



T. Bailey Market Review

September 2026

The Cost of Borrowing

- **The Fed raised rates for the first time since 2023:** The target range rose 25 basis points to 3.75-4.00% on 16 September in a unanimous vote. The ECB, the Bank of Japan, Norges Bank and the Reserve Bank of Australia also raised rates.
- **Inflation came in softer but yields rose:** US PCE inflation was 3.4% against forecasts of 3.7%. The 10-year Treasury yield still touched 5.3%, its highest since 2007.
- **Brent rose 14% to finish the month at US\$103.50:** The Houthis attacked Saudi Arabia, which shut its East-West pipeline for part of the month, and President Trump rejected Iran's offer to reopen the Strait of Hormuz. Nonetheless, oil flows from the region improved by the month end.
- **Gold and US Treasuries both fell:** The T. Bailey Multi-Asset funds' holding in the iShares Physical Gold ETC lost 6.8% in sterling and the iShares \$ Treasury Bond 7-10yr ETF lost 3.7%, so this month neither offered the cushion we hold them for.
- **AI results remained strong, but constraints are appearing:** Micron reported record revenue of US\$54.2bn, whilst Oracle was reported to have declared force majeure on a data centre over power supply.

The best inflation news of September arrived on the last day of the month. US PCE inflation came in at 3.4% against forecasts of 3.7% and the odds of an October Fed rate rise fell from 71% to below 40%. Nonetheless, longer-dated US Treasury yields rose anyway as worries persisted about how much governments need to borrow and how long oil stays near US\$100. In August we described two questions running through financial markets this year: whether AI spending will earn a return, and whether the US and other developed governments can keep financing their deficits cheaply. September provided a much clearer answer to the latter of these.

Rate rises everywhere (almost)

The US Federal Reserve raised rates by 25 basis points to 3.75-4.00% on 16 September, its first increase since July 2023. The vote was unanimous. The ECB raised its deposit rate to 2.50% and the Bank of Japan went to 1.25%, the highest since 1995, while Norway and Australia also tightened. The Bank of England held at 3.75% by six votes to three, but Governor Bailey then stated that persistently high energy prices made it harder to leave rates on hold, and markets priced a 75% chance of a rise in November.

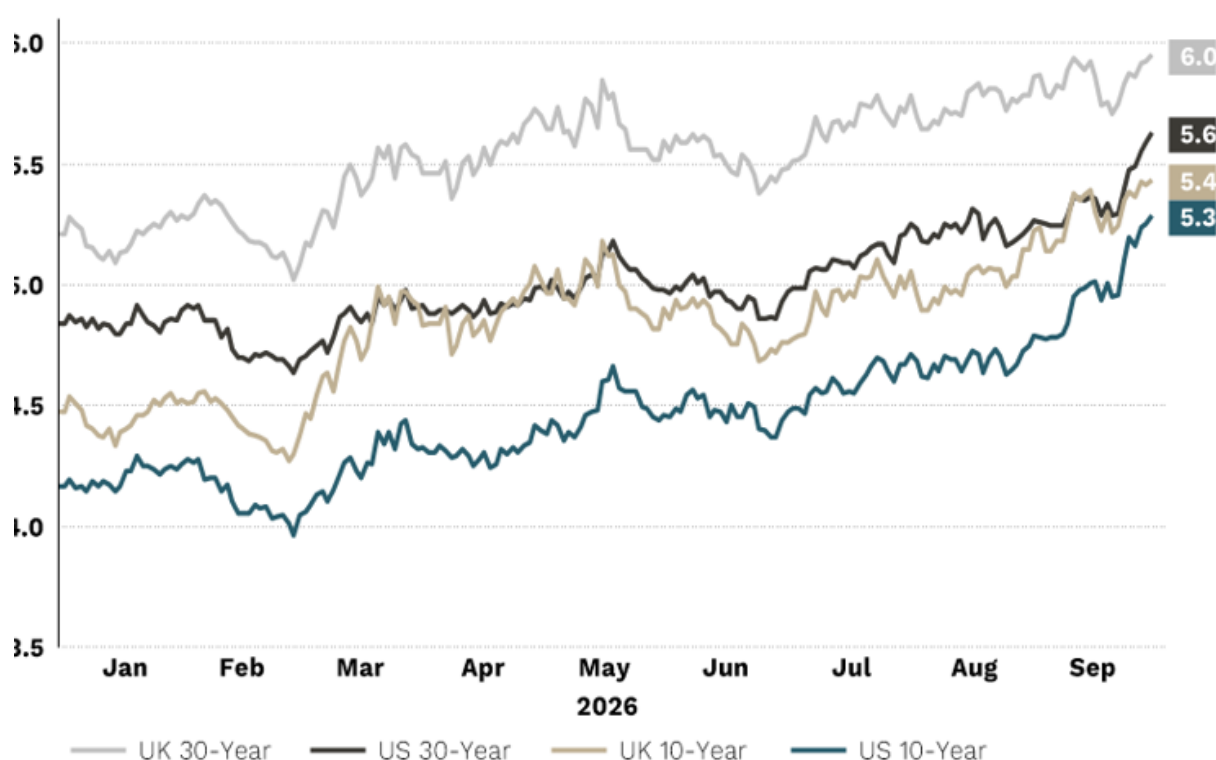
US inflation data on the final day of the month should have helped constrain yields. August PCE inflation was 3.4%, with core at 3.0%, against forecasts of 3.7% and 3.3%. Most of the surprise came from a revision, however, as July's headline figure was cut from 3.7% to 3.4%, indicating that inflation stopped rising rather than fell. The odds of an October rate rise duly fell to below 40%, but longer-dated yields did not follow. The 10-year US Treasury yield finished at 5.29% after touching 5.31%, its highest since June 2007, and the 30-year closed at 5.63%.

Long-dated bond pricing is no longer taking its cue from inflation. In our [weekly update of 7 September](#) we argued that the rise in long yields reflected real yields and the strength of the economy rather than higher inflation expectations, and September's events support this. The flash PMIs we covered in our [weekly update of 28 September](#) showed US business activity at its strongest since July 2021, and a weak sale of five-year notes late in the month pushed the 10-year yield up almost 14 basis points in a single day. The move was global, with the 10-year yields of Japan, the UK and Germany all reaching levels last seen between 1996 and 2009. This represents the term premium, the compensation investors demand for lending to governments over long periods, increasing in every major developed market at once.

Events in Japan also deserve a mention. Yields at the long end have continued to move higher. This matters outside Japan because Japanese investors are among the largest overseas holders of US Treasuries, so higher yields at home reduce the incentive to own foreign bonds. The yen's sharp rise in the opening week of September briefly unsettled carry trades, but by late September it was back near ¥157 to the US\$, after a report that the Bank of Japan had asked banks for yen quotes, a step that often precedes intervention.

At home, the Bank of England tried to support its gilt market on 17 September, pausing gilt sales for six months and halting the sale of long-dated gilts altogether. The 30-year yield duly fell on the day before rising again, briefly crossing 6% shortly after the month end.

US and UK 10-Year and 30-Year Benchmark Government Bond Yields: Year-to-Date



Source LSEG Workspace.

The bypass comes under attack

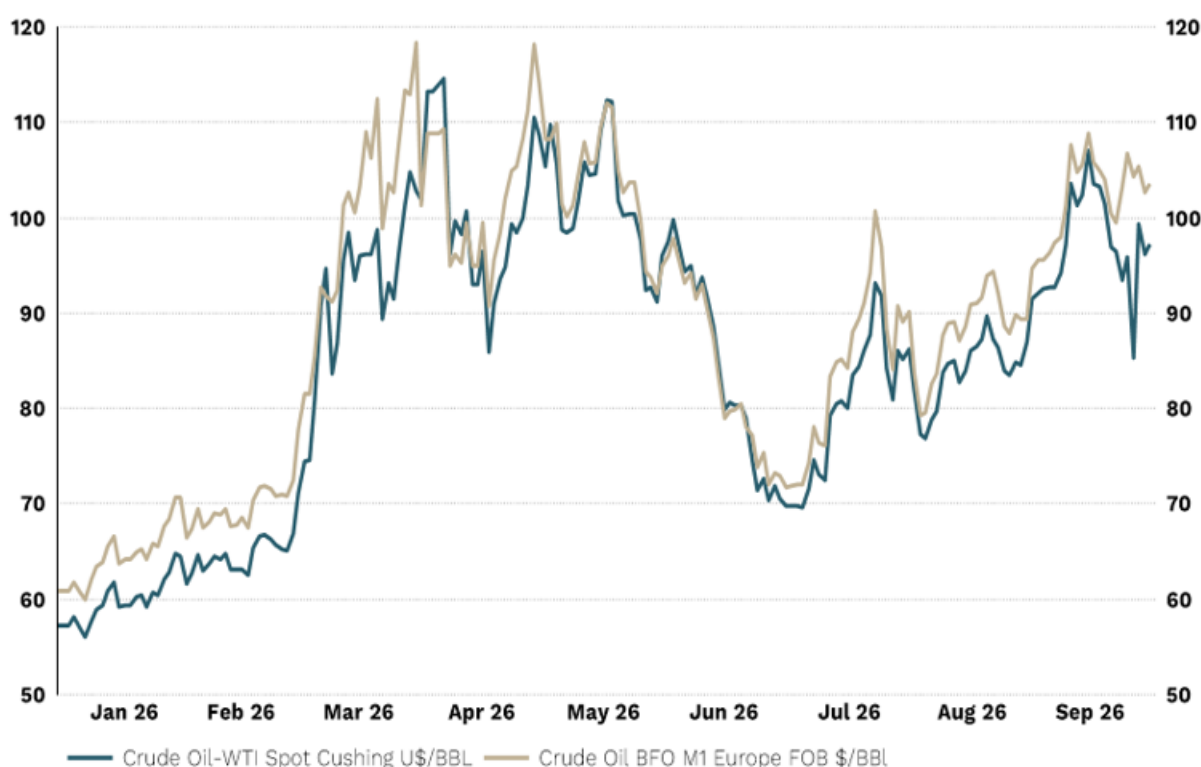
Oil is a common cause of the tightening in financial conditions. Whilst in August the primary concern was a run down of the negotiating window over the Strait of Hormuz, in September routes that bypass the Strait were the cause of concern. Brent crude ended September at US\$103.50, up about

14% on the month. Saudi Arabia ships crude by pipeline across the country to Yanbu on the Red Sea, and the Houthis spent much of the month attacking the kingdom with missiles and drones. Saudi Arabia shut that East-West pipeline as a precaution and loadings at Yanbu were suspended mid-month, the day Brent reached its highest close of the month. Aramco reportedly told at least two European refiners they would receive no crude in October, albeit the pipeline was later reopened.

Diplomacy over the war made no progress. Iran offered at the UN General Assembly to reopen the Strait within seven days if the US lifted its naval blockade and sanctions. US President Trump rejected the offer and has said he expects the war to end after November's midterm elections.

So elevated prices continue. US diesel rose above US\$6 a gallon, a record. The Food and Agriculture Organisation said global food prices in August were the highest since late 2022, a pressure we flagged [in the spring](#). Euro-area inflation rose to 3.3% in August and German inflation reached 3.3% in September, its highest since December 2023. The soft US inflation figure on 30 September covers August, before September's 14% increase in Brent.

Oil Price: Year-to-Date, US\$



Source LSEG Workspace.

Gold and bonds, down together

Gold ended September at US\$4,153 an ounce, down 6.6% on the month. It had risen to about US\$4,360 mid-month, subsequently falling as oil, yields and the US dollar rose together. The iShares Physical Gold ETC lost 6.8% in sterling, giving back a little more than half of August's 12.0% gain. It remains a notable position in the Multi-Asset funds as a real asset allocation alongside copper, and is held for geopolitical shocks and for periods of fiscal stress that erode confidence in currencies and bonds, rather than for months when real yields rise.



Bonds were also weak, but the shorter the maturity, the less was lost. The 2028 gilt held in the Multi-Asset funds fell 0.4% while the iShares \$ Treasury Bond 7-10yr ETF (Hedged) fell 3.7%.

Performance across the absolute return funds held in the multi-asset portfolios was mixed. The AQR Adaptive Equity Market Neutral UCITS Fund returned 2.9% and the Man Absolute Value Fund 1.5%. The TM Fulcrum Diversified Core Absolute Return Fund, Man Credit Opportunities Fund and the recently introduced Tycho Calibrate Macro Fund each lost around 1% over the month.

AI's record results

The heads of several AI companies, including Dario Amodei of Anthropic, with support from Sam Altman of OpenAI and Elon Musk, called for developers to slow their work on the most advanced AI models, recognising a need for guardrails to the technology. Despite an initial pullback on the news, a week later the technology heavy Nasdaq Composite Index closed at a record high.

Reported results from companies within the theme have remained strong. Broadcom's revenue rose 86% and it raised its fiscal 2027 AI chip revenue target to about US\$115bn. On 30 September Micron reported record revenue of US\$54.2bn, guided to US\$61.5bn for the next quarter and said customer commitments under long-term supply agreements had risen to US\$32bn.

However, constraints to the growth of AI technology are now becoming apparent. Oracle was reported to have issued a force majeure notice on its Project Jupiter data centre in New Mexico because it may not be able to secure power. OpenAI cancelled the October release of GPT-6.1 Astra on safety grounds, less than a month after saying its predecessor could sometimes disguise its reasoning, and on 30 September the US Federal Trade Commission opened an inquiry into AI labs including OpenAI and Anthropic.

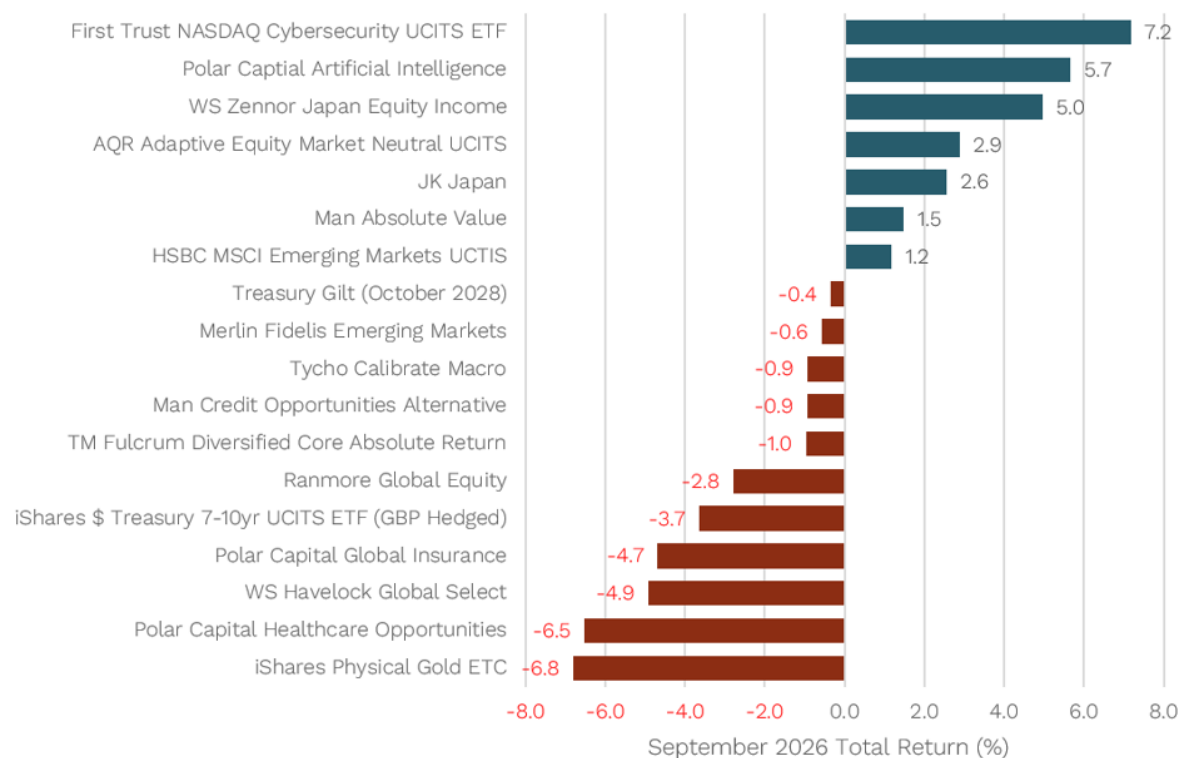
The primary exposure to the theme within the T. Bailey funds of funds is through the Polar Capital Artificial Intelligence Fund, which returned 5.7% but remains down 8.8% over three months. The First Trust Nasdaq Cybersecurity ETF held within the [T. Bailey Global Thematic Equity Fund](#) returned 7.2% after 9.6% in August and is up 47.7% this year, leading us to take profits on part of the position.

How the T. Bailey portfolios fared

Across the T. Bailey funds of funds, healthcare exposure and gold were the weakest performers over the month. Polar Capital Healthcare Opportunities fell 6.5% and was the largest detractor in the Global Thematic Equity fund, while gold was the largest in the multi-asset funds. Two of the healthcare sector's biggest names had bad days: Novartis fell nearly 11% on 8 September after a second failed trial and Novo Nordisk fell 7.7% on 21 September after its capital markets day. Polar Capital Global Insurance fell 4.7% following a strong start to the quarter, and WS Havelock Global Select (-4.9%) and Ranmore Global Equity (-2.8%) gave back part of a strong July and August.

The Polar Capital Artificial Intelligence Fund was the largest contributor in all three funds of funds by virtue of sizing and performance. The WS Zennor Japan Equity Income Fund returned 5.0%, ahead of JK Japan at 2.6% for the third month running. The Merlin Fidelis Emerging Markets Fund was flat while the HSBC MSCI Emerging Markets ETF gained 1.2%. The former's manager owns few of the Asian chipmakers that represent a large proportion of the index, thus providing useful diversification of return drivers.

Funds referred to: September 2026 Performance



Source LSEG Workspace. GBP terms, total return.

Where we stand

We are not presently adding to long-dated bonds. While their elevated yields offer income, inflation remains above target in the US, UK and euro area, the Fed, ECB and Bank of Japan have all raised rates, the Bank of England is expected to follow, and governments are still borrowing heavily.

In AI, revenue is there for the suppliers and long-term supply agreements offer visibility. But power, debt and looming regulation offer constraints to the theme that limit position sizing.

Global growth has been proving more resilient than many have expected, broadening the opportunity set for equity investors and supporting quality companies with pricing power that can continue to grow in a world where the required return on capital is more demanding.

Ahead of us, three dates in the diary stand out for UK investors over the coming weeks: UK inflation on 21 October, the Autumn Budget on 28 October and the Bank of England's decision on 5 November, where markets price a rise.

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