MITCHELL
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MARKET COMMENTARY

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EQUITIES REMAIN RESILIENT AS THE GLOBAL BOND SELL-OFF INTENSIFIES

STRONG CORPORATE EARNINGS AND CONTINUED ENTHUSIASM FOR TECHNOLOGY HELPED TO SUSTAIN RISK APPETITE



The third quarter ended much as it began, with global equities close to record highs. However, September showed that the rally remains vulnerable to instability in bond markets as longer-term borrowing costs rose sharply.

The yield on the 10-year US Treasury has risen to 5.34%, its highest level since 2002 and above its previous 2007 peak. Over September, it rose by 0.5 percentage points, while the 30-year Treasury yield reached 5.6%, also a level last seen in 2002.

The move was global. Government-bond yields in Germany and France reached their highest levels for 17 and 18 years respectively, while Japan's 10-year government-bond yield has risen by 0.42 percentage points since June to more than 3%.

THE DOLLAR GAINED 2.2% AGAINST THE EURO, ITS BEST MONTH AGAINST THE SINGLE CURRENCY IN 14 MONTHS

The trigger was energy-driven inflation. Brent crude rose 14% in September to $103 as the US-Iran impasse dragged on and central banks responded to the likely inflationary upside risks. The Federal Reserve raised rates to 3.75%-4.00%, its first hike since 2023, and signalled another before year-end.

The Bank of Japan lifted its rate to 1.25%, the highest since 1995. The Bank of England held at 3.75%, but three of its nine members voted to hike. Fiscal deficits and heavy government issuance are adding to the term premium, with AI-related corporate borrowing adding further pressure in the US.

Equities held up better than the bond jitters might suggest but leadership is still highly concentrated. The S&P 500 slipped by 0.4% in September and gained 2% over the quarter. The Nasdaq rose 1.9% in the month, while the Dow lost 4.3% and US financials fell more than 6%.

Earnings are supportive, with third-quarter growth forecast at just short of 30%. Elsewhere, the picture was weaker. The European STOXX 600 recorded its first monthly fall in six months, and Chinese equities remain near annual lows despite stimulus pledges. The dollar gained 2.2% against the euro, its best month against the single currency in 14 months.

Commodity performance diverged. Gold fell 9.0% in September as rising real yields reduced its appeal, though it remains 10% above a year ago. Silver has roughly halved from its January record. In contrast, copper, supported by tight inventories and Chinese buying, is up a third over the year.

Bitcoin rose 42% in the quarter, its second-best third quarter on record, helped by returning ETF inflows. It spent September in a $75,000-$88,000 range and is still below where it began the year.

JAPAN'S MONEY IS COMING HOME, BUT SLOWLY

For decades, interest rates in Japan were close to zero, so Japanese institutions and households looked abroad for better returns. They bought large amounts of US Treasuries and other overseas bonds. That made Japan the world's largest creditor and one of the most dependable buyers in global bond markets.

That support now looks less certain. In September, the Bank of Japan raised its main interest rate to 1.25%, the highest since 1995. The yield on 10-year Japanese government bonds has risen above 3%, a 30-year high and two percentage points more than two years ago. Japanese investors can now earn a reasonable return at home, so there is less reason to send money overseas.

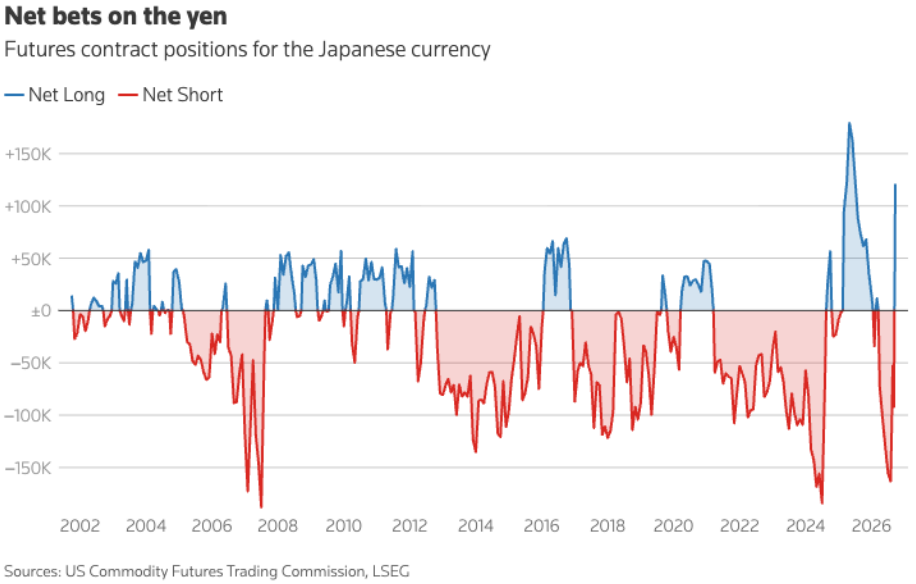
JAPANESE INVESTORS CAN NOW EARN A REASONABLE RETURN AT HOME, SO THERE IS LESS REASON TO SEND MONEY OVERSEAS.

This shift of money back home is still in its early stages. HSBC estimates that Japanese banks have sold about $70 billion of foreign bonds this year after buying $35 billion last year. Life insurers are expected to follow. However, they tend to move slowly and usually prefer to wait until yields stop rising before committing. These are long-term, structural investors, similar to pension funds, so when they do move, the effect could last a long time.

You might expect the yen to strengthen as money returns to Japan, but so far it hasn't. In July, it fell to a near four-decade low, just short of 164 to the US dollar. That prompted record intervention by the Japanese and Washington authorities. The yen recovered in early September but then lost most of that gain. Speculators have moved from heavily betting against the yen to betting on it slightly.

Still, intervention eases the symptoms rather than fixing the underlying problem and US interest rates remain 2.5 to 2.75 percentage points higher than Japan's. With the Federal Reserve still expected to raise rates, and Japan's government debt above 250% of GDP, the Bank of Japan has limited room to keep raising rates.

JAPAN HOLDS ROUGHLY $1 TRILLION OF US TREASURIES BUT ADJUSTMENT IS LIKELY TO BE GRADUAL



For global markets, this is a meaningful change. Japan holds roughly $1 trillion of US Treasuries but adjustment is likely to be gradual, as investors choose not to reinvest when bonds mature rather than selling in a rush. Even so, it takes a major buyer out of the market just as the US government is issuing large amounts of debt and US bond yields are at their highest since 2007.

There is another risk too. If the yen were to strengthen sharply, investors who have borrowed cheaply in yen to invest elsewhere (the "carry trade") might rush to unwind those positions. That could unsettle markets, as it did in 2024.

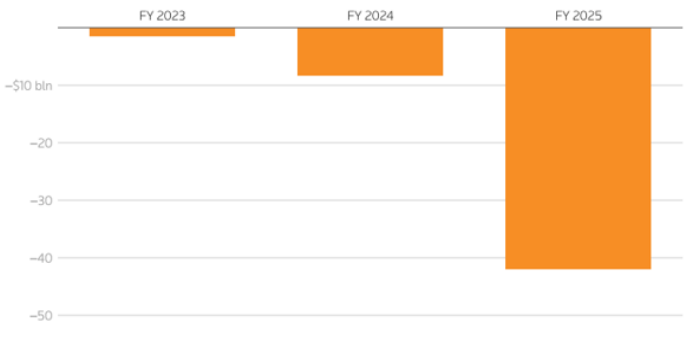
MEGA AI IPOS WILL PUT PRIVATE-MARKET VALUATIONS TO THE TEST

Anthropic and OpenAI, two of the world's most valuable private companies, are moving closer to listing on US stock exchanges. Anthropic's revenue rose twelvefold to nearly $4.6 billion in 2025, while its operating loss widened to $8.1 billion from $3 billion. The company plans to spend $518 billion on computing power and infrastructure, is targeting a valuation above $2 trillion and is likely to list after the US midterm elections in November. OpenAI, last valued at $852 billion, is leaning towards 2027. SoftBank and Oracle shares fell on news of the delay, showing how closely the wider AI industry is tied to these valuations. SpaceX offers a note of caution: its shares jumped 19% on their first day but have since fallen back. Together, the three listings could raise around $200 billion, two to four times the total raised by all US listings in 2025. The effects will reach beyond the companies themselves. Index providers are changing their rules so these giants can join major indices much sooner. With only 3% to 8% of each company's stock likely to be available at first, index-tracking funds could chase a limited supply, making AI-heavy indices even more concentrated. Listing will also reveal more about the industry's finances and how money circulates between companies. Whichever company lists first will set the benchmark for how Wall Street values AI. A strong debut could boost new listings, while a weak one could lead investors to rethink valuations across the sector.

INDEX PROVIDERS ARE CHANGING THEIR RULES SO THESE GIANTS CAN JOIN MAJOR INDICES

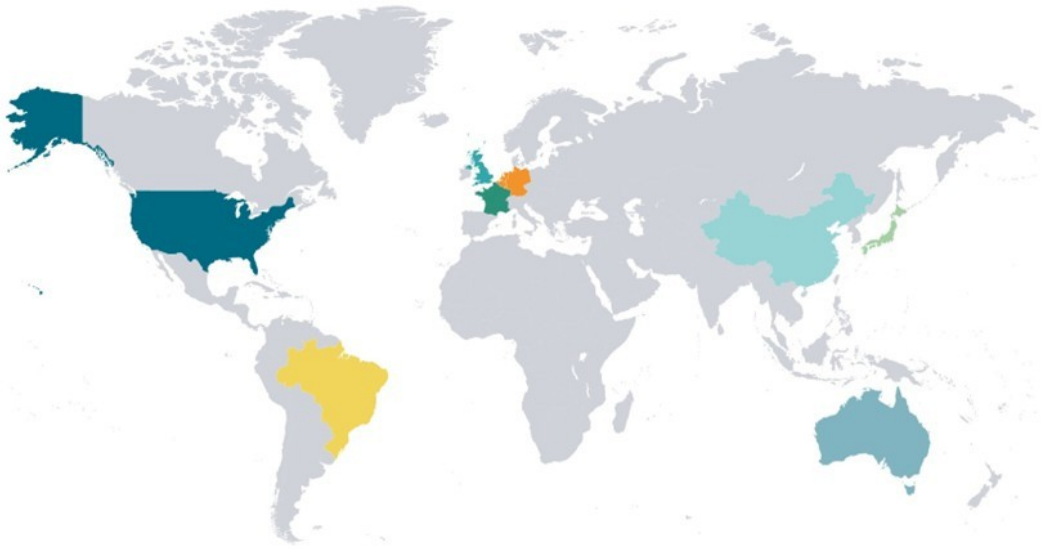
Anthropic's losses balloon in 2025

Anthropic booked massive paper losses as surging valuation raised the value of shares promised to investors



Source: Anthropic IPO Prospectus seen by Reuters | Akash Sriram

GLOBAL MARKET RETURNS - SEPTEMBER 2026



S&P500	FTSE100	CAC40	NIKKEI	IBOVESPA	DAX	ASX200	SSE
-0.38%	-1.96%	-4.16%	+1.14%	+5.03%	-4.03%	-2.42%	-3.62%

OIL +16.08%

GOLD -8.98%

Source: FE Analytics figures quoted are in local market currency on a total return basis.



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