

Market commentary October 2026



The last three months have seen global stock markets edge higher against a largely negative news backdrop. Rising government bond yields, the ongoing conflict in the Middle East and higher inflation are well-known headwinds for equities, but impressive corporate earnings and resilient economic data seem to be outweighing these risks for now. The MSCI All Country World Index returned 1.6% on the quarter (returns total and in sterling unless otherwise stated), taking the year-to-date (YTD) return to 15.0%. Bonds have underperformed, with gilts returning -2.8% on the quarter.

Reasons for rising bond yields

Several factors have driven government bond yields to multi-year highs; the US/Iran conflict and resultant rise in energy prices, growing concerns around the sustainability of current, and future expected, government debt levels and large-scale bond issuance from artificial intelligence (AI) hyperscalers. Significantly higher expectations for central bank interest rates have not helped either — markets currently imply the Bank of England raising rates from 3.75% to 4.75% by late 2027, whereas investors began expecting further rate reductions. Recent gilt moves are not reflective of domestic drivers, with the relative rise in UK 10-year yields over the past three months less than that seen in the US, Germany and France.

But starting levels provide some cushion

While none of these forces appear likely to fade substantially any time soon, it is worth highlighting that despite the difficult backdrop, losses from gilts have remained relatively contained. What matters most for bond returns is the rate of change of rates and higher starting levels now provide some potential cushion. The 10-year gilt yield has risen 96 basis points (0.96%) YTD to 5.44%. As a simplified illustration, for a 10-year gilt, a rise from 1.0% (start of 2022 level) to 1.96% could produce a return of around -6.4% — a loss more than double this year's -2.4% return. Actual returns would depend on the bond held and the timing of the move.

Warsh defies Trump's man claims

Recent communications and actions from Federal Reserve (Fed) governor Kevin Warsh have gone some way to allaying fears that he was going to be a “yes man” to US President Trump when it came to setting interest rates. A 25 basis point rise in the Fed Funds Rate in September to 3.75%-4.0% received unanimous support among rate setters and three more increases of this size are expected by late 2027. US Treasuries returned -3.2% in the third quarter, leaving the YTD return at -2.7%.



Past performance is no guarantee of future returns.

Exceptional earnings provide reassurance

Although the macro backdrop has become more challenging for stocks, business performance has been impressive. In Q2 large-cap US stocks posted the fastest earnings growth rate (52%) in five years, more than double the expected figure three months ago (23%). The UK and Europe also beat forecasts with results surprising to the upside. While US equities have outperformed once more this year (MSCI North America 14.1%), the MSCI UK (9.6%) and MSCI Europe ex UK (7.6%) have delivered solid returns.

Resilient economies

It's not just at the company level where performance has exceeded expectations as economic growth at a country level has proven surprisingly resilient. The UK was the fastest growing G7 economy in the first half of 2026, with GDP expanding by approximately 1.1%. However, strong first half figures were also a theme in 2024 and 2025 before budget uncertainty contributed to a second half slowdown. Furthermore, leading the G7 with GDP growth of 1.1% is indicative of the underwhelming performance of peers. Globally, economic growth has beaten forecasts, but this is more down to the bar being lowered due to significant expected headwinds rather than surging levels of economic activity.

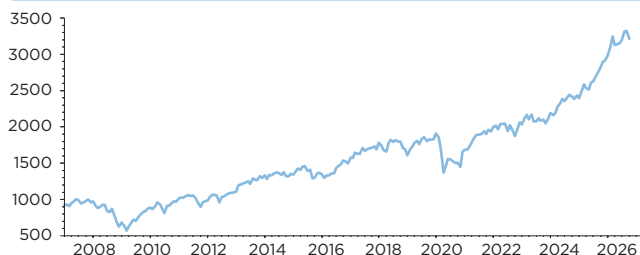
Conclusion

As we enter the final quarter of 2026 it is shaping up to be another good year for stocks. The Middle East conflict pushed Brent crude oil up 34.8% (US\$) last quarter, but stocks showed little sensitivity to this, instead edging higher due to rising earnings and economic resilience. While an oil price around US\$100 a barrel is not positive for global economic growth, it is manageable and not especially prohibitive. In the near term, high levels of capex spending and fiscal stimulus are supporting stock markets and economies, but potential risks are posed by the longer-term sustainability of these drivers.

Bonds have fallen this year but the high yield levels on offer do offer some protection against larger losses. With sentiment already weak, even a modest improvement in inflation or fiscal or monetary policy expectations could support a recovery. There is also the expected diversification benefit of fixed income should we get an economic shock. US midterm elections are the main scheduled event for investors in the upcoming quarter, with the UK Budget expected to be more important for financial planning purposes.

We continue to believe that diversification remains the best way to manage risk. Tactical asset allocation and security selection can help navigate high probability smaller risks but high impact, low probability events, or unforeseeable risks, are best managed through multi-asset diversification.

MSCI UK IMI



iBOXX Sterling Gilts



MSCI All World £ - TOT Return



Past performance is no guarantee of future returns.
Source: LSEG Datastream 09/10/2026



Caroline Simmons
Chief Investment Officer,
Quilter Cheviot

Quilter Cheviot

Senator House
85 Queen Victoria Street
London EC4V 4AB



+44 (0)207 150 4000



enquiries@quiltercheviot.com



quiltercheviot.com

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