



SIGMA
PRIVATE OFFICE

Q3 2026 MARKET REVIEW AND OUTLOOK

Q3 MARKET REVIEW AND OUTLOOK

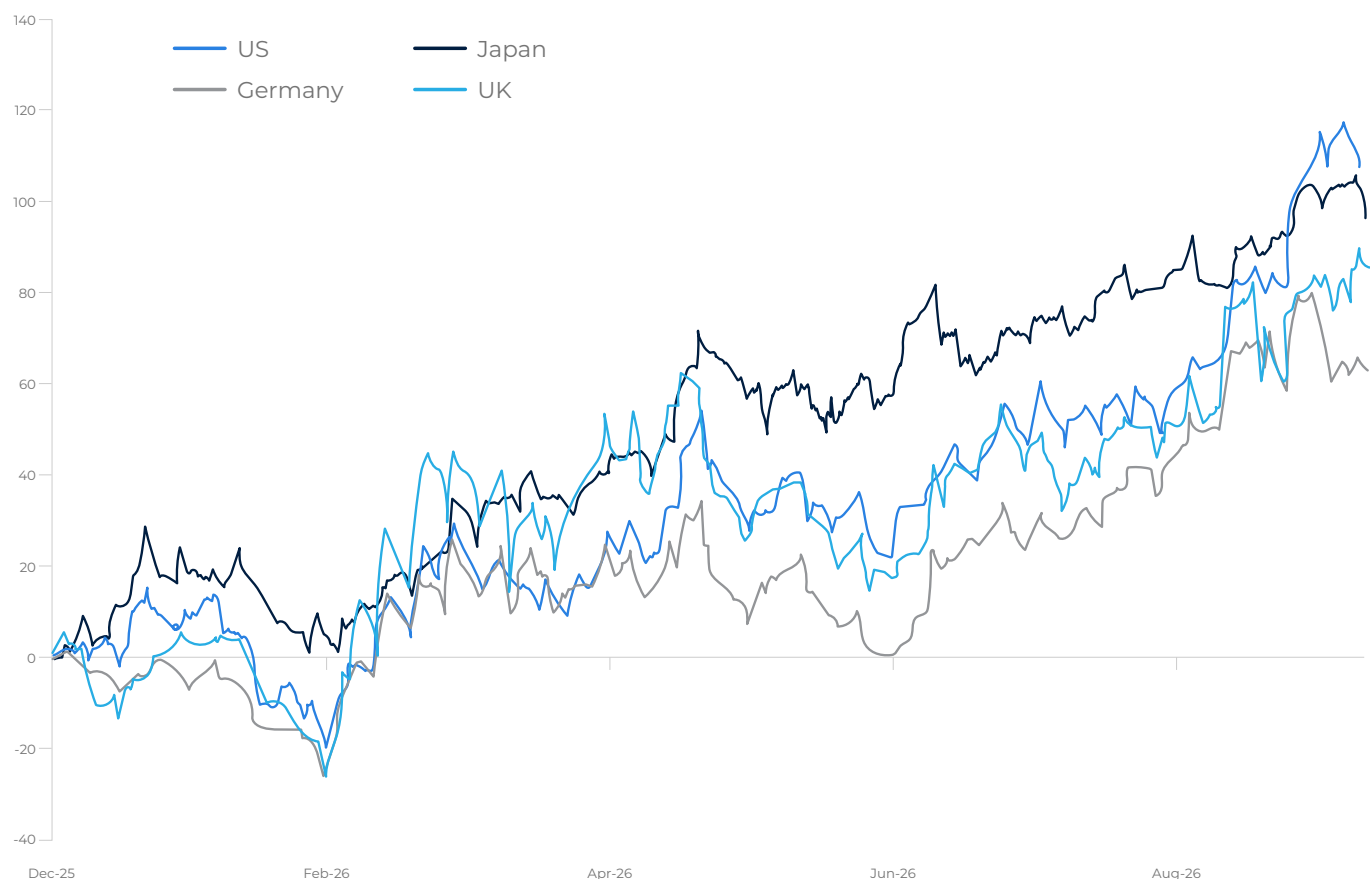
Global equity markets advanced modestly during the third quarter despite a progressively more challenging macroeconomic and geopolitical backdrop. Markets were weaker through parts of July before rebounding strongly in August, while September was more mixed as investors digested renewed inflation concerns, higher bond yields and escalating geopolitical risk. The MSCI World Index nevertheless finished the quarter 2.0% higher, taking its year-to-date gain to 12.1%. The S&P 500 gained 2.3% and the Nasdaq Composite 2.6%, while performance outside the US was more mixed. The STOXX Europe 600 declined 0.7% and the Nikkei 225 fell 4.1%, while the Hang Seng gained 8.6%.

The larger moves were seen outside equities. Long-term government bond yields rose sharply across developed markets, as seen in Chart 1, with the US 10-year Treasury yield ending the quarter at 5.3%, up from 4.4% at the end of June, and yields in Germany and Japan reaching multi-year highs. Global corporate bonds declined 3.4% as markets reassessed the outlook for inflation, monetary policy and government borrowing. Commodity markets experienced the strongest price moves, with the Bloomberg Commodity Index gaining 16.2%. WTI crude oil rose 38% during the quarter and almost 70% year-to-date, primarily reflecting escalation in the Middle East and disruption to energy exports and shipping through and around the Strait of Hormuz. Gold gained a more modest 3.7%, weakening towards quarter-end as bond yields and the US dollar moved higher.

CHART 1

SOVEREIGN BOND YIELDS HAVE RISEN SHARPLY AROUND THE WORLD

Year-to-date change in 10-year sovereign bond yields, bp



Source: Goldman Sachs GIR. Data as of September 30, 2026.

Taken together, Q3 was another reminder that markets do not require a benign backdrop to advance. Despite a steady flow of negative headlines and considerable uncertainty, global equities still finished the period close to record highs. The resilience of equity markets did not reflect an absence of risk, but rather the fact that investors continued to look through near-term uncertainty and focus on a broader backdrop that remained supportive enough to offset it.

Beneath the headline indices, equity performance was more uneven. Energy was the clear standout, rising more than 15% as oil prices moved sharply higher, while Information Technology continued to perform strongly and remains the best-performing major sector year-to-date. By contrast, more cyclical areas including Industrials and Consumer Discretionary weakened. This divergence also meant that the major market-cap-weighted indices were stronger than the average stock, with the largest technology and energy companies providing disproportionate support to headline returns.

One of the more notable developments during the quarter was the change in the direction of monetary policy. The Federal Reserve raised rates by 25 basis points in September, its first increase since 2023, while the European Central Bank also

tightened policy for the second time this year. With long-term yields rising at the same time, investors once again faced a combination of higher inflation and higher interest rates.

This naturally invites comparison with 2022, when the same combination contributed to a significant decline in global equity markets. The key difference today is earnings. In 2022, valuation multiples fell while earnings growth was weak, meaning lower valuations translated much more directly into lower share prices. This year, earnings have grown strongly enough to absorb the valuation pressure from higher interest rates. S&P 500 earnings are currently expected to grow 29.6% year-on-year in the third quarter, which would mark the third consecutive quarter of earnings growth above 25%.

At the same time, the S&P 500 forward price-to-earnings multiple has fallen from around 22x at the beginning of the year to 19.1x today, despite the index remaining close to record highs. As shown in Chart 2, the market now trades below its five-year average of 19.8x and in line with its ten-year average of 19.1x. Put simply, investors are paying less for each dollar of earnings than they were at the start of the year, while companies are generating considerably more earnings.

CHART 2 THE S&P 500 FORWARD P/E RATIO HAS FALLEN RECENTLY

S&P 500 index: Forward P/E ratio



Source: JPMorgan Asset Management, Guide to the Markets. Data as of September 30, 2026.

One of the most important drivers of that earnings strength has been the extraordinary level of investment in artificial intelligence infrastructure. Spending by the largest technology companies has accelerated sharply, supporting demand across semiconductors, data centres, networking equipment and power infrastructure. Hyperscaler capital expenditure is expected to exceed \$690 billion this year, up around 80%, and this spending is already translating directly into revenues and profits for the companies supplying that infrastructure.

The immediate effect is relatively straightforward: large amounts of capital are being deployed to build AI infrastructure, and that spending becomes revenue for the businesses providing it. This helps explain why technology earnings have remained so strong even as higher rates have placed pressure on valuations. There is, however, another side to the investment boom. Building this infrastructure requires enormous amounts of capital, and an increasing share of that spending is being financed externally through the bond and loan markets. AI-linked debt issuance has already reached roughly \$466 billion this year, highlighting the scale of capital required to support the build-out. At a time when governments are also borrowing heavily, this adds further demand for capital and contributes to upward pressure on long-term bond yields.

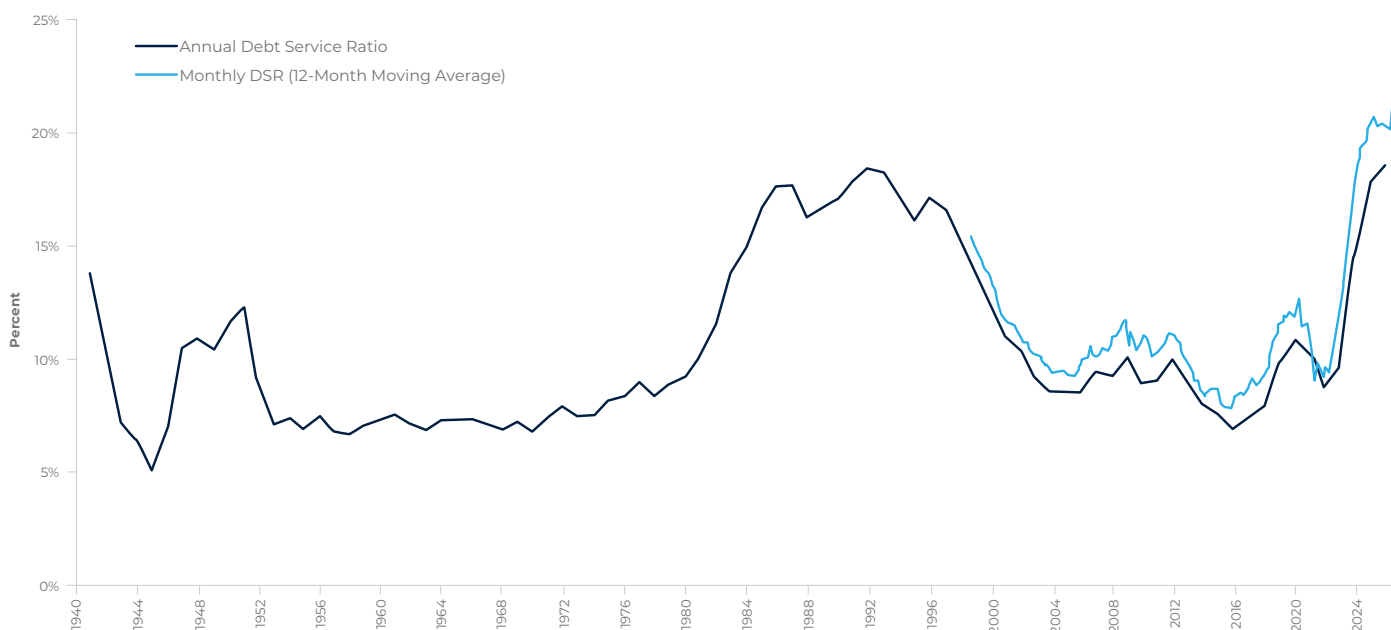
Over time, the focus will shift from how much is being spent to the returns generated from that spending. Capital expenditure cannot grow at current rates indefinitely, and investors will increasingly look for evidence that these investments translate

into sustained revenue growth, stronger cash flows and genuine productivity improvements.

For now, the broader economic backdrop remains relatively resilient. The US economy grew at an annualised rate of 2.2% in the second quarter, supported by a 3.8% increase in consumer spending and a 7.7% increase in business fixed investment. The labour market has shown clearer signs of cooling, with September payroll growth slowing to 29,000, unemployment edging up to 4.2% and wage growth moderating to around 3%. Inflation, however, has remained slightly firmer, with headline inflation at 3.4% in August, driven largely by higher energy prices.

Higher long-term yields have also brought government debt back into focus. US federal debt exceeded \$40 trillion during the quarter, while large fiscal deficits and increased Treasury issuance have added to concerns around debt sustainability. The headline number is substantial, but the more relevant question is whether the government can continue to service that debt comfortably. As shown in Chart 3, interest costs have risen materially and now absorb a larger share of federal revenues. However, federal revenues still cover annual interest payments more than four times over, and the current debt-service burden remains within levels seen during parts of the 1980s and 1990s, periods that also experienced meaningful economic growth. Debt levels warrant monitoring, but there is little evidence at present that the US is struggling to finance or service its obligations.

CHART 3
DESPITE RECORD HIGH DEBT SERVICE LEVELS,
TREASURY REVENUES EASILY COVERS INTEREST OUTLAYS



Source: Federal Reserve Bank of St. Louis, US Treasury, FactSet. Data as of August 31, 2026.

There is also an important positive consequence of higher long-term rates that receives less attention. The yield curve has steepened significantly as longer-term yields have risen relative to short-term rates, improving the economics of traditional bank lending. Banks generally fund themselves at shorter-term rates and lend at longer-term rates, so a wider gap between the two strengthens the incentive to extend credit. US bank lending growth has already accelerated from approximately 5.8% year-on-year at the beginning of the year to 7.3% by August.

This matters because a 10-year Treasury yield above 5% is not automatically evidence of deteriorating economic conditions. Higher yields clearly create a more demanding backdrop for valuations and highly leveraged borrowers, but the shape of the yield curve, continued availability of credit and strength in private-sector investment suggest the economy remains more resilient than the level of long-term rates alone might imply.

Outside the US, the economic picture remains more mixed, although many of the same broader pressures are visible across major economies. European growth continues to be relatively subdued, with higher energy costs creating an additional headwind for households and businesses, although activity has proved more resilient than many expected and investment in infrastructure, defence and technology continues to provide support.

In Japan, economic activity has also held up reasonably well despite a historically weak yen and sharply higher government bond yields. The weaker currency has increased the cost of imported energy, but broader inflation pressures remain contained, while the Bank of Japan has continued to normalise policy after years of exceptionally low rates. Recent data have remained constructive, with second-quarter GDP growth revised higher and bank lending still growing at more than 5% year-on-year. The yield curve has also steepened as long-term rates have risen faster than short-term rates, which should support bank lending and investment.

China faces a different set of challenges. Weakness in the property market and subdued household confidence continue to weigh on domestic demand, although policymakers have responded with further measures aimed at supporting credit, housing and economic activity. The improvement in Chinese and Hong Kong equity markets suggests investors are beginning to anticipate some benefit from these measures, although a sustained recovery will ultimately require stronger underlying domestic demand.

Trade policy also became somewhat more constructive towards quarter-end. The US and China agreed to reduce tariffs on approximately \$60 billion of goods following renewed discussions between the two countries. This does not resolve the broader strategic tensions between the world's two largest economies, but it represents a move towards fewer rather than more trade barriers. Tariffs increase costs, disrupt established

supply chains and make long-term investment decisions more difficult, so any reduction in these frictions is incrementally supportive for global growth, while the experience of recent years has also demonstrated the considerable ability of businesses to adapt when trade relationships change.

Outlook

As we enter the final quarter of the year, the backdrop remains broadly supportive but less forgiving. Earnings growth, AI-related investment and credit creation continue to support activity, while higher oil prices and bond yields have increased pressure on inflation and valuations. Energy remains a key swing factor, with any normalisation in Gulf exports likely to ease pressure on inflation and monetary policy, while prolonged disruption would keep both risks elevated. The key question into 2027 is whether earnings can remain strong enough to support markets as financial conditions tighten.

As for investor sentiment, following several years of substantial market gains, expectations are clearly higher than they were earlier in the cycle. However, we do not yet see the kind of broad-based euphoria typically associated with the final stages of a bull market. As discussed, a number of concerns continue to linger, while weakness beneath the headline indices suggests investors are still differentiating between companies rather than buying risk indiscriminately. In the context of the typical sentiment cycle, optimism has definitely increased, but scepticism has not disappeared.

We therefore expect the environment to become more selective. Higher interest rates place greater value on balance-sheet strength, cash generation and the ability to fund growth internally, while continued economic growth and expanding credit argue against assuming that higher bond yields must automatically lead to recession or falling equity markets.

The combination leaves us constructive, but not complacent. Periods of volatility are inevitable as markets reassess the outlook for growth, inflation and corporate earnings, but these uncertainties do not provide a reliable basis for trying to time entry and exit points. Investors are better served by remaining invested through periods of uncertainty and focusing on the quality of the businesses they own. Greater dispersion should create opportunities to distinguish between companies whose earnings are supported by durable fundamentals and those more dependent on favourable market conditions.

Our approach therefore remains unchanged. We continue to focus on high-quality businesses with durable competitive advantages, attractive returns on capital, strong balance sheets and the ability to compound earnings and cash flows over long periods, while maintaining discipline on valuation. This remains the most effective way to navigate a market environment that is likely to remain both volatile and uncertain.

Sigma Investment Committee

This document is distributed by Sigma Private Office Limited who are regulated by the DFSA. The content of this document is for general information purposes only and does not constitute the offering of advice or recommendation to invest. Statements contained in this document may be considered forward looking statements. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described because of various factors. The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Past performance contained in this document is not a reliable indicator of future performance and should not be relied upon as an indication of future results.