

Market wrap

October 2026

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Key takeaways:

- Major central banks have raised interest rates again, while the Bank of England (BoE) held steady. Increased borrowing and concerns over government finances are also keeping pressure on bond yields.
- Higher bond yields can offer more income but they could weigh on existing bonds and share prices. However, strong company profits have helped stock markets remain relatively resilient.
- Inflation, developments in the Middle East and upcoming elections could influence markets. Investors may also focus on companies' latest financial results, particularly whether AI spending translating to revenue growth.



How are central banks and geopolitics shaping markets?

Borrowing costs remain a key focus for investors. Several major central banks, including the US Federal Reserve (Fed), European Central Bank (ECB) and Bank of Japan (BoJ), raised interest rates in September, while the BoE held steady. These decisions come amid inflation concerns, with rising energy prices and supply disruptions linked to the conflict in the Middle East adding to price pressures. Central banks raise interest rates to help control inflation. Higher rates make borrowing more expensive for households, companies and governments, encouraging saving and slowing spending. This helps reduce demand for goods and services, potentially easing pressure on prices.

But central banks aren't the only influence on borrowing costs. Governments and companies also borrow money by issuing bonds, which are effectively loans from investors. A bond's yield indicates the annual income it offers relative to its price. With governments issuing more bonds and companies raising money to fund AI projects, competition for investors' money is increasing.

Investor concerns about rising government debt and budget deficits in the US, France and UK are adding to this pressure. Investors are demanding higher yields to compensate for the perceived risk of lending to these governments. Since government bond yields help determine the cost of other borrowing, this can also make it more expensive for companies to raise money.



What do higher bond yields mean for investors?

Higher yields can make newly issued bonds more attractive by offering investors more income. However, existing bonds typically fall in value when yields rise, as their fixed payments become less appealing than those of newer bonds.

Rising yields can also weigh on share prices by increasing companies' borrowing costs and making some bonds more competitive with shares, offering attractive income with generally lower risk. Despite these pressures, stock markets remained relatively resilient in early October, supported by strong company profits. Across major stock-market indices, analyst consensus estimates expect earnings per share – a measure of company profitability – to grow over the next 12 months by 17.6% for the S&P 500 (large US companies), 13.0% for the STOXX Europe 600 (European companies, including the UK) and 14.2% for the FTSE 100 (large UK-listed companies).¹ **Forecasts may not come to pass.**



Events on our radar

Inflation data and central bank decisions will offer clues about the direction of interest rates. If investors expect further rate increases, bond yields could rise and bond prices could fall. Energy prices and developments in the Middle East will also remain in focus, given their potential impact on inflation.

On the political front, October's UK Budget is followed by the US midterms in early November and Spain's snap election later that month. Meanwhile, companies will soon report their latest financial results, offering clues about whether AI investment is translating into revenue growth.

Performance of financial markets, 2021-2026 YTD

	2021	2022	2023	2024	2025	2026 YTD
US stocks (S&P 500 Total Return Index)	28.71%	-18.11%	26.29%	25.02%	17.88%	15.14%
UK stocks (FTSE 100 Total Return Index)	18.44%	4.70%	7.93%	9.66%	25.82%	9.89%
European stocks (STOXX 600 Total Return Index)	24.91%	-10.64%	15.80%	8.79%	19.80%	9.60%

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Source: Bloomberg, as of 30 September 2026.

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