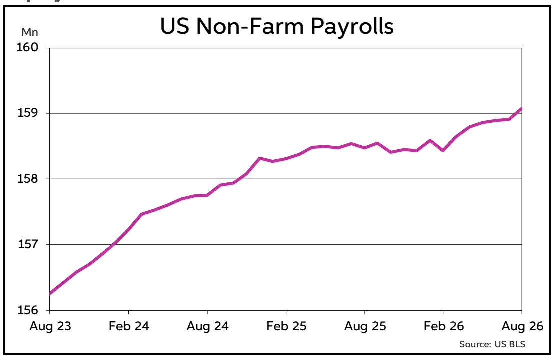
Weekly Market Brief

AIB Treasury Economic Research Unit

September 28th – October 2nd 2026

Mind the Gap

- **Amid continued volatility in sovereign bond yields, a remarkably stable feature of markets has been in bond spreads, with little signs currently of a surge in corporate spreads, as was seen following the last inflation shock in 2022.** Due to the ongoing uncertainty on the outlook for inflation, markets are pricing in a succession of rate hikes over the next year, of up to an additional 100bps of tightening across the major central banks. This would take official rates back to, and beyond in some cases, the peaks reached following the inflationary surge in 2021/22.
- **Given the relatively muted trends in headline inflation versus that previous shock, current market pricing looks over done.** Nevertheless though, it is driving both the front-end and long-end of interest rate curves. However, underlying this inflationary catalyst, markets are also pricing in greater term premia on governments with patchy records of delivering on deficit and debt reduction, and on general political uncertainty. In this regard, France, Italy and the UK have endured significant rises in 10-30 year borrowing costs to 20–year highs in recent days, while also seeing spreads widen to safe havens such as German bunds.
- **In contrast, corporate spreads remain close to historic lows, both in Europe and the US, trading between 50-80bps above risk-free rates.** This is in stark contrast to the dramatic blow-out in corporate spreads in 2020 during the pandemic, and in 2022 following the invasion of Ukraine. The difference today likely reflects several factors including the relatively contained nature, for now, of the conflict in the Middle East, the broad robustness of corporate balance sheets, and the sheer weight of capital now being deployed towards the AI build-out in credit markets.
- **However, the AI investment cycle in the US and globally is set to rival if not surpass previous super cycles in real estate and Telecoms in the 1990/2000s, and even the railroad boom of the 1800's.** This raises the very real risk of a sudden market correction spreading from equity to credit markets in short order, if the expected returns on investment do not materialise as quickly as consensus estimates are pencilling in. Some have also pointed to the AI investment boom as exacerbating the rise in sovereign bond yields amid what Fed Chair Kevin Warsh called the "competition for capital". Other sectors of the economy are also experiencing a dearth of investment, most notably the commercial and residential real estate sectors in the US, which have seen a collapse in construction activity over the past 18 months.
- **Irish government borrowing costs have also risen this year, albeit not to the same extent as elsewhere.** However, the global trends of higher rates and inflation are a salutary lesson for an Irish government embarking on a €275bn National Development Plan over the next decade. Achieving value-for-money in the current environment will be the primary challenge for policymakers. Failure to do so will not just cost money now but it may also cost more in interest payments further down the line.
- **Turning to the week ahead, the main release of note will be the US labour market report for September.** Conditions in the labour market have firmed recently following a weak second half to last year and a soft first quarter this year. At the same time, the unemployment rate fell to 4.1% in July and stayed at that level in August, having oscillated between 4.3-4.5% throughout the previous 12 months. Meanwhile, wage growth has slowed. Average earnings growth printed at +3.1% year-on-year in August, its lowest level since May 2021. The consensus is for payrolls to rise by 100k in September. The unemployment rate is set to edge higher to 4.2%, while average earnings growth is expected to rise slightly to +3.2% year-on-year.



- **A busy US data calendar also features core-PCE inflation for August.** Core-PCE inflation has proven to be quite sticky recently, and it was already on an upward trend before the war in the Middle East started. Having reach a low of 2.6% in April 2025, it rose to 3.0% at the end of 2025, before peaking at 3.5% in May, and edging marginally lower to 3.3% in June and July. Overall, core-PCE - the Fed's target measure of inflation - has been above 2% for more than five years. **A slight increase to 3.4% is pencilled in for August.** Elsewhere, personal income and consumption data for August are due. The former is projected to rise by 0.4% in the month, helping to fuel a 0.4% jump in real consumption.
- **In the Eurozone, inflation data will also be in focus.** Amid the war in the Middle East, headline HICP inflation has increased sharply in the past six months. It rose from 1.9% to a peak of 3.2% in August, largely driven by a rise in energy prices. However, there has been limited evidence to date that energy price rises have led to broader inflationary pressures. Core inflation has printed in a narrow 2.1-2.3% range since the war has started, and it is currently at the bottom of that range. Expectations are for the headline rate to rise to 3.5% in September, but the core rate is set to remain muted at 2.2%. Meantime, the Eurozone unemployment rate is forecast to stay at 6.4% in August, for a third successive month. Regarding some timelier data, the EC sentiment indices are anticipated to improve modestly across sectors in September.

Interest Rate Forecasts

	Current	End Q3 2026	End Q4 2026	End Q1 2027
Fed Funds	3.875	3.875	4.125	4.125
ECB Deposit	2.50	2.50	2.75	2.75
BoE Repo	3.75	3.75	4.00	4.25
BoJ OCR	1.25	1.25	1.25	1.50

Current Rates Reuters, Forecasts AIB's ERU

Exchange Rate Forecasts (Mid-Point of Range)

	Current	End Q3 2026	End Q4 2026	End Q1 2027
EUR/USD	1.1401	1.15	1.16	1.17
EUR/GBP	0.8601	0.86	0.87	0.87
EUR/JPY	179.08	182	182	183
GBP/USD	1.3251	1.34	1.33	1.34
USD/JPY	157.04	158	157	156

Current Rates Reuters, Forecasts AIB's ERU

AIB

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ECONOMIC DIARY

Monday September 28th - Friday October 2nd

Date	*UK & Irish Time (GMT+1)*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		**Lagarde (Mon); Lagarde,** Cipollone, Vujčić, Lane (Tue); Schnabel (Wed); **Lagarde,** Schnabel (Thu); Cipollone, Vujčić (Fri)		
	BoE Speakers:		Ramsden (Mon); Taylor, Mann (Tue); Mann (Thu)		
	Fed Speakers:		Barkin (Mon); Williams (Tue); Barkin (Wed); Kashkari, Barkin, Williams (Thu)		
Mon 28th					
Tue 29th	**SPA:**	08:00	Flash HICP Inflation (September)	+0.7% (+4.6%)	
	UK:	09:30	BoE Mortgage Approvals (August)	56,053	
	EU-21:	10:00	EC Business Climate (September)	-0.22	
	EU-21:	10:00	EC Economic Sentiment (September)	98.4	99.0
			- Industrial / Services / Consumer	-5.3 / 5.8 / -16.5	-5.0 / 6.5 / -16.5
	US:	14:00	Case-Shiller Price Index (July)	+0.2% (+2.1%)	
	US:	15:00	JOLTS Job Openings (August)	7.27m	7.25m
	US:	15:00	Conference Board Consumer Confidence (Sep)	89.4	90.0
Wed 30th	**JPN:**	00:50	Industrial Production (August)	-0.2%	-1.7%
	JPN:	00:50	Retail Sales (August)	(+4.0%)	(+3.3%)
	GER:	07:00	Retail Sales (August)	-3.4% (-2.5%)	
	UK:	07:00	GDP (Q2: Final Reading)	+0.4% (+1.2%)	+0.4% (+1.2%)
	FRA:	07:45	Flash HICP Inflation (September)	+0.7% (+2.6%)	
	GER:	08:55	Unemployment Rate (September)	6.4%	6.4%
	ITA:	09:00	ISTAT Business Confidence (September)	89.9	
	ITA:	09:00	ISTAT Consumer Confidence (September)	94.5	
	IRE:	***11:00***	***Unemployment Rate (September)***	***5.0%***	
	GER:	13:00	Flash HICP Inflation (September)	+0.2% (+2.9%)	
	US:	13:15	ADP Employment (September)	38,000	
	US:	13:30	Personal Income / Consumption (August)	+0.4% / +0.2%	+0.4% / +0.8%
	US:	13:30	PCE Prices (August)	+0.2% (+3.7%)	+0.4% (+3.8%)
			- Core-PCE Prices	+0.2% (+3.3%)	+0.3% (+3.4%)
	US:	13:30	GDP (Q2: Final Reading)	+1.5% S.a.a.r.	+1.6% S.a.a.r.
Thu 1st	***IRE:***	***01:01***	***AIB Irish Manufacturing PMI (September)***	***55.4***	
	EU-21:	09:00	Final S&P Manufacturing PMI (September)	52.7	52.7
	UK:	09:30	Final S&P Manufacturing PMI (September)	52.0	52.0
	EU-21:	10:00	Unemployment Rate (August)	6.4%	6.4%
	US:	13:30	Initial jobless Claims (w/e 21st September)	+197,000	
	US:	15:00	Final S&P Manufacturing PMI (September)	57.0	57.0
	US:	15:00	Manufacturing ISM (September)	54.6	54.8
Fri 2nd	**JPN:**	00:30	Jobs/Applicants Ratio (August)	1.18	1.18
	JPN:	00:30	Unemployment Rate (August)	2.4%	2.4%
	EU-21:	10:00	Flash HICP Inflation (September)	+0.4% (+3.2%)	+0.3% (+3.5%)
			- Ex-Food & Energy	+0.2% (+2.1%)	(+2.2%)
			- Ex-Food, Energy, Alcohol & Tobacco	+0.2% (+2.4%)	(+2.5%)
	US:	13:30	Non-Farm payrolls (September)	+162,000	+100,000
			- Unemployment Rate	4.1%	4.2%
			- Average Earnings Growth	+0.3% (+3.1%)	+0.3% (+3.2%)

♦ *Month-on-month changes (year-on-year shown in brackets)*