



GLOBAL MARKET INTELLIGENCE

The World in 5 Minutes

"The 30-year U.K. gilt tops 6% for the first time since 1998 three weeks ahead of the Healey budget, while Brent falls another 3% and Saudi Arabia prepares a ground offensive against the Houthis in the Red Sea"

Iran gave no respite in Hormuz: between September 28 and 29 it struck four tankers with their transponders off, the fifth and sixth incident since September 23. Tehran added four more vessels to its blacklist —81 in total— and is still awaiting Washington's response after Trump's rejection the previous Saturday.

The Red Sea escalated again: on October 2 the Houthis struck a power substation in Medina that feeds the Prophet's Mosque and fired a ballistic missile at Khamis Mushait, intercepted by the Saudi-led coalition. Riyadh is now preparing a ground offensive to try to retake the Bab el-Mandeb corridor.

With no central bank meetings this week —the Fed decides again on October 27-28— the data that moved markets was employment: September payrolls badly missed (+29,000 versus +84,000 expected) and the jobless rate rose to 4.2%.

Russia struck Kyiv's Southern Bridge four times in two days (October 1-2), using for the first time a cumulative-cutting warhead (KRSN) against high-voltage towers and steel structures; at least two people were killed and 36 injured. Zelensky is still waiting for Putin's response to his request for a trilateral meeting.

The trade truce between Washington and Beijing, extended to January 10, 2027, remains incident-free. Taiwan logged 181 Chinese air incursions in September — below the 2024-2025 average— while Taipei pushes to close a new arms sale before Beijing manages to block it.

Markets priced in both the jobs data and the Middle East at once: Brent falls another 3.3% on the week, to 102.25 dollars, as traffic through Hormuz normalizes (now close to 80% of pre-war levels); the 30-year U.K. gilt tops 6% for the first time since 1998; the Stoxx 600 posts its worst week since April (-1.9%); and HY widens another 44 basis points, to 324.

RESEARCH TEAM VIEW

What to watch in the days ahead

- Saudi ground offensive against the Houthis to retake Bab el-Mandeb, announced but with no confirmed date.
- U.S. response to Iran's roadmap, still pending; watch for a seventh tanker attack.
- FOMC, October 27-28: the market now treats a pause as a near-certainty after the jobs report.
- Healey's U.K. budget, October 28, with the 30-year gilt already above 6% for the first time since 1998.
- Warsh's appearance at the IMF annual meetings in Bangkok, October 16.

QUANTITATIVE MODEL

Knightford Global Risk Index · as of 2026-10-02

Credit accelerates its widening and the United Kingdom replaces the Middle East as the sovereign curve's focal point: the KGRI climbs into the upper neutral range even as oil slumps and geopolitical risk eases



WEEK

+2.0

4 WEEKS

+3.2

INTERNAL DISPERSION

50%

CONFIDENCE SCORE

72/100

Why this reading this week?

The KGRI rises 2.0 points to 56.1, 3.2 above four weeks ago, driven by credit, which accelerates to 43.5 as HY widens 44 basis points on the week, and by market reaction, which falls to 43.5 as the dollar hits a multi-week high. Offsetting that, the geopolitical block eases slightly to 78.0 out of 100 as traffic through Hormuz normalizes, though the new sovereign stress focus in the United Kingdom —the 30-year gilt above 6% for the first time since 1998— and the Red Sea escalation limit the improvement. Liquidity eases to 50.4 after the Treasury's quarter-end spike, and activity slips to 55.0 after September's jobs slowdown.

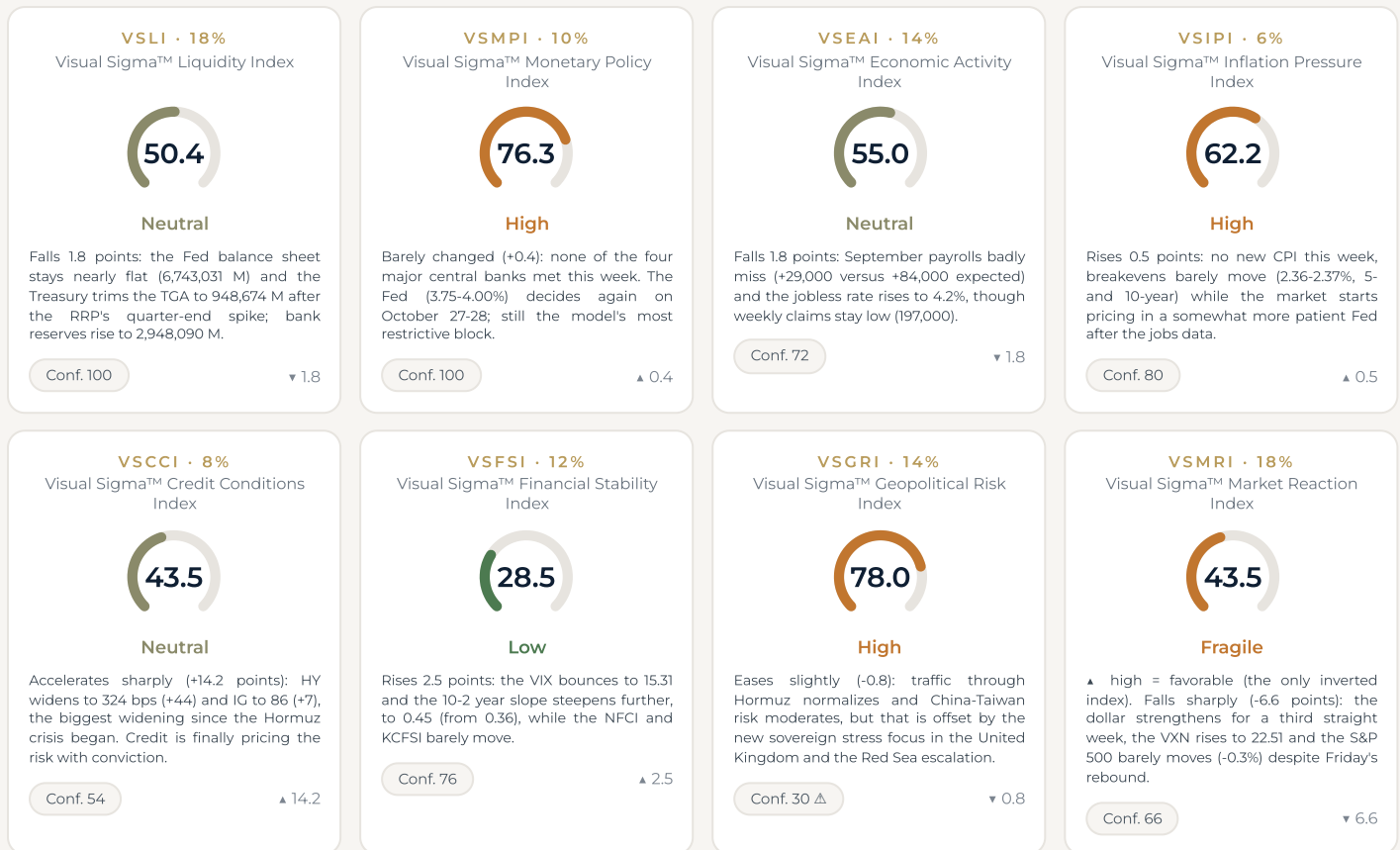
Technical note: weighted average of the eight sub-indexes with VSMRI inverted · confidence 72/100 reflecting indicators without a free data source.

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 cyclical, 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 (56.1)
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.


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
50%

Targeted attacks on tankers and the Red Sea continue without an effective closure of any route; traffic through Hormuz keeps normalizing. Brent trades between 90 and 110 dollars and the KGRI moves between 50 and 60.

BULL CASE
15%

Washington responds to Iran's roadmap, or Riyadh and the Houthis open a de facto channel, before the U.K. budget. Brent falls below 90 dollars and the KGRI drops below 50.

BEAR CASE
35%

The Saudi offensive triggers a broader regional escalation —new Houthi attacks on Saudi infrastructure or an actual, not just threatened, closure of Hormuz—. Brent tops 130 dollars and the KGRI tops 65 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**

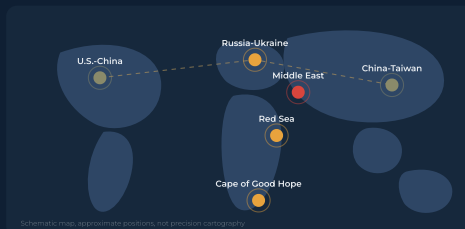
Iran struck four tankers with their transponders off on September 28 and 29, the fifth and sixth incident since September 23, mostly off Musandam; its sanctions blacklist now totals 81 vessels. Tehran is still awaiting the U.S. response after Trump's rejection the previous Saturday.

Red Sea · Bab el-Mandeb **VERY HIGH**

The Houthis struck a power substation in Medina on October 2 that feeds the Prophet's Mosque and fired a ballistic missile at Khamis Mushait, intercepted by the Saudi-led coalition. Saudi Arabia is now preparing a ground offensive to retake the corridor in the coming weeks.

Routing · Cape of Good Hope **HIGH**

The detour remains in place even as traffic through Hormuz normalizes: the Baltic Dry falls 8.1% on the week, with the Capesize segment plunging 12.8%.


China-Taiwan **MEDIUM**

Taiwan logged 181 Chinese air incursions in September, below the 2024-2025 average, while Taipei presses Washington to close a new arms sale before Beijing manages to block it.

Russia-Ukraine **HIGH**

Russia struck Kyiv's Southern Bridge four times in two days with a new cumulative-cutting warhead (KRSN) against energy infrastructure and bridges; two dead and 36 injured. Putin still has not responded to Zelensky's request for a trilateral meeting.

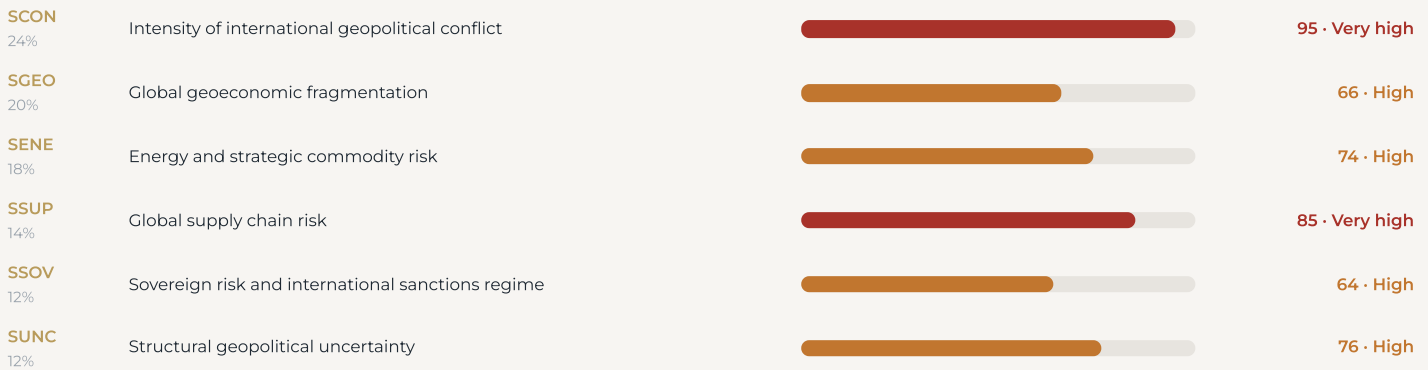
U.S.-China trade **LOW**

The truce extended to January 10, 2027 after the Washington summit remains incident-free this week; the tariff cut on 30,000 million dollars in goods is already in effect.

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 2026-10-02)



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

"This week the market rewarded calm and punished price: Brent falls another 3.3% because traffic through Hormuz now hovers around 80% of normal, even though Iran has struck four more tankers in 48 hours. It is the same paradox as last week, with the roles reversed: now it is the British gilt, not oil, that is making the headlines, topping 6% at thirty years for the first time since 1998. And while U.S. employment disappoints and clears the way for a more patient Fed, credit is accelerating: HY is now at 324 basis points, 44 more than the previous Friday."

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

S&P 500

7,722.72

▼ -0.3%

Week's low on Wednesday (7,651.54); a Friday rebound (+0.7% on the day) after the weak jobs report.

EURO AAA CURVE, 10-YEAR

3.46% (e)

▼ -0.15 (e)

ECB portal unstable again; the German bund is used, which eases after the U.S. jobs data.

GOLD (SPOT)

\$4,140.06 (e)

▼ -3.3% week over week (e)

Worst week in more than a month on dollar strength and elevated yields, even as flows into gold remain positive.

STOXX EUROPE 600

631.35

▼ -1.9%

Worst week since April; corrects after several weeks of gains.

HY CORPORATE SPREAD

324 bps (e)

▲ +44 bps (e)

Accelerates last week's widening; IG rises to 86 bps.

BRENT

\$102.25 (e)

▼ -3.3% week over week (e)

Extends last week's slide: traffic through Hormuz now hovers around 80% of pre-war levels despite the new attacks.

VIX

15.31 (e)

▲ +0.44 (e)

FRED stops on Thursday (16.39); Friday's press-reported close is used, lower after the rebound.

DOLLAR (DXY INDEX)

101.93 (e)

▲ +0.9% week over week (e)

Third consecutive weekly gain; the Fed's broad index (H.10) still does not cover this week.

JGB 10-YEAR

3.11% (e)

▲ +0.04 (e)

Japan's MOF fails again; a new high since 1996, sourced from press reports.

UST 10-YEAR

5.24% (e)

▲ +0.06 (e)

FRED had not yet posted Friday's reading, Thursday the 1st is used.

EUR/USD

1.1252 (e)

▼ -1.1% week over week (e)

Slips for a third week against the dollar; same caveat as the dollar.

BALTIC DRY INDEX

3,148

▼ -8.1% week over week

Worst week on the Capesize slump (-12.8%), despite the rebound over the last two days.

"Dollar" uses the DXY, not the FRED broad index. The ECB Data Portal, Japan's MOF and the U.K. DMO/Bank of England all failed this week; the euro AAA curve, the gilt curve and the JGB curve are estimated (e); UST 10-year and the HY spread on FRED also did not yet reflect Friday, also flagged (e).

MONETARY POLICY AND LIQUIDITY

FED

3.75-4.00%

target rate

no meeting this week; next on October 27-28, after the weak jobs report

BCE

2.50%

deposit facility

no meeting this week

BOE

3.75%

bank rate

no meeting this week; Healey's budget, October 28

BOJ

1.25%

policy rate

no meeting this week

Fed balance sheet: 6,743,031 M (Sep 30); the TGA falls to 948,674 M after the RRP's quarter-end spike.

WHERE DID THE MONEY GO THIS WEEK? Week closed October 1 (BofA Global Research / LSEG Lipper, see note).

INFLOWS

Investment-grade bonds	+\$10,400M
Emerging-market debt	+\$5,200M
Gold	+\$3,100M
Bank loans	+\$1,900M

OUTFLOWS

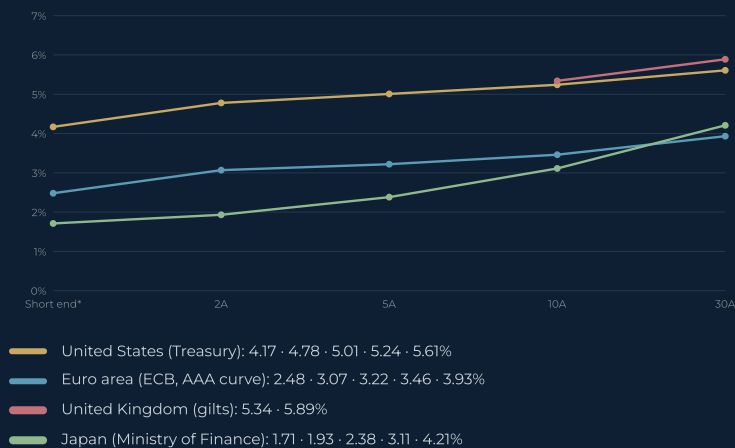
U.S. equities	-\$10,000M
High yield	-\$1,300M

Defensive rotation: high yield suffers outflows (-\$1,300M) just as its spread widens sharply, while investment grade (+\$10,400M) and emerging-market debt (+\$5,200M) keep pulling in flows. U.S. equities post their biggest outflow in eight weeks (-\$10,000M).

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



*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 U.K. Debt Management Office had no stable access this week; the euro curve uses the German bund as a reference and the Japan and U.K. curves use press sources; all three are flagged (e).

► Research team read

The global sovereign curve kept reacting to the same factors of recent weeks, with a new protagonist: the 30-year U.K. gilt touched 6.02% on Thursday, its highest level since 1998, before closing Friday at 5.89%, three weeks ahead of the Healey budget. The German bund eased to 3.46% after the U.S. jobs data, which also took pressure off the American Treasury (10-year, 5.24% on Thursday) even as the 10-2 year slope keeps steepening (0.45, versus 0.36). The JGB marks a new high since 1996 (3.11%). The team keeps its underlying read—real repricing of the cycle—with one nuance: the United Kingdom, not the Middle East, is now the focus of stress in the sovereign curve.

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 56,1. The recommendations below develop the page 1 positioning framework for this range, for equities and fixed income.

Equities

Neutral, con cautela ante el frenazo del empleo

The September jobs report (+29,000, unemployment at 4.2%) lowers the odds of a tougher Fed, but reopens the debate on the cycle: the S&P 500 closes the week nearly flat (-0.3%) despite Friday's rebound, and the Stoxx 600 posts its worst week since April (-1.9%). The team keeps the neutral stance, favoring quality over cyclical until it is clear whether the jobs data is noise or the start of a real slowdown.

Fixed income and credit

The United Kingdom replaces the U.S. as the curve's focal point; credit starts to weigh

The 30-year gilt above 6% for the first time since 1998 makes the United Kingdom, not the Fed, the main duration risk until the Healey budget. The team reinforces the underweight in long-duration sterling debt and widens its caution on high yield: the spread accelerates its widening (+44 bps, to 324), with flows already showing net outflows from the segment.

TRADE OF THE WEEK

U.K. gilts · the United Kingdom becomes the sovereign curve's focal point

The 30-year gilt touched 6.02% on Thursday, its highest level since 1998, and closed the week at 5.89%, three weeks ahead of a budget in which Healey has to square a fiscal headroom already cut in half. The team turns the tactical underweight in long-duration sterling debt into the trade of the week: the market is starting to price a fiscal sustainability risk that, if confirmed in the October 28 budget, would take several weeks to unwind even in a favorable scenario.

Note on this edition. Covers the week of September 28 to October 4, market close Friday October 2. The VIX, the UST 10-year and the HY spread on FRED stop on Thursday the 1st: the press-reported close (VIX, 15.31) or Thursday's reading is used, flagged (e). The ECB Data Portal, Japan's Ministry of Finance and the U.K. DMO/Bank of England had no stable access: the euro AAA curve uses the German bund (a -0.15 shift from last week's curve) and the gilt and JGB curves use press sources; all are flagged (e). The broad dollar index also does not cover this week: the DXY is used, also (e). This week's flows combine BofA Global Research and LSEG Lipper, with partial coverage for the week closed October 1; figures are rounded and flagged (e).

Sources. Federal Reserve Bank of St. Louis (FRED): policy rates, the Treasury curve, VIX, ICE BofA spreads, financial conditions indexes, monetary aggregates and the S&P 500. U.S. Bureau of Labor Statistics: nonfarm payrolls, the unemployment rate and weekly jobless claims. Baltic Exchange: freight index. BofA Global Research and LSEG Lipper: weekly fund flows, week closed October 1. Trading Economics, Investing.com, CNBC, Bloomberg, Kitco, Seoul Economic Daily, Yahoo Finance and Reuters: closing levels for the STOXX Europe 600, gold, Brent, EUR/USD, DXY, the U.K. gilt, the German bund and the JGB, given this week's failure of the ECB Data Portal, Japan's Ministry of Finance and the U.K. DMO/Bank of England. Federal Reserve, ECB, Bank of England and Bank of Japan: no policy meetings this week; the Fed's next decision is October 27-28. The White House, CBS News, Fox News, Reuters, Al Jazeera and the Kyiv Independent: tanker attacks in Hormuz, the Red Sea escalation, the announced Saudi offensive, drone strikes on Kyiv and China-Taiwan tension.

Visual Sigma™ engine (KGRI and the eight sub-indexes), computed under the methodological catalog (Volume II) using ten-year historical percentiles. Indicators without a free public source (CDX IG and HY, MOVE, Citi Economic Surprise, Conference Board LEI, ISM) are neither estimated nor interpolated: they reduce the block's confidence, as the methodology requires. Figures flagged with (e) are estimates or press-sourced substitutes pending official confirmation.

The views expressed herein are based on data collected from sources believed to be reliable; neither the analyst nor the firm is responsible for their accuracy. This report is for informational purposes only and does not constitute investment advice or a personalized investment recommendation.



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