MARKET OVERVIEW

No Country for Cheap Money: Treasury Yields at Their Highest since 2007

September lived up to its reputation as the most difficult month of the year for equities, but it never turned into the sell-off that the calendar and the macro backdrop seemed to invite. The S&P 500 finished the month marginally lower, while the Nasdaq added close to 3%, carried almost entirely by mega-cap tech. In Europe, the Stoxx 600 lost 2%, its first monthly decline in six months. Over the third quarter as a whole, the S&P 500 still closed around 2% higher and the Nasdaq around 2.5%, while the Dow ended the quarter down close to 3%. The headline numbers look resilient, but there was plenty of damage beneath the surface.

The main pressure point for equities was the bond market. The US 10-year yield rose by just over half a percentage point over the month and crossed 5% for the first time since 2007. Strong data, sticky energy prices and the Fed's September hike all fed the move. In September it showed up clearly in valuations, financing costs and, above all, in which sectors held up and which did not.

Dispersion was extreme. Technology was the best performing sector of the month and the only one to finish in positive territory, up around 5%. Financials, Materials and Real Estate each fell around 7%, and Utilities and Consumer Discretionary close to 6%. The pattern was clear: the more a business depends on cheap financing or a stretched consumer, the more it suffered. Debt-heavy sectors bore the brunt, while companies with strong balance sheets and visible earnings growth were rewarded.

Two moves stood out. Small caps had a difficult quarter: after leading the market for much of the year, they proved once again to be the most rate-sensitive part of the equity universe as expectations for tighter policy built up. Financials are now down year-to-date, a genuine surprise given that the sector entered 2026 as one of the consensus beneficiaries of a resilient economy. The upcoming bank earnings will be the first real test of whether that sell-off was justified or overdone.

Rotations have been fast and furious, with leadership changing hands within weeks and punishing anyone chasing the latest move. On a year-to-date basis, technology and energy remain the two best sectors. That is a reminder that this year's market has been driven as much by geopolitics and oil as by AI. Meanwhile, the IPO calendar into year-end looks a little less exciting than it did a few months ago, as issuers become more cautious. Activity data offered support. The S&P Global US Services PMI reached its best level since July 2021, and the latest core PCE came in softer than expected. Corporates remain in good shape, and the market continues to believe earnings will be delivered. That belief did most of the work in keeping the indices close to flat.

President Trump's meeting with leading tech CEOs underlined how much political weight the build-out now carries. OpenAI's decision to scrap a project on safety concerns was a reminder that the technology carries risks beyond valuation. In a month where higher rates hurt almost everything else, AI remained the main driver of the broader market and the main reason the S&P 500 bent rather than broke.

US SECTOR	Return YTD
Energy	40,3%
Information Technology	28,4%
Health Care	10,2%
Materials	8,8%
Industrials	8,5%
Consumer Staples	6,0%
Real Estate	5,3%
Communication Services	4,5%
Financials	-1,3%
Utilities	-5,7%
Consumer Discretionary	-5,8%

Source: J.P. Morgan Asset Management. Data as of 30/09/2026

10Y US TREASURY YIELD



Source: FactSet. Data as of 30/09/2026

CIO PERSPECTIVE

The third quarter tested the market without breaking it. Investors absorbed a Fed hike, a 10-year yield above 5% and an oil shock, and the S&P 500 still ended the quarter higher. What is holding the market together is a simple belief: companies will keep delivering on earnings. So far, they have. Corporates remain strong and the broader macro backdrop is still favourable.

At the heart of that belief is AI, and we don't think the AI revolution will stop because of higher rates or oil prices. Consensus has capex almost doubling in 2026 compared with 2025. Earnings growth for the Magnificent 7 currently stands at 57%, against 23% for the remaining 493 companies in the S&P 500. That gap is the clearest picture of where the growth in this market is coming from.

It also raises an uncomfortable question. If you strip out AI and the capex cycle around it, how much of the real economy is left driving growth? Higher yields matter here too. A 10-year above 5% raises the bar every capex dollar has to clear, and the more the build-out is funded with debt, the more that bar matters. More broadly, debt-heavy sectors are likely to remain under pressure while rates stay where they are.

On valuations, the S&P 500 trades at 19.0x forward earnings. That is above its 30-year average of 17.2x, but well below the 25.2x reached during the dot-com bubble. The market is expensive, not euphoric. Concentration, however, remains high and should be weighed carefully in any portfolio decision.

For us, this means selectivity remains decisive, and it will probably matter even more going forward. We favour companies with earnings visibility and balance sheets that do not depend on cheap money. We remain cautious on leveraged and rate-sensitive names, and we are not chasing rotations that reverse within weeks. The Q3 earnings season, which kicks off with the banks in mid-October, will be the next real test. For now, the party is still alive. We just intend to be selective about who we dance with.

IN FOCUS: Micron Technology earnings

Micron Technology delivered another blowout quarter, confirming that the AI-driven memory boom is far from over. Fiscal Q4 revenue reached a record $54.2 billion, up 379% year-on-year, comfortably ahead of the roughly $51.5 billion consensus. Management guided next quarter revenue to $61.5 billion, well above the $56.8 billion the Street was expecting. It also said more than 75% of fiscal 2027 production is already committed, and most of next year's HBM volume is under contract. Capex plans were raised to around $55 billion for fiscal 2027. Despite all of this, the stock barely moved, closing the following session essentially flat. The reaction says as much about the market as about Micron: after a huge run, AI winners now need extraordinary numbers just to hold their ground.

IN FOCUS: US & China summit

Artificial intelligence was one of the main topics when Xi Jinping visited Washington on 23–25 September, and it produced the summit's most concrete results. The two leaders agreed to launch a bilateral dialogue on the risks and benefits of AI, with the next round scheduled for November. They also agreed to set up a communication channel for AI-related incidents, effectively a hotline between the world's two AI superpowers. Still, the agreements cover safety and communication, not competition. The issues that matter most for markets, such as US export controls on advanced chips and China's grip on rare earths, remained unresolved. The race for AI leadership continues, now with a phone line between the two sides.

WHAT TO WATCH IN OCTOBER

- **FOMC Meeting:** 21% chance of a rate hike, as of 02/10/2026 (CME FedWatch).
- **New earnings season:** Set to open mid-month with big banks.
- **CPI report for September:** The last inflation reading before the Fed decides.
- **Run-up to the US midterms:** More political noise as the US heads to the polls on 3 November.

MACRO REPORT

THE MONTH IN SUMMARY

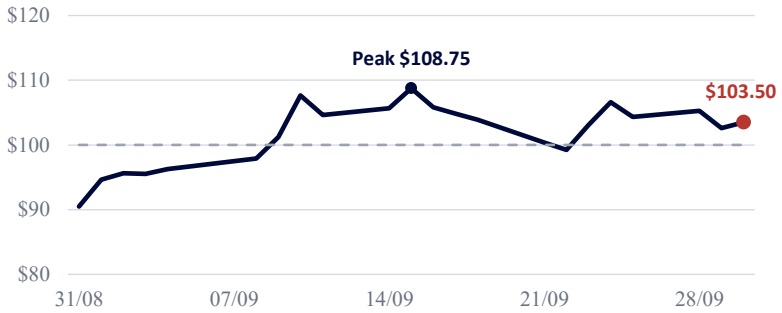
September marked a turn in the policy cycle. With the Hormuz standoff pushing Brent back above $100, August payrolls beating expectations (+162k) and core inflation above expectations, the Fed raised rates for the first time since 2023 and signalled one more hike this year. The ECB also hiked, while the Bank of England held but moved closer to tightening. Bonds felt the effects of this as the 10-year Treasury broke 5% for the first time since 2007. Unless the Hormuz standoff eases and energy prices fall, central banks look set to keep policy higher for longer, and the Fed's own projections show no rate cuts before 2028, whilst markets view a further hike this year as very likely.

FED OUTLOOK AT A GLANCE

Fed funds target	**3.75–4.00%**
Median dot, end-2026	**4.1%**
Hike odds, 28 Oct*	**~21%**
Hike odds, by Dec*	**>80%**

*CME FedWatch, 2 Oct 2026

BRENT CRUDE FUTURES



Source: FactSet. Data as of 30/09/2026

01 Fed delivers its first hike since 2023

The Fed raised rates for the first time since 2023, lifting the fed funds range by 25 bp to 3.75–4.00% in a unanimous 12-0 vote. The new dot plot moved the median end-2026 rate up to 4.1% from 3.8% in June, and 16 of 18 officials expect at least one more hike this year. These developments mark the official end of the easing cycle. Why does this matter for markets? First of all, the higher rate pushes up the risk-free rate, so every asset gets discounted more heavily. That's good news for the dollar, but bad news for long-duration growth stocks, real estate and gold. Emerging-market debt and anyone borrowing in dollars will also feel financing get tighter.

Looking ahead, the Fed's median projections show one more hike this year, no change in 2027 and cuts only from 2028. Policymakers also raised their 2026 core PCE inflation forecast to 3.4%, and Chair Warsh had already signalled at Jackson Hole that he sees strong underlying inflation pressure despite mild summer prints. Since the meeting, however, the data has cooled: August PCE inflation came in below expectations and the September jobs report was weaker than expected. Futures now price only about a 21% chance of a hike on 28 October, but more than 80% by December. The key question for markets is therefore not whether the Fed hikes again, but when.

02 Oil: Hormuz standoff pushes Brent back above $100

Renewed attacks on shipping and Gulf energy infrastructure lifted Brent futures from about $90 at the end of August to a peak of $108.75 on 15 September. Prices then eased to around $103.50 by 30 September as Saudi exports from the Red Sea recovered, even though the US rejected Iran's offer to reopen the Strait of Hormuz within seven days. Energy remains the main source of the inflation forcing central banks to hike, and oil and bond yields are now moving almost in lockstep. Meanwhile, energy producers, oil-linked currencies like the NOK or CAD, and inflation-linked bonds benefit while industries like airlines or chemicals as well as currencies of energy importers are hurt.

03 Europe tightens: ECB hikes, BoE turns hawkish

The ECB raised all three key rates by 25 bp, taking the deposit rate to 2.50%, marking its second hike since the war began. A week later the Bank of England held at 3.75%, but three of its nine members voted for a hike, and it paused gilt sales until April 2027. This means that Europe is now tightening into a weak economy as growth has been slow in recent times. Euro-area inflation is above 3% and could approach 4% by year-end, and markets price up to four more ECB hikes, although Lagarde has pushed back on the most aggressive bets. Higher rates support European bank earnings but weigh on Bunds, gilts and energy-intensive industry, as can be seen by the 10-year Bund (>3.6%, max. since 2009).

UPSIDE

- ▲ **US dollar**
- ▲ **EUR, capped by weak growth**
- ▲ **Inflation-linked bonds**
- ▲ **European banks**
- ▲ **Energy producers, NOK, CAD**

DOWNSIDE

- ▼ **Growth equities, REITs**
- ▼ **Gold (higher real yields)**
- ▼ **EM debt, USD borrowers**
- ▼ **GBP (dovish QT pause)**
- ▼ **Bunds and gilts**
- ▼ **Airlines, chemicals**
- ▼ **EUR, JPY (energy importers)**

INDEX PERFORMANCE SNAPSHOT

INDEX	MONTHLY	YTD	2025	2024	2023	2022	2021
S&P 500	-0,45%	11,77%	15,83%	21,65%	22,87%	-19,01%	24,61%
Nasdaq 100	3,23%	20,43%	19,63%	23,04%	45,40%	-35,86%	24,60%
Dow Jones Industrial Avg.	-4,29%	5,91%	12,97%	12,88%	13,70%	-8,78%	18,73%
MSCI World	-0,91%	11,29%	16,87%	19,33%	21,11%	-17,40%	22,45%
MSCI Emerging Markets	-0,66%	21,10%	28,35%	10,54%	7,07%	-17,95%	-2,29%
EURO STOXX 50	-1,95%	8,24%	14,14%	5,26%	12,09%	-4,36%	22,85%

Source: FactSet. Data as of 30/09/2026

MARKET VIEWS BY SEGMENT

SEGMENT	−−	−	NEUTRAL	+	++	COMMENT
US Growth			●			High valuations, concentration and capex scepticism offset still-strong earnings delivery.
US Value				●		Strong earnings support the case for value, as more sectors of the economy deliver good results.
Europe		●				Heavily exposed to the Middle East conflict and shipping disruption, with limited participation in the AI theme.
Japan				●		Healthy corporate balance sheets and government reforms support the case for Japan. High energy prices, however, threaten sustained growth over time.
Emerging Markets			●			Higher US rates and Treasuries point to a stronger dollar over coming quarters — a headwind for the asset class broadly. Still, we see good relative value in regions such as LatAm.

MONTHLY GLOSSARY

Core PCE — The Personal Consumption Expenditures price index excluding food and energy; the Fed's preferred measure of underlying inflation.

CPI (Consumer Price Index) — A US government report measuring the change in prices paid by consumers for a basket of goods and services, used as the primary gauge of inflation and a key input into Fed policy decisions.

FOMC — The Federal Open Market Committee, the Federal Reserve body that sets US monetary policy, primarily by deciding the target range for the federal funds interest rate at its scheduled meetings.

Forward P/E — A company's or index's share price divided by its expected earnings over the next 12 months, used to judge whether valuations are cheap or expensive.

Hawkish / Dovish: hawkish means favouring tighter policy to fight inflation, dovish means favouring looser policy to support growth.

Magnificent 7 — The seven US mega-cap tech stocks (Apple, Microsoft, Alphabet, Amazon, Meta, Nvidia, Tesla) that account for a large share of S&P 500 market value and earnings growth.

PMI (Purchasing Managers' Index) — A monthly survey of business conditions in which a reading above 50 signals expansion and below 50 signals contraction.

Treasury yield — The return earned on government debt, widely used as the benchmark risk-free rate for pricing other assets.

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