INVESTMENT OUTLOOK SEPTEMBER 2026

At a Glance

- **Base case:** Growth and earnings remain resilient, but tighter policy and higher yields constrain equity valuations.
- **Why:** Stronger payrolls and continued AI investment support activity, while persistent inflation keeps policy hawkish.
- **Key risk:** An open-ended hiking cycle or disorderly rise in Treasury volatility could put more pressure on equities.

Key Themes

1 Resilient growth keeps the reflationary regime intact

- Developed-market activity remains above potential, reducing the urgency for policy support.
- AI investment is broadening into power, utilities, data centres and infrastructure.
- Persistent inflation and loose financial conditions favour higher-for-longer rates.
- **Implication:** Risk assets can still be supported by growth, but lower rates are unlikely to provide the same tailwind as before.

2 Treasury buybacks cannot remove structural yield pressure

- Fiscal deficits, heavy Treasury supply and corporate borrowing keep long-end yields elevated.
- Falling official demand leaves price-sensitive private investors increasingly setting Treasury yields.
- Expanded buybacks may offer temporary relief, but cannot remove structural yield pressure.
- **Implication:** Any relief from buybacks is likely to be temporary, so duration should remain disciplined.

3 December is the Fed base case; September remains a risk

- August payrolls rose by 162,000, with upward revisions weakening the extended-hold case.
- The labour market does not force an immediate hike; inflation remains decisive.
- Our base case is a December hike, with a meaningful risk of an earlier September move.
- **Implication:** Our base case is a December hike, but markets should still price a meaningful September risk.

4 Watch rates volatility, not just the level of yields

- The S&P 500 forward P/E fell from roughly 21x to 19.4x as the 10-year Treasury yield neared 4.8%.
- Treasury volatility remains contained, allowing earnings to cushion the valuation headwind.
- The greater risk is higher yields alongside a sustained rise in Treasury volatility.
- **Implication:** Equity resilience depends not only on bond yields, but on whether rate volatility remains orderly.

Key Signposts

- **Inflation and the Fed:** Whether inflation permits a short delay or reinforces the case for an earlier hike.
- **Long-end yields:** Whether fiscal supply and competing corporate issuance keep yields elevated.
- **Rates volatility:** Whether higher yields coincide with a sustained rise in the MOVE Index.
- **Earnings delivery:** Whether companies deliver forecast profits as earnings growth moderates.
- **Policy message:** Whether a hike is framed as pre-emptive insurance or the start of a cycle.
- **Diversification:** Whether inflationary and fiscal shocks pressure equities and bonds together.

INVESTMENT STRATEGY SEPTEMBER 2026

At a Glance

- **Most likely outcome:** Earnings should cushion a limited policy adjustment, but returns should moderate as higher yields constrain valuations.
- **Implementation bias:** Neutral equities and bonds; a modest Asia tilt, quality credit, controlled duration and broader diversification.

Key Themes

5 Earnings preserve the strategic case, but returns should moderate

- Consensus still expects double-digit earnings growth in 2027, although positive revisions have probably peaked.
- Dividend yield plus earnings growth remains favourable relative to the 10-year Treasury yield.
- Returns depend increasingly on delivered earnings rather than higher valuation multiples.

6 A pre-emptive hike is not an open-ended tightening cycle

- A well-signalled, pre-emptive hike should be manageable while growth and profits remain firm.
- A sustained upward reset in expected rates would put more pressure on valuations and sentiment.
- Remain strategically constructive but tactically neutral on equities.

7 Bond income is attractive again, but duration remains a risk

- Higher starting yields provide income and a larger cushion against moderate price declines.
- Maintain neutral fixed income, with no further reduction in the overall bond allocation.
- Prefer investment-grade credit and shorter maturities, while keeping duration controlled.

8 The 60/40 should be broadened, not abandoned

- Inflation, fiscal and geopolitical shocks can pressure equities and bonds simultaneously.
- Retain high-quality government bonds to help hedge a conventional growth shock.
- Complement fixed income with gold and natural resources across different risk regimes.

9 Gold and natural resources add complementary protection

- Gold is supported by central-bank demand and fiscal, geopolitical and currency uncertainty.
- Maintain strategic gold and selective natural-resource exposure alongside fixed income.
- Use real assets to diversify inflation and supply risks, without relying on one geopolitical outcome.

10 Stay neutral overall, with a modest Asia tilt

- Maintain neutral equities, overweight Asia & emerging markets and underweight the US/Canada.
- Keep Europe, Japan and global thematic equities neutral.
- Favour visible earnings, strong cash flows and more reasonable valuations; use volatility to add selectively.

INVESTMENT STRATEGY SEPTEMBER 2026

Global Tactical Asset Allocation

Sub-Asset Classes	UW	N	OW	Comments
Equities				
US/Canada				• Neutral overall, with a modest Asia tilt. • Favour visible earnings, strong cash flows and more reasonable valuations. • Use volatility to add selectively rather than rely on multiple expansion.
Europe				
Japan				
Asia & EM				
Global Thematic Equities				
Fixed Income				
Developed Sovereign				• Neutral overall; no further reduction at current yields. • Prioritise investment-grade income and shorter maturities; keep duration controlled. • Retain high-quality sovereign bonds to hedge a conventional growth shock.
Developed Corp IG				
Developed Corp High Yield				
Emerging Markets Bonds				
Alternatives				
Precious Metals				• Maintain strategic gold and selective natural resources as complements to fixed income. • Gold is supported by central-bank demand and fiscal, geopolitical and currency uncertainty.
Hedge / Alternative Funds				

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