The Tatton Weekly

Always look a gift-horse in the mouth

11 September 2026

This week's topics:

Tightening up

No goodbye for Great Britain

Don't be fooled by US-China détente

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Trump gets involved in the midterms, Jock Ohman, 06 September 2026

Tightening up

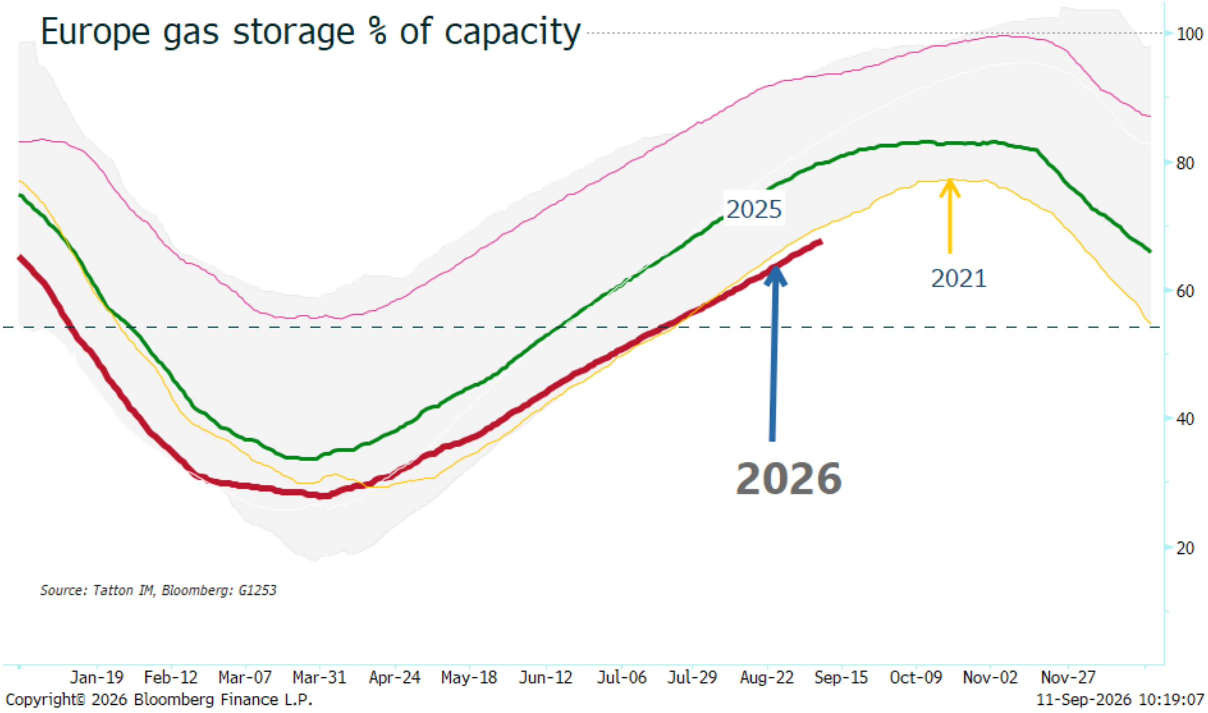
More bond pain hindered stock markets this week. Despite stable US core inflation (2.4% year-on-year for August), Middle East re-escalation pushed oil prices above $100 per barrel and gas sharply higher. That forced the European Central Bank to raise interest rates for the second time this year. The fear of substantially higher short-term rates bumped government bond yields higher again. Equities remained relatively calm – helped by strong earnings from US tech firm Oracle – but rate-sensitive sectors outside of tech struggled.

The global energy crisis looks unlikely to resolve soon, as Tehran escalates to put pressure on Washington ahead of the US midterm elections. The silver lining is that both markets and central banks are reacting pretty much as they should. That bodes well for longer-term stability, at least.

Winter war tightens banks

The US and Iran exchanged strikes on each other’s ships this week, as Tehran attempts to expand its Strait of Hormuz chokehold to the wider Persian Gulf. Meanwhile, alternative shipping routes through the Red Sea are being hit by Houthi attacks. Brent crude oil is $104pb at the time of writing, while European natural gas prices are at their highest since late 2022.

Bloomberg reported today that six Gulf state representatives could meet with Iranian officials next week to discuss opening the Strait. The potential weakening of Gulf support for the US and Israel's war dragged oil back from Thursday's highs. Oman already held bilateral talks with Iran two weeks ago, with the failed talks partly motivating Tehran's aggressive new stance.



After Eurozone inflation came in at 3.3% year-on-year in August – and energy inflation an eye-watering 14.3% – the ECB unsurprisingly raised rates, no longer willing to wait out the energy crisis. With no end to the war in sight, Europe is approaching winter with natural gas storage at seasonal lows.

At the Jackson Hole conference in August, central bankers lined up to say that energy price rises will force tighter monetary policy. Next week, the Federal Reserve and the Bank of England are expected to either hike or signal future hikes (US on 28th October, UK on 5th November). The ECB was merely the first.

No reprieve from fiscal risks
Higher rate expectations pushed up short-term bond yields, but long-term yields moved up by the same amount or more. In market jargon, there was very little 'flattening of yield curves' – the shape of bond yields across different maturities. This is slightly counterintuitive. Hawkish central banks

should mean high rates now but lower future inflation, compressing long-term yields. Indeed, markets' implied long-term inflation expectations have barely moved.

That is partly a liquidity effect: tighter monetary policy means less money for traders to buy long-term bonds, regardless of what the fundamentals might suggest. But it also reflects the fact that so-called 'risk-free' government bonds are getting riskier.

Higher energy prices worsen government finances, through higher interest costs and lower real growth. Leaders are confronted with difficult decisions. Prime Minister Andy Burnham said this week that national security "can't come at the expense of social security" and Chancellor John Healey – who resigned the previous cabinet over underfunded defence – agreed with him. It was nominally a sign of making tough decisions, but some investors saw it as decisions avoided. Future threats could force defence spending anyway, and underinvestment now could increase the future cost.

Political rhetoric might explain some UK bond underperformance this week, but, as usual, it was mostly down to global market moves. We argue UK debt is not in a 'doom loop' in a separate article.

At least British and European leaders *talk* about fiscal restraint – unlike the US. On Wednesday, Donald Trump promised to give every American adult $5,000 if his Republican party wins both houses of congress in November's midterm elections. To put it politely, the slim chance of a Republican double victory (15% according to Kalshi) makes it easier to make such a pledge.

To many, it does suggest the administration is unconcerned about fiscal discipline, however. Treasury Secretary Scott Bessent, usually styled as the adult in the White House, did not help the bond market mood either. He talked tough about wanting a stronger yen, promising coordinated action with Japan, urging the Bank of Japan to raise rates and even daring currency traders to bet against him. But the bravado came across as anxiety that Japan might start selling its vast stock of US treasury bonds – pushing US yields even higher.

Reasons to hope – but brace for liquidity impact

The tough economic decisions are currently falling to central banks, not governments. Rate hikes will bite, but it helps markets in the long-term that someone is doing so, at least.

Energy resolution would alleviate the need for hikes. Lasting peace looks a way off, but we could see some calm following the current tensions – as in June. Iran projects strength, but its aggressive tactic is motivated by painful US attacks and sanctions. Even Iranian ally China has an incentive to pursue energy stability – if not full peace – due to its weak economy.

We should also remember that year-to-date equity returns have been strong. Even after this week's yield reaction, global stocks are only marginally below July's all-time high. Equity resilience is down to strong corporate earnings growth – growth which seems impervious to higher energy prices.

Things could get more difficult before they get easier. Stocks might not be able to shrug off higher policy rates, as they have higher yields. Rate hikes mean market traders are less able to borrow – reducing overall market liquidity and making risk assets feel riskier.

The fundamentals are still strong for markets, and politicians (especially in the US) have every incentive to find good news. A Trump-Xi Washington summit is expected to begin on 24th September and preliminary talks about trade and AI are rumoured to have started. We write about the summit in a separate article. Unfortunately, any positives must be balanced against potentially tighter liquidity, possibly creating greater volatility as we head into the Autumn.

No Goodbye for Great Britain

Yields on UK government bonds (gilts) are the highest they have been in decades, and talk of a so-called 'doom loop' in government finances is rife. In the media, allusions have been drawn to Britain's debt and inflation crisis in the mid-1970s – which pushed the government to request an International Monetary Fund (IMF) bailout almost exactly 50 years ago.

We frequently point out that the structure of the gilt market makes the UK more vulnerable to global bond volatility than other countries. Even so, the 'doom loop' narrative is exaggerated.

Gilts are high beta – but they're not in a doom loop yet
It is worth repeating that Britain's debt troubles are anything but unique. Global bond yields have surged in recent weeks, thanks to the huge capital demand from big tech companies, high outstanding sovereign debts (especially in the US, the world's largest bond market) and investors' perceptions of bond price volatility.

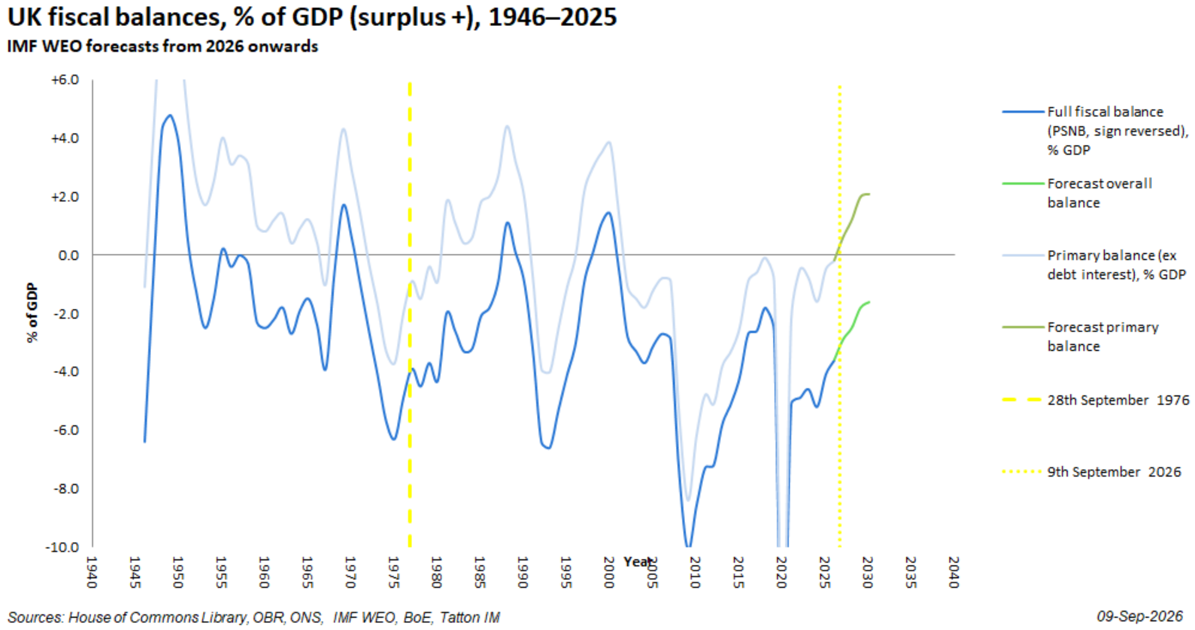
Gilts have fared worse than others, though. The outstanding stock of gilts is imbalanced, with a long average weighted maturity and a high proportion of inflation-linked bonds. So, if inflation expectations rise, as they have during the Strait of Hormuz crisis, or investors dial back their long-term bond exposures, gilts get hit hardest. Bond traders call this a "high beta".

That has a feedback loop into UK interest costs. The impact on the government's day-to-day costs is actually less than you might think – as gilts' long average maturity naturally smooths the hit – but yield rises inevitably mean higher debt repayments. With outstanding debt worth 93.8% of UK GDP, higher yields substantially increase government spending obligations. All of that is without mentioning the narratives around supposedly irresponsible government spending – narratives which are amplified by gilt imbalances.

That is why we wrote, last week, that the UK is an example of how the debt doom loop could occur in bond markets. To be clear, we do *not* mean here that Britain is or will be in a doom loop – just that gilt markets display the mechanism that can, in dire circumstances, lead to a debt spiral. Government spending goes up because yields go up, meaning more borrowing and yet higher yields. The threat of that spiral is already pushing up bond yields everywhere.

Sterling crisis led to "Goodbye Great Britain"

Commentators like the Telegraph's Liam Halligan have warned that the fragile gilt market will lead to a repeat of the 1976 sterling crisis. Back then, a global oil shock and a series of subsequent policies pushed down the sterling's value, prompting the Chancellor of the Exchequer to request $3.9bn from the IMF, in exchange for implementing harsh austerity policies. As fate would have it, the chancellor at the time, just like now, was called Healey.



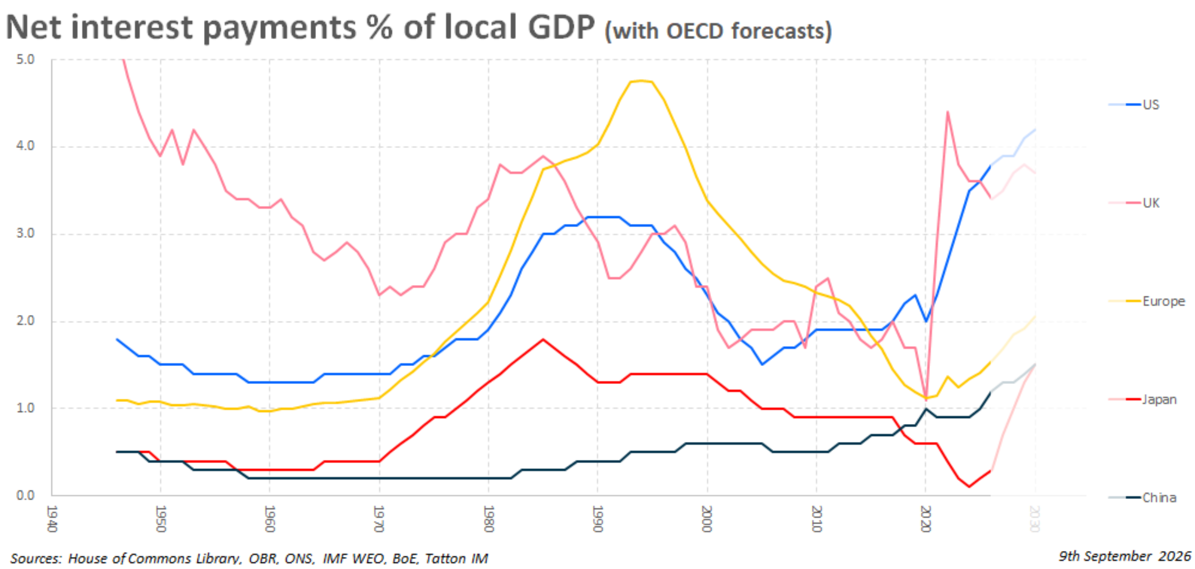
The crisis began with the 1973 oil shock and subsequent period of inflation – exacerbated by the Heath government's policy of inflation-linked wage increases. Both the current account (exports minus imports) and the government budget slid from surplus to deficit, as external costs soared. The government borrowed extensively to keep up with these costs, in part because Downing Street hoped that rising debt could be offset by the rising asset value of untapped North Sea oil.

Just like today, the media covered the debt situation extensively. The policy debate played out publicly among Britain's leading economists and even reached international attention, with the Wall Street Journal's famously scathing 1975 headline: "Goodbye Great Britain". Historians have argued that the negative press coverage played a part in the 1976 crisis.

UK spending and inflation were not out of the ordinary; most Western economies struggled in the 70s. But Britain was uniquely vulnerable, largely thanks to our exchange rate policy. After the collapse of the gold standard in 1971, the government attempted to maintain a stable sterling value within a designated trading band. As the twin deficits of budget and trade grew wider, the result was an overvalued currency. The Bank of England was then directed to guide sterling's value lower – at precisely the point currency traders wanted to sell. That led to a rapid decline, and an IMF loan was needed to stabilise the exchange rate against the dollar.

No similar currency crisis coming

There is no similar currency effect this time around. Yes, gilts' high beta problem means that the UK has higher net interest payments than most other countries – but the crucial exception is the US.



This is relevant because the main thing that could drive gilt yields higher – into the dreaded doom loop – is higher US yields. That would happen if, for example, investors became worried about unconstrained borrowing in the world's largest economy and sold US treasury bonds en masse. That would hurt gilts in the short-term, but could well *benefit* gilts in the long run, as it would almost certainly mean sterling strengthening against the dollar (even if other currencies strengthened more).

The reason why sterling is not under the same pressure it was in 1976 is because, unlike back then, UK fiscal policy is not as stretched – certainly not relative to other nations. In the 70s, Chancellor Healey increased spending, amplifying inflation. But today's Healey has stressed the need for restraint – just like his most recent predecessors.

The media likes to warn about excessive spending but, as the previous chart shows, the UK is not too far from a balanced *primary* budget (excluding interest costs), and is projected to be in surplus in the coming years. Gilts are fragile, but international investors do not expect them to break.

Don't be fooled by US-China détente

Chinese President Xi Jinping will meet with US counterpart Trump in Washington later this month to talk trade, investment, AI and geopolitics. The meeting comes amid a period of relative calm between the two powers – albeit with tariffs and trade restrictions still in place on both sides. For the most part, we expect that calm will continue up to and immediately after the summit. That does not mean the trade truce can hold indefinitely, however.

Calm without substance

The Trump administration has continued to disrupt the global economy in 2026, but, unlike in 2025, tariffs have not been the major story. Washington did announce a raft of new levies in July, on trade partners including China. These were nominally aimed at deterring forced labour practices, but were widely understood as replacing tariffs that expired after the US Supreme Court ruled that the president could not unilaterally impose tariffs under the International Emergency Economic Powers Act (IEEPA). The fact they were substitutions, rather than new tariffs, dulled the market reaction.

Trump's less aggressive trade policies are partly a reaction to the unpopularity of his tariffs. Affordability is a key issue heading into November's midterm elections, and the president's Republican party is already having to defend an oil crisis of his making.

Tariff stasis could also be because, in some respects, the current regime works. Washington is collecting revenues and trade carries on, without hurting US businesses and consumers to the extent that many feared in 2025.

Given that steady state, not much is expected from the US-China summit on 24 September. There will likely be some coordinated announcements that both governments can frame as victories, perhaps involving Chinese purchase of US hardware. But, effective US tariffs on China will likely remain at their current level – an average of 22.8% as of July, according to Penn Wharton Budget Model. That average effective rate has fallen this year, but mostly due to substitution effects (certain goods are exempt, and others are often rerouted).

May's Trump-Xi summit in Beijing produced little of substance either. That previous meeting did at least give a sense of détente between the world's two largest economies, however, with China agreeing to loosen some of its trade restrictions too.

Why the free pass?

Détente is not nothing. Notably, China seemed to be exempt from Trump's latest tirades, with the president focussing his ire on Europe and Canada instead. That silence is strange, considering China has so far failed to live up to some of the promises it made to buy US goods. Admittedly, China is hardly alone in that: most US trade partners have engaged in what trade expert Sam Lowe calls "strategic under-implementation" of their agreements with the US.

Still, the difference is that China should presumably be caught in Washington's "economic onslaught" of Iran. US Treasury Secretary Bessent has pledged to isolate Tehran by cutting trade with Iran's trade partners – and China still buys around 90% of Iran's crude oil exports.

The US has placed some Chinese companies on its sanctions list for allegedly helping Iran, but these targeted sanctions are hardly an "economic onslaught". The fact the White House has not sanctioned China more harshly suggests that Chinese imports are just too important to American businesses and consumers, at least ahead of the midterms.

China's negotiating position isn't as strong as it seems

In Trump's mind, China's original sin is its hefty trade surplus with the US. It is tempting, therefore, to view this persistent surplus, and Beijing's "strategic under-implementation" as a victory for Xi, but that would be misleading. There are several reasons why China has failed to buy more US goods, but one key reason is its weak domestic economy. After two years of stop-start stimulus, the central government still cannot – or will not – boost domestic demand.

Right now, Beijing's policies look more like firefighting: officials are currently trying to prop up major banks by shifting their bad debts onto the government's balance sheet. While they do so – and as long as domestic demand remains anaemic – Xi desperately needs exports to stay strong. That is one of the key reasons that Xi has supposedly been on a charm offensive with Eurasian and Middle Eastern partners, ahead of the summit. He needs as little disruption to Chinese exports as possible.

That brings us to the final oddity about the current US-China détente. Throughout Trump's second term, commentators have often painted the US administration as erratic and, ultimately, negotiating from a point of weakness. Meanwhile, Xi projects strength and stability and, in the eyes of many, negotiates from a point of strength. Whatever you think about Washington's approach, the latter is generous to Beijing. Officials will often say otherwise, but China really does need the trade.

We know that Trump likes to squeeze his negotiating partners – particularly if he suspects they might be in a weak position. Perhaps his administration does not appreciate the scale of China's domestic economic weakness. Or, perhaps, the White House is simply waiting until the midterms are out of the way. If it is the latter, tariffs could soon become a major issue for markets once more.

11 September 2026

Global Equity Markets — 11-Sep — Technical — Valuations

Market	Level	% 1 Week	% 1 Week (GBP)	Short Medium	Div YLD %	LTM PE	NTM PE	10Y AVG NTM PE
UK FTSE 100	10668	-1.5	-1.5	⇗ →	3.2	13.9	12.7	12.7
UK FTSE 250	24004	-2.3	-2.3	⇗ ↗	3.5	9.0	12.7	13.0
UK FTSE All-Share	5743	-1.5	-1.5	⇗ →	3.2	13.0	12.6	12.6
FTSE Small x Inv_Tsts	6614	-1.9	-1.9	⇗ ⇗	4.2	21.0	9.8	9.9
EU STOXX ex UK	816	-1.7	-1.8	→ ⇗	2.9	17.1	15.1	15.1
France CAC 40	8189	-1.2	-1.3	→ →	3.1	16.1	13.9	14.1
Germany DAX 40	25542	-2.2	-2.3	⇗ ↗	2.5	17.5	14.9	13.4
US S&P 500	7672	-0.8	-0.9	→ ↗	1.1	23.2	19.0	19.1
US NASDAQ comp	26352	-0.9	-1.0	→ ↗	0.6	30.5	23.5	26.2
Japan Nikkei 225	64011	-1.6	+0.1	↘ ↗	1.3	20.8	20.3	18.8
World Bloomberg	2648	-1.0	-1.1	→ ↗	1.5	20.4	16.4	16.7
China Bloomberg	1261	-2.2	-2.4	→ →	2.3	13.8	11.4	12.5
Emerging Bloomberg	1832	-0.4	-0.5	→ ↗	2.0	15.4	10.2	12.4

FTSE100 Top 6

Company	%
BP	+5.3
Shell	+3.7
Vodafone	+3.1
Standard Chartered	+1.7
Compass	+0.8
Halma	+0.8

S&P Global Top 6 (GBP terms)

Company	%
Skyworks Solutions	+21.0
SoftBank	+19.0
Hewlett Packard Enterprise	+17.7
Doosan Enerbility	+15.0
Fortum Oyj	+14.6
SK hynix	+10.4

Global Sectors (GBP terms)

Sector	%	Sector	%
Tech	-0.1	Staples	-1.1
Financials	-1.6	Energy	+1.8
Health	-3.7	Materials	-2.2
Discretionary	-1.6	Utilities	-0.7
Industrials	-1.1	Real_Estate	-1.8
Communicatic	+0.5		

FTSE 100 Bottom 6

Company	%
Associated British Foods	-9.9
Sage	-8.2
M&G	-7.1
Burberry	-6.6
Barratt Redrow	-6.4
Rentokil Initial	-5.7

S&P Global Bottom 6 (GBP terms)

Company (GBP terms)	%
Cooper Cos	-23.3
Casey's General Stores	-18.6
Xero	-15.8
Novartis	-13.8
FactSet Research Systems	-13.6
WiseTech Global	-13.6

Fixed Income

Govt bond	%Yield	1 wk chg
UK 5yr Gilt	4.89	+0.26
UK 10yr Gilt	5.34	+0.21
UK 15yr Gilt	5.65	+0.18
US 10yr Treasury	4.93	+0.16
France 10yr OAT	4.45	+0.26
Germany 10yr Bund	3.51	+0.17
Japan 10yr JGB	2.98	+0.07

Currencies

Pair	last	%1W
USD per GBP	1.353	+0.1
GBP per EUR	0.858	-0.1
USD per EUR	1.161	-0.0
JPY per USD	153.51	-1.6
CNY per USD	6.707	-0.0
USD per Bitcoin	79,039	-0.5

Commodities

Cmdty	last	%1W
Oil Brent $:bl	104.47	+11.4
Gold $:oz	4383	-1.2
Silver $:oz	64.90	-1.9
Copper $:lb	656.4	-1.7
Alumnm $:mt	3316	+0.7
Agriculture BBG	63.98	-0.4

UK Mortgage Rate Estimates

Rates (LTV c.75%, no fee)	11-Sep	12-Aug
UK BoE base rate	3.75	3.75
2yr fixed	4.90	4.79
3yr fixed	4.88	4.68
5yr fixed	4.78	4.61
10yr fixed	5.27	5.17
Standard variable	6.60	6.60

Where possible, prices taken levels at 11 September 3:00 PM and 04 September 3:00 PM. Mortgage rates from moneyfacts.co.uk
LTM PE is the index price as a ratio of last 12 months earnings. NTM PE is next 12 months earnings.

Please note: Data used within the Personal Finance Compass is sourced from Bloomberg/FactSet and is only valid for the publication date of this document. The value of your investments can go down as well as up and you may get back less than you originally invested.

Lothar Mentel