Quarterly market summary

Q3 2026

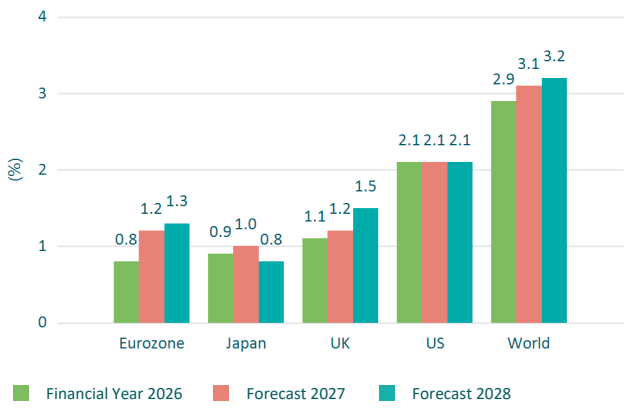
Economic overview

The global economy demonstrated resilience in the third quarter, despite building inflationary pressures and soaring borrowing costs. The US economy grew at an annualised rate of 2.2% in the second quarter, supported by robust consumer spending and business investment related to AI infrastructure. The jobs market also remained solid, with the unemployment rate steady at 4.1% in August. The eurozone expanded 1.2% year-on-year in the same period, thanks to robust exports and household consumption. Ireland's economy was particularly strong. Annual GDP growth in the UK was 1.4% in Q2, up from 0.8% in Q1. The services sector benefited from the warm summer weather and the World Cup football tournament.

During the quarter, the energy price shock caused by the conflict in the Middle East was prominent in inflation data. In the US, the headline annual inflation rate was 3.4% in August, with gasoline prices rising 27% year-on-year. UK annual CPI inflation ticked up in August to 3.1% from 2.9% in July, largely as a result of higher motor fuel prices. Inflation in the eurozone reached 3.2% in August.

With inflation persistently above major central banks' targets, policymakers began to tighten monetary policy. In September, the Federal Reserve (Fed) raised rates for the first time since 2023, and officials indicated there could be more hikes to come. The European Central Bank and the Bank of Japan also raised rates – Japan's interest rate is currently the highest since 1995. The Bank of England kept rates unchanged during the quarter, at 3.75%.

Annual GDP growth (%)



Source: LSEG Datastream, October 2026.

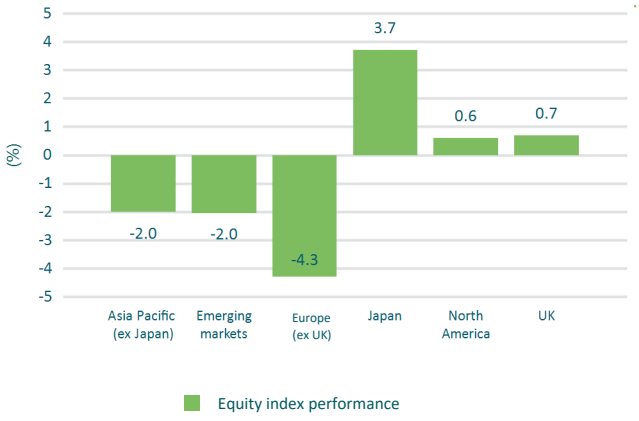
Market overview

The third quarter was characterised by a major sell-off in government bond markets as investors reacted to renewed inflationary pressures and higher interest rates. In contrast, global stockmarkets registered positive returns, supported by resilient economic growth and robust corporate earnings.

The US-Iran conflict remained a source of volatility as the two sides resumed strikes and a peace deal proved elusive. With traffic still limited through the Strait of Hormuz, the ongoing supply disruption pushed energy prices higher, and oil climbed above US$100 a barrel.

Amid concerns about inflation, the global bond market experienced sharp falls in the period – the US 10-year government bond yield rose 82 basis points to reach its highest level since 2007. (Bond yields and prices move in opposite directions). Fiscal concerns also weighed on bond markets, notably in France, as investors started to question the sustainability of government debt levels.

Equity market performance v. FTSE World Index (Q3 2026)



Source: LSEG Datastream Sterling

The value of investments will fluctuate, which will cause prices to fall as well as rise and investors may not get back the original amount they invested. There is no guarantee the objective will be achieved.

Past performance is not a guide to future performance.

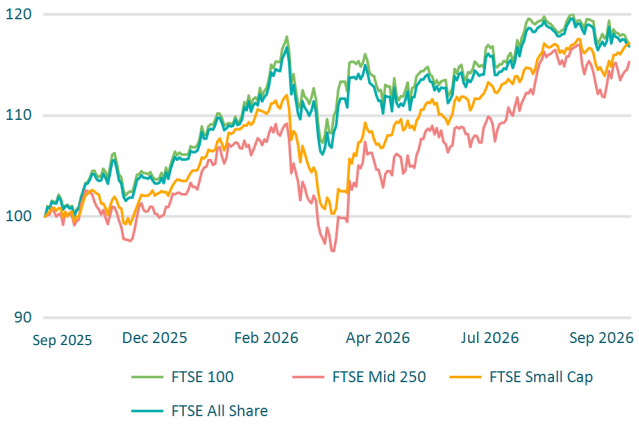
Despite inflationary pressures and increased borrowing costs, global economic activity remained resilient in the quarter. Encouragingly for equity markets, corporate earnings were robust. As a result, the FTSE World Index rose 1.7%, in sterling terms. The US and UK were among the best-performing regions, whereas Asia and emerging markets underperformed the broad global market. At the country level, stockmarkets in Brazil and Singapore performed well. In contrast, share prices in France fell amid concerns about the country's fiscal position and Korea's stockmarket retreated after strong gains earlier in the year.

Commodities performed well in the quarter. Oil led the way, with the price of Brent crude rising 42%, in US dollars. Agricultural commodities such as wheat and corn registered double-digit gains. In currencies, the most notable move was the Japanese yen's 3.3% rise vs the US dollar.

UK equities

UK equities registered their seventh consecutive quarterly gain in the third quarter, although share prices fell in September amid inflation concerns. The UK market's sizeable weighting to commodity-related stocks proved helpful as energy prices rose. Takeover activity also provided a boost to the market's performance, with several stocks receiving bids. In contrast, rising bond yields curbed the appeal of higher-yielding companies. The FTSE All-Share Index returned 2.4%, and was ahead of most major markets globally, including the S&P 500 Index (in local currencies). The more domestically focused mid-cap FTSE 250 Index led the way, outpacing the large blue-chip firms in the FTSE 100 Index and reaching a record high in August. At the sector level, oil and gas, basic materials and telecommunications made robust gains. In contrast, more defensive areas such as healthcare and utilities declined.

UK equity market indices (12 months to 30.09.26)

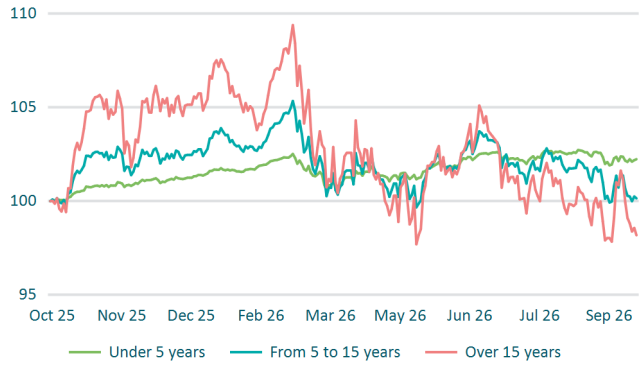


Source: LSEG Datastream Rebased to 100

UK bonds

The price of UK government bonds (gilts) fell 2.6% in the third quarter of 2026 but still outperformed both US Treasuries and German bunds. The yield of the 10-year UK gilt rose to 5.4% at the end of the quarter, up from 4.8% at the end of Q2 2026 (bond yields and prices move in opposite directions). UK gilts struggled alongside most other global government bonds in the period, as central banks turned hawkish once more on fears of persistently higher inflation and resilient economic growth. In September, the Bank of England (BoE) held its base rate at 3.75% for the sixth meeting in a row, but central bank governor Andrew Bailey said energy price volatility made it more likely that interest rates would rise. The UK inflation number came in at 3.1%, annualised, in August, marking two years since inflation was within the BoE's 2% target. The central bank also announced it would slow its sales of UK government debt, a move that eased pressure on the UK's long-term borrowing costs. However, longer-dated gilts still significantly underperformed short and medium-dated gilts in the quarter, while UK corporate bonds also delivered negative returns.

Gilt indices (12 months to 30.09.26)



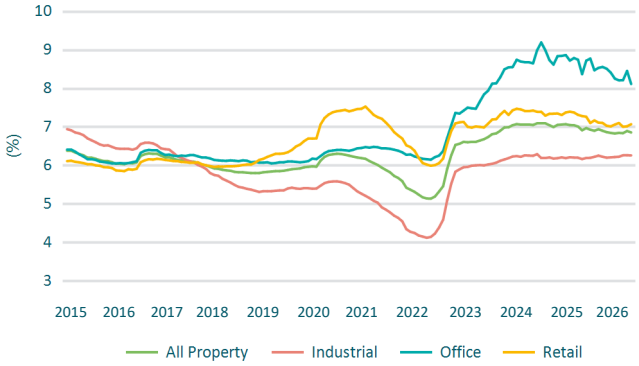
Source: LSEG Datastream Rebased to 100

Past performance is not a guide to future performance.

UK property

For the three months to end-August 2026 ("the review period" and the latest available data at the time of writing), capital values for All UK commercial property fell by 0.6%, according to property consultant CBRE. This was a deterioration on the previous three-month period to end-May 2026, when capital values fell by 0.1%. Capital values fell in both the office and industrial sectors in the review period, while retail capital values were unchanged. Including rental income, the total return over the review period was 0.7%, a decline on the previous three-month period when the total return was 1.3%. Total returns were positive across all three main sectors – retail, office and industrials, with retail being the strongest. Nevertheless, total returns were lower in the review period than the previous three-month period for all sectors. All three sectors saw rental values grow in the three months and overall, rental values for All UK commercial property rose by 0.7%, an improvement on the previous three months when growth was 0.5%.

Equivalent yields (to 31.08.26)

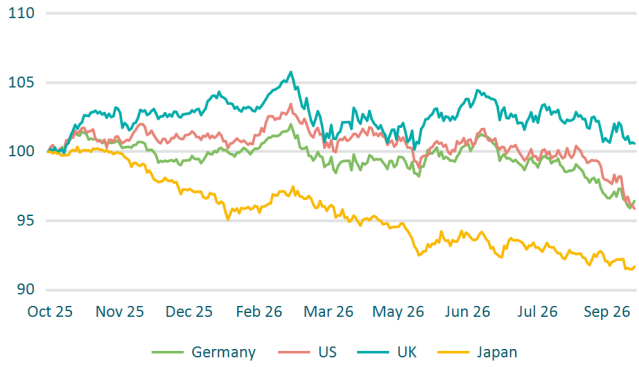


Source: IPD

International bonds

Global government bonds faced a tumultuous quarter, as elevated energy prices, renewed inflationary fears and heavy government borrowing forced markets to reprice central bank rate paths upwards. The US 10-year Treasury yield ended the quarter at 5.3%, up from 4.5% at the end of the second quarter. This marks the first time the 10-year Treasury yield has breached the 5% level since 2007. At its September meeting, the Federal Reserve announced its first hike in three years, signalling expectations of a further hike before the end of the year. US Treasuries fell 3.1% in the quarter, while US corporate bonds fell 3.8%. Emerging market debt was slightly more resilient. Local currency government debt declined 0.9% in the quarter, while hard currency emerging market corporate bonds fell 1.8%.

10-year government bond markets (12 months to 30.09.26)



Source: LSEG Datastream

Rebased to 100

Local currency

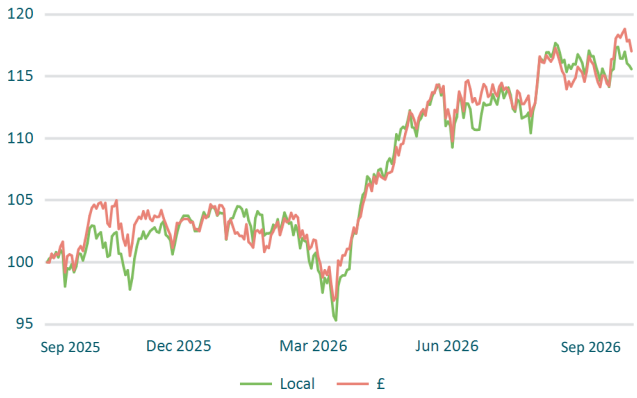
European bonds

European bonds suffered heavy losses in the quarter, in part caught up amongst the global government bond sell-off but also with member countries facing idiosyncratic difficulties. Most significantly, France's bond market faced the largest quarterly widening of spreads over the German bund since the euro crisis in 2011. Investors are concerned about missed deficit targets and policy gridlock, with little sign of a resolution on the horizon. Meanwhile, Germany also paid its highest borrowing cost for 10-year bonds since 2009, with an uncertainty premium as a result of a difficult defeat for Chancellor Friedrich Merz's ruling party at a local election in September. The European Central Bank (ECB) raised interest rates at its September meeting, its second hike since the US-Iran war began. ECB President Christine Lagarde said risks to growth are tilted to the downside, while inflation risks are currently tilted to the upside, emphasising that future decisions will be made on a meeting-by-meeting basis. All major European sovereign bonds fell in the quarter, with French OATs falling the most. European corporate bonds also declined.

North America

US equities delivered positive returns in the third quarter as strong corporate earnings, resilient economic growth and continued enthusiasm for AI-related investment supported investor sentiment. Market participants were also reassured by the economy's ability to absorb shocks from earlier trade disputes and the ongoing conflict in the Middle East. These factors outweighed concerns over inflation, elevated equity valuations and the fiscal outlook. Against this backdrop, the S&P 500 Index rose 2.3% (in US dollar terms) over the quarter, outperforming the global market. Technology and communication services remained among the strongest performing sectors. Energy and healthcare also outperformed the broader US market. In contrast, industrials, including the airlines sub-sector, and consumer discretionary were notable laggards.

FTSE World North America Index (12 months to 30.09.26)

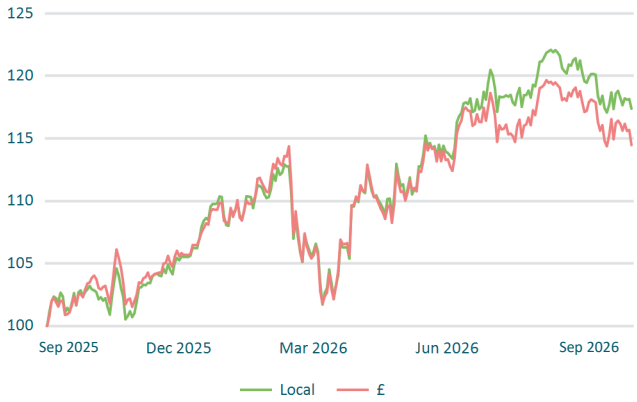


Source: LSEG Datastream Rebased to 100

Europe

European equities ended the third quarter in negative territory, despite reaching record highs in the summer on the back of robust earnings growth. Rising energy prices, higher inflation and soaring bond yields dented investor sentiment and Europe was one of the weakest regions globally. The region's relatively small exposure to the dominant AI theme was also a headwind for performance. Stockmarkets in Germany and Spain were among the best performing in the three months. In contrast, France's stockmarket fell as concerns about its public finances weighed on both its bonds and equities. At the sector level, oil and gas stocks gained on higher oil prices. Financials also rose as higher interest rates can increase banks' profit margins. In contrast, consumer goods and services, healthcare and telecommunications declined.

FTSE World Europe (ex-UK) Index (12 months to 30.09.2026)



Source: LSEG Datastream Rebased to 100

Japan

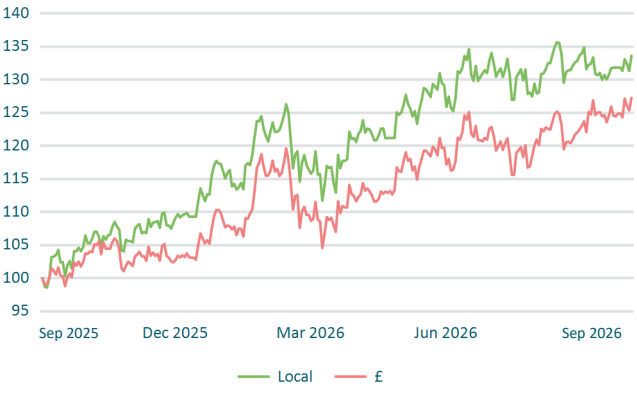
The Japanese stockmarket, as measured by the FTSE World Japan Index, continued its upward trend, posting gains during the third quarter of 2026. Over the period, Japan was one of the best-performing regions globally.

In July, as the earnings season progressed, investors favoured companies that demonstrated strong profit delivery over those that merely presented potential growth opportunities.

Japanese equities performed strongly in August, supported by robust corporate earnings, ongoing share buybacks, and sustained interest from overseas investors. Also in August, the US and Japan intervened to support the Japanese yen, which strengthened 3% against the US dollar in the quarter.

In September, the Bank of Japan raised its benchmark interest rate by 25 basis points to 1.25%, a 31-year high, signalling that the central bank was focused on preventing inflation from rising above its target level.

FTSE World Japan Index (12 months to 30.09.26)



Source: LSEG Datastream Rebased to 100

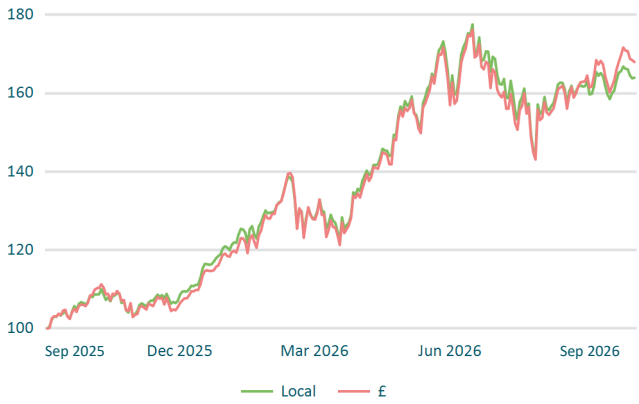
Pacific Basin Ex-Japan

Stockmarkets in the Asia Pacific ex-Japan region declined modestly in sterling terms during the third quarter of 2026. The region trailed the broad global market and the US. Share prices in China, Hong Kong and Taiwan posted gains, while stockmarkets in South Korea and India lagged the broader region.

Market conditions in the Asia ex-Japan region were challenging in July, with Asian equities correcting sharply as the AI-led rally reversed. However, markets rebounded in August, with gains broadening beyond AI-related stocks to a wider range of sectors and companies.

The performance of Asian equities was mixed in September, with continued strength in AI-related technology names offset by weakness across much of the rest of the market. Semiconductor stocks in Taiwan continued to benefit from strong demand linked to AI infrastructure, while higher oil prices fuelled by the Gulf war weighed on sentiment towards energy-importing economies. Investor sentiment towards China improved intermittently on hopes for further policy support, although concerns around domestic demand persisted.

FTSE All World Asia Pacific ex Japan Index (12 months to 30.09.26)



Source: LSEG Datastream Rebased to 100

Emerging markets

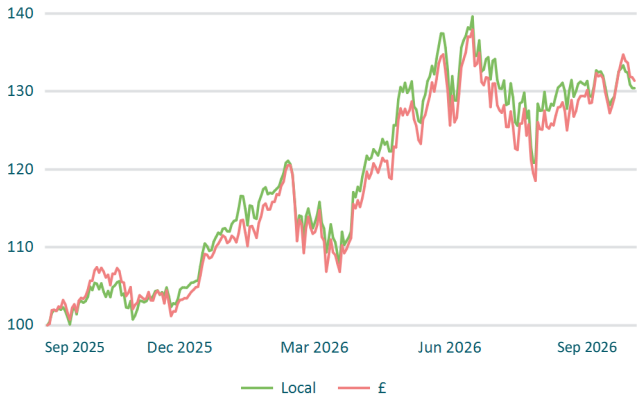
Emerging market equities registered a small decline in sterling terms in the third quarter of 2026 and trailed the broad global market.

In the Asia-Pacific ex-Japan region, stockmarkets in China, Hong Kong and Taiwan posted gains, while those in South Korea and India declined. The semiconductor stocks in Taiwan continued to benefit from strong demand linked to AI infrastructure, while higher oil prices stemming from the Gulf war weighed on sentiment towards energy-importing economies. Investor sentiment towards China improved intermittently on hopes for further policy support, although concerns around domestic demand persisted. India was again a notable laggard during the quarter, continuing its relative underperformance against both the broader region and several key emerging markets.

In Latin America, the two largest markets, Brazil and Mexico, outperformed and underperformed the broader emerging markets index, respectively.

In the Europe, Middle East, and Africa (EMEA) region, markets in South Africa and Poland outperformed the broad market.

MSCI Emerging Markets Index (12 months to 30.09.26)



Source: LSEG Datastream Rebased to 100

Please note that the views on markets expressed in this report are those of M&G as at 30.09.26 and should not be taken as investment recommendations.

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Market data

	Q3 2026%		12 months to 30.09.26 %	
	Local	Sterling	Local	Sterling
Equity index total returns*				
FTSE World	1.4	1.7	20.2	20.9
FTSE All World ex UK	1.3	1.6	18.2	18.7
FTSE All-Share	2.4	2.4	16.8	16.8
FTSE 100	1.8	1.8	17.1	17.1
FTSE Mid 250	7.4	7.4	15.3	15.3
FTSE Small Cap	4.7	4.7	17.2	17.2
FTSE World Europe (ex UK)	-1.2	-2.6	17.4	14.5
FTSE World France	-4.6	-5.3	3.0	0.9
FTSE World Germany	1.1	0.4	5.9	3.7
FTSE World Italy	-0.4	-1.1	25.2	22.6
FTSE World Spain	1.6	0.8	31.8	29.1
FTSE World North America	2.4	2.3	15.6	17.0
S&P 500 Composite Index	2.3	2.2	15.7	17.3
FTSE World Japan	2.0	5.5	33.6	27.3
Nikkei 225	-4.7	-1.5	48.6	41.5
FTSE All World Asia Pac (ex Jp)	-2.6	-0.2	27.3	28.2
FTSE Australia	1.2	1.5	4.1	10.7
FTSE China (All Cap)	1.4	1.3	-16.9	-16.5
FTSE Hong Kong	8.1	8.0	12.3	12.8
FTSE Korea	-20.9	-9.5	134.4	146.2
FTSE Singapore	10.9	12.2	37.5	40.7
FTSE Thailand	0.0	-1.1	30.3	27.5
MSCI Emerging Markets	-2.8	-0.3	30.4	31.4
MSCI Brazil	8.3	8.3	24.3	29.6
MSCI Argentina	-8.6	-8.7	61.9	64.1
MSCI Mexico	-2.2	-5.1	9.4	12.9
MSCI South Africa	1.4	1.3	4.2	11.1

*Returns include income

Source: LSEG Datastream.

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		Q3 2026%		12 months to 30.09.26 %	
		Local	Sterling	Local	Sterling
Bond index total returns*					
FTSE Actuaries UK Conventional Gilts All Stocks Index		-2.5	-2.5	0.6	0.6
UK gilts under 5 years		-0.3	-0.3	2.2	2.2
UK gilts 5 - 15 years		-3.0	-3.0	0.2	0.2
UK gilts over 15 years		-5.4	-5.4	-1.8	-1.8
FTSE Actuaries UK Index-Linked Gilts All Stocks Index		-1.2	-1.2	2.2	2.2
iBoxx £ Non-Gilts Index		-1.7	-1.7	1.8	1.8
FTSE World Government Bond Index**		-2.4	-2.5	-2.7	-1.4
10-yr benchmark bond returns*	**Yield as at 30.09.26 (%)**				
UK	5.4	-3.3	-3.3	0.6	0.6
US	5.3	-5.2	-5.3	-4.1	-2.8
Japan	3.0	-2.1	1.2	-8.3	-12.7
Germany	3.6	-4.6	-5.3	-3.6	-5.5
France	4.7	-7.7	-8.4	-5.4	-7.4
Currency changes vs sterling	**Exchange rate as at 30.09.26**	**Q-Q chg %**		**Y-Y chg %**	
Dollar	1.3285	-0.1	–	1.3	–
Euro	1.16955	-0.7	–	-2.0	–
Yen	208.7460	3.3	–	-4.8	–
Interest rates	**Rates as at 30.09.26 (%)**				
UK base rate	3.75	0.0	–	-0.3	–
US Fed Funds rate	4.00	0.3	–	-0.3	–
ECB base rate	2.65	0.3	–	0.5	–
Commodities	**Price level as at 30.09.26**				
Oil (Brent crude) US$ per barrel	103.6	42.0	41.9	54.4	56.5
Gold bullion US$/troy oz	4,164.0	3.2	3.1	8.6	10.1

*Returns include income.

**The Index was formerly known as the Salomon World Government Bond Index.

Source: LSEG Datastream.

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For definitions of the investment terminology used within this document please see the glossary at:
www.mandg.com/investments/private-investor/en-gb/help-centre/glossary

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