

Market Perspectives

by Algernon Percy – October 2026

Last quarter recap

+6%

Equities see new all-time highs, led by Japan (up 6% in US dollar terms).

-2.6%

Europe ex-UK lags (down 2.6% in US dollar terms).

+16%

Microsoft shares have their best day since 2008.

40-year

Japanese yen bounces from a 40-year low versus the US dollar.

1998

Long gilt yields approach 6% – the highest since 1998.

5%

10-year US treasury yields breach 5%.

\$40trn

US debt hits \$40trn.

\$150bn

NVIDIA announces record share buyback.

“I am the house now.”

Scott Bessent,
US Secretary of the Treasury.

The outlook for interest rates

Gilts have held up better than US treasuries in Q3.

Fixed interest markets had a poor time in the third quarter, with bond yields increasing relentlessly around the world. On 1st October, the 30-year gilt yield touched 6%, and the UK is the first G7 country to see that level in many years. However, gilts have been under a cloud for some time (the Liz Truss premiership resulting in a so-called 'moron premium' which persists under the present government); the really big moves over the last few months have been in the US and France, where 10-year yields have gone up by 83 and 129bps (i.e. hundredths of a per cent) respectively. The UK saw an increase of only 66bps which, as the starting yield was considerably higher than elsewhere, means that bond price declines in London have not been as painful as elsewhere.

French bonds have been worse still.

Soaring yields in France reflect serious concern about the country's future. The main reason French yields remain lower than gilt yields despite France having much higher government debt, a higher annual deficit and arguably a more worrying political situation, is that France is backed by the European Central Bank and the single currency. Most likely that will remain the case – but clearly the risk that something could go badly wrong in France is rising, so investors are now demanding a premium over German bunds which is comparable to what it was during the euro crisis in 2012.

Strong economic growth in the US is not helpful for bonds.

In the US, the rise in yields does not seem to be caused by rising political risk, nor by lack of confidence in the currency: in spite of widespread commentary about the US deficit, its \$40 trillion of debt and a possible loss of US dollar hegemony, the currency has been on a gently rising trend over the last few months. The 'problem' is a booming US economy and the likelihood that this will result in higher short rates as the Federal Reserve tries to keep the lid on inflationary pressures. Moreover, there is another influence which is not troubling the Eurozone or the UK at the moment: competition for capital from tech companies raising money for investment into AI and its associated infrastructure.

The likes of Amazon, Alphabet and Meta have issued over \$400bn of paper so far this year. Spreads over government bonds have remained stable – so investors continue to see value in lending to these companies, which in turn have no need to be shy about fuelling supply.

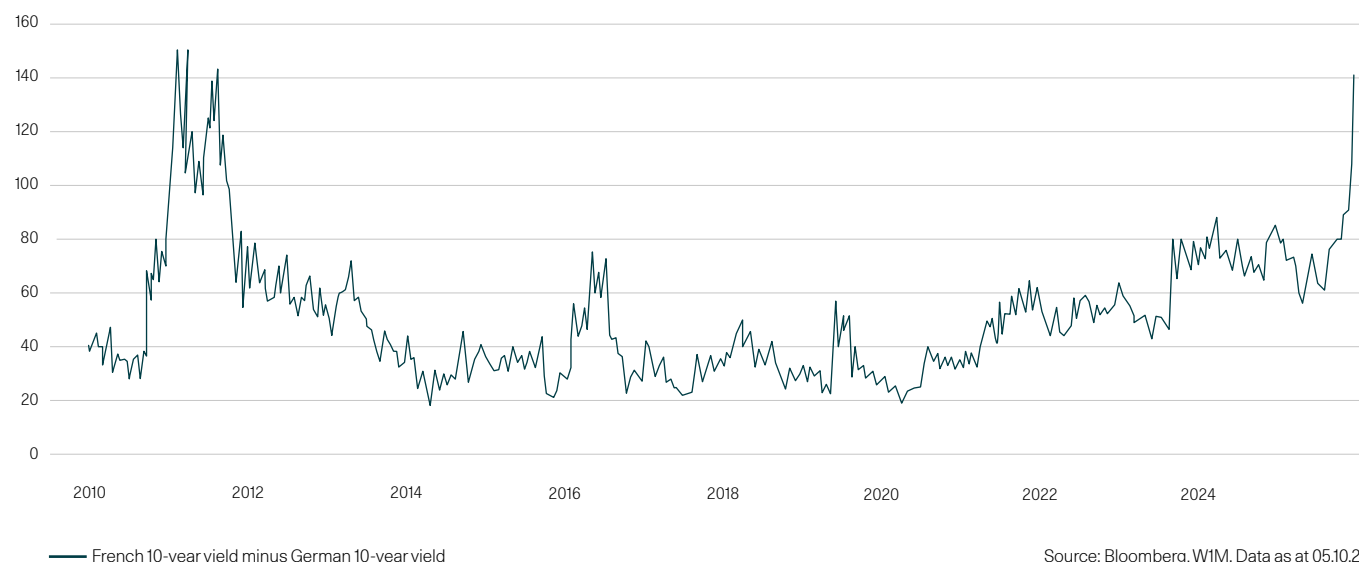
Both governments and corporates are issuing a lot of paper.

The US government has an insatiable and pressing need for cash at all times, and now finds itself competing with mega-cap tech companies which generally have rapidly rising earnings and strong balance sheets. Also, the returns on capital that the 'hyperscalers' are expecting on their investments in data centres etc. means they are unlikely to be especially price sensitive as regards the coupon they pay on their bonds. By contrast, the US government cannot afford not to be extremely sensitive about what it pays: President Trump has been doing his best to manipulate the Fed to lower interest rates, and Treasury Secretary Bessent has actively tried to keep yields down by purchasing treasuries in the market. The dynamics are rather different in the US to what they are in other parts of the world, but yields have risen there nonetheless.

Yields are looking increasingly attractive.

We remain underweight bonds, but the risk / reward balance does now look to be coming more into fixed interest's favour: not only have bonds done so much worse than equities in recent years, but forward-looking returns now look optically very attractive. Real yields (allowing for inflation expectations) are the highest they have been for many years, at over 2%, and redemption yields are in many cases well ahead of the prospective earnings yield on equities (which is 6.1% on the MSCI AC World Index). As such, the aggregate redemption yield on our Global Credit Opportunities Fund is 7.2%, and even on our new low risk Enhanced Short Duration Bond Fund it is 5.4%. Whilst there is some concern that bond prices may not turn out to be inversely correlated with equities in a bear market (depending on what the trigger for that is), yields are now so high that even a further increase of, say, 100bps, is unlikely to result in a negative total return over one year for an investor in a medium dated issue.

French vs German Government Bond Spread (bps)



The outlook for equities

Equities have brushed off weakness in bond markets.

One would have expected a bond bear market to have led to all asset prices coming under pressure – and usually this is manifested quickest in equity markets because they are so liquid. However, most equity indices have appreciated over the last three months (France being a notable exception); Japan is up c. 6% in both sterling and US dollar terms as TOPIX has made progress simultaneously with the yen rebounding from its 40-year low. Equities have also brushed off the increase in the oil price – Brent crude being up 34% over the quarter. The reason for equities' surprising resilience in the face of these headwinds has been extraordinary earnings growth, led by some of the very large cap tech stocks which dominate the indices. Global earnings growth for 2026 is projected to be over 30%, and, unusually, this comes after a strong year in 2025 (+13%). This tech-led boom is not confined to the US: Asia ex-Japan earnings growth is expected to be +78%, again thanks to semiconductor stocks.

Artificial Intelligence continues to be an enduring theme.

Therefore, equities have in fact been derated, as one would expect – but this has not translated into widespread price declines because the performance of the indices does not tell the whole story. Whilst 80% of semiconductor stocks are above their 50-day moving average, only 25% of companies in the broad-based S&P 500 are; looking at a longer time scale, only about 40% of New York Stock Exchange names are above their 200-day moving average. In other words, outside the tech sector, there is very little momentum in stock markets. One could draw a comparison with 1999-2000, when a similar concentration of market momentum turned out to be the precursor to a severe bear market – but in those days tech stocks were propelled by speculation to crazy valuations, often with no earnings at all, let alone growth in cashflow. Today, the 'bubble' (if it is that) is in profits rather than in valuations. Investors are aware of this, which is why Samsung and SK Hynix, for example, are priced at only 5-6 times forward earnings. It is for this reason that we have been underweight the technology sector, specifically the semiconductor stocks, over the last 12-18 months: we like the AI theme and continue to play it via companies across the value chain, including direct beneficiaries of datacentre spending such as Advanced Micro Devices, TSMC and GE Vernova, as well

as the hyperscalers providing the infrastructure platform and compute required. This includes Microsoft, Alphabet and Amazon in the US and Tencent in China – all of which have long term durable franchises independent of the current AI capex boom. At this stage (and this is constantly under review), we do not believe it is prudent for client portfolios to be as exposed to the same concentration of risk as the main equity indices are.

Not all areas of the stock market look extended.

There is some solace to be found in the comparison with 1999-2000. When that technology bull market eventually unwound, dragging the indices with it, there were still good returns to be made in sectors that had been left behind / sold down by investors piling into tech stocks: many consumer staples and industrials did well over the ensuing years. We believe that a similar broadening out of returns is likely to materialise once the current technology boom fades – and that is likely to start long before tech capex starts to decline. A number of factors encourage us. Firstly, earnings outside the 'go-go' sectors are well underpinned: profits excluding the 'Magnificent Seven' mega cap tech companies as a percentage of GDP in the US are at a healthy level (11.5%), and have room to continue growing. Secondly, the valuation of the average stock (as opposed to the market-cap weighted index) is approximately in line with the 20-year average. And, thirdly, investor sentiment is not especially bullish: overconfidence often indicates speculation and increased vulnerability to downside surprises, whereas widespread investor caution tends towards markets 'climbing a wall of worry'.

Uncertainty remains high, but company fundamentals will win through.

Whilst the direction of the stock market in recent years has been driven in the short term by macroeconomic factors – with unpredictable wars, commodity price volatility and political interference increasing the level of uncertainty – we never lose sight of the fact that it is fundamental company research which will add value over the long term. Indeed, the very unpredictability of the big picture means that it is the most durable business franchises which will have the best chance of adapting successfully to a changing world. When market leadership changes, this bottom-up research will be all-important.

S&P 500 Equal Weight Index relative to S&P 500 Index



Source: Bloomberg, W1M. Data as at 02.10.26.

Total Return Indices to 30th September 2026

	Sterling adjusted (%)				US dollar adjusted (%)			
	3 Months	6 Months	9 Months	1 Year	3 Months	6 Months	9 Months	1 Year
ICE BofA UK Gilt Index	-2.8	-0.8	-2.8	0.3	-	-	-	-
ICE BofA US Treasury Index	-	-	-	-	-3.1	-2.8	-2.7	-2.0
ICE BofA Global Broad Market Index (Hedged)	-3.1	-1.9	-2.1	-1.4	-3.1	-1.9	-2.1	-1.4
MSCI United Kingdom All Cap Index	2.4	6.7	9.6	16.7	2.5	7.4	8.3	15.2
MSCI United Kingdom Index	1.8	5.3	9.6	17.3	1.9	6.1	8.2	15.8
MSCI AC World Index	1.5	15.9	14.4	18.3	1.6	16.8	13.0	16.8
MSCI AC World (ex UK) Index	1.5	16.3	14.6	18.3	1.6	17.1	13.2	16.8
MSCI AC World (ex US) Index	0.4	14.2	15.7	21.6	0.5	15.0	14.2	20.0
S&P Composite Index	2.2	17.0	14.2	17.3	2.3	17.9	12.7	15.7
MSCI Europe (ex UK) Index	-2.7	9.2	6.7	13.2	-2.6	10.0	5.4	11.7
MSCI Japan	5.9	20.1	24.2	28.3	6.0	21.0	22.7	26.6
MSCI AC Asia Pacific ex Japan Index	-0.2	23.7	25.3	29.9	-0.1	24.6	23.8	28.2
MSCI Emerging Markets	-0.5	22.7	24.9	31.0	-0.4	23.6	23.4	29.2
Growth Index	0.7	11.8	10.7	14.2	0.6	12.0	9.6	12.6
Balanced Index	0.2	9.4	8.6	11.7	0.0	9.3	7.7	10.3
Cautious Index	-0.3	7.2	6.7	15.5	-0.5	6.7	6.0	8.2
Defensive Index	-0.7	5.4	5.2	8.0	-1.0	4.7	4.6	6.5
Return on Cash £ (1 month deposit rate)	0.9	1.9	2.8	3.8	-	-	-	-
Return on Cash \$ (1 month deposit rate)	-	-	-	-	0.9	1.8	2.8	3.8
Inflation - UK CPI	0.8	1.8	2.5	3.1	-	-	-	-
Inflation - US CPI	-	-	-	-	0.5	1.2	2.5	3.0
Gold Price (£3167.6)	4.3	-9.0	-1.9	11.6	-	-	-	-
Gold Price (\$4208)	-	-	-	-	4.4	-8.4	-3.1	10.2
£ vs US\$	0.1	0.7	-1.2	-1.3	-	-	-	-
US\$ vs £	-	-	-	-	-0.1	-0.7	1.2	1.3
£ vs Euro	0.7	2.2	2.1	2.1	-	-	-	-
US\$ vs Euro	-	-	-	-	0.7	1.4	3.4	3.4
£ vs Yen	-3.2	-0.5	-1.0	5.0	-	-	-	-
US\$ vs Yen	-	-	-	-	-3.3	-1.2	0.2	6.4

*all MSCI benchmarks are net of tax

Important information

Past performance is not a reliable indicator of future results. The value of investments and the income derived from them may rise as well as fall, and investors may not get back the amount originally invested. Capital security is not guaranteed.

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