

Asset Allocation Insights

QUARTERLY REPORT | SEPTEMBER 2026

USD EDITION

Strong, broad-based equity earnings counterbalanced by longer-end sovereign yields hitting post-GFC highs, primarily driven by rising real yields.

Hyperscaler AI capex estimates cross \$1 trillion in 2027

Nvidia upgraded FY2028 to 70% YoY revenue growth, supporting analyst expectations of >\$1 trillion of capex spending by hyperscalers in 2027. But the AI capex trade has two-way risk, with investors becoming more discerning – particularly as free-cash-flow margins are being eroded and companies take on additional debt to fund capex projects.

Strong earnings expectations are driving a broadening market

The Q2 earnings season was strong – which is being reflected in earnings expectations. The 3M increase in the forward EPS of the FTSE Developed index is c. 6% and looking at the revision ratio by country we can see upgrades are broad-based.

AI capex is reshaping IG credit

Rising AI capex is driving higher debt issuance from hyperscalers and utilities, reshaping IG supply. If sustained, this could gradually alter sector weights across IG benchmarks. Greater issuance may potentially cause upward pressure on credit spreads.

Sovereign bond yields are the highest since before the GFC

With inflation expectations relatively stable, the majority of the move is being driven by higher real yields. Broadly, governments are borrowing more, and at higher yields. This has increased interest expenditure as a percentage of GDP – increasing the risk premium required for longer-duration bonds.

Japan-US joint intervention in the yen raises probability of sharp moves

Directionally, the yen faces opposing forces: being extremely undervalued vs. expansionary fiscal policy and relative interest rate differentials. FX market intervention increases the probability of large moves in JPY and underscores the importance of investors having an explicit, directional view.

Global funds flows show a barbell in risk

Subscriptions and redemptions show capital flowing into growth equity, especially the US, Asia Pacific and Technology, as well as to high quality Fixed Income.

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Chart 1: Earnings revisions, measured by percentage of companies in an index being upgraded vs. downgraded, show strong breadth in earnings growth expectations.

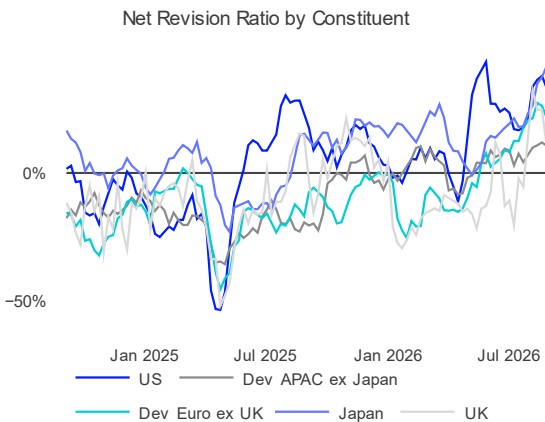
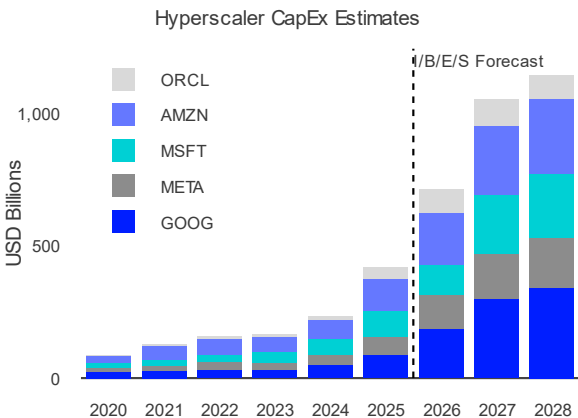


Chart 2: AI capex expectations continue to be increased; I/B/E/S estimates expect hyperscalers to spend >\$1 trillion in 2027, with expectations increasing further into 2028.



Source: FTSE Russell/LSEG. All data as of August 31, 2026, unless otherwise stated. Past performance is no guarantee of future results. This report should not be considered “research” for the purposes of MIFID II. Please see the end for important legal disclosures. Results in this report are for research / illustrative purposes and do not represent the official performance of the indices.

Macro and Financial Markets Outlook

Global macro data is robust and surprising to the upside.

Headline macro data is relatively robust. Composite PMIs are broadly above 50, the level separating expansion from contraction, and they have been trending higher. Macroeconomic data has consistently surprised to the upside; European data, which in May was undershooting already-downgraded expectations, has seen strong macro “beats” over the summer.

Since the breakdown of the Memorandum of Understanding (MoU) over the Strait of Hormuz, the number of vessels passing the strait has fallen. Whilst most investors are talking about the oil price, it's important to recognise that supply constraints have led to under-refinement of distillate products – most importantly gasoline and heating oil, which are trading rich relative to the price of oil. This remains an upside risk to inflation expectations.

Equity market returns have broadened.

Over 3M the FTSE All-World posted a small positive return of 3.1%, bringing YTD gains to 14.6%. This was despite fears over the sustainability of AI capex, with key enablers like FTSE Korea and FTSE Taiwan returning -11.8% and 2.3% respectively; they remain the top two markets YTD. This highlights a broadening of the market and marks a sharp turn from [May this year](#) when we were highlighting the narrowness of breadth.

In July we noted that there was a [new Fed. with old policies](#), which may lead to higher rates volatility as forward guidance ends and the market is left to interpret data. Labour market signals have been volatile, with positive-to-negative swings and large revisions to nonfarm payrolls. With the August NFP at +162k, Headline US CPI at +3.4% and hawkish comments from Jackson Hole, the probability of a September hike has risen to c. 94%; with a c. 99% probability of at least one hike in 2026 (as Sept 14, 2026).

In August, the US Treasury Department announced it would double its long-dated (10- to 30- year) buyback program. Officially it is liquidity management, but the market interpreted it as a move to lower long-end yields; the 30Y hit a post-GFC high of 5.3%. The move also led to a sharp rebound in gold and Bitcoin, viewed as hedges against monetary debasement.

Long-end sovereign debt has traded under pressure, pushing real yields higher.

Sovereign yields are at post-GFC highs in the US, UK, Europe and multi-decade highs in Japan. Importantly, this rise in yields largely reflects a shift higher in real yields, rather than being driven by inflation expectations. The [OECD Global Debt Report](#) shows that interest expense across the OECD was 3.3% of GDP in 2025, with higher yields and increased issuance set to increase interest expense by 2.5ppts in 2026.

Corporate bond yields remain elevated, but historically tight spreads offer limited compensation for credit risk beyond government bonds. Heavy IG issuance is being absorbed by the bond market but poses a risk of spread widening if investor demand fails to keep pace with supply. AI capex has increasingly fed into IG bond issuance: All five hyperscalers are IG-rated and classified as Industrial, while related power investment has also boosted utility borrowing.

Fund flows have shown a barbell between Growth equity & high quality Fixed Income.

Recent 3M and 6M fund flows point to a barbell allocation, with investors adding to US and global growth assets while maintaining strong demand for high-quality fixed income. US equity inflows rebounded as Europe saw sizeable outflows, reversing the earlier trend away from the US. Asian equity inflows also accelerated but remained highly selective across markets rather than reflecting a broad regional rotation.

Copper demand outstripping supply, driven by AI and electrification.

Copper reached record highs, reflecting a combination of near-term supply constraints and a longer-term structural supply shortage, as AI infrastructure, electrification, and grid investment lift demand while supply growth remains limited. This extends the AI investment theme across asset classes: In credit, rising capex is visible through hyperscaler and utility bond issuance; in commodities, the same investment cycle is increasing demand for power infrastructure and copper.

Hyperscaler AI capex spend now estimated to be >\$1 trillion in 2027.

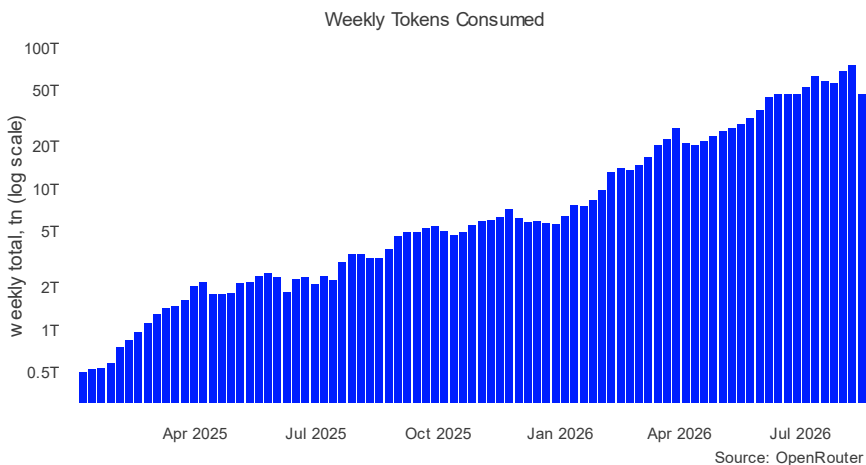
AI demand has seen exponential growth – with agents using >1/3rd of tokens.

Forward free-cash-flow margin has turned negative for most hyperscalers.

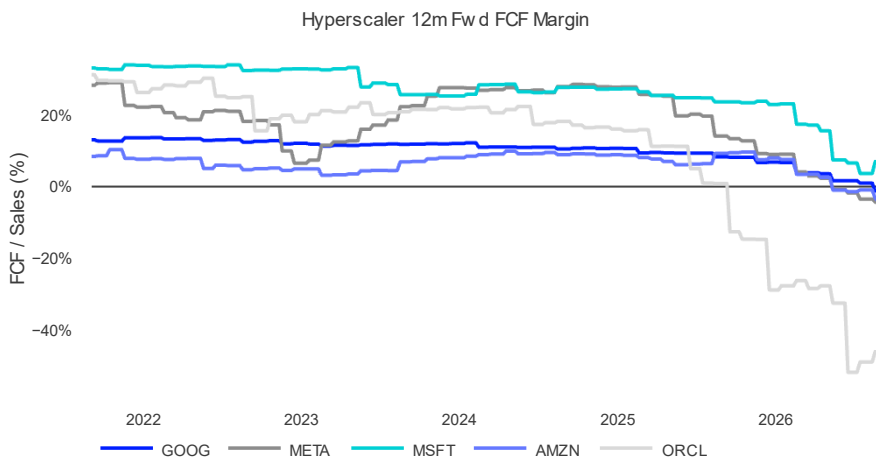
Is AI capex in a bubble? And what are the asset class implications?

During the Q1 earnings season, we highlighted that the market was becoming more discerning about AI capex, with investors wanting to see the revenue benefits of capex spend. Since then, estimates of AI capex for the big five US hyperscalers have crossed \$1 trillion for 2027, and we reiterate that there is two-way risk on the AI capex trade. Consumption of tokens has effectively been growing exponentially, based on data from OpenRouter; agentic workflows now consume >1/3rd of tokens. This highlights that demand is real.

Analyst estimates were supported by forward guidance at Nvidia's Q2 earnings call, where they guided to \$108 billion in sales for Q3 and [70% revenue growth for FY28](#). If realised, AI capex may keep demand elevated for AI physical enablers.



However, investors are becoming more discerning. As an example, Alphabet reported YoY growth of 82% in Google Cloud earnings in Q2 but sold off on the announcement as the market reflected on the cost of financing AI expansion. Typically, hyperscalers have been significantly free-cash-flow (FCF) positive – but anticipated capex spending has caused FCF margins to narrow, turning negative in four of the big five US hyperscalers.



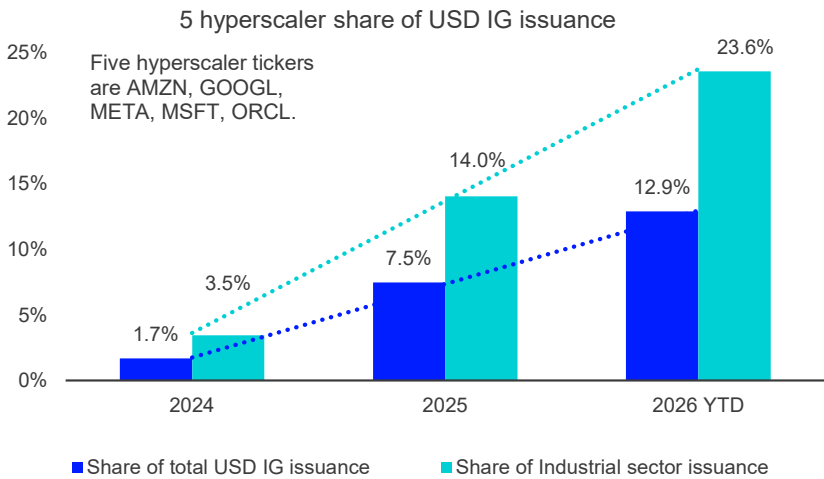
Key Asset Allocation Questions: Investor Q&A

AI capex is accelerating growth in USD IG supply.

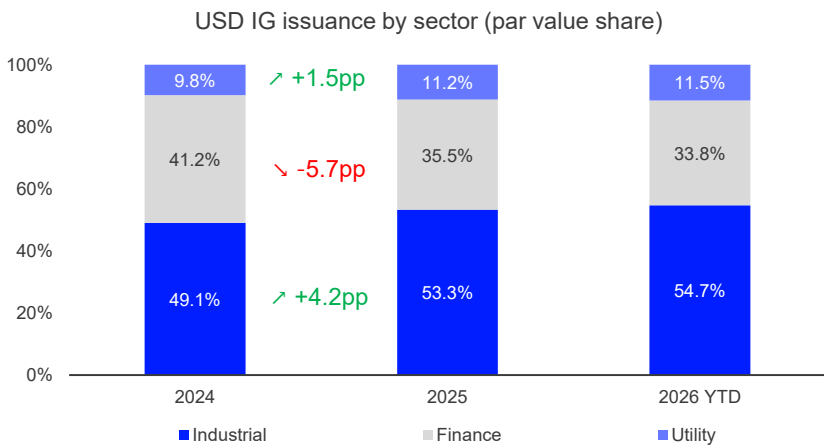
Hyperscaler borrowing has surged alongside rising AI capex, reaching 12.9% of USD IG issuance in 2026 YTD.

AI capex may potentially reshape the composition of corporate bond indices.

The financing implications are increasingly visible in credit markets. As AI capex rises and free cash flow comes under pressure, hyperscalers are turning more to debt financing, accounting for a growing share of IG supply: Their share of USD IG issuance reached 12.9% in 2026 YTD and 23.6% within Industrial (up from 3.5% in 2024). This comes amid a broader acceleration in USD IG supply, up 27% y/y in 2026 YTD versus 11.7% for HY, reversing the 2023-25 pattern.



AI-related investment extends beyond hyperscalers. Utilities have also expanded issuance to support greater power and infrastructure demands from AI. Share of outstanding debt suggests the sector shift is primarily an IG story (hyperscalers are IG-rated and classified as Industrial by FTSE), with both Industrial and Utility shares increasing, while HY has remained dominated by Industrial over the past two decades. If these trends persist, greater supply concentration could gradually reshape sector and issuer weights across IG benchmarks and portfolios.



Joint US-Japanese intervention in the yen catalysed a five-standard deviation move in the currency.

JPY is extremely undervalued. The IMF (WEO, 2026) PPP exchange rate is ¥93.31.

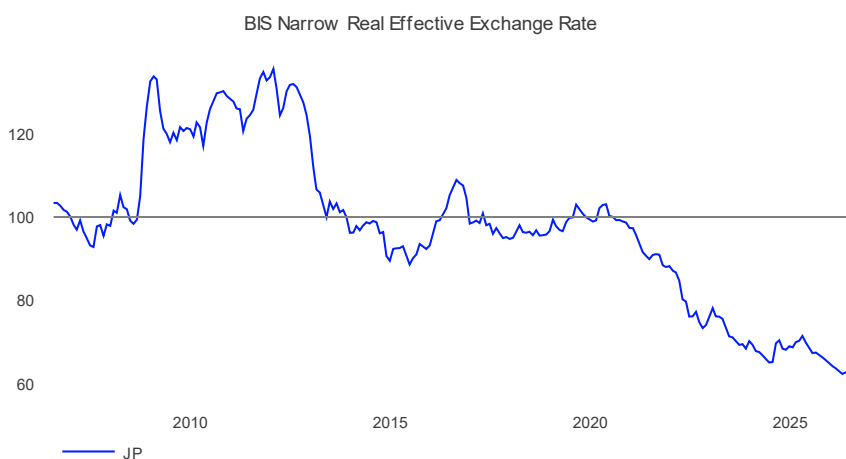
Investors require an explicit directional view on the yen.

JPY appreciation could reignite concerns about an unwind of yen carry trades.

Yen intervention – what are the implications for global markets?

In [‘Time for an intervention’](#) we highlighted that the combined US-Japan intervention in the yen was a five-standard-deviation event, based on 10Y of daily observations. The yen is the third-most traded currency globally (BIS, 2025) and it is systemically important, making it too costly to defend indefinitely. Instead, the intervention weaponised volatility, making it harder for macro speculators to hold short-yen positions.

Directionally, the yen is battling two opposing forces. It is extremely undervalued on an array of valuation metrics, which would typically argue for appreciation of the currency. On the other side is Japan’s expansionary fiscal policy and widening interest rate differentials versus the US, which conventionally would lead to depreciation of the currency.



Either way, the probability of higher currency volatility has increased and so has the importance of Japanese investors taking a considered, explicit view on the direction of the yen.

Over 12M the FTSE Japan 100% Hedged index has outperformed the FTSE Japan by c. 15.3ppts. If intervention is unsuccessful in stopping yen depreciation, then hedged indices may continue to see outperformance.

The implications for a yen appreciation potentially reach further. In our [Global Wealth Research report in January](#) we outlined how greater volatility, or a sharply higher yen, could cause some unwinding of yen-funded carry trades – which may put pressure on High Yield and other higher-yielding assets, like EM FX, as well as potentially triggering repatriation flows from Japanese domestic investors selling offshore bonds to buy JGBs.

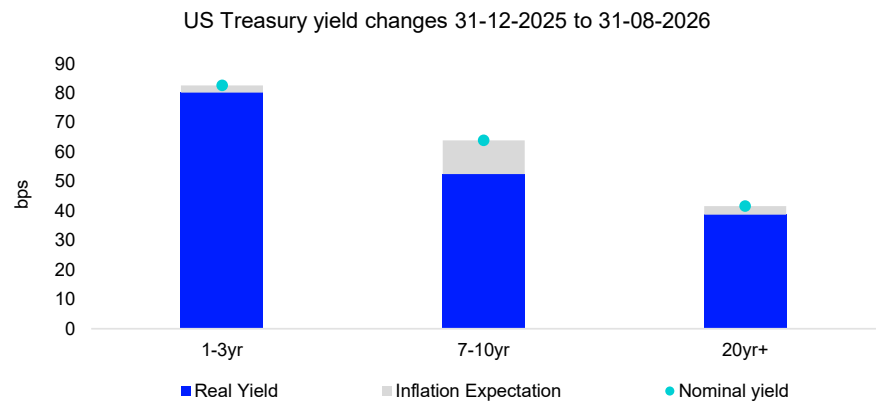
Real yields have been the main driver of higher US nominal yields YTD rather than inflation expectations.

Higher real yields and term premia point to a broader post-Covid regime shift.

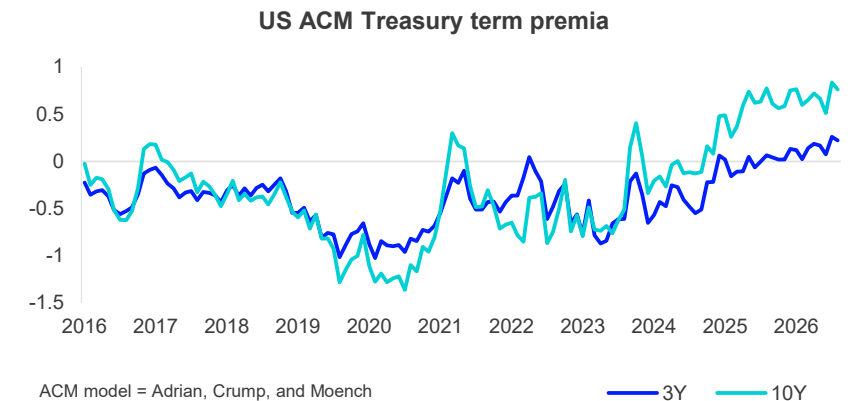
Limited curve steepening is not necessarily a paradox.

What is driving structurally higher US Treasury bond yields if inflation expectations remain relatively stable?

The rise in Treasury yields YTD 2026 increasingly reflects a real-yield and term-premium story rather than an inflation-expectations story. Inflation breakevens have remained relatively contained, while real yields and estimated term premia have risen from the exceptionally low levels of the post-GFC secular-stagnation era.



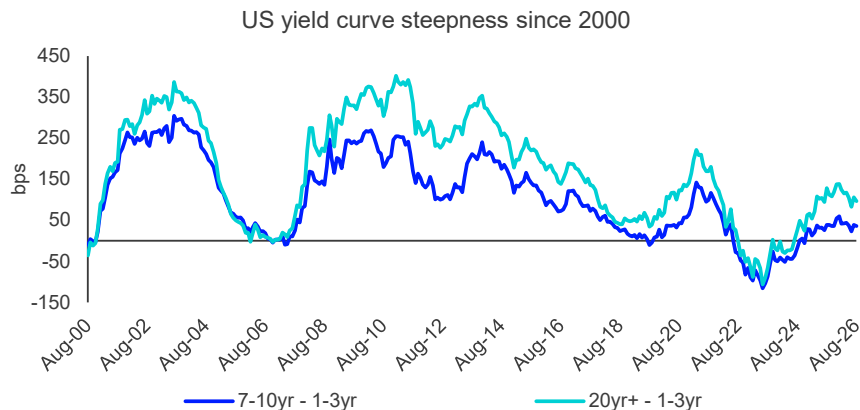
The rise in US real yields forms part of a broader global trend. Structurally higher financing needs – from wider fiscal deficits to increased investment in AI, infrastructure, defence and the energy transition - may shift the savings-investment balance and raise equilibrium real rates. At the same time, larger government bond supply, central banks’ unwinding of QE programmes and increased rate uncertainty may increase the compensation investors require for holding duration. This helps explain why nominal and real yields can remain elevated even as inflation breakevens have been relatively stable.



Despite higher term-premium estimates, inflation overshoots and fiscal concerns, the relatively limited steepening of yield curves is not necessarily a paradox. Curve shapes reflect both expected policy rates and the premium investors require for holding duration. In H1 2026, rising US short-rate expectations contributed to bear flattening even as longer-term risks remain elevated. The 10s/2s and 30s/2s curves remain relatively flat by historical standards, suggesting that fiscal concerns

Key Asset Allocation Questions: Investor Q&A

have yet to translate into pronounced curve steepening even though curves have steepened significantly since 2023.



Is the surge in US government borrowing crowding out corporate borrowers?

So far, there is little evidence of the “crowding out” of private borrowers by substantial Treasury issuance. US government and corporate debt issuance have both increased remarkably. Strong IG issuance - including sizeable borrowing associated with hyperscalers and AI-related investment - has been absorbed without a major widening in credit spreads which remain historically tight.

This suggests that investor demand has so far been sufficient to accommodate both public and private borrowing. However, the absence of outright crowding out does not mean heavy government borrowing is without consequences. Greater Treasury supply may still contribute to higher risk-free rates and term premia, increasing the underlying cost of financing for companies even if credit spreads remain contained. Crowding out may therefore emerge first through the price of capital rather than the availability of capital.

Cross-Asset: where are investors being compensated for risk? What are the relative headwinds and tailwinds?

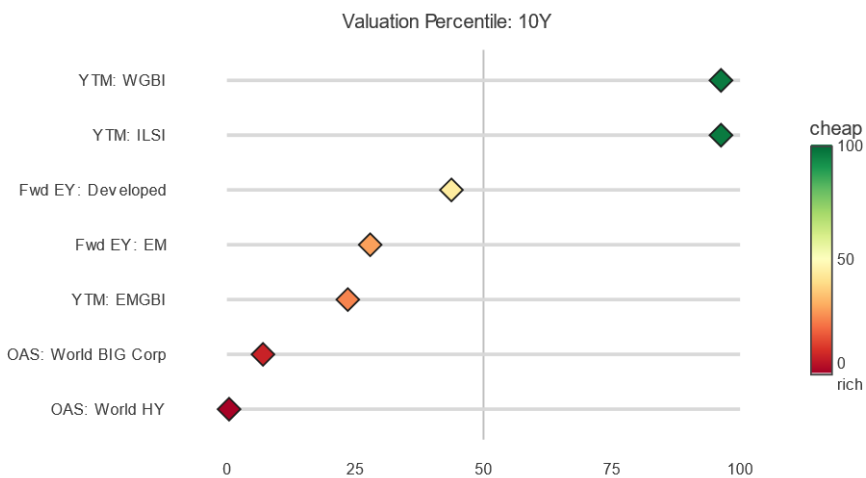
If we consider asset class “yields” relative to their own 10Y history, then global government and inflation-linked bonds stand out as having the highest yields available. Meanwhile Developed equities have de-rated from c. the 90th percentile in December 2025 to around the 53rd percentile; Emerging equities are richer at the 70th percentile. Credit is rich relative to history, with High Yield credit spreads the tightest they have been in 10Y. These relative valuations imply a strong headwind to credit, especially relative to Treasuries and their strong tailwind.

Resilient demand has absorbed rising public and private debt supply.

Asset class “yields” favour rates > equity > credit over the last 10Y.

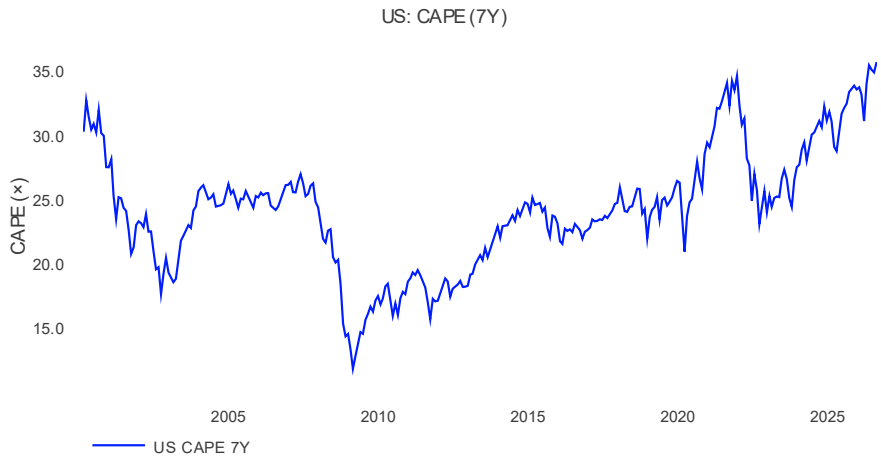
Key Asset Allocation Questions: Investor Q&A

Strong earnings expectations are doing a lot of heavy lifting for equity valuations.



As we discuss above, there is risk in Treasuries. The question is: Are investors adequately compensated? As we discuss in [What a carry on](#), starting yields have a very high correlation to future returns, which would imply investors may be well compensated depending on their holding period.

It is also important to put equities into context, where strong earnings expectations are doing a lot of heavy lifting. To highlight this, we look at a variant of the CAPE Ratio: 7Y trailing earnings for the FTSE USA deflated by US CPI. Using the CAPE, US equities are as rich as they were during the dot-com bubble.



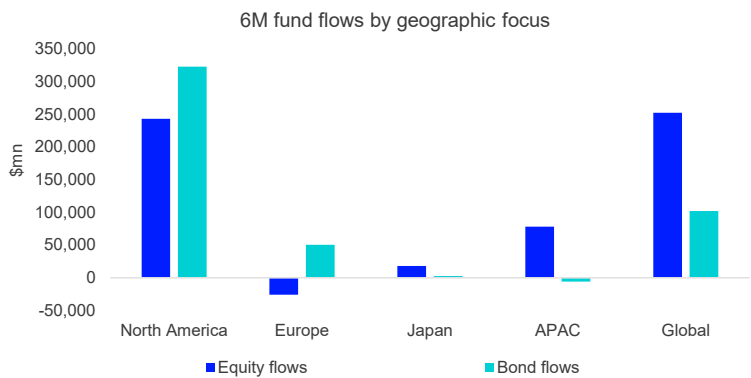
Fund flows reveal a barbell between growth and defensive assets.

US-Europe equity flows reverse their 2025 pattern.

Asian equity flows outpace peers but remain selective.

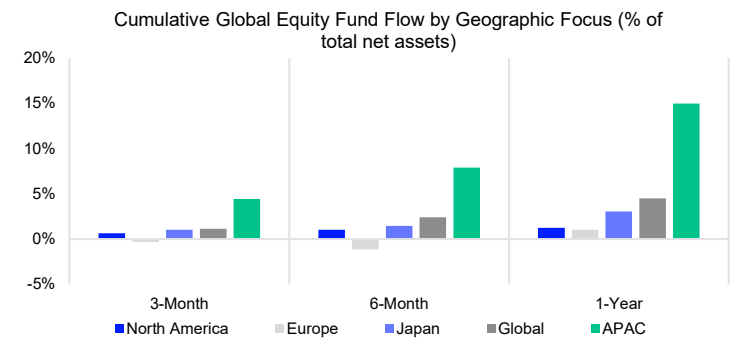
What are capital flows telling us?

Recent 3M and 6M fund flows have witnessed the coexistence of growth-seeking and defensive flows. Capital is flowing into US & global equities, technology stocks, USD medium-term and short-term government bonds and USD municipals. It is not a straightforward risk-on/risk-off rotation. Investors are adding to technology and AI-related growth exposure while also allocating heavily to fixed income (earning yield) and ensuring liquidity. Essentially it has been a barbell investment strategy between (1) US & global risk assets and (2) high-quality fixed income/liquidity.



As shown in the above chart, US equities attracted substantial inflows over 6M, while Europe saw sizeable outflows. The 3M data paint a similar picture. This reversal of the previous trend away from the US probably reflected concerns about the potential reescalation in the Middle East and its strong inflationary impact on oil-importing Europe.

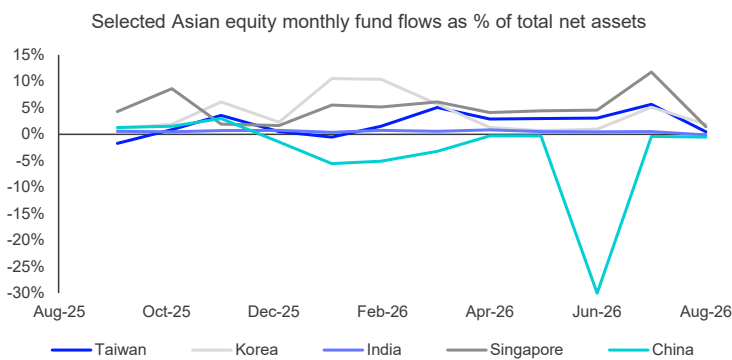
Asian equities have seen faster fund inflow growth than regional peers, but allocations are highly selective rather than broad-based, with Taiwan, Korea, Singapore and India attracting capital while Chinese equities saw significant outflows. This suggests investors were not simply allocating to Asia or EM as a bloc, instead differentiating sharply based on earnings drivers and domestic fundamentals.



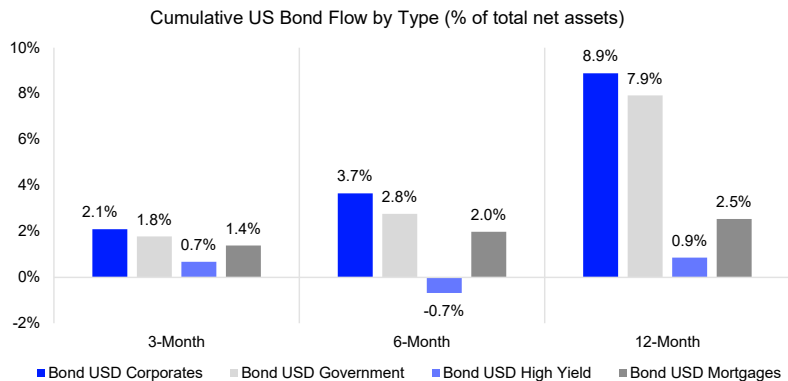
Key Asset Allocation Questions: Investor Q&A

Strong demand absorbs heavy IG supply amid rising AI financing.

The Technology weight in the FTSE USA is now greater than the smallest nine other Industries.



Another important trend was that USD credit demand was strong, particularly in IG, reflecting an environment where investors could earn relatively attractive carry without moving fully into equity risk. There was heavy Investment Grade bond issuance in 2026 that was met by meaningful investor demand. A key contributor to the IG issuance surge was rising AI capex as hyperscalers increasingly turn to debt financing amid weakening free cash flows.



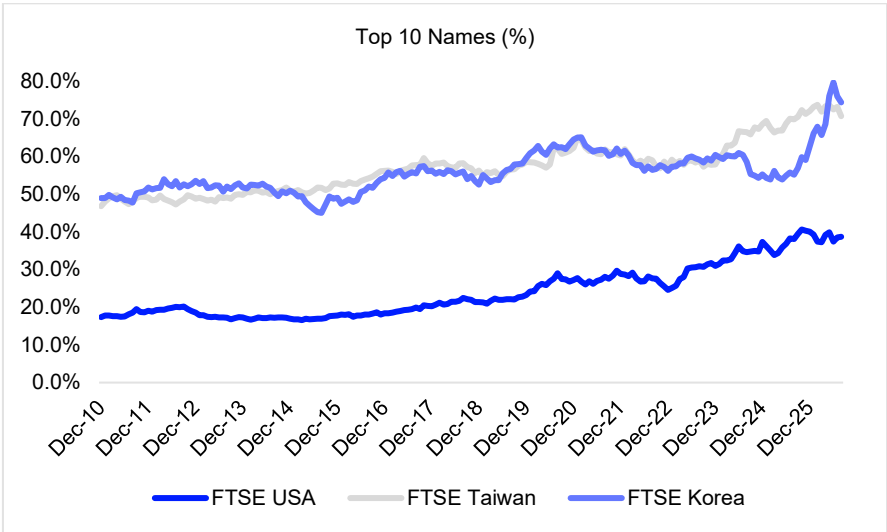
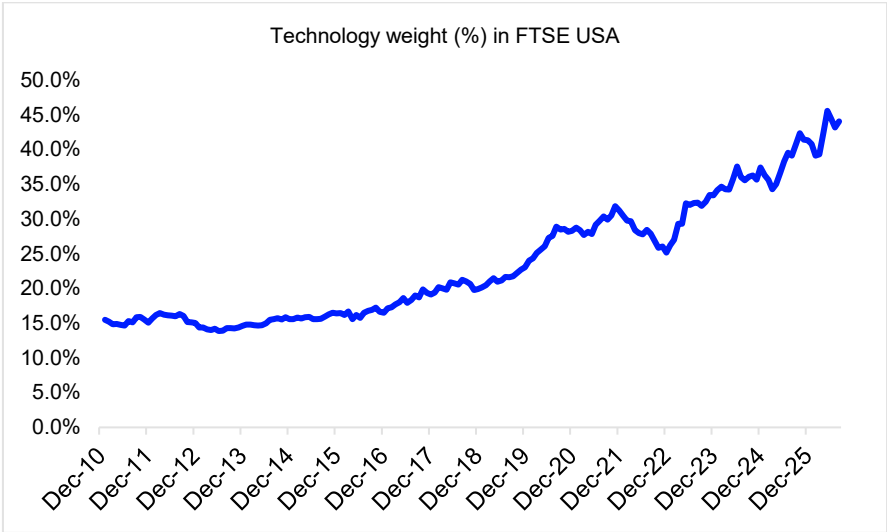
How big is the concentration risk in equity markets?

Concentration in equity markets is close to historic highs, driven by technology and particularly the AI trade. As of August 2026, the US makes up 61.7% of FTSE All-World market capitalisation, from c. 12% of its constituents.

At the country level, the 10 largest FTSE USA names account for 38.7% of index market capitalisation – below the c. 40% in late 2025 but still high relative to history. The Technology industry alone represents 44.1% of the index, but including tech-adjacent names like Amazon and Tesla brings the “tech-like” exposure to c. 50%. For context the Technology industry now has a greater weight than nine of 10 other industries combined (Basic Materials, Real Estate, Utilities, Telecoms, Consumer Staples, Energy, Healthcare, Financials and Industrials sum to 43.6%).

Concentration runs deeper still in Taiwan and Korea, which have been hardware beneficiaries of the AI buildout. TSMC is more than half of FTSE Taiwan index (52.0%), and it is the largest stock in the FTSE Emerging index (17.0%). In Korea, Samsung Electronics and SK Hynix make up 62.1% of the index.

Key Asset Allocation Questions: Investor Q&A



These dynamics highlight the risk, particularly in some country indices like the US, that the index may not provide the diversification benefits investors expect. The Technology (and AI-adjacent) weights may lead to unintended, concentrated bets on AI and sensitivity to a single factor.

Investors should be cognizant of the risks in their portfolios and potentially consider alternatives where appropriate. Examples could be broader regional diversification, like the Developed or the All-World; or options like style, equally weighted, or RIC-capped indices which force diversification in their design.

US midterms: what issues are at stake for investors?

Historically the incumbent party typically loses seats in the midterm elections.

History rarely favours the incumbent party during midterm elections. Since 1946, the presidential party has lost 25 House seats on average; the two exceptions were 1998 and 2002, when approval ratings were vastly positive.

Republicans enter November defending narrow majorities in both chambers. In the House they currently hold 218 seats to the Democrats' 214 (out of 435); they hold a six-seat advantage in the Senate (53 to 47).

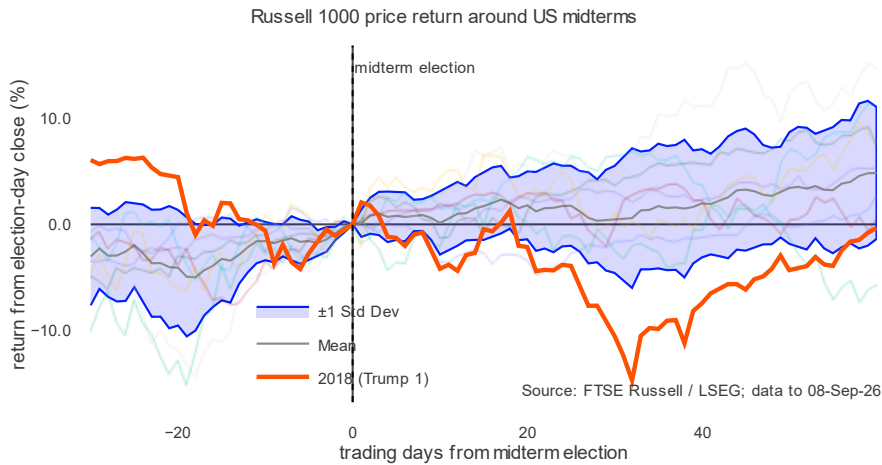
Key Asset Allocation Questions: Investor Q&A

Polling and prediction markets favour Democrats to take the House, with the Senate closer but still leaning Republican, which points to a divided government as the consensus outcome.

We have written about how \$4.50 per gallon for gas may be a point of demand destruction, a level it breached in May and June before settling at \$4.20. The president's approval rating is currently around 33%. A Reuters/Ipsos poll identified 47% of registered voters as saying the cost of living is the single most important driver in their vote – and that 71% (including 40% of Republicans) disapprove of the administration's handling of it.

Knowing this increases the likelihood the administration may enact some measures to ease the inflation burden on consumers.

A potential divided government would potentially limit major legislative change and provide policy stability but also raise risks to fiscal policy through budget standoffs, shutdowns and debt-ceiling disputes.



Looking at the Russell 1000 back to 1990, midterms are typically not that eventful for equities.

Historically, for markets the midterms haven't been that eventful. Going back to the 1990 midterm elections, the average return after 60 trading days is c. 4.8% with a standard deviation of 6%. During President Trump's first term in office, the Russell 1000 fell over the first 30 days but rebounded after that to end within one standard deviation of the post-1990 average.

Macroeconomics: Surprisingly robust macro data – but leverage a source of risk

Chart 1: Macro data has consistently beaten analyst expectations over the last 3M with European and Japanese data showing the largest positive surprises. Source: Citibank

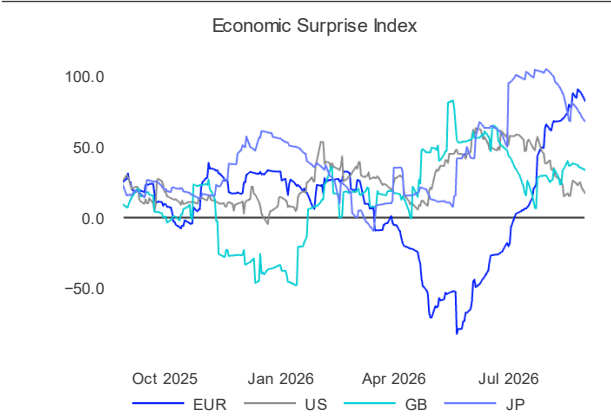


Chart 2: 1Y implied inflation fell materially in June in anticipation of de-escalation of Middle East tensions; US 1Y expectations fell below 2% but picked up again in August.

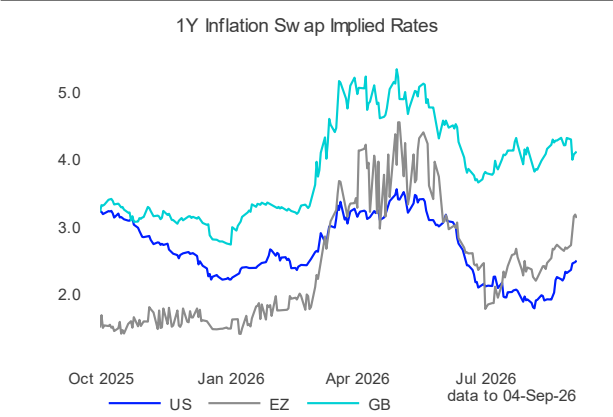


Chart 3: Headline Real GDP estimates for the World for YE26 are 2.9% based on the Reuters Poll, which is in-line with the December poll.

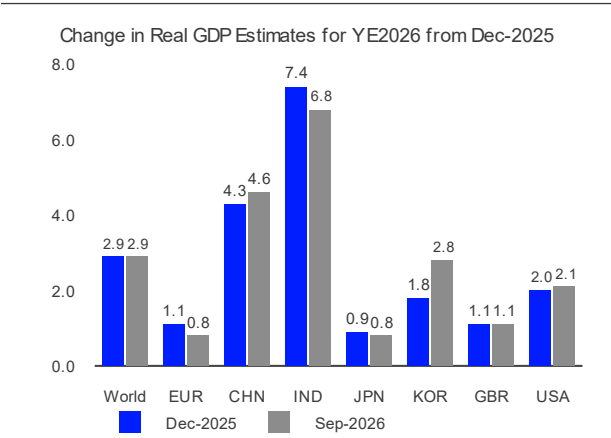


Chart 4: Broadly composite PMIs have trended stronger over the last 3M with most markets either >50 or <50 and increasing; Brazil and France are notably printing below 50.

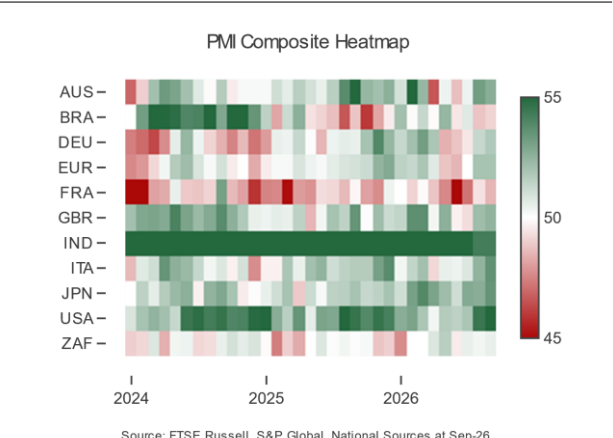


Chart 5: Volumes of maritime trade continue to fall YoY. Recently there has also been a change in trend of the value of maritime goods YoY. Source: IMF PortWatch

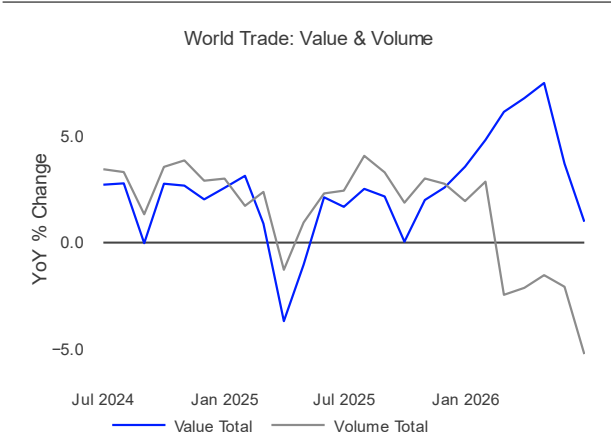
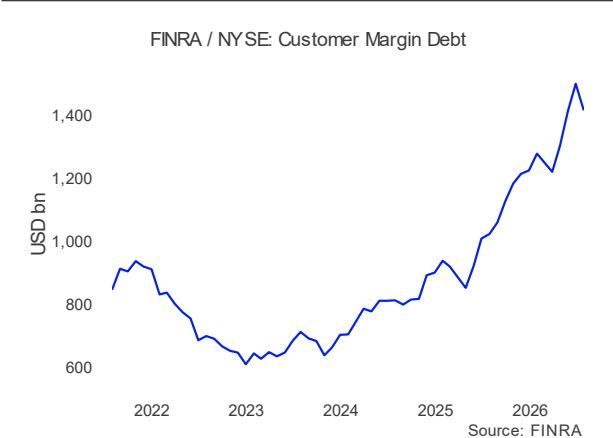


Chart 6: US margin debt statistics showed a fall in leverage in July, but from highly elevated levels. High leverage raises the risk of technical factors triggering sharper drawdowns.



Source: FTSE Russell/LSEG. All data as of August 31, 2026 unless otherwise stated. Past performance is no guarantee of future results. This report should not be considered "research" for the purposes of MIFID II. Please see the end for important legal disclosures. Results in this report are for research / illustrative purposes and do not represent the official performance of the indices.

Macro: Mixed picture for labour, and an upward bias to inflation and policy rates

Chart 1: US NFPs have been volatile; July originally printed -23k but was revised up to +38k. August was a very strong +162k, supporting a more hawkish stance from the Fed.

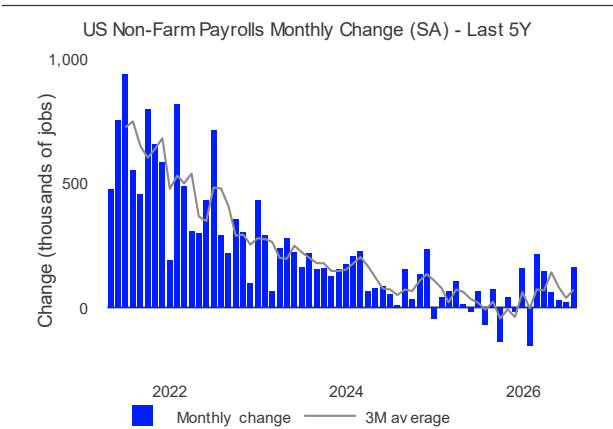


Chart 2: Real wages turning negative contradicts the NFPs and indicates a softer labour market; this is true of Average Hourly Earnings and the Employment Cost Index.

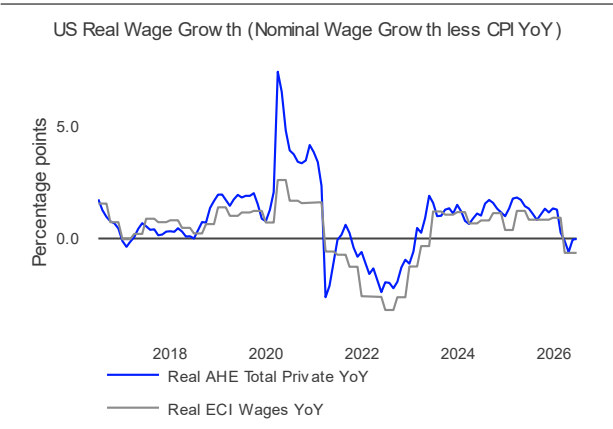


Chart 3: Sticky components of CPI, c. 70% of the basket, are at 2.8% and have been falling slowly. Flexible inflation, primarily goods, has rolled over but is still 4.7% YoY.

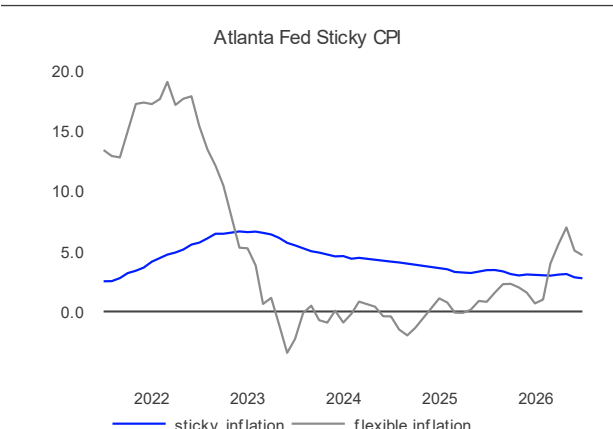


Chart 4: Implied path of the fed funds rate has turned more hawkish over 3M with Chair Warsh removing forward guidance and emphasising the price stability target.

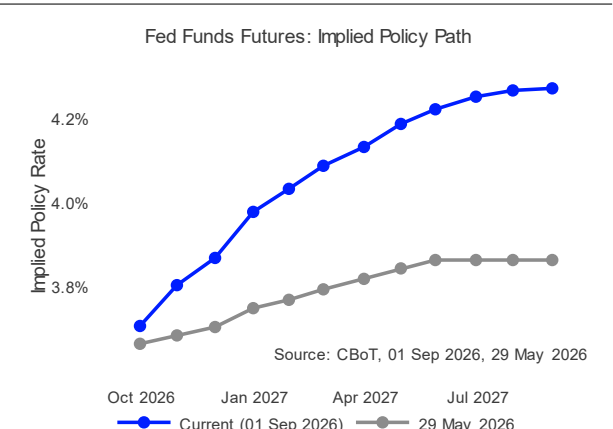


Chart 5: Oil prices have come off 2026 peaks, but limited supply has led to a shortage of refined products, like gasoline and heating oil, which may keep prices elevated.

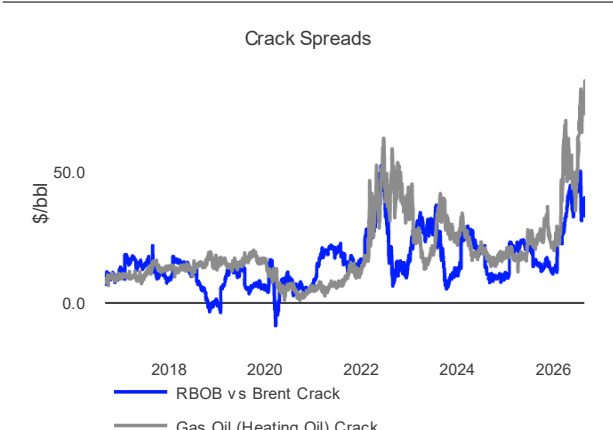
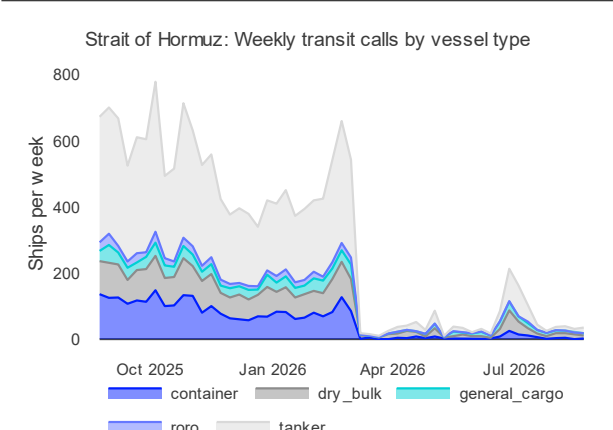


Chart 6: The rate of vessels transiting the Strait of Hormuz has declined substantially from the optimism around the MoU – this is likely to keep supply tight in the near term.



Sovereign rates: G7 nominal and real yields reach post-GFC highs

Chart 1: Structurally higher sovereign yields became more evident: UK yields reached 5%, while German yields climbed to 15-year highs and JGB yields at their highest since 1996.

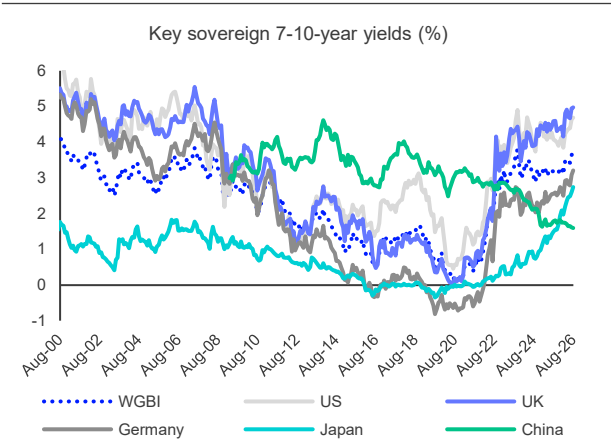


Chart 2: Unlike in March-May, recent G7 yield increases were driven primarily by real yields, while infl. expectations eased in the US and Japan as oil price stabilised.

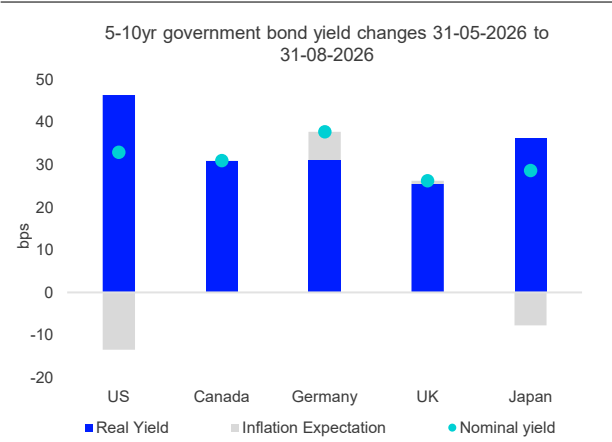


Chart 3: The US curve flattened after hawkish Jackson Hole signals. Japan's 20s/2s curve bear-flattened over 3M on hopes of a BoJ rate hike. Canadian curve bear-steepened.

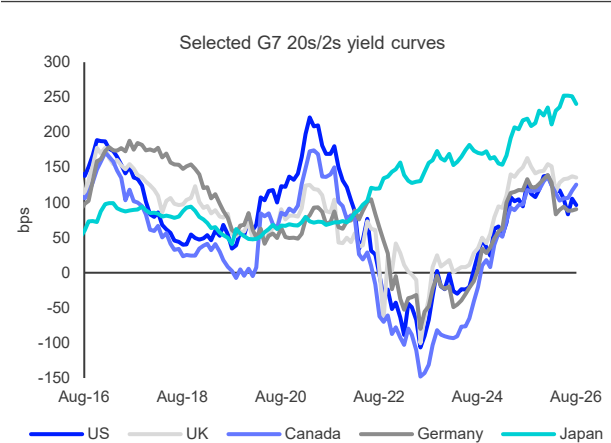


Chart 4: Real yields in the UK, Germany and Japan have risen to decade-high levels, marking a significant break from the low-yield era. US 7-10yr real yields also backed up.

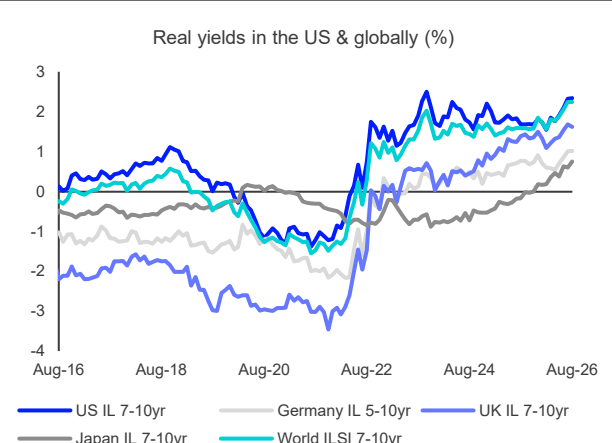


Chart 5: US policy-rate expectations continued to rise, albeit at a slower pace, reinforcing a higher-for-longer outlook. The latest futures curve implies rates rising to ~4% by end-2026.

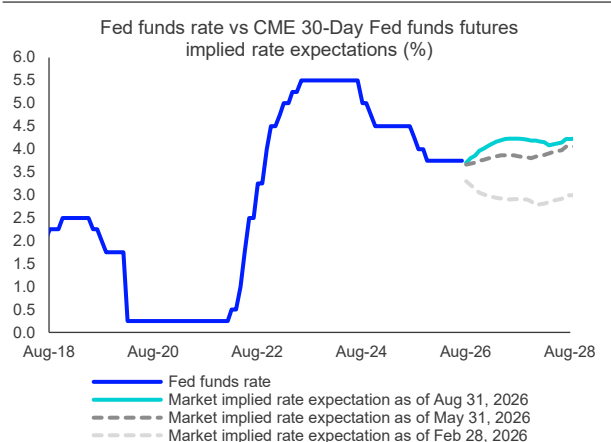
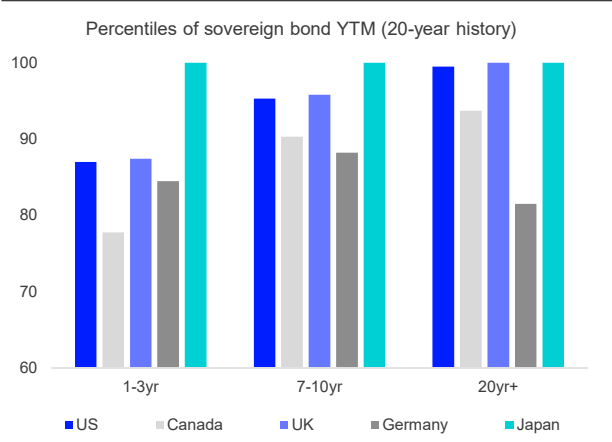


Chart 6: Longer-dated sovereign yields climbed to 20-year highs in Japan, the UK and US. Longer German and shorter Canadian yields rank notably lower than peers.



Credit: HY outpaced IG, while EM led US and Euro; risks from rising IG issuance

Chart 1: HY gained up to 1.3% over 3M, outperforming IG corporates across major regions, consistent with the 12M trend. EM corporates outpaced US and Euro peers.

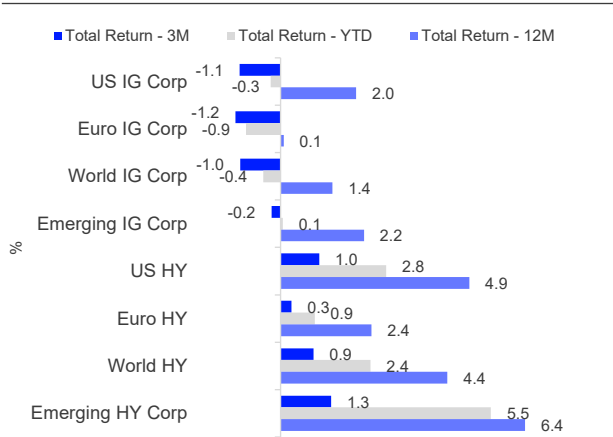


Chart 2: US IG returns broadly tracked duration-matched 7-10yr USTs over 3M (IG -1.1% vs. 7-10yr -1%), while US HY continued to outperform both IG and sovereign bonds.

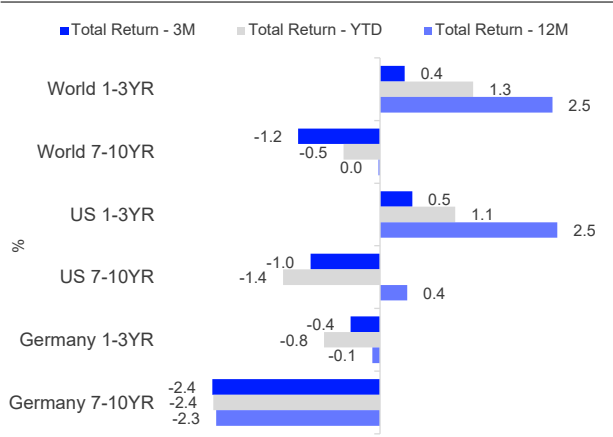


Chart 3: US corporate issuance has rebounded firmly since 2023, extending into 2026. IG issuance rose 27% YoY by August, outpacing HY as capex-driven borrowing picked up.

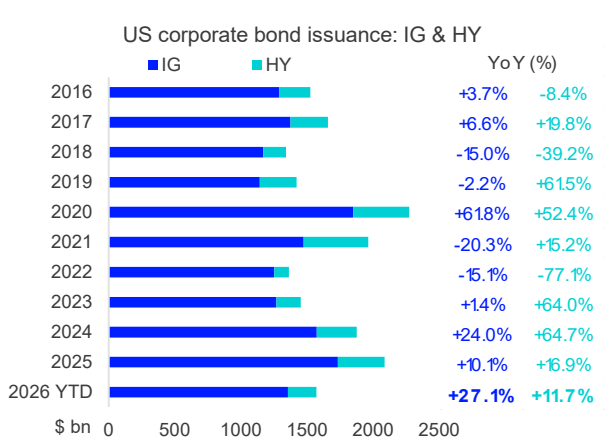


Chart 4: Corporate bond market distress intensified in 2026, led by IG, echoing the 2022-23 period of elevated rate uncertainty, while HY conditions remained relatively resilient.

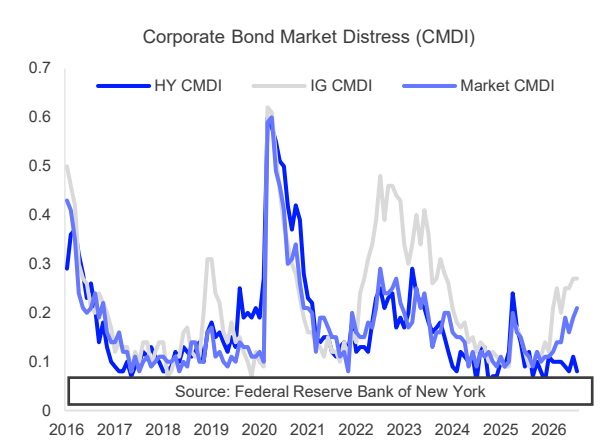


Chart 5: The USD IG market shifted sharply toward Industrial after the GFC, largely at the expense of Finance. Industrial's share has stabilized at around 53% since 2024.

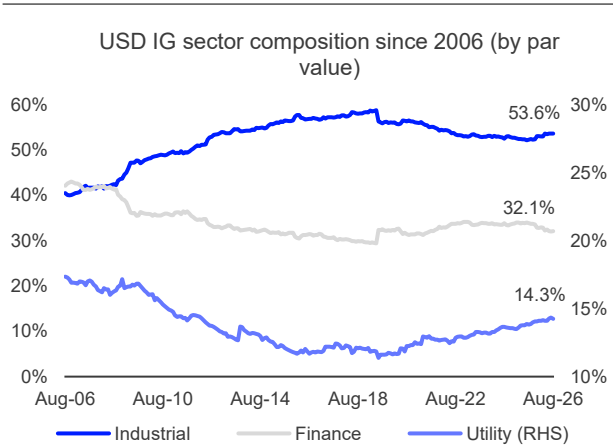
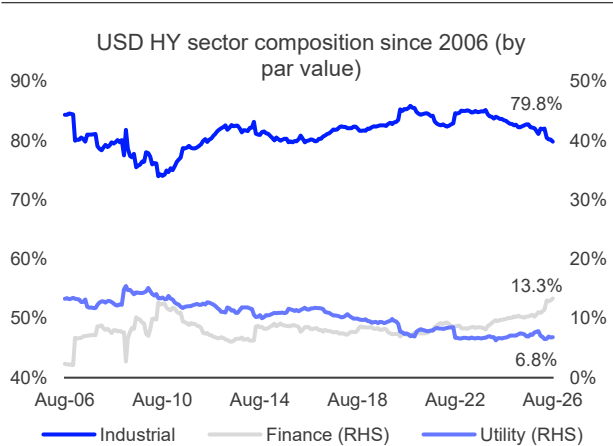


Chart 6: HY remains far more concentrated than IG, with Industrial around 80% of outstanding debt. Finance has gained share since 2019, now at a two-decade high of 13%.



Credit: Extremely tight spreads leave corporate bonds exposed to asymmetric risk

Chart 1: US IG credit spreads widened marginally over 3M to 81 bps, while Euro and EM IG spreads tightened further. World IG spreads are at the 5th percentile of their 10Y range.

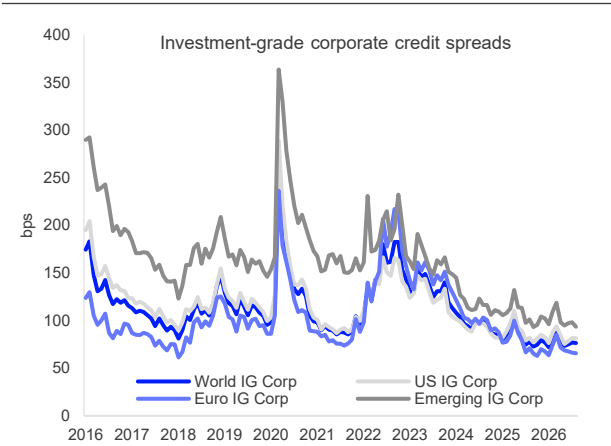


Chart 2: US HY spreads tightened to a 10Y low of 260 bps, while EM HY also reached 10Y lows (307bps). Euro HY spreads fell to 286bps, at the 5th percentile of their 10Y range.

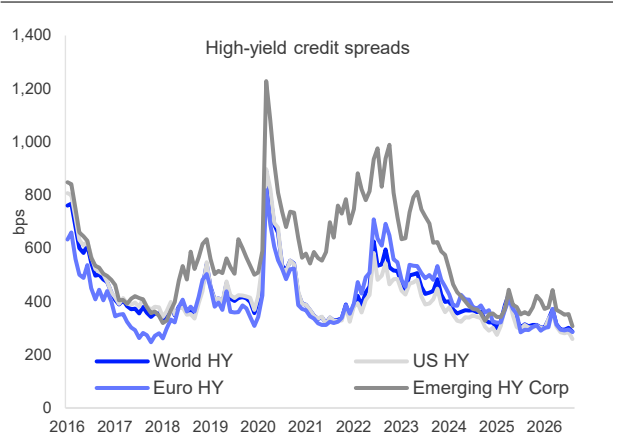


Chart 3: A positive correlation between US HY spreads and future returns holds historically. Higher valuations (higher prices and tighter spreads) may lead to lower future returns.

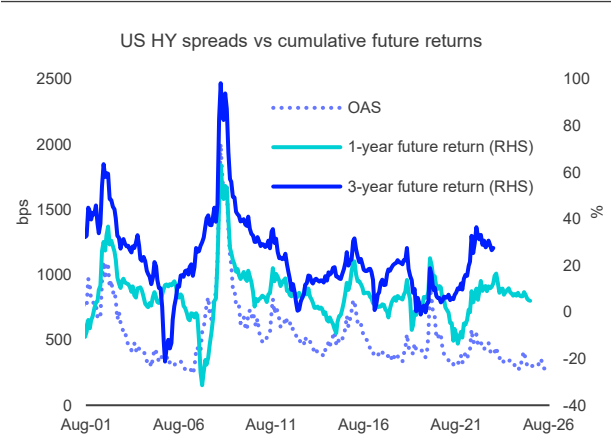


Chart 4: Index data since 2001 suggest starting spreads may correlate to future returns, particularly when the forward-returns horizon broadly matches bond durations.

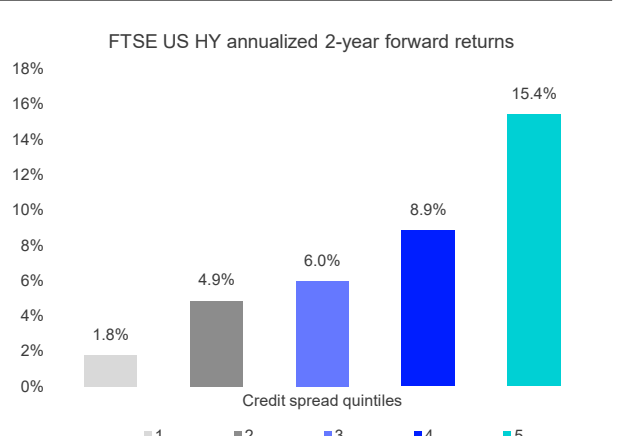


Chart 5: Despite tight spreads, yields are near 10-year highs, particularly in IG amid hyperscaler issuance. EM HY yields (40th percentile) rank lower than peers (~70th).

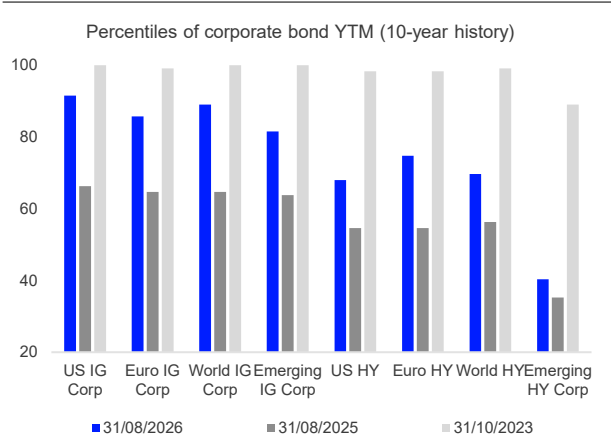
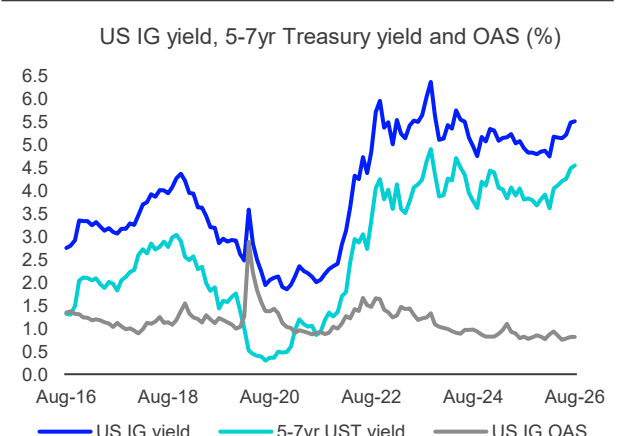


Chart 6: Combining risk-free rates and credit spreads shows elevated US IG yields have been largely underpinned by higher Treasury yields, while credit spreads remain tight.



Equities: Strong risk-adjusted performance and broadening contribution to returns

Chart 1: Over 12M major equity indices (total return USD) have all generated strong risk-adjusted returns, with Sharpe Ratios between 1-2x, marked by the blue funnel.

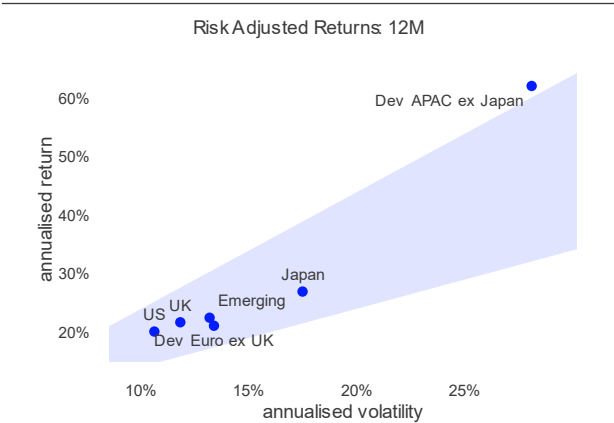


Chart 2: Over 12M Energy and Basic Materials generated Sharpe Ratios >2x. Consumer Disc has been the worst performing industry – in absolute or risk-adjusted terms.

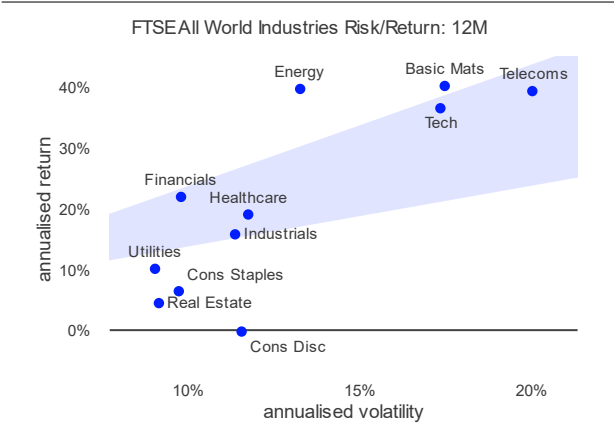


Chart 3: Consistent with the broadening equity market, regional returns over 3M were clustered in a narrow range of 1.9-5.5%. The exception was Dev APAC ex Japan (-3.9%).

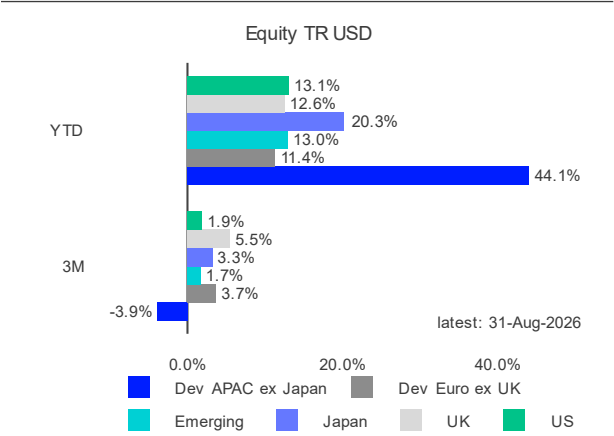


Chart 4: Decomposing total returns, the primary return driver has been improving earnings expectations, with de-rating of forward P/E ratios a drag in Korea, the US and China.

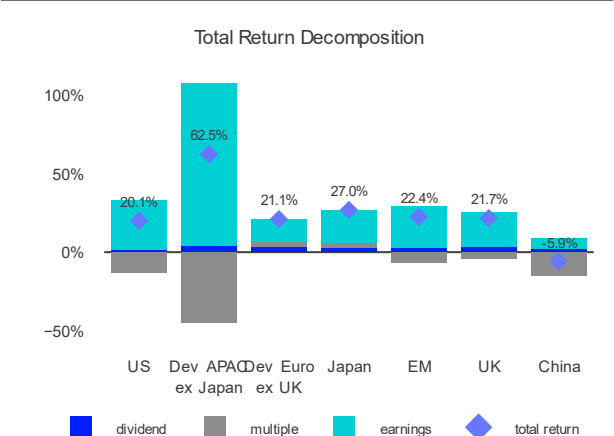


Chart 5: Over 12M the FTSE Japan 100% Hedged index has outperformed the FTSE Japan index by >15ppts in USD, highlighting investor need for an explicit view on the yen.

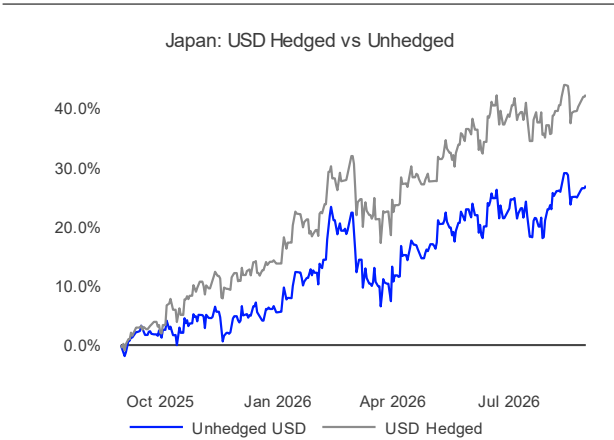
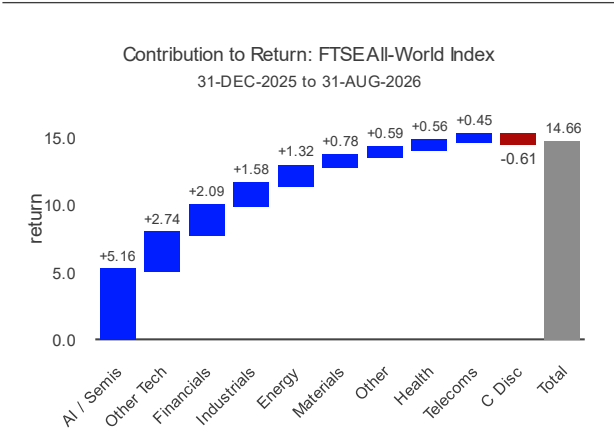


Chart 6: The FTSE All-World contribution-to-return has broadened out relative to 3M ago, where AI/Semiconductors and broader Tech dominated returns.



Equities: Strong, and broad, earnings growth and low volatility support risk taking

Chart 1: Equity earnings estimates have seen strong upward revisions. The 12M forward EPS estimate for the FTSE Developed has been upgraded by 6.4% over the last 3M.

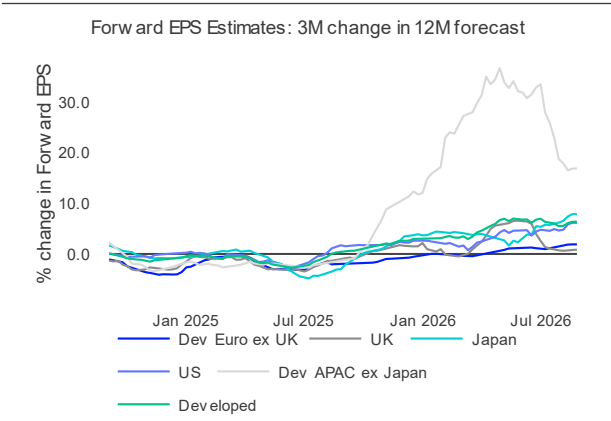


Chart 2: Earnings revisions by company show the net count of upgrades as a percentage of the index. This highlights the strong breadth of earnings revisions across markets.

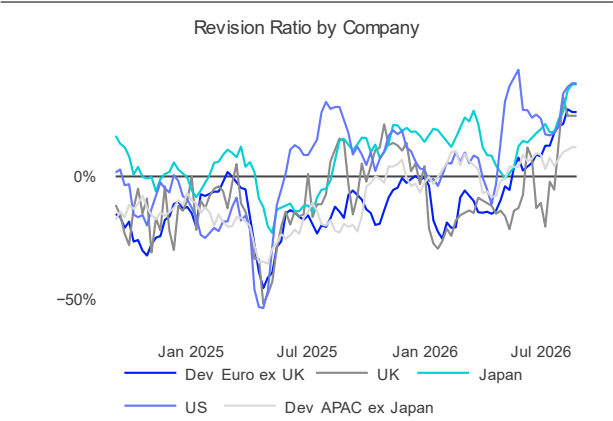


Chart 3: Implied volatility, measured by the Russell Volatility Index (RVX), is very low; bottom decile of the post-Covid period – implying equity investors are relatively sanguine.

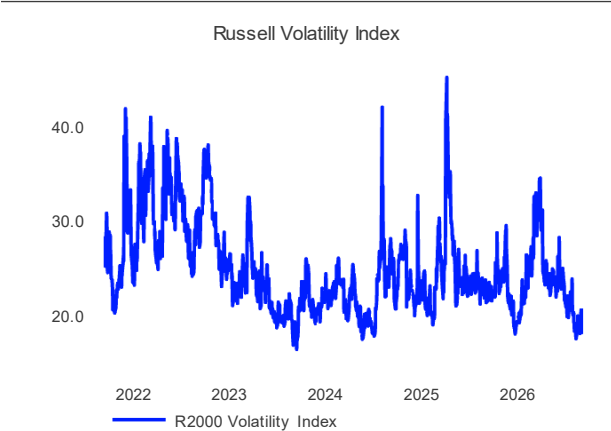


Chart 4: Option skew implies US investors are relatively sanguine about risks for the Russell 1000 with it being cheaper to protect against downside than the 10Y trend.

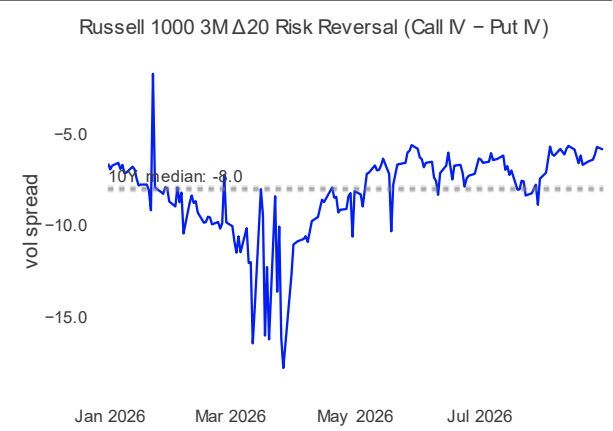


Chart 5: Forward P/E multiples have broadly de-rated YTD; the FTSE All-World derating from around the 91st percentile over 10Y, at year end, to around the 54th.

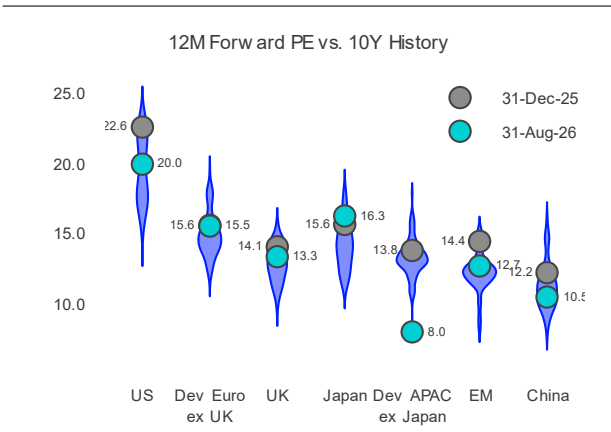
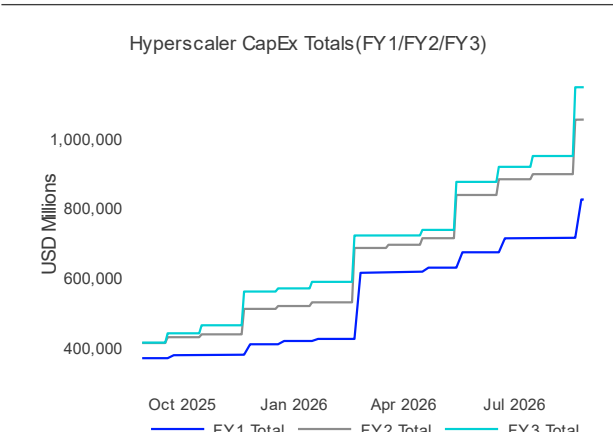


Chart 6: Despite concerns over AI capex, which caused a sell-off in chipmakers, analysts have continued to revise up forecasts for capex spending across 2026-2028.



Commodities: Copper at record prices driven by AI demand and limited supply

Chart 1: Copper gained 7% over 3M, trading near record highs. Gold fell 3.4%, despite rebounding to ~\$4437 in August on sustained central-bank demand. Oil edged lower.

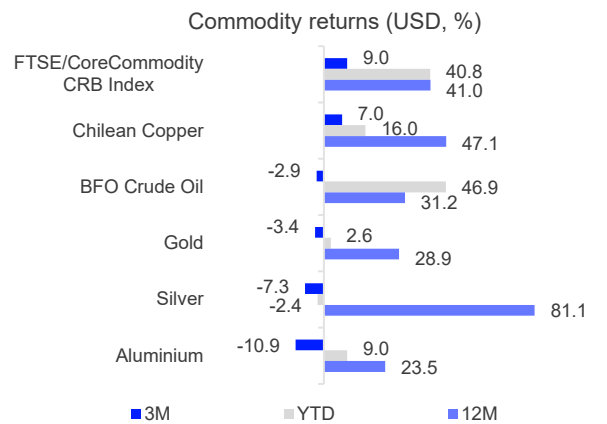


Chart 2: Since the breakdown of the MoU the Brent crude curve has steepened at the short-end, while long-end risk premia have also risen - reflecting increased supply risks.

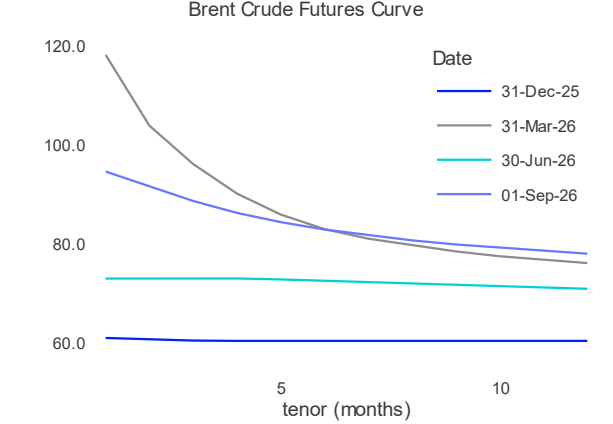


Chart 3: Copper demand is projected to rise through 2040, driven by electricity networks, EVs, and solar PV. Data center build-up and electrification have supported demand.

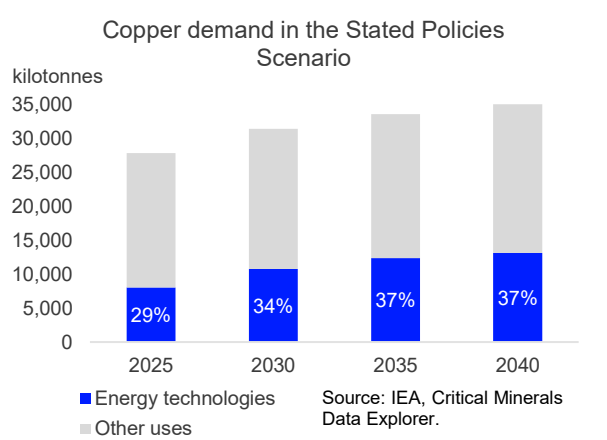


Chart 4: Record copper prices reflect near-term supply disruptions and structural demand-supply pressures. IEA projected a sizeable 25% shortfall by 2035.

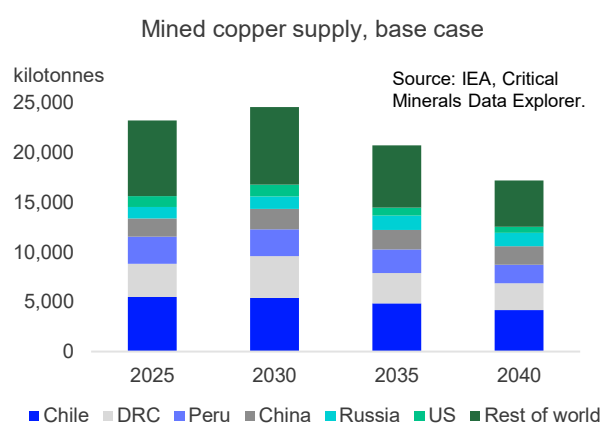


Chart 5: Central banks' gold allocation has risen to 25% by value, versus just over 20% in UST. Strong Q2 gold buying reinforced the shift toward gold in reserve allocations.

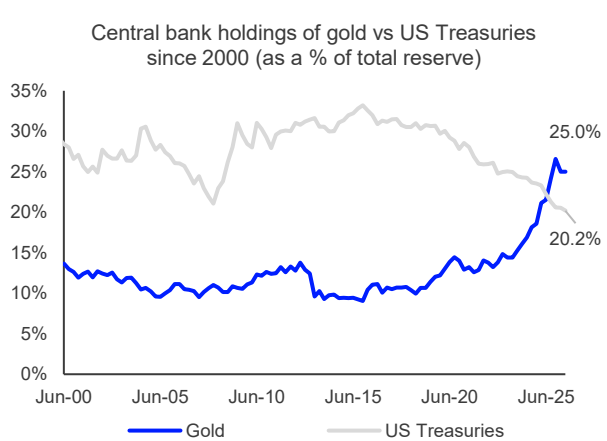


Chart 6: Gold may have become less tightly anchored to real yields due to reserve demand and geopolitical uncertainty. Higher yields still weighed on investment demand in Q2.



FX: Rate differentials remain key but fundamentals drive divergent currency moves

Chart 1: FX performance is highly dispersed YTD. NOK and AUD lead DM gains, while BRL, MXN and CNY outperform across EM. Energy-importing Asia lagged on energy shock.

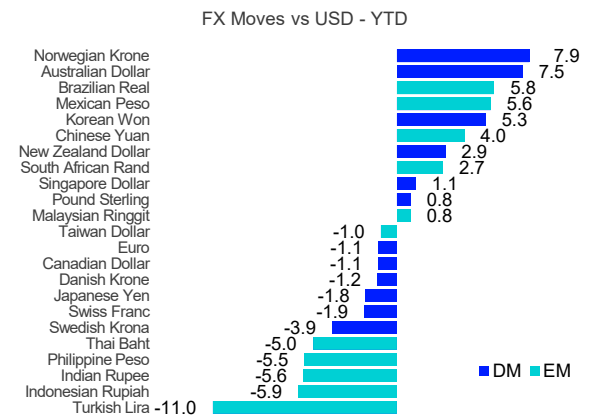


Chart 2: FX moves moderated over 3M versus earlier 2026, with most major currencies trading within a narrow range against the USD. Korean won posted notable gains of 10%.

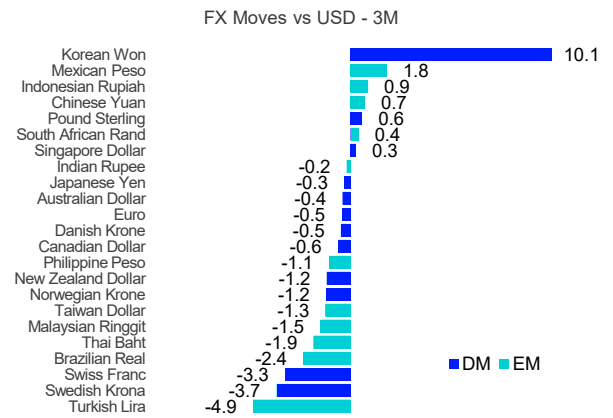


Chart 3: On a REER basis the yen is extremely undervalued. It rallied sharply in early Sep, pushing USD/JPY below 153 on hawkish BoJ signals and rising rate-hike expectations.

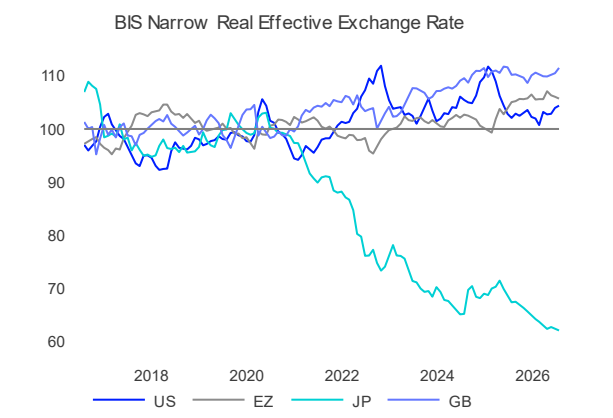


Chart 4: September's market reaction to BoJ's message reinforces interest-rate differentials as a key USD/JPY driver, with fiscal concerns another important factor.

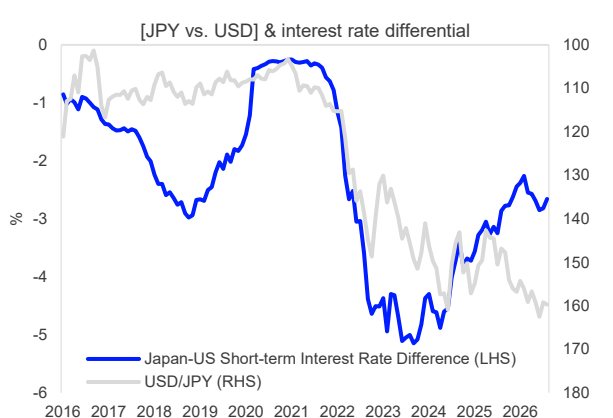


Chart 5: The Mexican peso reached a two-year high despite a narrower rate differential, supported by still-attractive carry, lower FX vol and resilient domestic fundamentals.

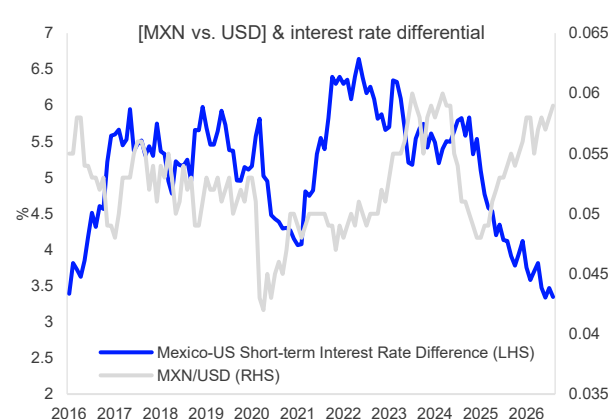
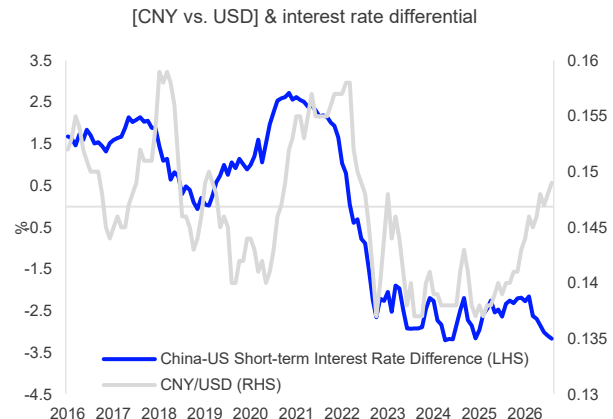


Chart 6: CNY appreciated steadily over 12M, driven by a large trade surplus and policy measures to maintain RMB stability, albeit a deeply negative China-US rate differential.



Appendix 1: List of indices used in report

Name	Mnemonic/Code	Name	Mnemonic/Code
Russell 1000 Index	R1000	World Government Bond Index 1-3yr	WGBI_1-3
Russell 2000 Index	R2000	World Government Bond Index 7-10yr	WGBI_7-10
FTSE Global All Cap Index	GEISLMS	China 7-10yr	CN_TSY_7-10
FTSE All-World Growth Index	AWORLDG	US Treasury 1-3yr	US_TSY1-3
FTSE All-World Value Index	AWORLDV	US Treasury 5-7yr	US_TSY5-7
Russell 1000 Growth Index	R1000G	US Treasury 5-10yr	US_TSY5-10
Russell 1000 Value Index	R1000V	US Treasury 7-10yr	US_TSY7-10
FTSE USA Index	WIUSA	US Treasury 20+yr	US_TSY20+
FTSE UK Index	WIGBR	UK 1-3yr	GB_TSY1-3
FTSE Developed Europe Index	AWDEURS	UK 5-10yr	GB_TSY5-10
FTSE Developed Europe ex UK Index	AWDEXUKS	UK 7-10yr	GB_TSY7-10
FTSE Japan Index	WIJPN	UK 20+yr	GB_TSY20+
FTSE Developed Asia Pacific ex Japan Index	AWDPACXJ	Canada 1-3yr	CA_TSY1-3
FTSE China Index	WICHN	Canada 5-10yr	CA_TSY5-10
FTSE Emerging Index	AWALLE	Canada 7-10yr	CA_TSY7-10
FTSE All-World Index	AWORLDS	Canada 20+yr	CA_TSY20+
FTSE Global Core Infrastructure Index	FGCII	Germany 1-3yr	DE_TSY1-3
FTSE EPRA Nareit Global Index	ENHG	Germany 5-10yr	DE_TSY5-10
FTSE Europe ex UK Index	AWEXUKS	Germany 7-10yr	DE_TSY7-10
FTSE Asia Pacific ex Japan Index	AWPACXJA	Germany 20+yr	DE_TSY20+
FTSE USA All Cap Index	LMSUSA	Japan 1-3yr	JP_TSY1-3
FTSE Developed Index	AWD	Japan 5-10yr	JP_TSY5-10
FTSE All-World ex US Index	AWXUSAS	Japan 7-10yr	JP_TSY7-10
FTSE Global Large Cap Index	GEISLC	Japan 20+yr	JP_TSY20+
FTSE Global Small Cap Index	GEISSC	World Inflation-Linked Securities Index 7-10yr	ILSI_7-10
FTSE Developed Large Cap Index	LCD	US Inflation-Linked Securities Index 1-3yr	ILSI_US_1-3
FTSE Developed Small Cap Index	SCD	US Inflation-Linked Securities Index 5-10yr	ILSI_US_5-10
FTSE Developed Growth Index	DGWLD	US Inflation-Linked Securities Index 7-10yr	ILSI_US_7-10
FTSE Developed Value Index	DVWLD	US Inflation-Linked Securities Index 20yr+	ILSI_US_20+
FTSE/CoreCommodity CRB® Index	RJEFCRT	Canadian Inflation-Linked Securities Index 5-10yr	ILSI_CA_5-10
Russell 2000 Implied Volatility Index	RVX	German Inflation-Linked Securities Index 5-10yr	ILSI_DE_5-10
FTSE All World Basic Materials	F1AWBM\$	UK Inflation-Linked Securities Index 5-10yr	ILSI_GB_5-10
FTSE All World Consumer Discretionary	F1AWCS\$	UK Inflation-Linked Securities Index 7-10yr	ILSI_GB_7-10
FTSE All World Consumer Staples	F1AWCG\$	Japanese Inflation-Linked Securities Index 5-10yr	ILSI_JP_5-10
FTSE All World Energy	F1AWO1\$	Japanese Inflation-Linked Securities Index 7-10yr	ILSI_JP_7-10
FTSE All World Financials	F1AWFN\$	FTSE World Broad Investment-Grade Bond Index (WorldBIG®)	WBIG
FTSE All World Healthcare	F1AWH1\$	World Broad Investment-Grade Bond Index Corporate	WBIG_CORP
FTSE All World Industrials	F1AWID\$	US Broad Investment-Grade Corporate Bond Index	BIG_CORP
FTSE All World Technology	F1AWG1\$	USBIG - Corp Industrial	BIG_INDU
FTSE All World Telecommunications	F1AWT1\$	USBIG - Corp Finance	BIG_FINCL
FTSE All World Utilities	F1AWU1\$	USBIG - Corp Utility	BIG_UTIL
FTSE All World Precious Metals & Mining	F3AWMM\$	Euro Broad Investment-Grade Bond Index Corporate	EBIG_CORP
FTSE All World Industrial Materials	F3AWPF\$	Emerging Markets US Dollar Broad Bond Index	EMBBI_CORP_IG
FTSE All World Chemicals	F3AWC3\$	Corporate – Investment-Grade	
FTSE All World Industrial Metals	F3AWIU\$	US High-Yield Market Index	HY_MKT_US
		US High-Yield Market Index Industrial	HYM_INDU
		US High-Yield Market Index Finance	HYM_FIN
		US High-Yield Market Index Utility	HYM_UTIL
		Pan-European High-Yield Bond Index - EUR	EUROPE_HYM_EUR
		Emerging Markets US Dollar Broad Bond Index	
		Corporate – High-Yield	EMBBI_CORP_HY
		FTSE World High-Yield Bond Index	WHYM

Source: FTSE Russell/LSEG. All data as of August 31, 2026 unless otherwise stated. Past performance is no guarantee of future results. This report should not be considered "research" for the purposes of MIFID II. Please see the end for important legal disclosures. Results in this report are for research / illustrative purposes and do not represent the official performance of the indices.

Appendix 2: Methodology Reference Guide

Report calculations

- Unless noted otherwise, all performance calculations are in US dollar.
- Sovereign and corporate yield percentiles are calculated by comparing current index-level yields to a fixed, historic 10-year window of month-end index-level yields.
- Option-adjusted spread percentiles are calculated by comparing current index-level spreads to a fixed, historic 10-year window of month-end index-level OAS.
- Equity Total Return decomposition uses Forward Price / Earnings for multiple and is calculated arithmetically with the interaction effect attributed to earnings.
- For equity contribution-to-return we separate AI / Semis: AMD, Nvidia, Micron, TSMC, Apple, Samsung Electronics, SK Hynix, Amazon, Alphabet, Broadcom Inc, Microsoft and Meta from their respective ICB Industries.
- All data is as of August 31, 2026, unless otherwise stated.

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