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QUARTERLY MARKET COMMENTARY

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Quarterly Market Commentary September 2026

Global markets navigate a summer of uncertainty

Welcome to the September 2026 issue of *Quarterly Market Commentary* from Kellands Financial Planning.

From June to August 2026, global markets were shaped by a challenging mix of geopolitical tensions, persistent inflation, shifting interest-rate expectations and concerns about government finances. Investors entered the summer hoping that inflationary pressures would continue to ease and that central banks would have greater scope to cut borrowing costs. Instead, renewed volatility in energy markets and geopolitical uncertainty complicated the outlook, leaving policymakers cautious and markets highly sensitive to incoming economic data.

Equity markets proved relatively resilient over the period. US shares continued to benefit from strong corporate earnings, enthusiasm for artificial intelligence and expectations that economic growth could remain relatively strong despite restrictive monetary policy. However, higher bond yields periodically pressured equity valuations, particularly for growth and technology companies. The contrast between resilient share prices and weaker long-duration bonds became a defining feature of the summer, reflecting investors' willingness to take equity risk while demanding greater compensation for holding government debt.

The bond market faced a more challenging environment. Rising yields across major sovereign markets reflected concerns about inflation, government borrowing requirements, and the prospect of interest rates staying higher for longer. In the UK, gilt yields remained under pressure as investors assessed the inflation outlook and the government's fiscal position. Elsewhere, US Treasury yields continued to influence bond markets globally, reinforcing the interconnected nature of modern fixed-income markets.

Inflation remained central to the investment debate. UK CPI inflation rose from 2.6% in June to 2.9% in July, remaining above the Bank of England's 2% target. Meanwhile, higher energy prices and geopolitical disruption fuelled fresh concerns that inflation could prove more persistent than previously expected. Central banks therefore faced a delicate balancing act between controlling inflation and avoiding unnecessary damage to economic activity.

By the end of August, market sentiment had become more cautious and selective. Geopolitical risks, fiscal concerns and uncertainty over monetary policy remained firmly in focus, prompting investors to weigh the appeal of higher bond yields against the prospect of further volatility as the global economic and political landscape continued to evolve.

MARKETS ADJUST TO A NEW ECONOMIC LANDSCAPE
Do you want to understand what recent market movements could mean for your investments and long-term plans? If they have raised questions, we're here to help. Please contact us to find out more.

Global markets were shaped by a challenging mix of geopolitical tensions, persistent inflation, shifting interest-rate expectations and concerns about government finances.

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Quarterly Market Review

Shifting market dynamics

Global financial markets over this third quarter navigated a challenging mix of geopolitical tensions, persistent inflation and shifting expectations about interest rates. Investors faced an increasingly complex environment as central banks balanced the need to contain price pressures with concerns about economic growth.

Equity markets remained relatively resilient, while government bonds saw renewed volatility as investors reassessed inflation risks, borrowing requirements and the outlook for monetary policy. Meanwhile, political developments and energy-market uncertainty added further layers of risk, influencing sentiment across major economies.

This Market Commentary reviews the key developments of the summer and considers their implications for investors.

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UNITED KINGDOM

The three months from June to August 2026 produced a strikingly mixed picture for UK investors. The FTSE 100 moved from a steady recovery in June to a fresh record in July, before losing momentum in August, while government bonds came under renewed pressure from inflation concerns and geopolitical uncertainty. For households, meanwhile, the central question remained familiar: when will interest rates and the cost of living provide meaningful relief?

The backdrop was not entirely gloomy. The UK economy continued to show resilience, with the FTSE 100 benefiting from its relatively heavy exposure to banks, energy companies, miners and other established businesses, rather than the technology stocks that had dominated international markets earlier in the year. Yet by the end of August, investors were growing more cautious as higher oil prices, sticky inflation and uncertainty over government finances threatened to keep borrowing costs elevated.

Steady markets and cautious optimism

June was marked by a gradual improvement in UK risk appetite. The FTSE 100 traded around 10,500 towards the end of the month and was roughly 19% higher year to date, although the broader domestic picture was less convincing. The FTSE 250, which has greater exposure to the UK economy, lagged its large-cap counterpart, highlighting the contrast between the international earnings of many FTSE 100 companies and the fortunes of domestically focused businesses.

Inflation provided some encouragement. CPI inflation fell to 2.6% in June, while CPIH stood at 2.8%. The Bank of England, however, kept the Bank Rate at 3.75% in June, with the Monetary Policy Committee voting 7-to-2 to leave rates unchanged. Two members preferred a 0.25 percentage-point increase, indicating that policymakers remained concerned about the possibility of inflation proving persistent.

FTSE breaks higher

July was the standout month for UK equities. The FTSE 100 gained about 3.5%, closing at 10,868.05 after reaching an intraday record of 10,989.45. The FTSE 250 rose even more strongly, up 4.2% and moving above 24,000 for the first time since 2021. The rally was supported by financial, energy, mining and other value-oriented shares, while the UK's comparatively small technology sector helped shield the benchmark from some of the global sell-off in AI and semiconductor stocks.

The rally also drew greater interest from individual investors. Trading in FTSE 100 stocks on IG's platform was reported to be 41% higher year on year in July, while the index was about 19.1% higher over the preceding year. That enthusiasm reflected a perception that UK shares offered comparatively attractive valuations and dividend income at a time when investors were questioning the prices attached to some overseas technology companies.
Progress becomes less straightforward

The inflation story became more complicated in July. CPI rose to 2.9%, up from 2.6% in June, while CPIH rose to 3.1%, up from 2.8%. Core CPI held at 2.6%, but services inflation, although easing, remained relatively high at 3.4%. Housing and household services were among the principal contributors to the increase.

For consumers, the message was therefore less comforting than the headline numbers might suggest. Inflation was still well below the much higher levels seen during the cost-of-living crisis, but it remained above the Bank of England's 2% target. With August's official CPI figure not due until 16 September, investors entered September without a definitive reading on whether the July increase was temporary or the start of renewed upward pressure.

Interest rate cuts story loses momentum

The Bank of England kept the Bank Rate at 3.75% in July, but the vote was more finely balanced: six members supported holding rates, while three voted for a 0.25 percentage-point increase to 4%. That split was a clear indication that policymakers were not yet comfortable declaring victory over inflation.

For households, this matters because Bank Rate feeds through to mortgage, loan and savings rates, although not always immediately or one-for-one. Borrowers hoping for a rapid sequence of rate cuts therefore faced a more uncertain outlook. Savers, by contrast, continued to benefit from interest rates that remained considerably higher than they had been for much of the previous decade.

Borrowing costs become the pressure point

Government bonds told a more nervous story than equities. The UK 10-year gilt yield stood at around 4.33% at the end of June, before moving higher through July and into August. Ten-year market yields reached around 5.04% on 26 August, with August trading marked by considerable day-to-day volatility. Rising yields mean falling prices for existing bonds and, importantly for the government, higher prospective borrowing costs.

The pressure intensified at the start of September, just beyond the period covered here. Ten-year gilt yields subsequently rose to around 5.25%, while 30-year gilt yields reached 5.89%, their highest level since 1998. This later move illustrates the risk that had been building in August: if inflation expectations and concerns about government borrowing become entrenched, the bond market can impose tighter financial conditions even without a rise in the Bank Rate.

Summer rally runs out of steam

August was considerably less exuberant for shares. The FTSE 100 closed its final trading session of the month on 28 August at 10,824.26, compared with 10,868.05 at the end of July, a decline of roughly 0.4%. The FTSE 250 finished at 24,938.79, also signalling a market that had broadly consolidated after July's powerful advance.

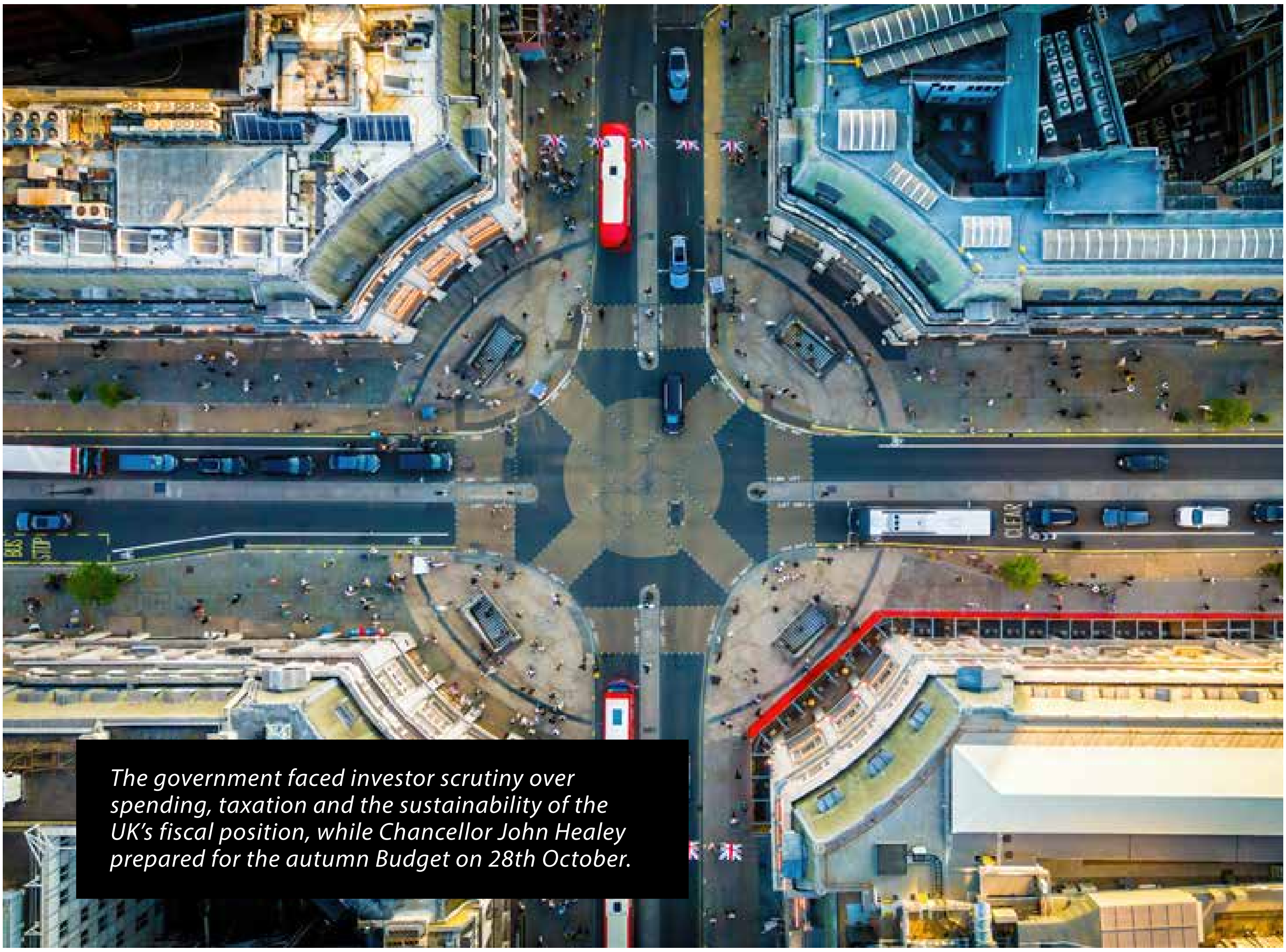
There were still areas of strength. Corporate results, energy companies and selected financial stocks continued to attract buyers, while the FTSE 100's defensive composition helped it withstand volatility in global technology shares. But the tone turned more fragile late in the month: on 27 August, the FTSE 100 fell 0.8% to 10,792.54, its sharpest one-day decline in around six weeks, as banks and energy stocks weakened.

Fiscal credibility moves centre stage

Political sentiment grew increasingly important to markets as the summer progressed. New prime minister Andy Burnham's government faced investor scrutiny over public spending, taxation and the sustainability of the UK's fiscal position, while the new Chancellor, John Healey, prepared for the autumn Budget on 28th October. For investors, the issue was not simply which policies were popular with voters, but whether the government's plans would preserve sufficient fiscal headroom and sustain confidence in the gilt market.

That sensitivity was particularly evident given that government borrowing costs were already elevated. By early September, the debate had intensified, with the Prime Minister emphasising fiscal responsibility while opposition politicians challenged the government's spending approach. Markets were increasingly focused on whether the autumn Budget would reassure investors or heighten concerns about borrowing, taxation and debt-servicing costs.
There were nevertheless signs that

Markets responded to a combination of resilient economic activity, shifting expectations for interest rates and persistent geopolitical uncertainty.



The government faced investor scrutiny over spending, taxation and the sustainability of the UK's fiscal position, while Chancellor John Healey prepared for the autumn Budget on 28th October.

the domestic economy was not simply rolling over. UK business confidence improved in August, with the Lloyds Business Barometer rising to 53%, while economic sentiment increased by seven points. The latest services PMI also indicated expansion, with the August reading at 52.5, up from 52.1 in July. These figures suggested that businesses and consumers retained some resilience despite higher energy costs and geopolitical uncertainty.

For investors, resilience has two sides. A stronger economy can support corporate earnings and share prices, but it can also make the Bank of England less inclined to cut rates quickly if demand keeps price pressures alive. At the same time, renewed geopolitical tensions and volatile oil prices can lift inflation without necessarily improving economic growth, an uncomfortable combination often described as stagflation risk.

Central market question entering autumn

The central market question heading into autumn is whether inflation resumes its downward trend or remains stubbornly above target. The next UK CPI release, due on 16 September, will be particularly important, as August's figure will provide the first official indication of whether July's rise to 2.9% was temporary. The Bank of England's next scheduled rate decision is on 17 September, giving investors two significant data points within days of one another.

For consumers, the summer's lesson is that financial markets can move ahead of the economy. UK shares enjoyed a powerful July rally even as inflation remained above target, while gilt yields later reflected renewed concerns about inflation, geopolitics and government finances. A more balanced conclusion is that the UK entered September with stronger equity-market momentum than earlier in the year, but with borrowing costs and inflation still capable of reshaping the investment landscape quickly.

EUROZONE

Summer of 2026 delivered a sharp reminder that financial markets rarely move in a straight line. Across the Eurozone, investors shifted from relief at moderating inflation and improving risk appetite in June, through renewed caution in July, to a more defensive tone by the end of August. The common thread was energy: hopes of stabilisation periodically lifted shares and bonds, but renewed geopolitical tensions pushed oil prices higher and revived fears that inflation could remain stubbornly above the European Central Bank's target.

For consumers and investors, the three-month picture was mixed. Eurozone equities remained resilient, with the EURO STOXX 50 gaining 4.6% in June, a further 0.5% in July, and roughly 1.0% in August on a price basis.

Inflation takes centre stage

June brought some encouragement on the inflation front. Eurostat reported that annual Eurozone inflation fell from 3.2% in May to 2.8% in June, with energy inflation easing to 8.5% and services inflation slowing to 3.2%. The monthly rate was -0.1%, suggesting the earlier energy shock was beginning to lose momentum. That improvement proved temporary. Inflation edged up to 2.9% in July, with energy prices rising at a 10.0% annual rate.

The August flash estimate showed a sharper increase to 3.3%. Energy inflation accelerated to 14.3% in August, although the underlying picture was less alarming: inflation excluding food and energy was estimated at 2.2%, while services inflation eased to 3.0%. For households, the message was uncomfortable: headline inflation was being pushed higher by energy, but the underlying inflation picture had not deteriorated to the same extent.

ECB changes direction

The European Central Bank responded to the inflation shock with a 25-basis-point increase in June, raising its deposit rate to 2.25%. It was the ECB's first increase in almost three years and marked a significant shift after the earlier period of monetary easing. The central bank also raised its forecast for average 2026 headline inflation to 3.0%, while projecting 2.3% for 2027 and 2.0% for 2028.

July brought a pause rather than another increase. The ECB kept rates at 2.25%, but the mood around the decision was markedly less comfortable than the headline "hold" suggested. Meeting accounts later revealed that policymakers considered another increase increasingly likely if inflation remained elevated. By late August, markets were widely positioned for a further 25-basis-point increase, potentially taking the deposit rate to 2.50% in September.
Equities remain remarkably resilient

Eurozone equities proved more resilient than the macroeconomic headlines suggested. The EURO STOXX 50 rose 4.6% in June as investors responded positively to signs of de-escalation in the Middle East and to falling oil prices. July delivered another, albeit more modest, 0.5% gain, while Germany's DAX advanced 2.5% and France's CAC 40 rose 1.3%. August was more volatile. The EURO STOXX 50 finished the month at about 6,420 points.

This compares with 6,358 at the end of July, giving a price gain of about 1.0%, although the month ended with a sharp one-day fall as oil prices and bond yields jumped. The broader STOXX Europe 600 also recorded a fifth consecutive monthly rise, gaining 0.3% in August, indicating that investors continued to favour companies with strong earnings and exposure to structural themes such as artificial intelligence, despite the worsening inflation backdrop.

Investors shifted from relief at moderating inflation and improving risk appetite in June, to renewed caution in July, and to a more defensive tone by the end of August.

Bonds tell a different story

Government bonds offered a considerably less comforting signal. Germany's benchmark 10-year Bund yield stood at about 2.91% at the end of June, rose to roughly 3.20% by the end of July, and reached approximately 3.32% at the end of August. Rising yields mean falling prices for existing bonds, so investors holding longer-duration fixed-income assets faced a tougher environment as expectations for future interest rates shifted higher.

UK gilts, despite being outside the Eurozone, provided an important read-across for British consumers and investors. The UK 10-year gilt yield rose from 4.83% at the end of June to 5.10% at the end of July, before easing back towards 5.0% in late August. The Bank of England also held the Bank Rate at 3.75% in July, while acknowledging that higher energy prices could push inflation higher later in the year.

The message from both sides of the Channel was similar: falling inflation was no longer a reliable one-way trend, making long-term borrowing costs more sensitive to developments in energy markets.

Political risk moves up the agenda

Politics increasingly entered financial-market calculations in August, particularly in France. Concerns about the country's large fiscal deficit, rising debt burden and the approaching 2027 presidential election pushed up the risk premium investors demanded for French government debt. French borrowing costs moved above Italian levels for much of the summer, an unusual development given Italy's traditionally higher debt burden.

The political backdrop matters beyond France. European governments face simultaneous pressure to increase defence spending, invest in infrastructure and support households amid higher energy costs, while financial markets demand evidence of credible fiscal discipline. With elections scheduled in several major European economies in 2027, political fragmentation and fiscal policy are likely to remain key drivers of bond-market volatility.

For consumers, that can ultimately feed through to mortgage pricing, savings rates, government spending and taxation.

Market mood turns more cautious

Despite the inflation shock, economic activity in the Eurozone showed resilience. The composite PMI reached 52.0 in August, indicating continued private-sector expansion, while manufacturing activity accelerated to a more-than-four-year high. Employment in services also strengthened, and exports recorded their first increase in four and a half years.

That combination of resilient growth and renewed inflation makes the ECB's task particularly difficult. A weak economy would normally argue for lower interest rates, yet an inflation rate of 3.3% is well above the ECB's 2% objective. The result was a market mood best described as cautiously optimistic rather than outright bullish: investors remained prepared to buy equities on the back of strong earnings and improving growth data, but were increasingly unwilling to assume that the era of falling interest rates would resume smoothly.

Period underscores the value of diversification

The key lesson from June to August is that headline inflation can shift quickly when energy markets are disrupted. Eurozone inflation fell 0.4 percentage points in June, rose 0.1 point in July, and then jumped 0.4 point in August. At the same time, underlying inflation remained considerably more stable, highlighting the importance of looking beyond the headline number.

For investors, the summer reinforced the value of diversification. Shares posted gains, but bond yields rose; political developments affected sovereign spreads; and central-bank expectations shifted rapidly. The environment heading into autumn is therefore less about a simple "risk-on" or "risk-off" call and more about balancing inflation protection, equity exposure and interest-rate sensitivity.

Outlook for autumn

As August closed, markets looked ahead to the ECB's September meeting, expecting another 25-basis-point increase. Yet the inflation data also offered reasons for caution: core inflation was softer, services inflation had eased, and economic growth remained positive. Whether the August energy shock proves temporary or begins to influence wages and broader prices will be critical to the next phase of monetary policy.

For households, the implications are practical. Higher-for-longer interest rates can keep borrowing costs elevated, while higher energy prices can squeeze disposable income. For savers, however, persistently elevated rates above the ultra-low levels of the previous decade can offer more attractive returns on cash and short-term fixed-income products. The summer of 2026 therefore ended with a familiar financial-market paradox: the economy was resilient enough to support risk assets, but inflation remained strong enough to prevent central banks from declaring victory.

UNITED STATES

June, July and August 2026 saw a distinctly two-speed market for US investors. Equities remained resilient, supported by strong corporate earnings, enthusiasm for artificial intelligence and a surprisingly robust US economy, yet the bond market told a more cautious story.

Inflation stayed above the Federal Reserve's 2% target, oil prices were volatile, and investors increasingly questioned how much further share valuations could rise while borrowing costs remained elevated. The headline numbers were impressive. The S&P 500 finished June at 7,499.36, down about 1% for the month on a price basis, while the Dow Jones Industrial Average gained roughly 2.5%. The Nasdaq Composite fell about 2.8%, reflecting a bout of profit-taking in technology stocks. Even so, the second quarter as a whole was exceptional: the S&P 500 gained 14.9%, the Nasdaq 21.4% and the Dow 13%.

Equities remained resilient, supported by strong corporate earnings, enthusiasm for artificial intelligence and a surprisingly robust US economy, yet the bond market told a more cautious story.

June sets the tone

June's market action was less about a wholesale retreat from shares than about a change in leadership. Smaller companies and more economically sensitive stocks performed relatively well, while parts of the technology complex came under pressure as investors questioned whether exceptionally high spending on AI infrastructure would generate sufficient profits. The Russell 2000 gained 3.7% on a total-return basis, compared with a 0.95% decline in the S&P 500.

The Federal Reserve added to the uncertainty. At its 17 June meeting, the central bank left the federal funds target range unchanged at 3.50% to 3.75%, unanimously. Policymakers were grappling with an awkward mix of solid economic activity and inflation that remained uncomfortably high. The Fed's June projections also raised its forecast for fourth-quarter 2026 core inflation to 3.3%, up from 2.7% previously.

Inflation remains the key test

The inflation picture nevertheless improved as the summer progressed. Consumer-price inflation peaked at 4.2% in May, partly reflecting energy-related pressures, before easing to 3.5% in June. The decline was welcome, but it remained substantially above the Fed's 2% objective. Energy remained an important swing factor, with geopolitical developments capable of moving petrol and other household costs rapidly.

July brought another modest improvement. The Consumer Price Index rose 3.4% over the year to July, down from 3.5% in June, while core CPI, excluding food and energy, eased from 2.6% to 2.5%. Energy prices were still 14.7% higher than a year earlier. For consumers, the headline inflation rate was moving in the right direction, but the cost-of-living squeeze had not eased.

July brings a market rotation

July was a more complicated month for shares. The S&P 500 slipped by about 0.1% on a price basis, while the Nasdaq fell 3.2% and the Russell 2000 declined 3.1%. By contrast, the Dow edged higher by about 0.3%. This divergence reflected a notable rotation away from some of the year's technology leaders towards value, financials, energy and other areas of the market.

The shift was particularly revealing for consumers watching their investments. Strong corporate profits continued to underpin share prices, but investors became less willing to pay ever-higher prices for future growth. At the same time, energy stocks benefited from rising oil prices, while financial shares found support from higher interest rates. The result was a market that remained broadly bullish but became considerably more selective.

Federal Reserve stays on hold

The Federal Reserve again held rates at 3.50% to 3.75% at its 29 July meeting, though the decision was far less unanimous than in June. Nine policymakers supported keeping rates unchanged, while three preferred a hike. The message was clear: inflation remained elevated, and policymakers were no longer comfortable assuming interest rates could simply drift lower.

For households, this mattered beyond the stock market. Higher official rates tend to feed through into credit-card borrowing, personal loans and other variable-rate debt, while longer-term

Treasury yields influence mortgages and corporate borrowing. By the end of July, the US 10-year Treasury yield had climbed to around 4.74%, compared with roughly 4.41% at the end of June, indicating that investors were demanding higher compensation for holding longer-term government debt.

Bonds send a warning

The bond market therefore became one of the summer's most important stories. The US 10-year Treasury yield ended June at 4.44%, with the monthly average around 4.47%. By the end of August, the yield was approximately 4.75%. Rising yields mean falling prices for existing bonds, although new bond buyers receive a higher prospective income.

August brings renewed optimism
August initially restored some of the confidence lost in July. The S&P 500 and Nasdaq reached fresh highs, supported by strong earnings and renewed enthusiasm for AI-related companies. By 31 August, the S&P 500 had risen about 2.6% in August, while the Nasdaq gained approximately 3.9%; the Dow advanced around 1.3%, marking its fifth consecutive monthly gain.

The S&P 500 closed August at 7,686.14, leaving it about 12.3% higher for the year. The Nasdaq was up 13.5% year to date, and the Russell 2000 had gained roughly 19.1%. These figures underline how strong the US equity market remained despite the turbulence surrounding rates, inflation and geopolitics.

A hawkish turn changes the mood

The tone became noticeably more cautious towards the end of August. Federal Reserve Chair Kevin Warsh's speech at Jackson Hole was interpreted as hawkish, reinforcing the possibility that interest rates might have to rise rather than fall if inflation failed to move convincingly towards 2%. The two-year Treasury yield, which is particularly sensitive to expectations about Fed policy, rose sharply after the speech.

That shift mattered because markets had spent much of the year hoping for looser monetary policy. By the final trading day of August, financial markets were assigning a probability of more than 65% to a September rate hike. The prospect of higher rates alongside rising long-term bond yields created a more difficult environment for expensive growth stocks, even though strong corporate earnings continued to provide support.

Politics moves closer to markets

Political sentiment was another source of uncertainty. President Donald Trump's administration continued to influence markets through trade and energy policy, tariffs, and its public stance towards the Federal Reserve. Concerns about the independence of monetary policy became particularly salient as investors considered whether political pressure for lower rates could conflict with the Fed's responsibility to contain inflation.

The approaching November midterm elections added another layer of uncertainty. Investors were increasingly focused on whether the elections could alter the balance of power in Congress, although historical analysis suggests that trade policy, regulation, geopolitics and Federal Reserve policy are likely to matter more for markets than the electoral result alone.

Market mood turns more selective

By the end of August, the prevailing mood was neither outright bullish nor bearish. It was cautiously optimistic. Share investors could point to strong earnings, AI investment and resilient economic activity, while bond investors highlighted inflation, government borrowing requirements and the prospect of higher-for-longer interest rates.

The final day of August illustrated that tension perfectly. Renewed US-Iran military tensions pushed Brent crude to about $90.49 a barrel, lifted Treasury yields and knocked the major US stock indices lower. Yet despite the day's losses, all three principal US benchmarks still recorded monthly gains. The S&P 500 fell 0.3%, the Dow 0.7% and the Nasdaq 0.1% on 31 August.

Financial environment becomes less forgiving

For American households and individual investors, the economy remained resilient, but the financial environment was becoming less forgiving. Shares posted strong gains, yet valuations were increasingly sensitive to interest-rate expectations. Bonds offered more attractive yields than in the era of ultra-low rates, but longer-duration bonds remained exposed to further yield increases.

Inflation also remained the crucial dividing line. The decline from 4.2% in May to 3.5% in June and 3.4% in July was encouraging, but not enough to declare victory. By the end of August, the official CPI figures were still unavailable, leaving investors to focus on incoming employment, inflation and energy data ahead of the Fed's September meeting.

As summer ended, US markets entered autumn with a stronger economic backdrop than many investors had feared, but with a much narrower margin for error. The S&P 500 closed at 7,686.14, and its double-digit year-to-date gain demonstrated considerable investor confidence, yet the rise in Treasury yields indicated that the bond market was demanding a more cautious assessment of inflation and fiscal risk.

JAPAN

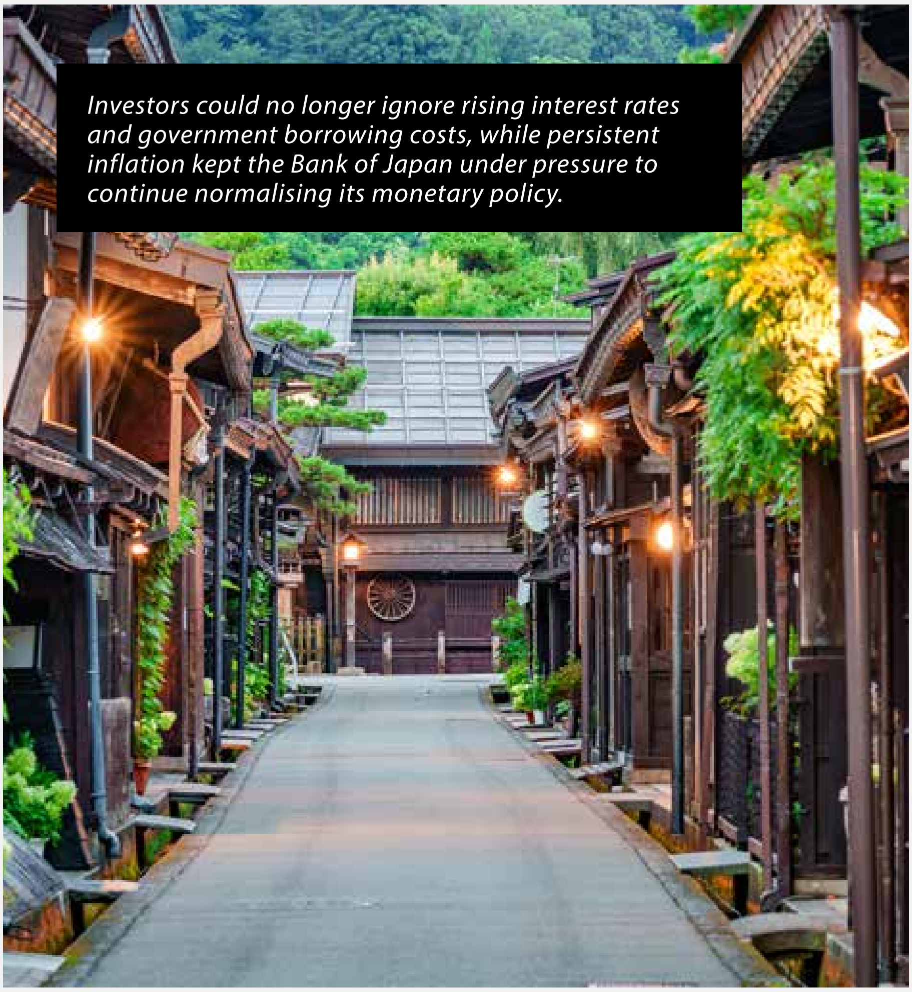
Japan's financial markets underwent a dramatic three-month period through June, July and August 2026. Equity investors began the summer in a buoyant mood, with the Nikkei 225 breaking through the 70,000 mark for the first time on a monthly closing basis in June. By July, however, enthusiasm had given way to a sharp correction, before shares recovered some ground in August. Behind that volatility lay a more complex story: inflation remained elevated, the yen stayed under pressure, and government bond yields climbed to levels not seen for decades.

For households and investors, the significance of the period extended well beyond the Tokyo Stock Exchange. The Bank of Japan's June decision to raise its policy rate to around 1% marked another step away from the ultra-low interest-rate environment that had defined Japan for years. At the same time, government spending plans and concerns about public finances put further pressure on the Japanese government bond market. The result was a summer in which the traditional Japanese investment landscape began to look markedly different.

Equity markets changed direction

June was the standout month for Japanese equities. The Nikkei 225 rose 5.62%, closing at 70,062.32, its first monthly close above 70,000. The index reached an intra-month high of 72,366.34, supported by continued enthusiasm for artificial intelligence and semiconductor-related companies, while easing concerns about the economic impact of the Middle East conflict also boosted investor confidence.

That optimism proved difficult to sustain. In July, the Nikkei fell 8.13% to 64,362.02, its first monthly decline in four months. The reversal reflected profit-taking after the strong first half of the year, concerns about bond yields, and uncertainty over Japan's economic and political direction. By August, however, the market had regained its footing: the Nikkei rose 3.02%, ending the month at 66,311.93.



Investors could no longer ignore rising interest rates and government borrowing costs, while persistent inflation kept the Bank of Japan under pressure to continue normalising its monetary policy.

Bonds became the bigger story

The bond market was arguably the most significant development of the summer. Japan's benchmark 10-year government bond yield ended June at about 2.68%, already its highest monthly close since 1997. In July, the yield moved towards and above 2.8%, reaching roughly 2.88% before closing near 2.80%.

August saw another leg higher. The 10-year JGB yield approached 2.95%, while the 30-year segment remained above 4%. At an August auction, the average yield on a new 30-year JGB was 3.937%, underscoring how substantially the cost of long-term government borrowing had risen.

Inflation kept pressure on policymakers

Inflation remained an important concern throughout the period. Japan's national consumer price index rose 1.7% year on year in June, then accelerated to 1.9% in July. Core inflation, excluding fresh food, stood at 1.8% in July, while the measure excluding both fresh food and energy was 1.9%.

Preliminary Tokyo data for August suggested that underlying price pressures had not eased. Tokyo's headline inflation rose to 1.9%, while inflation excluding fresh food stood at 1.8%, and the measure excluding fresh food and energy reached 2.0%. Food prices remained a notable source of upward pressure. The national August figure was not yet available at the end of the month, making Tokyo's figures an important early indicator rather than a definitive national reading.

Interest rates entered a new phase

The Bank of Japan raised its policy rate to 1.0% at its June meeting, a decision approved by a 7-to-1 majority. The move marked another important step in the country's gradual normalisation of monetary policy after years of exceptionally loose conditions. The Bank left rates unchanged at its July meeting. Yet the pause did not signal that markets had abandoned expectations of further tightening.

With inflation still close to the Bank's 2% objective, the weak yen adding to import costs, and longer-term bond yields rising, investors are increasingly focused on whether another rate increase could follow later in the year. The Bank's July outlook also warned that consumer prices could remain well above 2% in the second half of fiscal 2026.

Politics unsettled the markets

Political developments added another layer of uncertainty. Prime Minister Sanae Takaichi's government pursued an expansionary economic programme to boost investment and growth, including a long-term strategic investment plan exceeding ¥370 trillion. Investors worried that additional spending, without

With inflation near the Bank's 2% target, a weak yen lifting import costs and bond yields rising, investors are increasingly watching for another rate hike later this year.

sufficiently clear financing, could increase government borrowing and further push up JGB yields.

By late July, political approval had weakened, and market confidence in the government's fiscal messaging had eroded. The tension was straightforward yet difficult to resolve: consumers wanted measures to offset the rising cost of living, while bond investors sought evidence that further fiscal support would not lead to unsustainable debt issuance. That conflict between growth ambitions and fiscal discipline became a defining theme of Japan's summer markets.

Yen added another risk to the wider market narrative

Currency movements were closely tied to the broader market narrative. A weak yen supported the overseas earnings of Japanese exporters, helping equities, but it also raised the domestic cost of imported energy and other goods. That created a difficult trade-off for policymakers, as currency weakness could boost corporate profits while worsening inflation for households.

The authorities responded with extraordinary force. Between 30 July and 26 August, Japan spent approximately ¥15.4 trillion (£76 billion) to support the yen, according to Finance Ministry data. The intervention underscored the government's concern about excessive currency weakness and its potential impact on household purchasing power and on imported inflation.

Market movements mattered in several practical ways

For Japanese households, the summer's market movements mattered in several practical ways. Higher interest rates and government bond yields point to a world in which borrowing is no longer exceptionally cheap. Mortgage costs, business financing and savings rates can all be affected as market rates are passed through to retail financial products.

There was also a more immediate inflationary effect. Food remained a key driver of price increases, while the weak yen pushed up the cost of imported goods and energy. For savers, the prospect of higher domestic interest rates offered a potential benefit after years of extremely low returns on cash. For borrowers, however, the move towards higher rates was a new financial consideration.

Investor mood turned more cautious

The overall mood shifted noticeably over the three months. June was marked by enthusiasm for Japanese technology, semiconductors and corporate earnings. July brought a sharper reassessment, as investors questioned whether equity valuations had moved too far ahead and bond yields were rising. August saw a partial recovery, but the market was far less carefree than at the start of the summer.

That combination suggests a market moving from a simple growth-and-equities narrative towards a more traditional balancing act among shares, bonds, inflation and interest rates. The fact that Japanese 10-year borrowing costs were approaching levels last seen in the 1990s was particularly significant: it demonstrated that the country's financial system was adapting to a structurally different interest-rate environment.

Key message looking ahead for consumers

The summer of 2026 left Japan's financial markets at a critical juncture. Equities remained well above their year-start levels, yet investors could no longer ignore the implications of rising interest rates and government borrowing costs. Meanwhile, inflation was sufficiently persistent to keep the Bank of Japan under pressure to continue normalising monetary policy.

For consumers, the key message is that Japan's financial environment is changing. Higher returns on savings could gradually become more attractive, but borrowers face greater interest-rate risk; businesses must adapt to more expensive capital; and equity investors need to weigh strong corporate opportunities against higher bond yields and political uncertainty. After decades of exceptionally low interest rates, Japan entered the autumn of 2026 with markets having to price a very different economic reality.

The quarter brought three distinct market moods: a pause after a powerful rally, a sharp technology-led setback, and a broad recovery.

ASIA (EX JAPAN)

The second quarter of 2026 offered a useful reminder that investing in Asia ex-Japan is rarely a straightforward, one-way approach. June, July and August brought three distinct market moods: a pause after a powerful rally, a sharp technology-led setback, and a broad recovery. Behind the headline moves were some of the biggest themes facing investors today, including artificial intelligence, semiconductor demand, inflation, interest rates, energy prices, geopolitics, and the evolving relationship among China, the US and the rest of Asia.

The numbers tell the story. The MSCI AC Asia ex-Japan Index fell 1.29% in June, but it remained 26.20% higher year to date at the end of the month. July was tougher, with the MSCI AC Asia Pacific ex-Japan Index down 2.3% in US dollars, as technology and semiconductor shares in South Korea and Taiwan came under pressure. August brought a change of tone: the same regional index rose 3.2%, taking its year-to-date advance to 25.2%. For a UK investor, however, these dollar-based figures are only part of the picture, as movements in sterling can increase or reduce the return ultimately received in pounds.

Breathing space after an exceptional first half

June was a month when many investors took a breath after an exceptional first half. The regional benchmark's 1.29% decline did not signal that the long-term Asian growth story had suddenly disappeared; rather, valuations and positioning had begun to matter more. Taiwan remained one of the strongest structural stories, with its stock market rising 3.52% in local currency, while Hong Kong was considerably weaker. The contrast showed how differently markets within the same region can behave.

For investors using an Asia-focused fund or ETF, this matters because "Asia ex-Japan" is not a single economy. The MSCI AC Asia ex Japan Index includes large and mid-sized companies across developed and emerging Asian markets and covers roughly 85% of each country's free-float-adjusted market capitalisation. As a result, technology and semiconductor companies can have a substantial influence on the performance of a diversified regional portfolio.

Signal for retail investors tests confidence

July brought a more significant setback. The MSCI AC Asia Pacific ex Japan Index fell 2.3% as technology-heavy markets, particularly South Korea and Taiwan, saw a sharp pullback in AI-related semiconductor and memory stocks. Yet the weakness was far from universal. The MSCI China Index gained 9.0% in US dollars, while Australia also performed strongly. This was an important signal for retail investors: a regional fund can look relatively stable even when one major market is experiencing a sizeable correction; conversely, a technology-heavy fund can behave very differently from the wider Asian market.

The concentration of gains was already a concern. Semiconductor companies have benefited enormously from demand for AI infrastructure, but investors began to question whether share prices had moved too far ahead of the underlying earnings outlook. That does not necessarily undermine the long-term AI investment theme; it simply means expectations have risen. For a UK investor buying an Asia fund after a substantial rally, valuation risk is therefore just as important as economic growth.

Divergence strengthens the case for diversification

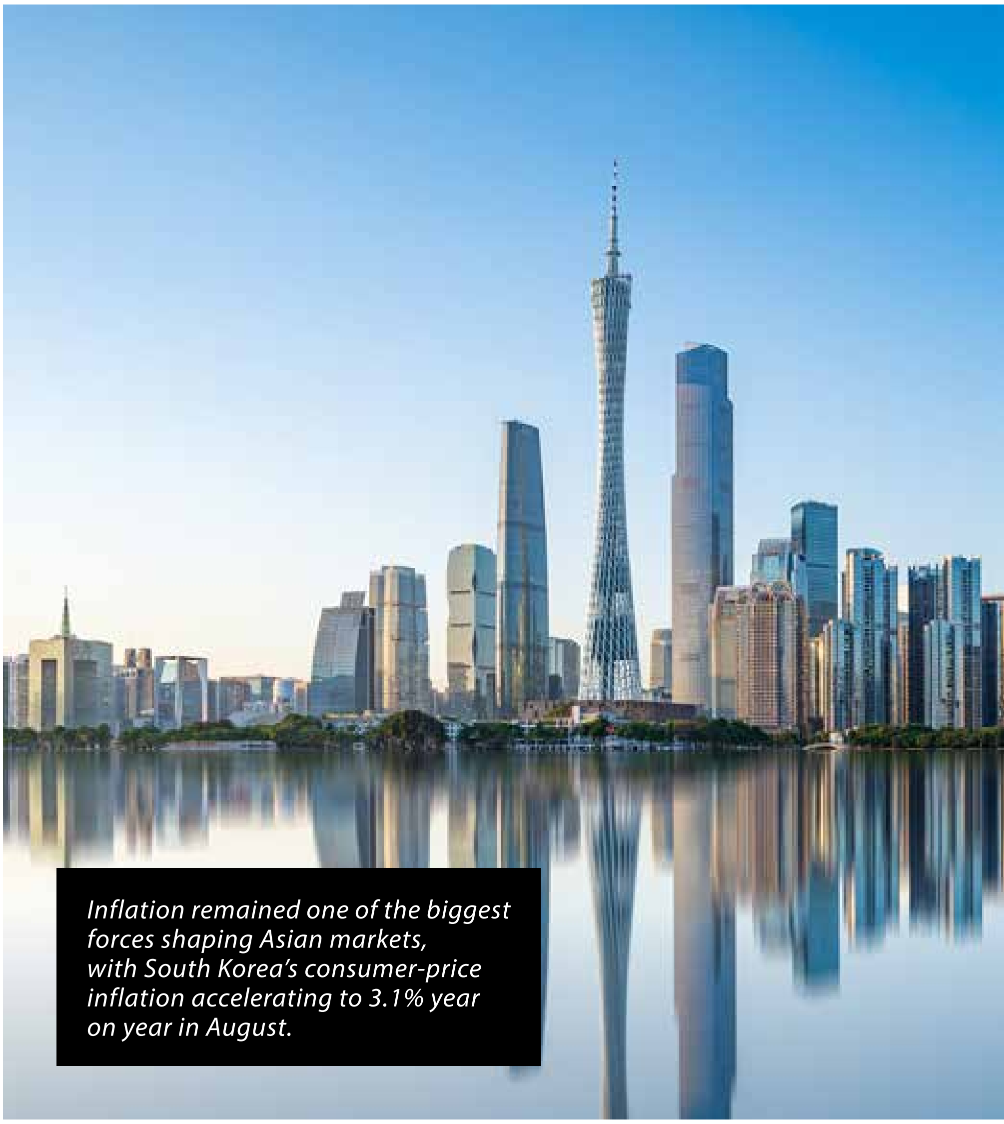
August brought a more constructive mood. The MSCI AC Asia Pacific ex Japan Index rose 3.2%, supported by South Korea, Taiwan and Australia, although China moved in the opposite direction. The MSCI China Index slipped 0.3% in US dollars, as weak domestic demand and softer consumer and internet stocks offset gains elsewhere. China's manufacturing PMI improved but remained in contraction territory, highlighting the continuing gap between financial-market optimism and the underlying domestic economy.

For retail investors, this divergence reinforces the case for diversification. Someone holding a broad Asia ex-Japan tracker may have experienced a very different outcome from someone holding a narrowly focused China, India or semiconductor fund. Even within a diversified fund, currency movements can materially affect sterling returns. This is one reason why comparing an investment's performance in pounds, rather than simply looking at the underlying local-market index, is important.

Inflation keeps rates in focus

Inflation remained one of the biggest forces shaping Asian markets. South Korea's consumer-price inflation accelerated to 3.1% year on year in August, although much of the increase reflected a one-off comparison effect in mobile-service charges. Underlying price pressures nevertheless remained a concern, with core inflation reaching 3.4%. That complicates monetary policy: higher rates can restrain inflation but can also make borrowing more expensive and potentially weigh on company valuations.

India presented a different picture. Its retail inflation rose to 4.45%, according to the country's Finance Ministry, while officials continued to monitor the effects of global bond yields, commodity prices and currency movements. For investors, India's faster structural growth remains attractive, but higher valuations and sensitivity to oil prices leave the market vulnerable when global interest rates or energy costs rise.



Benchmark for returns on lower-risk assets

Although gilts are British government bonds rather than Asian assets, they matter to anyone investing from the UK because they provide a useful benchmark for returns on lower-risk assets. The summer demonstrated that bonds can be volatile too. Global government bond markets experienced a significant sell-off in July, with benchmark ten-year yields generally moving higher. Higher yields can eventually offer more attractive income for new bond investors, but they can reduce the market value of bonds already held, particularly those with longer maturities.

UK interest rates added another layer of uncertainty. The Bank of England kept the Bank Rate at 3.75% in July, but the decision was not unanimous: six members voted to hold rates, while three wanted a 0.25 percentage-point increase. The Bank also warned that the energy shock could feed through to inflation later in the year. For UK households, this affects mortgage costs, savings rates and borrowing; for investors, it affects the relative attractiveness of cash and bonds compared with riskier overseas equities.

Political risk refuses to disappear

Political sentiment was another

persistent market influence. Asia's export-oriented economies remain particularly sensitive to US trade policy, semiconductor restrictions and tensions between Washington and Beijing. At the same time, China's policymakers continued to face the difficult task of supporting domestic demand without resorting to an excessively large stimulus programme. Investors therefore had to consider not only company earnings but also government policy, trade relationships and geopolitical developments.

For UK investors, political risk can seem remote until it moves financial markets. A change in tariffs can affect Asian manufacturers; restrictions on advanced technology can affect semiconductor companies; and a geopolitical shock can push up energy prices, affecting inflation and interest-rate expectations worldwide. Diversification cannot eliminate these risks, but it can reduce the damage from being too heavily exposed to one country, industry or theme.

Biggest lesson may be the simplest

Asia ex-Japan can offer substantial long-term growth potential, but it is not a substitute for diversification. A broad regional fund can give UK investors exposure to economies such as China, India, South Korea, Taiwan and the ASEAN region without requiring them to pick individual shares. That convenience carries its own risks, including currency fluctuations, emerging-market volatility, political uncertainty and sector concentration.

For investors considering an Asia ex-Japan fund or ETF, the key questions are practical rather than fashionable. How much of the portfolio is invested in China? How large is the technology allocation? Is the fund hedged into sterling or exposed to currency fluctuations? What are the ongoing charges? Does it distribute income or reinvest dividends? And, importantly, how would you feel if the investment fell by 20% or more during a period of market stress?

Summer of opportunity and caution

The overall picture heading into September is therefore mixed yet constructive. Asia's technology and semiconductor industries remain underpinned by strong structural demand, while India's domestic economy and several ASEAN markets offer distinct sources of growth. Yet July's correction showed how quickly sentiment can shift when valuations become stretched. August's recovery indicated that investors remain willing to buy into the region when confidence returns, but uneven performance across countries argues against treating Asia as a single homogeneous investment.

For the UK retail investor, the sensible conclusion is not to buy or avoid Asia. Rather, the region is best viewed as one component of a diversified long-term portfolio. The combination of strong growth potential, higher volatility, currency risk and political uncertainty means that position size and time horizon matter. June, July and August 2026 provided a useful demonstration: even when the long-term investment case remains intact, the journey can be considerably more turbulent than the headline annual return suggests.

EMERGING MARKETS

"Emerging markets" was no longer a single economic story but a collection of very different markets, driven by technology, commodities, domestic consumption and politics.

Emerging-market investors entered the summer with considerable momentum, but June, July and August 2026 showed the rally was far from one-way traffic. The MSCI Emerging Markets Index fell 1.4% in June, yet the setback came after an exceptionally strong second quarter, during which the index gained about 24%, its strongest quarterly performance since 2009. By the end of June, the market was still up roughly 24% for the year, with Taiwan and South Korea increasingly dominating the benchmark through their exposure to semiconductors and artificial intelligence infrastructure.

The June reversal was nevertheless a warning about concentration. China remained under pressure, while India and parts of Latin America were affected by currency and energy concerns. The fragile US-Iran understanding temporarily eased fears over energy supplies and helped oil-importing markets, but a stronger US dollar and nervousness about stretched technology valuations reduced investors' appetite for risk. For consumers looking at emerging markets through a fund or pension, the message was becoming clearer: "emerging markets" was no longer a single economic story but a collection of very different markets driven by technology, commodities, domestic consumption and politics.

Generating earnings at the pace implied by share prices

July was considerably tougher for emerging-market equities. The MSCI Emerging Markets Index fell about 3.0% in US dollars, with technology-heavy South Korea and Taiwan suffering particularly severe corrections as investors questioned whether extraordinary spending on AI infrastructure could continue to generate earnings at the pace implied by share prices. South Korea fell 17.9% in US dollars, while Taiwan declined 5.3%. By contrast, China gained 9.0%, Brazil rose 6.4%, and Colombia surged 20.1%, highlighting how wide the dispersion within emerging markets had become.

Bond investors faced their own summer test. Higher oil prices, shifting expectations about US monetary policy, and rising Treasury yields put pressure on emerging-market debt in July. The JP Morgan EMBI Global Diversified Index, a major measure of US-dollar emerging-market sovereign debt, fell 1.42%, while local-currency emerging-market bonds gained 0.30% in US-dollar terms, as currency movements more than offset a modest decline in local interest rates. The contrast matters because local-currency debt can benefit when domestic inflation falls, and central banks have room to ease, whereas dollar-denominated debt is much more sensitive to US Treasury yields and the US dollar.

Inflation kept central banks cautious

Inflation was not uniformly out of control across emerging markets, but the overall trend remained sensitive to energy prices. By July, average consumer-price inflation in emerging markets had eased to 6.1% year on year, down from 6.4% in June, according to BNP Paribas, suggesting that the earlier energy shock was proving manageable in many economies. Yet food inflation was beginning to accelerate in countries including India, Egypt and Türkiye, while the prospect of another commodity-price shock remained a risk.

That uncertainty prompted many emerging-market central banks to hold off. India kept its policy rate at 5.25%, while Colombia, Indonesia and South Africa also resisted pressure to tighten in July. South Africa was a particularly interesting case: June inflation accelerated to 5.0%, above the upper end of the central bank's target range, yet the Reserve Bank held its repo rate at 7%. Brazil, meanwhile, saw inflation moderate to 4.52% in July, strengthening the case for eventual monetary easing, even as higher US tariffs complicated the outlook.

Gilt market provided an important parallel

For UK-based investors, the gilt market provided an important parallel. The Bank of England kept the Bank Rate at 3.75% in both June and July, although the July decision was more finely balanced, with three of the nine Monetary Policy Committee members voting for a 0.25 percentage-point increase. UK CPI inflation fell to 2.6% in June, then rose to 2.9% in July, while services inflation remained relatively sticky. The Bank warned that higher energy costs could push inflation higher again later in the year.

The gilt market reflected those concerns. The 10-year gilt yield ended June around 4.7% to 4.8% and rose sharply in July, finishing the month at about 5.05%, up 29 basis points. By the end of August, it had edged only slightly higher to 5.06%. For consumers, higher gilt yields matter because government borrowing costs feed indirectly into mortgage pricing, corporate financing and the general cost of money across the economy. They also provide a useful benchmark for understanding why emerging-market bonds struggled when global yields moved higher.

August restored some confidence

August brought a striking shift in mood. According to Janus Henderson, emerging-market equities rebounded 3.4% in US dollars, marking the asset class's strongest August performance since 2004. South Korea recovered 6.9%, Taiwan 6.5%, as semiconductor stocks stabilised, while South Africa jumped 11.6%, Turkey gained 8.0%, and Poland rose 5.2%. The recovery pushed the MSCI Emerging Markets Index to a year-to-date gain of approximately 24.3%.

Fixed income also recovered. The JP Morgan EMBI Global Diversified Index gained 0.9% in August as emerging-market sovereign spreads narrowed by roughly 10 basis points to around 217 basis points over US Treasuries. That was an important sign that investors were again willing to accept emerging-market credit risk, although the rally remained dependent on relatively benign global liquidity conditions and a weaker US dollar. Local-currency bonds were more mixed, underscoring the importance of currency movements and domestic monetary policy, rather than treating emerging-market debt as a single homogeneous asset class.

Politics became part of the risk premium

Politics was never far from investors' minds over the three-month period. US trade policy remained a major source of uncertainty, with another wave of tariffs, investigations and trade threats in July and August heightening concerns about supply chains and export-dependent economies.

Inflation was not uniformly out of control across emerging markets, but the overall trend remained sensitive to energy prices.

China responded by shifting towards more targeted measures on technology and sanctions, while countries such as Taiwan, Vietnam and Mexico continued to benefit from the restructuring of global supply chains.

Brazil illustrated political risk particularly clearly. Its equity market benefited from higher commodity prices in July, but political uncertainty became a headwind in August as investors looked towards the country's October presidential election. Brazil's MSCI index fell 1.3% in August, while Argentina's fell 5.7%. Elsewhere, political developments could be more supportive: Hungary's shift towards a pro-European government helped facilitate an easing cycle in local interest rates, demonstrating how political direction can influence both bonds and currencies.

Positive, but selective, investor sentiment

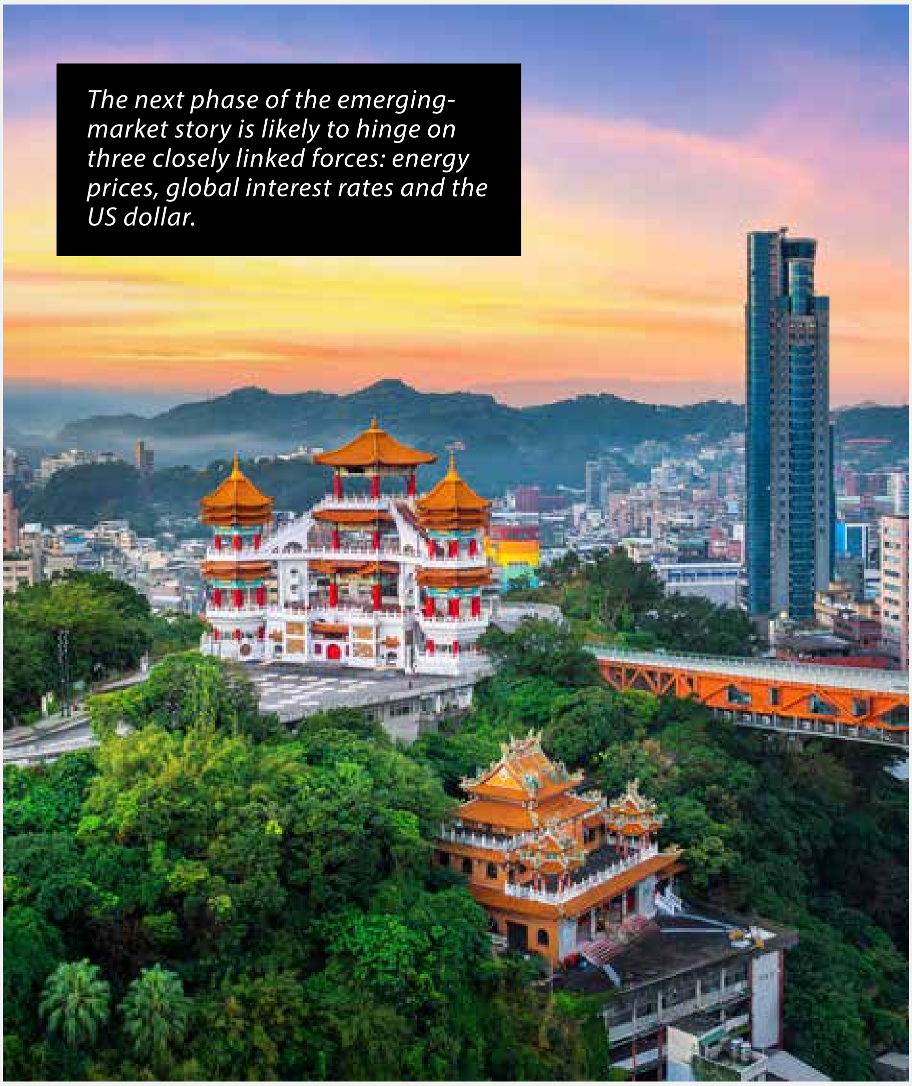
By the end of August, investor sentiment towards emerging markets was considerably more constructive than at the end of July, but it was not carefree. Global equity funds recorded their first weekly outflow after 13 consecutive weeks of inflows in the week ending 26 August, yet emerging-market equity and bond funds still attracted approximately $709 million and $956 million, respectively. This suggests that investors were not abandoning emerging markets; instead, they were becoming more selective about where and how they took risk.

For consumers, that distinction is important. The headline numbers look impressive. The MSCI Emerging Markets Index was up roughly 24% year to date at the end of August, but the gains have been heavily influenced by a relatively small group of technology and semiconductor markets. By the end of June, South Korea and Taiwan accounted for more than half of the MSCI Emerging Markets benchmark, making the supposedly diversified index unusually sensitive to the AI investment cycle.

Broader emerging-market sentiment

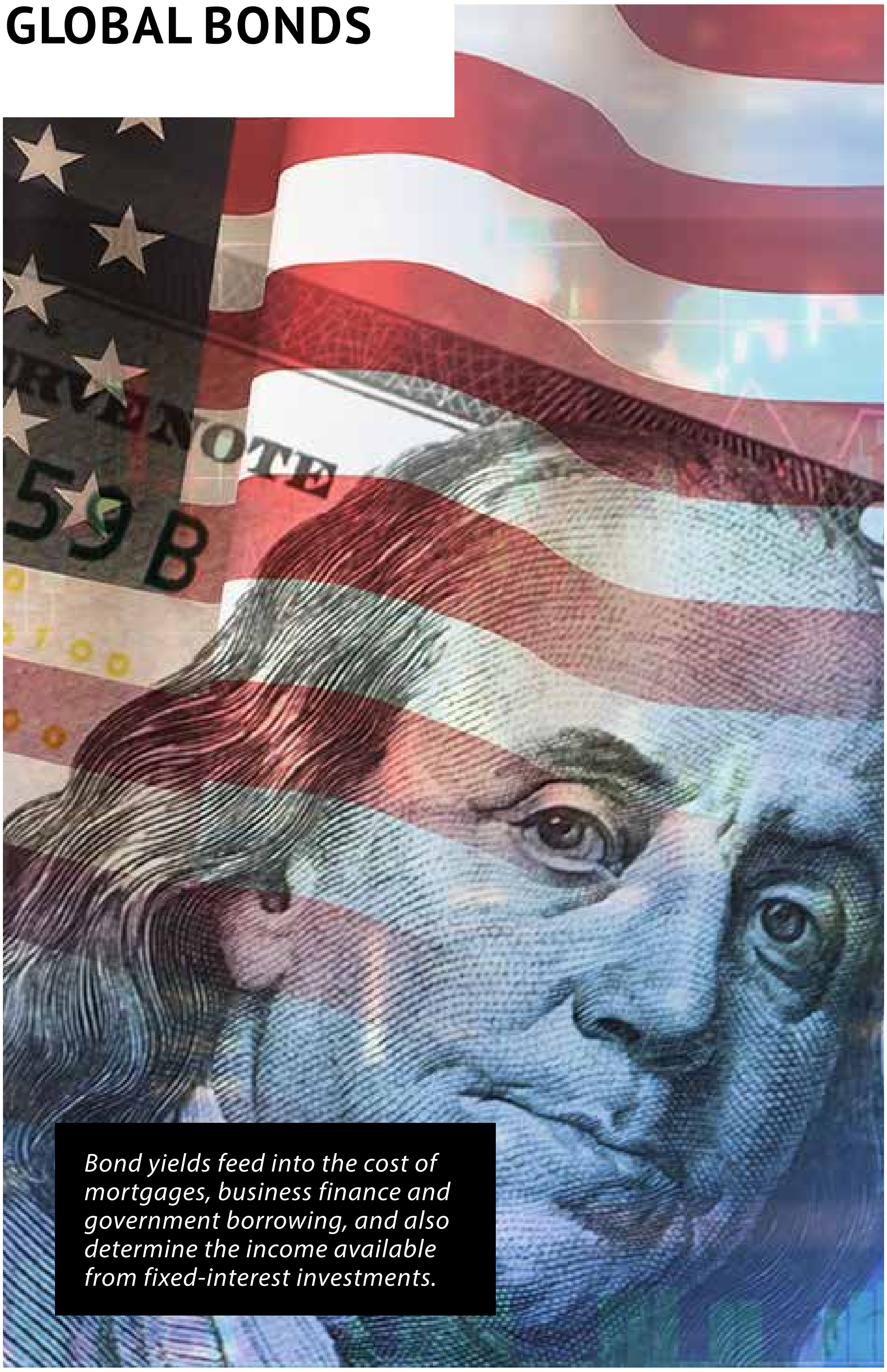
The next phase of the emerging-market story is likely to hinge on three closely connected forces: energy prices, global interest rates and the US dollar. Higher oil prices could support major commodity exporters such as Brazil and Colombia by boosting export revenues, government finances and corporate earnings, but would place greater pressure on energy-importing economies such as India by raising import costs and potentially fuelling inflation. For investors, the direction of energy prices will therefore remain a key influence on both individual markets and broader emerging-market sentiment.

The US dollar and the global interest-rate environment will be equally important. A stronger dollar can increase the cost of servicing dollar-denominated debt, while also pressuring emerging-market currencies and potentially prompting central banks to keep monetary policy tighter. By contrast, a softer dollar, together with falling global bond yields, could create a more supportive backdrop, encouraging capital flows into emerging-market equities and bonds as investors seek higher growth prospects and potentially more attractive returns.



The next phase of the emerging-market story is likely to hinge on three closely linked forces: energy prices, global interest rates and the US dollar.

GLOBAL BONDS



Bond yields feed into the cost of mortgages, business finance and government borrowing, and also determine the income available from fixed-interest investments.

Global bond markets moved towards summer amid hopes that the inflation shock was finally becoming more manageable. Instead, June, July and August served as a reminder that government bonds remain acutely sensitive to energy prices, fiscal policy and central bank credibility. Yields rose across several major markets as investors demanded greater compensation for inflation and the growing supply of government debt.

For consumers, this matters because bond yields feed into the cost of mortgages, business finance and government borrowing, while also determining the income available from fixed-interest investments. The mood was particularly unsettled by geopolitical developments and the disruption to energy markets. The resulting inflation concerns complicated the path for central banks: policymakers faced the difficult choice of keeping rates restrictive to contain prices or allowing weaker economic activity to influence policy. The OECD had already warned earlier in 2026 that global debt markets were under pressure from persistent fiscal deficits, rising interest costs and substantial investment requirements.

Steadier start for markets

June began with some relief for UK consumers and bond investors as UK CPI inflation fell to 2.6%, down from 2.8% in May. The figure was still above the Bank of England's 2% target, but the trend was encouraging. The Bank, however, remained wary of energy-price volatility and the risk that the geopolitical shock could push inflation higher again.

The Bank of England kept the Bank Rate at 3.75% at its June meeting, with the decision passed by seven votes to two; two members preferred a 25-basis-point increase to 4%. That split was significant, as it showed the Monetary Policy Committee was far from unanimous on the appropriate direction of rates. In the eurozone, meanwhile, the European Central Bank raised its policy rate by 25 basis points to 2.25%, responding to renewed inflation risks linked to higher energy prices.

Inflation clouds the outlook

By July, the inflation picture was becoming less comfortable. UK CPI increased to 2.9%, up from 2.6% in June, while CPIH reached 3.1%. The rise reinforced concerns that the energy shock could take longer to unwind than previously expected. Although underlying inflation was not accelerating uniformly, the headline increase made it harder for policymakers to contemplate rapid interest-rate reductions. The Bank of England consequently held the Bank Rate at 3.75% again, but the July vote was more finely balanced at 6-to-3. Three policymakers wanted rates raised to 4%. The message for bond investors was clear: the prospect of lower rates could not be taken for granted. At the same time, the ECB left its deposit rate at 2.25% at its July meeting, having already tightened in June.

Vulnerability to shifts in confidence

UK government bonds, or gilts, faced an additional complication: politics. Investors were increasingly focused not only on inflation and monetary policy but also on the government's fiscal position and the amount of debt the Treasury would need to issue. This heightened the long end of the gilt market's vulnerability to shifts in confidence about future borrowing and spending.

By late August, the UK 10-year gilt yield stood at around 5.01%, according to market data, up roughly five basis points over the preceding month. The longer-term market remained considerably more volatile: the 30-year gilt yield approached levels not seen for decades during the broader summer bond sell-off.

Bond markets come under pressure

August was the most challenging of the three months for global fixed income. Long-term government bond yields rose sharply across major developed markets, with the US 30-year Treasury yield moving above 5.3%, its highest level since 2007, and the 10-year Treasury yield above 4.7%. Germany, France, Japan and the UK also saw significant upward pressure on long-term yields.

The sell-off reflected several forces operating simultaneously. Inflation remained vulnerable to energy-price shocks; governments were issuing large quantities of debt; and investors were demanding a higher term premium for taking long-duration risk. In the US, the 10-year Treasury yield reached 4.73% on 28 August, about half a percentage point above its level a year earlier.

Inflation stayed in the spotlight

Inflation was the thread running through all three months. In Britain, the headline CPI rate rose from 2.6% in June to 2.9% in July, remaining well above the Bank of England's 2% objective. The Bank was concerned that higher energy costs could feed into wages and services, creating a second round of inflation even if the original energy shock eventually faded.

The eurozone experienced an even sharper deterioration by August. Inflation rose to 3.3%, up from 2.9% in July, with energy inflation accelerating sharply. Core inflation, excluding food and energy, was considerably more subdued at 2.4%, suggesting that the latest inflation surge was heavily influenced by the energy shock rather than a broad-based acceleration in underlying prices.

Central banks faced a dilemma

The policy challenge was therefore becoming increasingly global. Higher energy prices push inflation up at precisely the moment when weaker consumer demand and tighter financial conditions argue for caution. Central banks cannot directly produce more oil or resolve geopolitical disruptions, but they can influence whether an initial price shock becomes embedded in broader inflation expectations.

The Federal Reserve faced the same dilemma in the United States. At its

Central banks cannot directly produce more oil or resolve geopolitical disruptions, but they can influence whether an initial price shock becomes embedded in broader inflation expectations.

July meeting, it kept its target range at 3.50% to 3.75%, even though inflation remained above target. By the end of August, comments from Fed Chair Kevin Warsh had prompted markets to reassess the likelihood of further tightening. The probability of a September rate increase rose sharply after his Jackson Hole remarks.

Part of the bond-market equation

Politics increasingly became part of the bond-market equation. Investors were concerned about the sustainability of government finances at a time when defence, infrastructure, energy and other spending requirements were competing for scarce fiscal resources. Higher yields increase the cost of refinancing government debt, creating a potentially uncomfortable feedback loop for countries already carrying substantial debt burdens.

For the UK, fiscal credibility is particularly important. A government need not face a conventional debt crisis for markets to react: even a modest rise in the risk premium demanded by investors can significantly increase the cost of new borrowing. The summer's gilt volatility therefore served as a useful reminder that political announcements can indirectly affect household finances through the bond market.

Investor mood turns selective

Despite the bond sell-off, investors did not abandon fixed income. Instead, they became more selective about where they took interest-rate risk. Bond funds attracted approximately $55bn in inflows in August, while shorter-duration and inflation-protected securities proved particularly attractive. This suggests that investors still value the income available from bonds but are reluctant to take excessive exposure to long maturities while yields remain volatile.

This is an important distinction for consumers. A higher bond yield can be good news for someone buying a bond today, as it can provide higher income. However, an investor who already owns a long-dated bond may see its market value fall when yields rise. The relationship is straightforward: bond prices and yields generally move in opposite directions.

Turbulence is directly relevant

For consumers, the summer's bond-market turbulence is directly relevant. Higher government bond yields can eventually translate into more expensive fixed-rate borrowing, while savers may benefit from more attractive yields on cash-like and fixed-income products. Mortgage rates, corporate financing costs and the government's own debt-servicing bill can all be influenced by movements in the wider bond market.

The more encouraging development for long-term investors is that bonds once again offer meaningful income after years of exceptionally low yields. The less comfortable reality is that higher yields do not remove risk: inflation, central-bank policy, political decisions and government borrowing can all cause prices to move sharply.

Significant change in the tone of the global bond market

As the global bond market enters autumn, will the energy shock prove temporary, or will it feed through to wages and services? Secondly, will central banks keep rates higher for longer to prevent inflation expectations from becoming unanchored? Thirdly, will governments demonstrate sufficient fiscal discipline to reassure investors that rising debt burdens remain manageable?

For households and consumer investors, the sensible conclusion is not that bonds are either 'safe' or 'dangerous'. Rather, different types of bonds carry different risks. Shorter maturities are typically less sensitive to interest-rate changes; longer maturities can offer greater potential price gains if yields eventually fall, but also greater losses if yields continue to climb. Inflation-linked bonds provide another tool for managing unexpected price pressures.

The summer of 2026 has marked a significant shift in the tone of the global bond market. Inflation is no longer a fading concern; central banks must remain vigilant, and politics is increasingly influencing the cost of government borrowing. Equities have so far shown considerable resilience, but the bond market is signalling a more cautious outlook. For consumers, the key message is simple: interest rates, inflation and government finances are no longer separate market stories; they are increasingly part of the same investment and household-finance equation.

Summary

Global markets show resilience amid rising uncertainty

As a snapshot, the second quarter of 2026 was a mixed and increasingly cautious period for global financial markets. Equity markets remained broadly resilient, supported by solid corporate earnings, relatively sound economic activity and continued investor interest in sectors such as technology, artificial intelligence, energy and financial services. However, market volatility rose as concerns about inflation, the path of interest rates, rising government borrowing and geopolitical tensions weighed on investor sentiment.

Inflation was one of the most pressing issues throughout the period. Although price pressures had appeared to be easing, higher energy and oil prices pushed inflation higher again in several major economies. This made it harder for central banks to cut interest rates quickly. The Bank of England, European Central Bank, Federal Reserve and Bank of Japan all faced the challenge of balancing inflation control with the need to support economic growth.

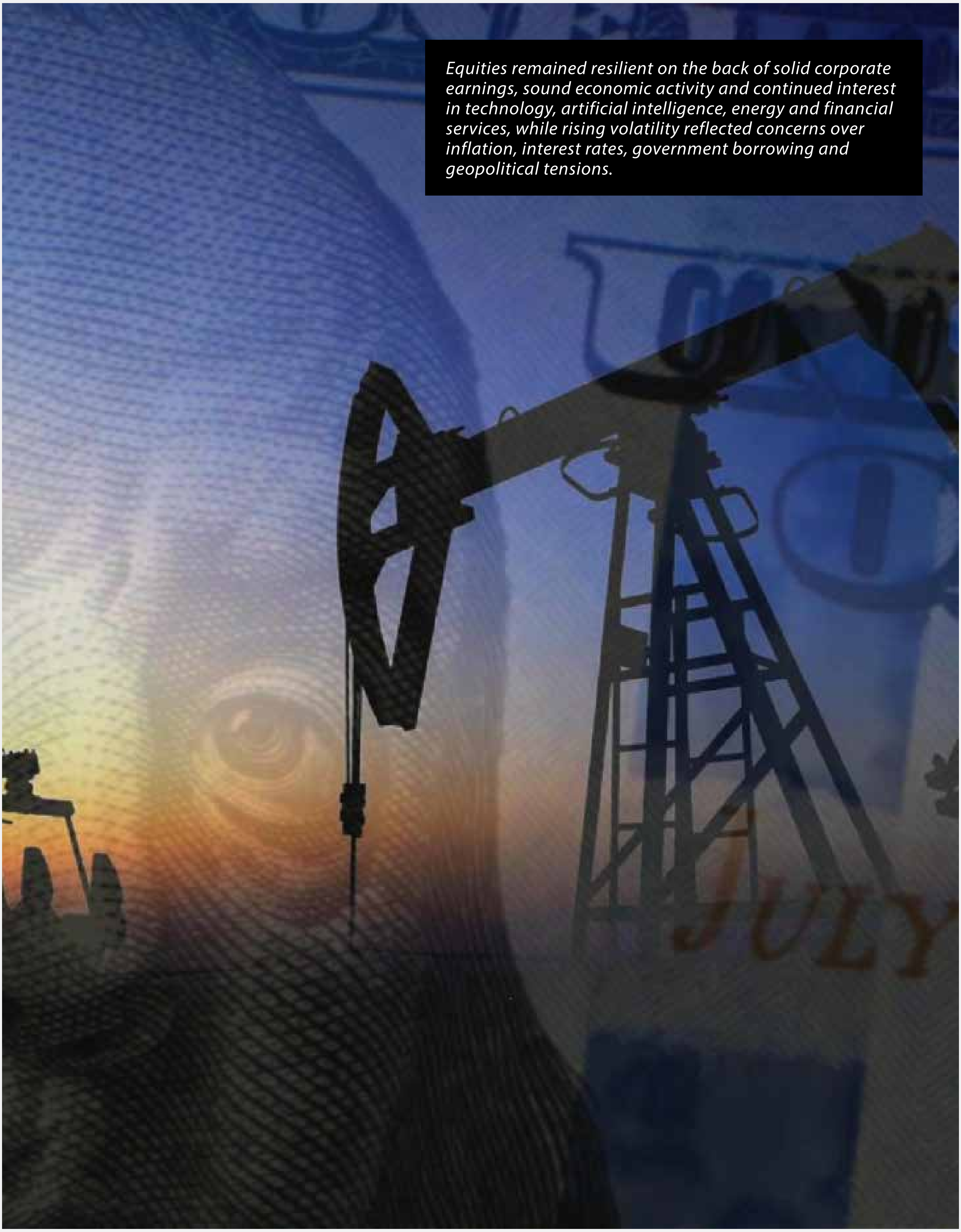
As a result, expectations of interest-rate cuts became less certain. Higher interest rates continued to affect households through mortgages, loans and other borrowing, while savers benefited from higher returns on cash and short-term fixed-income investments. Businesses also faced higher financing costs, which could affect investment and economic growth.

Bond markets were particularly unsettled. Government bond yields rose across several major economies as investors demanded higher compensation for inflation, government borrowing and longer-term economic risks. Rising yields reduced the value of existing bonds, but they also created more attractive income opportunities for new investors. Concerns about government debt and fiscal policy added to this pressure, particularly in countries with high borrowing requirements.

Equity markets performed better overall but became more selective. Strong companies and sectors with solid earnings continued to attract investors, while expensive technology and growth stocks saw periods of profit-taking. Emerging markets and Asian economies also showed significant performance differences, highlighting the importance of diversification across countries, sectors and asset classes. Geopolitical tensions remained a major source of uncertainty. Conflicts and trade disputes affected energy prices, inflation expectations, currencies and investor confidence. These developments showed how quickly events outside financial markets can influence investment returns and household finances.

Overall, the summer reinforced the importance of diversification and careful risk management. The global economy remained relatively resilient, but investors entered the autumn in a less predictable environment. Inflation, interest rates, energy prices, government finances and geopolitical developments were likely to remain the main drivers of markets. For households and investors, the key message was that opportunities remained, but the financial environment required greater caution and a longer-term perspective.

Please note: *Any past performance mentioned is not a guide to future performance and may not be repeated. The sectors, securities, regions, and countries shown are for illustrative purposes only and are not to be considered a recommendation to buy or sell.*



Equities remained resilient on the back of solid corporate earnings, sound economic activity and continued interest in technology, artificial intelligence, energy and financial services, while rising volatility reflected concerns over inflation, interest rates, government borrowing and geopolitical tensions.

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