QUILTER CHEVIOT

Market commentary September 2026

There is a view that markets tend to be directionless during August as participants jet off to sunnier climes. A glance at the headline numbers suggests otherwise (or that August 2026 was an outlier) with global stock markets ending the month comfortably in positive territory. The MSCI AC World Index added 2.1% (returns total and in sterling, unless otherwise stated) on the back of a rebound in the technology sector and a strong Q2 earnings season— artificial intelligence (AI) bellwether Nvidia posted another set of forecast-beating numbers.

With no blockbuster technology IPO (think Space X in June) to stir the animal spirits and with the Q2 earnings season drawing to a close, markets were in need of a new narrative. Global bond markets provided one. Yields on 30-year US Treasuries reached 5.34% in August, a level not seen since 2007. The trigger? US national debt hitting US$40tn. That said, bond market weakness was largely centred at the long end. US Treasuries actually ended the month up 0.3% (in dollar terms) while gilts returned 0.1%.

The off-on Middle East conflict

The positive global stock market performance came in spite of the Middle East conflict passing its half-year anniversary. If ever a month summed up the on-off nature of the war, August was it. For most of the month, the conflict was in off mode with no significant attacks carried out by either Iran or the US. The uneasy truce, along with talks between Iran and Oman to reopen the Strait of Hormuz, enabled limited traffic to pass through the shipping channel which in turn led to oil prices falling back. Brent Crude traded as low as US$76 per barrel. By the end of August, however, the conflict was back in on mode with both sides trading tit-for-tat strikes and US Treasury Secretary Scott Bessent threatening Iran with an 'Economic D-Day'. Brent Crude was back at the US$90 level by 31 August.

Q2 earnings: The numbers are in (almost)

Stock markets continued to display less sensitivity to the conflict, however. A strong Q2 earnings season likely helped. Of the 97% of companies listed on large-cap US benchmarks that had reported by 28 August, FactSet estimates 86% posted better-than-expected earnings and 77% above-consensus revenues. With only a small number of companies left to report, FactSet estimates the YoY (year-over-year) earnings growth rate at 52% which, if confirmed, would be the highest since Q2 2021.

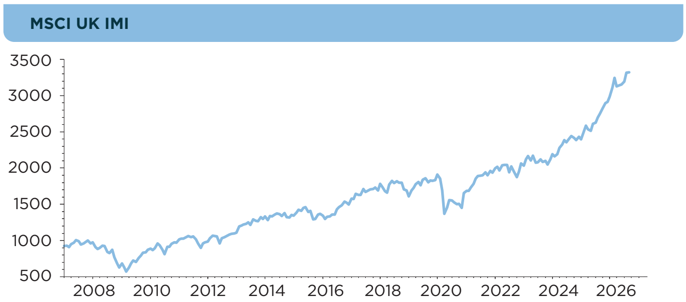
Rewind to 30 June and US large caps were forecast to deliver YoY earnings growth of 23.1% for Q2, highlighting the scale of the earnings beat delivered. Even if the sizeable increases in 'other income' (largely related to equity investments) reported by Alphabet (US$98bn) and Amazon (US$53.4bn) are stripped out, an adjusted Q2 growth rate of 33.8% is still the highest in five years.

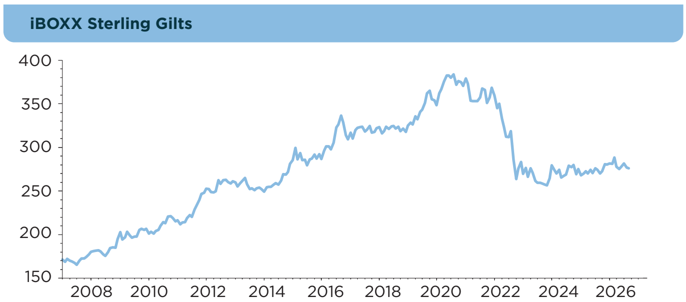
It's not all about the US

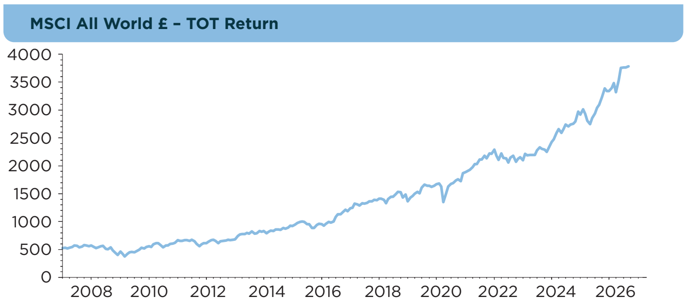
Europe too had a good season. As of 14 August 2026, 83% of companies listed on a leading European index (which includes UK companies) had reported their Q2 numbers, according to FactSet. Of these, 54% posted positive earnings surprises (another 10% reported in line results) and 74% beat revenue forecasts. Notably, the strong European season was achieved without a Magnificent Seven Big Tech stock in sight. The technology sector currently accounts for around 38% of the main US market compared to 8% for the European index. This time round, the large technology weighting helped the MSCI North America index (+2.2%) outperform the MSCI Europe ex UK (+0.9%) in August. A less than 1% weighting to the sector meant the MSCI UK index (0.0%) largely missed out on the tech tailwind.

5%+ bond yields are not new

30-year Treasury yields at near two-decade highs may have stolen the headlines, but yields had been rising for some time. A number of reasons lie behind this: the Middle East conflict and resulting high energy prices; US President Trump's tariff wars; high inflation (July's US consumer price index came in at 3.4%); AI-hyperscaler bond issuance diverting demand away from government debt; and new Federal Reserve (Fed) chair Kevin Warsh's minimalist approach to communications. All have helped fuel inflation worries. The US$40tn US national debt figure has added fiscal concerns into the mix.







Past performance is no guarantee of future returns.
Source: LSEG Datastream 01/09/2026

It is important to note that for now the rise in yields has been orderly. The 30-year Treasury yield has edged up from 4.85% at the start of the year to a peak of 5.34% in August. Furthermore, 5%+ yields are nothing new. The 30-year yield reached 5.18% in 2023 and traded above 5% several times in 2025. Yields are therefore not much higher than those seen in recent years.

Warsh the hawk?

Still the concern is that today's yields may not signal the high-water mark owing to questions surrounding US debt sustainability and Fed credibility. Enter Warsh. The Fed chair went some way towards setting out his inflation-busting credentials when he spoke at the annual gathering of central bankers at Jackson Hole. Comments such as "on balance, I would be hard pressed to describe broad financial conditions as restrictive" gave his speech a hawkish tilt. Certainly, it was enough for markets to lift the chances of a September rate rise to above 50%. A hike would go some way towards demonstrating that Warsh is not Trump's man and is prepared to go against the President's wishes for lower rates. This would likely go down well with bond markets and could pave the way for yields to fall back.

Burnham's honeymoon ends?

The UK has debt and inflation concerns of its own. A relatively stable monthly performance across all maturities during August (short-dated gilts returned +0.3% and 15-year plus maturities +0.1%) indicates markets were prepared to give new Prime Minister Andy Burnham the benefit of the doubt, particularly after he pledged to stick to the fiscal rules he inherited.

A notable pick-up in bond yields around the beginning of September would appear to herald the end of Burnham's honeymoon period. The yield on the 10-year gilt rose to 5.22% on 1 September, the highest since 2008; the 30-year reached 5.9%, the highest since 1998. Higher bond yields increase the interest bill on government debt which in turn reduces the near £24bn fiscal headroom previous Chancellor Rachel Reeves built up in the 2025 Budget. With Burnham unlikely to countenance meaningful spending cuts and bond markets unlikely to countenance any tinkering with the fiscal rules, raising taxes in the October budget appears the only option on the table for new Chancellor John Healey, not just to fund any spending initiatives, but to restore the fiscal buffer.

Sticky UK inflation is the other bugbear of UK government bond markets. The trouble is that July's print showed that prices are no longer sticky but rising once more due to higher energy costs as a result of renewed tensions in the Middle East. At 2.9%, July's inflation number sits above the Bank of England's 2% target and puts pressure on Burnham who has made bringing down the cost of living a priority. For now, the rise in inflation is viewed as temporary rather than structural and this is one reason the Bank of England is expected to keep its policy rate at 3.75% at its September meeting.

Conclusion

Global stock markets more than made up the ground lost in July thanks largely to a rebounding tech sector. Another impressive earnings card from AI-bellwether Nvidia rounded off a strong US Q2 reporting season. Companies in Europe and the UK had a good season too despite having a much lower tech exposure, a nod to the diversification benefits the region offers, particularly should risks over the AI-trade come to the fore once more.

Elevated global bond yields pose another risk. Decades-high yields in the UK gilt market suggest chancellor Healey has few options open to him other than to raise taxes to restore the fiscal buffer. In the US, Warsh may well have to provide markets with more meaningful guidance than he has to date and even oversee rate hikes to re-establish the Fed's credibility. But while the rise in long-term bond yields has been well-documented it is worth noting that YTD, the return on 30-year Treasuries stood at -3% in dollar terms as at 31 August 2026 and -2.5% for 15-year Treasuries. Unwelcome for investors, but some way off the drawdowns that can be seen in equity markets from time to time. Bonds remain useful diversifiers.

In line with this, we continue to believe that when it comes to building portfolios, investing in assets and markets that have their own unique set of drivers and fundamentals, strengths and weaknesses is key to managing risk and optimising returns.

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