GLOBAL MARKET INTELLIGENCE

The World in 5 Minutes

"Iran fires on a U.S. vessel near Hormuz and declares a 'prohibited zone': Brent rises 7% and global debt posts its worst week of the year"

The week confirmed that the Hormuz crisis has stopped being a failed negotiation and become an open conflict: the U.S. struck Iranian oil tankers on September 1 and 2, and Iran retaliated Friday with ballistic missiles against a U.S. aircraft carrier and warship —CENTCOM says they were intercepted, Tehran says it hit its target. On Saturday, Iran announced a "prohibited zone" in Hormuz, though its real impact on oil transit is not yet known.

In Ukraine, U.S. envoys Steve Witkoff and Jared Kushner held the first high-level meeting with Putin in months in Moscow on Friday —more than three hours, with no breakthrough— and traveled to Kyiv on Saturday to meet Zelensky. There was no truce on the ground: Russia struck a railway depot in Kyiv and hit Odesa again, while Ukraine struck the Russian oil terminal at Ust-Luga, on the Baltic, and a drone forced NATO to scramble jets over Estonia.

The sovereign bond market had its most volatile week of the year: the 30-year UK gilt touched 5.90%, the highest since 1998, on narrow fiscal headroom ahead of the October 28 budget; the 10-year German bund reached its highest level since 2011; and the 10-year Japanese JGB topped 3% for the first time since 1996. All four pared part of the rise on Friday, without returning to prior levels.

The week's key U.S. data point was August payrolls: 162,000 new jobs, well above the 53,000-56,000 expected, with unemployment at 4.1%. The upside surprise raised the odds of a rate hike at the September 15-16 FOMC and drove the 10-year to highs not seen since November 2023. Equities held up: the S&P 500 closed almost flat (+0.09%) for a second straight week, and the STOXX Europe 600 snapped its five-week winning streak with a 0.9% decline.

Brent rose 7% on Hormuz risk, and the Baltic Dry Index jumped 13.9% on a shortage of vessels and longer shipping routes. Credit tracked the tension: HY widened to 265 bps and IG to 81, the largest weekly move in months, even though both remain near decade lows. Gold pulled back 1.7% to around $4.400, weighed down by a stronger dollar, still well below its January record of $5.589.

BofA Global Research's fund flows (week through September 2) showed a clear defensive rotation: money market funds (+$30,000M) and bonds (+$18,300M, with investment grade in its 22nd straight week of inflows) took in the bulk of the money, while global equities posted their weakest week in nine (+$2,800M). China logged its fifth straight outflow (-$5,300M) and the U.S. saw the largest weekly outflow (-$5,900M); technology had its worst week since June (-$1,500M).

RESEARCH TEAM VIEW What to watch in the days ahead

- FOMC, September 15-16: the first meeting under Warsh since the payrolls surprise; the market is starting to price in a rate hike instead of a cut.
- The BoE and BoJ decide on September 17 and 17-18: the market takes it for granted that the BoE holds at 3.75% and expects the BoJ to hike from 1.00%.
- Hormuz: still to be confirmed is the real scope of Iran's "prohibited zone" and whether Tehran and Oman resume the corridor they were negotiating before Friday's attack.
- UK Budget, October 28: fiscal headroom has narrowed to 13,000 million pounds, half of what it was a few months ago.
- Trump-Xi summit, September 24: the U.S. is weighing a 7.5% tariff for "overcapacity"; the current truce expires November 10.

QUANTITATIVE MODEL Knightford Global Risk Index · as of 2026-09-04

53.1
/ 100

Global risk rises on the Hormuz escalation, still in the neutral range ahead of the FOMC

WEEK
+2.0

4 WEEKS
+2.5

INTERNAL DISPERSION
60%

CONFIDENCE SCORE
72/100

Why this reading this week?

The KGRI rises 2.0 points to 53,1, 2.5 above four weeks ago. The geopolitical block is the biggest driver, up to 82.7 out of 100, after the Iranian missile attack near Hormuz and the announcement of a "prohibited zone" in the strait; credit tracks the tension, with HY and IG up to 23.1 out of 100, the largest weekly move in months. It's offset by inflation, which eases to 61.3 despite the pickup in breakevens, and by financial stability, flat at 22,7. Monetary policy remains unchanged, ahead of the September 15-16 FOMC.

Technical note: weighted average of the eight sub-indexes with VSMRI inverted · confidence 72/100 reflecting indicators without a free data source.

What is the KGRI? A 0-100 index that summarizes global market risk by combining eight Visual Sigma® "thermometers" (liquidity, monetary policy, activity, inflation, credit, financial stability, geopolitics and markets), weighted by relative importance and compared with their own history.

POSITIONING FRAMEWORK Research team view: what to do at each KGRI range, reviewed weekly

0-20	Very low	Overweight risk, maximum exposure to equities and cyclicals, minimal hedging.	
20-40	Low	Maintain full exposure, favor quality, no additional hedging needed.	
40-60	Neutral	Neutral exposure with quality selectivity; partial tactical hedging against surprises.	◂ we are here (53.1)
60-80	Elevated	Reduce beta, add quality and duration, activate hedges (options, gold).	
80-100	Extreme	Defensive mode, maximum cash and hedging, minimize risk exposure.	

THE EIGHT VISUAL SIGMA® · KGRI COMPONENTS

Level 0-100 and weight in the KGRI. Color follows the direction of risk.

VSLI · 18%
Visual Sigma® Liquidity Index

54.8

Neutral

Fed net liquidity tightens: the rebuild of the Treasury General Account (TGA, 967,935 M) drains bank reserves to 2,894,531 M, with the balance sheet nearly flat at 6,737,204 M. The block rises 3.0 points.

Conf. 100 ▲ 3.0

VSMPI · 10%
Visual Sigma® Monetary Policy Index

72.5

High

No change in rates: the Fed at 3.50-3.75% and the ECB at 2.25%, ahead of the September 15-16 FOMC. Still by far the most restrictive block in the model.

Conf. 100 ▲ 1.6

VSEAI · 14%
Visual Sigma® Economic Activity Index

58.9

Neutral

The week's data point was August payrolls (162,000 jobs, well above expectations, unemployment at 4.1%), which hasn't yet entered the Fed's official payrolls series, published with a one-month lag.

Conf. 72 ▲ 1.7

VSIPI · 6%
Visual Sigma® Inflation Pressure Index

61.3

High

Falls 3.0 points even though breakevens rise slightly (5-year at 2.37%, 10-year at 2.35%): there's no official August CPI print yet, and the model's historical window works in the block's favor.

Conf. 80 ▼ 3.0

VSCCI · 8%
Visual Sigma® Credit Conditions Index

23.1

Low

The block that rises most in credit (+5.5 points): HY widens to 265 bps and IG to 81, the largest weekly move in months, though both remain near decade lows. It reflects the Hormuz escalation.

Conf. 54 ▲ 5.5

VSFSI · 12%
Visual Sigma® Financial Stability Index

22.7

Low

Practically unchanged (-0.3 points): the VIX falls to 14.32 but the VXN rises to 20.16; the 2s10s slope widens to 0,41. Stability holds nearly flat despite the week's geopolitical escalation.

Conf. 76 ▼ 0.3

VSGRI · 14%
Visual Sigma® Geopolitical Risk Index

82.7

Very high

The block that rises most: Iran fires on a U.S. vessel near Hormuz and announces a "prohibited zone" in the strait; Russia and Ukraine keep trading strikes despite the first round of U.S.-Russia contacts in months.

Conf. 30 ⚠ ▲ 5.0

VSMRI · 18%
Visual Sigma® Market Reaction Index

56.1

Constructive

▲ high = favorable (the only inverted index). Pulls back slightly (-0.8): the S&P 500 closes almost flat (+0.09%) after the payrolls data, with tech volatility rising a bit more than broad volatility.

Conf. 66 ▼ 0.8

What do these numbers mean? Every indicator runs from 0 to 100 on actual data; in the seven risk blocks a high number is bad news, but in market reaction it is the reverse, so always read the color, not just the figure. Confidence shows how much of the block is covered by free official sources: paid indicators (CDX, MOVE, Citi, Conference Board, ISM) are not estimated, they are deducted from confidence.

RESEARCH TEAM VIEW · QUALITATIVE

Not model output; analyst judgment, reviewed weekly

BASE CASE 45%

Friday's attack isn't repeated and Iran's "prohibited zone" is enforced selectively, without closing oil transit through Hormuz; the U.S. doesn't extend its strikes beyond naval targets. Brent trades between $90 and $105 and the KGRI moves between 48 and 58.

BULL CASE 25%

Iran and Oman resume the transit corridor they were negotiating before the attack and the "prohibited zone" turns out to be a dead letter; no new naval incidents in two weeks. Brent falls below $88 and the KGRI drops below 45.

BEAR CASE 30%

New strikes or an effective closure, even partial, of transit through Hormuz; the U.S. extends its response beyond Iranian naval targets. Brent tops $115 and the KGRI climbs above 68 points.

GLOBAL GEOPOLITICAL RISK MAP

Research team view. List curated manually each week; not VSGRI output (see next page).

● Very high ● High ● Medium

● Middle East · Strait of Hormuz VERY HIGH

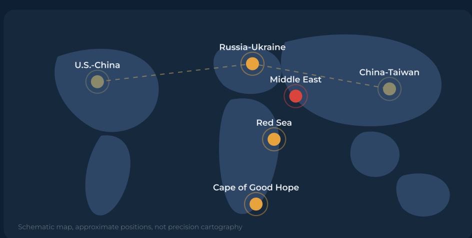
The crisis moved from diplomacy to direct confrontation: U.S. strikes on Iranian oil tankers on September 1 and 2, Iranian retaliation with missiles against a U.S. aircraft carrier and warship on September 5, and Iran's announcement of a "prohibited zone" in the strait the next day. It's the sharpest jump in intensity since the conflict began, in February.

● Red Sea · Bab el-Mandeb HIGH

The Houthi blockade on Saudi ports remains active since July 20, with no new verified incidents this week; Saudi Arabia continues routing much of its crude through Yanbu to avoid Hormuz risk.

● Routing · Cape of Good Hope HIGH

With Hormuz in open conflict and Bab el-Mandeb blocked, the detour via the Cape remains the norm, with higher freight costs now compounding the broader vessel shortage driving up the Baltic Dry Index.



● China-Taiwan MEDIUM

Routine Chinese military activity, with no verified escalation this week; the market is already looking to the September 24 Trump-Xi summit.

● Russia-Ukraine HIGH

First round of high-level U.S.-Russia contacts in months — Witkoff and Kushner with Putin in Moscow, then with Zelensky in Kyiv— with no deal or truce. Russia struck Kyiv and Odesa; Ukraine hit the Baltic terminal at Ust-Luga and forced NATO to scramble jets after a drone over Estonia.

● U.S.-China trade MEDIUM

The U.S. is weighing an additional 7.5% tariff for "overcapacity" ahead of the September 24 summit; China has already warned of retaliation. The current tariff truce remains in force until November 10.

Context for the week under review, updated manually by the team. Not VSGRI output (see the quantitative breakdown on the next page).

QUANTITATIVE MODEL VSGRI, breakdown of its six components (as of 2026-09-04)

SCON 24%	Intensity of international geopolitical conflict	95 · Very high
SGEO 20%	Global geoeconomic fragmentation	81 · Very high
SENE 18%	Energy and strategic commodity risk	88 · Very high
SSUP 14%	Global supply chain risk	92 · Very high
SSOV 12%	Sovereign risk and international sanctions regime	46 · Neutral
SUNC 12%	Structural geopolitical uncertainty	79 · High

0-100 scale; a higher value means greater risk pressure. The percentage shows its relative weight. Block scored by the team from verified facts of the week: with no freely available quantitative source, its confidence is 30/100.

OUR READ · RESEARCH TEAM VIEW

"Friday's Iranian attack changes the frame: this is no longer a negotiation that won't close, but a conflict that's intensifying at the chokepoint for a fifth of the world's oil. Debt markets picked up on it before equities did —the thirty-year gilt touched its highest level since 1998 and the Japanese JGB broke through 3% for the first time in three decades— and gold only fell because the dollar strengthened on Friday's payrolls data, not because the market has stopped buying protection. We're keeping a cautious stance while the real scope of the 'prohibited zone' becomes clear."

MARKET DATA · WEEKLY CLOSE

Live from FRED, the ECB Data Portal and Japan's Ministry of Finance, with no analyst intervention.

S&P 500
7,718.60
▲ +0.09%
Second week nearly flat despite Friday's payrolls surprise; U.S. equity benchmark.

STOXX EUROPE 600
649.88
▼ -0.9%
Snaps its five-week winning streak, dragged down by rising rates and oil.

VIX
14.32
▼ -0.11
Falls slightly despite the Hormuz escalation; options aren't yet confirming the jump in risk.

UST 10-YEAR
4.77%
▲ +0.04
Rises to highs not seen since November 2023 after August payrolls, which reopens the door to a September hike.

EURO AAA CURVE, 10-YEAR
3.34% (e)
▲ +0.07 *(e)*
ECB Data Portal without stable access this week; the German bund is used instead, at highs since 2011.

HY CORPORATE SPREAD
265 bps
▲ +5 bps
Widens with the Hormuz escalation; still near decade lows despite the move.

DOLLAR (DXY INDEX)
99.16 (e)
▼ -0.5% week over week *(e)*
The FRED broad index (H.10) doesn't yet cover this week; the DXY is used instead.

EUR/USD
1.1628 (e)
▲ +0.3% week over week *(e)*
The euro strengthens slightly; same caveat as the dollar.

GOLD (SPOT)
$4,400.00 (e)
▼ -1.7% week over week *(e)*
Falls on a stronger dollar, not weaker hedge demand: flows into gold remain positive.

BRENT
$96.30 (e)
▲ +6.6% week over week *(e)*
Surges after the U.S. and Iranian strikes in Hormuz; FRED doesn't yet cover Friday.

JGB 10-YEAR
2.91% (e)
▼ -0.02 *(e)*
Japan's MOF without stable access; it briefly topped 3% for the first time since 1996.

BALTIC DRY INDEX
3,628
▲ +13.9% week over week
Largest gain in months; a shortage of capesize and panamax vessels and longer Cape of Good Hope routes.

"Dollar" uses the DTWEXBGS. The 10-year JGB is official data from Japan's MOF; the ECB Data Portal and the UK Debt Management Office had no stable access this week, so the euro AAA curve and the gilt curve are estimated (e).

MONETARY POLICY AND LIQUIDITY

FED	BCE	BOE	BOJ
3.50-3.75%	2.25%	3.75%	1.00%
target rate	deposit facility	bank rate	policy rate
unchanged; next meeting September 15-16	unchanged this week	unchanged; next meeting September 17	unchanged; next meeting September 17-18, with a hike signaled

Fed balance sheet: $6.737 trillion (Sep. 2); TGA at 967,935 M and reverse repo at 675 M.

WHERE DID THE MONEY GO THIS WEEK?

Week through September 2 (BofA Global Research, The Flow Show).

INFLOWS

Money market funds	**+$30,000M**
Bonds	**+$18,300M**
Gold and metals	**+$3,200M**
Global equities	**+$2,800M**
Europe	**+$800M**

OUTFLOWS

U.S. equities	**-$5,900M**
Chinese equities	**-$5,300M**

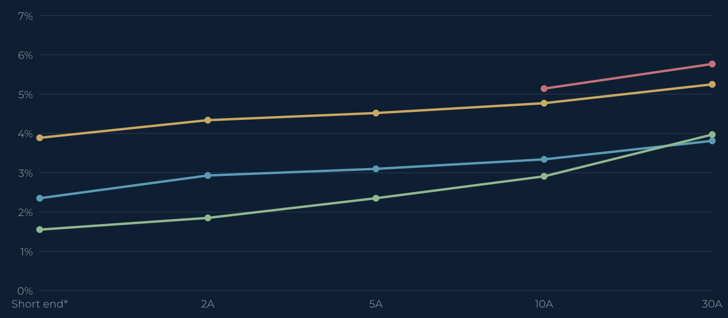
A week of defensive rotation: money moved into money market funds and investment-grade bonds, with global equities in their weakest week in nine. China logged its fifth straight outflow and the U.S. its largest weekly outflow; technology had its worst week since June.

YIELD CURVES, CROSS-COUNTRY COMPARISON

United States, euro area, United Kingdom and Japan; official data from each treasury or central bank.

Full curve · U.S., euro area, U.K. and Japan

Yield (%) by maturity



United States (Treasury): 3.89 · 4.34 · 4.52 · 4.77 · 5.25%

Euro area (ECB, AAA curve): 2.35 · 2.93 · 3.10 · 3.34 · 3.81%

United Kingdom (gilts): 5.14 · 5.77%

Japan (Ministry of Finance): 1.55 · 1.85 · 2.35 · 2.91 · 3.97%

*The short end is not the same maturity across the four regions; from two years onward the tenors are identical. The ECB Data Portal, Japan's Ministry of Finance and the UK Debt Management Office had no stable access this week: the euro curve uses the German bund as a reference and the Japan and UK curves use press sources; all three are flagged (e).

▸ Research team read

It was a week of broad sovereign bond selling, with a partial recovery on Friday. The 30-year UK gilt touched 5.90%, the highest since 1998, pressured by fiscal headroom that has been cut in half ahead of the October 28 budget; the 10-year German bund reached its highest level since 2011; and the 10-year Japanese JGB crossed 3% for the first time since 1996, before easing back to 2.91%. In the U.S., the 10-year rose to highs not seen since November 2023 after the surprisingly strong August payrolls report, which opens the door for the September 15-16 FOMC to hike rates instead of cutting them. The team reads the sell-off as a genuine repricing, not just noise: the combination of UK fiscal risk, oil-driven imported inflation and a U.S. labor market that won't ease leaves little room for rates to fall in the near term.

What is the yield curve? The interest government debt pays by maturity. Normally the long end pays more than the short end (a positive slope); when it inverts, the market is usually pricing a slowdown.

RESEARCH TEAM VIEW · QUALITATIVE

Recommendation, idea selection and scenario probability; analyst judgment

Current KGRI range. Neutral (40-60), at 53,1. The recommendations below develop the page 1 positioning framework for this range, for equities and fixed income.

Equities

Neutral, tilting more cautious

Friday's Iranian attack and the payrolls data raise tail risk in both directions: a bigger escalation in Hormuz or a tougher-than-expected Fed on September 15-16. We keep the neutral stance, but trim our appetite for beta slightly: we favor European defense and aerospace and avoid adding exposure to oil-sensitive sectors and to China, which is logging its fifth straight week of fund outflows.

Fixed income and credit

Trimming some duration amid the global bond sell-off

The broad sell-off in sovereign debt —gilts at highs since 1998, the bund since 2011, the JGB since 1996— justifies trimming some duration versus prior weeks, especially at the long end of the European and UK curves. In credit, HY at 265 basis points still doesn't pay for the latent geopolitical risk: we keep our preference for investment grade.

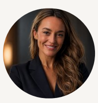
TRADE OF THE WEEK

Gold · maintain the hedge, look to add on the pullback

Gold gives back 1.7% this week, but on a stronger dollar after the payrolls data, not weaker hedge demand: BofA's flows still show net inflows into gold (+$3,200M) and the metal remains well below its January record of $5.589. With Hormuz in open conflict and the September 15-16 FOMC ahead, the team keeps the position and would consider adding to it if the pullback deepens. Revisit after the FOMC.

Note on this edition. This edition covers the week of August 31 to September 6, market close Friday, September 4 (the weekend developments in Hormuz and Russia-Ukraine are included as context, not as part of the market close). The ECB Data Portal, Japan's Ministry of Finance and the UK Debt Management Office had no stable access this week: the euro AAA curve uses the 10-year German bund as a reference and the gilt and JGB curves use press sources; all are flagged (e). The broad dollar index (FRED, H.10) also doesn't yet cover this week: the DXY is used as a substitute, also flagged (e). Fund flows are from BofA Global Research (The Flow Show), week through September 2.

Sources. Federal Reserve Bank of St. Louis (FRED): policy rates, Treasury curve, VIX, ICE BofA spreads, financial conditions indexes, monetary aggregates and the S&P 500. U.S. Bureau of Labor Statistics: August payrolls report, released September 4. Baltic Exchange: freight index. BofA Global Research (The Flow Show) and LSEG Lipper: weekly fund flows, week through September 2. Trading Economics, Investing.com, CNBC, Yahoo Finance and Reuters: closing levels for the STOXX Europe 600, gold, Brent, EUR/USD, the DXY, the UK gilt, the German bund and the 10-year Japanese JGB, given this week's outage at the ECB Data Portal, Japan's Ministry of Finance and the UK Debt Management Office. CENTCOM, Al Jazeera, Reuters, Axios, CNN, Euronews, NPR, The Washington Post and USNI News: strikes and diplomatic contacts on Hormuz and Russia-Ukraine. Knightford AM's Visual Sigma® engine (KGRI and the eight sub-indexes), computed under the methodological catalog (Volume II) using ten-year historical percentiles. Catalog indicators without a free public source (CDX IG and HY, the MOVE index, Citi Economic Surprise, Conference Board LEI, ISM) are neither estimated nor interpolated: they reduce the confidence level of the corresponding block, as the methodology requires. Figures flagged with (e) are team estimates or press substitutes pending confirmation from an official source.



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