

Quarterly review

for the three months to 30 September 2026



Gill Lakin
Chief investment officer

Global equities rose 1.60% in sterling over the quarter, with investors' enthusiasm for companies benefitting from developments in artificial intelligence (AI) winning out against fears about rising oil prices and interest rates.

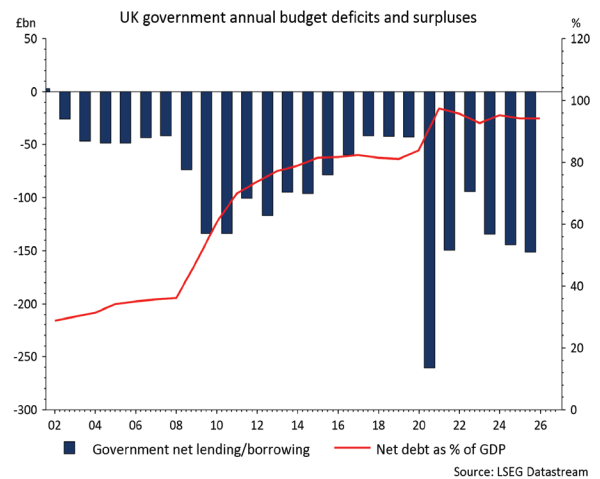
The Federal Reserve raised its policy interest rate by a quarter percentage point to 3.75-4% in September, its first increase since July 2023. The European Central Bank also raised its key policy rate by a quarter point in September to 2.5% having previously raised the rate by a similar amount in June. The Bank of England, meanwhile, kept the Bank Rate on hold but said the rate might rise over the coming months.

Higher oil prices, up 38.59% in sterling because of the Iran War, are to blame, with the Strait of Hormuz effectively closed to oil and gas tankers. In response, governments ran down their strategic oil reserves as they attempted to stabilise prices.

In early October, it appeared that higher petrol and diesel prices might result in the Republicans losing control of both Houses of Congress in November's US mid-term elections, forcing President Trump to pursue his unpopular war by executive order without the support of Congress, which controls the federal budget. In the longer term, however, oil prices may fall as Middle Eastern producers find ways to export oil via pipelines or alternative shipping lanes. Increased output from post-Maduro Venezuela and growing clean energy production may also lead to price falls.

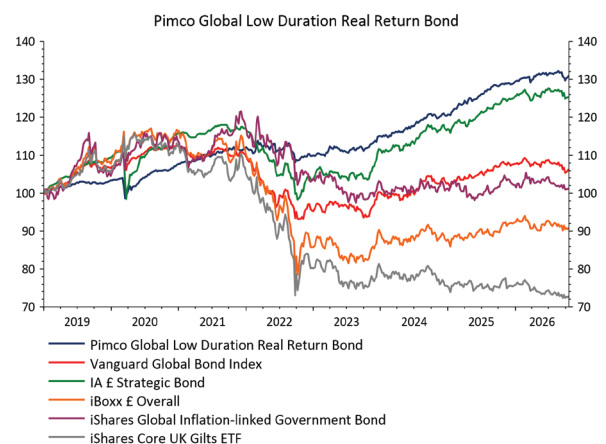
Global bonds fell 2.55% in sterling over the quarter in response to tighter monetary policy and evidence that governments were failing to reduce their fiscal deficits and record public sector indebtedness. UK government bonds fell 2.81%. In October, the International Monetary Fund said global public debt would approach 100% of global gross domestic product (GDP) by 2030. As the top chart opposite shows, the UK has posted fiscal deficits every year since 2007, the year before the Great Financial Crisis, while public debt as a percentage of GDP has risen from about 36% to 94% over that period.

Fiscal problems are most acute in the developed world, leading policymakers to intervene in markets to try to stem the rise of government borrowing costs. In the US, Scott Bessent, the treasury secretary, bought medium- and long-term US treasury bonds to keep the



lid on borrowing costs. This will leave the US treasury more dependent on issuing shorter-dated bonds, potentially leading to higher volatility in financing costs for the government. In the UK, the Bank halted open-market sales of longer-dated government bonds bought during times of ultra-loose monetary policy in an effort to stem the rise in longer-term borrowing costs. France may face a bond market crisis because its net debt to GDP is expected to rise to 119% this year at a time when political gridlock has deprived its government of support to tackle its fiscal deficit.

The multi-asset portfolios of Brompton's clients have benefited from their bias towards shorter-dated and inflation-linked bonds at a time of rising bond yields. As the chart below shows, their sterling-hedged Pimco Global Low Duration Real Return holdings have performed relatively well as inflation has been lifted by energy price rises driven by the Iran War.



Quarterly review (continued)

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There are grounds for caution about prospects for longer-dated sovereign bonds given the uncertainties over inflation and interest rates driven by geopolitical developments. At the quarter end, corporate bonds also appeared expensive because credit spreads were tight, offering investors little by way of return above the yields on sovereign bonds of similar maturities.

US equities outperformed, rising 2.21% in sterling, with technology stocks leading the way, up 7.16%. At the quarter end, however, US stocks appeared expensive, particularly a number of large companies in the technology sector. Such companies, so-called "hyperscalers", have invested significant capital in building data centres to meet the anticipated growth in AI but some investors fear that failures to achieve economic returns from these investments may lead to widespread capital destruction and lower economic growth. Higher interest rates increase the likelihood of write-offs as these large technology companies may be forced to increase borrowing and refinance existing debt at higher interest rates.

Japanese stocks also outperformed, up 7.26% in sterling in response to the pro-growth policies of Sanae Takaichi, the prime minister, and interest rate normalisation, which may tempt investors to repatriate capital in pursuit of better value in Japan's domestic stockmarket. Equities in emerging markets and Asia excluding Japan, however, fell 0.33% and 0.32% in sterling respectively, because developing economies, as net oil importers, are sensitive to higher oil prices.

UK stocks rose 2.38% despite uncertainty ahead of the first budget of John Healey, the new chancellor, but equities in Europe excluding the UK fell 2.66% in sterling, led lower by French stocks, down 5.52% in response to riots and burgeoning public sector borrowing.

At the quarter end, equity market prospects looked positive overall, with the most attractive areas being

emerging markets, where a number of large technology hardware companies are benefiting from AI spending, and Japanese and larger European stocks. Utilities and infrastructure companies also appeared relatively attractive because they should provide some protection from rising inflation given the inflation-linked nature of many supply contracts and the generally bond-like and predictable nature of their cash flows and dividends.

Among lower-risk assets, shorter-dated US and UK sovereign bonds appeared attractive, offering investors yields higher than inflation. Longer-dated bonds, however, appeared vulnerable to the uncertain prospects for public sector borrowing, inflation and interest rates while corporate bond investments with high allocations to more risky debt also appeared expensive.

Gold, meanwhile, provides diversification and protection for capital at times of heightened geopolitical risk but higher interest rates are a headwind for this nil-yielding asset.

Important information

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