

Q3 2026 Commentary

In the third quarter of 2026, global stock markets showed resilience and posted modest gains, despite several headwinds. The volatility that was encountered in September was caused by a mix of surging global bond yields, spiking energy costs, investor uncertainty over mixed economic data, and shifting interest rate expectations.

The relatively lacklustre returns from global markets, should be considered against the second quarter which delivered some strong returns; it was, therefore, not surprising to see some consolidation in the third quarter.

Yields on US and UK government 10-year bonds have been rising at an unusually brisk rate. During the third quarter they rose by 87 basis points and 73 basis points respectively to 5.33% and 5.49% and are now 116 basis points and 101 basis points higher than at the start of the year.

Investors clearly believe inflation is set to increase and rising global bond yields encourages capital to be drawn away from stock markets and into fixed income securities (bonds).

To combat rising inflation, several central banks, including the US Federal Reserve and European Central Bank increased rates, and the Bank of England has indicated that it may increase rates before the year-end.

Inflation can be stoked by many different factors, and the current decade has seen an unusual number, by historical standards. These include wars, energy prices, tight labour markets, demographics (an aging global population putting a strain on public services), and an ultra-loose monetary policy (exacerbated and extended by the global pandemic). In theory, many of the pressures on inflation could end quickly, but that currently seems unlikely.

Traffic through the Strait of Hormuz remains well below that seen before the US strikes on Iran, and AI capital expenditure has continued at pace. We continue to believe the most likely scenario outcome will be that the Strait of Hormuz remains open for limited transit, but repeated interference disrupts shipping, reducing traffic and raising costs. This results in a modest supply loss that can be largely offset through storage drawdowns and alternative transport channels.

US policies are not expected to change much if the US mid-term election results are as currently forecast and the Democrats regain control of the House of Representatives.

Closer to home, Andy Burnham became the UK Prime Minister on 20 July and ushered in new cabinet members including John Healey in the key role of Chancellor of the Exchequer.

The upcoming Budget towards the end of October will be essential for gathering details on how the UK government plans to pay for the number of recently announced reforms, such as a new national care service, and greater public control of water, housing, and energy.

Furthermore, details will be scrutinised as information is released on the enactment of electoral reforms and closer trading ties with Europe.

The fourth quarter is historically the strongest for equity returns, supported by pension contributions and company capital expenditure plans. Stock market returns have been supported by good earnings, and FactSet currently estimates that the S&P 500 will post 28.9% average third quarter earnings growth. The long-term average growth is around six per cent per annum.

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