

Garry White, Chief Investment Commentator, Charles Stanley

Market Snapshot

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60 second market summary

Markets were focused on another sharp sell-off in global government bond markets. Concerns about stubborn inflation, higher-for-longer interest rates and deteriorating public finances pushed yields higher, with France at the centre of the turmoil after investors reacted negatively to widening budget deficits and plans for record debt issuance. French borrowing costs rose to their highest level since 2002, while US Treasury and UK gilt yields also climbed sharply.

The latest Federal Open Market Committee minutes reinforced expectations that another US rate rise could be delivered before year-end, while the latest Institute for Supply Management Services PMI showed the US economy remains resilient but inflation pressures within the services sector are proving persistent.

Growing optimism over a diplomatic breakthrough with Iran helped calm markets this week after Donald Trump said the US would not carry out further military strikes before November's midterm elections and described talks with Tehran as "productive". Negotiations over reopening the Strait of Hormuz continued, while Vladimir Putin offered support for efforts to end the conflict, although tensions remain high and the risk of renewed escalation has not disappeared.

Attention is now turning to the start of the third-quarter earnings season, which starts next week, with analysts expecting S&P 500 earnings growth of almost 30%, helped by continued strength in artificial intelligence-related spending.

Middle East/Energy

The focus in Iran this week shifted from fears of an imminent military escalation towards renewed diplomatic efforts after Donald Trump said the US would not carry out further military strikes against Iran before the 3 November midterm elections. Mr Trump said Washington was having "productive discussions" with Tehran and ruled out any attack

before the vote, a significant change in tone after recent reports that the US had been considering further military action. The comments helped ease some concerns about disruption to oil supplies through the Strait of Hormuz, although the US naval blockade remains in place and Trump left open the possibility of military action after the elections.

Meanwhile, negotiations over reopening the Strait of Hormuz continued, with Iranian officials reviewing a US counterproposal to Tehran's plan for restoring shipping through the vital waterway. Vladimir Putin also offered Russian support for efforts to end the conflict, while Iran insisted it would continue uranium enrichment and maintained that discussions with Washington were ongoing through intermediaries. Despite the more conciliatory rhetoric, tensions remain elevated, with concerns that either side could still escalate the conflict if negotiations fail.

Economics

There was more turmoil in bond market turmoil, driven by a combination of rising inflation concerns, expectations that interest rates will stay higher for longer and growing anxiety about government finances, with France emerging as the epicentre of the sell-off. Investors were alarmed by the French government's admission that this year's budget deficit will exceed target and by plans to issue a record amount of debt in 2027, raising fears that public borrowing is becoming unsustainable. As a result, the yield on France's 10-year government bond climbed to its highest level since 2002 and the spread over equivalent German bonds widened to its largest level since the eurozone debt crisis, reflecting growing concerns over France's fiscal outlook and political uncertainty ahead of the 2027 presidential election. The sell-off spread across global bond markets, pushing US Treasury yields above 5.3% and UK gilt yields to multi-decade highs, as investors also reacted to rising energy prices, higher inflation and the Fed's signal that another rate rise may still be needed before year-end.

The latest Federal Open Market Committee minutes showed that most policymakers believe another

US interest rate rise is likely before the end of 2026, reflecting continued concern that inflation could prove more persistent than expected despite signs of moderation in recent data. Officials unanimously voted to raise the federal funds rate by 25 basis points to 3.75%-4.00% at their September meeting, arguing that the economy remains resilient, the labour market is close to full employment and inflation is still above the Fed's 2% target. However, the minutes also stressed that future decisions will remain data-dependent, with policymakers keeping an open mind about the timing of any further move. Markets interpreted the minutes as broadly hawkish, although softer recent economic data has reduced expectations of an immediate rate increase at the Fed's October meeting and shifted attention towards a possible move in December.

The latest Institute for Supply Management (ISM) Services PMI showed that the US services sector remained in solid expansion territory during September, with the headline index dipping slightly to 54.9 from 55.4 in August. Any reading above 50 indicates expansion. While business activity and new orders eased modestly during the month, both remained at healthy levels, suggesting demand across the services economy is still robust. Employment returned to growth, with the employment index rising to 50.1, while the prices-paid component climbed to 74.0, its highest level since July 2022, highlighting persistent inflationary pressures.

The ISM Services PMI is one of the most closely watched indicators of US economic health because it surveys purchasing managers across service industries ranging from finance and retail to healthcare and real estate. As services account for roughly two-thirds of the US economy, the survey provides one of the earliest readings of economic momentum each month. The report is particularly important for financial markets and the Federal Reserve. The latest report presents a mixed picture. Strong activity and new orders point to continued economic resilience, but the sharp rise in the prices index suggests inflationary pressures remain elevated. That combination strengthens the case for interest rates to stay higher for longer.

Company news

Earnings reports were relatively thin on the ground this week, but the third-quarter reporting season kicks off next week with US investment banks. Expectations for the third-quarter earnings season are exceptionally strong, with analysts forecasting year-on-year earnings growth of around 29.5% for the S&P 500, up from 26.7% at the start of the quarter. Importantly, earnings estimates have been revised

higher rather than lower during the quarter, which is unusual and suggests corporate performance has been stronger than expected. However, while the earnings backdrop appears robust, markets will be watching closely to see whether companies can deliver guidance strong enough to offset concerns about rising bond yields, elevated energy prices and the risk that central banks keep interest rates higher for longer.

Shell's third-quarter trading update points to another strong set of results when the energy giant reports earnings later this month. The standout feature was a sharp jump in refining margins to around \$42 a barrel from \$24 a barrel in the second quarter, reflecting tight global fuel supplies and supporting expectations for a strong performance from its oil trading business. The group also expects gas trading results to remain in line with the previous quarter, while production in both its upstream and integrated gas divisions is set to remain robust, with the recent acquisition of ARC Resources providing a boost to gas output. Offsetting factors include weaker chemicals margins, lower marketing earnings and an expected rise in net debt following the acquisition. Overall, the update suggests Shell remains well placed to benefit from elevated energy prices and market volatility, reinforcing expectations of another quarter of strong cash generation and earnings.

Tesco delivered a strong set of interim results, helped by cost savings, a favourable sales mix and growth in higher-margin revenue streams. Adjusted earnings per share climbed 12.2% and free cash flow jumped 21% to £1.57bn. The supermarket group reported record customer satisfaction levels, continued market share gains and 8% growth in online sales, prompting management to raise its share buyback programme to £950m and reiterate confidence in full-year profit guidance of £3.15bn-£3.30bn. An interim dividend of 5.05p per share was also announced.

SpaceX is reportedly in talks to raise around \$40bn of debt financing to fund a major purchase of Nvidia artificial intelligence chips, highlighting the enormous sums being invested in AI infrastructure. According to reports, the package would comprise roughly \$10bn of bank loans and \$30bn of investment-grade debt, with Apollo Global Management expected to lead the financing and Pimco among the potential lenders. The chips would be used to expand the company's AI data centre capacity, supporting the rapid growth of Elon Musk's AI ambitions following the integration of xAI into the wider SpaceX group. While the deal remains under discussion and may not complete until 2027, it underlines the intense demand for computing power across the AI industry.

Samsung Electronics reported preliminary third-quarter results that showed record operating profit, driven by continued strong demand for memory chips used in artificial intelligence applications. Operating profit was almost ten times higher than a year earlier and marked the company's fourth consecutive quarter of record earnings as tight supplies of high-bandwidth memory chips boosted pricing and margins. Despite the headline-grabbing figures, Samsung's shares fell around 2%-2.5% after the announcement because investors had already priced in exceptionally strong results and the profit figure came in slightly below the most optimistic forecasts. Markets were also concerned about the sustainability of the AI-driven boom, with growing questions over whether data centre spending will continue at its current pace into 2027.

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