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Investment Update Q3 2026

The third quarter was a positive period for our Radcliffe client portfolios, despite a backdrop that remained unusually demanding. Markets had to absorb the continuing conflict in the Middle East, a sharp rise in energy prices, persistent inflation and higher government bond yields. Even so, resilient economic activity and strong company profits helped most portfolio values to edge higher.

Equity markets

Although the macro backdrop has become more challenging for stocks, business performance has been impressive.

In the first half of 2026 large-cap US stocks posted their fastest earnings growth rate in five years. This momentum continued into Q3, albeit at a slower rate. Japanese, UK and US shares were among the stronger performers in Q3, while Europe and emerging markets were more subdued. Large US businesses delivered profit growth well ahead of earlier expectations, while businesses in the UK and Europe also reported broadly encouraging results.

This resilience in company earnings has provided important support for equity markets against the more challenging backdrop of higher energy prices and bond yields.

Oil prices and inflation

Energy prices were again an important influence. Brent crude oil rose sharply during the quarter as the Middle East conflict increased supply concerns. Higher oil prices can place pressure on household budgets, transport costs and company margins, while also making inflation slower to subside.

Inflation is well below the peak reached in 2022, but it remains sufficiently high to limit the scope for interest-rate reductions. Central banks therefore remain cautious about cutting interest rates too quickly. At the same time, substantial government borrowing and investment in digital infrastructure are adding to the demand for capital. Together, these pressures helped push bond yields higher across the UK, US, Europe and Japan

Bonds and diversification

Government bonds had a more difficult quarter than equities.

Rising yields caused modest short-term capital losses, but they also lifted the income now available from high-quality bonds. This higher starting income provides a greater cushion against future volatility than investors enjoyed when yields were exceptionally low. Bonds once again have an important diversifying role if economic growth weakens unexpectedly.

Outlook

Looking ahead, the balance between growth, inflation and interest rates is likely to remain the key influence on markets. Economic activity is positive, although not especially strong, and company profits have generally held up better than feared. A sustained easing in inflation could support both bonds and shares. Conversely, renewed energy-price increases or concerns about government finances could keep borrowing costs elevated.

For equity investors, earnings delivery will be increasingly important. Strong profits have justified much of the rise in share prices, but higher valuations in selected areas leave less room for disappointment.

Artificial intelligence remains a compelling long-term opportunity, supported by growing adoption and the potential for substantial productivity gains. However, rising debt financing, power constraints and the scale of infrastructure spending create risks. Returns are unlikely to be shared evenly. Our focus remains on company fundamentals, evidence of investment returns and diversification, rather than treating AI as a single investment theme.

Your portfolio?

If you would like to discuss how these developments have affected your portfolio, including the changes we have made on your behalf, please do get in touch. We would be delighted to talk you through our work

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