



GLOBAL CREDIT

Financial Rebellion

The Algebris Bullet | October 2026



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In this report

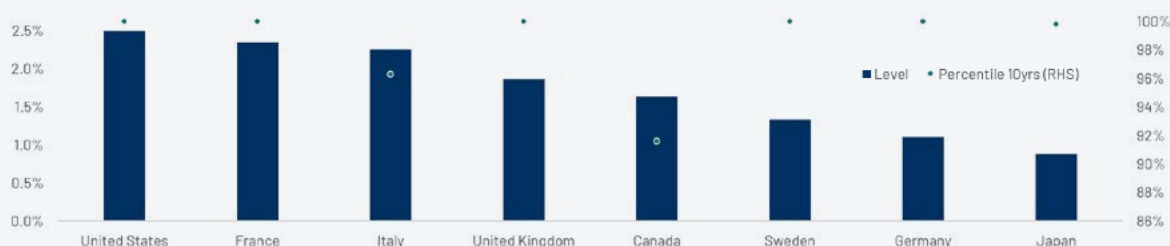
Financial repression is turning into rebellion, leading investors to overprice bond risks and creating some value in duration. While fiscal risks remain significant and stronger AI-driven productivity could keep rates higher for longer, increasingly hawkish positioning, pressure on risk assets and tighter financial conditions are improving the asymmetry of owning duration. At the same time, credit spreads remain historically tight, arguing for selectivity rather than broad exposure.

Financial Rebellion

Over the past five years, US nominal GDP has grown at 7% per year. Over the same period, five-year Treasuries yielded less than 4% on average. As government debts become increasingly unsustainable, keeping interest rates below fair value is [the only viable option](#). The effect so far has been an exodus from long-dated bonds, steeper yield curves and inflation in risk assets.

Over the course of 2026, financial repression has given way to investor rebellion. The sell-off in global bonds has accelerated, with risk premia driving the move (Chart 1). Markets are more sensitive to government policy, with a dovish central bank tone and looser fiscal policy both translating into steeper curves. Rates volatility is back, as opposed to 2025, when rates increased in a straight line. Bond investors are facing long-term losses for the first time in a century (Chart 2).

Chart 1 Government bond risk premia at the highs



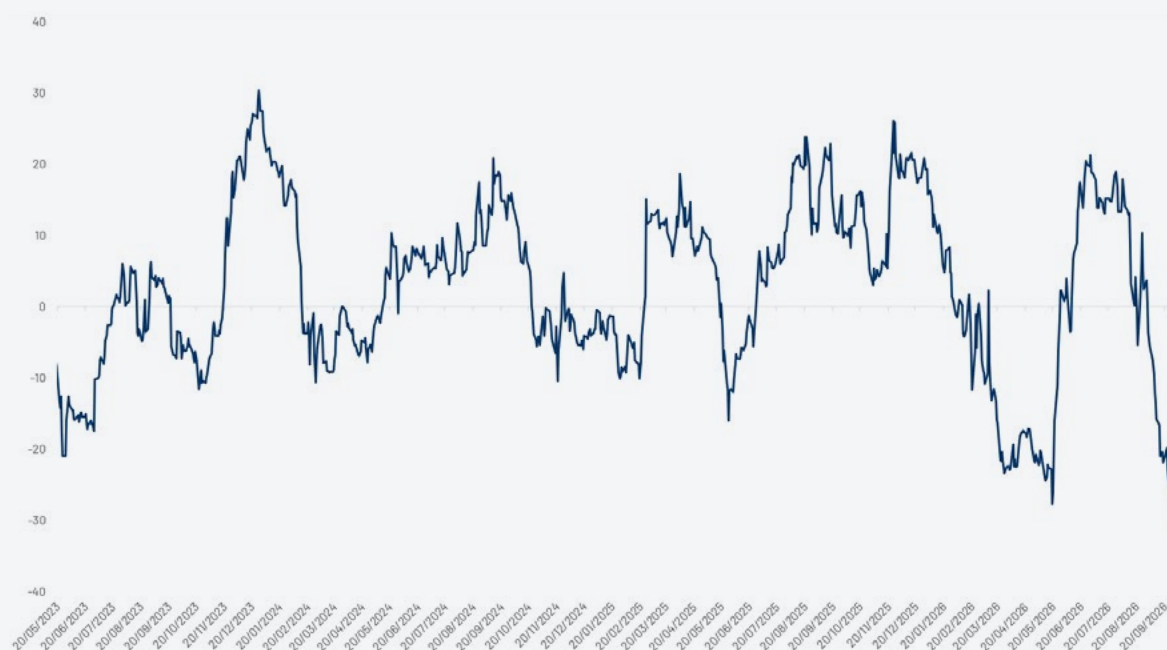
Note: Real rate of 10 year inflation-linked bonds. Source: Algebris Investments, Bloomberg Finance L.P., data as of 10/09/2026.

Chart 2 Bond investors face long-term losses



Note: Rolling 10-year annualized US bond total returns since 1793. Source: Bloomberg Finance L.P., Algebris Investments Edward F. McQuarrie, Santa Clara University. Data as of 10/09/2026.

Chart 3 Bond shorts at five-year highs



Note: Open interest in long US bond futures. Negative read means short interest. Expressed in Mln US\$ DV01.

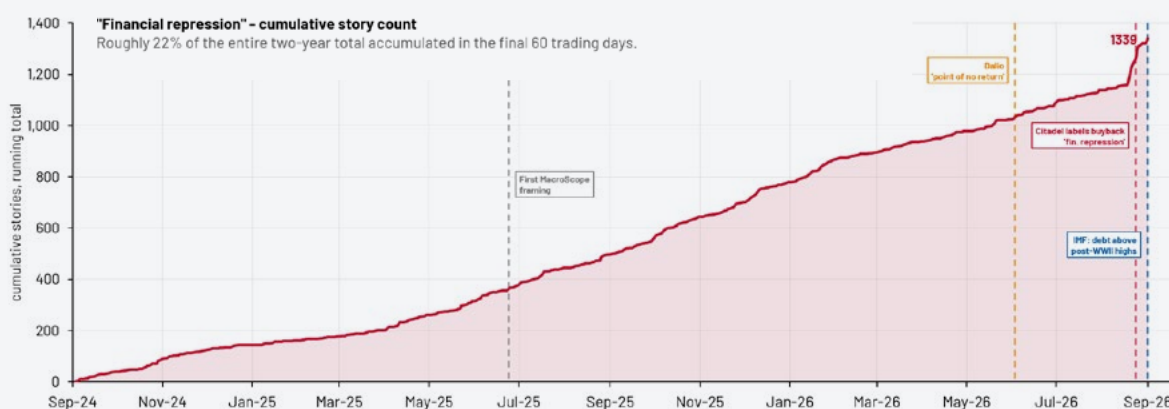
Source: Citibank, Bloomberg. Data as of 30/09/2026.

The Duration Glass Turns Half Full

As repression has become rebellion, the duration glass is turning half full. Further bond losses become harder for investors to stomach and can trigger risk asset redemptions. Equity weakness was a key rebalancing factor for the bond market in 2022 and 2023. Rising mortgage rates will hurt consumers globally, softening the macro outlook. Capital devoted to shorting government bonds is at three-year highs (Chart 3), while fixed income allocation in US retail portfolios is at multi-decade lows.

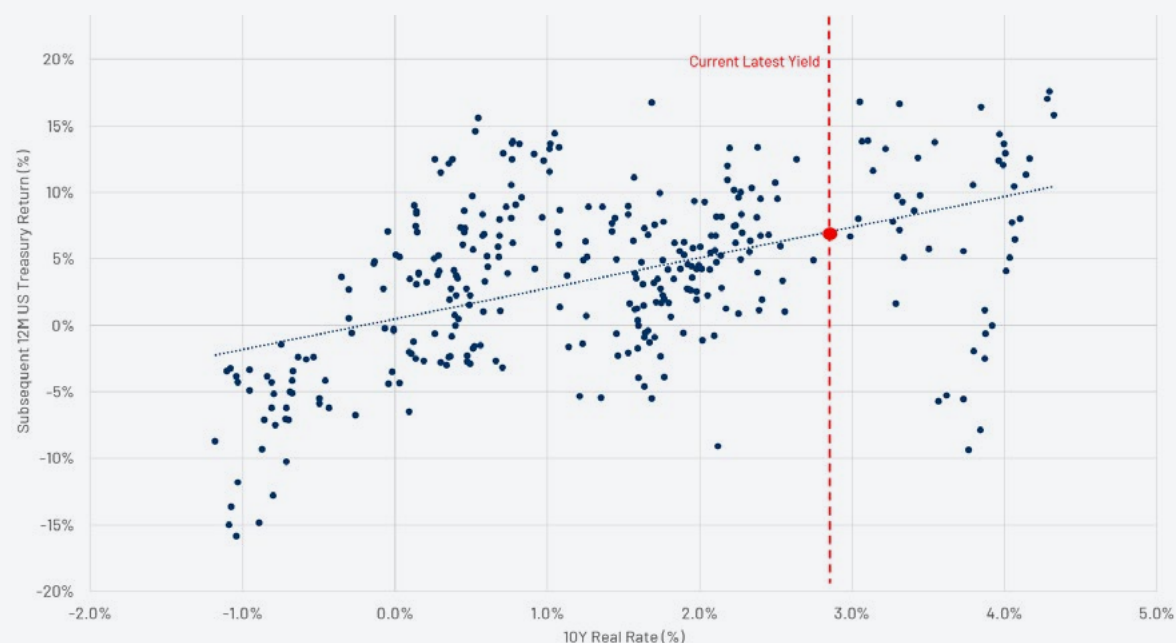
Risks for rates abound. The good news is that they are becoming consensus. Trump economic adviser Kevin Hassett states that [real yields should reflect 4% productivity growth](#). Fiscal fears pervade the popular and specialised press (Chart 4). A good share of these problems is thus reflected in valuations. Historically, current levels of long-end real yields have been followed by returns close to 6% (Chart 5). High interest rates also offer investors asymmetry. Starting from current levels, a 12-month tightening of 1% in 10-year Treasuries leads to a 13% gain, compared with a 2% loss for a 1% widening.

Chart 4 Financial Repression becoming consensus



Note: Bloomberg cumulative daily story counts over 500 trading days. Source: Bloomberg, Algebris Investments, data as of 01/09/2026.

Chart 5 Real yields suggest 6% returns on bonds

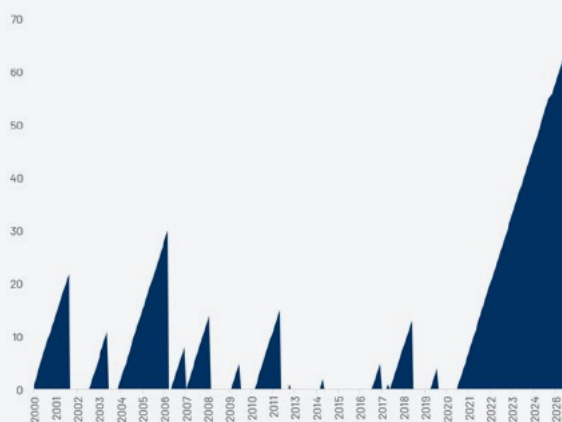


Note: 12-months rolling returns for a given starting level of UST 10 real yield. Inflation measured using 10y breakevens. Source: Bloomberg Data L.P., Algebris Investments. Data as of 01/09/2026.

Central Banks Start to Respond

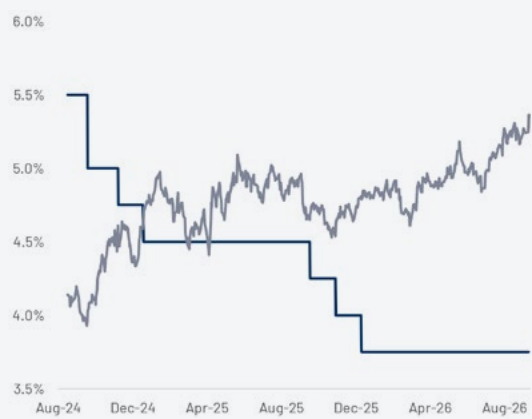
Market pressure is triggering some positive effects too. Central banks are behind the curve but have started hiking. Over time, higher front-end rates are likely to restore credibility. US inflation has stayed above target for the longest period in recent history (Chart 6), and long-end bonds have deviated from policy rates as a result (Chart 7). As the global hiking cycle gains momentum, support for long bonds is likely to increase. Inflation breakevens have remained steady over the past few months, suggesting that any normalisation in commodity prices is likely to compress real yields.

Chart 6 US inflation off target for the longest time in recent history



Note: the graph shows the consecutive number of months of US CPI being above the 2% target. Source: Bloomberg Finance LP, Algebris Investments. Data as of 31/8/2026.

Chart 7 Long bonds diverging from Fed Funds



Source: Algebris Investments, Bloomberg Finance L.P. Data as of 10.09.2026.

The Upside Risk to Yields is Fiscal

One risk to global rates relates to growth. If the AI boom is real, productivity and returns on capital can sustain higher rates for longer. The outlook for technological developments is hard to call, but [tech valuations already imply 15% earnings growth](#). Historically, the gap between capex and GDP growth has been mean-reverting, [and 2026 will mark the five-year high](#). With AI investment accounting for 20–50% of US growth in 2025, forecasts can move quickly. [US rate-sensitive consumption and investment](#) remain substantial despite the rise of AI.

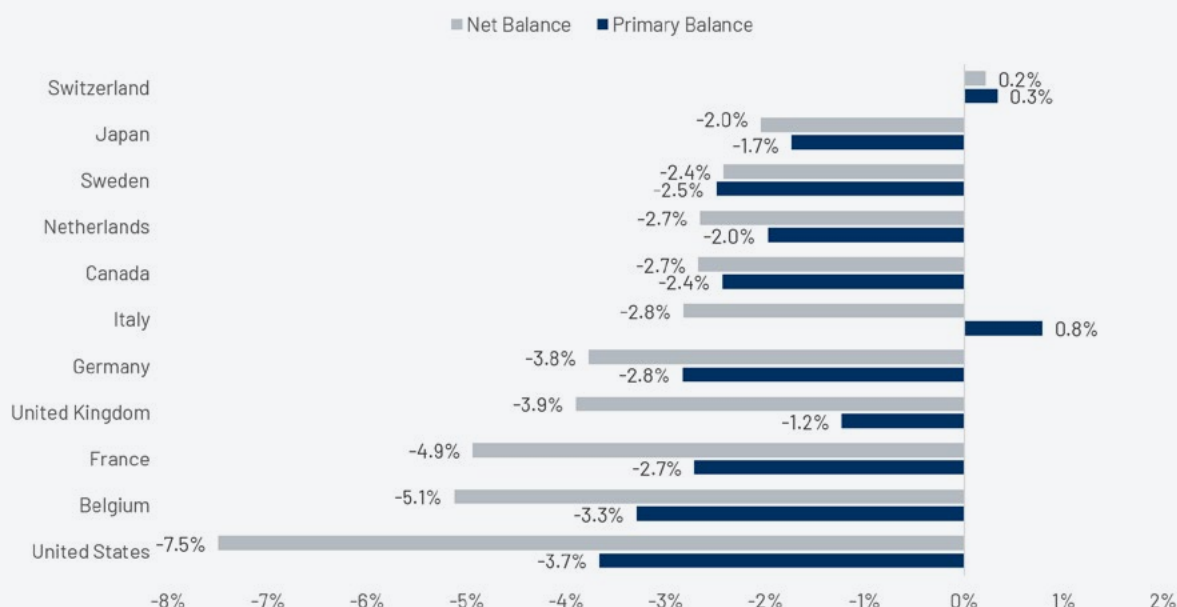
A regime change from a hawkish to a dovish narrative does not take long to materialise. As recently as September 2025, markets were pricing five Fed cuts for 2026. Reality turned out quite differently. With Fed pricing having recently turned strongly hawkish, and risk assets starting to feel the impact, the balance of risks is turning towards owning longs in rates.

The more worrying angle remains the fiscal story. Interest expenses are weighing on an increasing share of deficits (Chart 8), making debt harder to stabilise. The cost of refinancing US debt [has doubled in 2025 alone](#). Historically, levels of US debt close to current levels have preceded a sustained increase in the long-term cost of debt. The US administration is acknowledging the problem, through buybacks and verbal intervention, but more political cohesion is needed for a proper fix. The global trend points in the same direction, at least in G10 markets.

Painful moves in interest rates and widening real yields mean some long-term value is being created. We see value in belly and long-dated tenors of selected yield curves, e.g. US and Germany. The front-end is sensitive to the repricing of hikes but a high starting point means bonds with 4-5 years duration only lose 30% of carry for every 50bp of re-pricing. The long-end can even benefit, as central banks re-gain credibility.

Value in yields translate into value of rates-sensitive assets, such as investment grade credit. A 6% yield on US investment grade credit belongs to the right tail of the historical distribution and has been followed by one-year returns in the 3-13% range. Within IG credit, spreads appear elevated relative to fundamentals, creating opportunities in long-dated senior bank debt, selected hyperscalers and high-quality hard- and local-currency emerging-market debt.

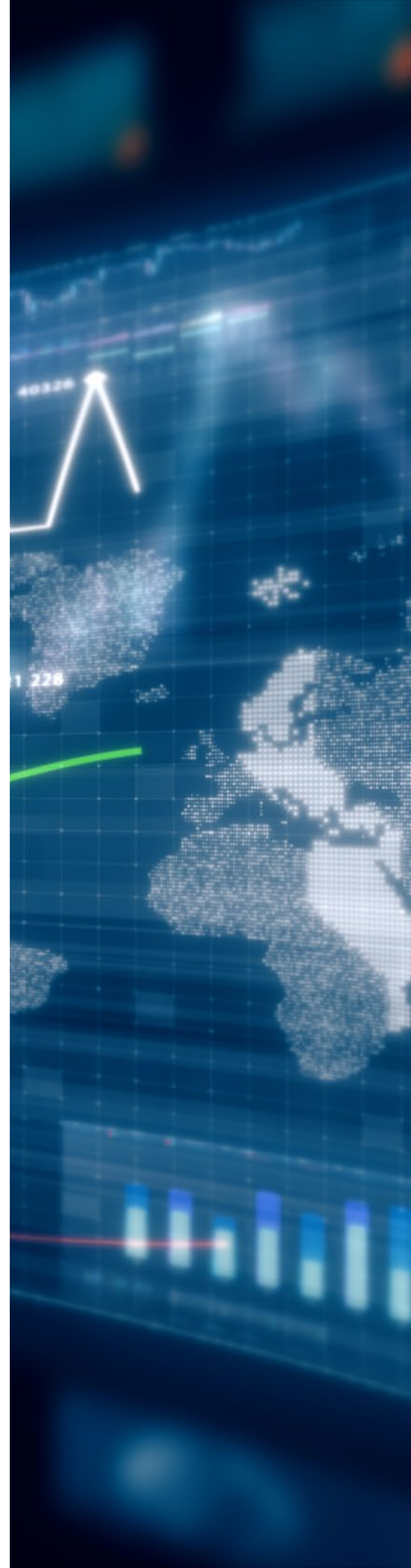
Chart 8 Interest bills pushing G10 deficits up



Source: IMF Fiscal Monitor 2026, Algebris Investments. Data as of 31/08/2026.

Value in Duration, Caution in Credit Risk

Proper credit risk and high-yield bonds are less attractive. Low grade spreads are below the 10th percentile of the historical distribution. The road for rates normalization goes through economic softness, which doesn't bode well for this risk. The recent increase in rates volatility provides a catalyst for widening. We maintain a cautious approach to higher-yielding credit, keeping exposure low and limiting it to well-anchored issuers. We favour defensive sectors, such as financials and telecoms, and avoid cyclical areas, emerging market high yield credit and European periphery spreads, including Italy.



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