



INVESTMENT UPDATE

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INVESTMENT UPDATE

Index	Level 31 August	Level 30 Sept	Change*
S&P 500	7686	7651	-0.5%
FTSE 100	10824	10606	-2.0%
Euro Stoxx 600	651	634	-2.6%
Nikkei 225	66311	66753	+0.6%
Shanghai	3986	3842	-3.6%
US 10 Yr Treasury Yield	4.75%	5.30%	+0.55
UK 10 Yr Gilt Yield	5.14%	5.42%	+0.28
Bund 10 Yr	3.32%	3.57%	+0.25

*all returns in local currency terms. Past performance is not a guide to future returns.

Overview

Markets were subdued during September, as investors focused on concerns about inflation, fiscal discipline and government funding needs - pushing long-dated government bond yields higher in several major markets. US 30-year Treasury yields reached levels not seen for many years, creating concern about the impact of higher discount rates on equity valuations. Consequently, many equity indices were in negative territory, with only a small number rising. We did see gains in the technology sector supported by continued strong earnings reports, driven by AI-related spending. This helped the Magnificent 7 have another strong month. Although the wider US market was down, despite their contribution, a strong dollar helped to mitigate losses here for UK investors.

Away from the impact of conflict in the Gulf and higher oil prices, we saw some indicators suggesting a strong pickup in economic activity, both in the US and in Europe, which, coupled with robust GDP numbers, probably helped to fuel fears about inflation. The UK did not participate in this rosy picture of underlying economic activity, although GDP numbers did exceed expectations. This, alongside the OECD's recommendation that the UK did not need to raise interest rates, meant that the rise in 10-year borrowing rates was proportionally less than in the US.

Having been reasonably insulated from the rises in longer dated government bond yields through August, bonds more widely struggled as the rises extended to shorter dated paper in September. Additionally, we saw an increase in the premium that corporate borrowers pay over government debt. As a result, we saw falls in most types of bonds held.

The combination of a muted stock market performance and weaker bond markets meant that performance was mixed for portfolios in September, with lower risk portfolios generally struggling more than their higher risk equivalents due to their larger exposure to bonds.

US

As mentioned earlier, the 'Magnificent 7's performance in September meant that the S&P 500 was fairly flat. However, other than the Technology and Communications Services sectors (where these stocks sit), which were up over 4%, all other sectors were down to a similar or greater extent. The narrow nature of the market's performance was further illustrated as we saw a similar level of falls extend to small and mid-cap companies. The driving force behind this dispersion in performance was higher interest expectations, with interest rate-sensitive areas of the economy, such as utilities and real estate, being particularly affected.

Interest rate expectations were not only driven by the steady increase in oil prices, but also by the robustness of the US economy, which continues to expand at a respectable pace. This was flagged by the Federal Reserve at their September meeting, as inflation at 3.4% remained stubbornly above their target rate of 2%. These factors all contributed to the continuing rise in US bond yields, not only at the longer dated end of the market, but also at the shorter term 10-year. The benchmark 10-year bond yield has now risen to levels near the equivalent gilt yield, having been some way below it at the start of the year. Commentators are debating whether the glut of corporate bond issuance by the so-called Hyperscalers has disrupted the sovereign debt market.

Politically, President Trump is facing November's mid-term elections with inflation seemingly at the forefront of voters' minds. This has manifested itself in the media with a focus on the cost of diesel, vital to both industry and consumers alike and which hit a psychologically significant level of \$6 a gallon. Whilst a short-term fix would be to ban exports, lobbying from the president's allies in the oil industry has leaned him towards encouraging overseas governments to release more strategic reserves of the fuel. Whether this has the desired effect remains to be seen.

UK

As in August, the FTSE 100's lack of exposure to technology stocks meant it was susceptible to the negative news around war in the Gulf, inflation and rising bond yields. Whilst the index's high exposure to energy stocks initially provided support, a fall in the price of crude in the second half of the month soon removed that, leaving the index down over the month. Although we did see an increase in government bond yields, proportionally this was smaller than that witnessed in the US and elsewhere, although 10-year rates do

stand at a 19-year high and remain, marginally, the highest in the G7. Moves in the yield were most likely tempered due to media speculation over new Chancellor John Healey's impending first budget. GDP growth does remain reasonably robust, especially when compared to European peers, with the corporate sector spending on technology-intensive services linked to AI. The Bank of England kept interest rates on hold despite an inflation reading of 3.1% for August; some members of the Monetary Policy Committee voted for an increase, and the bank warned of possible higher inflation, particularly with the energy cap rising in October.

Europe

Whilst we saw a similar pattern to the US in European markets, with Technology performing well, the sector's lower impact on the broader index meant we saw a similar return from Europe to the UK. European markets spent September 2026 balancing stronger economic activity against renewed inflation pressures. The dominant market driver was the surge in energy prices caused by ongoing Middle East tensions, which pushed Eurozone inflation above 3% and prompted a further 25 basis point ECB rate increase. As in the UK and US, we saw government bond yields rise. This was particularly evident in France, which has seen its borrowing rate increase by over 50% this year, as the fractured government grapples with addressing an ever-increasing public debt burden against growing disquiet among the population on their attempts to address this. Across Europe, despite tighter monetary policy and rising bond yields, economic growth remained more resilient than expected, supported by consumer spending, infrastructure projects, defence expenditure and AI-related investment. Energy, and technology stocks generally outperformed, while higher rates weighed on more valuation-sensitive sectors.

Japan

The Bank of Japan increased interest rates to their highest level for over 30 years, as it attempted to arrest inflation. Under normal circumstances, one might expect this move to have a positive impact on the yen. However, the Bank's monetary policy meeting notes suggested that there was member dissent over the decision to hike, and the market took that as a signal that the bank wouldn't be tightening monetary policy aggressively in future, causing the yen to weaken, which provided support for exporters' shares. Given that banks benefit from higher rates, it was unsurprising to see financial stocks performing well, with IT-related stocks following the trend seen elsewhere in the world and delivering strong performance. It is perhaps more surprising that the financial sector was the top-performing over the quarter, despite most of the focus on AI spending.

Asia and Emerging Markets

With the AI spending-related information technology sector being the only one across Asia in positive territory, it's of little surprise that semiconductor manufacturer-heavy Korean and Taiwanese indices were the only markets finishing up on the month. In terms of the underlying economic environment, according to the Asian Development Bank, despite the region experiencing the highest level of energy product inflation globally, economic growth expectations are still robust at 5%, as government subsidies helped to cushion the impact of higher oil prices, and AI spending-related exports boosted economic activity. There wasn't much to report on the Trump/Xi Jinping summit in the US, which seemed to be as much about posturing rather than any specific agreements emerging, other than a few token tariff changes. In terms of its stock market, China was one of the weaker performers as commentators focused on the weak domestic economy relative to the country's peers in Asia.

Outlook

Readers might have concerns that the driver behind equity market performance at present seems to be one-dimensional, i.e. AI spending related. However, while we do have exposure to the theme, it is limited by prudent diversification. As such, we have exposure to sectors that are unrelated to this, such as energy, so we are by no means reliant on the continuation of the AI theme. We also have the continued elevation of oil prices and its impact on inflation and interest rates to contend with, but again, we address this through diversification. Currently, investors are focused on both GDP growth and earnings growth, which provides a level of support through uncertainty, and neither currently shows signs of turning negative.

Bonds clearly play a part in portfolios, particularly the lower risk ones, so headlines surrounding increasingly higher yields may also be unsettling. However, governments can circumnavigate this by issuing shorter dated paper, which can prevent them from locking into higher yields for many years. Corporate borrowers do not appear as susceptible to speculation at present, so holding a wide range of bond types that includes both governments and corporations allows us to further diversify portfolios. Additionally, while the direction of interest rates seems upward or neutral at best, the impact of rising rates is nothing near as harmful as in 2022, given the higher yields now on offer compared to then. Indeed, should we see higher rates have the desired effect of slowing down the economy, then investors stand to benefit from a greater upside from any subsequent decline in rates than they do on the downside from any equivalent rises.

Rockhold Asset Management, with contributions from 7IM, October 2026



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