FOUNDED IN	EMPLOYEES	LOCATED IN	ASSETS DIRECTLY UNDER MANAGEMENT	ASSETS HELD BY INVESTEE & AFFILIATED COMPANIES
1988	80+	10+ COUNTRIES	USD 1.6 BILLION	USD 50.4 BILLION

ICM Monthly Outlook

SEPTEMBER 2026

Market Review

US equities continue to go gangbusters. In August, the S&P 500 rose 2.7% and the Nasdaq 3.98%; the Nasdaq's best August since 2021. The S&P 500 produced three more record closes, making it 27 all-time highs so far this year.

Year-to-date, at the time of writing, the S&P 500 has returned c.13.4%, the Nasdaq c.17%, while the small-cap Russell 2000 is up more than 19.8%.[1]

August's rally was largely driven by much stronger-than-expected Q2 earnings.

According to a Reuters analysis, 85% of S&P 500 companies beat earnings expectations. Even more impressive is that S&P 500's Q2 earnings are tracking at around 52% year-on-year growth.

June and July were sideways months due to concerns that AI infrastructure spending was becoming excessive and that companies were not generating sufficient returns from their enormous capex programmes.

By the end of August, investors appear reassured by the strength of the earnings. The eye-wateringly high capex by hyperscalers is translating into higher earnings, thereby justifying valuations on the basis that it is a multi-year investment cycle rather than simply a speculative bubble.

AI infrastructure stocks were at the heart of the rally. The semiconductor index rose sharply in August and has since accelerated again; it was up almost 13% over six sessions by 22 September.

On 21 September, the Nasdaq rose 2.3% in a single day, largely driven by semiconductors. The investment cycle will continue. Earnings growth momentum has eased concerns about an economic soft landing.

Following similar initial momentum from better-than-expected earnings in the first few days of August, European equities have floundered and are flat for Q3 so far. Emerging markets gained 3.4%, led once again by AI-heavy Taiwan.

Remarkably, corporate credit barely noticed. High yield returned 1.0% in August and high yield spreads narrowed to a 12-month low.[2]

ICM Monthly Outlook

SEPTEMBER 2026

Market Outlook - Growing Storm Clouds

Energy

Let's start with energy this month. Energy is a standout sector lately, up 7% in August and 44% year-to-date. However, higher energy prices could prove a pyrrhic victory for global consumers. We fear for the longer-lasting impact of the current supply-chain problems that are driving up prices across the energy spectrum. One US retailer has started rationing engine oil. There are concerns about a shortfall in home heating oil this winter in Europe, and a perfect storm is reportedly brewing for diesel and jet fuel prices.

In recent months, Russian diesel exports have declined sharply. So too have Middle Eastern exports of all energy-related products. This, in turn, is draining global inventories and pushing up prices. Now the US President is proposing a diesel export ban to support the domestic market. The US exports 1.5 million barrels per day. A US export ban would reduce production at the worst possible time because the US lacks sufficient storage facilities for its current output. Diesel is essential for agricultural equipment, shipping, and industry, and demand is relatively inelastic. Jet fuel is another middle distillate, also in short supply, but with slightly better dynamics for now. One to watch.

We previously warned that the war would filter into food prices through fertiliser and diesel costs, with a lag of several months. In June, we flagged El Niño as a reason to expect agricultural commodities to trend higher. Both are now coming through, and this summer's weather has added a third ingredient. The FAO Food Price Index rose 1.9% in August, with all five commodity groups higher. Sugar jumped 11.9% in the month, cereals reached their highest level since May 2024, and dairy rose as hot, dry weather tightened European milk supplies.[3] Europe's summer did real damage. The European Commission has cut its yield forecasts for every summer crop, with grain maize now 7% below its five-year average. In the UK, barley yields are expected to fall by c.15%, making these one of the five worst harvests on record.

The bigger risk lies ahead. All signs point to an exceptionally strong El Niño, possibly the strongest in living memory according to the UK Met Office. India, Vietnam and Thailand, the world's three largest rice exporters, are among the most exposed, as are Indonesia and Malaysia, which supply c.85% of the world's palm oil. Goldman Sachs estimates it could push global food commodity prices up by more than 15%.[4]

Consumers have not felt the full pass-through yet. US food inflation eased to 2.7% in August, and euro area food, alcohol and tobacco inflation was just 1.1%. This is where the lag matters. Commodity price increases typically take six to twelve months to reach the supermarket shelf, so food price pressure is likely to build through 2027, precisely when central banks expect inflation to fall back towards target. Energy first, then food: that was the sequence in 2022 too.

Global cereal supplies remain relatively comfortable, but the cost of production is increasing. It supports our constructive view on commodities, including agriculture, but is a headwind for food-importing emerging markets, consumer staples margins and long-dated bonds.

Central Banks have a lot to watch right now at a time when their credibility is fragile.

US interest rates

On 16 September, the Federal Reserve Bank members voted 12–0 to raise the federal funds rate by 25bp to 3.75%–4.00%, its first increase since 2023. The decision demonstrates the Federal Reserve's inflation-fighting credibility.

After five years above target, consumers no longer give the Federal Reserve the benefit of the doubt on inflation. In early September, the University of Michigan survey showed year-ahead inflation expectations jumping to 4.6% from 4.0%, with long-run expectations at 3.4%, above their 2024 range.[5]

Last March, the Federal Reserve's projections pointed to two rate cuts across 2026 and 2027. Six months and one war later, the Federal Reserve Bank is raising interest rates. The data-dependent Fed had little room to manoeuvre in September. The Federal Reserve's preferred measure of core PCE was 3.3% in July. August CPI rose 0.4% month-on-month and 3.4% year-on-year, with gasoline up 27.4% over the year, while core CPI rose 0.3%, above expectations.[6]

The Fed's decision was made easier by nonfarm payrolls increasing by 162,000 in August versus the consensus expectation of c.55,000, further supported by upward revisions of June's and July's numbers. The US unemployment rate remains strong at 4.1%, ruling out any suggestion that employment could drive the Fed's decision making process, as in March this year.

We expect one more hike in 2026 and see little reason for the Fed not to raise rates on 28 October. The market currently prices in a 75% chance of a hike in October, rising to 100% by the end of December 2026. A hike on 28 October could be perceived as politically motivated ahead of the mid-term election on 3 November. However, we do not believe the Fed will factor the mid-term elections into its decision making.

The Fed has been patient with the US government, giving it time and space to tackle energy prices, change the course of inflation expectations, and resolve the conflict in the Middle East, the biggest variable in bringing down energy prices. Instead, the White House and Treasury Secretary have undermined the Federal Reserve Bank and its newest Chairperson several times in only four months.

In August, the US Treasury Department announced it would increase buybacks of longer-dated Treasury securities ostensibly to push down yields, even if they say it is "liquidity support". The move was supposed to lower borrowing costs for the American public, whose fixed-rate mortgages are priced off the long end of the yield curve. After initially falling for a few hours, the 30-year yield quickly rebounded to new highs for the last twenty years and continues trending higher. This intervention could have made the Fed's job of managing inflation harder because artificially suppressing long-end bond yields will not contain inflation as the Fed would like. Mortgage rates would be cheaper than they should be. It's just kicking the problem down the road.

That wasn't the US Government's only "liquidity support" measure. Over the past few months, the US government tweaked US bank capital rules to allow banks to hold more US Treasuries; increased demand pushed up the price. Yields fall as bond prices rise. The US government linked crypto stablecoin legislation to US Treasuries to increase demand from the cryptoverse (The GENIUS Act). The US government ordered Fannie Mae and Freddie Mac to boost the housing market by buying more mortgage bonds; and, finally, the US Government supported the Japanese Yen using its Euro reserves so that the Japanese would sell fewer US Treasuries, thereby reducing the downward pressure on US bonds.

We've said before that the market took solace from Secretary Bessent's reputation. Now, his reputation is waning, with prominent allies in private industry publicly questioning his decisions. He is between a rock and a hard place. Someone should remind Mr Bessent not to fight the Fed.

Only a durable reopening of the Strait of Hormuz will allow long-end rates to fall back. While the war continues, we expect the 10-year to trade in the range of 4.75% - 5.25%. At the time of writing, the 10-year yields c.5.15% and the 30-year at 5.43%, with the 10-year and 20-year at their highest levels since May 2004.

Interest rates: Europe

The European Central Bank faces many of the same problems as the Fed. Euro area inflation rose to 3.2% in August from 2.9% in July, driven by energy inflation of 14.3%. The underlying picture is more reassuring: services inflation eased to 3.0% and core inflation edged down to 2.4%.[7]

On 10 September, the ECB raised its deposit rate by 25bp to 2.50%, its second hike since the war began. The ECB now expects inflation to average 3.0% in 2026 and 2.5% in 2027, with growth of just 0.9% this year.

President Lagarde sees risks to growth tilted to the downside and risks to inflation tilted to the upside, the textbook definition of an uncomfortable position for a central bank. The German 10-year Bund yield rose above 3.5% in mid-September, its highest since 2009.[8]

War in the Middle East

In August, we wrote that another move in Brent above USD 100 was entirely plausible. We would have preferred to be wrong. Two developments in September matter. First, the workarounds we credited last month have come under attack. Saudi Arabia's East-West pipeline to Yanbu was disabled following an attack, forcing Saudi exports back through the Strait of Hormuz. Second, another chokepoint is now in play. The Houthis have seized the port of Mokha and islands near the Bab el-Mandeb, the southern entrance to the Red Sea, while stepping up attacks on Saudi cities.[9] Markets can live with one impaired chokepoint. Two is a different proposition. The guerrilla war continues.

On the diplomatic front, a senior Iranian official told Reuters on 22 September that Iran could reopen the Strait within seven days if the US eased military pressure and lifted its blockade of Iranian ports.[10] It is the first time Tehran has attached a timetable to reopening. President Trump says he is in "deciding mode" and may be open to meeting President Pezeshkian.

We have been here before; the June memorandum of understanding collapsed in July. Still, the incentives are aligning. The midterms are 40 days away, and record diesel prices are not a winning campaign message. Iran's economy contracted by c.10% year-on-year in the second quarter. Our base case remains managed de-escalation before November, a deal spun as a victory for all sides. Even so, a deal would not remove the structural risk premium, and the Bab el-Mandeb does not belong to either negotiator. In a de-escalation scenario, we would expect Brent to settle in a USD 80–90 range, not at pre-war levels. If talks fail, USD 110 or more is realistic.

Credit spreads: yields high, spreads tight

Credit remains the calmest corner of financial markets. US high yield spreads stood at 268bp on 18 September, almost exactly where they began the year, having widened to c.317bp in early April. European high yield spreads are at 273bp, and US investment grade spreads at 77bp, not far from January's three-decade low of 71bp.[11] Credit spreads have fully round-tripped a war, an oil shock and the start of hiking cycles on both sides of the Atlantic.

So far, this is a yield story rather than a spread story. Pension funds, insurers and income investors have not seen yields like these for most of the past fifteen years, and they buy yield, not spread. Resilient earnings keep default fears at bay, and the heavy hyperscaler issuance we discussed last month has so far been absorbed with ease.

We continue to favour higher-quality high yield credit. With BBB and BB yields offering on average around 6 % and 7% respectively, investors can earn attractive income without reaching further down the ratings spectrum. We are cautious on CCC-rated issuers and energy-intensive European borrowers. We retain the flexibility to move down in quality when markets offer sufficient compensation. At current spreads, they do not.

Conclusion

The shape of 2026 has changed. Central banks are raising rates, long-dated yields are at their highest since 2007, oil is back around USD 100, and food prices look set to trend higher.

Yet equities sit near record highs and credit spreads are near record tights. Markets are pricing a resolution.

They may well be right; the diplomatic window is open and President Trump has an election to fight. But the margin for error is narrower than prices suggest.

We remain constructive on risk assets, but increasingly selective. Bond yields at pre-Global Financial Crisis levels offer the chance to lock in attractive income, and we prefer European over US duration. In credit, we favour quality. We remain constructive on commodities, including agriculture, and on infrastructure assets.

For now, keep calm and carry on.

Kind regards,

Conor Spencer.

September 2026.

Source Data: ICM, Bloomberg as of 31 August, 2026.

[1] August 2026 Review and Outlook – Nasdaq
[2] Review of markets over August 2026 – J.P. Morgan Asset Management
[3] Supply concerns drive FAO Food Price Index higher in August – FAO
[4] Worsening El Niño threatens Asia with drought – Associated Press via BNN Bloomberg
[5] Surveys of Consumers – University of Michigan
[6] CPI inflation report August 2026 – CNBC
[7] Annual inflation up to 3.2% in the euro area – Eurostat
[8] Bund Yields Hit 17-Year High on Inflation Fears – Trading Economics
[9] Iran reports commercial vessel struck in Strait of Hormuz – CNN
[10] Iran Ready to Reopen Strait of Hormuz if US Eases Military Pressure – Reuters via US News
[11] ICE BofA US High Yield, Euro High Yield and US Corporate Index OAS – FRED

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