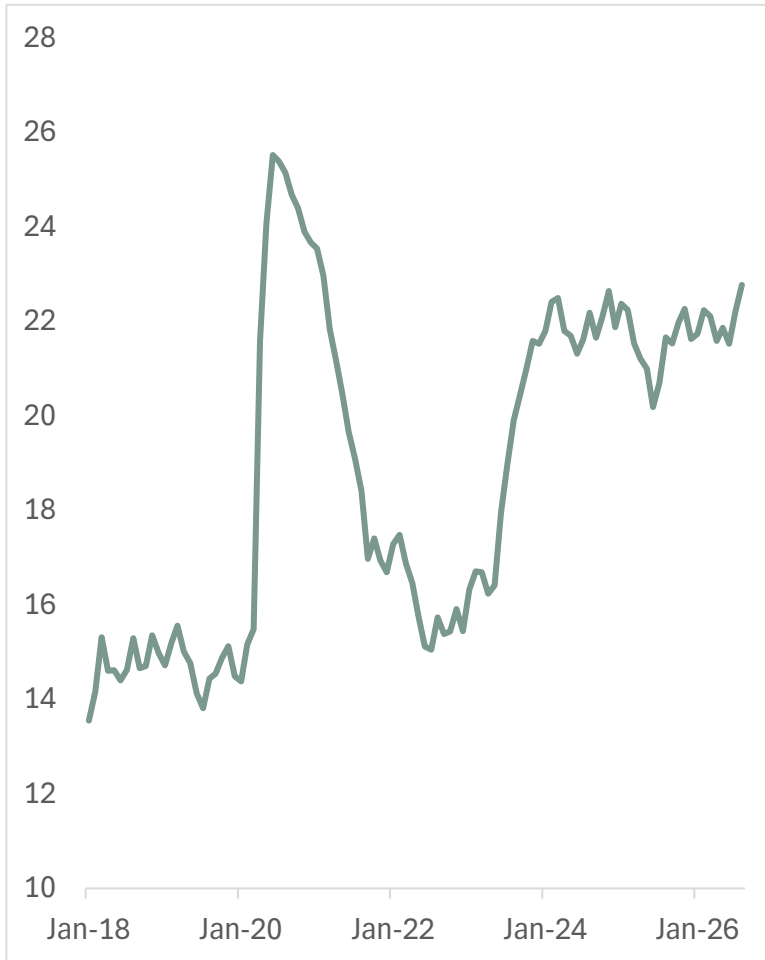
<1y Treasury debt (% total)



Sources: US Treasury, SMBC Nikko

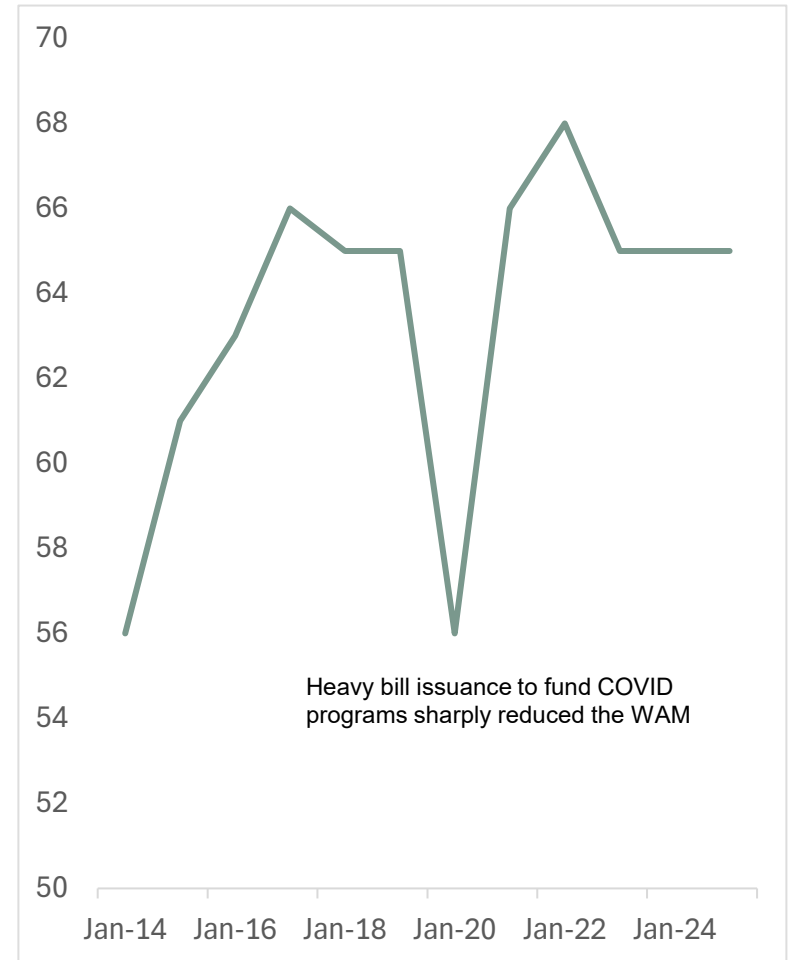
WAM lengthening

Bill share (% TSY debt)



Sources: US Treasury, SMBC Nikko

Treasury debt WAM (m)



Sources: US Treasury, SMBC Nikko

Treasury demand

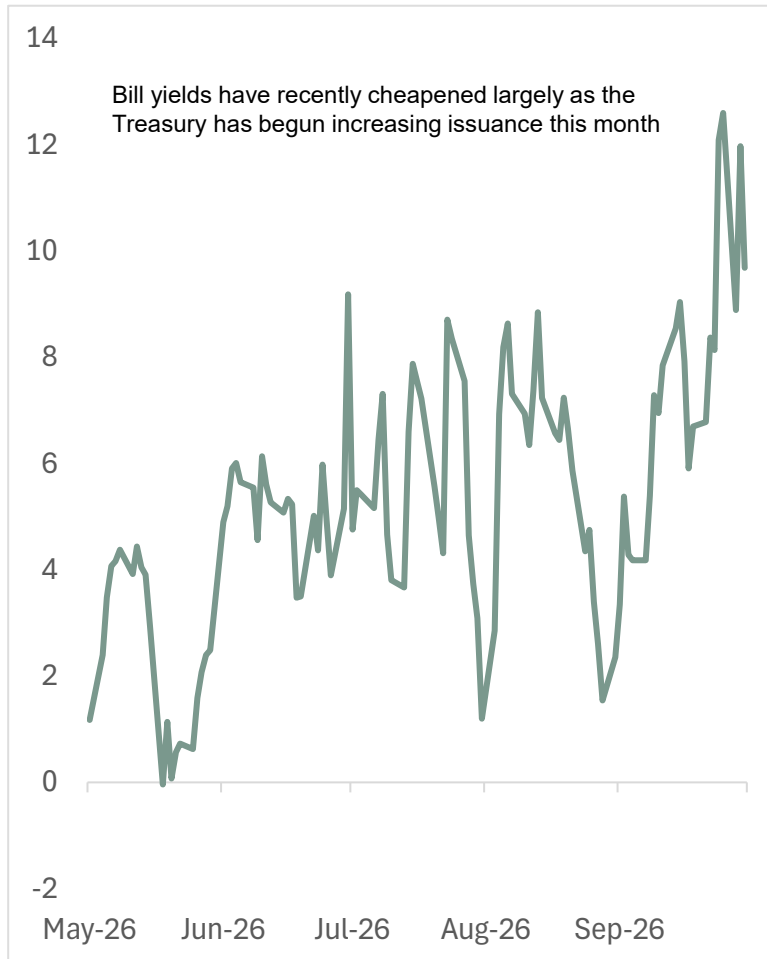
Bill demand

- Treasury Deputy Secretary Brooke noted that the demand for bills has “grown significantly”^{1/}
 - He cited the growth in money fund balance
 - Potential future growth from stablecoins
 - And the Federal Reserve’s purchase of bills to replace its MBS roll-offs (as well as its reserve management purchases, RMPs)
- Our sense is that the Treasury is looking to accommodate future demand by increasing the size of the bill market
 - But we are not sure how far the Treasury seeks to increase the bill/debt ratio
 - Or how much the market can grow without putting upward pressure on rates

^{1/} See, Remarks by Deputy Secretary Francis Brooke at the Treasury Market Conference, Federal Reserve Bank of New York, September 22, 2026

Heavy supply but little pressure on yields...

3m bill less OIS (bp)

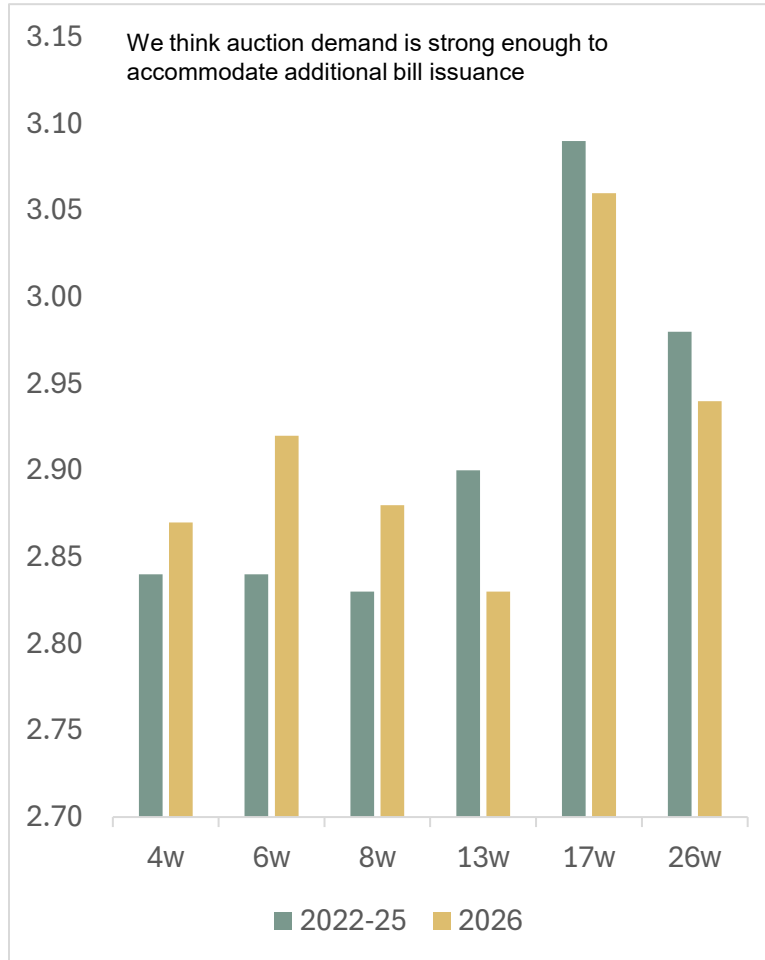


Sources: CPI, SMBC Nikko

- This summer the Treasury was able to increase bill supply by \$500bn (or 8%) without pressuring rates
 - Money fund bill holdings increased about \$360bn over the period

...as bill demand is strong

Auction bid/cover ratio

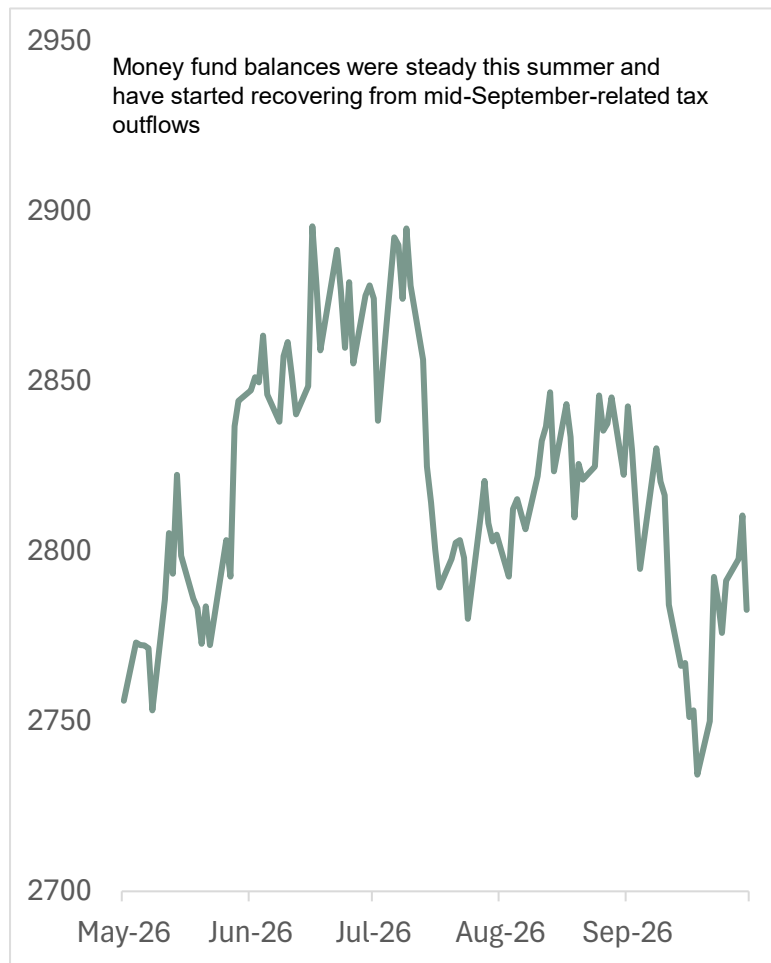


- But the market's ability to absorb heavy bill supply depends additional factors
 - Including interest rate expectations
 - And the demand for funding/leverage in the repo market

Sources: US Treasury, SMBC Nikko

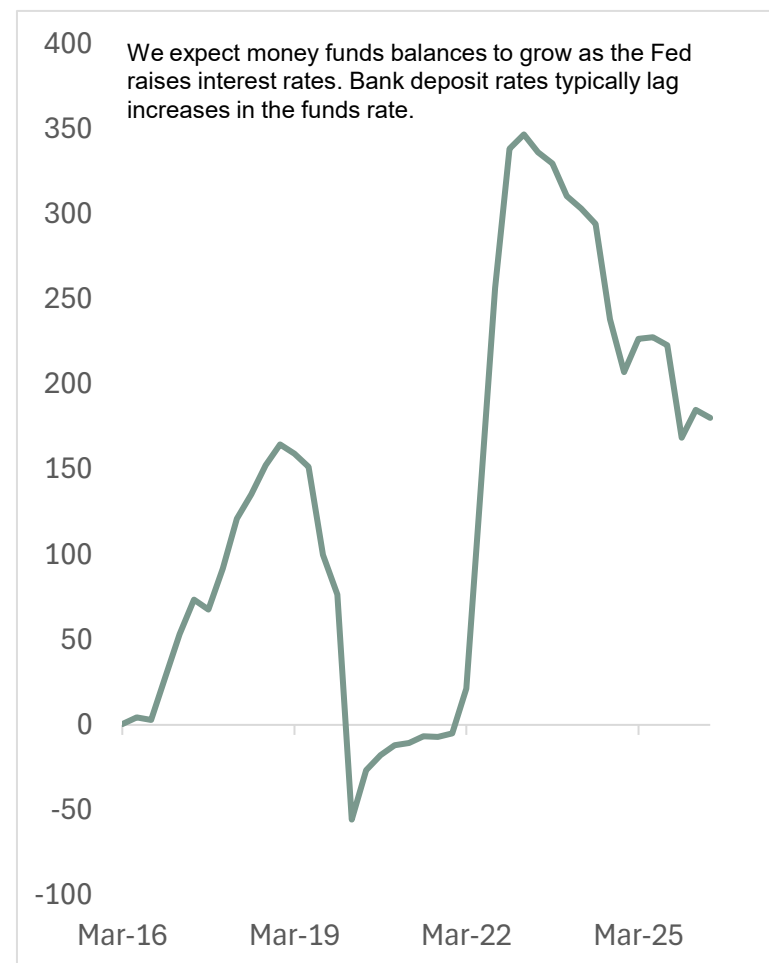
Growth in money fund demand

Gov institutional balances (\$bn)



Sources: Crane's Data, SMBC Nikko

FF less bank deposit rates (bp)



Sources: FDIC, Federal Reserve, SMBC Nikko

Federal Reserve RMPs

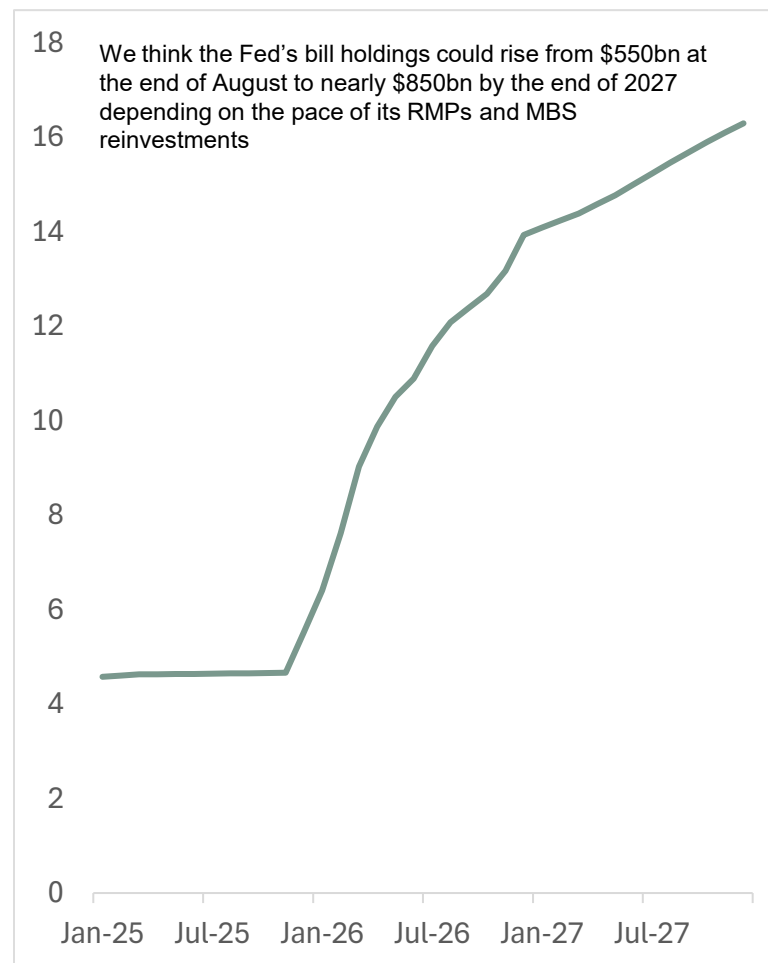
- We look for the Fed to resume its reserve management bill purchases in December
 - To build up bank reserve balances ahead of next April tax-related peak in the Treasury's cash balance
- We think the Fed's RMPs might start at \$25bn/mo in December and then grow to \$45bn/mo in January – March
- The RMP amount is uncertain as the Treasury may decide to shift its surplus cash into the repo market
 - And off the Fed's balance sheet^{1/}

^{1/} By shifting balances out of the Treasury's cash account, the money circulates in the repo market as reserves

Federal Reserve bill holdings

- The Fed's RMPs and MBS reinvestments have boosted its bill holdings by \$300bn this year
 - Bills have grown to 12% of the Fed's Treasury holdings
- *We think the Fed may decide to increase its bills holdings to its pre-financial crisis share of 35%^{1/}*

Bill holdings (% portfolio)

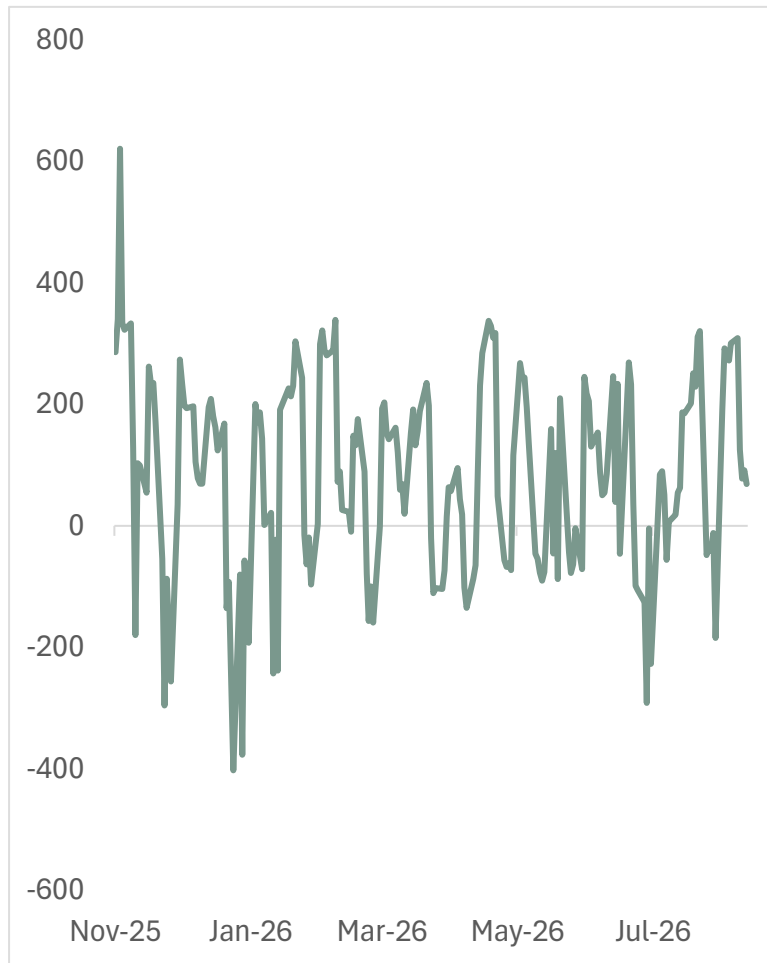


^{1/} This may also be decided by the balance sheet task force at year-end

Sources: Federal Reserve, SMBC Nikko

Investing Treasury's cash in repo^{1/}

Daily cash balance less E(1w) (\$bn)



- The Treasury is considering shifting some of its surplus cash into the repo market
- On average this year, it has held \$165bn in its account at the Federal Reserve above its expected 5d cash outflows (E(1w))
- In theory, it could use a portion of this extra cash – say \$100bn – without jeopardizing its precautionary cash buffer

Sources: US Treasury, SMBC Nikko

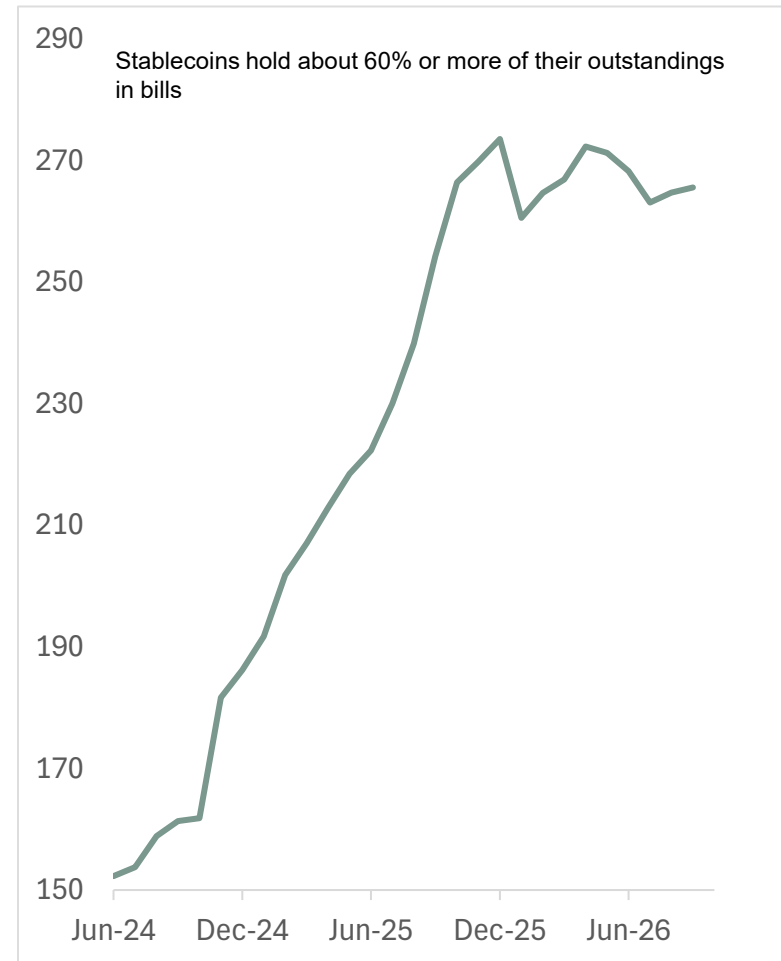
1/ See, "[Investing Treasury's cash](#)", July 29, 2026

Stablecoin demand

- Stablecoin balances have been flat this year
 - So, their incremental bill purchases have been small
- Demand for stablecoins appears to be crypto-related
 - And tied to DeFi
 - Rather than transactions of non-tech goods and services
- Leduc et al noted that stablecoin bill demand might double by 2030 to about \$400bn^{1/}
 - But the tokenization of deposits and money funds may supplant demand for stablecoins

^{1/} See "Stablecoin Issuers' Growing Appetite for Treasury Securities", S. Leduc, L. Oliveira and A. Sawyer, Federal Reserve Bank of San Francisco, September 28, 2026

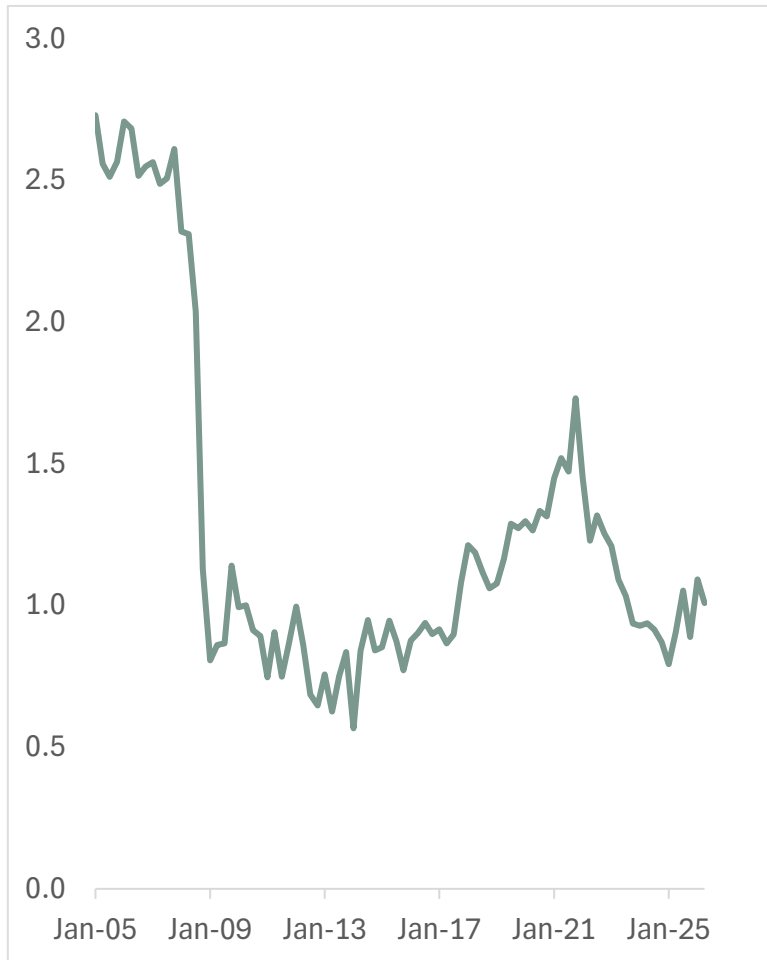
Stablecoins outstanding (\$bn)



Sources: BEA, SMBC Nikko

Where is r^* ?^{1/}

Estimated r^* (%)



- Rising Federal debt and AI might push the economy's long-run neutral rate, r^* , higher
 - Current estimates are between 1.00 and 1.50%
- Further updrift might mean the Fed's neutral policy rate is closer to 3.50% than 3.0%
- The FOMC's median long-term fed funds projection has increased 20bp since December

Sources: Federal Reserve Bank of New York, SMBC Nikko

1/ See "[Is \$r^*\$ rising?](#)", September 9, 2026

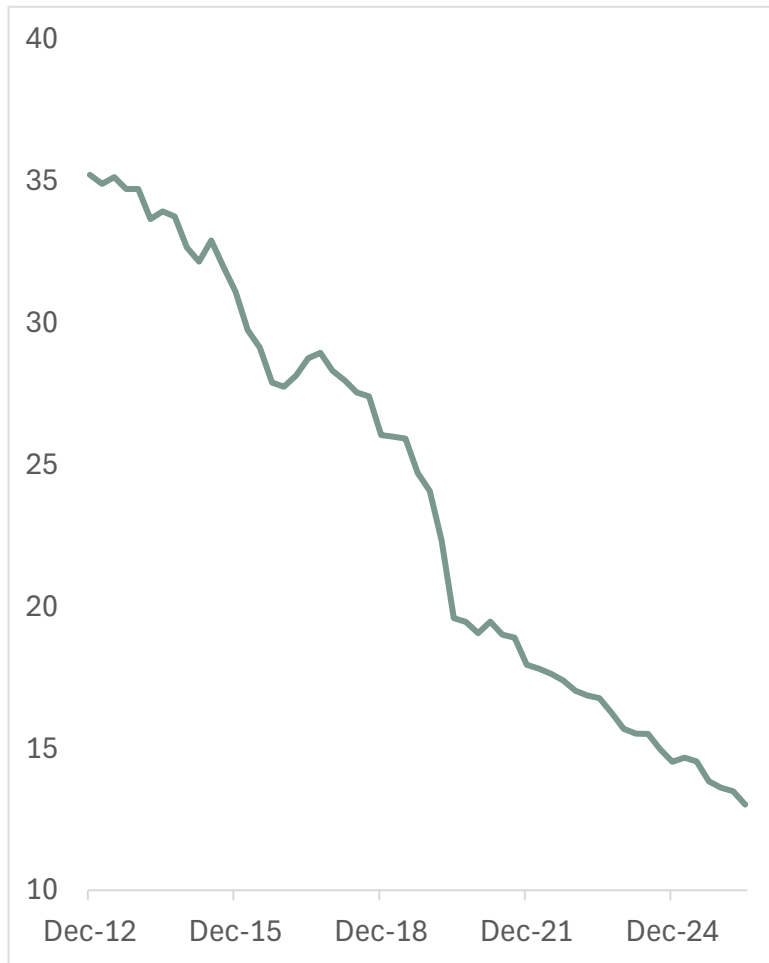
Has Treasury demand become more yield sensitive?^{1/}

- We think Treasury yield volatility and market fragility have increased in recent years for two reasons:
 - The demand for Treasuries has shifted from buy-and-hold investors to hedge funds
 - And more of this demand relies heavily on repo funding
 - That itself is sensitive to interest rates, balance sheet capacity, and margin costs

^{1/} See [Increased yield sensitivity](#), October 7, 2026

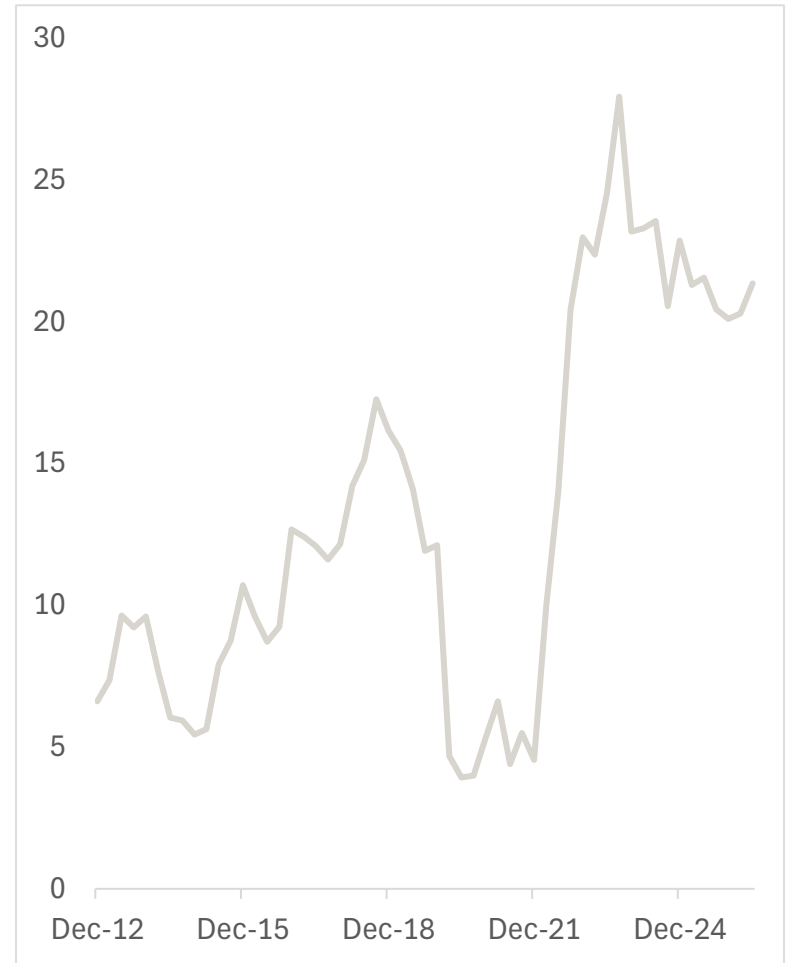
Shifting demand for Treasuries

Foreign official (% total)



Sources: US Treasury, SMBC Nikko

Households and hedge funds (%)

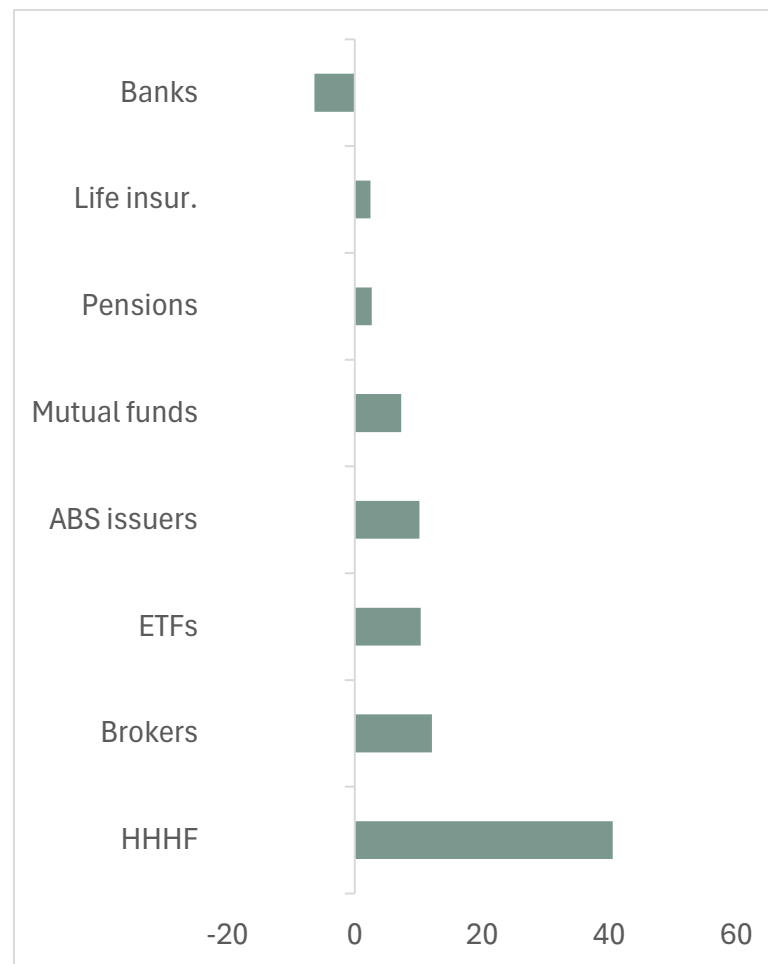


Note: Using the framework in Beltran and Li (2026) Sources: Federal Reserve, SMBC Nikko.

Demand elasticity varies across investor types...

Demand elasticity (%)

- How sensitive are investors' holdings to changes in interest rates?
- Elasticities varies across investor types
 - Price sensitive buyers have higher elasticities than buy-and-hold investors
- A 100bp increase in 5y rates increase life insurance company Treasury demand by 2.45%
 - The demand elasticity for hedge funds is much higher

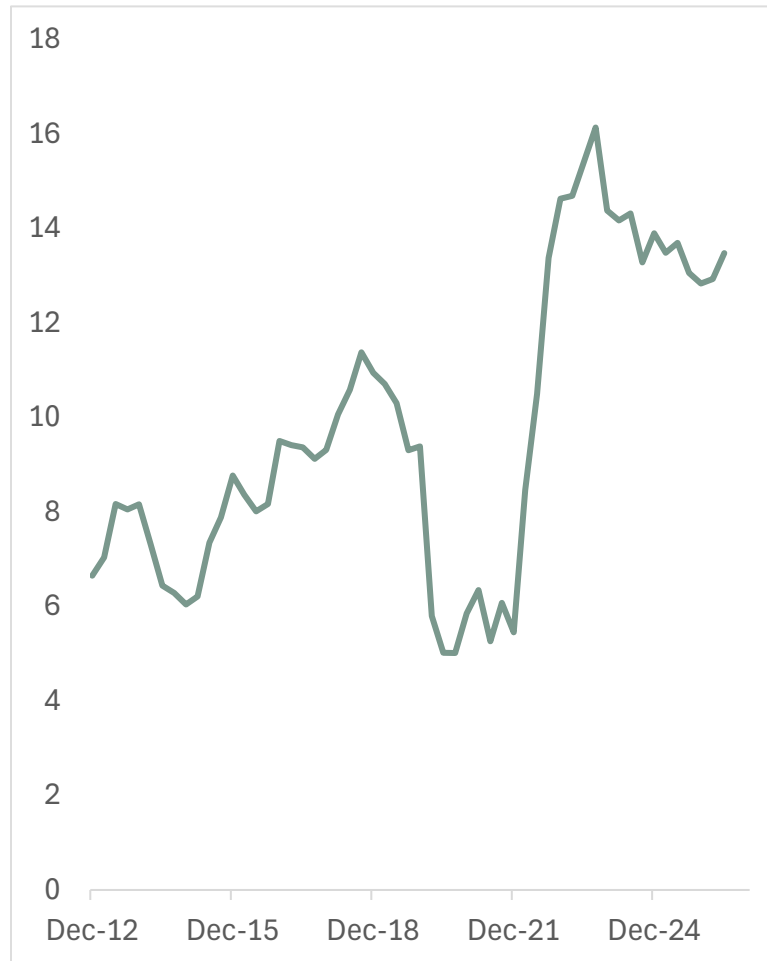


Bank elasticities may be negative because liquidity regulations require them to hold Treasuries independent of portfolio yields

Sources: Beltran and Li, SMBC Nikko

...and has increased marketwide

Market elasticity (%)

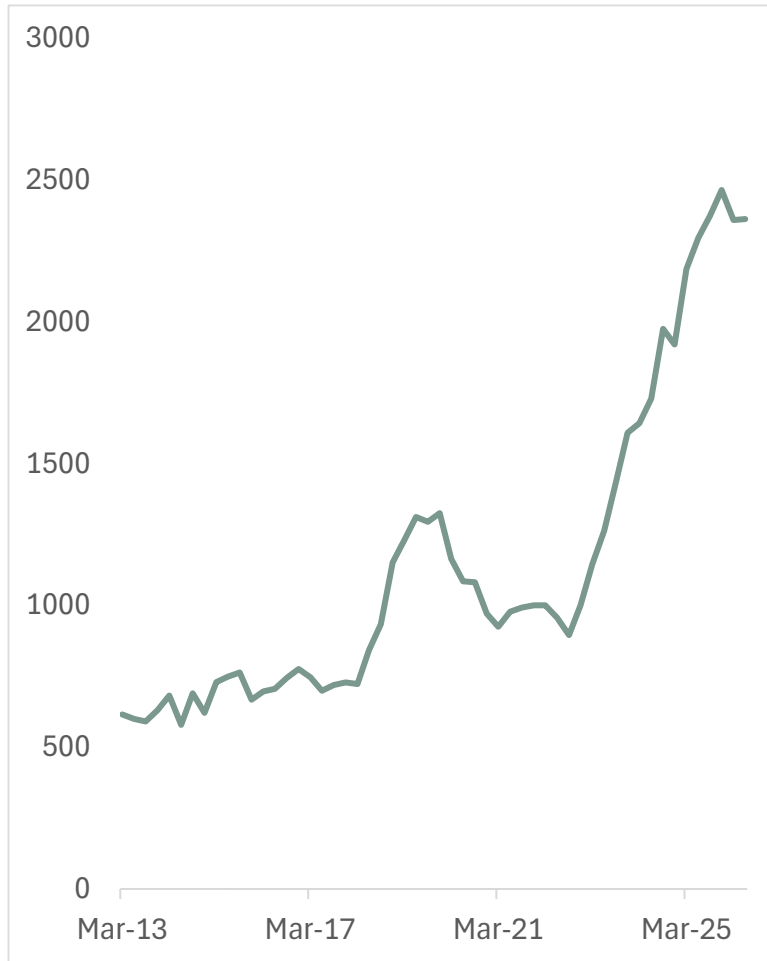


- The market share-weighted average elasticity has increased since 2012
 - As demand has shifted away from buy-and-hold investors to hedge funds
- *As a result, yields may be more volatile in response to market shocks*
 - *And Treasury yields could need to rise more to absorb increases in supply*

Sources: Beltran and Li (2026), US Treasury, SMBC Nikko

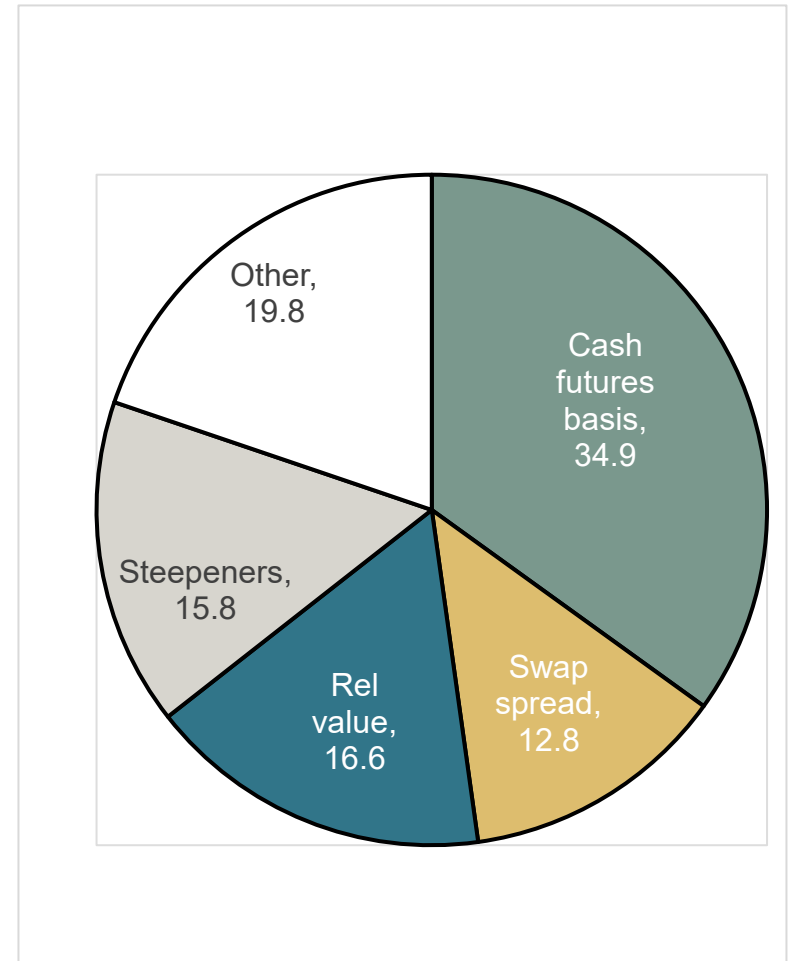
Hedge fund holdings and repo

Long Treasury positions (\$bn)



Sources: SEC, SMBC Nikko

By strategy (% long positons)



Sources: Monin, SMBC Nikko

Disclaimers

Disclaimers

This document is provided by SMBC Group (including, collectively or individually, Sumitomo Mitsui Banking Corporation, SMBC Nikko Securities America, Inc., and their affiliates, as applicable) for informational purposes only, solely for use by the client(s) or potential client(s) to whom such document is directly addressed and delivered. This document does not constitute an offer or solicitation of the sale or purchase of securities or other investments. This document was prepared by SMBC Group's economist(s). The information contained herein is obtained or derived from sources believed to be reliable, but SMBC Group and the economist(s) make no representations as to its accuracy or completeness. In some cases, such information may be incomplete or summarized. The views, statements, assumptions, and forecasts expressed herein are those of the economist(s) and do not reflect the judgment of any other person or of SMBC Group. This document has been prepared based on assumptions and parameters determined by SMBC Group's economist(s) in good faith. The assumptions and parameters used are not the only ones that could have been selected, and therefore no guarantee is given as to the accuracy, completeness, or reasonableness of any such quotations, disclosures, or analyses. Past performance is not a reliable indicator of any future results.

This document has been prepared for, and is directed at, institutional investors and other market professionals and is not intended for use by retail customers. It does not take into account any specific investment objective, financial situation, or particular need of any recipient(s). The information contained herein should, for whatever purpose, be used solely at the discretion and responsibility of the recipient(s). SMBC Group does not accept any liability or responsibility for any results in connection with the use of the information. Recipients are responsible for making final investment decisions and should do so at their own discretion following their own independent analysis and assessment of the merits of any transaction prior to execution, after conducting a careful examination of all documentation delivered, explanatory documents pertaining to listed securities, prospectuses, and other relevant documents. Any financial instruments discussed in this document may be speculative and may involve risks to principal and interest.

Conflicts of Interest Disclosures

The views, statements, assumptions, and forecasts expressed herein may differ from those expressed in the globally branded research produced by SMBC Group. The trading desks of SMBC Group trade or may trade as principal in the financial instruments that are the subject of this document, and the economist(s) may have consulted with the trading desks while preparing the document. The proprietary interests of SMBC Group may conflict with those of the recipient(s). SMBC Group may seek to do business with companies mentioned in this material and the trading desks may accumulate, be in the process of accumulating or have accumulated, long or short positions in financial instruments mentioned and may have acquired them at prices no longer available. The trading desks may also have or take positions inconsistent with the views expressed in this document or may have already traded on those views.

This document is not a research report, and neither the document nor the economist(s) is/are subject to policies and procedures that apply to the globally branded research reports and research analysts of SMBC Group or to legal requirements designed to promote the independence of investment research. This document is not subject to any prohibition on dealing ahead of the dissemination of investment research. This means that SMBC Group, and its directors, representatives, or employees, may have a long or short position in any financial instruments mentioned in this document and may make a market or trade in financial instruments economically related to the securities, derivatives or other underlying assets mentioned herein, in each case either as principal or as agent, at any time.

No part of economist compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed herein. The personal views of economists may differ from one another.

This document is the property of SMBC Group, subject to copyright. Any reproduction of this document, in whole or in part, is prohibited and you may not release this document to any person, except to your advisors and professionals to assist you in evaluating the document, provided that they are obligated by law or agreement to keep the document confidential. Distribution, possession or delivery of this document in, to, or from certain jurisdictions may be restricted or prohibited by law. Recipients of this document are required to inform themselves of and comply with all such restrictions or prohibitions.

© 2026 SMBC Group. All rights reserved.