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WEALTH MANAGEMENT

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Market Matters Q3 2026

A straightforward review of the main events affecting investment markets during the third quarter of 2026, and what they may mean for investors.

Market Overview

Shares made uneven progress during Q3 as renewed energy pressures complicated the outlook for inflation and interest rates. The S&P 500 gained 2.03%, while smaller US companies fell sharply.[1]

The contrast between headline indices and individual holdings mattered. A positive market index does not mean every sector, fund or diversified portfolio will have risen by the same amount.

Artificial intelligence remained an important investment theme, but the focus continued to shift towards whether the spending can generate lasting commercial returns.

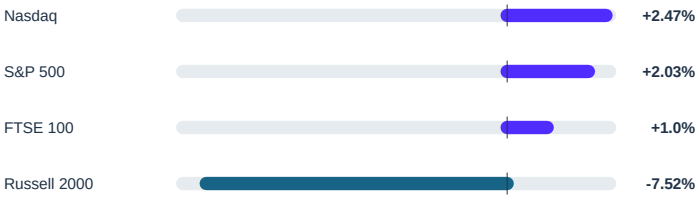
The Bank of England held its benchmark interest rate at 3.75%. The US Federal Reserve and European Central Bank each raised their policy rates by a quarter of a percentage point in September.[2-4]

Higher market yields put pressure on bonds, particularly those with longer maturities. At the same time, they improved the income available on new bond purchases.[5]

The quarter ended with markets weighing resilient company earnings against more persistent inflation, higher financing costs and uncertainty over the UK government's forthcoming Budget.

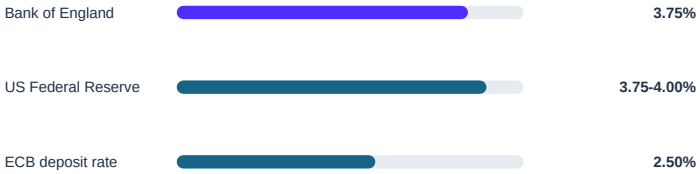
Selected equity-market returns in Q3

Price changes, excluding dividends: USD for US; GBP for FTSE.[1,12]



Major central-bank rates at quarter-end

Policy rates at 30 September 2026.[2-4]



Equities

US equity returns were mixed. The Nasdaq Composite rose 2.47% and the S&P 500 gained 2.03%, while the Russell 2000 small-company index declined 7.52%. These are price returns in US dollars.[1]

The FTSE 100 rose approximately 1.0% in sterling terms, excluding dividends.[12] UK shares benefited from their exposure to energy, financials and commodities. European equities lagged global peers as investors weighed profit growth against higher financing costs.[5]

Index composition helps explain these differences. A market with more energy companies can behave very differently from one dominated by technology or domestic consumer businesses.

Artificial Intelligence

Investment in AI remained a support for business activity. Within US shares, attention shifted from semiconductor producers towards large cloud-computing and software businesses.[5]

For investors, the question is increasingly how much future success is already reflected in share prices. Strong demand for a technology does not automatically make every company connected with it a good investment.

AI safety and accountability also came into sharper focus. In September, US Treasury Secretary Scott Bessent argued against liability exemptions for AI developers, saying creators should be responsible for what they build. This was a policy position, rather than a new liability law.[6]

For investors, potential legal claims, safety requirements and insurance costs are additional risks to consider alongside growth and valuations.

Asia

Japanese equities were supported by earnings growth, share buybacks and corporate-governance reforms. Emerging markets slipped marginally as semiconductor shares weakened in July.[5]

Asia remains central to technology supply chains. However, the changing balance of demand between chips, cloud computing and software means the AI cycle can affect markets across the region differently. Currency movements also influence returns for UK investors.

Bonds & Interest Rates

The Bank of England held its benchmark interest rate at 3.75% in September, with six members voting to hold and three preferring an increase.[2]

The Federal Reserve raised its target range by 0.25 percentage points to 3.75%-4.00% in September. The move highlighted the risk that inflation could require tighter policy rather than further cuts. The ECB also raised its deposit rate to 2.50%.[3,4]

Longer-dated government bonds were particularly vulnerable as yields rose.[5] When market yields increase, the price of an existing fixed-rate bond generally falls.

Higher yields improve the income available on new purchases, but inflation and the volume of government borrowing remain important influences on bond prices. The outlook depends on whether price pressures ease enough to limit further rate increases.

Iran, Energy & Inflation

The easing of energy pressures seen at the end of Q2 did not last. Brent crude reached $106 a barrel by 14 September as renewed tensions raised concerns about energy supplies.[2]

Energy is an important link between world events and personal finances. Higher fuel and power costs can reduce spending power and raise business costs.

UK CPI inflation was 3.1% in the year to August, above the Bank's 2% target. This was the latest reading available at quarter-end, rather than a September inflation figure. The Bank warned energy pressures could push inflation higher.[2]

UK Mortgages & Swap Rates

Fixed mortgage rates rose as swap rates increased. Swaps are an important reference for lenders hedging fixed-rate lending, and reflect expected interest rates and market risk. New mortgage deals can therefore become more expensive even when the Bank of England benchmark interest rate is unchanged.[2,7]

This affects new borrowers and those refinancing; existing fixed-rate payments normally stay unchanged until the deal ends. Higher refinancing costs can squeeze household spending and reduce the amount buyers can afford to borrow, weighing on housing-market activity.

Burnham's Fiscal Trilemma

At the end of Q3, attention was turning to the upcoming October Budget. Prime Minister Andy Burnham faced a difficult balance: higher gilt yields made additional borrowing more expensive, while rising debt-interest costs left less room for public spending.[8]

Raising the headline rates of income tax, National Insurance or VAT would conflict with Labour's manifesto commitments.[9] Restraining spending instead risked opposition from Labour MPs, particularly where welfare or public services were affected.[8]

This left three politically difficult routes: borrow more, raise the main taxes or limit spending. Other tax measures, reprioritisation and stronger growth could help, but none offered a simple way around the funding pressures.

For markets, the forthcoming Budget would be a test of fiscal credibility. A convincing funding plan could reassure gilt investors; doubts over borrowing or delivery could keep yields elevated, with implications for sterling and domestic financing costs.

Outlook

The outlook entering Q4 centred on the tension between resilient economic activity and renewed inflation pressure. Company earnings and AI investment continued to support shares, but higher energy and financing costs threatened to squeeze household spending and business margins.[2,5]

The path of energy prices remained crucial. An easing of Middle East tensions could relieve inflation pressure; prolonged disruption could keep central banks cautious and bond yields elevated. In the UK, the upcoming Budget added another source of uncertainty over growth, taxation and borrowing. Markets were likely to remain sensitive to inflation releases, company results and signals on interest rates.

During October, markets would focus on the US midterms on 3 November: whether Republicans retained Congress, and the implications for taxes, spending and borrowing. Divided government could limit new legislation, but would not automatically reverse executive-led tariffs or regulation. Investors would seek clarity on the consequences for earnings, inflation and bond yields.[10,11]

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2. Bank of England, September 2026 decision and minutes.
3. Federal Reserve, FOMC statement, 16 September 2026.
4. ECB, Monetary policy decisions, 10 September 2026.
5. J.P. Morgan AM, Q3 market review, 1 October 2026.
6. FedScoop, Bessent on AI liability exemptions, 15 September 2026.
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8. Chatham House, Can the UK escape the public debt trap?, 10 September 2026.
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