Marlborough

Multi-Asset Investment Solutions

Weekly Market Review

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Date: 14/09/2026

Market recap – Oil shock and hot inflation weigh on stocks

Global stock markets fell over the week, as a fresh escalation in the Middle East sent oil prices sharply higher and a strong US inflation reading reinforced expectations of an interest rate rise this week by the US Federal Reserve (the Fed). In the US, the **S&P 500 fell 0.9%** (unless otherwise stated, all returns quoted are in sterling terms) and the **Nasdaq 100 fell 0.7%**. The UK's **FTSE 100 fell 1.6%**, weighed down by rising government borrowing costs, while **MSCI Europe (excluding the UK) fell 1.9%** as the European Central Bank raised interest rates. Japan's headline moves looked far milder in sterling terms, with the **TOPIX down 0.2%** and the **Nikkei 225 up 0.04%**, though both indices actually fell more sharply in local-currency terms. A stronger Japanese yen for much of the week cushioned the impact for UK-based investors. **MSCI China fell 2.9%**, while the broader **MSCI Asia Pacific (excluding Japan) index fell 0.9%** and **MSCI Emerging Markets fell 0.3%**.

Geopolitics – Middle East tensions escalate on two fronts

Tensions in the Middle East escalated again last week. Reported attacks on Saudi energy infrastructure and continued hostilities between the **US and Iran** pushed oil prices sharply higher (see Commodities, below), while Iran-aligned Houthi forces also seized the Yemeni port of Mocha, raising fears of fresh disruption to shipping in the Red Sea, an alternative route for Saudi oil exports. Saudi Arabia briefly shut a major cross-country oil pipeline as a precaution after renewed attacks. Sentiment improved a little by Friday as reports emerged of a planned meeting in Oman between Gulf Arab officials and Iran, aimed at agreeing a temporary arrangement to protect oil tanker traffic through the Strait of Hormuz, the narrow and strategically vital channel through which around a fifth of the world's oil normally passes.

Central banks – ECB hikes, Fed decision looms

The European Central Bank raised interest rates by **0.25 percentage points to 2.5%** on Thursday, as widely expected, warning that inflation is likely to stay elevated for longer. Government bond yields, which feed through to borrowing costs for governments, businesses and mortgages, climbed to multi-year highs across the US, UK, Germany and Japan over the week. Traders now estimate there is around an **87% chance the Federal Reserve will raise interest rates** when it meets next Wednesday, up sharply from around 59% a week earlier. The Bank of Japan, meeting the same week, is also widely expected to raise rates, while the Bank of England is expected to hold.

News – US inflation pushes the case for a Fed hike

Friday's US inflation report was the week's pivotal release. Headline consumer price inflation, the most commonly quoted measure of the cost of living, held at **3.4%** year on year in August, in line with expectations. But the "core" measure, which strips out more volatile items like food and energy to give a clearer read on the underlying trend, rose **0.3% month on month**, its fastest pace since April and above forecasts, even as the annual core rate eased slightly to 2.4%. Thursday's data on producer prices (the prices charged at the factory gate, often an early signal of where consumer inflation is heading) also showed inflation accelerating, reinforcing the case for the Fed to raise interest rates next week and sending the odds of a hike sharply higher.

Economic data – Growth holds up despite the inflation scare

The UK economy **grew 0.4%** in July, beating forecasts for no growth and extending a recent run of upside surprises, though rising borrowing costs (see Central banks, above) remain a headwind. The eurozone economy grew 0.6% in the second quarter. In China, exports rose a strong 25% year on year in August, though weaker car sales pointed to continued softness in domestic demand. In Japan, second-quarter economic growth was revised higher and wages, once adjusted for inflation, rose for a seventh consecutive month, both reinforcing the case for a Bank of Japan interest rate rise.

Commodities

Oil rose to around $104 a barrel, up by roughly 8% over the week, having briefly traded above $108 as Middle East tensions escalated, before easing on hopes of a diplomatic breakthrough over Gulf shipping routes.

Gold fell to around $4,380 an ounce, down about 1.5% over the week, its third consecutive weekly decline, as the prospect of higher interest rates reduced demand for the precious metal, which pays no income.

Week ahead – What to watch

US: Retail sales (Wed); Federal Reserve rate decision and press conference (Wed); housing starts (Thu).

UK: Unemployment (Tue); inflation (Wed); Bank of England rate decision (Thu); retail sales (Fri).

Europe: German ZEW economic sentiment survey (Tue), a gauge of analysts' expectations for the economy over the next six months.

Asia: China industrial production and retail sales (Tue); Japan trade data (Wed); Japan inflation and Bank of Japan rate decision (Fri).

Source: Marlborough Multi-Asset, Morningstar, Financial Times, PIMCO, T. Rowe Price, Anglia Advisors, Trading Economics

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