

Oil grabs the spotlight again

Information contained in this report current as at 12 October 2026.

Oil dominated financial markets in September 2026. Strikes on tankers and Gulf oil facilities drove Brent crude 14.4% higher to about US\$103.5 a barrel, increasing inflation concerns and pushing government bond yields higher globally. The US 10-year Treasury yield reached levels last seen in 2007. Most share markets fell, led by the Dow (-4.3%), Australian shares (-2.4% on the S&P/ASX 200 Accumulation Index) and European shares (Euro Stoxx 50 -2.4%), while the technology-heavy Nasdaq gained 1.9%.

The key development for investors was the shift by central banks from signalling tighter policy to implementing it. The Federal Reserve, European Central Bank, Bank of Japan and Reserve Bank of Australia all raised rates, with the RBA lifting the cash rate to a 15-year high. Rates are likely to remain elevated, creating headwinds for bond prices, interest-rate-sensitive shares and housing.

The Middle East conflict escalated in the first half of September as hostilities involving Iran spread beyond the Strait of Hormuz to Gulf oil production and export facilities. The heaviest wave of Iranian and US strikes on oil tankers since the war began pushed Brent close to US\$107.60, while WTI exceeded US\$100 for the first time since May. Reports that the US might deploy another carrier group and about 10,000 additional personnel added to tensions. US and Iranian officials later discussed a staged reopening of the Strait, but talks had stalled again by month end. Energy prices remained the main channel through which the conflict affected inflation, rate expectations

and asset values. Separately, Presidents Trump and Xi extended the US-China trade truce to 10 January.

The RBA unanimously raised the cash rate by 0.25 percentage points to 4.60%, its fourth increase and the highest level in 15 years. It said previously identified inflation risks were emerging, while acknowledging that economic growth appeared to be slowing left open the possibility of further increases. Annual headline inflation rose from 3.5% in July to 4.0% in August, largely because of higher fuel and electricity prices. Underlying trimmed mean inflation was steadier at 3.6%, while market services inflation reached 4.1%. Analysts expect September-quarter underlying inflation of about 1.0%, above the RBA's forecast.

Australia's economy grew 0.4% in the June quarter and 2.1% over the year, exceeding economists' expectations but remaining below potential. Momentum weakened in August as household spending stalled: higher fuel costs lifted essential spending, while discretionary spending fell 0.3%. NAB's survey showed business conditions at their weakest since the pandemic as wage and fuel costs compressed margins. Employment increased in August, mainly through part-time roles, but record labour-force participation of 67.1% pushed unemployment to



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4.6%. Westpac's consumer sentiment index fell 5.2% to 84.4 in September amid higher petrol prices, declining home values and concerns about mortgage rates.

In the US, the Federal Reserve unanimously raised its target range by 0.25 percentage points to 3.75–4.00%, its first increase since July 2023. Chair Warsh described the move as "removing a dose of accommodation", while policymakers projected one further increase before the end of 2026. The labour market remained resilient: employers added 162,000 jobs in August, almost three times the 55,000 forecast and unemployment held at 4.1%. Early-September indicators, including a 90,000 rise in ADP private payrolls and the JOLTS job openings survey, also pointed to continued strength.

Core consumer prices rose a stronger-than-expected 0.3% in August, while producer prices increased 5.4% over the year. Diesel reached a record high and the Fed now expects personal consumption expenditure (PCE) inflation of 3.7% this year. Business surveys improved in September, but household confidence fell to its lowest level since 2014 as living costs and the war weighed on consumers.

In China, updated data showed an increasingly two-speed economy. Factory output rose a solid 5.2% over the year, but retail sales grew only 0.4%, year-to-date fixed asset investment fell 7.2% and property investment declined almost 20%. Banks issued just RMB60 billion in new loans in August, well below economists' estimate of about RMB400 billion, while household borrowing contracted for a sixth consecutive month. These figures increased pressure on Beijing to deliver greater stimulus. The Shanghai Composite fell 3.6% as investors rotated from AI-related shares into banks and property developers. Iron ore declined 6.3% to about US\$93 a tonne amid weak construction demand.

The European Central Bank raised all three key rates by 0.25 percentage points, taking the

deposit rate to 2.50% and warned that inflation risks persisted. Preliminary September inflation readings in Germany, France, Italy and Spain exceeded forecasts, reinforcing concerns that higher energy costs were spreading to broader prices. The Bank of England held its rate at 3.75%, although three of nine committee members supported an increase after inflation reached 3.1% in August.

The Bank of Japan raised its policy rate by 0.25 percentage points to 1.25%, the highest since 1995, in a 7–2 decision. Governor Ueda offered limited guidance, saying future decisions would depend on incoming data. The 10-year government bond yield remained just below 3%, while the yen fell about 1.8% against the US dollar to end the month near 157.

Fixed income performed poorly in September. Each escalation in the Gulf lifted oil prices and inflation expectations, prompting markets to price in further central bank tightening; yields rose and bond prices fell across all major markets. The US 10-year Treasury yield increased 0.49 percentage points to 5.29%, reaching its highest level since 2007 after oil prices surged and business surveys beat expectations. France recorded the largest move in Europe, with its 10-year yield rising 0.65 percentage points to 4.85%. Italian, German and UK yields increased by 0.44, 0.24 and 0.20 percentage points respectively after the ECB's rate rise and stronger-than-expected inflation data. Australia's 10-year yield rose 0.22 percentage points to 5.40% as investors anticipated and then absorbed the RBA increase.

Share markets faced the combined pressure of higher oil prices and bond yields, falling with each escalation. Signs of progress in US–Iran talks late in the month provided only brief support. In mid-September, calls from several senior AI industry figures to slow development of the most powerful models temporarily weighed on chipmakers and AI-infrastructure stocks before buyers returned. In Australia, the S&P/ASX 200 Accumulation Index fell 2.4%, reflecting the RBA's increase, weaker

consumer and business confidence and lower iron ore prices. The Australian dollar declined 2.8% against the US dollar, boosting unhedged global equity returns in Australian-dollar terms. Gold fell 4.0% and silver 9.2% as higher real yields and a stronger US dollar outweighed safe-haven demand.

Housing remains the sector most exposed to higher interest rates and the RBA's September increase added further pressure to Australian residential property. Cotality reported a 1.1% fall in national home values in September, following a 1.2% decline in August. This was the sixth consecutive monthly fall, leaving prices 5.2% below their March peak. Dwelling approvals fell 6.1% in August as apartment approvals slumped 21.2%, despite a 3.7% rise in house approvals. Private-sector credit still grew 0.6% over the month, although investor property lending slowed. Commercial property performed better, with sales in the year to August up 6% and data-centre values remaining firm. However, rising bond yields continued to weigh on listed property trust valuations.

Falling home values, weak consumer confidence and flat spending point to softer domestic demand toward year end. The outlook depends heavily on whether US–Iran negotiations lead to a staged reopening of the Strait of Hormuz. Tensions are likely to remain elevated until at least December, sustaining the risk of higher oil prices and inflation. Central bank decisions will also be important. The RBA meets in November, when September-quarter inflation will be a key consideration, although a rate rise is not expected at that meeting. The Federal Reserve has signalled one further increase in 2026, while the Bank of England could raise rates in November.

ASSET CLASS RETURNS ARE BASED ON

Australian Cash
RBA Bank accepted Bills 90 Days

Australian Bonds
Bloomberg AusBond Composite 0+Y TR AUD

International Bonds Hedged
Bloomberg Global Aggregate TR Hdg AUD

Australian Listed Property
S&P/ASX 200 A-REIT TR

International Property Hedged
FTSE EPRA/Nareit Dv REITS TR Hdg AUD

Australian Shares
S&P/ASX 200 TR AUD

Emerging Market Shares
MSCI EM NR AUD

International Shares
MSCI World Ex Australia NR AUD

RETURNS TO THE 30TH SEPTEMBER 2026

	1 month	3 months	6 months	1 year	3 years	5 years	7 years	10 years
Australian Cash	0.38	1.13	2.22	4.14	4.18	3.41	2.66	2.27
Australian Bonds	-0.86	-1.51	1.10	-0.40	3.56	0.00	0.01	1.52
International Bonds Hedged	-1.66	-2.42	-1.00	-0.57	3.58	-0.52	-0.31	1.08
Australian Listed Property	-1.76	-8.38	4.21	-14.34	9.44	2.98	8.58	5.02
International Property Hedged	-5.17	-5.90	4.65	4.88	9.72	1.59	6.41	3.23
Australian Shares	-2.42	1.33	5.43	2.68	11.40	7.68	11.54	9.04
Emerging Market Shares	2.43	-0.79	21.67	23.10	21.03	9.76	11.61	10.13
International Shares	1.85	1.45	14.25	9.87	18.54	12.82	15.19	13.99



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