

Investment Matters

Scottish Widows Platform | October 2026



Looking back: market review Q3 2026

Summary

During the third quarter of 2026, the MSCI ACWI Index, a representative measure of global equities across developed and emerging markets, rose by 1.5%. Japan, the US and UK led regional equity returns, while Europe and emerging markets declined in sterling terms. By style, value-oriented stocks broadly outpaced growth stocks globally. Solid corporate earnings and resilient economic data helped provide a lift to equities despite ongoing geopolitical pressures, rising oil prices and inflation, and a steep advance in bond yields. Meanwhile, huge capital expenditure continued to support the expansion of AI-related capacity. In fixed income, the ICE BofA Global Government Index weakened by 3.0% in sterling terms, with yields soaring in several major government bond markets given persistent inflation and heavy AI-related debt issuance. Despite some ups and downs over the three months, sterling ended the quarter broadly unchanged against the US dollar.

Crude oil futures prices jumped on uncertainties around US-Iran negotiations and access for tankers through the Strait of Hormuz supply route. European natural gas prices climbed on Liquefied Natural Gas supply concerns and low gas reserves ahead of peak winter demand.

UK equities

The FTSE 100 Index, a commonly used representative benchmark of the UK's largest equities, added 1.8%. Meanwhile, the FTSE All Share Index was up 2.4%, helped by mid-cap stocks outpacing their larger peers. The UK market benefited from exposure to a range of sectors, including energy. The Bank of England's Monetary Policy Committee (MPC) voted to keep rates on hold at its July and September meetings, though on both occasions, three MPC members voted for a rate hike amid inflation risks. The UK's annual inflation, meanwhile, edged up over the quarter, moving from 2.6% in June to 3.1% in August, as transport costs, including motor fuel, advanced. The UK manufacturing Purchasing Managers' Index (PMI) remained in expansionary territory over the quarter, with the flash reading hitting 52 for September. The services PMI rebounded from contraction in June to end the quarter at 51.7, according to September's preliminary reading. A PMI reading above 50 indicates that activity is likely to be expanding. In politics, Andy Burnham became the UK's seventh Prime Minister in 10 years.

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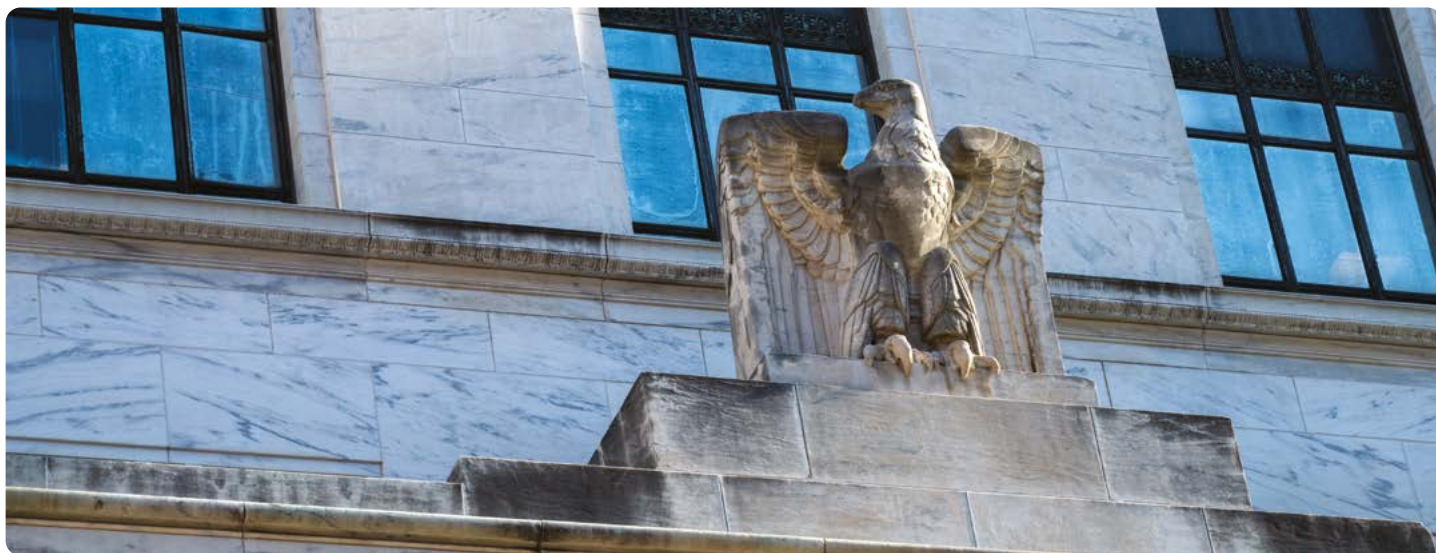
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Looking back: market review Q3 2026 (continued)

US equities

In US equities, the S&P 500 Index rose 2.1% in sterling terms. The Nasdaq Composite Index, which has a growth focus, increased 2.5% in sterling terms. Having kept interest rates steady at its policy meeting in July, the Federal Reserve (Fed) hiked rates for the first time in three years in the final month of the quarter, as worries about elevated inflation persisted. Meanwhile, annual inflation slowed marginally over the quarter but remained above the Fed's long-run target of 2%, as June's reading of 3.5% was followed by July and August readings of 3.4%. After several relatively weak non-farm payrolls job figures, the August data release showed the US economy added 162K jobs in August, helped by hires in food services and local government education. The early manufacturing PMI for September soared above market expectations to hit 57, helped by strength in technology sales. The services PMI also improved during the quarter, to end the period with a flash reading of 58.7. Relations between the US and Canada worsened as trade talks between the two countries broke down, leading to the tit-for-tat announcement of new tariffs.



Europe equities

The MSCI Europe ex UK Index declined 2.7% in sterling terms and was down 1.4% when measured in local currencies. France and the Netherlands were among the countries that fell back, while Spain and Germany increased in local currency terms. The European Central Bank (ECB) hiked rates for the second time this year at its September meeting, amid policymakers' concerns about persistent inflation. Annual inflation rose from a level of 2.8% in June to reach 3.2% in August. The eurozone saw 0.6% quarter-on-quarter (q/q) gross domestic product growth in the second quarter, which was an upward revision from early estimates, helped by expansion in Ireland, Spain and Germany. On an annual basis, GDP growth improved to 1.2% year-on-year (y/y) in the second quarter, compared with 0.6% y/y in the first three months of the year. The eurozone's manufacturing PMI continued to expand, according to preliminary estimates for September, while the services PMI bounced out of contractionary territory during the quarter, helped by improved business activity and hiring in the private sector.



Looking back: market review Q3 2026 (continued)

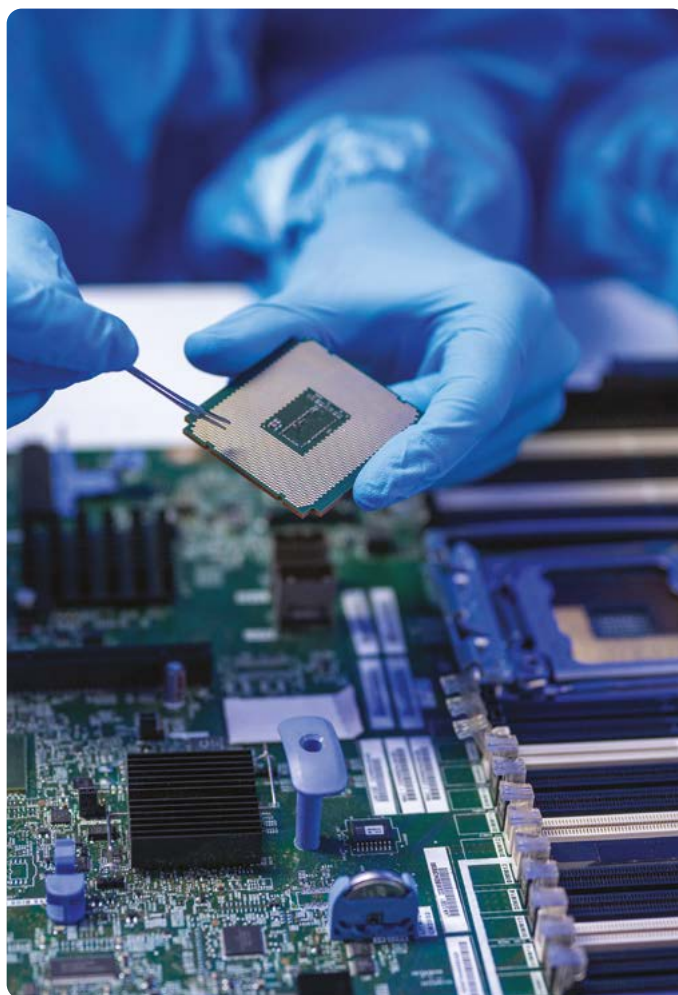


Japan equities

Japan's equities, as measured by the MSCI Japan Index, gained 5.9% in sterling terms and 2.4% in yen terms. The yen strengthened against sterling and the US dollar, helped by a coordinated currency-buying intervention from Japan and the US. Japan's equities were partly bolstered by ongoing share buyback plans. The Bank of Japan's (BoJ) deputy governor noted the upside risk to inflation during a speech in August and, at its subsequent policy meeting in September, the BoJ raised the country's benchmark interest rate amid persistent inflation and as it continued moving towards monetary policy normalisation. Annual inflation moved up from 1.6% in June to reach 1.9% in both July and August. The early manufacturing PMI remained in robust expansionary territory for September.

Emerging market equities

In the third quarter, the MSCI Emerging Markets Index was down 0.5% in sterling terms and 2.9% in local currencies. Korea dropped the most, and India and Mexico also fell back in local currency terms. China, Brazil and Taiwan gained ground. Korea was negatively impacted by weakness in the shares of semiconductor companies in the middle of the quarter. Semiconductor manufacturers have been benefiting from positivity around AI-related demand, which, despite third-quarter weakness, still helped the Korean market make strong year-to-date gains. The won strengthened against the US dollar during the period. Meanwhile, the Bank of Korea hiked interest rates by 25 basis points on two occasions over the quarter, as inflationary pressure persisted, while global AI demand helped drive economic growth. In India, gross domestic product growth remained at 7.8% y/y during the calendar second quarter, outpacing expectations for 7.1% expansion, helped by manufacturing production and financial services. The Reserve Bank of India kept its benchmark interest rate at 5.25% during the period as it looked to balance factors such as robust growth, currency weakness and rising prices. Annual inflation came in at 4.82% in August, its 10th successive increase, compared with July's reading of 4.44%, but price rises remained within the central bank's 2-6% tolerance band. In Brazil, rates were cut twice during the third quarter amid signs of an economic softening. At the same time, the country's inflation rate moderated, to end the quarter at 4.22% in August, compared with 4.64% in June.





Looking back: market review Q3 2026 (continued)

Asia Pacific equities

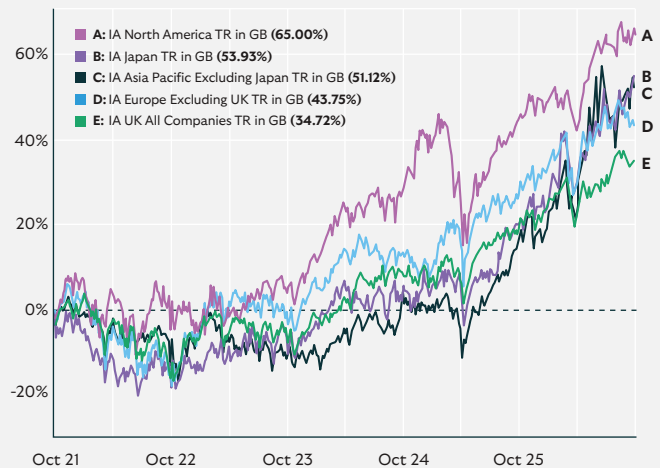
The MSCI AC Pacific ex Japan Index was up 0.5% in sterling terms but was down 2.6% in local currencies over the quarter. At the country level, Korea declined the most, and India also weakened. China, Taiwan and Australia moved higher in local currency terms. China's second-quarter GDP growth was weaker than expected, softening to 4.3% y/y, from 5.0% y/y in the first quarter, amid slower domestic demand. Export growth remained elevated, helped by technology hardware such as integrated circuits for AI-related expansion. Meanwhile, import growth was also elevated. Industrial production improved from 4.5% y/y in July to 5.2% y/y in August, bolstered by the manufacturing sector. Having softened for the previous four readings, Australia's inflation rate stepped up from 3.5% in July to hit 4.0% in August, in part because of housing and transport inflation. In a unanimous decision, the Reserve Bank of Australia hiked its key interest rate in September – its fourth hike this year – because of persistent inflation on the back of oil supply disruption and rising technology costs.

Bonds

The 10-year US Treasury yield moved up (prices fell) from 4.42% at the end of June to end the quarter at 5.29%, close to highs not seen in over two decades. The 10-year government bond yields rose in Germany, France, the UK and Japan. Yields in Japan reached highs not seen since the 1990s. Persistent inflation fed by rising oil prices, a robust growth backdrop and huge corporate borrowing from companies involved in building out AI infrastructure helped to push yields higher. August also saw the unexpected announcement of an increase in long-dated bond buybacks by the US Treasury. The ECB and BoJ continued to hike rates during the quarter, and the Fed undertook its first rate increase in over three years. Investors also increasingly expected further hikes for many of the major banks in the coming quarters. In credit, both high yield and investment grade followed government bond prices lower, and emerging market debt also declined in sterling terms.

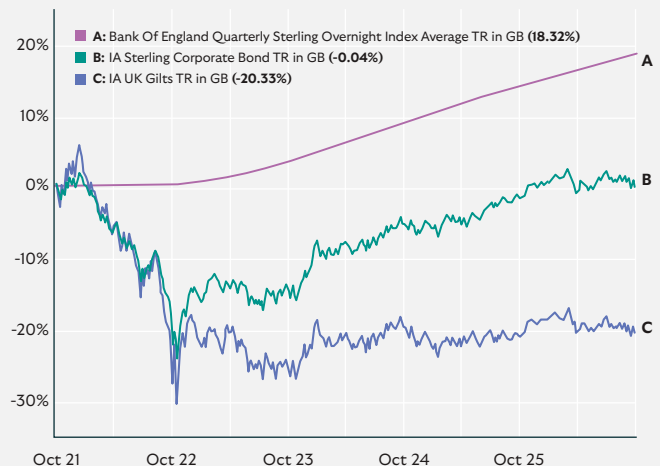
All index data are shown in total return sterling, unless otherwise stated
Source: FE Analytics

Average total returns of funds in IA equity sectors over 5 years to October 2026 (in UK sterling terms)



Source: FE fundinfo (30/09/2021-30/09/2026). Past performance is not a reliable indicator of future results. The value of investments, and the income from them, may fall as well as rise. Investors may not receive back the full amount originally invested.*

Average total returns of funds in IA bond sectors over 5 years to October 2026 (in UK sterling terms)



Source: FE fundinfo (30/09/2021-30/09/2026). Past performance is not a reliable indicator of future results. The value of investments, and the income from them, may fall as well as rise. Investors may not receive back the full amount originally invested.*

* These graphs reflect the average performances of funds that feature in different IA (Investment Association) sectors. The performances are in sterling terms, which means that the effects of changes in the value of sterling versus other currencies are incorporated in the performance figures. Performances are calculated on a bid to bid basis, which means that any costs associated with the purchase or sale of shares/units are not included.



Looking forward: outlook as at end September 2026

Though we manage funds for the long term, here are our thoughts on markets as we look forward over the coming quarters.

Globally, equities achieved another step higher in the third quarter, helped by buoyancy in value-related sectors. Despite this, global equity market concentration remains an issue, given the heavy skew towards US technology giants. Against a backdrop of relatively full valuations, market concentration, monetary policy uncertainty and the potential for further geopolitical instability, we believe volatility could return in the near term. In our view, it is important to have a spread of geographical equity market exposure, and while equities remain the mainstay of our long-term growth exposure, it is relatively less attractive than fixed income going forward.

Recent market weakness across most areas of the bond market has continued to present opportunities and bolstered our constructive view of the longer-term prospects within fixed income as a whole. Income levels from good quality credit are particularly attractive. We believe in holding a diversified blend of government bonds and credit, in different geographies and with different characteristics, and which can continue to provide income-generation benefits.

UK equities

The UK equity market's limited exposure to the technology sector has been a factor holding it back in recent years. Despite robust year-to-date gains, the market has trailed the rise in global equities. As value has returned to favour in the third quarter, the UK has slightly outpaced the rise in global equities, helped by the domestic revenue focus of UK mid-caps. Valuation, sectoral spread and diverse global revenue exposures all add to our relatively positive long-term view on the UK.



Looking forward: outlook as at end September 2026 (continued)

US equities

US equities remain fully valued with market leadership concentrated in growth-related sectors. Risks around AI companies' substantial capital expenditure plans will be a dominant focus in the coming quarters. In the wake of September's rate hike, inflation and interest rate changes may come back in focus later in the year. Further out, we believe diversification across other regions may prove beneficial as potential US returns could look relatively less attractive over the longer term.

European equities

The European Central Bank has hiked rates twice this year amid inflation worries. Despite attractive valuation levels, Europe has sectoral exposure to geopolitical risk and muted shorter- and longer-term economic growth prospects.

Japanese equities

Over the near term, Japan could see its current earnings strength, and its distinct economic and market drivers offset by pressure from currency volatility and monetary policy normalisation. Over the long term, Japan's structural reforms could help the market, but lower economic and corporate growth prospects are a likely negative offset.

Asia Pacific (ex Japan) equities

The market is slightly overvalued but that is broadly offset by potentially robust earnings growth over the longer term. Markets such as Australia, Hong Kong, Singapore and New Zealand still offer attractive income and remain appealing exposures in the region and as part of a diversified global equity exposure.

Emerging Market equities

Valuations remain relatively attractive in our view, though we continue to monitor volatility within markets catering to strong demand in semiconductors and other AI-related hardware. Ongoing economic growth potential, demographic and structural tailwinds, including relatively lower debt burdens, make emerging markets attractive with a longer-term view.

Developed Market Government Bonds

Despite increasingly supportive real yields and potentially improved longer-term total returns, we prefer other areas of fixed income. Yields have risen over the last quarter because of fears around inflation, government debt worries, and heavy issuance, for example. Overall, within the asset class, we prefer having a mix of government bonds, with a slight skew towards UK gilts.

Investment Grade Corporate Bonds

The third quarter saw yields rise in investment grade credit. As well as inflation fears, the huge AI-related expansion, which includes the datacentre buildout, has led to heavy issuance competition. This volatility could continue over the near term. However, on a long-term view, we think investment grade can still provide attractive income and could outperform government debt. Within this, we broadly favour a skew to sterling corporate bonds over global peers.

Global High Yield Bonds

In recent months, high yield weakened but outpaced investment grade and government bonds. Its further outperformance within the asset class could limit its near-term potential amid possible ongoing market volatility. Further out, high yield has generally lower interest rate sensitivity and has income attractions.

Emerging Market Debt

Near-term yield attractions remain intact against a backdrop of weakness in the third quarter. Longer term, the asset class is supported by structural growth, diversification benefits and potentially favourable currency trends. We prefer broad exposure to both US-dollar and local-currency emerging market debt. We will continue monitoring the idiosyncratic risk potential.

Global Listed Property

The main benefits of listed property – such as real-estate investment trusts – are the high dividend yield that has some inflation linkage and diversified property market exposure. The segment is currently supported by relatively attractive valuations but tempered by the asset class's interest rate sensitivity in the current environment of tightening at some major central banks.