Fund Research Centre
Independently Minded

Monthly Viewpoint – Summary Review of September 2026

5 October 2026

Equities struggled for direction in September, with markets buffeted by geopolitical developments, rising oil prices and sharply higher bond yields. Market leadership was narrow, with technology hardware stocks offering the strongest contributions, while many other sectors suffered declines. Overall, global equities delivered modest negative returns, and most indices around the world ended the month under water to varying degrees. There was drama in sovereign bond markets, where yields rose to multi-year highs as they faced a raft of headwinds.

Equity markets

It was a nervous month for stock market investors, with geopolitical developments, oil price moves and sharply higher bond yields making their mark. At the turn of the month, the US and Iran exchanged strikes near the Strait of Hormuz for the first time in several weeks and this reignited worries about the supply of oil and the consequences for inflation.

Faced with these geopolitical and macro headwinds, the main **US** index struggled to make progress. The speed of the rise in US treasury yields grabbed investors' attention, but ongoing evidence of strong earnings and the economic impact of mind-boggling levels of AI capital expenditure helped to maintain confidence. Technology hardware (incorporating semiconductors) was once again a leading sector, with excitement surrounding the strong uptake of Meta's personal AI agent, Muse, underlining the growing demand for computing infrastructure as agentic AI accelerates. However, many other areas of the market declined, particularly those vulnerable to interest rate rises. Indeed, consumer sentiment surveys reinforced the fact that many people are worried about their personal finances given higher fuel prices and rising inflation. Material falls in US mid and small-cap indices reflected this reality and highlighted the issue of a narrowing cohort of favoured stocks. Rate-sensitive sectors, such as homebuilders, regional banks and transport were at the sharp end of these moves.

Renewed hostilities in the Middle East rattled **European** markets, which are particularly sensitive to energy prices. As in other markets, higher government bond yields were also unsettling; in particular, French bond yields soared and equities declined sharply given the particularly challenging economic backdrop. The European Central Bank raised interest rates and pointed to the upside risks to inflation and the downside risks to growth. Technology stocks were a bright spot, boosted by renewed enthusiasm around AI, and oil & gas stocks were resilient, but otherwise it was a negative picture across most European sectors.

The **UK** equity market declined but slightly outperformed its European counterparts, thanks largely to strength from energy stocks. The challenging fiscal situation and worries about the upcoming budget also weighed upon sentiment, although a positive GDP release for July was a welcome surprise. Mid and small-cap indices outperformed marginally as acquisitive investors continue to target UK businesses.

In **Japan**, a strong showing from technology stocks bolstered the Nikkei 225, while the broader Topix index was close to flat on the month. In common with other markets, further increases in government bond yields, as well as a hike from the Bank of Japan, weighed upon sentiment. Elevated oil prices added to concerns about import costs and inflation, while the stronger yen dampened enthusiasm for exporters.

Asian and emerging market indices also outperformed global equities, with the Taiwanese and Korean indices providing positive contributions. Strong Korean export data reflected the importance of the Asian technology sector, where chipmakers are benefiting from an exceptionally strong cycle of pricing power. Chinese equities were weak, however; the state of the underlying economy remains uneven, with exports in rude health but domestic demand still lacklustre. At talks between Presidents Trump and Xi, it was decided to extend the existing trade truce by two months, but otherwise, there was little in the way of major breakthroughs. The Indian market also registered a material decline, weighed down by concerns about the oil price.

In terms of **investment style**, there were mixed outcomes across different markets, with growth outperforming value at a global level, supported once again by the strength of technology hardware areas. The UK market was an exception due to the lack of technology representation and the strong showing from the oil & gas sector, resulting in outperformance from the value side.

Bond markets

September was a dramatic month in government bond markets, as yields rose to multi-year highs. Government bonds have faced several major headwinds in recent months, including more resilient US economic growth than expected, persistent inflationary pressures, robust global business activity (boosted by AI-related spending), higher commodity prices, a borrowing binge by AI hyperscalers (which is crowding out demand for government bonds) and rising concerns about the scale of sovereign debt and fiscal challenges. Although global bond yields have been rising all year, the recent step up in US treasury yields has been particularly sharp. The French market was also under pressure due to sovereign debt concerns, and this saw the OAT-Bund spread reach its highest level since the Euro sovereign crisis.

In terms of policy decisions, there were interest rate hikes from the Federal Reserve, the European Central Bank and the Bank of Japan. Fed Chairman Warsh stated that inflation remained too high, which demanded tighter policy, despite President Trump's protestations. Meanwhile, the Bank of England maintained the base rate at 3.75%, although noted that inflation risks are tilted to the upside, with scope for the outlook to change materially as events in the Middle East unfold.

UK gilts delivered a negative return, with steeper losses seen amongst longer maturity bonds. **Credit spreads** widened a little, which saw lower grade bonds underperform slightly, but the move in nominal yields was still the most important driver of the outcome for corporate bond investors. Spreads remain very tight across the credit quality curve, supported by low default rates, strong corporate fundamentals and steady demand.

Commodity and currency markets

The **oil** price rose sharply during the first half of the month due to a resurgence of US/Iran hostilities, which extended to attacks on Saudi energy infrastructure. Tensions intensified after Houthi forces strengthened their position near the Bab el-Mandeb Strait, an important alternative to the Strait of Hormuz. However, the price eased back once again at the end of the month as talk of a peace deal re-emerged.

The **gold** price fell against the backdrop of higher bond yields, persistent energy-driven inflation and a stronger US dollar.

Following on from its 40-year low during the summer, which triggered co-ordinated intervention by the US and Japan, the **Japanese yen** strengthened in September. The currency was spurred on by rising interest rates and a determination by the authorities to challenge investors choosing to bet against the yen. The **euro** also came under pressure as investors became increasingly concerned about political and fiscal risks in the region.

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