

Yields break out as central banks tighten into higher energy prices

September was dominated by a sharp repricing of interest rates, as Middle East tensions fed an energy driven inflation impulse that central banks chose to confront rather than look through. Disruptions around the Strait of Hormuz intensified early in the month before direct US Iran talks revived hopes of a settlement, but renewed regional hostilities and stalled negotiations into month end kept the risk premium elevated, and Brent gained 15.9% to close above USD100/bbl. The US China summit extended the trade truce into early 2027 without wider breakthroughs.

US activity stayed firm while inflation remained above target. The flash composite PMI jumped to a four-year high of 58.4, 2Q GDP was revised up to 2.2% and August payrolls rose 162k. Headline CPI held at 3.4% y/y, while August PCE was cooler than expected at 3.4% headline and 3.0% core. Energy costs pushed September inflation to 3.3% in Germany, 3.4% in France and 4.1% in Italy, while China's official PMIs showed manufacturing and services in expansion.

Monetary policy turned decisively tighter. The Federal Reserve raised rates by 25bps, its first hike since 2023, and signaled that further tightening remained possible; markets ended the month pricing a 63% chance of an October hold after the softer PCE print. The ECB raised its deposit rate by 25bps to 2.5%, the Bank of Japan hiked to 1.25%, the highest in more than three decades, and Australia and Norway also tightened, while China cut its one-year PSL rate by 25bps to support the property sector.

Bonds bore the brunt. The US 10-year yield rose 57bps to 5.28%, the highest since 2007, the 30-year climbed to its highest since 2002, and the Bloomberg Global Aggregate returned -2.4%, with EM USD sovereigns down 3.4%. Equities diverged: the Nasdaq returned 1.9% on AI strength while the S&P 500 slipped 0.4%, the Dow fell 4.1%, the DAX 4.0% and the Hang Seng 3.3%. In the GCC, DFM gained 2.2% and ADX 0.6% while Tadawul fell 6.1%. The dollar index rose 1.8% and gold fell 6.7% on higher real yields.

Overall, September marked the shift from rising inflation concerns to a synchronised tightening cycle, with long dated yields at multi decade highs now the anchor for global asset prices. For the GCC, the dollar peg makes this a US rates story: higher for longer policy rates support the carry on short dated regional bonds and sukuk, while elevated oil underpins fiscal positions. We prefer the short end and quality in fixed income until rates are clearly falling, and remain constructive on US equities, where AI driven earnings are the key support. The outlook hinges on US Iran talks, oil, inflation and the Fed.

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Performance snapshot* (as of 30 September 2026)				
Rates	Latest	1M (bp)	3M (bp)	YTD (bp)
SOFR	3.88	23.00	20.00	1.00
US 10yr Treasury	5.28	57.00	82.00	112.00
German 10yr Bund	3.59	31.00	73.00	73.00
UK 10yr Gilt	5.42	36.00	67.00	95.00
Fixed Income		1M (%)	3M (%)	YTD (%)
Global Agg. Index	488	-2.38	-2.46	-2.67
Global Corporate	294	-2.86	-3.37	-3.20
EM USD Sovereign	449	-3.37	-4.25	-2.05
Global High Yield	1,860	-2.96	-2.24	-0.14
Currencies				
Dollar Index	101.45	1.75	0.26	3.18
EUR USD	1.1330	-2.20	-0.81	-3.54
USD JPY	157.41	-1.67	-3.16	0.45
Equities				
S&P 500	7,652	-0.35	2.30	12.50
Dow Jones	50,906	-4.12	-2.34	6.46
NASDAQ	26,861	1.93	2.61	16.12
STOXX 600	635	-2.39	-0.64	9.51
Nikkei 225	66,754	1.22	-4.15	30.67
MSCI World	4,903	-1.15	1.96	12.11
MSCI EM	1,705	-0.65	-0.39	23.45
Regional Equities				
ADX	10,070	0.60	3.10	3.20
DFM	5,961	2.20	0.40	2.70
Tadawul*	10,441	-6.10	-2.00	2.30
DSM*	9,245	-6.30	-9.70	-11.40
KWSE*	8,779	-1.30	1.50	2.40
Commodities				
BBG Commodity Index	141.8	1.14	15.11	29.26
Brent USD/bbl	103.53	15.92	41.98	70.14
WTI USD/bbl	90.42	8.42	30.10	57.47
Gold USD/t oz	4,157.4	-6.68	3.73	-3.75
Volatility				
VIX	16.34	13.24	-0.67	9.30
MOVE	110.45	55.63	53.49	72.69

Source: Bloomberg, ADCB Asset Management. *Data as of 30 September 2026 close; rates in bp, fixed income and equity indices in total return (local currency), currencies and commodities in price terms.

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