



GLOBAL MARKET INTELLIGENCE

The World in 5 Minutes

"The White House asks the Pentagon for options to strike Iran and sends Brent up almost 4%, but Trump rules out hitting before the elections; Saudi Arabia launches its offensive in the Red Sea and Russia logs its bloodiest week in Ukraine"

The White House asked the Pentagon on October 7 for options to strike Iran ahead of the midterm elections, according to The Atlantic; Brent spiked almost 4% the next day. Trump cooled the scare on the 8th: he ruled out striking before the elections and said Washington was holding "productive talks" with Tehran on Hormuz, though without a deal.

Saudi Arabia launched Operation Dawn of Yemen on October 6, the offensive announced last week: about a hundred fighter jets struck hundreds of targets and Riyadh-backed Yemeni forces entered the port of Mokha. The goal is to retake Bab el-Mandeb.

With no central bank meetings —the Fed decides again on October 27-28, with September CPI in between— the relevant data point was employment: weekly jobless claims fell to 197,000, the fourth straight week below 200,000, a level not seen on a sustained basis since the sixties.

Russia logged the bloodiest week of the year for Ukrainian civilians: 137 drones overnight on October 5-6 and about 70 missiles —many ballistic— the following night, against energy infrastructure and residential buildings in twelve regions. More than a hundred civilians were killed, according to the U.N.

The trade truce between Washington and Beijing, extended to January 10, 2027, remained incident-free; the 60,000 million in tariff cuts are moving forward. In Taiwan, a U.S. envoy said investors are overpricing the risk; Taiwanese press sees a Chinese invasion as unlikely before 2028.

Markets lived their own scare and relief in 48 hours: Brent closes at 104.72 dollars (+2.4%); the gilt touched 1998 (30-year) and 2007 (10-year) highs on Thursday before pulling back; and HY keeps widening —now around 315 bps—, a signal CNBC called "yellow." Even so, the S&P 500 marked a record high and closed +1.2%.

RESEARCH TEAM VIEW

What to watch in the days ahead

- U.S. September CPI, next week, ahead of the October 27-28 FOMC.
- Healey's U.K. budget, October 28, with fiscal headroom cut to around 10,000-12,000 million pounds.
- Whether Operation Dawn of Yemen extends beyond Mokha.
- Whether Trump's pledge not to strike Iran before November 3 holds, with Hormuz still unresolved.
- The start of third-quarter bank earnings season; consensus expects S&P 500 EPS growth of +29.6%.

QUANTITATIVE MODEL

Knightford Global Risk Index · as of 2026-10-09



Liquidity improves and expected inflation eases, but geopolitical risk holds in the high range: the KGRI edges back toward the neutral zone, with Hormuz, the Red Sea and Ukraine driving the week in equal measure

WEEK

-0.8

4 WEEKS

+2.2

INTERNAL DISPERSION

41%

CONFIDENCE SCORE

72/100

Why this reading this week?

The KGRI gives up 0.8 points to 55.7, though it is still 2.2 above four weeks ago, dragged down by liquidity, which improves to 47.3 after the TGA drawdown, and by expected inflation, which eases to 60.0. The geopolitical block holds it back (78.2 out of 100): Ukraine lives through its bloodiest week and the gilt touches 1998 highs, offsetting Trump's pledge not to strike Iran before the elections. Credit rises to 37.6 and markets improve to 46.6 on the S&P 500's new high.

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 (55.7)
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%

The periodic Hormuz scares keep repeating without turning into real strikes before the elections; the Saudi offensive advances gradually. Brent trades between 95 and 115 dollars and the KGRI moves between 50 and 60.

BULL CASE
15%

Washington and Iran close a de facto deal on Hormuz, or the Saudi offensive scores a quick win that reduces Red Sea risk, before the U.K. budget. Brent falls below 90 dollars and the KGRI drops below 50.

BEAR CASE
35%

Trump's pledge does not hold and the U.S. strikes Iran, or the Saudi offensive triggers a broader regional escalation. 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**

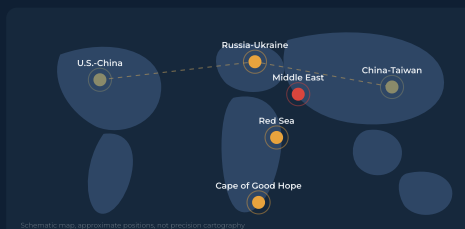
The White House asked the Pentagon on October 7 for options to strike Iran before the elections; Trump ruled it out the next day and confirmed "productive" talks on Hormuz, though he rejected Iran's latest proposal.

● Red Sea · Bab el-Mandeb **VERY HIGH**

Saudi Arabia launched Operation Dawn of Yemen on October 6: about a hundred fighter jets struck hundreds of targets and Riyadh-backed Yemeni forces entered the port of Mokha. The goal is to reverse September's Houthi advance and retake Bab el-Mandeb.

● Routing · Cape of Good Hope **HIGH**

The detour remains in place: the Baltic Dry falls another 7.3%, to 2,917 points, its lowest since August 24, with the Capesize segment down another 10.2%.


● China-Taiwan **MEDIUM**

A U.S. envoy for East Asia said investors are overpricing the risk of conflict; sources cited by Taipei Times see a Chinese invasion as unlikely before 2028, despite Xi's order for the military to be ready by 2027.

● Russia-Ukraine **VERY HIGH**

Russia launched 137 drones overnight on October 5-6 and about 70 missiles against infrastructure and residential buildings in twelve regions; more than a hundred civilians were killed, the bloodiest week of the year according to the U.N.

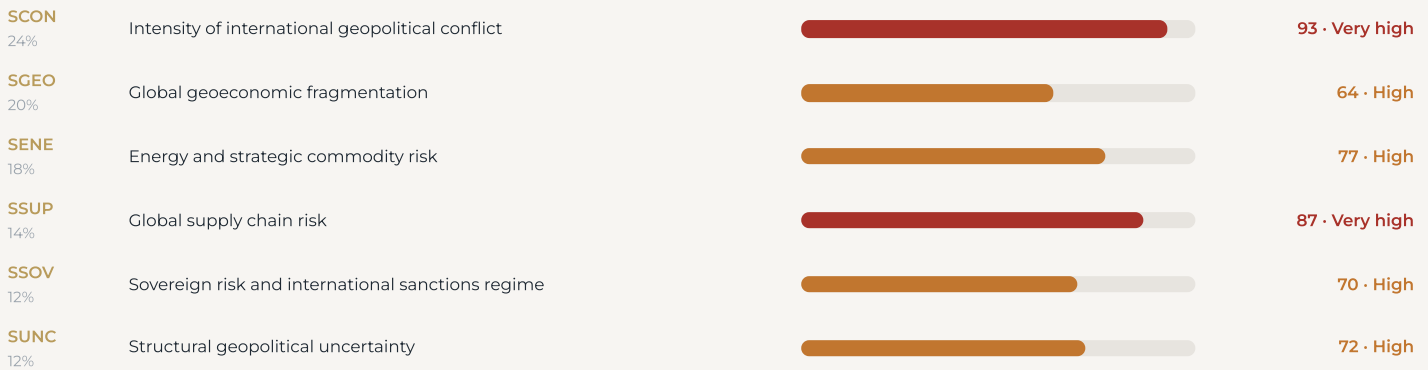
● U.S.-China trade **LOW**

The truce extended to January 10, 2027 remains incident-free this week; the 60,000 million dollars in tariff cuts agreed at the Washington summit are moving forward as planned.

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 2026-10-09)



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 lived its own scare and relief in 48 hours: Brent spiked almost 4% on Thursday after word that the White House had asked the Pentagon for options to strike Iran, and gave back much of the gain on Friday when Trump ruled out hitting before the elections. The gilt touched 1998 highs at thirty years, before also pulling back. And while Riyadh launched its offensive in the Red Sea and Russia logged its bloodiest week in Ukraine, money stayed in cash: 166,400 million dollars into money-market funds, the biggest inflow since April 2020."

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

S&P 500

7,811.54

▲ +1.2%

A new record high on Tuesday; best week in three, though tech lags (-0.52%).

EURO AAA CURVE, 10-YEAR

3.49% (e)

▲ +0.03 (e)

The ECB Data Portal remains unstable; the German bund is used.

GOLD (SPOT)

\$4,183.00 (e)

▲ +1.0% week over week (e)

Rebounds after its worst month in more than a year, helped by the breather in yields.

STOXX EUROPE 600

631.55

▲ +0.03%

Essentially flat: the FTSE 100 rises (+0.86%), but the DAX and the CAC 40 slip on pricier gas.

HY CORPORATE SPREAD

315 bps (e)

▲ +5 bps (e)

FRED revised last week's figure down (324→310); HY widens from that base. IG eases to 82 bps.

BRENT

\$104.72 (e)

▲ +2.4% week over week (e)

Spikes almost 4% on Thursday after the White House asked for options to strike Iran; gives back part of the gain on Friday.

VIX

14.84 (e)

▼ -0.47 (e)

FRED stops on Thursday (15.41); the press-reported close is used, after falling 3.7% on Friday.

DOLLAR (DXY INDEX)

102.23 (e)

▲ +0.2% week over week (e)

An 18-month high during the week (102.54); the Fed's broad index (H.10) still does not cover this week.

JGB 10-YEAR

3.02% (e)

▼ -0.09 (e)

Japan's MOF fails again; first weekly decline after months of highs, sourced from press reports.

UST 10-YEAR

5.22% (e)

▼ -0.02 (e)

FRED had not yet posted Friday's reading, Thursday the 8th is used.

EUR/USD

1.1211 (e)

▼ -0.4% week over week (e)

A fifth straight weekly decline, after touching a 17-month low (1.1161).

BALTIC DRY INDEX

2,917

▼ -7.3% week over week

Lowest since August 24; the Capesize segment falls another 10.2% on persistent Atlantic weakness.

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

MONETARY POLICY AND LIQUIDITY

FED

3.75-4.00%

target rate

no meeting this week; next on October 27-28, with September CPI in between

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: 6,747,560 M (Oct 7); the TGA falls to 880,253 M and bank reserves rise to 3,029,659 M.

WHERE DID THE MONEY GO THIS WEEK? Week closed October 7 (BoFA Global Research, Michael Hartnett).

INFLOWS

Money-market funds (cash)	+\$166,400M
Bond funds (aggregate)	+\$33,800M
Equity funds (global aggregate)	+\$12,400M
Gold	+\$2,000M

OUTFLOWS

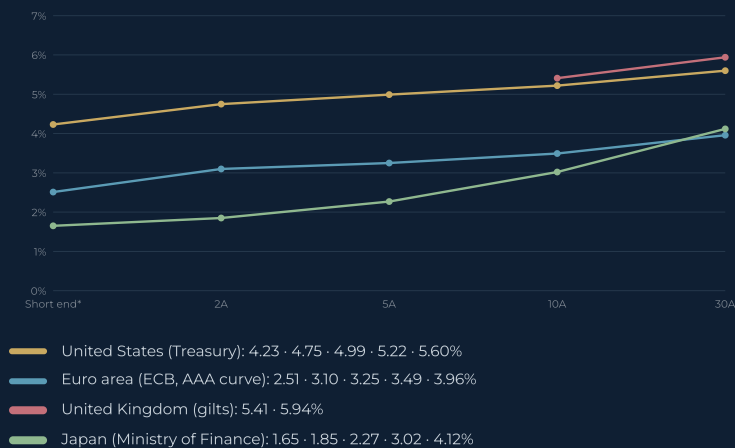
Japanese equities	-\$3,300M
Crypto funds	-\$600M

Money retreats to cash: money-market funds take in \$166,400M, the biggest inflow since April 2020, while bonds (+\$33,800M) and global equities (+\$12,400M, with the U.S. taking in just \$3,300M after three weeks of outflows) also add. Hartnett: "no rate cuts, no cash cuts."

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 sovereign curve lived its own episode of risk aversion and later relief. The gilt touched highs on Thursday not seen since 1998 at thirty years (6.05%) and since 2007 at ten (5.53%), before pulling back on Friday to 5.94% and 5.41%, with the Healey budget three weeks out and fiscal headroom cut to around 10,000-12,000 million pounds. The American Treasury stayed more stable (5.22% on Thursday) and the JGB saw its first weekly decline in months (3.02%). The bund rose slightly (3.49%), weighed down by gas prices. The team keeps its underlying read—the United Kingdom as the sovereign stress focus—with one nuance: that stress can also be imported from outside, via oil.

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

Equities

Neutral, with the market rewarding calm after the Iran scare

The S&P 500 marked a record high on Tuesday and closed +1.2% despite Thursday's Iran scare, though tech lagged (-0.52%) and the Stoxx 600 barely moved (+0.03%). The team keeps the neutral stance with a preference for quality: the market keeps rewarding the quick resolution of geopolitical scares, but Brent moving almost 4% in 24 hours is a reminder of the underlying fragility.

Fixed income and credit

Credit starts flashing warning signs as money retreats to cash

Corporate HY keeps widening—now around 315 basis points, a signal CNBC describes as "flashing yellow"—just as money-market funds take in their biggest inflow since April 2020 (\$166,400M), per BofA. The team trims its tactical conviction in high yield and keeps its caution on long-duration sterling debt, with the gilt touching 1998 highs this very week, though more fleetingly than before.

TRADE OF THE WEEK

High yield · credit starts flashing warning signs

The corporate high-yield spread is now around 315 basis points, the widest since April, after record issuance tied to AI data-center capex. CNBC described it this week as a "flashing yellow" signal. The team turns its tactical caution on high yield into the trade of the week: with 166,400 million dollars seeking shelter in money-market funds—the biggest inflow since April 2020, per BofA—and Hartnett's message that "no rate cuts, no cash cuts," lower-quality credit is the first place to look for cracks if the AI bubble's financing gets stretched.

Note on this edition. Covers the week of October 5-11, close on Friday the 9th. The VIX, UST 10-year and the HY/IG spread on FRED stop on Thursday the 8th (Brent and WTI, Tuesday the 6th): the press-reported close or Thursday's reading is used, flagged (e). FRED revised last week's HY spread down (from 324 to a real 310 bps); this week's change is calculated against that revised figure, not against the (e) figure published at the time. The ECB Portal and Japan's MOF had no stable access: the euro AAA curve uses the bund and the JGB curve uses press sources, flagged (e). The broad dollar index and EUR/USD on FRED also do not cover this week: the DXY and press sources are used, also (e). The gilt curve uses press sources: the 30-year is confirmed by two sources, the 10-year is an estimate of Friday's close from Thursday's high, with a wider-than-usual margin of error, flagged (e). The flows are from BofA Global Research (Michael Hartnett), week closed October 7.

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: weekly jobless claims. Baltic Exchange: freight index. BofA Global Research (Michael Hartnett, "The Flow Show"): weekly fund flows, week closed October 7. Trading Economics, Investing.com, CNBC, Bloomberg, Reuters, Yahoo Finance, Fortune and The Washington Post: 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 Atlantic, the White House/Truth Social, Reuters, NPR, CNBC, the United Nations and Taipei Times: the Pentagon's options to strike Iran, talks on Hormuz, the Saudi "Dawn of Yemen" offensive, Russia's massive bombardment of Ukraine and the risk assessment on the Taiwan Strait.

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.



Iciar Temprano

Head of Research and Quantitative Management