Wealth
Management US

Quarterly report

Q3 2026 market review

Forward-looking
for generations

Cover image
Bauer brothers, Hortus Botanicus, detail from
"Lilium," 1776/1804
© LIECHTENSTEIN. The Princely Collections, Vaduz–Vienna

Contents

4 Summary: Q3 2026

6 Macro summary

10 Fixed income

12 Equities

14 Key market data

“

Rising oil prices heightened concerns that inflation would stay higher for longer, leading global central banks to raise rates, resulting in a sell-off in government bonds.

Sanjay Rijhsinghani, Chief Investment Officer

Summary: Q3 2026

Strong earnings helped global equities advance modestly in the third quarter, but returns varied sharply across markets and companies. Disruption to shipping through the Strait of Hormuz kept oil prices high, adding to inflation pressure and prompting several central banks to raise rates. Higher bond yields tested valuations, while demand for cloud computing and AI infrastructure supported leading technology shares.

At a glance

- Strong earnings help shares hold their gains
- Cloud and AI demand support technology leaders
- Oil prices rise as shipping disruption continues
- Central banks raise rates to contain inflation risks
- Higher bond yields test markets, while equity returns diverge

Macro summary

Rising oil prices heightened concerns that inflation would stay higher for longer, leading global central banks to raise rates, resulting in a sell-off in government bonds. The 30-year US Treasury yield ended the quarter at 5.63%, its highest in more than two decades.[1] Brent crude ended the quarter at USD 104 a barrel, up 42%, after the June US–Iran interim accord failed to unblock shipping lanes.

Despite higher yields, the Nasdaq reached a record close on 22 September before easing towards the end of the quarter. This raised questions about whether earnings linked to AI could continue to support equity valuations as borrowing costs increased and central banks maintained tighter monetary policy.

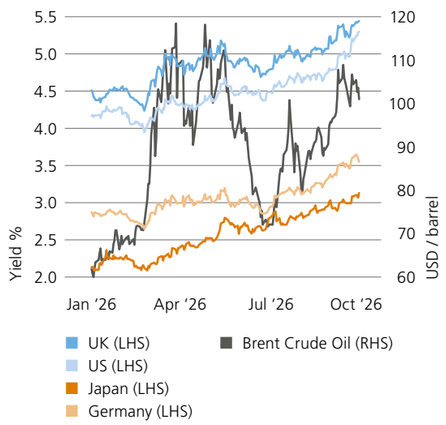
Bond sell-off tests equity markets

Despite earnings and technology driving the S&P to new highs, concerns surrounding bond yields meant the European, UK and Japanese markets lagged. The US 10-year Treasury yield rose 0.82% over the quarter to 5.28%, its highest close since 2007, and Germany's 10-year yield rose 0.73% to 3.58%.[2] Japan's 10-year yield ended the quarter at 3.1%, around its highest since 1996.

US Treasury Secretary Scott Bessent tried to steady bond markets over the quarter by announcing his intent to at least double the size of its buybacks of longer-dated bonds. This, however, only provided temporary relief, with yields climbing to fresh highs in September. Over USD 200 billion of borrowing by US hyperscalers also put pressure on bonds as heavy issuance put further pressure on yields.

In the UK, 30-year gilt yields ended the quarter at 5.95%, having reached their highest level since 1998 in mid-September. Andy Burnham became prime minister in July and appointed John Healey as chancellor. Both have committed to keeping the existing fiscal rules, but higher borrowing costs have eroded the government's room for manoeuvre. The Budget on 28 October will be their first real test with bond investors.[3]

10-yr government bond yields and Brent crude oil price



Source: LGT, Bloomberg

Equity-market performance was mixed. The S&P 500 returned 2.3% and the Nasdaq 2.6%, supported by resilient growth, robust earnings and enthusiasm for AI. Europe's STOXX 600 reached a record in August but declined 0.6% over the quarter, as the energy shock and firmer central banks weighed on sentiment. The FTSE 100 returned 1.8%, its seventh consecutive quarterly gain, with its smaller technology weighting cushioning it during a July sell-off in chip stocks. Japan's TOPIX returned 3.8%, although it slipped in September, its first monthly fall in six months, as rising government-bond yields weighed. Hong Kong's Hang Seng returned 8.6%, with the whole gain coming in July. The Shanghai Composite fell 5.3%, as weak domestic demand persisted.

[1] Bloomberg
[2] Deutsche Bank Research
[3] Reuters

Oil climbs while gold holds its gains

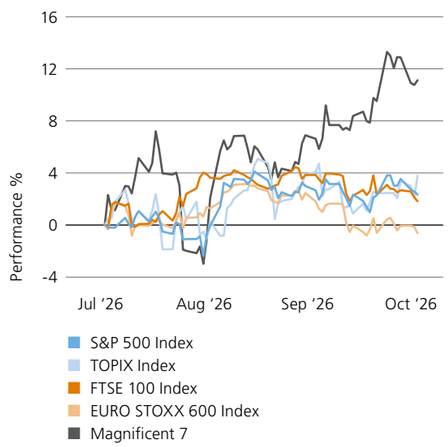
Hopes that the June US-Iran interim accord would reopen the Strait of Hormuz faded over the summer. The US withdrew an Iranian oil-sales licence in July and, by August, fewer than ten vessels a day were crossing. With supply constrained, Brent rose 24% in July and a further 14% in September as both sides resumed strikes. At the United Nations, Iran offered to reopen the strait within seven days on conditions that President Donald Trump rejected. Discussions through mediators continued, but no new agreement had been reached by the end of September.[4] Brent futures for delivery in December 2027 rose 16% to USD 81, their highest to date, suggesting investors expect prices to stay high for some time.

European gas futures rose 67% over the quarter, although prices remained far below their 2022 crisis levels, and the European Central Bank (ECB) judged this shock smaller than in 2021-22. In the UK, Ofgem's price cap rose 4% from 1 October, leaving typical household bills about half their 2022 peak. Gold rose 3.7% over the quarter despite a September setback. A weaker dollar, inflows into gold funds and central-bank buying lifted it 9.7% in August, but higher bond yields and a stronger dollar pulled it down 6.3% in September.

Technology stocks lead market higher

Technology shares led US markets, but gains continued to be concentrated in a small number of companies. The Magnificent 7, the largest US technology companies, returned 11.1% over the quarter, against 2.3% for the S&P 500 as a whole. Meta rose 26.7% in September after launching its Muse AI agent, and Micron's market value rose above USD 1 trillion.

Magnificent Seven versus major equity indices, Q3 2026



Source: LGT, Bloomberg

Strong demand for memory and cloud computing services helped drive earnings, supporting gains in AI-related shares. High-bandwidth memory, a specialised type of memory used alongside advanced processors, was in short supply, prompting some Chinese AI-chip makers to raise prices. Cloud com-

[4] Reuters

puting continued to impress: Microsoft's and Amazon's latest quarterly results showed Azure revenue grew 43% and Amazon Web Services revenue grew 37% to USD 42.2 billion. In our view, it may take some time for this investment to translate into productivity gains across the wider economy.

Central banks respond to energy risks

For the Federal Reserve (Fed), a pause in July was followed by a rate rise in September. When the Fed held rates in July, three of its 12 voting members had preferred a rise, while Chair Kevin Warsh gave little indication of how he would respond to higher inflation. Some investors questioned the Fed's credibility. Yields on short-term US government bonds fell as expectations of a near-term rise faded, while longer-dated yields climbed, widening the gap between short- and long-term borrowing costs.

At the Jackson Hole symposium in August, Warsh set out a firmer stance, saying the Fed needed confidence that underlying inflation was returning to target: "Otherwise, we have work to do."[5] The Fed followed through in September, voting unanimously to raise rates by 0.25% to 3.75-4.00%, with consumer price inflation at 3.4%. The firmer message went some way to restoring the Fed's credibility: the gap between short- and long-term yields, which had widened further in August, narrowed in September after the rate rise. Softer-than-expected inflation data at the end of the month then lowered the odds of a further rise in October to around a third, although investors were still pricing in another rise by December.

The Bank of England (BoE) held Bank Rate at 3.75% in September by six votes to three, with all three dissenters preferring a rise to 4.00%. It also paused active sales of its government-bond holdings, bringing some relief to the UK bond market without reversing the earlier rise in yields. UK consumer price inflation rose to 3.1% in August, from 2.9%. The BoE warned that a prolonged energy shock might affect wages and other prices, while noting little evidence so far of material knock-on effects.[6] By the end of the quarter, traders were pricing at least one rise before year-end, after UK second-quarter growth was revised up to 0.5%.

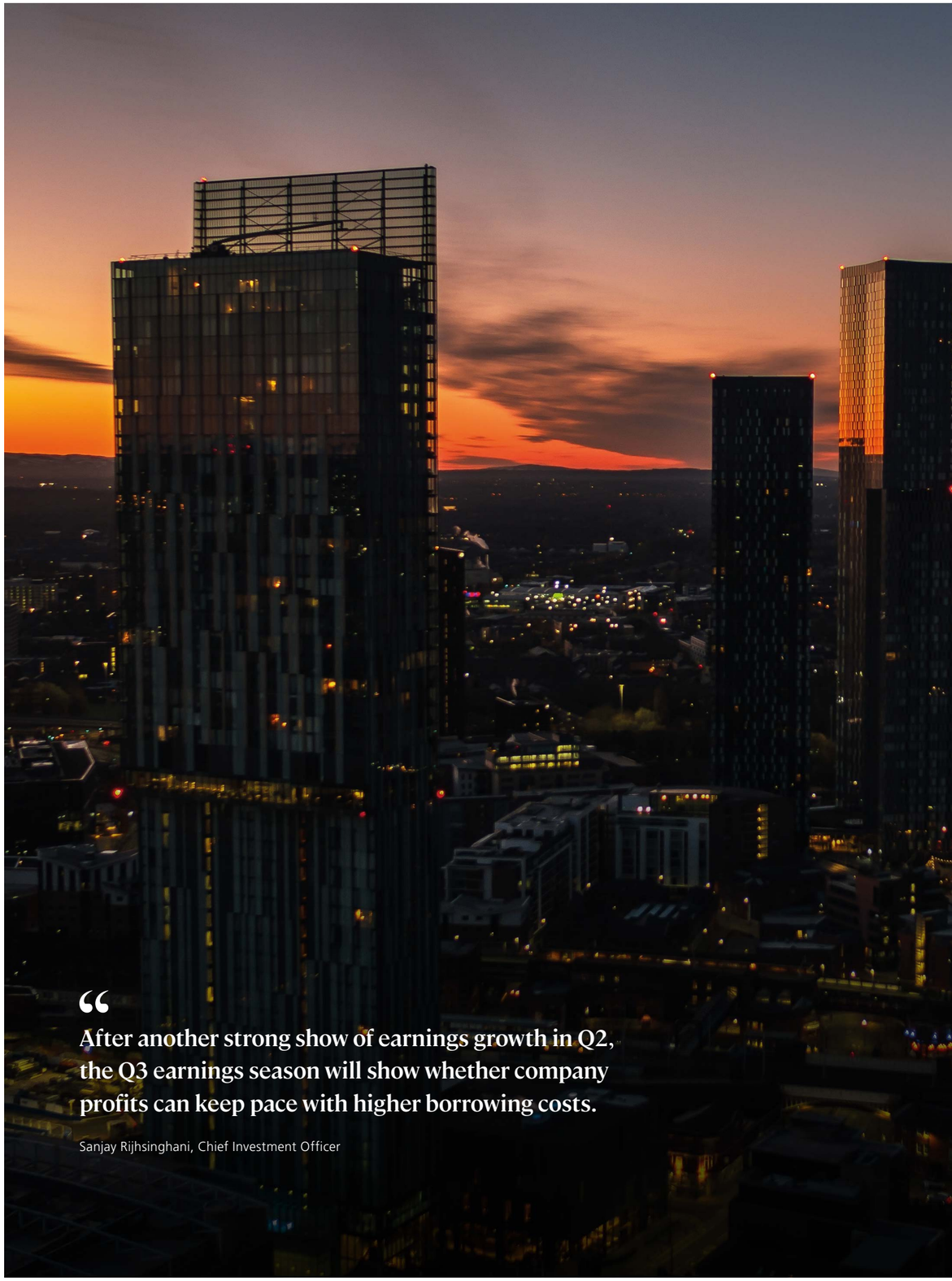
The ECB raised its deposit rate by 0.25% to 2.50%, and markets expect at least one more increase this year. The Bank of Japan (BoJ) raised its overnight target to around 1.25%, its highest since 1995, by seven votes to two, and another rise is expected in December. Together with joint US-Japan intervention to support the yen in late July, the rise helped the yen gain 3.3% against the dollar, the strongest performance among major currencies.

Earnings face the next test

At the end of the second quarter, the key question was whether earnings and productivity gains could continue without prompting intervention from central banks. Rising energy prices paired with resilient growth led to the Fed, ECB and BoJ raising rates in September. Earnings held up, supported by strong demand for cloud computing and memory chips, although the wider productivity gains from AI investment are yet to show.

After another strong show of earnings growth in Q2, third-quarter earnings season, which begins this month, will show whether company profits can keep pace with higher borrowing costs. While geopolitical risks and interest rates will affect sentiment for some time, it is ultimately companies' ability to grow earnings over time that matters, and a diversified, long-term approach remains important.

[5] Federal Reserve, 28 August 2026, Warsh's Jackson Hole speech
[6] www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2026/september-2026



"After another strong show of earnings growth in Q2, the Q3 earnings season will show whether company profits can keep pace with higher borrowing costs.

Sanjay Rijhsinghani, Chief Investment Officer

Fixed income

Having spent the second quarter unwinding rate hike expectations, bond markets spent the third quarter rebuilding them. The June agreement between Washington and Tehran failed to restore normal shipping through the Strait of Hormuz, and renewed attacks on tankers and Gulf energy infrastructure pushed Brent crude back above USD 100 per barrel in September. This had widespread consequences for inflation expectations forcing policy makers to raise rates.

Warsh keeps markets guessing

The Fed held rates at 3.50–3.75% in July, but Chair Kevin Warsh declined to commit to a hike despite his tough words on inflation. The bond market read this as the Fed falling behind. Thirty-year Treasury yields rose as much as 0.1% on the day, while two-year yields fell. This resulted in a sharp steepening of the yield curve as investors demanded more compensation for holding longer-dated debt.

The pressure persisted into August, prompting Treasury Secretary Scott Bessent to step in. He announced that they would at least double their buybacks of 10- to 30-year bonds to USD 4 billion per operation. Yields fell sharply on the announcement but the impact was short-lived.

The more lasting relief came from the Fed itself. At the Jackson Hole symposium on the 28 August, Warsh said the Fed still had "work to do" and needed to see inflation returning to target "clearly and at sufficient speed". Two-year yields jumped 0.1% (to 4.4%) while longer-dated yields steadied. The Fed duly raised rates by 0.25% to 3.75–4.00% in September, its first hike since July 2023. The decision was unanimous, and the dot plot points to at least one further hike this year.

Spread between 2-year and 30-year US Treasury yields

Source: LGT, Bloomberg

A strong economy gives the Fed room

The rationale rested as much on the strength of the economy as on inflation. The Atlanta Fed's GDPNow model – a real-time estimate of quarterly growth – pointed to annualised growth of around 5% for much of the quarter. That strength has come despite energy prices being up 16.3% on the year in August, keeping headline inflation at 3.4%. The build-out of AI infrastructure has added pressure too, notably through memory chip prices, and Warsh was clear the Fed's priority is to stop these increases from broadening. With unemployment steady at 4.2% and layoffs low, this has left the Fed free to focus on inflation. Ten-year Treasury yields ended the quarter around 5.3%, up from 4.5% at the end of June. The increased yield makes this asset class more attractive, but inflation uncertainty remains a driver of volatility.

The Bank of Japan plays catch-up

The BoJ has been slower to respond, holding rates at 1% in July and leaving the yen as the focal point. A rare joint US–Japan intervention in late July offered only brief relief from around 164 per dollar, and while speculation over a BoJ hike later strengthened the yen to 154, it faded back to 158 by quarter end. Ten-year Japanese government bond yields touched 3%, their highest since 1996. The BoJ raised rates by 0.25% to 1.25% in September, the highest level since 1995, on a 7–2 vote.

The BoE holds, but the bias has shifted

The BoE held rates at 3.75% in July and September, with three of nine members voting for a hike each time. Inflation rose to 3.1% in August, and the BoE now expects it to reach around 3.8% in the final quarter and slightly above 4% in early 2027, up from its July forecast of 3.2%. Governor Andrew Bailey warned a hike becomes more likely the longer energy prices stay high, and markets now expect one in November. UK government bonds were not spared, with 30-year yields reaching 5.95% on 10 September, the highest since 1998, ahead of Chancellor John Healey's first Budget on 28 October.

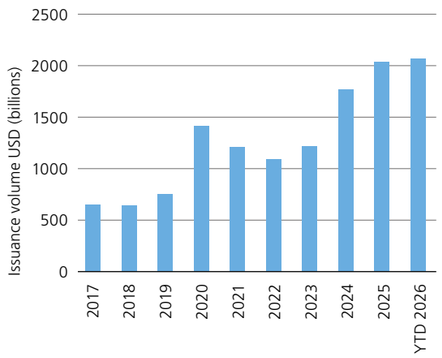
The ECB tightens as spreads widen

After pausing in July, the ECB raised its deposit rate by 0.25% to 2.5% in September, and markets expect more to follow. The bond market is making that harder. French government bonds came under pressure as investors doubted Prime Minister Sébastien Lecornu's minority government could narrow a deficit of 5.4% of GDP in its 2027 budget ahead of next year's presidential election. The gap between French and German ten-year yields widened from around 0.8% to 1.3% over the quarter, the widest since 2012, and French ten-year yields neared 5% at quarter end. Raising rates while some member states' borrowing costs climb faster than Germany's is a delicate balance, and may limit how far the ECB can go.

AI borrowing reshapes credit

Corporate bond issuance stayed heavy, driven by AI. US investment-grade sales totalled USD 517 billion over the quarter, up 25% on the same period last year, as hyperscalers borrowed to fund data centres. Amazon and Alphabet each raised USD 25 billion. Investors are absorbing the supply, but at a price: order books for hyperscaler deals have thinned markedly since February, pushing their spreads wider. Strong balance sheets help, although technology's growing weight in investment-grade indices increases concentration risk.

US investment-grade bond issuance



Source: LGT, Bloomberg

The bigger picture

Outside the US, central banks are primarily tightening in response to higher energy costs rather than strong domestic demand. Economies have so far proved more resilient to the energy shock than many feared, but tightening into a supply shock leaves less margin for error should growth falter. With yields at, or near, two-decade highs, starting yields look attractive, though volatility is likely to persist.

Equities

After the powerful, broad-based rebound of the second quarter, Q3 2026 saw global equity markets take something of a breather, delivering more modest returns while, beneath the surface, leadership rotated sharply once again. Ergo, the MSCI World increased 2% in Q3 compared to 14% in Q2 2026.

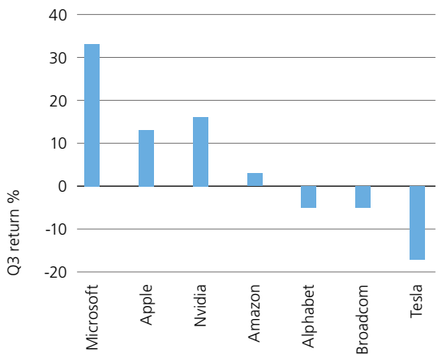
The S&P 500 added 2%, but the equal-weighted version of the index fell 2%, as the very largest companies in the index once again asserted their superiority in share price performance.

The narrative in Q2 was that Microsoft's software near-monopoly was potentially threatened by the explosion in AI coding capability, while Meta's AI infrastructure spending was rising, despite not having any cloud business with which to externally monetise this spending. Both share prices fell as a result. The third quarter showed how quickly the market's assessment can change.

Microsoft rose 33% throughout Q3 (and added USD 1 trillion to its market cap) with almost half of this coming the day after releasing its Q2 2026 earnings. The positive news from its Cloud business growing at the highest annual growth rate in four years (on a much larger base) drove out the negative from concerns over the future of its software business.

The other large AI spenders and beneficiaries diverged, Alphabet fell 4% and Amazon rose 5%, whilst the primary beneficiaries of this spending, chip makers Nvidia (rose 14%), and Broadcom (fell 7%) went in opposite directions. Meanwhile Apple, which is sitting out the spending race on AI infrastructure, rose 15% and added USD 610 billion to its market cap as management called out the 'problem' of being unable to keep supply up with the demand for their iPhones.[7] Tesla fell 16% and shed USD 180 billion of market cap. Some of the world's largest companies moving between -16% and 38% in a single quarter shows just how volatile and distinctive the 'AI trade' can be, especially over a short time period.

Share price growth of AI spenders and beneficiaries over Q3



Source: LGT, Bloomberg

Nowhere was the reversal more dramatic than in Korea. Having added a combined USD 1.4trn in market value between them over the previous two quarters and driven the Kospi to a stunning 68% return in Q2, Samsung Electronics and SK Hynix saw the memory chip trade partially reverse. Samsung fell 19% and SK Hynix fell 33%, dragging the Kospi index down 19% as investors took profits and likely began to question how much more earnings could divert from these levels.

The increasingly unpredictable Iran War and the disruption to energy supplies contributed to swings in oil prices and energy shares. The S&P Energy sector rose 38% in Q1, fell 13% in Q2 and then rose 17% in Q3 with Brent Crude spending most of September stubbornly above the USD 100 a barrel level compared to just below USD 70 pre-war. UK and European Energy indices rose by similar amounts.

UK telecoms were another standout, Vodafone's 23% rise drove the sector to a 15% gain as French telecoms innovator, Xavier Niel agreed to buy EE's 16% stake in the company.

Beyond energy and the mega-caps, the broader US sector picture was mixed. Healthcare recovered 6% and Financials were essentially flat, but Industrials fell 10% even as the picture on US growth continued to become more positive.

Most notable was the Utilities sector, which, having behaved as an "AI-adjacent" sector for much of 2026 on the back of data-centre power demand, fell 12% in Q3 – its worst quarter of the year – as investors reassessed the near-term returns on all that spending, and how it will be financed.

The MSCI Europe slipped 1%, pausing after Q2's 12% rebound, with Germany eking out a 1% gain and France falling 5%. Beneath the headline, the picture echoed the US: Financials continued to rise, but at a much slower pace than Q2's 18% (4% in Q3), while Energy (20%) and Materials (3%) were the only other sectors in positive territory.

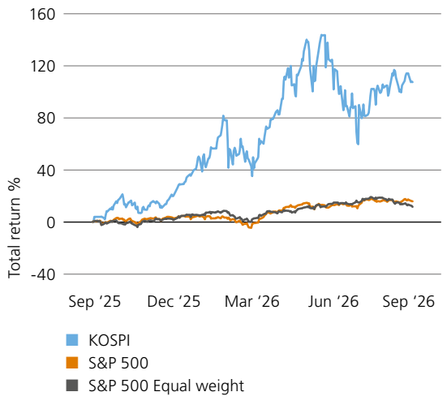
Japan's Topix extended its remarkable run with a sixth consecutive positive quarter, by rising another 4%, and has comfortably outpaced both the S&P 500 and Nasdaq on a cumulative basis since the start of 2025.

Asia ex-Japan saw the mainland China/Hong Kong relationship flip entirely. Having lagged the mainland for much of the first half of the year, Hong Kong rallied 9% in Q3, while the two Chinese mainland benchmarks went the other way: the tech-heavy Shenzhen index fell 12% and the Shanghai Composite 5%. Chinese economic growth continues to be moribund, and investors appear to be speculating as to whether all the AI spoils will go to US companies as opposed to Chinese ones.

UK equities were once again respectable but not spectacular, with the MSCI UK gaining 2%. It was a mixed bag in the banking sector, with Lloyds down 2%, Barclays down 9%, but NatWest up 5%. The Healthcare sector fell, with AstraZeneca down 12% and GSK down 8%. The modest index gain masks substantial dispersion.

Taken together, Q3 2026 looks like a quarter of digestion after the extremes of the first half of the year, but there was an awful lot of movement underneath the headlines, as the prior quarters' winners, (Korean memory stocks, and broader US market) gave way to a narrow group of US leaders and incredibly mixed stock and sector performance elsewhere.

KOSPI vs S&P 500 vs S&P 500 Equal Weight



Source: LGT, Bloomberg

[7] BBC News

Key market data

Key market data (as at 30 September 2026)

Asset class	Level	1m %	3m %	6m %	1y %	3y %	5y %	YTD %
Equity indices (total return) *								
MSCI United Kingdom (GBP)	3020	-2.02	1.81	5.32	17.35	54.44	83.11	9.58
S&P 500 (USD)	7652	-0.35	2.30	17.85	15.74	85.58	90.78	12.75
Euro Stoxx 50 (EUR)	6269	-2.22	-0.62	15.01	16.71	64.69	81.36	11.00
Nikkei 225 (JPY)	66754	1.26	-4.10	31.71	50.99	121.06	149.63	34.59
MSCI World (USD)	3821	-0.75	1.90	16.28	16.62	79.22	84.16	12.73
MSCI AC Asia Pacific ex Japan (USD)	1054	-0.50	-2.68	21.64	28.89	92.69	71.67	23.32
MSCI Emerging Markets (USD)	1705	-0.32	-2.77	20.78	30.43	95.77	71.93	23.42
10 year bond yields **								
UK	5.41	0.35	0.67	0.57	0.72	1.01	4.47	0.94
US	5.27	0.53	0.83	0.95	1.13	0.70	3.75	1.11
Germany	3.58	0.25	0.73	0.56	0.88	0.77	3.77	0.73
Japan	3.07	0.13	0.40	0.74	1.44	2.31	3.01	1.00
Commodities (USD)								
Gold	4155.60	-6.22	3.30	-10.59	8.20	124.86	136.75	-3.93
Oil	103.53	14.41	41.98	-12.52	54.48	8.62	31.85	70.14
Currency								
GBP-USD	1.33	-2.02	0.09	0.74	-1.32	8.84	-1.48	-1.23
GBP-EUR	1.17	0.20	0.75	2.19	2.08	1.45	0.53	2.12
EUR-USD	1.14	-2.22	-0.65	-1.42	-3.33	7.28	-1.99	-3.29
USD-JPY	157.13	-1.60	-3.32	-1.23	6.40	5.30	40.83	0.25

Source: Bloomberg, ICE, London Stock Exchange, MSCI, Standard & Poor's, Stoxx Tokyo Stock Exchange

* Performance is given on total return indices, but the levels are for the main indices.
** Displayed as absolute changes in yields, rather than percentages.

"BoE Governor Andrew Bailey warned a hike becomes more likely the longer energy prices stay high, and markets now expect one in November.

Jeremy Sterngold, Deputy Chief Investment Officer

“

After the powerful, broad-based rebound of the second quarter, Q3 2026 saw global equity markets take something of a breather, delivering more modest returns while, beneath the surface, leadership rotated sharply once again.

Russell Harrop, Head of Equities

Imprint

Image credits

Cover: LIECHTENSTEIN. The Princely Collections, Vaduz–Vienna, Katjen/shutterstock.com
Page 2: spainter_vfx/shutterstock.com
Page 7: Darunrat Wongsuvan/shutterstock.com
Page 9: FilmRAW/shutterstock.com
Page 15: jo.pix/shutterstock.com

Quarterly report contributors

Sanjay Rijhsinghani, Chief Investment Officer
Jeremy Sterngold, Deputy Chief Investment Officer
Russell Harrop, Head of Equities

Media relations

Chloe Poole
Phone +44 (0)203 207 8466, chloe.poole@lgt.com

Important information

LGT Wealth Management UK LLP is authorised and regulated by the Financial Conduct Authority Registered in England and Wales: OC329392. Registered office: 14 Cornhill, London, EC3V 3NR.

LGT Wealth Management Limited is authorised and regulated by the Financial Conduct Authority. Registered in Scotland number SC317950 at Capital Square, 58 Morrison Street, Edinburgh, EH3 8BP.

LGT Wealth Management Jersey Limited is incorporated in Jersey and is regulated by the Jersey Financial Services Commission in the conduct of Investment Business and Funds Service Business:102243. Registered office: Sir Walter Raleigh House, 48-50 Esplanade, St Helier, Jersey JE2 3QB.

LGT Wealth Management US Limited is authorised and regulated by the Financial Conduct Authority and is a Registered Investment Adviser with the US Securities & Exchange Commission (“SEC”). Registered in England and Wales: 06455240. Registered Office: 14 Cornhill, London, EC3V 3NR.

This publication is marketing material. It is for information purposes only. Certain services described herein are not available to retail clients as defined by the FCA or the JFSC, as applicable; please speak to your investment adviser for further clarification in this regard. All services are subject to status and where local regulations permit. The wording contained in this document is not to be construed as an offer, advice, invitation or solicitation to enter into any financial obligation, activity or promotion of any kind. You are recommended to seek advice concerning suitability from your investment adviser. Any information herein is given in good faith, but is subject to change without notice and may not be accurate and complete for your purposes. This document is not intended for distribution to, or use by, any individual or entities in any jurisdiction where such distribution would be contrary to the laws of that jurisdiction or subject any LGT Wealth Management entity to any registration requirements. When we provide investment advice it is on the basis of a restricted approach where we consider a restricted range of products or providers rather than assessing the whole market.

Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.

Index provider disclosure

LGT Wealth Management is not in any way connected to, sponsored, endorsed, sold or promoted by the London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). FTSE® is a trade mark of the relevant LSE Group company and is used under license. The LSE Group does not accept any liability to any person arising out of the use of or error in the Index.

LGT Wealth Management US Limited
14 Cornhill, London EC3V 3NR
Phone +44(0)20 3207 8000, info-us@lgt.com

www.lgtwm-us.com

00313en 1026