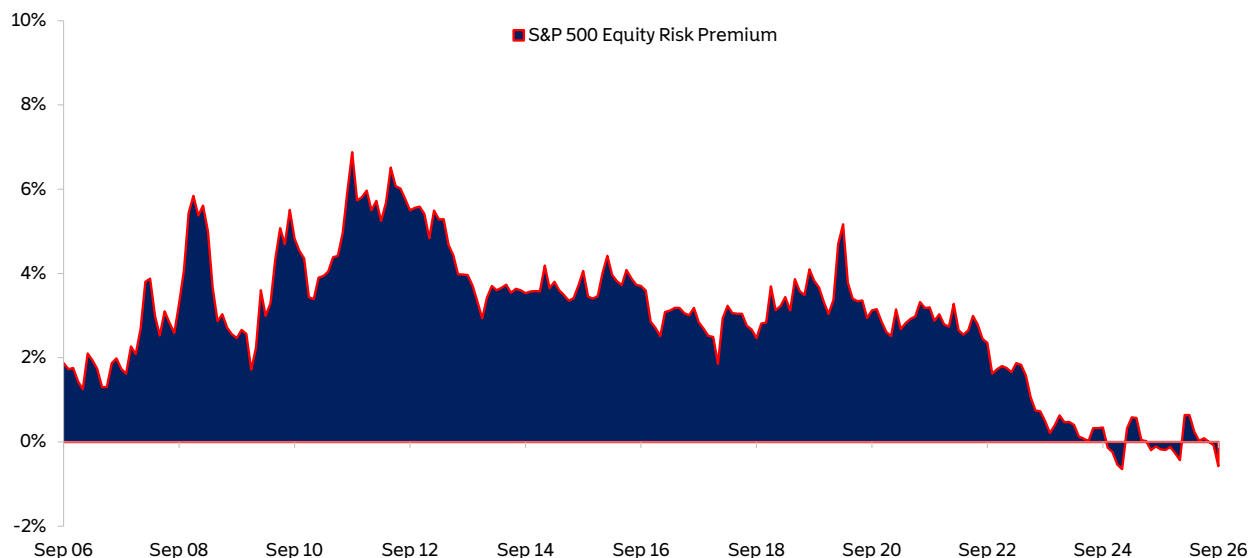


12 October 2026



Source: Bloomberg Finance L.P., data as at 30 September 2026. The Equity Risk Premium takes the difference between the earnings yield (1 over P/E ratios using average sell-side 1y forward EPS estimates) for the S&P 500 and the US 10-year treasury.

Equities vs. Bonds: Bond is back... with a licence to yield

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What does the chart show?

This week's 'chart of the week', illustrates the declining 'risk premium' for investing in equities over bonds. The further earnings yields fall below government bond yields, the stronger the incentive to allocate capital towards bonds. In a world where asset classes compete for the same pool of capital, every bond purchased often requires an equity position to be reduced. Through this mechanism, the bond and equity markets are intrinsically linked.

The earnings yield provides an estimate of the annual return available from equities based on their valuation and expected earnings. The underlying principle is straightforward; investors should be compensated for taking equity risk. Equities should offer an expected return premium above that of risk-free government bonds. When that premium falls towards zero or below, investors should question whether they are being adequately rewarded.

Why is it important?

Asset classes are only attractive on a relative basis. Every decision to hold one asset is, by definition, a decision not to hold another. A portfolio can generally only add up to 100%, so every purchase requires an equivalent sale.

The last few years have caused investors to question the role of traditional safe haven assets within portfolios. For decades, the mantra of many multi-asset managers was that investors should always hold some medium to long duration government bonds. In a risk off environment, the long end of the yield curve would typically benefit from a "flight to safety", generating strong gains and offsetting losses elsewhere in the portfolio. This principle has been a cornerstone of portfolio construction for generations.

Since 2021, however, investors have endured extraordinary pain from this recessionary hedge. UK gilt yields reaching 6%, and long dated bond benchmarks falling by more than 50% from levels 5 years ago, would have seemed inconceivable. As long duration bonds became increasingly painful, investors reassessed their allocations, trimming exposure repeatedly until this structural allocation all but slipped into history books. The question now remains: what brings investors back to bonds?

Fundamentally, economic growth remains sufficiently strong that the need for a recessionary hedge appears limited. However, shocks can often appear from nowhere and growth forecasts are often misled. Now that yields are approaching 6%, even if a recession is among the least expected outcomes, has the risk reward trade off become so attractive that bonds are worth buying anyway? Some investors may conclude yes, and the higher yields go, the greater the incentive.

After decades in which equities were clearly the most attractive destination for capital, is that still the case today? Perhaps this buy signal does need to become more extreme before investors are willing to return to an asset class that has inflicted so much pain over the last five years. In the short term, overcoming the powerful recency bias from one of the worst bond bear markets in history may prove to be the biggest challenge of all.

Markets balanced resilient activity and earnings expectations against high bond yields, fiscal strains and renewed energy risks, leaving central banks constrained as regional equity and bond markets diverged.



US

- » Federal Reserve minutes and official comments suggested that further tightening may be needed, but not necessarily at consecutive meetings. This supported expectations of an October pause while keeping the prospect of a later increase alive.
- » US activity remained resilient: services expanded and weekly jobless claims stayed subdued. The combination reinforced the view that the economy can absorb restrictive policy, even as weaker consumer sentiment signalled pressure on households.
- » Treasury yields reached fresh multi-year highs before easing, reflecting persistent inflation concerns and sensitivity to energy prices. Strong demand at government bond auctions later helped stabilise fixed-income markets.
- » US equities remained close to record levels, but leadership was uneven. Questions over artificial-intelligence revenues and financing briefly pressured semiconductors, while broader market participation improved into the end of the week.



UK

- » UK government bond yields rose sharply alongside the global sell-off, with longer-dated borrowing costs reaching levels not seen for decades. Higher yields increased scrutiny of fiscal credibility ahead of the Autumn Budget.
- » Bank of England officials stressed that monetary policy must remain focused on returning inflation to target, warning against relying on tighter market conditions alone to control price pressures.
- » Higher energy costs and borrowing rates weighed on the outlook for households and businesses. Mortgage availability and housing demand weakened, underlining the transmission of elevated gilt yields into the domestic economy.
- » UK equities proved relatively resilient, helped by the market's exposure to energy, mining and other internationally focused companies. This offset some pressure from rate-sensitive and domestically exposed sectors.



Europe

- » French fiscal and political concerns remained the central regional risk. Government bond spreads were volatile, although they narrowed over the week as the most acute market stress moderated.
- » The European Central Bank's September account showed policymakers viewed inflation risks as tilted to the upside. However, tighter financial conditions and sovereign-market volatility complicated the case for rapid further tightening.
- » Energy remained an important inflation channel as oil and European natural-gas prices rose. Higher imported energy costs weighed on regional equities and increased pressure on rate-sensitive sectors, including banks.
- » Germany's exports weakened, while political uncertainty broadened across several countries. These developments reinforced concerns that fiscal and political risks could constrain an already modest growth outlook.



Rest of the World/Asia

- » Chinese markets reopened after the Golden Week holiday but struggled to sustain early gains. Limited policy momentum and ongoing trade frictions left investors cautious about the strength of the domestic recovery.
- » Japan's wage data remained supportive of gradual monetary normalisation, while policymakers continued to emphasise inflation risks. The yen stayed under pressure as investors assessed the likely pace of further rate increases.
- » Asian technology shares were volatile after strong semiconductor updates were offset by questions about artificial-intelligence valuations and infrastructure financing. This produced a wide dispersion across regional markets.
- » Brazilian assets reacted positively after the first round of the presidential election, while India raised interest rates amid inflation pressures. The moves highlighted how domestic politics and policy increasingly shaped emerging-market outcomes.

Weekly market data

Week ending 9 October 2026

Cumulative returns					
Asset Class / Region	Currency	Week ending 9 October	Month to date	YTD 2026	12 months
Developed Markets Equities					
United States	USD	1.2%	2.1%	14.8%	16.9%
United Kingdom	GBP	0.9%	-0.4%	9.2%	14.8%
Continental Europe	EUR	-0.3%	-0.6%	8.3%	12.1%
Japan	JPY	0.3%	-0.1%	22.9%	28.9%
Asia Pacific (ex Japan)	USD	-0.6%	-0.5%	23.2%	24.6%
Australia	AUD	0.4%	-0.8%	2.9%	0.5%
Global	USD	0.7%	1.2%	13.1%	15.8%
Emerging Markets Equities					
Emerging Europe	USD	-0.6%	-4.0%	20.4%	29.1%
Emerging Asia	USD	-0.7%	-0.3%	26.5%	28.5%
Emerging Latin America	USD	9.7%	11.0%	27.4%	42.2%
BRICs	USD	2.3%	1.1%	-9.1%	-11.8%
China	USD	1.2%	-0.6%	-12.4%	-19.0%
MENA countries	USD	-1.0%	-1.8%	-3.1%	-8.0%
South Africa	USD	0.4%	-1.0%	-5.1%	5.0%
India	USD	0.0%	-1.3%	-19.2%	-17.0%
Global emerging markets	USD	0.0%	0.3%	23.7%	26.7%
Bonds					
US Treasuries	USD	0.3%	0.3%	-2.4%	-1.8%
US Treasuries (inflation protected)	USD	0.3%	0.4%	-1.9%	-1.9%
US Corporate (investment grade)	USD	0.5%	0.4%	-2.4%	-1.7%
US High Yield	USD	0.2%	0.2%	0.3%	1.9%
UK Gilts	GBP	-0.5%	-0.1%	-2.5%	0.7%
UK Corporate (investment grade)	GBP	-0.3%	-0.2%	-1.4%	1.2%
Euro Government Bonds	EUR	0.0%	0.3%	-3.0%	-2.9%
Euro Corporate (investment grade)	EUR	0.2%	0.3%	-0.9%	-0.9%
Euro High Yield	EUR	0.1%	-0.4%	-0.4%	0.5%
Global Government Bonds	USD	0.0%	-0.1%	-2.8%	-2.3%
Global Bonds	USD	0.0%	-0.1%	-3.2%	-2.2%
Global Convertible Bonds	USD	-0.9%	-0.2%	12.0%	11.5%
Emerging Market Bonds	USD	0.8%	0.4%	-2.0%	0.5%
Property					
US Property Securities	USD	-0.1%	-0.2%	9.3%	9.4%
Australian Property Securities	AUD	3.7%	-0.5%	-15.6%	-18.2%
Global Property Securities	USD	0.0%	-1.0%	1.4%	2.7%
Currencies					
Euro	USD	-0.6%	-1.3%	-4.7%	-3.2%
UK Pound Sterling	USD	0.0%	-0.3%	-1.7%	-0.5%
Japanese Yen	USD	-0.3%	-0.6%	-0.9%	-3.4%
Australian Dollar	USD	0.4%	0.4%	4.6%	6.5%
South African Rand	USD	0.9%	-0.7%	0.2%	4.1%
Swiss Franc	USD	-0.1%	0.6%	-4.4%	-2.8%
Chinese Yuan*	USD	0.2%	0.2%	4.4%	6.5%
Commodities & Alternatives					
Commodities	USD	1.5%	2.3%	45.5%	48.9%
Agricultural Commodities	USD	0.2%	-0.4%	16.1%	15.0%
Oil	USD	2.4%	1.1%	72.1%	60.6%
Gold	USD	1.3%	0.8%	-3.0%	5.6%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns. *Data as at 2 October 2026.

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