T. Bailey Weekly Update

16th November 2026

Keeping perspective

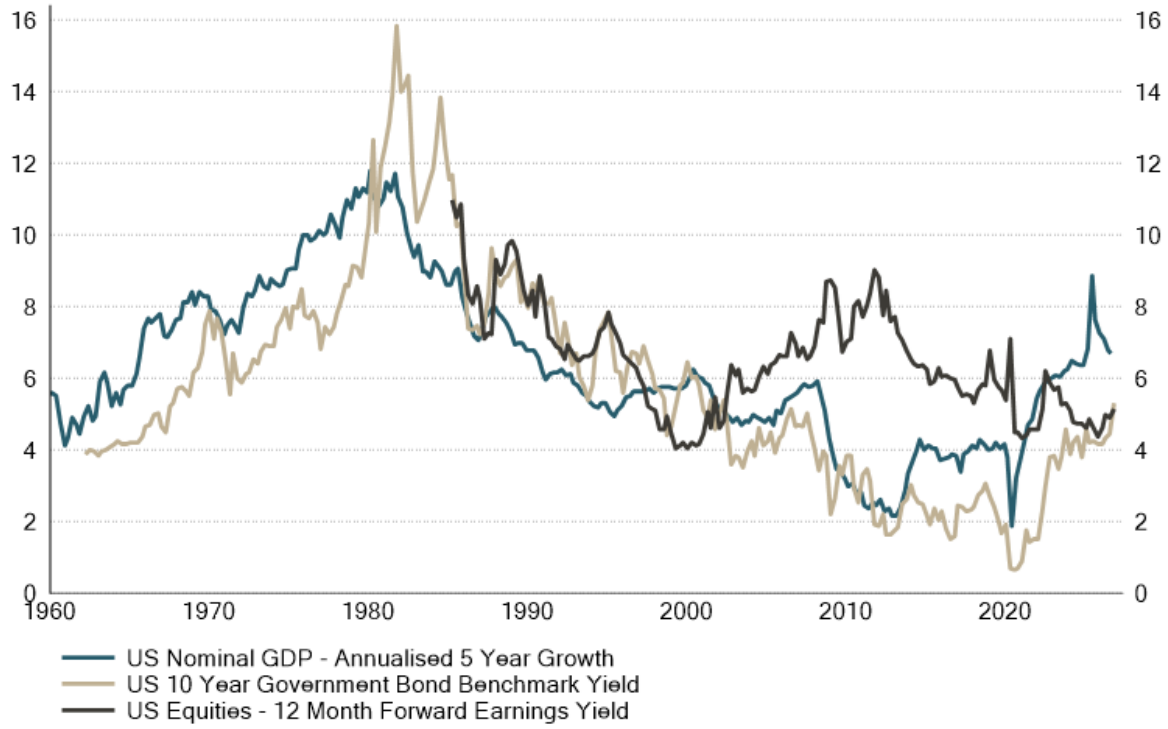
In this week's Weekly Update, **T. Bailey Fund Manager, Elliot Farley** considers the implications of firmer US inflation, strong nominal growth and higher bond yields for equity investors.
Higher interest-rate expectations can put pressure on equity valuations, particularly where prices depend heavily on optimistic assumptions about future growth. Recent weakness in AI and technology shares illustrates how exposed richly valued parts of the market can be when required returns rise.
The update considers why a falling share price does not necessarily mean an investment case has deteriorated, and why the focus remains on underlying businesses, sustainable earnings and the valuations being paid.

Firmer inflation and strong economic growth are keeping upward pressure on interest rates and bond yields, which in turn can weigh on share prices. In this environment, we think it is important to separate temporary setbacks from genuine deterioration, and to focus on the earnings and valuations of the businesses behind our holdings.

US consumer prices rose 0.4% in October and core inflation rose 0.3%, both above forecasts. This month's report from the US Bureau of Labor Statistics lacked an annual rate due to last year's government shutdown, which has left a gap in its comparison data. Nonetheless, markets have continued to reassess how far the Fed might raise interest rates, with money markets now expecting a quarter-point hike in December. Oil prices have eased recently, with Brent near ten-week lows as US-Iran tensions have subsided, which may help ease inflationary pressure, but the geopolitical backdrop can change quickly.

Continuing strong nominal growth adds to the case for higher long-term rates. US output grew at an annualised 5.6% in nominal terms in the third quarter, and looks to be supporting higher longer-term yields. The chart below puts that quarterly figure in a longer-term context, comparing nominal growth over five years with the 10-year US Treasury yield.
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US nominal growth outpacing yields: Annualised 5-year nominal growth



Source T. Bailey, LSEG Workspace.

The 10-year US Treasury yield was back above 5% at the end of last week. In addition, higher government-bond yields also raise the return investors require from equities, limiting the valuations they may be willing to pay even when profits are growing. This leaves the more richly valued sections of the market particularly exposed to setbacks, as the sharp sell-off in AI and technology shares has recently shown.

But setbacks should be separated from genuine deterioration. A fall in price is not, in itself, evidence that an investment case has weakened and selling after a sharp decline can mean missing the recovery that follows. The relevant question is whether an investment's prospects have deteriorated, or whether a lower price offers a more attractive opportunity. Higher yields leave less room for valuations that depend on optimistic assumptions about future growth.

These considerations have not prompted substantial changes to our portfolio positioning over October and November so far. Our focus remains on the underlying businesses held by our managers, the sustainability of their earnings and the valuations they are paying, rather than trying to anticipate each change in market sentiment.

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