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BM BROOKS MACDONALD

THE Quarterly Edit

2026 Outlook
& review of Q3 2026

Q3 2026

Quarter IN REVIEW





Will Hobbs
Chief Investment Officer
Brooks Macdonald

The global bond market barged back onto centre stage this quarter.

The primary enabler for this muscular return was actually benign – the global economy appears to be running a lot faster now than in the decade between the Great Financial Crisis (GFC) and global pandemic. Real interest rates had some further catching up to do in order to reflect this happy reality. However, the latter part of the quarter added a queasier edge, with energy prices responding to fresh escalation in the Strait of Hormuz. The resulting leg higher in borrowing costs was notably more fevered as French government bonds, among other areas, started to creak a little.

Stocks and other risky assets remained mostly resilient in the face of rising interest rates. Stellar earnings growth, much of which derived from the AI infrastructure buildout, remained the key story here, although corporate pep certainly continues well beyond this theme. As we noted last quarter, the signs of a precise repeat of the 'dotcom' bubble are still overstated in spite of some superficial similarities. Many investors are rightly sceptical of the potential returns from the AI infrastructure buildout – we continue to see merit in active management in navigating these. It is surely a sign of strange times, when in filing for public listing, Anthropic would note a one-in-ten chance its frontier products could result in the extinction of the human race.

However, as of yet, the economic and financial excesses that characterised the late 1990s appear substantially absent, even if the productivity story is increasingly equivalent. The coast is certainly not clear, of course. However, diversification, not disinvestment, remains the most sensible answer given the continuing underlying momentum in the global economy amidst an unfolding industrial revolution. Meanwhile, duration is increasingly looking like offering a useful role in portfolios again after a long period of offering little but return-free risk.



Politics again

A still distinct political environment provided important subtext to all this. The approach of midterms in the US, combined with the famed sensitivity of US voters to gas prices, may have helped spur re-escalation in the Middle East. Meanwhile, more evidence that the European populist boil has not been effectively lanced set investor pulses racing a little faster closer to home. For what it's worth, European constitutional defences remain more substantial than those across the Atlantic. Workable populist majorities still look more unlikely as a result, particularly given the incoherence of respective agendas across the region. In the event of a Le Pen presidency, or even a disintegration of the German 'firewall', we would certainly see the European conversation become more fractious. However, we would so far stop short of more dramatic pronouncements. The various crises of the post-GFC era have forced substantial leaps forward in the euro project. We expect stuttering further integration to be the response to whatever crises lie in the path ahead.

UK data revisions

We've argued for some time that this latest batch of political leaders may simply be a little luckier than some of their immediate predecessors. Where those taking the reins in the wake of the GFC were wrestling a slumbering global economy and disinflation, the current crop are, (through no particular act of their own), surfing a brisker trend in the underlying economy. In the US, this more forgiving context is allowing all manner of perceived policy crimes to go unpunished, from protectionism to wider cultivated uncertainty. However, this quarter showed the UK to be enjoying more warmth than previously realised. Not only were there substantial revisions to the past few years, but the present continues to surprise positively. This shouldn't be too shocking. The UK is a services superpower with centuries of comparative advantage in financial and legal services in particular. Happily, this is also the area of the economy most in the sights of the in-motion information revolution. As before, it is likely too early for generative AI to be making its effects felt. This is much more about machine learning and other related innovations beginning to help refine decision-making and supercharge productivity.



A reminder on debt

The development of the concept of 'interest' helped solve one of humanity's most binding trade-offs. For much of our history, we could either invest in the production of goods and services that could be consumed today, or we could invest in the production of capital goods and research that might support higher living standards in the future, but not both at the same time. The payment of interest helped solve this by acting as an incentive to those who would sacrifice spending power today, in exchange for spending power later. That, in turn, freed up others to spend more than they earned today. In exchange, the recipients of the loan agree to either spend less later, (if they are borrowing to buy consumer goods and services), or produce more later, (if they are borrowing to invest in expanding society's productive capacity).

Through this, you can hopefully begin to see that the popular worry that we are collectively 'borrowing from the future' is subtly mistaken. At the global level, there can be no net debt. Interplanetary borrowing does not yet exist (get ready to choke down some neatly packaged subprime mortgages, Martian microbes). Lenders and borrowers must therefore net out and be alive at the same time. The resulting implication is that the lazily summed piles of global debt we are daily harangued about do not tell us how scarily in hoc we are to the future. They merely tell us how much spending power is being shuffled around the world. The changing interest on offer from various types and maturities of debt is key to roughly organising incentives to engage in this important process.

Global economy remains more adaptable than feared

Analysis of the economy should always begin with the assumption of innocent until proven guilty, not the reverse – this is because for the last several hundred years growth has tended to be the norm, not the exception. The reason for that happy truth lies in how incoming and existing technologies interact with our problem solving and adaptation skills. Importantly, this engine at the heart of long-term economic growth is mostly invisible to our current statistical framework.

So far, the global economy has proved significantly more adaptable than its ever-present detractors continue to warn. Strong private sector balance sheets and free cash flow have been an important part of this, as have mostly resilient labour markets. We continue to monitor extremely closely a wide range of developments, from French borrowing costs to user cases for the frontier AI models. However, for the moment we see more paths ahead where the global economy continues to briskly trundle along than where it doesn't.



2026 OUTLOOK

Humbly optimistic

There are certainly ways to imagine a messy accident for investors in the path ahead. The mixture of fiscally incontinent governments, already sizeable (developed world government) debt piles, surging oil prices and steep valuations in US tech could ultimately prove combustible. However, there are a few things to keep in mind beyond the points made above. First, debt itself is not a factor of production. It does not directly produce anything, it is part of the organisation of productive forces as suggested above. Periods of re- or deleveraging in one part or other of the economy do not therefore tell us about growth prospects in the way much of the commentary demands.

Changes in interest rates certainly do affect people and businesses. However, the effects are not consistent over time, nor therefore are they particularly predictable. Among other things, this comes back to the idea that we do not make decisions in a reliably systematic way, much to the frustration of model-dependent economists. Instead, our agendas rest unsteadily on frequently singular, and ever-shifting definitions of self-interest. There are surely scenarios where the borrowing requirements of currently less interest sensitive parts of the economy, such as the hyperscalers, inflict further damage on those more sensitive, such as lower-income households. Even so, at the level of the global economy and capital markets, this is something to monitor rather than a reason to change investment course.

As noted in last quarter's publication, the reality is that most cycles end unpredictably. There will always be the stopped-clock doomers on hand in the aftermath to tell us that they told us so. However, investing sensibly is mostly not about a supernatural ability to see around corners. Instead, it is about the more prosaic and, dare I say it, boring stuff. Carefully thought out diversification across asset classes and geographies, based on an admission that the past may not be prologue. Painstaking due diligence on a variety of assets and the necessary dispassion to take profits on winners (and cut losers), and perhaps most importantly of all, a heavy dose of humility.

Right now, we see good cause to rethink duration exposure in portfolios as noted above. There are also ways to increase diversification away from plain stock and bond exposure, conferring greater resilience to inflation shocks among other things.



Equity Regional Outlooks

UK

UNITED KINGDOM EQUITIES

UK equities remain supported by their attractive valuation backdrop and strong income characteristics. The market continues to trade at a meaningful discount to US equities while offering an attractive dividend yield, alongside ongoing support from share buybacks. Performance has remained positive, although the UK lagged stronger global markets during parts of the quarter, with its relatively low technology exposure limiting participation. Combined with historically undemanding valuations, UK equities continue to offer a compelling blend of income, value and diversification within multi-asset portfolios.

US

UNITED STATES EQUITIES

US equities have continued to perform strongly, underpinned by strong and broadening earnings growth, resilient economic activity and sustained AI-related investment. The latest earnings season provided further evidence that profit growth is extending beyond the largest technology companies. However, valuations remain elevated relative to both history and other regions, leaving future returns increasingly dependent on earnings delivery rather than further multiple expansion. Persistent inflation and the Federal Reserve's September rate increase have also raised the hurdle for valuations, making the market more sensitive to any disappointment in earnings or growth. While the fundamental backdrop remains supportive, elevated expectations reinforce the case for a selective approach.

EU

DEVELOPED EUROPE EQUITIES (EXCLUDING THE UK)

European equities continue to offer a more attractive valuation starting point than the US, supported by reasonable earnings expectations and healthy dividend yields. Fiscal support and structural investment themes remain supportive over the medium term, although economic momentum remains relatively subdued and persistent inflation and higher bond yields complicate the ECB's policy outlook. Against this backdrop, European equities remain attractive from a valuation perspective, although exposure to global trade, energy prices and geopolitical developments may lead to a less straightforward return path.



AP

ASIA PACIFIC EQUITIES (EXCLUDING JAPAN)

Asia Pacific ex Japan continues to provide exposure to some of the world's most attractive long-term growth opportunities. Korea and Taiwan have benefited particularly from their central role in the global AI and semiconductor supply chain, while a weaker US dollar has provided an additional tailwind for parts of the region. However, regional performance remains uneven. China continues to face structural headwinds from weakness in domestic demand, property and deflationary pressures, leaving a marked divergence between markets across the region. While valuations remain broadly reasonable, selectivity is increasingly important.

JP

JAPAN EQUITIES

Japanese equities remain supported by ongoing corporate governance reforms and improving capital discipline, while share buybacks and greater focus on shareholder returns continue to underpin the structural investment case. However, rising Japanese government bond yields, monetary policy normalisation and continued currency volatility are creating a more complex backdrop for investors. While the structural case remains compelling, the combination of strong recent performance and a less accommodative policy environment argues for a balanced approach.

EM

EMERGING MARKETS EQUITIES

Emerging market equities continue to offer attractive relative valuations and a broadening set of return drivers. A softer US dollar has provided a more supportive backdrop, while opportunities are increasingly extending beyond technology. However, significant differences in economic fundamentals and market performance across countries reinforce the importance of selectivity. Overall, emerging markets continue to offer meaningful diversification potential, although conviction remains stronger in selected countries and sectors than across the asset class as a whole.

Outlooks defined: *We express positive, neutral, and negative outlooks across a range of asset classes. These are defined as our judgement as to the expected return compared to the relevant broader asset class benchmark over our central forecast period of twelve months.*

● POSITIVE ● NEUTRAL ● NEGATIVE

Important information

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The views in The Quarterly Edit are correct as at 30 September 2026. All information is current at the time of issue and, to the best of our knowledge, accurate.

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