

Capital Markets Monthly **FIXED INCOME**

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Hawkish Fed Hike, Energy Prices and Fiscal Worries Spook Fragile Global Bonds

September was a difficult month for US Treasuries, with the ICE US Treasury Index (G0Q0) returning -2.3% as yields rose sharply across the curve. The Federal Reserve raised the funds rate by 25bp on 16 September to 4.00%, as widely expected, but the accompanying message remained hawkish and reinforced expectations that further tightening would be required. The 2-year yield rose 55bp from 4.34% to 4.89%, while the 5-year increased 58bp from 4.50% to 5.08% and the 30-year increased 38bp to 5.63%. A particularly weak 5-year Treasury auction on 23 September, which tailed by 3bp, added to the pressure towards month-end. Inflation concerns remained central to the move, with higher oil prices increasing the risk of renewed headline inflation pressure, while August core CPI was slightly stronger than expected at 0.3% month-on-month. At the same time, economic activity remained resilient and a number of Federal Reserve officials continued to signal that policy would need to remain restrictive, with further rate increases still possible. The combination of persistent inflation risks, resilient growth and a hawkish Federal Reserve resulted in a significant repricing of the US rates curve, although with a substantial amount of additional tightening now reflected in market pricing and nominal yields at historically attractive levels, the rise in yields has materially improved prospective returns from US government bonds.

Last month was also particularly challenging for UK gilts, with yields rising across the curve as concerns over inflation and the fiscal outlook continued to weigh on the market. The 2-year yield rose 48bp from 4.41% to 4.89%, while the 10-year increased 36bp from 5.06% to 5.42%. Pressure was particularly acute at the long end, with the 30-year yield rising from 5.78% and reaching 6% during the month for the first time since the 1990s. As expected, the Bank of England left the Bank Rate unchanged at 3.75% at its September MPC meeting, although the vote remained relatively hawkish at 6-3 and we continue to think a rate increase at the 5 November meeting is very likely. The Bank also announced a temporary suspension of active QT sales of long-dated gilts, which prompted a sharp rally at the long end, with the 30-year yield falling around 12bp on the day, although this proved relatively short-lived as yields subsequently resumed their upward move. Higher energy prices added to inflation concerns during the month and encouraged further hawkish repricing of the UK rates curve, while fiscal concerns remained an additional source of pressure ahead of the October Budget. Despite

the difficult backdrop, the substantial rise in yields has materially improved valuations, with gilt yields now at levels that offer increasingly attractive prospective returns, particularly if inflation pressures begin to moderate.

European government bonds came under renewed pressure in September, as persistent inflation concerns and a more hawkish monetary-policy outlook pushed yields higher across the region. The ECB raised its key policy rates by 25bp on 10 September, taking the deposit rate to 2.50%, as elevated energy prices kept inflation well above target; with price pressures remaining persistent, we expect further tightening during the fourth quarter. France was the principal source of intra-European volatility, with the OAT/Bund spread widening sharply as investors focused on the country's deteriorating fiscal position and heightened political uncertainty, with the 10-year spread moving above 140bp, its widest level since the euro-area sovereign debt crisis. While these concerns are legitimate and warrant a higher French risk premium, we believe the repricing has created attractive opportunities at the short end of the curve. Short-dated French government bonds now offer a substantial yield pick-up over Germany, while near-term credit risk remains very limited, leaving valuations increasingly compelling for investors able to hold the bonds to maturity.

Japanese government bonds were volatile during September but ended the month little changed at the long end, with the 30-year JGB yield closing around 4.15%. Yields initially fell sharply as the market rallied, before reversing course later in the month as investors reassessed the situation. As widely expected, the Bank of Japan raised its policy rate on 18 September, reinforcing the gradual normalisation of Japanese monetary policy. Currency markets were considerably more active: the yen rallied sharply from around JPY 160 per US dollar to below JPY 154 before retracing towards JPY 157 by month-end. We continue to see the outlook for the yen as asymmetric. While further near-term volatility is likely, any material renewed weakening from current levels would increase the probability of official intervention, particularly if the move became rapid or disorderly. In an extreme scenario, further coordinated action involving both the BOJ and the Federal Reserve could not be ruled out. This policy asymmetry should provide some downside protection for the yen.

Chinese government bonds were relatively stable during September, with yields at the short end of the curve broadly unchanged while longer-dated bonds rallied. The renminbi was also steady to slightly stronger over the month, ending around CNY 6.70 against the US dollar. Chinese government bonds continue to offer useful diversification benefits within a global fixed-income portfolio, given their relatively low correlation with developed-market rates and differing domestic policy cycle. However, the scope for meaningful capital gains at the short end remains limited, as yields are already low and are unlikely to move materially from current levels. As a result, the principal attraction of short-dated Chinese government bonds remains their diversification and defensive characteristics rather than expectations of significant price appreciation.

Emerging market debt had a difficult September, with the J.P. Morgan EMBI Global Total Return Index falling 3.1%, its weakest monthly performance since September 2022. The principal driver was the sharp rise in US Treasury yields, which generated significant duration losses across hard-currency sovereign debt. Positive carry and relatively resilient credit spreads provided only a partial offset. Local-currency debt performed somewhat better as domestic rates were generally more stable, although weaker EM currencies against the US dollar limited returns for unhedged investors, particularly in CEEMEA and Latin America. Credit spreads widened modestly towards month-end, with longer-duration Latin American sovereigns among the weakest performers as US yields moved higher. Despite the setback, we continue to see selective value in EM debt, particularly where elevated yields and improving domestic fundamentals provide attractive carry, although the combination of higher US rates, increased net issuance and the potential for some further spread widening argues for maintaining a disciplined approach to duration and credit selection.

The following chart shows the yield spread on 10-year French OATs versus German Bunds:

10-Year Fench OATs vs German Bunds



Source: Bloomberg Finance L.P., 30 September 2026.

Capital Markets Monthly FOREIGN EXCHANGE

October 2026

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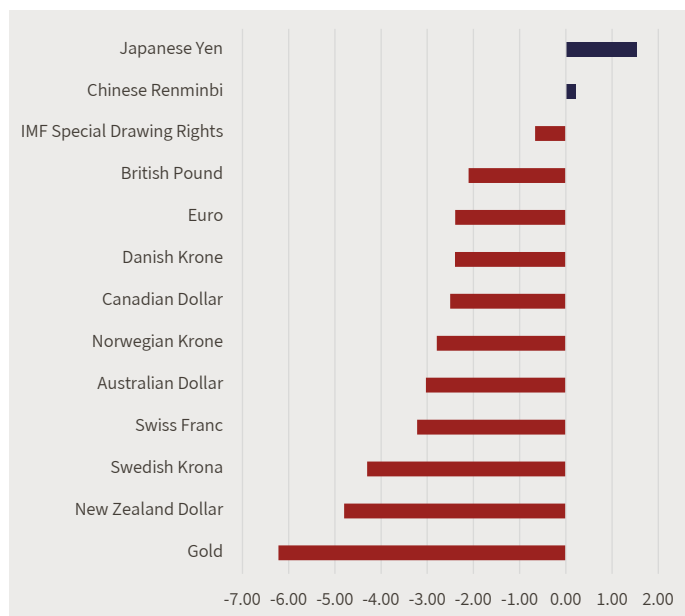
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Bonjour Eurozone – Avons-nous de nouveau un problème?

The broad-based strength of the US dollar was the dominant theme during the month. While the US Dollar Index (DXY) advanced 1.78%, commodity-linked and high-beta currencies came under significant pressure. At the same time, traditional safe-haven assets largely disappointed investors. The Swiss franc weakened by 3.22%, while gold prices fell 6.22%, marking one of their weakest monthly performances in several quarters. (For a detailed G10 currencies performance, Renminbi and gold please see the chart below).

September performance vs. USD (%)



Source: Bloomberg Finance L.P., 30 September 2026.

Many analysts have attributed the greenback's strength to the Federal Open Market Committee's decision to raise interest rates by 25 basis points. We disagree with this interpretation and believe developments within the Eurozone were the primary driver of G10 currency performance, particularly across Europe and its satellite currencies. A sharp deterioration in energy markets, especially skyrocketing diesel prices, combined with escalating political uncertainty in France and a significant widening of French

government bond spreads versus Germany, undermined investor confidence and weighed on risk sentiment across many asset classes (globally).

In the foreign exchange market, only two major currencies managed to outperform the US dollar: the Chinese renminbi, which gained a modest 0.2%, and the Japanese yen (JPY), which appreciated by 1.53%. The yen remains one of the market's most closely watched risk barometers. It began the month strongly, rallying more than 4.5% during the first few trading sessions as USD/JPY tested the 153.50 level. The move was driven by expectations that the Bank of Japan might combine foreign exchange intervention with a more hawkish monetary policy stance.

However, the Bank of Japan ultimately failed to meet market expectations. In a split decision on 18 September, it raised rates by "only" 25 basis points, prompting a reversal in yen strength. According to market reports, the central bank subsequently conducted a rate check with market participants as renewed pressure emerged on the currency. Ironically, worsening conditions in Europe, particularly in France, came to the yen's rescue. During the final week of the month, investors intensified risk-reduction activity, supporting demand for the Japanese currency and allowing it to regain some strength.

Looking ahead, we believe the themes that dominated September will remain the key determinants of currency performance. Also, it is good to remember that several important long-term technical levels were exposed, particularly in EUR/USD with the multi-moth support area being located at 1.1320-1.1350. A decisive break of these levels could generate further momentum and accelerate market moves. At the same time, investors will continue to focus on economic fundamentals and their implications for the future pace and magnitude of monetary policy adjustments by the major central banks.

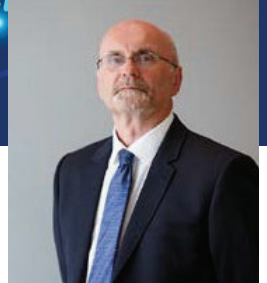
Capital Markets Monthly EQUITIES

October 2026



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United States

A Fed Hike, now what is the path

U.S. broad equity indices traded within tight ranges during the month as bond yields rose in response to a series of hawkish developments. Oil prices also moved higher, reflecting escalating geopolitical tensions and the lack of progress in ongoing negotiations.

The FOMC raised the federal funds rate by 25bps to 3.75%-4.00%, as expected, but delivered a more hawkish signal through its updated dot plot. Most officials anticipate at least one further rate hike this year, while longer-term projections point to additional tightening beyond that. The Committee emphasised the need to return inflation to its 2% target and expressed greater confidence in the growth and labour market outlook. Chair Warsh also noted that financial conditions remain insufficiently restrictive. The meeting reinforced expectations that additional rate hikes are likely over coming quarters.

U.S. economic data remained broadly resilient during the month. August payrolls increased, with upward revisions to prior months reinforcing the strength of the labour market. Hiring remained broad-based and measures of labour demand continued to improve, suggesting employment growth remains on a firm footing. Inflation data was also somewhat firmer than expected. Producer prices rose 0.4% in August, while core CPI accelerated modestly, driven by strength across several service categories. The combination of resilient labour market conditions and sticky inflation strengthened expectations of further Fed tightening and contributed to higher bond yields.

Corporate earnings remain a key support for equities. Following strong Q2 results, with operating earnings growth, consensus expects further Q3 earnings growth, supported by positive revenue and EPS growth across all sectors. Looking ahead, earnings expectations for 2027 remain robust, reinforcing a constructive outlook for equities.

The AI investment theme has become increasingly volatile as investors reassess the sustainability of spending and earnings growth across the AI ecosystem. In addition, there has been a growing debate over whether advances in frontier models are outpacing the development of appropriate safety frameworks, oversight and understanding. Concerns over hyperscaler capital expenditure and the pace of AI development have led to greater differentiation between perceived winners and losers, resulting in some moderation in valuations. Despite

these uncertainties, AI continues to support growth and earnings expectations. However, the theme appears to be entering a more mature phase, with higher volatility and execution risk prompting investors to broaden exposure beyond the most AI-sensitive U.S. technology stocks. This has contributed to a gradual narrowing in valuation gaps between the U.S. and international markets.

US equities saw minimal losses at the index level but greater sector dispersion as investors needed to absorb the less accommodative financial conditions. Concentrated positioning in large cap names has masked the underperformance of other stocks. Communication services benefited from the positive sentiment while technology was a further positive contributor. Sectors exposed to rising yields namely utilities, real estate and materials, were laggards.



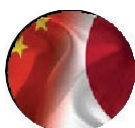
Europe

Energy prices and local politics generate hurdles for positive performance

European equities saw some profit taking with the rise in energy prices and rising inflation expectations promoting concerns of further policy tightening from the ECB. Sentiment was supported somewhat by positive revisions to the Q2 GDP numbers in the Eurozone. The weak performance of the current leadership in the German state elections and continued concerns over French elections in 2027 have created increased fiscal risk concerns.

The ECB's latest decision saw a 25bp rate hike to 2.5%, in line with expectations. The statement signalled that "inflation is set to remain well above target for an extended period", prompting ECB President Lagarde to confirm that there would be an additional interest rate hike. In addition, their latest forecasts also moved hawkishly, with inflation upgraded for the years ahead.

While the ECB upgraded its GDP growth forecasts, investors remain concerned that the combination of higher energy prices and tighter monetary policy could weigh on activity over the medium term. As such, European equities were broadly weaker, with gains largely limited to energy and banks. Cyclical sectors lagged, particularly materials, consumer discretionary and autos. European carmakers remained under pressure from Chinese competition, weak demand and ongoing regulatory uncertainty, while high investment spending continued to weigh on profitability.



Developed Asia

Will BOJ policy normalisation be a headwind to earnings and valuations

Hong Kong equities weakened during the month, as investors reassessed the outlook for China's economic recovery. While expectations for policy support remained in place, concerns over slowing growth momentum, property market weakness and broader risk appetite weighed on sentiment. Technology and growth-oriented stocks were particularly volatile, reflecting increased uncertainty around earnings and the sustainability of recent market gains.

Japanese equities delivered mixed performance during the month. The Bank of Japan's decision to raise interest rates by 25bps reflected confidence in the inflation and wage outlook, although the accompanying guidance was viewed as relatively cautious. A weaker yen following the meeting provided support to export-oriented sectors, helping offset concerns around higher interest rates and global growth. More broadly, investors remain constructive on Japan given supportive corporate earnings, ongoing governance reforms and improving domestic demand conditions.



Emerging Markets

Equity

Emerging market equities saw minor declines in September, having retraced from early-month highs as investors digested a renewed rise in global bond yields, a firmer US dollar and some profit-taking following a strong year-to-date rally.

Regional performance was mixed. CEEMEA was the weakest EM region in September amid higher global rates and wider sovereign spreads, while ongoing Middle East geopolitical tensions added to risk aversion. In contrast to EM Asia, the region also benefited less from the technology and AI-related themes that continued to support broader EM performance.

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