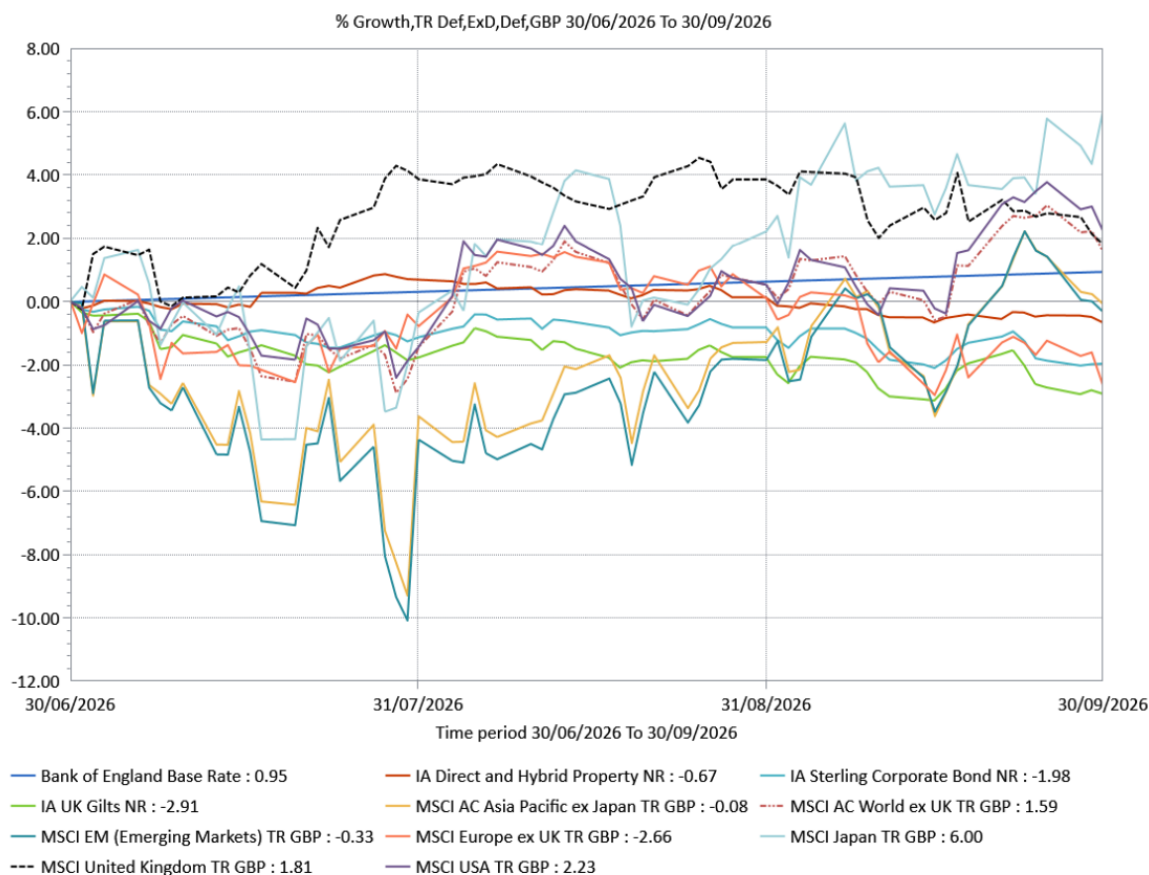


Market Commentary October 2026



Source: Lipper

OVERVIEW

Investment Markets Q3 2026

The third quarter of 2026 was dominated by rising energy prices and the interest rate consequences that followed. Oil (Brent crude) rose 29% over the period, crossing \$100 a barrel in August and remaining there through September, driven by continued conflict in the Middle East and tight OPEC supply. US consumers were paying \$6.52 a gallon for diesel by the end of the quarter, up \$2.83 from a year earlier. That energy cost kept inflation above target across the Western economies and left central banks with little room to hold back on rates. The consequence for markets was predictable: government bond yields rose sharply, smaller companies suffered disproportionately relative to large technology-led indices, and European energy markets were further disrupted in September by the threat of a US diesel export ban.

- Oil companies and diversified energy producers benefited from the sustained move above \$100 a barrel. US oil refiners are in a more complicated position: unlike producers, they face the specific political risk that a diesel export ban would be applied to their business, and the outlook for that sector is harder to read ahead of the November midterms.

- US equity markets presented a misleading picture at the index level. The S&P 500 finished the quarter up 2%, held there by the largest technology companies. A broader index of smaller American companies fell 7.5% over the same period: a more representative read of how most businesses experienced the quarter. Our current investment stance leans towards companies with strong, visible earnings, relative to those whose valuations depend on interest rates staying low.
- Central banks tightened further. The US Federal Reserve raised rates by a quarter of a percentage point in September, the first increase in three years, and the European Central Bank followed. The yield on US ten-year government bonds rose from 4.4% at the start of July to 5.3% by the end of September. German ten-year yields reached 3.64%, the highest level since 2009. French yields hit an 18-year high.
- On 22 September, President Trump told the UN General Assembly: "I've said let's not send out the diesel." European diesel prices rose 7% the following day. The policy argument is straightforward: the US exports significant volumes of diesel, so restricting exports should lower domestic prices. The practical difficulty is that US refineries have insufficient storage capacity to hold diesel they would otherwise export and would instead reduce total crude processing, cutting petrol output simultaneously. S&P Global concluded that a 90-day ban would turn the US from a net petrol exporter into a net importer, pushing petrol prices higher even as diesel prices fell. The US Energy Secretary said publicly it "definitely doesn't work." The most likely reading is that this was a pre-election political statement, but European energy markets reacted immediately and the uncertainty will continue until at least the November vote.
- The United States votes on 3 November. Republicans hold their House majority by 219 seats to 213; betting markets put the probability of a Democratic takeover at around 83%. Fuel prices at the forecourt have made their way into the campaign in a way that abstract inflation figures rarely manage. Historically, a divided Congress produces less legislation, which bond markets have tended to view as mildly positive. A more important variable for investment returns is what the Federal Reserve does next, and that will not be settled by the election result alone.

Looking into the fourth quarter, the European Central Bank meets in October, the US votes on 3 November, and the Federal Reserve meets later that month. We expect rates to rise further, energy costs to remain elevated while the Middle East conflicts continue, and European winter demand to add seasonal pressure to a market already stretched on supply. In this environment, shorter-dated bonds are generally less sensitive to rising yields than longer-dated ones, and diversified exposure carries less concentration risk than narrow sector positions. Long-dated UK government bonds are the most sensitive to rising yields, and the firm currently holds a cautious view of them.

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