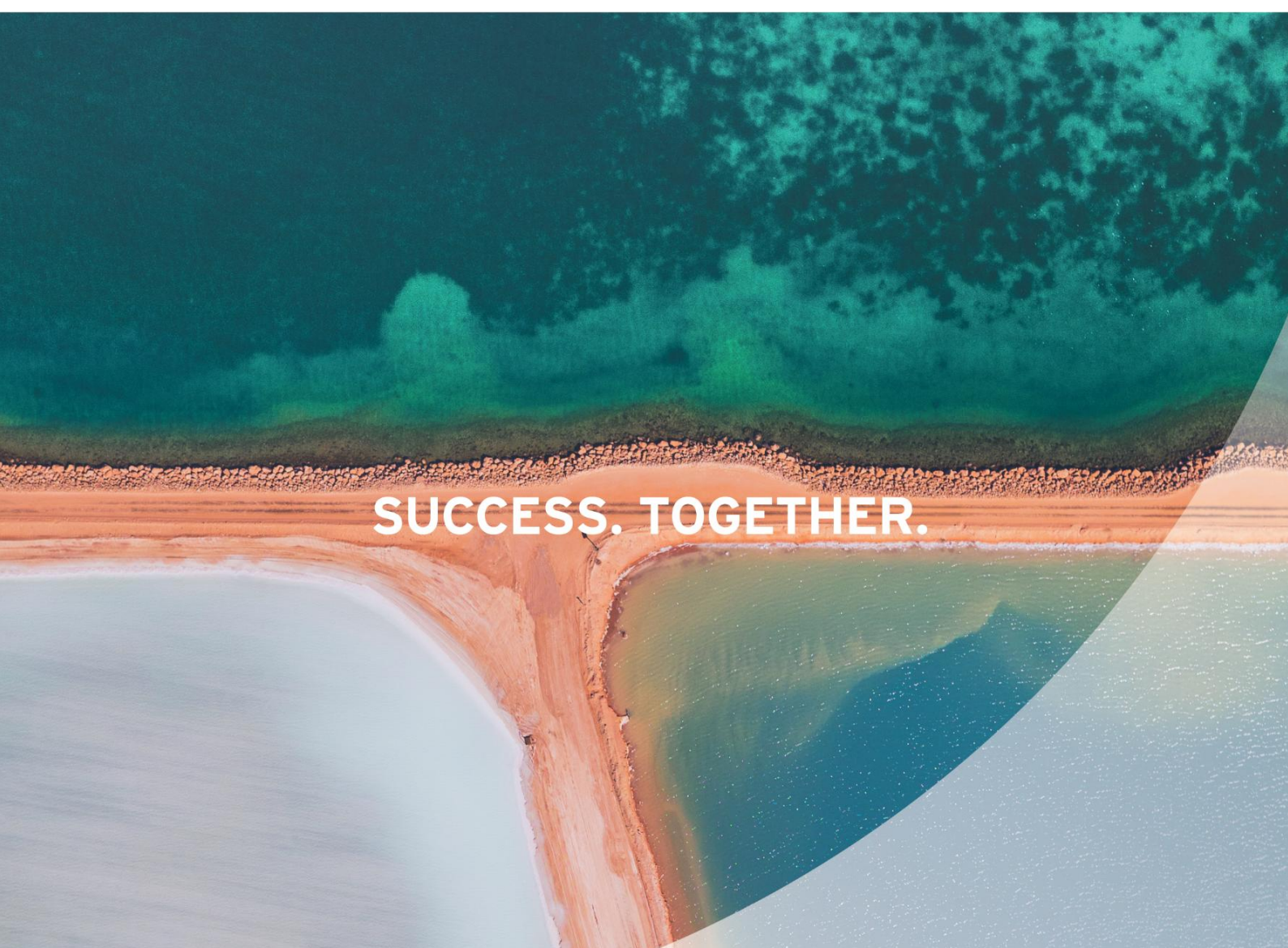


STRATEGY OUTLOOK

OCTOBER 2026



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Higher Yields, Resilient Markets

September saw bond yields and interest rates move higher, while oil again pushed higher. Stronger growth (>5%), robust AI-related earnings and renewed inflation concern from energy all pushed yields upwards, against a backdrop of persistent government deficits. The Fed responded with another rate hike, shifting more of the burden to the Treasury. Debt servicing is now the US government's third-largest expense, at around \$1 trillion.

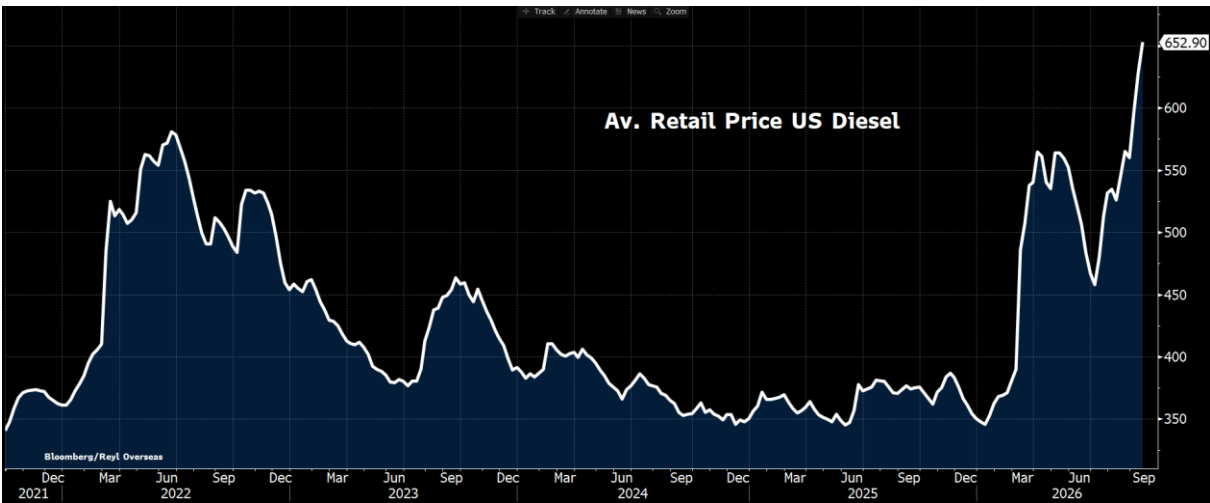
The pressure is increasingly visible in the real economy. Mortgage rates are back above 7.2%, oil is near \$100 and, as the graph highlights, US diesel prices are at new highs ahead of winter. Consumer confidence keeps plummeting and geopolitical risks remain largely ignored by markets: the Straits remain closed, concerns about the Russian threat in Europe have intensified, the US and China are talking, and German politics is shifting.

Yet liquidity remains supportive. **Global liquidity is expanding at around 6%**, continuing the debasement of all currencies.

Bonds remain key. Treasury bond demand is weak: bank holdings have been flat for four months, Chinese holdings are at their lowest level since 2008, while the Fed's Treasury holdings are around \$350 billion higher (despite talking about wanting to reduce their balance sheet!) than a year ago—even though the market value of those bonds declined. With almost everyone now bearish on bonds, the contrarian case is beginning to attract our interest.

The next major catalyst is the Fed meeting at the end of October, just before the early-November midterms. The market is assigning a 70% probability to another hike, and those expectations have helped drive the US dollar higher, another issue to markets.

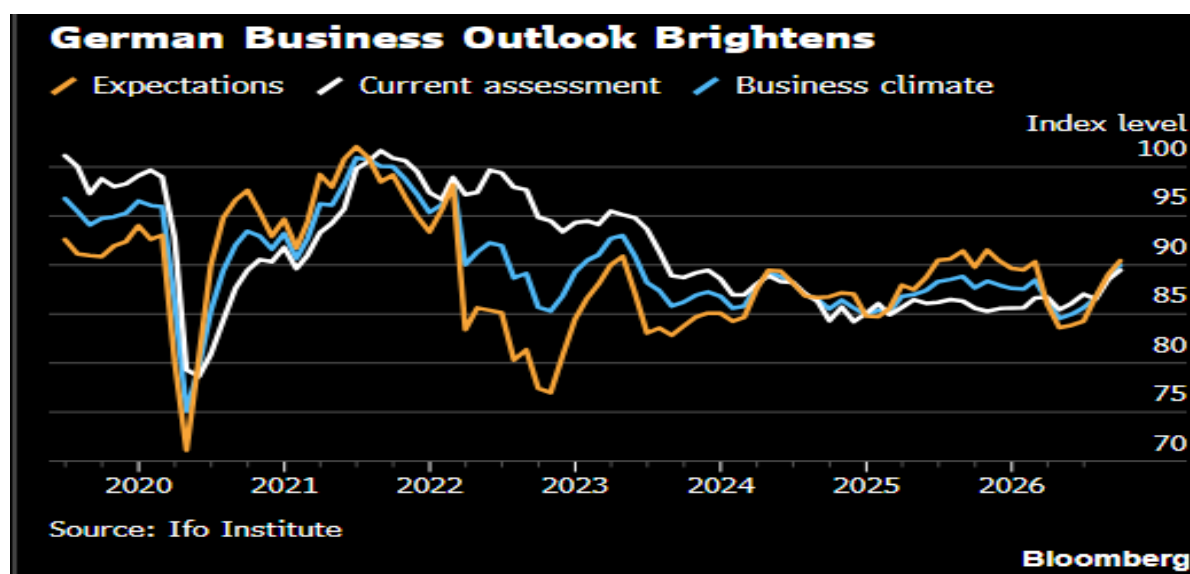
	September	YTD
S&P	0.26%	11.7%
Rest of the World	-0.56%	13.0%
US Treasury	-2%	-2.77%
Gold	-3.96%	-3.75%
Bitcoin	8%	-5.27%
WTI Crude	0.2%	57.5%
USD Index	1.78%	3.18%



At the same time, US 10-year real yields have reached 2.3%. In other words, an investor can earn inflation plus 2.3% while taking US government credit risk. For pension funds, insurers and retirees, that is an increasingly credible return to lock in, particularly when the 30-year

average has been closer to 1.2%. We have been underweight bonds for several years, but these levels justify reassessing whether more defensive portfolios should begin adding back exposure. **Fiscal and inflation concerns have not disappeared; the question is whether enough of that risk is now reflected in price.**

There are also tentative signs of improvement in Germany, with the economy beginning to emerge from its prolonged weakness, as the graph highlights. Political change is developing alongside that recovery, with recent state and local election results pointing to growing dissatisfaction with the incumbent parties. Indeed, there are **parallels with US elections**. Berlin saw the Christian Democrats defeated in favour of an anti-capitalist party along the lines of what's happening in New York. In State elections we are seeing a more conservative shift. For markets, the more important question is whether this changing political backdrop produces a more supportive economic policy mix.



This leaves investors with a familiar conundrum ahead of the Fed meeting and the midterms. Equity markets have remained remarkably resilient, even as investors have had ample reason to be cautious: tighter credit conditions, geopolitical risk, oil, AI-related concentration and pressure in private markets. Sentiment is mixed—the latest AAll survey shows an even balance between bulls and bears—but the fundamental case remains constructive. Earnings estimates are rising, and the S&P 500 does not look expensive relative to its 10-year average forward P/E. **Implied inflation expectations remain contained, suggesting that some of the bond-market noise may be overdone**, while credit spreads remain near their tightest levels. The midterms may encourage investors to stay close to benchmarks, but unless the result produces a decisive shift, it is unlikely to change the broader market direction. The pain trade therefore remains higher. We remain fully invested as much as we feel trying to time this market, given its resiliency is too random. We did add back exposure to robotics during the month where valuations had cheapened.

Portfolio positioning and conclusions

The core investment view has not changed. Earnings estimates are rising sharply, revisions remain positive, bank lending is increasing, albeit still at a single-digit pace—and market participation is broadening. Together, these indicators continue to support equity exposure despite the more challenging rate backdrop.

The most likely policy response remains further deficit monetisation. Banks may be encouraged—through deregulation or other incentives—to absorb more government debt, while the authorities continue working to contain volatility. **Suppressing bond volatility is crucial: refinancing needs are so large that ample liquidity has become a permanent feature of the system.**



That old, debt-based system now sits increasingly alongside a new developing industrial revolution that does not fit neatly within it. We are still early: AI on our phones is only the beginning. AI agents will increasingly manage areas of business and daily life, while crypto is building infrastructure for transactions, ownership, identity verification and rule-based activity. **The productivity gains could be**

substantial and we are already seeing these become political issues with the building of data centers in some States.

We therefore remain invested in our long-term themes: energy transition, digitalisation, hard money, changing demographics and indebtedness. At the same time, extreme pessimism and very poor performance in bonds suggest that a significant amount of bad news is already priced in, creating the possibility of selective opportunities. Higher bond yields are hitting Gold, but Bitcoin has started to perform again as one of a handful of debasement assets. **It's an odd market; investors can build an investment rationale for being bullish and bearish to fit whichever underlying bias they choose.** Short, sharp repricing's should be considered the norm. Volatility is likely to increase into the midterms, but the market's resilience, improving earnings outlook and broadening participation continue to favour staying invested.

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