

Market Digest

Q3 2026

This commentary provides a review of global markets in Q3 2026. It takes a closer look at the outlook and current topical themes, plus a market commentary covering the 12 months to 30 September 2026.

> Q3 2026 highlights

Global equities delivered positive returns, supported by resilient economic growth and strong corporate earnings

Several central banks raised interest rates over the quarter, while the Bank of England held rates during Q3

Bond markets struggled as interest rates and yields moved higher, high-yield bonds outperformed government bonds

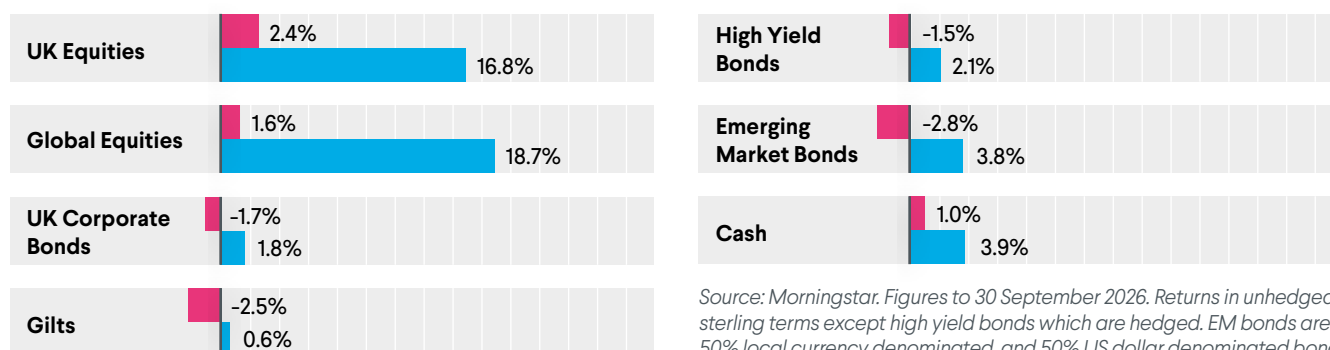
- Our model portfolios typically invest in a combination of the asset classes shown in the chart below.
- Strong economic data and robust corporate earnings supported markets over the quarter, despite continued uncertainty in the Middle East pushing oil and energy prices higher.
- Returns varied widely across regions. Japan was the strongest performer, supported by ongoing corporate governance reforms, strong earnings and a stronger yen. Elsewhere in Asia, stocks fell following a sell-off in Korean semiconductor stocks.
- Several central banks, including the Federal Reserve and European Central Bank, raised interest rates

in the face of rising energy costs. The Bank of England, however, held rates over the quarter, while signalling that rate rises are likely in the near term.

- As a result, government bond yields rose sharply across all regions, leading to negative returns for bonds (bond prices fall as yields rise).
- High-yield bonds outperformed government bonds, including gilts.
- With equities outperforming bonds and cash, higher risk portfolios generally performed better than lower risk portfolios over the period.

Our model portfolios typically invest in a combination of the asset classes shown in this chart

This chart shows percentage asset class returns for September 2026  3 months  12 months



Source: Morningstar. Figures to 30 September 2026. Returns in unhedged sterling terms except high yield bonds which are hedged. EM bonds are 50% local currency denominated, and 50% US dollar denominated bonds.

Outlook and topical market themes



Oil prices climbed back above \$100, despite recovering Middle East oil export levels

A US diesel export ban could lift UK diesel pump prices as high as £3 per litre

Bond yields rose in September – US yields rose on growth optimism while French yields rose on fiscal pessimism

Energy prices remain elevated despite oil flow improving

After a summer respite, when Brent crude briefly fell to \$71 per barrel, oil prices have climbed back above \$100. This is despite recent data showing Middle East oil exports recovering to around 80% of pre-war levels.

The key reason for the stubbornly high prices is that markets continue to price in a significant geopolitical risk premium, while shipping and insurance costs have also risen sharply. The FT recently reported that ship captains willing to traverse the Strait of Hormuz are being offered \$100,000 per month, while insurance costs have risen to 6-10% of the ship's value.

Strain on the market is even more acute in refined products such as diesel. Concerns increased when President Trump threatened to restrict US diesel exports. While a ban could initially ease pressure on US diesel prices, it could push prices higher elsewhere. Capital Economics estimates that UK pump prices could reach £3 per litre if a ban were introduced.

For now, the announcement of a 100m barrel release from G7 strategic reserves appears to have appeased Trump.

Government bond yields continue to rise

Government bond yields rose further in September, led by the US and France. Higher energy prices have had an impact on both bond markets, other factors also played a part.

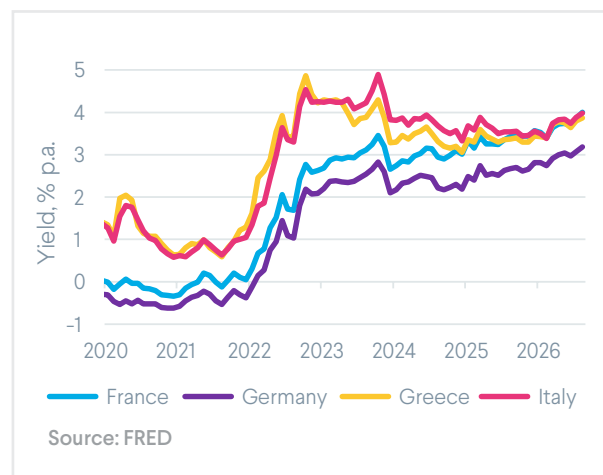
The rise in US yields during September (bond prices fall as yields rise) appears to reflect a stronger growth outlook and higher interest rates from the Federal Reserve. The move accelerated on 23 September, when the US PMIs, which survey business activity, came in much stronger than expected. Bond yields rose by 14 basis points that day, the largest daily increase since April 2025.

In France, the story is more concerning. Investors have become increasingly focused on the country's fragile fiscal position. Government debt exceeds 110% of GDP, the budget deficit is one of the largest in the eurozone, and high taxes leave little room for manoeuvre. Protests have erupted over planned spending cuts.

Chart of the month

Gilt yields rise to pre-financial crisis levels

This chart shows the 10-year government bond yields across four eurozone countries.



Key takeaways

- France has traditionally been seen as a relatively safe eurozone country, with yields closer to Germany's
- However, in 2026, its borrowing costs have moved closer to what were historically called peripheral countries, such as Greece and Italy, as concerns over its fiscal sustainability have grown.

As a result, the gap between French and German borrowing costs has widened to its highest level since the eurozone debt crisis. With distinct risks affecting both markets, diversification remains important across bond portfolios as well as equities.

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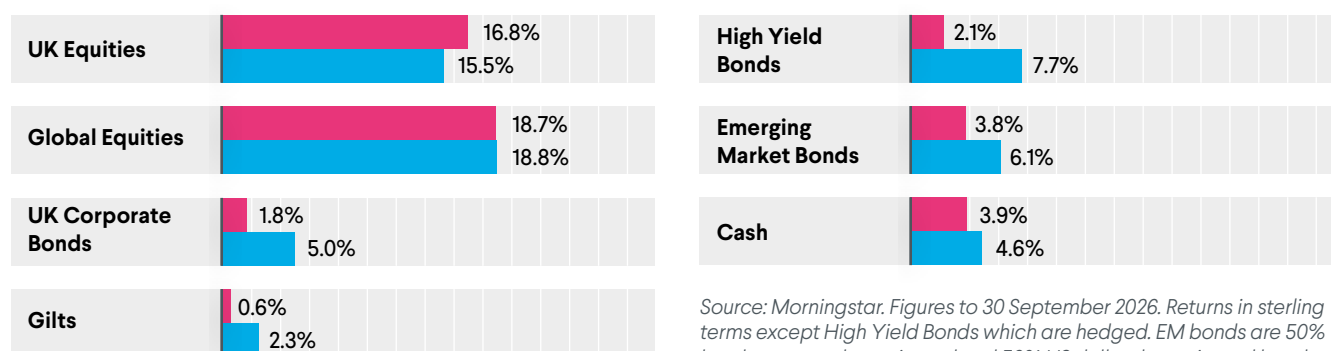
Global equities delivered positive returns despite geopolitical tensions and periods of market volatility

Interest rate expectations shifted as higher energy prices increased concerns over inflation

Bond markets delivered modest positive returns, with corporate bonds outperforming government bonds

Our model portfolios invest in a combination of asset classes shown in this chart

This chart shows percentage asset class returns for the 12 months ending 30 September 2026 versus the three years ending 30 September 2026. ■ 1 year ■ 3 years (p.a.)



Source: Morningstar. Figures to 30 September 2026. Returns in sterling terms except High Yield Bonds which are hedged. EM bonds are 50% local currency denominated and 50% US dollar denominated bonds.

Markets remain resilient

The period began with concerns around high technology sector valuations and the level of AI spending, but equity performance remained strong.

These trends continued into 2026, until the US and Israel's attacks on Iran at the end of February triggered a sharp fall in global equities, ending the first quarter of 2026 in negative territory. Global equities rebounded in the second quarter as resilient corporate earnings and renewed optimism around AI returned, following strong semiconductor manufacturers' earnings and hopes of progress in the Middle East.

Equities also performed well in the third quarter. Despite limited progress in the Middle East, strong economic data and corporate earnings growth continued to provide support.

Central bank policy developments

In the final quarter of 2025, the Bank of England and Federal Reserve both cut interest rates by 0.25% to 3.75%. Both central banks then paused further cuts in the first half of 2026, as the escalating conflict in the Middle East raised concerns about inflation.

In September 2026, the Federal Reserve raised rates by 0.25% to 4.00%. Higher oil and gas prices have increased expectations of further rate rises, including from the Bank of England.

Equity market performance

Despite periods of volatility driven by geopolitical events, global equities delivered positive returns over the 12 months to 30 September 2026. Asia Pacific ex Japan and Japan were the strongest-performing regions, supported by significant exposure to technology stocks, particularly semiconductor companies.

Annual market summary continued

Fixed income and credit markets

Bond markets also delivered positive returns, although gains were more modest than those from equities. Gilt returns were positive despite yields rising over the period (bond prices fall as yields rise). Political uncertainty in the UK and conflict in the Middle East pushed yields higher over 2026, but bond income helped offset the price falls, resulting in a slightly positive performance.

Corporate bonds outperformed government bonds, supported by strong earnings growth. High-yield and emerging market bonds also delivered positive 12-month returns, despite credit spreads (the additional yield received on corporate over government bonds) rising over the period (bond prices fall as spreads rise) as the income on bonds offset the fall in capital values.



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