



Inflation Strikes Back

2026 Q3 review by Jake Winterton, Fund Manager

The third quarter of the year was characterised by rising bond yields, higher energy prices and dispersion within equity markets, which ultimately left broad equity indices slightly higher over the summer period.

The continuation of the US-Iran conflict and the resulting inflationary pressures continued to be a central theme over the quarter. Over the period, the US Federal Reserve, the European Central Bank and Bank of Japan all delivered interest rate rises. Bond markets experienced a very challenging quarter with markets rapidly moving to price in even further hikes from here, a stark change to the policy path expected by markets at the start of this year (Chart 1). US bond markets saw their worst quarterly return since 2022. Yields rose across the curve with 10-year yields hitting their highest levels since 2007 in both UK and US.

Commodity prices rose sharply on the quarter and resumed their firm leadership as the top performing asset class year-to-date. While oil prices were a key contributor, rising over 20% on supply concerns, agriculture and metals also rose on a combination of global demand resilience and renewed inflation concerns.

Despite these headwinds, broad equity markets ultimately delivered positive returns. Interestingly though, the composition of returns shifted from H1. Semiconductor stocks, which had enjoyed exceptional gains in recent years, struggled to sustain their earlier momentum amid concerns around valuations and the pace of future earnings growth. In contrast, mega cap tech giants rallied from their lows, supported by robust earnings and renewed exuberance about the use of AI (Chart 2).

Our diversified and active approach to multi asset investing includes an allocation to real assets which hedge inflation. The inclusion of an allocation to commodities has been particularly beneficial year-to-date (Table 1). The Investment Clock is in Stagflation, and the portfolios have continued to hold a preference for commodities and equities over fixed income.

Chart 1: Central bank policy expectations

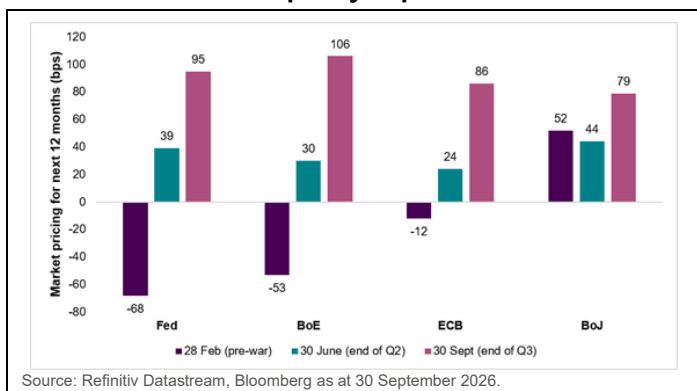


Chart 2: Q3 saw rotation of tech stock leadership

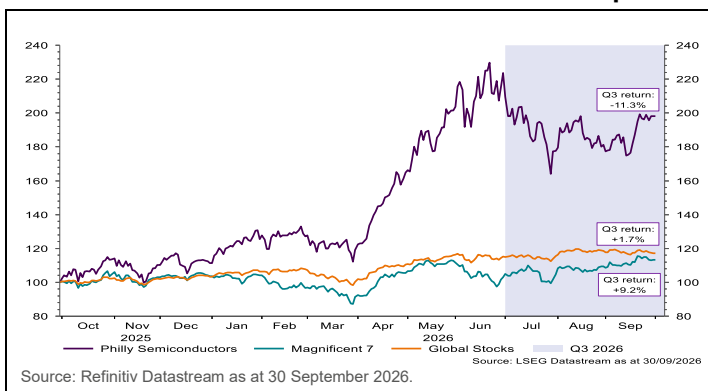


Table 1: Sterling-based annual returns from major asset classes 2019 – 2026 Q3

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	YTD
1	Commodities +33.3%	EM Stocks +25.8%	Property +7.5%	Global Stocks +22.6%	EM Stocks +15.0%	Commodities +28.3%	Commodities +30.7%	Global Stocks +16.0%	Global Stocks +20.2%	EM Stocks +25.1%	Commodities +34.5%
2	EM Stocks +33.1%	Global Stocks +14.0%	Cash +0.6%	UK Stocks +19.2%	Global Stocks +14.3%	Global Stocks +20.0%	Cash +1.0%	Multi Asset +8.2%	Multi Asset +10.6%	UK Stocks +24.0%	EM Stocks +25.3%
3	Global Stocks +30.3%	UK Stocks +13.1%	Gilts +0.6%	EM Stocks +14.3%	Gilts +8.3%	Property +19.9%	UK Stocks +0.3%	Global Credit +8.0%	EM Stocks +10.0%	Global Stocks +14.3%	Global Stocks +14.9%
4	Multi Asset +20.0%	Property +11.2%	Multi Asset -2.4%	Multi Asset +14.0%	Global Credit +7.2%	UK Stocks +18.3%	Global Stocks -7.8%	UK Stocks +7.9%	UK Stocks +9.5%	Multi Asset +12.6%	Multi Asset +9.8%
5	UK Stocks +16.8%	Multi Asset +9.6%	Global Credit -2.7%	Global Credit +10.6%	Multi Asset +6.7%	Multi Asset +12.7%	Multi Asset -8.2%	Cash +4.4%	Commodities +7.3%	Commodities +7.8%	UK Stocks +9.8%
6	Gilts +10.1%	Global Credit +4.6%	Global Stocks -3.1%	Gilts +6.9%	Cash +0.3%	Cash +0.0%	EM Stocks -9.6%	EM Stocks +4.0%	Property +7.0%	Property +7.1%	Property +3.4%
7	Global Credit +5.8%	Gilts +1.8%	Commodities -5.7%	Commodities +3.5%	Property -1.0%	Global Credit -1.0%	Property -10.1%	Gilts +3.7%	Cash +5.3%	Global Credit +7.0%	Cash +2.8%
8	Property +2.6%	Cash +0.3%	EM Stocks -8.9%	Property +2.1%	Commodities -6.1%	EM Stocks -1.3%	Global Credit -15.3%	Property -0.1%	Global Credit +3.3%	Gilts +5.0%	Global Credit -1.9%
9	Cash +0.4%	Commodities -7.1%	UK Stocks -9.5%	Cash +0.7%	UK Stocks -9.8%	Gilts -5.2%	Gilts -23.8%	Commodities -13.1%	Gilts -3.3%	Cash +4.4%	Gilts -2.4%

Past performance is not a reliable indicator of future results. Source: RLAM, Refinitiv Datastream as at 30 September 2026; property as at 31 August 2026. 'Multi Asset' returns are based on the benchmark weights of Royal London GMAP Balanced Fund. Indices used are FTSE All Share, FTSE World, MSCI Emerging Markets Index, MSCI/AREF UK All Balanced Quarterly Property Fund, Bloomberg Commodity Index, BoAML BB-B Global Non-Financial High Yield Constrained Index, iBoxx Sterling Non-Gilt Index, Bloomberg Barclays Global Aggregate Corporate Index, FTSE Actuaries UK Index Linked Gilts, Bloomberg Barclays UK Government Inflation Linked Bond 1-10 year Index, Bloomberg Barclays World Government Inflation Linked Bond (ex UK) 1-10 year, FTSE Actuaries UK Conventional Gilts Index, JPM Global ex-UK Traded Index, FTSE Actuaries UK Conventional Gilts up to 5 Years Index, SONIA. Total returns in sterling terms.

Markets: Bond yields rise alongside commodity prices

- Bond markets continued to struggle over the quarter, as continued inflation pressures and hiking from central banks saw yields rise globally.
- Both UK and US 10-year government bond yields rose to their highest levels since 2007.
- Commodity prices surged higher on the quarter, adding to their year-to-date gains as the war in the Middle East continued, despite numerous short-lived hopes of conflict resolution.
- Oil prices rose over 20% on the quarter, alongside broader energy prices. Other commodity prices were also firmer, with Bloomberg's agriculture spot index posting its biggest quarterly jump since 2022.
- Equities were resilient to pressures from rising bond yields, as global equity indices ended the quarter higher.
- The Japanese yen appreciated sharply as the US and Japan intervened to support the currency and the BoJ moved to hike policy rates.

FX	1 GBP buys	%chg Q3 (vs GBP)	%chg 2026 (vs GBP)
USD	1.33	-0.1	1.4
EUR	1.17	-0.8	-2.0
CHF	1.11	-3.3	-3.6
JPY	208.6	3.3	1.1
AUD	1.91	0.5	5.7
CAD	1.89	-0.2	-2.1

CB rates	Rate (%)	chg in Q3 (%)	chg 2026 (%)
Fed	4.00	0.25	0.25
BoE	3.75	0.00	0.00
ECB	2.50	0.25	0.50
BoJ	1.23	0.25	0.50

Bond Yield	Yield (%)	chg in Q3 (bps)	chg 2026 (bps)
US 10 Year	5.28	82	112
UK 10 Year	5.42	67	95
EU 10 Year	3.59	73	73
JP 10 Year	3.03	37	99

Multi Asset	Local Currency		GBP	
	Q3	2026	Q3	2026
UK Stocks	2.4	9.8	2.4	9.8
Global ex UK Stocks	1.3	14.0	1.6	14.9
Gilts	-2.5	-2.4	-2.5	-2.4
UK Cash	0.9	2.8	0.9	2.8
UK Property	0.8	3.4	0.8	3.4
Commodities	16.2	32.9	16.1	34.5

Equity Regions	Local Currency		GBP	
	Q3	2026	Q3	2026
UK	2.4	9.8	2.4	9.8
North America	2.4	12.7	2.3	14.0
Europe ex UK	-1.8	9.8	-2.6	7.5
Japan	2.0	22.2	5.5	23.4
Pacific ex Japan	-3.9	47.5	-0.1	52.9
Emerging Markets	2.0	12.8	1.6	12.3

Global Equity Sectors	Local Currency		GBP	
	Q3	2026	Q3	2026
Consumer Discretionary	-3.9	-7.9	-3.6	-7.2
Industrials	-6.0	10.1	-5.7	10.5
Financials	2.4	7.8	2.4	8.2
Consumer Staples	-2.4	3.6	-2.5	4.1
Utilities	-8.5	0.5	-8.7	0.8
Healthcare	4.0	6.7	3.7	7.2
Energy	14.8	35.2	14.8	35.7
Materials	2.3	10.2	2.2	10.6
Communication Services	2.6	4.7	2.9	4.9
Technology	3.6	35.5	4.3	37.3

Bonds	Local Currency		GBP	
	Q3	2026	Q3	2026
Conventional Gilts	-2.5	-2.4	-2.5	-2.4
Index Linked Gilts	-1.2	-1.0	-1.2	-1.0
GBP Credit	-1.7	-0.8	-1.7	-0.8
Global High Yield	-1.7	0.6	-1.6	0.8

Commodities	Local Currency		GBP	
	Q3	2026	Q3	2026
Energy	34.4	86.3	34.2	88.6
Agriculture	12.6	17.9	12.5	19.3
Industrial Metals	4.3	11.2	4.2	12.6
Precious Metals	2.7	-5.1	2.6	-3.9

Note: Standard indices sourced from DataStream and Bloomberg as at 30 September 2026; property data as at 31 August 2026.

Jake Winterton is a fund manager within Royal London Asset Management's multi asset team. The team manages portfolios including the Governed Range pension portfolios, the Global Multi Asset Portfolios (GMAPs), Multi Asset Strategies Fund (MAST) which is available on third party platforms and the euro based multi asset funds that form the core of the Royal London Irish pensions offering.

Investment risks – RL GMAP fund range

Investment risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Credit risk: Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

Derivative risk: Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both fund losses and gains. The impact to the fund can be greater where they are used in an extensive or complex manner, where the fund could lose significantly more than the amount invested in derivatives.

EPM Techniques: The fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the fund to increased price volatility.

Exchange Rate risk: Changes in currency exchange rates may affect the value of your investment.

Interest Rate risk: Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

Emerging Markets risk: Investing in emerging markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Counterparty risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the fund to financial loss.

Fund investing in Funds risk: The fund is valued using the latest available price for each underlying investment, however it may not fully reflect changing stock market conditions and the fund may apply a 'fair value price' to all or part of its portfolio to mitigate this risk. In extreme liquidity conditions, redemptions in the underlying investments, and/or the fund itself, may be deferred or suspended.

Liquidity and Dealing risk: The fund invests indirectly in assets that may at times be difficult to value, harder to sell, or sell at a fair price. This means that there may be occasions when you experience a delay in being able to deal in the fund, or receive less than may otherwise be expected when selling your investment.

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