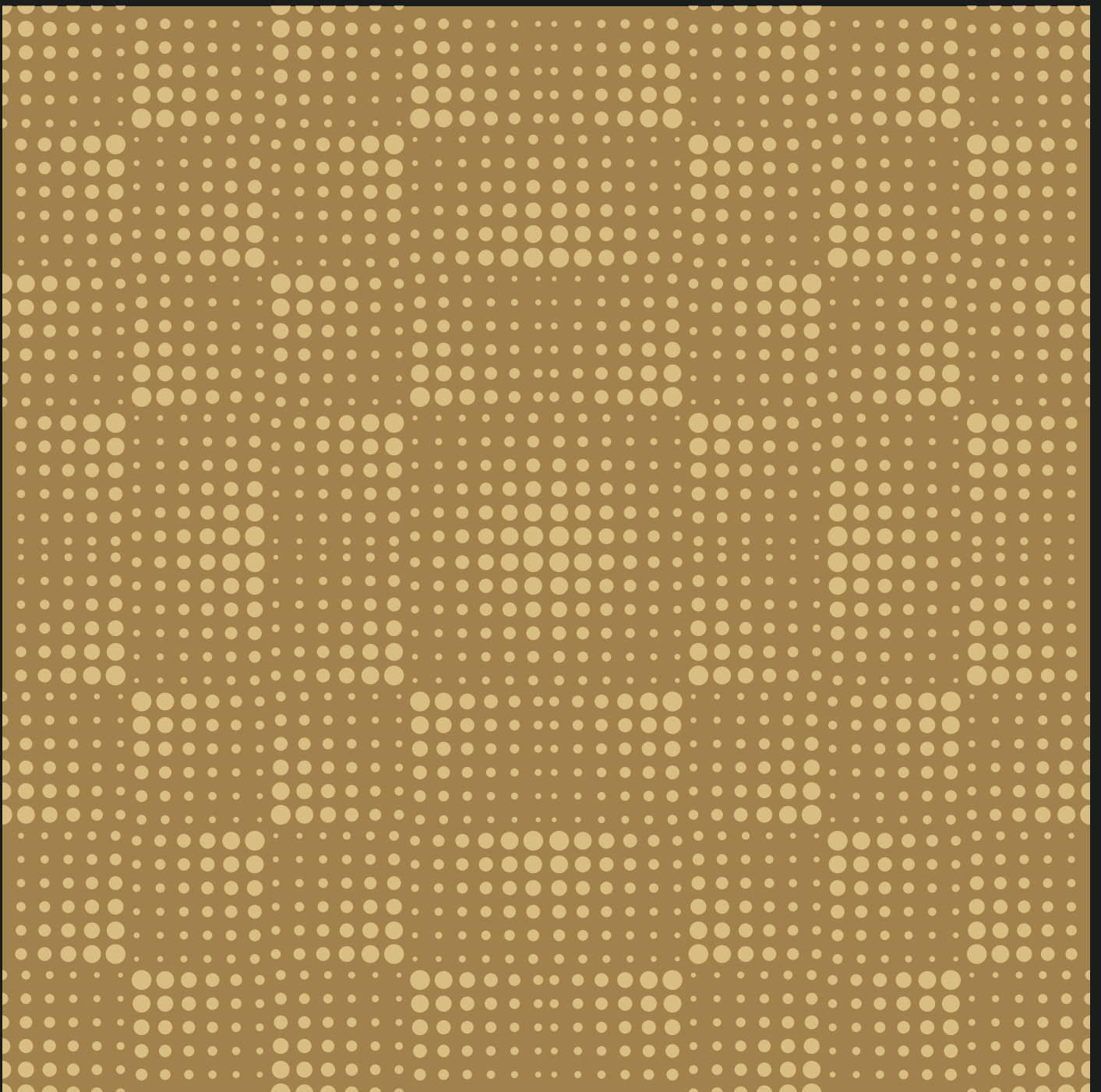
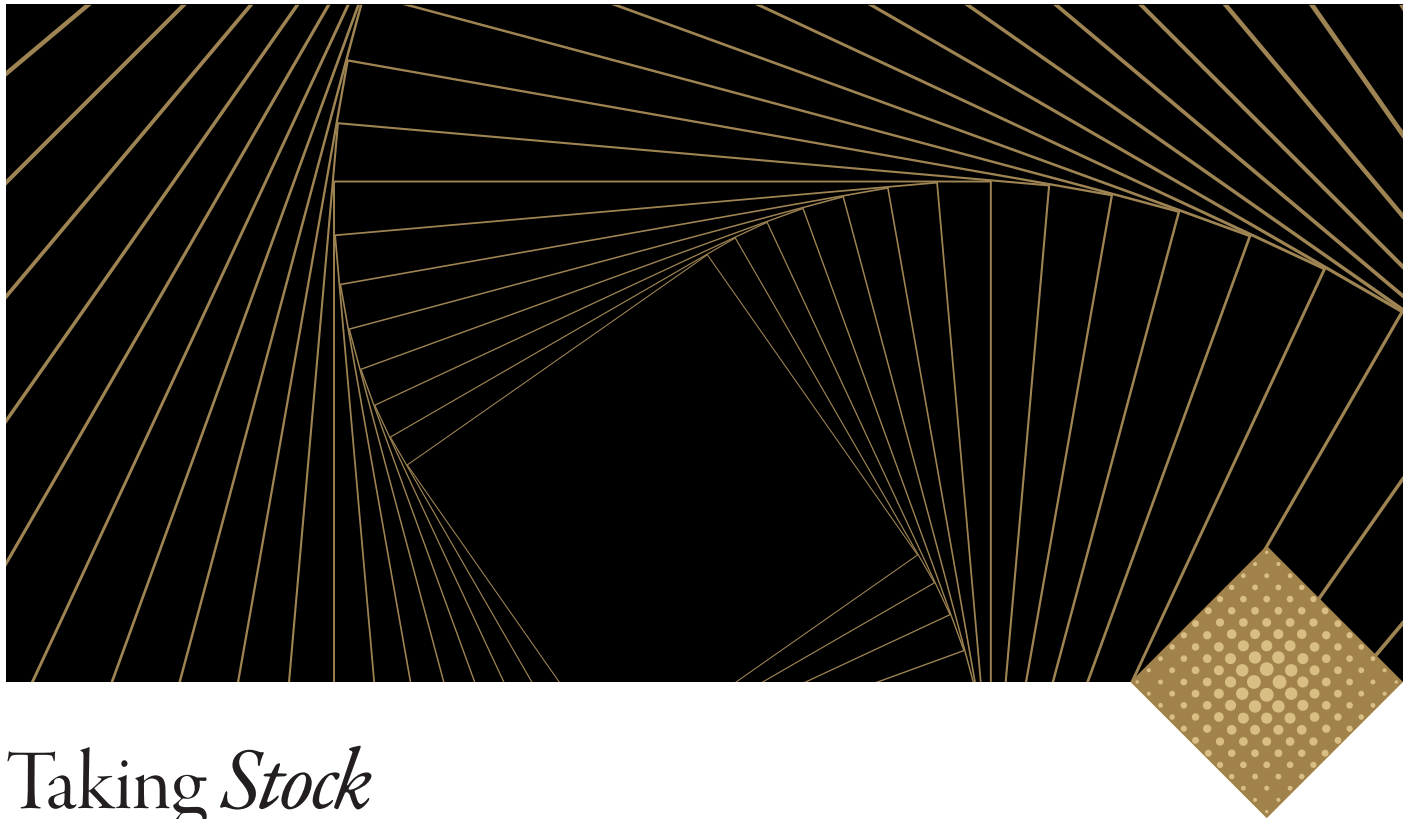


On Point

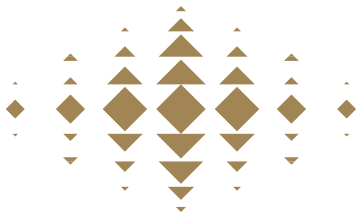
Market Outlook Q4 2026

Keeping Our Options Open –
Positioning for Higher Yields





Taking *Stock*



We have used equity strength to reduce risk, cutting exposure and selling gold, while retaining inflation-linked bonds and industrial commodities. Higher cash levels preserve flexibility as rising yields test an increasingly narrow market.

~30%

Equity exposure in NFG
Balanced portfolios –
cut from 40%

At-A-Glance

- A calm summer gave way to a testing September: inflation and oil stayed high, the Fed raised rates and US government borrowing costs reached their highest since 2002.
- Big Tech profits were strong, but much of the growth came from revaluing investments rather than from operations.
- Our indicators turned increasingly cautious over the quarter, and the market is narrower than the headline indices might suggest.
- Equity exposure cut from 40% towards 30% in Balanced portfolios; more cash; gold sold; inflation-linked bonds and industrial commodities retained.

A summer of contrasts

Markets began the summer expecting cooling inflation, gently falling interest rates and a gradual return of investor confidence. For much of July and August that looked a fair bet. September changed the picture: the Iran conflict escalated again, oil pushed back up towards \$100 and the Fed began raising rates.

Inflation proved stubborn. The Federal Reserve's preferred measure, which strips out volatile food and energy prices, remains close to 3%, well above its 2% target. Oil also stayed at around \$100 a barrel, even with Gulf supplies rerouted through Saudi and UAE pipelines.

The Fed, now led by Kevin Warsh, responded by raising interest rates on 16 September to 3.75–4.00%. That was its first rise since 2023, and it signalled another before the end of the year despite the approaching US mid-term elections. Markets valued this show of resolve. Credibility mattered more to investors than any promise of being tough now and softer later.

Normally, when a central bank raises short-term rates, longer-term borrowing costs hold steady or even fall, because investors expect inflation to come back under control. This time they rose. The yield (the annual return investors demand for lending) on the 10-year US government bond reached 5.34% on 1 October. That is its highest level since 2002 and more than a full percentage point above a year ago, a premium some have dubbed the "Warsh premium". This is not about fear of runaway inflation, as long-term expectations remain steady at around 2.3%. Lenders are simply demanding a higher reward for other reasons, which we explore later in this note.

5.29%

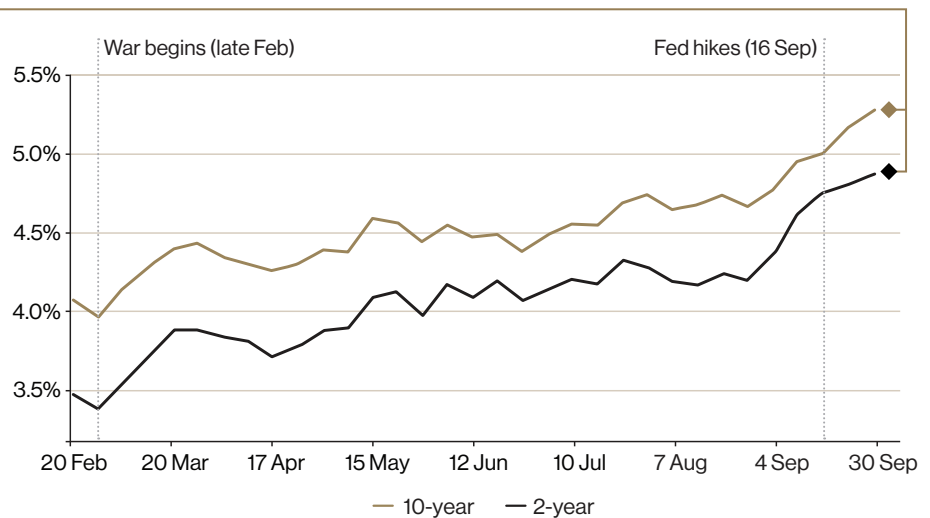
US Govt Bonds 10-year yield

US Govt Bonds 2-year yield

4.88%

US 10-year yield climbs to its highest since 2002

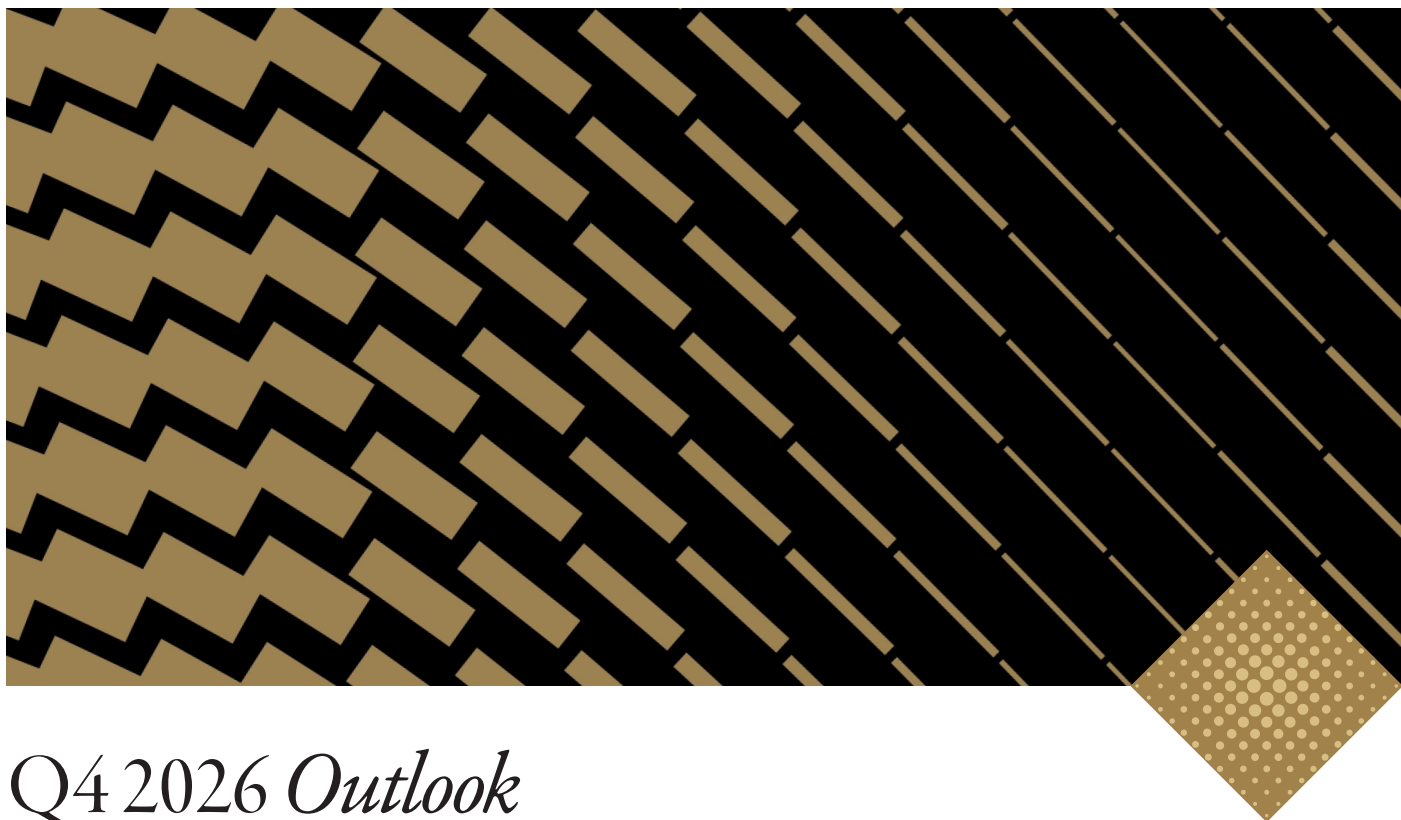
Yield on US government bonds, % a year, weekly. 10-year up from 4.08% to 5.29%; 2-year rose even faster



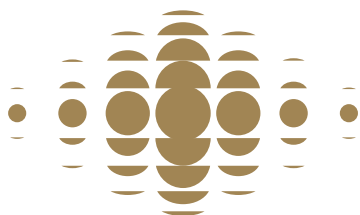
Source: Bloomberg

The result was the worst quarter for US government bonds since 1994, with European bond markets falling in step. Equities, by contrast, held up well despite expensive oil, a strong US dollar and rising borrowing costs.

That resilience is welcome, but our indicators tell a more cautious story, and it is the evidence, not the headlines, that guides our decisions.



Q4 2026 Outlook



Our indicators have turned defensive, with the market's strength proving narrower than headline gains imply. We have cut equity exposure in measured, reversible steps, ready to move back once the evidence improves.

NFG Partners Equity Indicators		
Growth	▼	Negative
Rates	▼	Negative
Credit	▼	Negative
Trend	—	Neutral
Inflation	—	Neutral

Our indicators – positioning and the outlook

Our investment decisions are driven by evidence rather than headlines. Each month we assess a wide range of indicators covering the economy and the markets themselves, and the picture that emerged over the summer was an increasingly cautious one.

The picture is slanted more defensively: of our five high-level equity allocation inputs, three are negative and two are neutral; none is positive. Growth indicators are weakening across the major economies, borrowing costs for governments and companies are rising and credit conditions have tightened. Inflation is persistent but not accelerating, and the market's trend is holding up for now, which is why we rate both as neutral rather than negative.

Fewer companies are taking part in the rise, and we have yet to see any of the signals that typically mark a market low. This is not the moment to be adding to equity exposure. Our real-time economic indicators point the same way.

Beneath the surface, the market is narrower than the headline index suggests. The S&P 500 sits close to its high, yet around 78% of its companies are at least 10% below their own peak and roughly 39% are at least 20% below. Goldman Sachs estimates the typical company in the index is trading about 16% below its high, the narrowest market since the dot-com era.

We responded at the end of September by taking profits after strong gains this year, reducing equity exposure in our Balanced portfolios from 40% towards 30%, with scope to go lower. This is a measured, staged adjustment. It is also fully reversible: if the evidence improves, we can quickly move back.

Profits held up, but much was on paper

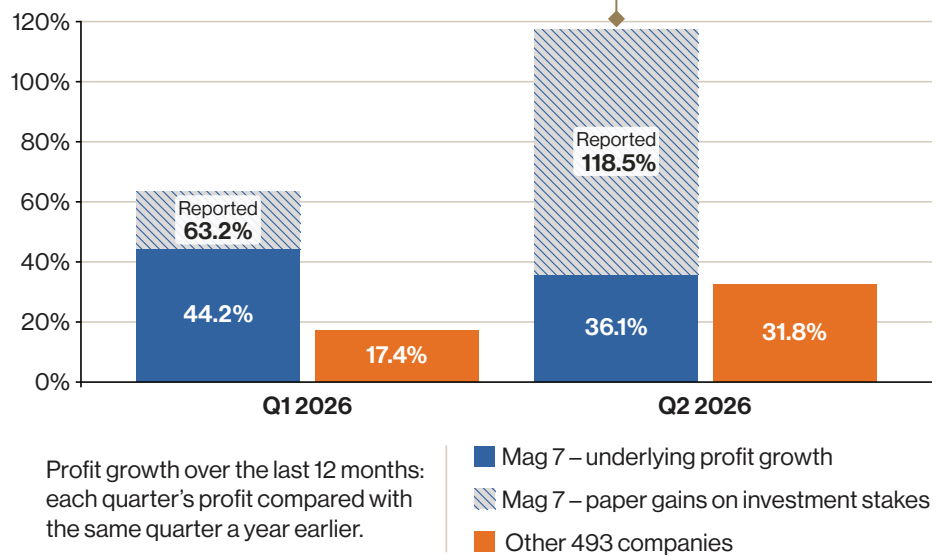
Company profits have been strong this year, led by the Magnificent 7, the seven largest US technology companies. Some of that growth, though, exists on paper rather than in the bank.

+82pts

Boost to Magnificent 7
Q2 profit growth from
paper gains

Majority of the Magnificent 7's profit growth is paper gains

S&P 500 profit growth, Magnificent 7 vs the other 493, with paper gains on stakes in Anthropic, SpaceX and other private companies shown separately



Source: FactSet Earnings Insight (21 May & 28 Aug 2026); company filings; NFG Partners analysis. Underlying = reported profit less after-tax revaluation gains on investment stakes at Alphabet and Amazon, removed in both years. Nvidia, Microsoft and Tesla reported on an adjusted basis that already excludes such gains.

In the second quarter, compared with a year earlier, about 70% of the increase in their profits came from revaluing stakes in private companies such as Anthropic and SpaceX, rather than from selling products and services. Without those gains, profits still grew by a healthy 36%, rather than the headline 118%.

That underlying growth is encouraging, and the wider market is doing well too, with the typical S&P 500 company growing its earnings by more than 15%. It does mean, however, that if the value of private AI businesses levels off, their stakes are highly unlikely to be revalued at this rate, causing a moderation in growth rates. There is no doubt tech companies are delivering exceptional operating results, but their investments in other tech businesses have been dramatically more profitable in the last year. (On paper at least!)



~100%

US government debt
as a share of
the economy

Government bonds are not a safe haven

With US government bonds now yielding above 5% and most other major markets above 4%, the highest since the financial crisis, it is tempting to see them as a bargain. We don't think so yet. Some valuation models suggest the US 10-year bond should yield 6% or more, and in any case it is rarely the level of interest rates that unsettles markets, but the speed of change. A rise of almost a full percentage point in three months is fast.

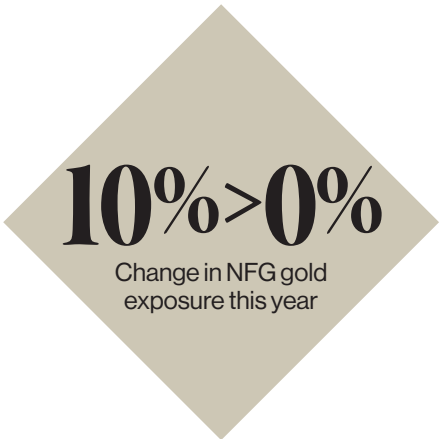
The reason lies in who is buying. For years the most reliable buyers of US government debt were foreign central banks, and they are stepping back:

- China has been selling since Russia's reserves were frozen, and buying gold instead.
- Japan is selling as its own interest rates rise and its currency needs support.
- Europe needs its savings to fund its own defence.

The buyers taking their place are more price sensitive, which means higher yields and bumpier markets. Relief would require cheaper oil, a weaker dollar or a change in policy, and none looks imminent.

Importantly, this is not a long-term inflation scare. Long-term inflation expectations remain calm at around 2.35%, and the bond market is not yet signalling a recession. Instead, investors are demanding a higher return after inflation to compensate for other things: a government debt pile now around 100% of the economy, a steady flow of new borrowing to absorb and the risk of holding long-dated debt in a fast-changing environment. Higher rates swell the government's interest bill faster than they slow the economy, so the cost shows up in bond prices and equity valuations rather than, automatically, in a recession.

For our clients this means being selective. We hold inflation-linked US government bonds, whose value rises with inflation, and short-dated US high yield bonds (issued by companies with lower credit ratings, which pay more to borrow), which are far less sensitive to rising rates and offer attractive premiums over cash rates.



10% > 0%

Change in NFG gold exposure this year



2.8%

Dividend yield from low volatility equities

Gold waits, industrials stay

Gold has been a valuable holding for our clients recently, more than doubling, in the last three years and contributing handsomely to our multi-asset portfolios. Even so, it is not a position we hold at any price. We halved our exposure from 10% to 5% in February and have since sold the remainder.

The reasons are straightforward. As a long-dated asset with no risk of default, gold is often compared with government bonds. The difference is that bonds pay an income and gold does not. Now that bonds offer a real return after inflation, the relative attraction of gold wanes. The dollar is strong, and gold's price trend has weakened. It is also worth remembering that a fall in equities does not automatically lift gold. When investors need cash quickly, gold can be sold alongside everything else.

None of this changes the long-term case. Central banks continue to buy, government deficits remain large and the erosion of paper currencies is an enduring theme. When the evidence turns, gold will return to our portfolios.

Industrial commodities such as oil and copper remain in favour, and the AI boom is a big part of the reason. Building the data centres, power stations and grid connections that AI requires consumes vast quantities of copper, steel and other materials, and running them demands a continuous supply of energy. This is not the capital-light, highly scalable business model that technology companies enjoyed for most of the last decade. At the same time, companies are rebuilding stocks and new supply is slow to arrive. That combination supports prices and keeps industrial commodities a core holding.

Cash, patience and selected opportunities

A core feature of our investment style is to move swiftly, and ahead of events, to reduce risk when the outlook weakens. That is what we have done this quarter, cutting equity exposure in stages from 40% towards 30% in Balanced portfolios, taking profits after strong gains this year, with scope to go lower if the evidence warrants it.

The proceeds are largely in cash. We are the first to say that cash is a poor long-term investment, but in the near term it does two useful things. It pays a reasonable return while we wait, and it gives us the flexibility to act quickly when opportunities arise, as they usually do after a period of strain. Cash is therefore highest in Balanced portfolios and lower in Steady Growth and Global Equity, in keeping with each strategy's objectives.

The equities we keep are chosen with care. We favour steadier sectors such as consumer staples, pharmaceuticals and healthcare, along with financials, energy and commodities, and companies whose share prices look reasonable relative to their profits. Low volatility US equities, which have lagged the market for three years, could plausibly hold their ground in a 10–15% fall. That is a scenario we prepare for, not a forecast.

Company debt is acceptable rather than attractive. The exception is the technology sector, where borrowing to fund AI has already exceeded the whole of 2025 and investors are demanding higher interest on new bonds. The rest of the corporate bond market is not the problem. Europe, meanwhile, offers a relative opportunity rather than a rescue.

What would change our view? A deal with Iran, cheaper oil and easing inflation would all help. But we act when our indicators confirm the improvement, not on the announcement.

Summary

“We are recognising that the evidence has turned, and that higher yields demand patience. Holding cash keeps our options open for the opportunities that strain invariably brings.”

Positioned for the turn

We are bold when the evidence requires it, and this quarter it did. Rising real returns on bonds are likely to keep both equities and bonds under pressure for a while yet, and we have reduced risk accordingly.

Beneath resilient headline indices, the picture is less comfortable. Gains rest on a narrowing group of companies, and much of Big Tech's recent profit growth has come from revaluing private stakes rather than from operations. The equities we keep are chosen with care, favouring steadier sectors and companies whose valuations remain sensible relative to their profits.

Cash pays a reasonable return in the near term, and we hold it with purpose rather than by default. When our indicators confirm that conditions have improved, we look forward to putting it to work in what we expect to be some exciting opportunities. In the meantime, real assets such as industrial commodities and inflation-linked bonds remain a core pillar of our strategy.



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October 2026



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