Transcript

Financial Market Commentary – Review of Q3 2026 and Future Outlook

Simon Lewis on 06 October 2026

Hello and thank you for joining our latest financial market commentary. I'm going to review what happened in global financial markets during the third quarter of 2026, explain how that affected PMW client portfolios, and set out our thoughts on the prospects for the remainder of the year and beyond. I'll also look ahead to the Budget on 28th October.

Review of Third Quarter

Last time, with the World Cup in full swing, I described the first half of the year as a game of two halves. A difficult first quarter, dominated by the war in the Middle East and the closure of the Strait of Hormuz, was followed by a strong second quarter as hostilities appeared to be ending and energy prices moderated.

Well, it turns out that the match went to extra time.

I recorded that commentary on 7th July. The very next day, following attacks on commercial shipping in the Strait of Hormuz, the United States launched a series of strikes against Iran. The ceasefire that markets had been relying upon unravelled, and the third quarter was characterised by a renewed and drawn-out confrontation over the world's most important energy artery.

It was a useful reminder of something I said back in April: investors are no better than anyone else at predicting wars and their outcomes. What matters is not whether you can forecast the next twist, but whether your portfolio is built to withstand it.

This chart tells the story. Having fallen back to the low seventies in June, the price of Brent crude rose by over 40% during the quarter, briefly exceeding $107 a barrel towards the end of September.

One might have expected financial markets to take fright. In fact, they were remarkably resilient.

This chart shows the results achieved for PMW clients. Defensive portfolios returned 0.56% during the quarter and are up 7.00% for the year to date. At the other end of the risk spectrum, Aggressive portfolios returned 1.00%, bringing the year-to-date return to 13.30%. In the middle of the risk spectrum our Balanced portfolio delivered 0.69% during the quarter to give a total return of 9.5% for the year to date.

During the third quarter much of the positive impetus was provided by large US and Japanese companies. India’s stock market and global real estate dampened the mood.

This resilience is not luck. It is the product of diversification. When oil rises, energy companies prosper. When bond yields rise, short-dated bonds are far less affected than long-dated ones. When one region stumbles, another often steps forward.

No single holding needs to be right all of the time for a portfolio to make progress. To continue the football analogy, it's a team game and every portfolio constituent has a role to play.

Future Outlook

So, what are the forces that we think will drive financial markets over the coming months? I want to focus on three: the return of rising interest rates, the change of mood in the global bond market, and the continuing story of artificial intelligence.

Firstly, interest rates.

Back in June 2023, I set out our view that inflation was unlikely to return to the sub-2% norm we had become used to. I gave four reasons: a slowdown in globalisation, a sustained increase in defence spending, the cost of the energy transition, and changing demographics. That was a contrarian position at the time because financial markets were expecting an extended period of falling interest rates.

Three years on, those structural forces have been joined by an energy shock, and the result is that interest rates are rising again as we predicted.

In September, the US Federal Reserve raised interest rates for the first time since 2023, to a range of 3.75% to 4%. It was a unanimous decision, and the Fed's new Chair, Kevin Warsh, made clear that inflation, which is running at around 3.6% on the Fed's preferred measure, is too high and has been for too long. Most Fed members expect a further increase this year.

The European Central Bank has gone further, raising rates in both June and September, with Eurozone inflation now at 3.3%.

The Bank of England is yet to act, keeping Bank Rate at 3.75%. This was surprising given that UK inflation rose to 3.1% in August and the Bank expects it to exceed 4% early next year.

This is not quite the sequence I anticipated in April, when I suggested that the Bank of England might be the more aggressive of the major central banks because the UK is more susceptible to energy price driven inflation.

I suspect they are leaving some wriggle room as we adjust to the new regime at the head of UK government. Further increases in taxation at the forthcoming budget might be enough to constrain growth.

But the bigger point stands: the era of cheap money is over, and portfolios need to be built for a world where inflation and interest rates are structurally higher than they were in the decade before the pandemic.

Secondly, the bond market is now pricing in higher inflation, higher interest rates and higher default risk.

Higher inflation and higher interest rates have pushed government borrowing costs to levels not seen in a generation. In the US, the yield on 10-year government debt has reached around 5.3%, the highest since 2007. In the UK, the 10-year gilt yield has risen above 5.4%, a 19-year high, and the UK 30-year yield briefly touched 6% for the first time since 1998.

It's important to recognise that this is a global trend, driven by inflation, driven by the sheer volume of government borrowing that needs to be financed around the world, and by central banks selling the bonds they bought during the years of quantitative easing. There is also more competition, with AI companies issuing new debt to fuel their growth.

But the UK remains more sensitive than most, for reasons I explained last time. The domestic private sector pension schemes that were once natural buyers of gilts are winding down, so we rely more heavily on overseas investors to finance the deficit. And they expect to be paid for the risk.

In summary, PMW's long-standing caution towards long-dated government bonds has served our clients well and our preference for short-dated bonds has once again proved its worth.

Thirdly, artificial intelligence.

Last October, at a time when many commentators were warning of an AI bubble, I explained why we did not share that view. And in July I suggested that the most reliable profits were likely to be earned by the companies supplying the picks and shovels of the AI boom: processors, memory, power and networking.

The latest results support that view. The processing chip maker, Nvidia recently reported quarterly revenue of $96 billion, more than double the level of a year ago, and raised its forecast again.

The memory chip maker Micron reported record results and expects shortages of memory chips to persist until at least the end of 2027. Its largest customers are now paying substantial deposits to secure future supply.

These are not the hallmarks of a bubble.

However, there is a caveat. Gains in the US stock market have become increasingly concentrated. At the end of September, the share prices of over 80% of companies in

the S&P 500 index were trading more than 10% below their 52-week highs, even though the index itself was close to a record.

That is a reminder of why we do not simply buy the index and hope for the best. Higher bond yields make the future profits of fast-growing companies less valuable in today's money, so valuations are sensitive to the direction of interest rates.

Before I move on, a brief word about the US mid-term elections, which take place on 3rd November. The consensus expectation is that the Democrats will regain control of the House of Representatives, while the Republicans retain the Senate. Divided government tends to mean less legislation, and financial markets are generally comfortable with that. Historically, the six months following a mid-term election have been a positive period for US shares, although of course past performance is no guarantee of the future.

The Budget

Closer to home, attention now turns to the Budget on 28th October, the first such an event under the watch of Andy Burnham and the first to be delivered by the new Chancellor, John Healey.

The Government has committed to staying within its fiscal rules. The difficulty is that the rise in gilt yields has substantially increased the cost of servicing the national debt, which is now expected to exceed £100 billion this year. Estimates suggest that the Chancellor's headroom against his fiscal rules has roughly halved since the spring. That makes further tax increases likely. Let’s look at some of the prime candidates.

Bank levy?

There is a lot of talk about a windfall tax or other additional levy on bank profits. Many seem to think that would be fair, after all taxpayers bailed out the banks during the financial crisis so they deserve to pay more? That is simply not true. They’ve already paid their dues.

We can’t just tax businesses at a higher rate simply because they are doing well. Otherwise, they are certain to make sure that in future, they will either do well somewhere else or in the case of banks, pass the cost on to customers through higher rates for our mortgages and lower rates for our savings.

This chart shows the additional taxes paid by banks and bankers since the financial crisis, which now total over £50 billion. Taking account of the £153 billion received by Government following its acquisition and later sale of bank assets, the amount received now comfortably exceeds the £137 billion initial cash outlay and the £49 billion cumulative interest cost of that money.

I'm not a banker so you might be wondering why I am acting as a cheerleader for them. The answer is straightforward. I understand that banks are providers of the capital that UK businesses need access to if they are to invest for the future and I realise that if businesses cannot invest because not enough money is available, in the long run they will make less profit and pay less tax. They will also employ fewer people.

These are not favourable scenarios for the UK. If we really want growth, somebody has to finance it.

Capital Gains Tax?

There is also a lot of talk about capital gains being unearned income, which needs to be taxed at higher rates. This talk is more about ideology than economic literacy. The reality is that long term investors are already paying high marginal rates of capital gains tax when inflation is factored in.

Here is a simplified example. An investor invests £10,000 for 10 years after which time they receive £15,000. Assuming they are a higher rate taxpayer and have already used their CGT exemption of £3,000, they will pay £1,200 in tax.

But over 10 years inflation has increased and £4,000 of the gain is just inflation. Their actual return in real money is just £1,000 so the tax bill is 120% of this.

Any further increase in CGT rates will further remove the incentive for investors to invest in the UK and drive economic growth.

Taxes Coming Down the Line…

It's worth remembering that a number of significant tax changes for individuals have already been legislated and will take effect over the next few years. From April 2027 tax rates on savings and property income will rise, the annual cash ISA allowance will fall to £12,000 for those under 65, and unused pension funds will fall within the scope of inheritance tax.

A new annual charge on homes worth over £2 million follows in 2028, and from 2029 National Insurance relief on pension contributions made by salary sacrifice will be capped at £2,000 a year.

It is generally wise not to make major financial decisions on the strength of Budget rumours. Nevertheless, there are some sensible steps worth considering.

If you have not yet used this year's ISA allowance, there is no reason to wait.

If you benefit from higher-rate tax relief on pension contributions, it may make sense to make contributions sooner rather than later.

And if you have been considering realising gains or making gifts, it would be worth discussing the timing with us before 28th October.

Everyone's circumstances are different, so please speak to your PMW adviser before taking any action.

Postscript

One final thought. Thirty years ago today, on 6th October, I took the helm of PMW.

Over that time, our clients have lived through the dotcom boom and bust, the global financial crisis, the Eurozone crisis, Brexit, a pandemic, the inflation shock of 2022, a trade war and now a war in the Middle East.

Each of those events felt unprecedented at the time. Each was accompanied by headlines predicting the worst.

And yet patient, diversified investors have been rewarded on every occasion, because over the long run, investment returns are driven by the earnings of good companies and the income paid on sound investments, not by the news cycle.

If there is one lesson from three decades, it is that the decisions that matter most are rarely the ones taken in a hurry. That remains at the heart of how we manage your money.

Thank you for your continued trust. I'll provide a further update after the end of the year, when we'll review 2026 as a whole and set out our thoughts for 2027.

In the meantime, thank you for listening.

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