

Investment OUTLOOK

October 2026



*A monthly round-up
of GLOBAL MARKETS
and trends*

In this issue:
Delivering growth
amid rate uncertainty

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Delivering GROWTH *amid* *rate* UNCERTAINTY



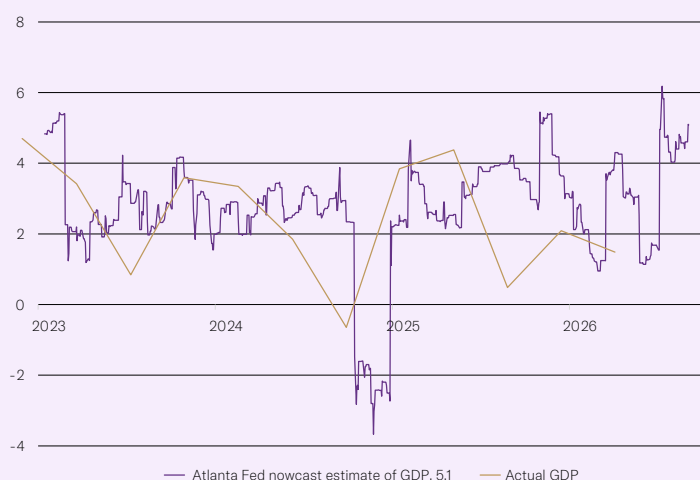
Summary

Global economic growth remains surprisingly resilient despite higher interest rates and bond yields, supported by the artificial intelligence (AI) boom and solid private consumption growth. However, stronger demand combined with supply constraints are creating inflation risks. As such, investors increasingly expect interest rates to remain higher for longer, with fiscal deficits and rising government debt becoming key drivers of bond yields. Nevertheless, equities currently remain supported by the continued economic expansion driving company earnings.

The global economy remains resilient

The global economy shows surprising resilience despite higher interest rates and bond yields remaining well above pre-pandemic levels. Take the US. The Atlanta Fed's GDP Now model (an early read estimate) is tracking annualised real output growth of 5.1% in the third quarter.¹

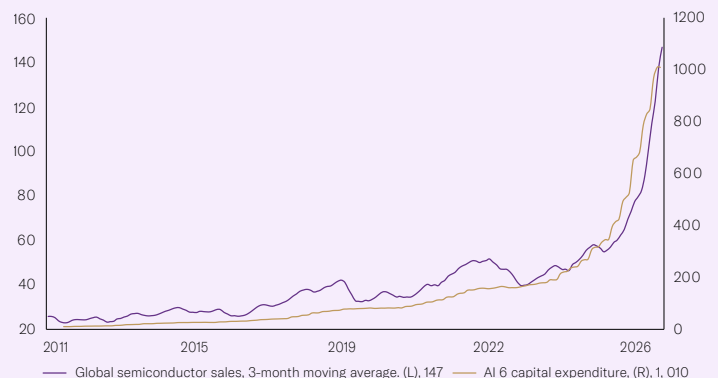
US annualised real GDP growth (%)



Source: LSEG Datastream/Evelyn Partners. Data as at 25 Sep 2026

The financial and economic data show little sign of momentum slowing. Analysts expect the large technology companies to spend in excess of \$1 trillion into AI infrastructure over the next year, with forecasts continuing to rise.² Outside the US, global demand for semiconductor chips may not have peaked, suggesting that demand for computing power remains strong.

AI-6 capital expenditure* and global semiconductor sales (USD bn)



Source: LSEG Datastream/Evelyn Partners. Data as at 28 Sep 2026. *1-year forward capital expenditure. AI-6 is Alphabet, Amazon, Meta Platforms, Microsoft, NVIDIA and Oracle.

Moreover, it is becoming increasingly clear that the AI theme is filtering through to other parts of the globe. For instance, India reported healthy real GDP growth of 7.8% year-on-year, making it one of the fastest-growing major economies.³ Multinational companies are increasingly locating AI, software engineering and data analytics teams in India, attracted by its large pool of skilled engineers and competitive labour costs.

Importantly for the longevity of the AI theme, growth is increasingly being driven by services alongside manufacturing, suggesting economic momentum is becoming more broad-based.

Inflation uncertainty remains

Nevertheless, one potential downside for investors is that stronger economic growth and trade disruption could drive-up consumer prices. Inflation risks are emerging from both the demand and supply sides of the economy. If inflation proves more persistent than expected, central banks may need to raise interest rates further than markets currently anticipate and keep them elevated for longer.

On the demand side, inflationary pressures appear to be building across the US services sector, which accounts for roughly 70% of economic activity.⁴ The latest Institute for Supply Management (ISM) Services survey shows the prices paid component rising to its highest level in four years. While the index can be influenced by higher input costs, elevated readings typically occur when demand is strong and businesses possess greater pricing power. This creates additional upside risks to inflation.

US ISM service sector (prices paid) and US CPI inflation



Source: LSEG Datastream/Evelyn Partners. Data as at 25 Sep 2026.

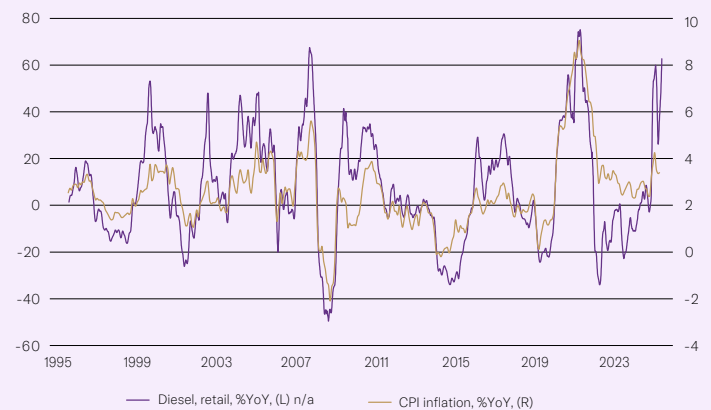
Another source of inflationary pressure is the growing demand for electricity, driven by the AI-powered data centre boom. According to the International Energy Agency, electricity demand from data centres is forecast to more than double between 2024 and 2030, increasing global power consumption by an amount equivalent to Japan's entire electricity use today. In the US, the annualised growth rate of commercial electricity prices has averaged 4.3% since the launch of ChatGPT in November 2022, more than twice the pace recorded over the period from 1990 to 2022.⁵

On the supply side, increasing energy scarcity and rising input costs are adding further inflationary pressure. In the US, retail diesel prices have climbed to record levels, reflecting refining bottlenecks and continued disruptions to global trade routes stemming from tensions in the Middle East and the ongoing Russia-Ukraine conflict, including strikes on Russian refineries.⁶

Energy supply concerns have intensified following drone attacks on Saudi Arabia's East-West Pipeline, a critical route that provides an alternative to the Strait of Hormuz and carries approximately 4-5% of global crude oil flows.⁷ At the same time, Houthi attacks on commercial shipping in the region have restricted maritime traffic and increased transport costs, placing further upward pressure on energy prices and global supply chains.

Diesel and gasoline prices may provide a better guide to future inflation pressures than crude oil prices alone because they sit closer to the end consumer and the broader economy. Diesel is a critical input throughout the supply chain, powering agricultural machinery, freight transport, rail networks, inland waterways and shipping. As a result, sustained increases in diesel prices typically feed through to a broad range of goods and services.

US diesel (retail) price* and CPI inflation (%YoY)



Source: LSEG Datastream/Evelyn Partners. Data as at 25 Sep 2026. *On a 4-week moving average

Beyond energy, concerns are also growing about whether supply can keep pace with demand for the raw materials needed to support both global economic growth and the expansion of AI infrastructure. One example is copper, which is trading near record highs as mine supply struggles to keep up with rising demand. According to mining entrepreneur Robert Friedland, the world must produce as much copper over the next 18 years as it did over the previous 10,000 years to sustain annual GDP growth of around 3%, even before accounting for the additional demands of electrification.⁸

The combination of rising demand-driven pricing power and increasing supply-side cost pressures creates the risk that inflation remains sticky. If this proves to be the case, interest rates may need to stay higher for longer, posing a challenge for both bond and equity prices.

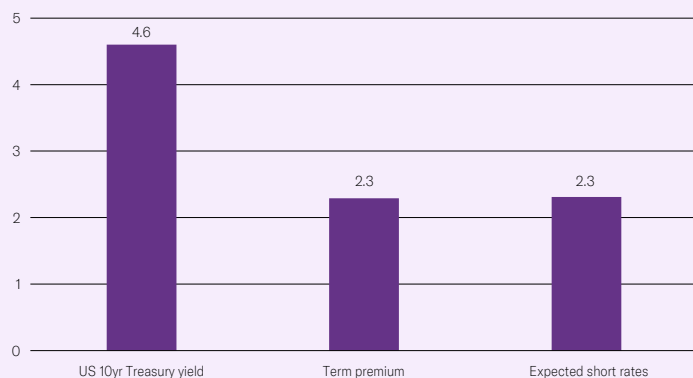
Further interest rate rises are expected

Further monetary tightening is being priced into financial markets. At the time of writing, futures markets imply that policy rates set by the Federal Reserve, European Central Bank and Bank of England could rise by a further 0.75 to 1.0 percentage points over the next year, although market pricing can change quickly.⁹ Investors are embedding much of this expected tightening into longer-dated government bond yields, while also demanding greater compensation for holding long-term bonds.

This additional compensation, known as the term premium, is the extra return investors require to lock up money for the longer term (e.g. ten years), rather than continually rolling over short-dated securities. It reflects factors such as inflation uncertainty, fiscal concerns, rising debt issuance and shifts in investor demand.

To understand the relative importance of these forces, it is useful to decompose the rise in the benchmark 10-year US Treasury yield since its pandemic low in March 2020. The yield has increased by around 4.6 percentage points since then.¹⁰ Our analysis suggests around half the increase reflects a higher base rate outlook, with the remainder driven by a rising term premium.

Decomposition of US 10-year Treasury yield since a low in March 2020 (percentage point change)



Source: LSEG Datastream/Evelyn Partners. Data as at 25 Sep 2026.

The implication is significant. Government debt dynamics and fiscal deficits are becoming at least as important for bond markets as central bank decisions. Consequently, policymakers may find it increasingly difficult to contain long-term borrowing costs through monetary policy alone.

Recent US Treasury initiatives illustrate this challenge. In August, Treasury Secretary Scott Bessent expanded the Treasury buyback programme to purchase longer-dated bonds while issuing more short-dated bills. Even so, the Treasury's programme totals only around \$38 billion per quarter, a modest sum relative to the nearly \$40 trillion in outstanding public debt.¹¹ As a result, it remains too small to materially influence yields.

Stablecoins, digital dollars backed by assets such as US Treasury bills, represent a growing source of Treasury demand. Around 80 cents of every stablecoin dollar is invested in Treasuries, primarily T-bills.¹² If adoption accelerates, stablecoins could account for 4% to 21% of outstanding T-bills by 2030.¹³ For now, however, the market remains too small to materially affect yields.

However, financial engineering may have limited influence. One way to help restore confidence in public finances is through lower debts and deficits. Failing that, central banks may eventually need to resume large-scale asset purchases (i.e. Quantitative Easing or QE) to absorb growing sovereign debt issuance. For now, this outcome appears less likely. The Federal Reserve Chair Kevin Warsh has signalled a preference for a smaller central bank balance sheet, suggesting limited appetite for another prolonged period of QE. Until that happens long-dated bond yields may remain higher for longer.

Markets are supported by three factors

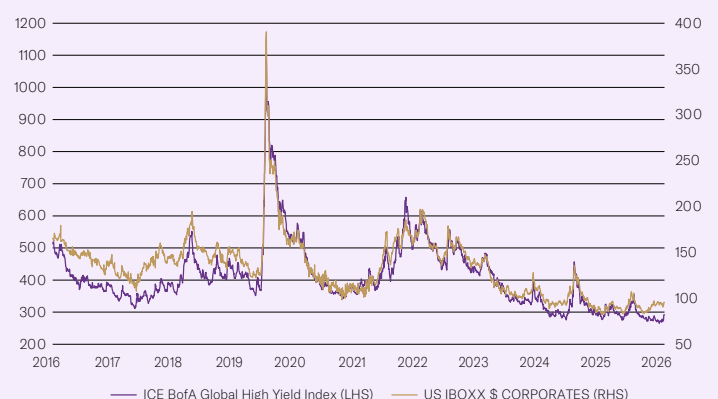
Provided economic growth remains resilient, rising inflation and interest rates are not necessarily negative for equities.

First, global equity valuations remain relatively undemanding when viewed against the earnings outlook. For example, the MSCI All Country World Index PEG ratio, which compares the one-year forward price-to-earnings ratio with average annual earnings growth over the previous five years, is near cyclical lows. Put differently, equities appear cheaper relative to their growth prospects than they were following the Covid-related market sell-off in 2020 and the inflation/interest-rate shock of 2022.

Second, corporate profit margins continue to expand, suggesting that companies are increasingly using big data and technology to optimise pricing, improve efficiency, and reduce costs.

Third, credit spreads remain narrow, indicating that businesses can still access capital on favourable terms to support investment and growth. Historically, major equity market corrections are less common when credit conditions remain healthy.

USD investment grade vs global high yield credit spreads (basis points)*



Source: LSEG Datastream/Evelyn Partners. Data as at 25 Sep 2026. *Option Adjusted Spreads

On balance, while concerns about higher interest rates have intensified, they should be weighed against a backdrop of solid economic growth, healthy corporate fundamentals, and supportive credit markets, all of which continue to underpin investor risk appetite.

Speak to us

Sources

^{1, 2, 3, 4, 5, 6, 9, 10} LSEG, Evelyn Partners

⁷ Why Saudi Arabia's East-West pipeline matters for global oil, Al Jazeera, 14 September 2026

¹¹ US Treasury/Evelyn Partners

^{12, 13} Stablecoins After GENIUS: Private Money, Public Debt, and the Global Dollar, ESPEN Economic Strategy Group, August 2026

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