4 October 2026

The Editorial

The great volatility divergence

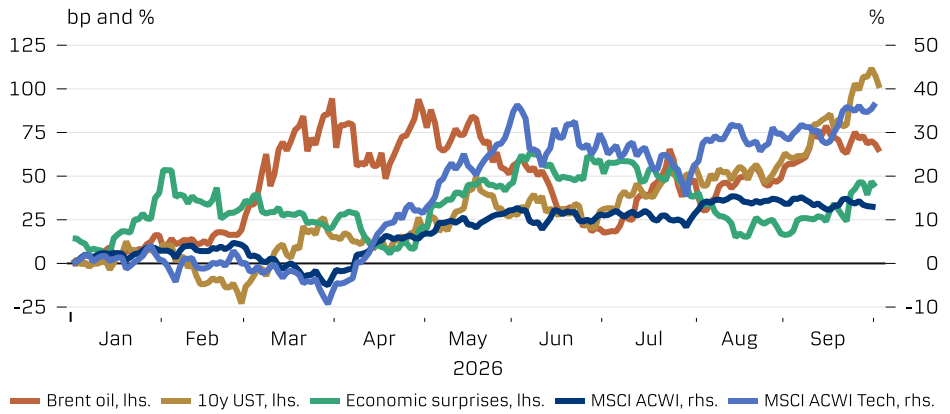
Today's *Editorial* is not a debate about whether equities or bonds are the better guide to the economy. It is about volatility: where uncertainty is being priced, which shocks the two markets are most sensitive to, and what that means for investment narratives and portfolio construction.

As regular readers will know, we focus less on market outcomes than on the drivers behind them when we analyse market narratives. Today is no different. Despite the many moving parts, different asset classes have reacted to what carries the most weight for them. To be specific and frank, equity volatility (VIX) can remain contained and consistent with late-cycle dynamics, while rates volatility stays elevated (MOVE). The reason is simple: equities and bonds are not pricing the same risks with the same intensity.

Today, as we head into Q4, we are not seeing markedly different drivers than what has dominated this year. The only significant addition to the bond market since the summer break has been intensified fiscal concerns. Until then it was (and still is) solid to strong growth, inflation discussions, fiscal uncertainty/ term premia and central bank communication. Higher energy prices have added another supply-side shock to the picture, making it difficult to separate the hot and the cold water. However, as discussed last week in *The Editorial*, they all point in the same direction – higher yields – and when this happens it is not unusual to see some stretched positioning.

Equities are naturally seeing the same drivers as the bond markets, but these drivers do not carry the same weight as to how equities should perform. More importantly, what has been key to equities this year has been the solid economic activity, strong earnings and a powerful investment cycle in tech, and to a much lesser degree the supply shocks. In other words, the demand side driving equities higher has been much stronger than the supply shocks to the bond market, which has led to a rational reaction in markets: equities outperforming bonds.

Market dynamics this year on solid data



Source: Bloomberg, Macrobond, Danske Bank

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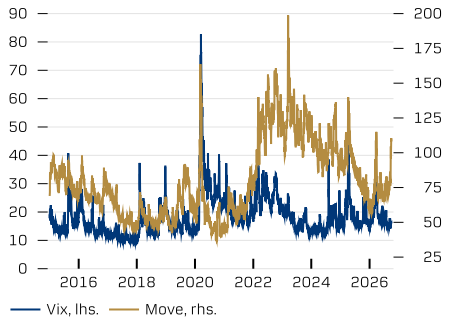
On the equity side specifically, where earnings are expected to rise in excess of 35% this year, we would have been concerned if we had not seen a strong equity performance. We would even go so far as saying that had it not been for the 100bp rise in the US 10-year yield and the 60% increase in oil this year, we should have seen much stronger returns than the 'only' 13% uptick in MSCI this year.

Sure, the devil's advocate will point to the concentrated performance, but that would be too simple, as you'd then also have to disregard the indirect effects from the AI buildout to all sub-providers.

One market, two volatility signals

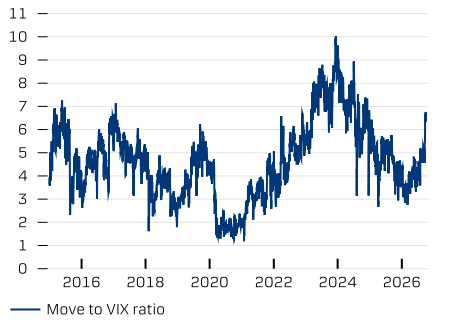
At face value, when looking at volatility metrics, bond and equity gauges send completely different signals right now, with the VIX calm around the expected late-cycle 15 level, while the bond market sends more alarming signals around the 100 level. This concentration of uncertainty is also captured by the MOVE/VIX ratio, which has moved to unusually high levels. While the uncertainty is more concentrated in rates, it doesn't say anything about whether bonds have a superior view of the economic outlook than equities, nor does it show that markets are uniformly calm or uniformly fearful, but only that the location of volatility has changed.

Historical levels of the VIX and MOVE volatility indices



Source: Bloomberg, Macrobond, Danske Bank

MOVE-to-VIX ratio has risen sharply this year



Source: Bloomberg, Macrobond, Danske Bank

Equities are still a demand story...

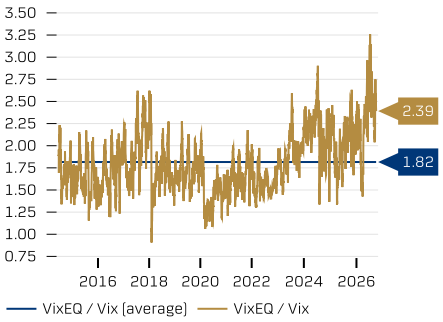
For equities, the relevant shock is still primarily one of growth and earnings. Yes, the energy shock is visible, in some sectors more than others, and the rates story is holding part of equities back, but the broad-based driver indicates that stronger demand can support revenues, provided profits grow faster than the discount rate – which has been the case this year. That has remained the dominant index-level narrative so far this year, and as we head into the Q3 earnings season, it doesn't seem to have changed.

However, to complete this equity volatility discussion and the question of it being concentrated or not, we also need to show that the VIXEQ/VIX ratio has moved higher, indicating that single-stock volatility has risen relative to index volatility. The index looks calm, but the calm is partly a product of diversification and concentration.

Now, as discussed in recent *Editorials*, the sensitivity of equities to a rates shock depends on why yields are rising and the uncertainty/pace of the sell-off. As discussed last week, during the period between the GFC and COVID, whenever we saw higher yields it reflected tighter policies that would lead to weaker

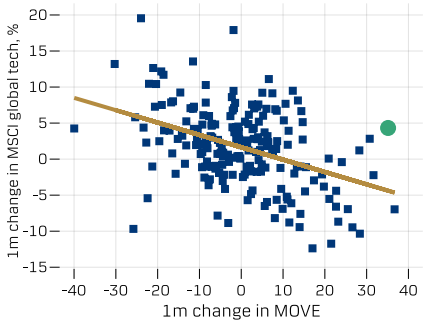
demand, which ultimately threatened earnings. Today, we can't make the narrative that simple. It is the speed and source of the rates move, not merely the yield level, that determines the equity response. And here, through September, even the rates-sensitive tech sector is doing markedly better than the historical relationship would suggest. Had we used the MSCI ACWI again this week, it would show a similar disconnect, but see last week's piece for that chart. All of this, due to strong data.

VixEQ (stock specific) vs VIX (index level) volatility points to larger company-specific uncertainties



Source: Bloomberg, Macrobond, Danske Bank

The recent rise in MOVE has not triggered the usual underperformance of risk assets



Note: Green dot indicates September 2026
Source: Bloomberg, Macrobond, Danske Bank

… while the bond market has become a supply story, as well

In contrast, rates are, also by construction, more sensitive to supply-side and policy shocks than equities. In the GFC to COVID era, the low and stable inflation coupled with central bank purchases allowed the demand side of the economy to dominate the market reaction function. We could even go so far as saying that bond investors could ignore the supply side, as it 'didn't matter' for performance.

Today, bond investors cannot use such a simple framework as bond markets have seen frequent instances that warranted a repricing to a degree that equities didn't have. Just off the top of our heads, we highlight the 2021/2022 inflation shock, the Lizz Truss mini budget, the SVB, and now Iran. Thus, when bonds markets are more sensitive to supply shocks than equities, that means so is their volatility.

So, when you add that the fiscal outlook, that central banks absorb less duration and that investors demand greater compensation for inflation and fiscal uncertainty that we see in 2026, the sole focus on the demand side of the economy is an incomplete investment narrative. Don't get me wrong, I appreciate the demand-side analysis, as it is easier to model and understand, but bond markets have (for the coming years) changed from the post-GFC environment, and thus, our framework to outrights and vols should too.

The MOVE matters, probably more than the VIX

Therefore, the MOVE index should matter more than the VIX in our market analysis today. As rates dynamics are unlikely to change in the foreseeable future, neither is the vol view. We may see other occasions when bond markets need to absorb new supply shocks, be they energy, fiscal concerns, etc, and spikes in MOVE will occur. But it is important to stress again, as written above, that a larger move does not make the bond market a better leading indicator. It means rates are carrying more of the uncertainty than equities, so we should expect a parallel shift higher in the MOVE/VIX ratio from the previous hey-days.

The implications for a 60/40 investor

In our assessment, and also discussed in *The Editorial here*, the diversification and volatility aspect depends less on the level of inflation or yields than on the type of shock. Bonds still hedge equities when the dominant shock is weaker demand. They are much less effective when the shock originates on the supply side, be that inflation, fiscal credibility shocks, energy supply or the bond market's own positioning. The issue is not that bonds have permanently stopped diversifying equities; it is that investors must identify which risk they expect bonds to hedge when rates themselves are the source of volatility.

In conclusion: The fragmented fear gauges

For decades, investors have looked to the VIX as the market's preferred fear gauge. That still makes sense when the cycle is driven by the demand side. But it is an incomplete framework when the largest sources of uncertainty are supply side, which has become more frequent, and particularly as asset classes react differently to the shocks. The recent developments in France add an extra layer of uncertainty to the financial market puzzle.

The investment conclusion is not to ignore the nervousness in bonds, nor to assume that a calm VIX means risk has disappeared. It is to recognise that markets are currently caught between two unusually powerful forces: exceptionally strong demand and an unusually frequent set of supply-side shocks. This tug of war can lead equity and bond investors to draw very different conclusions at the same time. As a result, getting causation, correlation and market sensitivity right has become more important than at any other point in recent years.

A bit from this week

While these *Editorials* are not intended to discuss day-to-day moves, as we do that in the *Morning Espresso*, one thing from this week's dynamics must be highlighted. Thursday offered an important change to the dynamics: strong US data and higher oil prices would normally argue for higher yields, but yields declined and risk performed. Yes, the catalyst was Central Bank communication, but it is a powerful reminder that positioning and fear in the bond market have become drivers in their own right, and more dominant in recent weeks than previously. Should the bond market concern fade, we expect another 5-10% on equities by year end.

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