

GLOBAL MARKETS REVIEW

Oil and Yields Call the Tune

Q3 2026
Jul - Sep



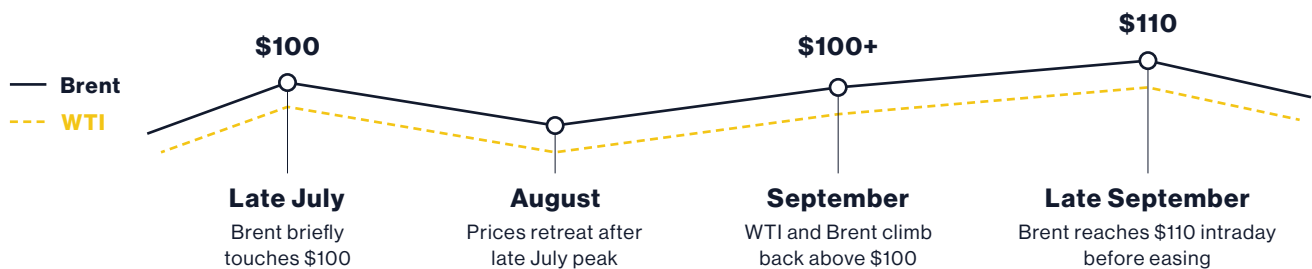
Oil Volatility Remains the Dominant Theme



The third quarter of 2026 was defined by the continued influence of the US-Iran conflict on energy markets and the subsequent ripple effects on inflation expectations, central-bank policy and bond yields. A prolongation of the war meant a continuation of sharp volatility in oil prices, with markets repeatedly oscillating between periods of escalation and tentative de-escalation. Brent crude briefly touched \$100 in late July before retreating, only to surge again in September after military strikes temporarily knocked Saudi Arabia's East-West pipeline offline. Both WTI and Brent climbed back above the \$100 threshold, with Brent pushing toward \$110 before easing. In the final week of September, a healthier-looking export picture emerged from Saudi Arabia with, the work-around ship-to-ship transfers boosting crude export numbers. However, this method is less efficient and more costly than regular shipping methods, which is why crude prices did not exhibit a larger pullback. Overall, oil price swings during Q3 kept energy-driven inflation concerns firmly in the spotlight and steadily ratcheted up the hawkish tone across major central banks. Brent crude prices rose approximately 42% during Q3 2026.

WTI and Brent Indicative Event-Based Trend

Indicative event-based trend illustrating key movements only.
Not a full historical time series.



Central Banks Turn More Hawkish

In response to the resurgence in energy costs, three of the world's most important central banks raised interest rates during the quarter. The European Central Bank lifted its key deposit rate by 25 basis points to 2.50% on 10 September. The US Federal Reserve followed on 16 September with a 25-basis-point increase that took the federal funds target range to 3.75%–4.00% — its first hike since 2023. Two days later the Bank of Japan raised its policy rate to 1.25%, the highest level in 31 years. Consensus forecasts now point to further tightening from these three institutions, as well as from the Bank of England and the Reserve Bank of Australia (which also hiked rates in the final week of September), either before year-end or in early 2027. The inflationary pressure was not confined to crude itself: diesel prices hit record highs in Q3 after refineries in Russia and the Gulf region were targeted by military strikes. Looking ahead, the trajectory of oil prices is likely to determine whether central banks dial their hawkishness up or down, given the direct impact of energy input costs on headline inflation.



KEY CENTRAL BANK RATE MOVES IN Q3 2026



**European
Central Bank**

📅 10 Sep 2026

+25 bps

2.50%

Key deposit rate



**US
Federal Reserve**

📅 16 Sep 2026

+25 bps

3.75% - 4.00%

Federal funds target range



Bank of Japan

📅 18 Sep 2026

+25 bps

1.25%

Policy rate (highest in 31 years)

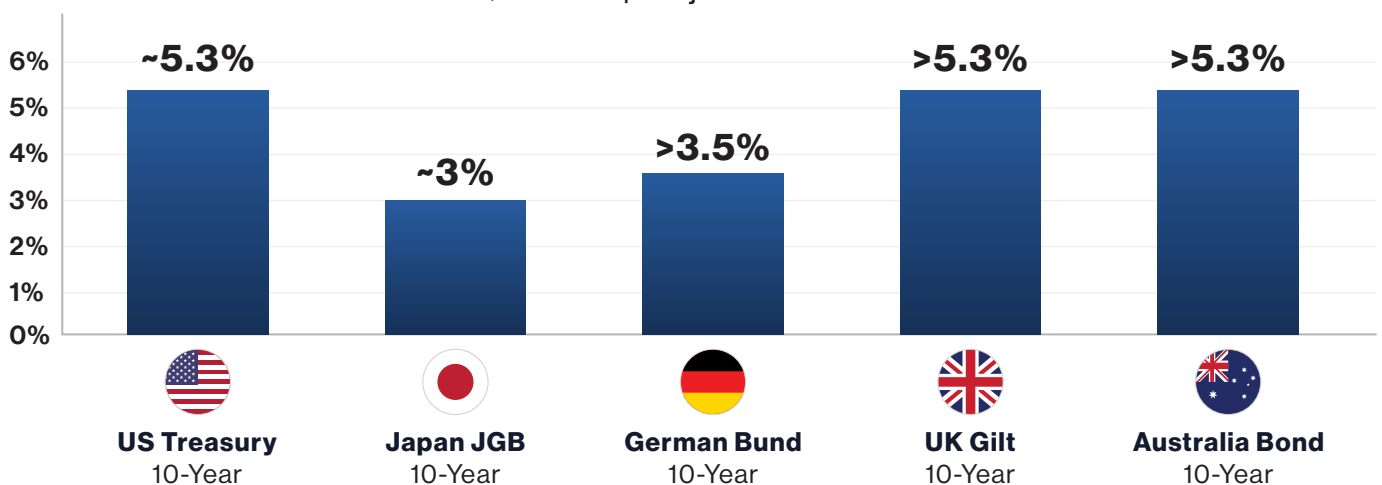
Bond Yields Climb Across the Board

Surging bond yields became one of the quarter's most closely watched developments. Global bond yields marched higher through the third quarter. The US 10-year Treasury climbed back above 5% (to close the quarter at near 5.3%), Japanese 10-year JGBs pushed toward 3% — their highest levels in decades — while German Bunds rose above 3.5%, UK Gilts moved past 5.3%, and Australian 10-year yields also firmed above 5.3%. The common thread was persistent inflation concerns and the more hawkish turn from major central banks. Energy-driven inflation was the primary driver, but sovereign-debt worries also played a role. With US debt exceeding \$40 trillion and the deficit running at roughly \$1.8 trillion, investors demanded a higher premium to absorb government issuance. Should yields continue their march higher, the market will be signalling expectations of tighter monetary conditions that could eventually contract credit demand and slow growth.



10-YEAR GOVERNMENT BOND YIELDS

Q3 2026 | Major Economies

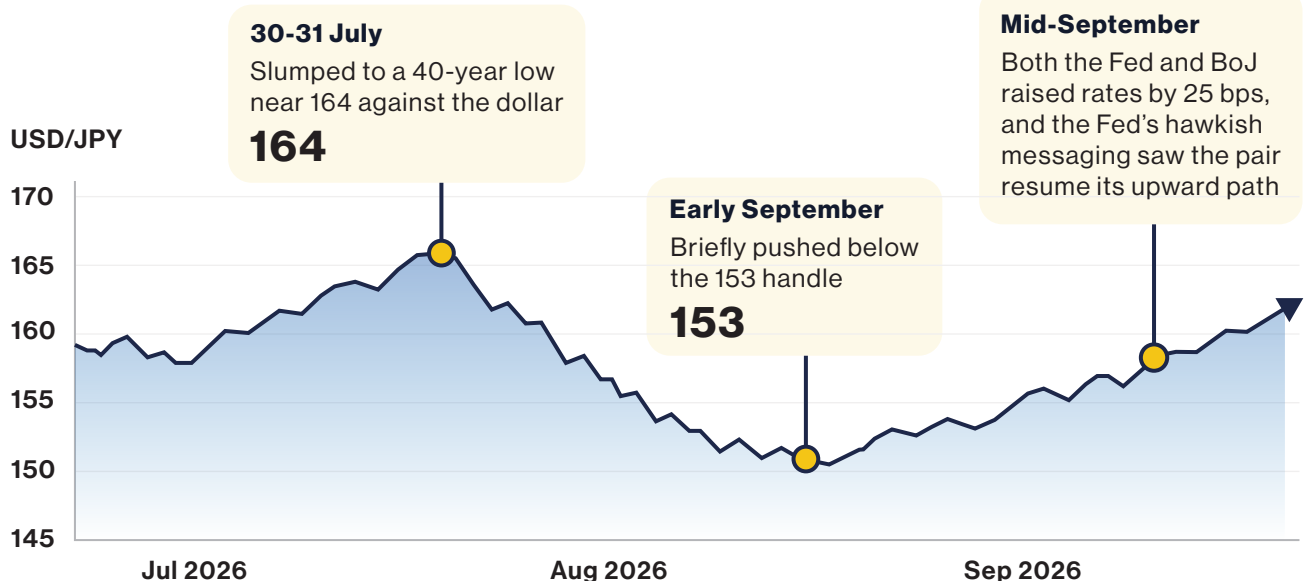


USD/JPY Volatility and Historic Joint Intervention

Currency markets were equally volatile, with the USD/JPY rate standing out as a particular source of drama. The yen remained under pressure from the wide yield differential versus the United States, prompting historic coordinated intervention by Japanese and US authorities. Between 30 and 31 July, after the yen had slumped to a 40-year low near 164 against the dollar, Japan's Ministry of Finance deployed a record ¥15.4 trillion (approximately \$98 billion) to buy yen. US Treasury Secretary Scott Bessent confirmed that the United States joined the effort on 31 July, selling euros from its international reserves to purchase yen — the first joint US-Japan yen-buying intervention in 28 years. The operation, combined with other market factors, briefly pushed USD/JPY below the 153 handle in early September. However, after both the Federal Reserve and the Bank of Japan raised rates by 25 basis points in mid-September, the Fed's more hawkish messaging saw the pair resume its upward path. Further intervention remains a live possibility if yen weakness intensifies again. For the quarter, the USDJPY rate moved 2.75% lower.



USD/JPY MOVEMENT IN Q3 2026



Equities Defy Gravity and Hit Fresh Records

Despite elevated oil prices and rising bond yields, equity markets displayed notable resilience. All three major US indices notched fresh all-time closing highs during the quarter. The S&P 500 reached a record close of 7,798 on 13 August, the Dow Jones Industrial Average (DJIA) peaked at 54,349, and the Nasdaq Composite hit 27,244 on 22 September amid renewed strength in major chip and technology names. Tech stocks experienced bouts of volatility and rotation into other sectors during July, yet AI-related equities regained leadership during the Q2 earnings season. Strong results eased valuation concerns and fuelled a rotation back into the sector that gathered pace in September, propelling the Nasdaq to its record high. Whether equities can continue to defy gravity in the face of elevated oil prices and bond yields remains an open question. Of the major three US indices, the tech-heavy Nasdaq was the best performer during Q3, gaining 2.47%, compared to a 2% gain for the broader S&P 500 and a 2.7% fall in the DJIA.



Index	Percentage Q3 Move
DJIA	-2.7%
S&P 500	+2%
Nasdaq	+2.5%



CAN EQUITIES CONTINUE TO DEFY GRAVITY?

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Trump-Xi Summit and Trade Truce Extension

Expectations were deliberately kept low heading into the late-September Trump-Xi meetings in Washington, with optics expected to take priority over concrete policy breakthroughs. What emerged was a two-month extension of the existing trade truce through to 10 January, plus the so-called “30-for-30” framework under which each side identified roughly \$30 billion of non-sensitive goods that could benefit from lower reciprocal tariffs. More difficult issues, including AI technology controls and rare-earths exports, were effectively deferred for later discussion. Overall, markets responded positively to the cordial tone of the summit and the absence of any major diplomatic missteps or renewed escalation in the trade relationship.



TRADE TRUCE EXTENDED



Looking Ahead



Looking ahead, oil prices, bond yields and the forthcoming Q3 earnings season will be the primary determinants of market direction. With US midterm elections scheduled for November, attention will also focus on whether Washington and Tehran can reach a deal — either before or after the vote — that unlocks energy supplies. Such an outcome would likely ease pressure on yields and provide a meaningful boost to risk assets. A near-term resolution is far from assured, however. While equities have so far navigated ongoing geopolitical risks with surprising strength, any further upside in oil and yields, or additional hawkish moves by central banks, could severely test global markets in the months ahead.

POTENTIAL OUTCOMES

POSITIVE SCENARIO

Deal Unlocks Energy Supplies

A successful US-Iran deal - either before or after the vote - would likely ease pressure on yields and provide a meaningful boost to risk assets.



**Lower
bond yields**



**Stronger
risk assets**

RISK SCENARIO

Further Upside in Oil and Yields

If oil prices and yields rise further, or if central banks turn more hawkish, it could severely test global markets in the months ahead.



**Higher
oil prices**



**More hawkish
central banks**

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