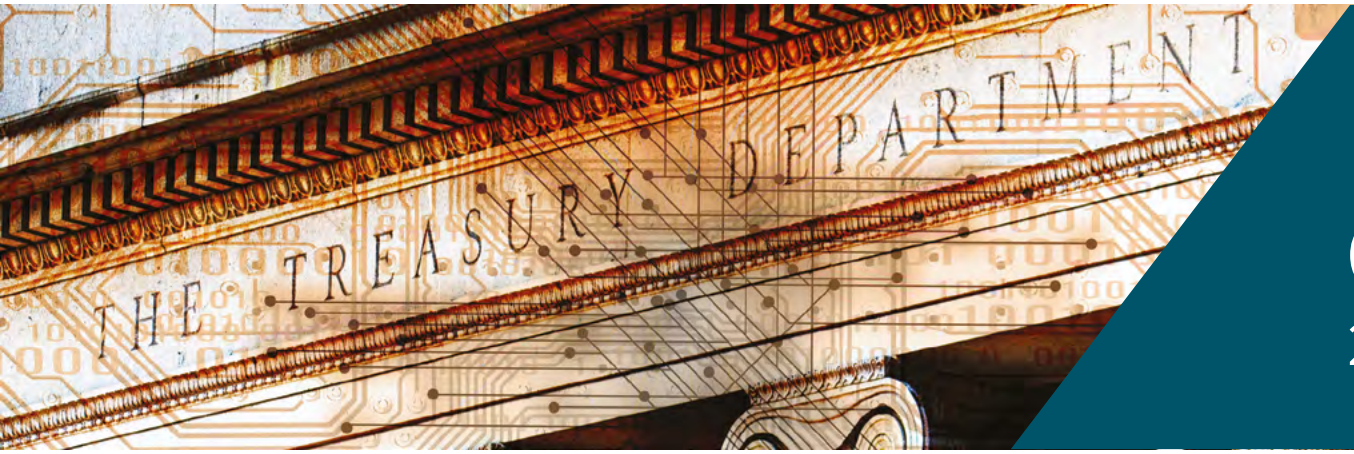
Fiske

Investment Commentary



Q3
2026

Overview

For those who even glance at the financial news pages, it has been hard to escape the continuing references to bond markets during the second half of this year. As interest rates return to more normal levels – from the exceptional levels enjoyed between 2008, when the global financial crisis hit, and 2022 – it seems reasonable to ask: "Does it really matter?" To have headlines of "surging" Treasury yields followed by a report showing yields have risen by 0.11% (or some similar de minimis figure) seems nonsensical. Even a rise of nearly 1% in both the US and UK 10-year government bond yields this year seems hard to get excited about, unless cash holdings can now secure significantly higher rates of interest.

So what has been going on? And why is it important? At the start of this year the expectation was for interest rates to fall. This thesis was turned on its head following the US and Israel's attack on Iran at the end of February. Iran's ability to control the flow of trade through the Strait of Hormuz had an immediate impact on the oil price. This, in turn, had significant implications for inflation. Central banks around the world have inflation targets, usually around 2%, and almost the only tool they have to control levels above target is to increase interest rates. Even the prospect of rising rates leads to a fall in bond prices and a rise in yields.

Bond aficionados see a "sharp" rise in yields as a harbinger of bad news – and, historically, this has often proved to be the case. It would be foolish to say "This time it's different", but there have been specific factors that have affected the US Treasury market, the largest in the world, in particular. As already mentioned, the higher oil price is inflationary, while US inflation has been above target for over five years. A strong US economy, driven by the artificial intelligence (AI) trade and much stronger than expected corporate earnings, has compounded the issue. More recently, the so-called "hyperscalers" – for example, Alphabet, Amazon, Microsoft and Meta – have been competing in the bond markets for funds, even with the US Treasury Department, having promised to spend billions of dollars on AI. Already hugely indebted countries are finding refinancing or raising new funds very expensive, and this could become destabilising for economies. To put this into perspective: the cost of borrowing as set by the US Treasury 10-year bond has risen by 26% this year, even if that is only to a rate of 5.2%.

Without wishing to sound too gloomy, growth has surprised on the upside on the economic front. Recent revisions to initial estimates show the US economy grew by 2.2% in the second quarter, following growth of 2.5% in the first. The numbers in the UK over the same periods were 0.5% and 0.6%. The eurozone expanded by 0.6% in the second quarter after no growth in the first, while Japan was up 0.4% and 0.5% respectively. China has continued to be relatively weak, with growth of 0.9% in Q1 and 1.3% in Q2, as the soft property market continues to impact its economy.

The following table sets out the market movements for the three months to 30th September 2026.

Index	30/06/2026	30/09/2026	Change
CBOE UK 100	1,042	1,054	1.2%
CBOE UK All Companies	18,020	18,322	1.7%
CBOE UK 250	19,787	21,371	8.0%
S&P ARC PCI – Equity Risk*	449	456	1.6%
S&P ARC PCI – Steady Growth*	372	376	1.1%
S&P ARC PCI – Balanced*	299	301	0.7%
S&P ARC PCI – Cautious*	227	227	0.0%

Markets

Equity markets have danced to the tune of Donald Trump and the disappointingly slow progress in resolving the Iran situation. Suggestions of peace and a reopening of the Strait of Hormuz have encouraged rallies in markets, but these have fizzled out when one side or the other does not engage constructively. Volatility has ensued within relatively narrow ranges, and returns have been modest – as shown above. The biggest excitement was the flotation of Elon Musk's SpaceX. An initial 66% rise in the share price soon saw a retracement of 53%. With the initial excitement over, the price currently stands at an 11% premium to the issue price.

Investor interest remains focused on technology, with a strong rally in software stocks following their substantial sell-off in the first quarter. As already mentioned, many companies are planning to spend huge sums on AI over the next few years, and the question is whether they can make sufficient profits from these enormous investments. We expect this theme will continue to play a major part in investors' psyche for the foreseeable future. Among the largest players, there were positive moves for Microsoft (+38%), Meta (+31%), Apple (+17%) and Nvidia (+17%), with negative ones for Netflix (-5%) and Alphabet (-4%).

In the UK, the number of "winners" (30) and "losers" (22) in the FTSE 100 Index – that is, those moving more than 5% against the average – favoured the former. But the biggest influence was restricted to the three largest companies. Full exposure to HSBC (+5%) and Shell (+22%) would have been helpful, while a position in the third-largest, AstraZeneca (-13%), was a negative this time. The 42% rise in the oil price over the quarter meant BP (+18%) was also a positive, while other "leaders" – Unilever, Rio Tinto and Rolls-Royce – did not move the barometer either way. Housebuilders got a short-term boost from the government's new Help to Buy plan, announced at Labour's Annual Conference, while Vodafone evoked memories of the technology, media and telecom boom of the 1990s by managing a gain of 23%.

Outlook

As reported, movements in bond markets will need to be followed closely. At over 5% beyond the 10-year mark, at least returns now look quite attractive. But two events in particular – the UK budget on 28th October and the US mid-term elections at the beginning of November – could give rise to further increases in bond yields.

Can equity markets continue to plough their own furrow? Corporate profits for this year have certainly been much better than originally estimated. Projections by analysts that US earnings will grow by 23% in 2027 would be supportive of this, though these are the same analysts who forecast 8-10% earnings growth for 2026 rather than the 20-25% range that is currently evolving.

With bonds now offering a real return and equity markets looking fairly well set, a reasonably balanced portfolio looks prudent to weather normal market uncertainties, with a particular eye to the current geopolitical issues in view.

October 2026

Notes

** S&P ARC Private Client Indices (PCI) are benchmarks designed to assess the performance of discretionary private client portfolios across multiple asset classes, reflecting actual investor outcomes rather than model portfolios.*
N.B. The numbers are estimated for an initial period of three months while the data is received and processed. The final numbers may change.

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