Kestrel Wealth Management

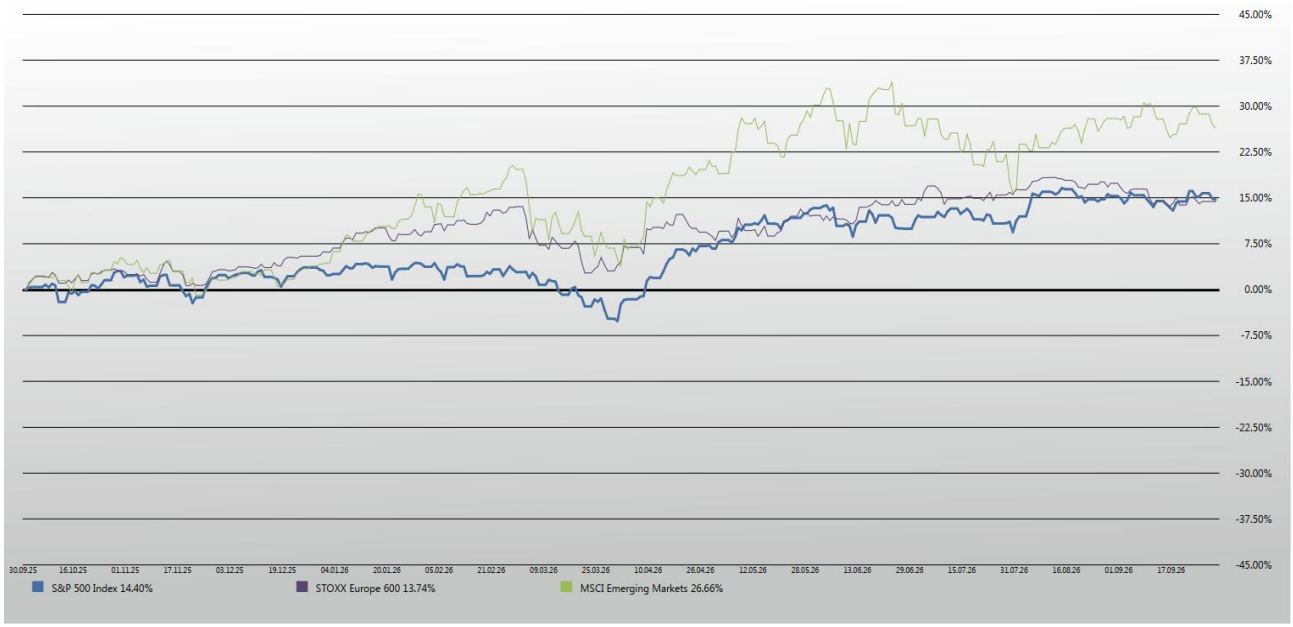
Quarterly Financial Market Update, September 2026

More restrictive monetary policies and rising oil prices offset an overall good economic environment. Consequently, during the third quarter equity investors were torn between solid fundamentals and the clouds gathering on the horizon.
Overall, we believe this behaviour will continue in the foreseeable future until the Strait of Hormuz situation clears up (just a bit would suffice). The US mid-term elections, regardless of which party wins, could provide a short-term boost, as this has generally been the case in the past. This would also precede a possible year-end rally.
Separately, apart from the debate between humanity's future in the context of the development of artificial intelligence (AI), huge infrastructure spending (done already or planned) and the future benefits thereof – which have yet to be proven – AI will also remain in the spotlight on the financial markets.

We are therefore maintaining our wait-and-see stance on equities (neutral), advising investors to ensure they maintain a sound level of diversification across sectors and geographies.

The return on equities was rather muted in Q3. the MSCI All Country World Index gained 1.7%, driven by the US (+2.3% for the S&P 500 Index). Europe and Emerging Markets ended the quarter in slightly negative territories, down 0.6% and 0.4% respectively.

Equity Index Performance, rolling 12 months (%)



Source: Kestrel Wealth Management

During the quarter, AI gurus warned the world about the dangers which Artificial Intelligence could represent for humanity, advising a slowdown despite billions already invested. President Trump quickly contradicted these experts. It is not our primary role to debate whether AI will be a friend or a foe for mankind in the long-run, but these threats and/or opportunities create periods of high volatility in equity prices nonetheless.

On another topic, the oil price gained 42% during the period, to levels above USD 100.-/bbl again. Looking at consensus' forecasts, the price of the Brent should decline toward USD 80.-/bbl over the next twelve months. As it is linked to the evolution of the Strait of Hormuz situation and de-facto to the crisis between the US and Iran; we are refraining from speculating on any particular scenario regarding the course of this major crisis, as that would be more

akin to gambling than to investing. During the quarter, we also saw Houthis attacking Riyadh and the Bab el-Mandeb Strait, adding another level of uncertainty regarding the transport of goods in general and of oil in particular.

Inflation remained elevated too, supporting central banks in tightening further their respective monetary policies overall. For example, the European Central Bank increased its benchmark rate by 0.25% and so did the US Federal Reserve (Fed) during their last respective meetings.

The central banks are encouraged to raise their rates as a solid macroeconomic environment is able to digest a higher cost of capital. For instance, the manufacturing and services activities in the US are in expansion, as expressed by the ISM Manufacturing and Service indices, both above the 50-level. Changes in nonfarm payroll were also better than anticipated, as was the US GDP growth.
That said, based on our readings, the inflection point, i.e. the level where higher benchmark rates start to bite into the economy, is very near, or has just been passed already. Consumer confidence has also been on a downtrend for a few months now. It is thus paramount that the inflation rate starts to stabilize relatively soon or the specter of an economic recession will resurface quickly. At the time of writing, the market expects one or two additional rate hikes over the next months for the Fed. During that period, the inflation rate is expected to remain high (above 3% in the US for example), before diminishing in the second quarter of 2027.

Higher benchmark interest rates, coupled with concerns over high countries' indebtedness, lifted bond yields and thus pressured bond prices (-2.5% globally during the quarter). In the United States for example, the yield on the 10-year Treasury rose to 5.28% from 4.47%. In the United Kingdom, the yield on the 10-year Gilt ended the quarter at 5.42%, up from 4.76% a quarter earlier.
We are neutral on bonds, as we refrain of being exposed to low quality debtors. Investors should even get attractive yields in our opinion with low-risk issuers already. Therefore, we believe investors should build up an exposure to medium-term bonds (3-8 years) to lock in those rates and avoid the risk of chasing the market once short-term rates fall again.

Investors could have been left bewildered by this quarter due to numerous conflicting forces, with positive economic news often being met with a negative reaction from markets, as it bolstered the case for future rate hikes – and vice versa. There was a lot of noise regarding the visit of President Xi Jinping to President Trump in Washington, but it did not remove much of the tension between China and the US. The war in Ukraine continues and does not show any signs of abating unfortunately, whilst the situation in the Middle East remains very uncertain. With some of the current heads of states, it is difficult to not expect another geopolitical crisis to emerge somewhere. The central banks will also face very difficult times in fighting inflation, whilst not adversely affecting their respective economy too much. If they succeed, then the fundamentals should continue to support equity prices, as it has been the case since the start of the year.

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