

Multi-Asset Investment Solutions

Weekly Market Review

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Market recap – stocks rally, led again by tech

Global stock markets rallied last week, extending a run of gains led once again by technology shares, even as government bond markets came under renewed pressure. In the US, the **S&P 500 rose 2.1%** (all returns are in sterling terms unless otherwise stated), while the tech-heavy **Nasdaq 100 jumped 4.2%**. Both indices touched fresh highs, boosted by continued enthusiasm for artificial intelligence (AI). The UK's **FTSE 100 added 0.3%**, while **MSCI Europe (excluding the UK) rose 1.2%** as stronger economic survey data offset concerns about higher borrowing costs. Japan was a standout performer, with the **Nikkei 225 up 3.1%** and the **TOPIX gaining 2.0%**, lifted by technology and, later in the week, banking shares. **MSCI China fell 0.6%**, while the broader **MSCI Asia Pacific (excluding Japan) index rose 2.1%** and **MSCI Emerging Markets gained 2.2%**.

Geopolitics – Trump-Xi summit and UN drama dominate

World leaders gathered in New York last week for the United Nations General Assembly. However, it was the notable absences – including the leaders of China, Russia and India – that said as much about the state of global diplomacy as those who attended. US President **Donald Trump** used his address to threaten to "annihilate" Iran in a speech met with silence from delegates and little market reaction. Later in the week, Trump hosted Chinese President **Xi Jinping** in Washington: the two agreed to extend their trade truce by two months, to January 2027, though there was little other tangible progress on the thornier issues of technology and Taiwan. Separately, hopes grew that the US and Iran might be edging towards a deal to reopen the **Strait of Hormuz**, helping oil prices ease from their highs.

Central banks – bond yields surge on rate-hike bets

Government bond markets had a rough week as investors pushed up their expectations for future interest rates. In the US, weak demand at Treasury bond auctions and comments from officials at the US Federal Reserve (the Fed) drove the **10-year Treasury yield* to 5.2%, its highest level since 2007**, while the **30-year yield rose to 5.5%, a level last seen in 2004**. Markets are now pricing in **three to four further US interest rate rises over the next year**. In the UK, while the Bank of England has kept interest rates on hold, Governor **Andrew Bailey** warned that persistently high energy prices would make it harder to keep rates where they are, and other policymakers signalled they were edging closer to backing a rise.

**Yield is the income paid by bonds (or other investments). It is usually stated as a percentage of the value of the investment.*

News – AI rally masks a narrower market

The week's single biggest story was the growing gap between booming stock markets and a struggling bond market. Yet the strong performance of the US stock market in particular has become increasingly concentrated in a small number of very large companies, raising questions about how diversified investors relying on mainstream index funds, including global ones, really are. Ordinarily, a rise in borrowing costs on the scale seen recently would be expected to unsettle equity markets, but investors have so far shrugged it off, staying focused on strong company earnings and the promise of continued AI-driven growth.

Economic data – US and eurozone business activity accelerates

In the US, a closely watched **survey of business activity rose to a 62-month high**, with growth in new orders at its fastest pace in more than four years. **US jobless claims also came in lower than expected**, a sign of a healthy labour market. In the eurozone, business activity surveys improved by more than expected, and Germany's measure of business confidence rose for a fifth consecutive month to its highest level since May 2023. This came even as a separate measure of consumer sentiment weakened. In the UK, however, the picture was less positive. A survey of retailers showed a further weakening in sales and a measure of overall business activity slipped, with **input costs picking up partly due to higher fuel prices**.

Commodities

Brent crude oil rose to around \$105 a barrel, up around 1% over the week, having briefly dipped below \$100 on Monday as hopes grew for a diplomatic breakthrough between the US and Iran. Prices rebounded as those hopes faded but then fell again on Friday as optimism about a US-Iran truce grew once more.

Gold fell to around \$4,280 an ounce, down about 1% over the week, as rising government bond yields and growing expectations of further US interest rate rises reduced demand for the precious metal, which pays no income.

Week ahead – what to watch

US: Core Personal Consumption Expenditures (PCE) inflation, the Fed's preferred inflation measure (Wed); final estimate of second-quarter growth (Wed); a survey of manufacturing activity (Thu); the September jobs report (Fri).

UK: A quiet week for scheduled UK data.

Europe: Preliminary inflation readings from France, Italy and Germany (Wed); eurozone-wide preliminary inflation data (Fri).

Asia: China manufacturing surveys, (Wed); Japan's quarterly Tankan survey of business sentiment (Thu).

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

Risk Warnings

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