BENDURA BANK

# Market Outlook

**September 2026**

# Concerns around debt and government intervention

August was relatively calm compared with previous months, yet market discussions remained dominated by concerns over government debt, bond market interventions and monetary policy. Early in the month, weaker US labour market and retail sales data reduced expectations of a September Federal Reserve rate hike, supporting risk assets and helping revive investor appetite for artificial intelligence (AI) equities. Confidence in the AI theme was reinforced by substantial infrastructure funding initiatives and strong Nvidia results, with revenue growth of 106% year-on-year highlighting continued demand despite ongoing share-price volatility.

A central focus was the rise in long-term US Treasury yields, which has increased refinancing pressure on federal debt that recently exceeded USD 40 trillion. Treasury Secretary Scott Bessent responded with measures aimed at containing yields. His support for the Japanese yen was designed not only to stabilise currency markets but also to reduce pressure on Japan to raise rates or sell US Treasury holdings, developments that could have further pushed US yields higher.

Later in the month, the US Treasury announced plans to repurchase tens of billions of dollars of long-dated government bonds. The impact, however, proved limited. Yields briefly declined before resuming their upward trend, as many investors viewed the programme as an attempt to influence prices rather than address underlying fiscal challenges. Critics argued that the expanding US budget deficit remains the principal driver of bond market volatility and that debt buybacks do little to solve the fundamental problem. The muted market reaction underlined broader concerns regarding policy credibility and long-term fiscal sustainability.

Markets subsequently adjusted elsewhere. Following the buyback announcement, the US dollar weakened while gold prices advanced, indicating growing caution toward US assets. Attention then shifted to Federal Reserve Chair Kevin Warsh’s Jackson Hole speech. As Treasury actions effectively eased financial conditions through

lower yields and a weaker dollar, investors sought further direction on monetary policy. Warsh delivered a distinctly hawkish assessment, reinforcing expectations that rates may remain higher for longer and increasing the perceived likelihood of further tightening.

Looking ahead, the investment backdrop remains challenging. Global bond yields are near multi-decade highs, geopolitical tensions have intensified, and equity markets continue to trade close to record levels despite mixed investor conviction. Upcoming employment and inflation data will be pivotal for policy expectations, while approaching US midterm elections are likely to contribute additional uncertainty. Overall, elevated valuations, tighter financial conditions and geopolitical risks could limit risk appetite in the near term.

# Investment Policy

| | Very unattractive | Unattractive | Neutral | Attractive | Very attractive |
|---|---|---|---|---|---|
| Liquidity | | | ● | | |
| Fixed income | | | ● | | |
| Government | | | ● | | |
| Corporate | | | ● | | |
| High Yield | | | ● | | |
| Emerging Markets | | | ● | | |
| Duration | | | | ● | |
| Equities | | | ● | | |
| United States | | ● | | | |
| Eurozone* | | | | ● | |
| Japan | | | ● | | |
| Emerging Markets | | | ● | | |
| Rates | | | | | |
| USD | | | ● | | |
| EUR | | | | ● | |
| CHF | | | | ● | |
| EM Currencies | | | ● | | |

*incl. UK and Switzerland

The terms attractive / unattractive describe the return potential of the various asset classes. An asset class is considered attractive if its expected return is above the local cash rate. It is considered unattractive if the expected return is negative. Very attractive / very unattractive denote the highest conviction views of the BENDURA Investment Committee. The time horizon for these views is 3-6 months.

# Global Economy

## USA

The US economy continues to demonstrate notable resilience despite elevated interest rates.

The labour market strengthened significantly in August, with 162,000 non-farm jobs created, substantially exceeding market expectations. The unemployment rate remained stable at 4.1%, highlighting continued labour-market strength. Job growth was driven primarily by the services sector, particularly hospitality and public education, while manufacturing also recorded moderate gains. In contrast, employment in the information sector declined, reflecting efficiency gains and restructuring linked to increasing AI adoption. Wage growth remained contained at 3.1% year-on-year, while the labour-force participation rate rose to 61.6%, indicating a growing number of Americans re-entering the workforce.

In July the Federal Reserve maintained its policy rate within a 3.50% to 3.75% range. Given persistent inflationary pressures and the resilience of the labour market, markets increasingly expect the Fed to keep rates elevated for longer, with the possibility of further policy tightening should upcoming inflation data remain firm. Economic growth is expected to remain close to 2%, supported by ongoing technology investment. However, the latest manufacturing data continue to indicate a mild contraction in the industrial sector.

## Europe

The eurozone faces renewed inflationary pressures following a sharp increase in energy prices.

Annual inflation accelerated to 3.3% in August, reaching its highest level in three years, largely driven by a 14.3% increase in energy prices. The rise was linked to supply-chain disruptions and heightened geopolitical tensions around the Strait of Hormuz, which pushed global oil and gas prices higher. Encouragingly, core inflation remained stable at 2.4%, while services inflation moderated, suggesting that underlying domestic price pressures remain relatively contained.

Economic activity has remained resilient. Second-quarter GDP growth was revised upward to 0.6%, supported by stronger exports and tourism activity. Nevertheless, structural growth challenges persist, particularly in Germany and France, where economic momentum remains subdued.

## Asia

Asia continues to serve as a key engine of global growth, although regional trends remain uneven.

China’s manufacturing sector returned to expansion territory, with the Caixin Manufacturing PMI rising to 50.5, yet weak domestic demand continues to weigh on the outlook. Annual growth is expected to moderate to approximately 4.5%-4.6%.

Elsewhere, India and Vietnam continue to benefit from supply-chain diversification, posting growth rates of approximately 6.5% and 6.3%, respectively. South Korea has also benefited from strong demand in the global semiconductor and AI sectors.

Currency markets remained a focus, with Japanese authorities closely monitoring the yen amid heightened volatility, while several Asian central banks faced pressure to tighten policy in response to rising commodity prices.

# Equities

Global equity markets recovered in August, reversing much of July's weakness despite rising bond yields and heightened geopolitical uncertainty. Investor sentiment was supported by strong corporate earnings, particularly in the United States, and renewed confidence in the artificial intelligence (AI) investment theme. The Nasdaq gained almost 4%, outperforming the broader S&P 500, which advanced 2.6%. Market breadth improved, with gains extending beyond mega-cap technology stocks, while equal-weighted indices began to outperform their traditional market-cap-weighted counterparts, suggesting a gradual broadening of market leadership.

US corporate earnings remained a key driver of performance. Record profit levels and a stronger-than-expected second-quarter reporting season reinforced confidence in the economic outlook. The "Magnificent 7" technology companies delivered exceptional results, with aggregate earnings growth exceeding 118% year-on-year and significantly outperforming the broader market. Nvidia's results further validated continued AI infrastructure demand, while analysts continue to raise earnings expectations for the remainder of 2026. Notably, however, earnings quality deserves greater scrutiny. A meaningful portion of reported profits at several large technology companies stemmed from unrealised investment gains rather than core operating activities, raising questions regarding sustainability and underlying profitability.

Beyond headline earnings, investors are increasingly focused on cash flow generation and capital allocation. The largest AI beneficiaries continue to commit substantial resources to data centres, semiconductors and related infrastructure. Aggregate free cash flow among major hyperscalers has deteriorated sharply as capital expenditure requirements accelerate. At the same time, leading technology companies have accumulated an estimated USD 3 trillion of off-balance-sheet commitments, largely tied to future AI-related

investments. While these commitments underline strong conviction in long-term demand trends, they also increase financial obligations and execution risk.

European equities delivered mixed results. The STOXX Europe 600 recorded a fifth consecutive monthly gain, supported by resilient macroeconomic data and stronger-than-expected earnings. Germany's DAX outperformed, while the French CAC and UK FTSE 100 lagged amid political uncertainty and sector-specific weakness. Basic Resources benefited from firmer commodity prices, a weaker US dollar and reduced expectations of near-term monetary tightening. Technology and industrial sectors also performed well, supported by AI infrastructure spending and elevated defence expenditure. In contrast, Food & Beverage and Real Estate underperformed as investors rotated away from defensive sectors and remained cautious toward interest-rate-sensitive assets.

Asian markets generally rebounded, although performance varied across regions and sectors. South Korea, Taiwan and Japan posted gains, supported by currency strength and improving sentiment, while investor interest rotated toward industrials, healthcare and selected smaller technology companies. Australia outperformed, driven by strength in gold and mining stocks. By contrast, Hong Kong's Hang Seng Index faced pressure from technology and consumer-oriented companies amid concerns over capital spending, weaker consumption trends and a subdued economic outlook.

Looking ahead, market conditions remain constructive but increasingly complex. Rising yields, elevated equity valuations and geopolitical tensions present near-term challenges, particularly during the seasonally weaker September period. Nevertheless, underlying economic conditions remain supportive, AI investment momentum shows little sign of slowing, and corporate earnings expectations continue to improve. A balanced investment approach remains appropriate, combining exposure to structural growth themes such

as AI with allocations to real assets and defensive sectors including healthcare and software. While near-term volatility should be expected, the medium-term outlook remains moderately positive, provided inflation and bond yields remain contained.

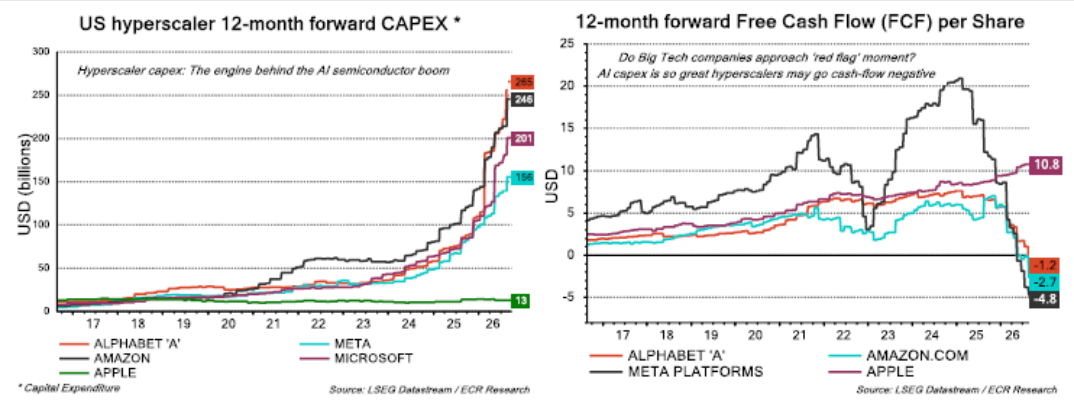


*Chart 1: Hyperscaler forward CAPEX and FCF. Source: LSEG Datastream / ECR Research, www.ecrresearch.com*

# Bonds

August was dominated by rising global bond yields and growing concerns over fiscal sustainability, particularly in the United States. Investor attention centred on the US Treasury's decision to expand long-dated bond buybacks after 30-year Treasury yields reached their highest levels in almost two decades. While officials described the programme as liquidity management, markets largely viewed it as an attempt to contain borrowing costs rather than address the underlying issue of rapidly rising government debt and persistent fiscal deficits. Consequently, bond market interventions are expected to provide only temporary relief and are unlikely to alter the longer-term direction of yields.

Against this backdrop, we expect both the Federal Reserve and the ECB to maintain relatively restrictive monetary policies. Fiscal support, solid labour markets and continued AI-driven investment should keep economic activity resilient, while elevated energy and food prices maintain upside risks to inflation. As a result, we see limited scope for policy easing and continue to expect further rate increases over the coming quarters.

Our central scenario remains for long-term yields to trend gradually higher as concerns over public finances, structural deficits and growing capital demand outweigh supply. We expect the 10-year US Treasury yield to rise from around 4.85% towards approximately 5.25% over the medium term, although short-term pullbacks remain possible.

Despite this outlook, bond investor sentiment has become increasingly negative and current yield levels are beginning to offer more attractive entry opportunities. We therefore maintain a neutral allocation to government bonds overall, while keeping duration shorter than benchmark given our expectation of a

steeper yield curve and rising real yields. In Europe, we expect the 10-year German Bund yield to rise gradually from around 3.25% towards 3.5%-3.75% over the medium term, reflecting both domestic and global yield pressures.

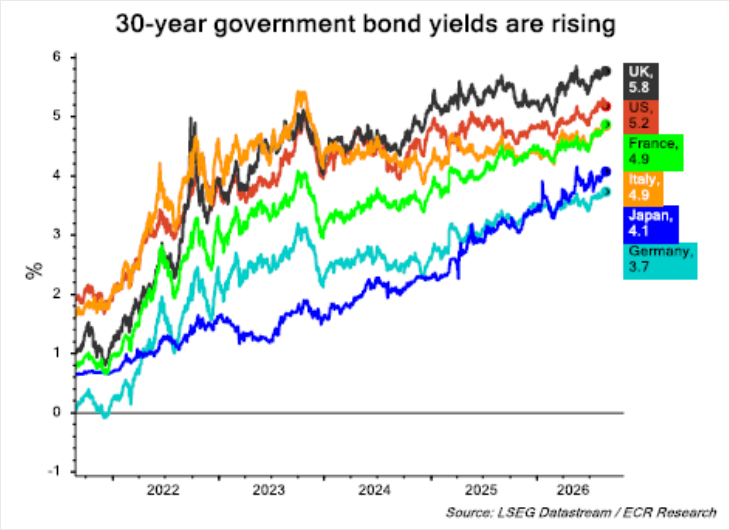


*Chart 2: 30-year government bond yields. Source: LSEG Datastream / ECR Research, www.ecrresearch.com*

# Commodities and Currencies

Currency and commodity markets were shaped by rising bond yields, fiscal concerns and geopolitical developments. The US dollar weakened modestly against the euro and sterling but benefited against the yen following coordinated US-Japan intervention. Precious metals performed exceptionally well, with gold and silver posting strong gains as investors sought protection against policy uncertainty and concerns over potential debt monetisation following the US Treasury's expanded bond-buyback programme. Bitcoin also rallied sharply, reflecting improved risk sentiment and increasing demand for alternative stores of value. Oil prices remained volatile as markets balanced improving shipping flows through the Strait of Hormuz against escalating geopolitical tensions in the Middle East and Eastern Europe.

The Treasury's attempt to contain long-term yields reinforced concerns about fiscal sustainability and triggered renewed debate about the future role of US government debt within global portfolios. At the same time, higher real interest rates and China's ongoing property-market weakness continued to weigh on broad commodity demand, although strategic stockpiling, infrastructure investment and energy-transition spending provided important offsets.

While recent economic data have favoured Europe over the United States, we expect this divergence to prove temporary. US growth is likely to recover towards 2.5%, supported by continued AI-related investment, resilient domestic demand and energy independence. In contrast, eurozone growth is expected to remain close to 1%. Combined with higher expected US interest rates, this should ultimately support the US dollar.

We therefore do not expect EUR/USD to rise materially beyond 1.18 and continue to anticipate a gradual move towards 1.12 over the coming quarters.

For commodities, the outlook remains broadly constructive despite higher real yields. Ongoing geopolitical uncertainty, electrification trends, climate-related investment needs and risks to agricultural production should continue to support demand. Energy markets remain particularly exposed to geopolitical risks, making commodities an effective portfolio diversifier.

Gold faces mixed influences. Higher real yields typically represent a headwind; however, growing concerns about public finances, potential financial repression and continued central-bank purchases provide important support. In addition, technical indicators suggest the correction phase may have largely run its course.

Regionally, the euro should remain supported in the short term by resilient economic data and expectations of further ECB tightening, although political risks and weakening competitiveness remain key medium-term challenges. The yen may benefit from further Bank of Japan policy normalisation following recent intervention efforts, while the Swiss franc remains an attractive defensive asset, supported by Switzerland’s strong fiscal position and low inflation.

Overall, we remain constructive on commodities and gold as strategic diversifiers while expecting the US dollar to regain strength over the medium term as growth and interest-rate differentials reassert themselves.

*Chart 3: Historical EUR/USD change. Source: LSEG Datastream / ECR Research, www.ecrresearch.com*

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