

Market commentary **October 2026**

Market and Economic Overview

The conflict in the Middle East was one of the dominant influences on global financial markets over the past six months. Renewed hostilities involving Iran and the United States created significant uncertainty around energy supplies, particularly shipping through the Strait of Hormuz, a route through which around one-fifth of the world's oil and liquefied natural gas normally passes. Brent crude rose by 42% from its end-June low, ending September at approximately $104 per barrel. The consequences extended well beyond petrol prices as higher costs for aviation fuel, transport, chemicals, and fertilisers fed into business costs and household budgets. Energy-importing economies such as the UK, countries across Europe, Japan and India were particularly exposed, while producers such as Brazil benefited. The key concern for markets was the possibility of an energy shock becoming a more persistent inflation problem, weakening growth while making it harder for central banks to reduce interest rates. For investors, this created an unusually difficult combination: the same shock that threatened to weaken economic growth also increased the risk of higher inflation and interest rates. Traditionally, government bonds can help offset equity weakness during periods of slowing growth, but an inflationary energy shock can undermine that protection because shares and bonds may fall together. The prospect of disruption to fertiliser and chemical supplies also raised concerns about food prices and industrial production, extending the potential impact beyond the energy sector.

Interest-rate expectations changed markedly as the energy shock took hold. The Bank of England held Bank Rate at 3.75%, although three members of its Monetary Policy Committee favoured an increase. The US Federal Reserve and European Central Bank both raised interest rates in September. Longer-term government bond yields also rose sharply, reflecting expectations that rates may remain higher for longer, as well as concerns about inflation and government borrowing. By the end of September, the UK 10-year gilt yield had reached around 5.4%, while the US 10-year Treasury yield stood at approximately 5.2%. These levels increase borrowing costs for households and businesses and put pressure on existing bond prices. They also reflect a broader question facing developed economies, which is “how governments will finance persistent budget government deficits, higher defence spending and ageing populations, without continually increasing borrowing or taxation?”

Artificial intelligence remained a major driver of equity markets, supported by enormous investment in data centres, advanced semiconductors, and computing infrastructure. Gartner forecast that worldwide AI spending would reach $2.7 trillion in 2026, a 49.5% increase on the previous year. The scale of the infrastructure build-out is striking. Investment is extending well beyond specialist chips to encompass data centres, networking, memory, electricity generation and cooling systems. Nvidia remained a key beneficiary, but investors increasingly focused on whether the huge expenditure by technology companies would generate sufficient revenues and profits to justify the cost.

Trade relations remained another source of uncertainty as governments increasingly used tariffs, subsidies, and export controls to protect strategic industries and supply chains. The EU-US trade framework entered into force in July, setting a 15% ceiling (of all combined tariffs) on most EU exports to the United States and providing some stability to transatlantic trade. However, the broader direction remains towards greater economic nationalism. The Global Trade Alert (monitoring discrimination in foreign commerce) recorded 902 trade and industrial policy developments in September alone. The growing use of trade restrictions, particularly around technology and critical minerals, risks raising costs, disrupting supply chains, and discouraging cross-border investment. The September figures are revealing as measures included not only tariffs, but also local-content rules, restrictions on public procurement and support for domestic technology and critical-mineral industries. Trade policy is increasingly being used to influence where companies invest and where supply chains are located, rather than simply to tax imported goods. For multinational businesses, this can require costly duplication of production and sourcing.



Despite these headwinds, the global economy proved more resilient than many had anticipated, although growth remained uneven. The OECD's September outlook forecast global GDP growth of 2.9% in 2026, with the United States expected to expand by 2.2%, compared with just 1% across the eurozone. China was forecast to grow by 4.5%. Strong investment in artificial intelligence helped support activity and trade, particularly in the US and parts of Asia, while higher energy costs and weaker real incomes weighed on other economies. This divergence highlights how differently countries are experiencing the same global challenges.

UK equities

UK equities performed well over the six months, although returns varied between sectors and company sizes. By the end of September, the FTSE 100 had gained 6.8% year to date, while the more domestically focused FTSE 250 had risen by 9.2%. The FTSE 100 delivered a positive total return of 1.8% during the third quarter, despite a difficult September. The market's composition proved helpful as energy and mining companies benefited from higher commodity prices, while banks were supported by resilient earnings and strong capital positions. By contrast, consumer-facing businesses and housebuilders faced pressure from higher borrowing costs and squeezed household budgets. The difference between the two indices is important. The FTSE 100 has substantial exposure to overseas earnings and global commodity prices, whereas the FTSE 250 is more sensitive to the UK economy. Its stronger year-to-date performance therefore suggests investors were becoming more confident about domestically focused businesses, although that optimism will be tested if borrowing costs remain elevated.

One of the more striking features of the UK market has been the level of takeover activity involving UK-listed companies. UK shares continued to trade at a substantial valuation discount to US equities, estimated by Investec at around 35% in September. This has helped attract interest from overseas and corporate buyers, with 29 UK public takeover transactions worth more than £200 million announced over the 12 months to September. These had a combined equity value of £76 billion and an average headline premium of 40%.

The UK market also retains an attractive dividend profile, particularly among larger banks, energy companies, and established consumer businesses. This income appeal is an important differentiator, although investors should look beyond headline yields and consider the sustainability of dividends and the strength of company cash flows. Looking ahead, UK equities could benefit if domestic confidence improves and lower inflation eventually supports consumer spending and business investment. The FTSE 250 may be particularly sensitive to such a recovery. However, elevated gilt yields, the possibility of further rate increases and uncertainty around the global economy remain risks. The UK offers a combination of value and income, but sustained performance will depend on earnings growth rather than valuation discounts alone.

International equities

International equity markets experienced a volatile but ultimately resilient six-month period, with performance increasingly influenced by regional sector composition, corporate earnings, and geopolitical developments. Global equities made modest gains in the third quarter, but the headline figures concealed significant differences between markets.

US equities remained the principal driver of global performance. The S&P 500 reached a record high in August, supported by resilient economic activity, strong corporate earnings, and continued investment in artificial intelligence. By the end of September, the index had gained approximately 11.8% year to date, while the technology-heavy Nasdaq had risen 15.6%. However, the AI rally was not without volatility. Semiconductor and memory shares came under pressure in July as investors questioned the durability of AI spending, before recovering on stronger earnings. Nvidia provided a striking example of the cash generation, and confidence still present in the sector, announcing a further $150 billion expansion of its share buyback programme, taking its total authorised repurchases to $235 billion. Nevertheless, the market is increasingly distinguishing between companies supplying the infrastructure and those capable of turning AI into profitable products and services.

The strength of the US market also raises questions about concentration. A small group of mega-cap technology companies continues to account for a substantial share of the index's value and daily movements. This can make headline index performance look stronger than the experience of the average listed company. At the same time, the AI opportunity is extending beyond chip designers to electricity providers, data-centre landlords, cooling systems, and specialist networking businesses.

European equities struggled to match the performance of the United States. The STOXX Europe 600 reached a record high in August but ended the third quarter down 1.1%, as higher energy prices, rising bond yields and concerns about the European Central Bank's higher interest rates weighed on sentiment. France was particularly weak, with the CAC 40 falling 5.2% during the quarter amid political uncertainty and concerns over public finances. Germany's planned infrastructure and defence spending remains a longer-term positive, but investors are looking for evidence that public investment will translate into stronger corporate earnings. European companies also have less direct exposure to the AI investment boom than their US and Asian counterparts.

Japan retains a number of attractive longer-term investment characteristics. Although the Nikkei 225 fell 4.2% during the third quarter, Japanese companies continue to benefit from corporate governance reforms, improving capital discipline and a greater emphasis on shareholder returns. Companies are increasingly being encouraged to improve profitability and return surplus capital through dividends and share buybacks. Japan also remains strategically important to global semiconductor and advanced manufacturing supply chains. At the same time, Japanese government bond yields have risen sharply, with the 10-year yield reaching 3% in September for the first time since 1996, reflecting inflation concerns, expectations of further Bank of Japan interest rate increases and growing scrutiny of government finances.

Emerging markets delivered a mixed performance. The MSCI Emerging Markets Index fell 0.4% in US dollar terms during the third quarter, but this modest headline decline concealed some dramatic country-level movements. South Korea fell by more than 20% after an exceptionally strong second quarter, as the July reversal in semiconductor shares hit its technology-heavy market. Taiwan proved more resilient, supported by Taiwan Semiconductor Manufacturing Company (TSMC) and its vital role in the global AI supply chain. China also produced a striking divergence: the Hang Seng Index rose 8.6% during the quarter, helped by renewed enthusiasm for domestic technology and AI, while the Shanghai Composite fell 6.2%. This suggests investors were prepared to back selected Chinese technology businesses despite continuing concerns about the wider economy, particularly the property market and subdued consumer demand. Higher oil prices also disadvantaged importers such as India, while exporters such as Brazil benefited.

Looking ahead, international equities retain support from corporate earnings (solid profits), technological innovation and increased infrastructure and defence spending. The US should continue to benefit from its leading technology companies, although expectations for AI-related profits are high. Europe may benefit if planned fiscal spending translates into stronger growth, while Japan's corporate reforms provide a positive structural theme. Emerging markets offer exposure to AI, advanced manufacturing, and domestic growth, but performance is likely to remain highly differentiated. Persistent inflation, higher interest rates, and geopolitical instability remain the principal risks. Diversification across regions, sectors and investment styles therefore remains important, particularly given the influence that a relatively small number of large technology companies continues to exert over global indices.

Fixed Interest Securities

Fixed-interest markets experienced a difficult period, as rising government bond yields and renewed inflation concerns reversed some of the earlier optimism that interest rates would fall. The escalation of conflict in the Middle East and higher energy prices prompted investors to reassess the prospect of interest rates remaining higher for longer. By the end of September, the UK 10-year gilt yield had risen by almost 1% to around 5.4%, while the US 10-year Treasury yield had increased by 1.1% to approximately 5.2%.



Longer-dated bonds were particularly vulnerable, reflecting their sensitivity to interest-rate expectations and concerns about government borrowing requirements. A further consideration for bond investors has been the changing relationship between inflation and interest rates. Although central banks have made progress in bringing inflation under control, the risk of renewed price pressures has made policymakers cautious about cutting rates too quickly. This has helped keep longer-dated government bond yields elevated, creating both volatility for existing bondholders and more attractive entry yields for new investors. For income-focused portfolios, the higher starting yields offer a more attractive income return to compensate for the risks to capital of holding bonds.

Investment-grade corporate bonds also came under pressure, as the rise in government yields outweighed stable company credit fundamentals. The AI investment boom added a further dimension as “hyperscaler” (the builders of big data centres) borrowing had reached approximately $218 billion by early October, more than twice the whole of 2025 issuance. The volume of new debt is an additional consideration for investors, who must assess the impact of increased supply alongside the substantial capital requirements of the technology sector.

High-yield bonds were more resilient than investment-grade debt during the third quarter. Their higher starting yields provide more attractive income opportunities, although they do not remove the risk of capital losses and generally shorter duration helped cushion the impact of rising government yields, although weaker borrowers remain vulnerable to higher refinancing costs. Floating-rate loans and collateralised loan obligations also performed relatively well, benefiting from coupons that adjust with prevailing interest rates and therefore offering less direct sensitivity to movements in government bond yields.

Emerging-market bonds also faced pressure during the third quarter, particularly dollar-denominated sovereign debt, which is sensitive to US Treasury yields. However, year-to-date returns remained resilient: by the end of September, emerging-market sovereign debt was down approximately 0.7% in US dollar terms, while emerging-market corporate debt was marginally positive. Within both markets, higher-yielding issuers outperformed investment-grade borrowers, highlighting the importance of both credit quality and the additional income available from higher-yielding issuers.

Overall, fixed-interest securities offer more attractive income opportunities than investors have enjoyed for much of the past decade. However, the outlook remains finely balanced: higher yields provide a greater income cushion, but persistent inflation and government borrowing requirements could keep longer-term yields volatile. Careful selection across maturities, credit quality and currencies will therefore remain important in capturing these opportunities while managing risk.

Paul Farrant, Chartered Financial Analyst

Disclaimer: this document represents investment commentary of a general nature and should not be used as a basis for making personal investment recommendations. It does not consider your personal investment objectives, and you should contact an adviser at IFPC Ltd if you require specific financial advice. The commentary is focused on the period under review and may not reflect the development of recent events. The issues discussed may or may not relate directly to the holdings in your investment portfolio.

If you would like to find out more or speak to one of our advisers, please contact us:
Telephone: 01727 837 128 Email info@ifpc.co.uk

Index performance statistics are for the period 6th April 2026 to 6th October 2026, total return with income reinvested.
Investment returns are stated in local currency terms unless explicitly stated otherwise.
Source of statistics: PIMFA, Financial Express, Alpha Terminal, Bank of England, Office for National Statistics (ONS), JP Morgan Asset Management, Bloomberg, CFA Institute (UK), Financial Times

Important information: IFPC Wealth Management is a trading name of IFPC Ltd which is authorised and regulated by the Financial Conduct Authority (FCA)