

September 2026

Macro Overview

September marked a clear step-change from August's cautious uncertainty, with the macro environment turning decisively more challenging. The Iran–US conflict escalated materially beyond the diplomatic stalemate and the recent Saudi-Houthi conflict pushed oil prices sharply higher and embedding an energy risk premium that was no longer seen as transitory by markets. This fed directly into inflation expectations globally, forcing the hand of central banks to a wait-and-see posture. Bond markets sold off sharply, with sovereign yields reaching multi-year highs as the prospect of sustained monetary tightening became the base case rather than the tail risk. Equities showed relative resilience — supported by robust AI-driven corporate earnings — but sentiment was noticeably fragile, with rate-sensitive sectors under visible pressure. Gold extended its rally as the consensus safe-haven, the US dollar held firm against developed market peers, and emerging markets remained broadly stable underpinned by their relative yield advantage. Across asset classes, the month closed with markets having moved decisively from pricing geopolitical uncertainty to pricing a structurally tighter-for-longer rate environment, with the energy shock acting as the catalyst that compressed the timeline.

Numbers Behind the Narrative

September's energy shock translated quickly into bond market stress. US Treasury yields surged to levels not seen since before the 2008 financial crisis — the 10-year yield briefly touched 5.0% and the 30-year yield pushed toward 5.4% in September, with the yields currently elevated and hovering around 5.3% and 5.7% respectively— as investors demanded significantly higher returns to hold long-dated government debt in an environment of rising inflation and heavier government borrowing.

On inflation, the picture offered some tentative relief beneath the headline noise. US CPI held steady at 3.4% annually suggesting the disinflation trend had paused rather than reversed. More encouragingly, the Fed's preferred measure of underlying inflation, core PCE, eased to 3.0%, coming in below market sentiment. Looking forward, September CPI, PCE and nonfarm payroll numbers will be closely watched to price in the rate decision by Feds in the upcoming October 27 FOMC meeting.

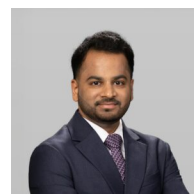
Central Bank Watch

The FOMC voted unanimously on September 16 to raise the federal funds rate by 25 basis points to 3.75%–4.00% — the first rate increase since July 2023. The ECB also hiked on September 10, raising all three key rates by 25 basis points — bringing the deposit rate to 2.50% — in its second move of the year, driven by Eurozone inflation rising to 3.3% in August, its highest since September 2023. The September jobs report and CPI print — due October 8 and 14 respectively — will be the decisive inputs ahead of the October 27 FOMC meeting, where a final 25bp hike to 4.25% remains the market's base case but is far from certain.

The ECB, having hiked twice in 2026, is expected to pause in October though markets are pricing meaningful further tightening into early 2027.

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