FE Investments

WEEKLY MARKET COMMENTARY BY ROB GLEESON

4 September 2026

CONCERNS ABOUT PERSISTENT INFLATION PUSH GOVERNMENT BOND YIELDS HIGHER

This week often brings a change in pace as schools reopen and offices are full after the summer holidays. The start of September brings an increase in intensity after the quieter summer months as organizations and individuals sort their priorities for the rest of the year. For central banks, the priority is likely to be inflation. Consumer price inflation is already picking up and inflationary pressure is building. A flare up in the conflict between the US and Iran has pushed oil past $95 again. Stress is showing further down the chain as petrol and diesel prices head higher at faster rate. Natural gas prices are also surging higher as Europe restocks reserves from record lows.

Central banks have been talking tough on inflation, and bond markets see rate hikes coming from the Fed, Bank of England and ECB. Inflation is also rising in Japan as its central bank considers more aggressive hikes. Gilt yields have risen as investors ask whether high inflation is here to stay and are back at pre-financial crisis levels. But, for context, the 2003 to 2007 period saw inflation at 2.5% and GDP growing at a similar rate.

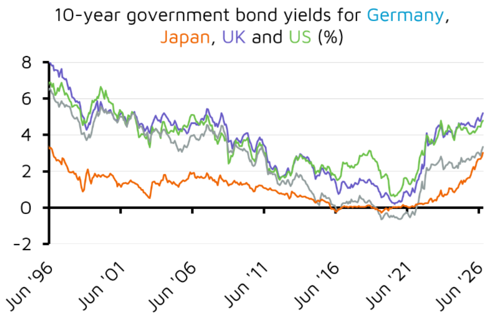
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
-0.09%	+0.33%	-2.15%	-1.05%	+0.42%	+0.08%	+0.11%	+8.14%	-2.45%	+0.11%	-0.34%

BONDS: YIELDS CLIMB ON RISING EXPECTATIONS OF RATE HIKES

More selling in global bond markets has pushed government bond yields higher. The yield on 10-year UK gilts passed 5.25% this week, the highest since late 2023. Long-dated gilts have moved further, with the 30-year gilt yield rising to 5.9% from a 2026 low of 5% in late February. European bonds and US Treasuries have also declined, with higher inflation a major factor. European inflation rose to 3.3% in August and the European Central Bank is widely expected to raise interest rates next week.

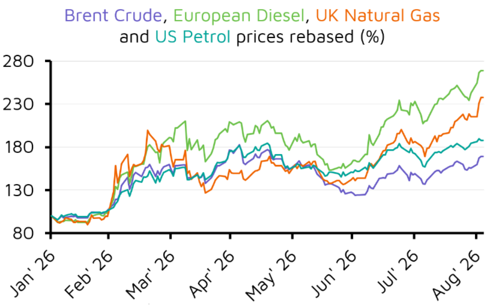
Markets also expect the Federal Reserve to hike rates. Fed chair Kevin Warsh sounded more determined to control inflation when he spoke at the annual gathering of the world's central bankers in Jackson Hole. Investors now see the Fed raising rates at least once this year. Japanese government bonds have also fallen sharply. The yield on 10-year JGBs touched 3%, the highest since 1996 as some members of the Bank of Japan suggested more aggressive rate hikes are needed. This also helped the yen appreciate against the US dollar.



ENERGY: RENEWED FIGHTING ACCELERATES PETROLEUM RALLY

A fresh outbreak of fighting in the Middle East pushed Brent crude up to a six-week high of $97. The price of refined fuels has increased faster. The price of diesel in Europe is now over twice the price of the crude it is made from and a gallon of diesel in the US hit an all-time high of $5.85 (up from a pre-conflict average price of $3.72). Meanwhile, Russia has extended its diesel export ban. US refineries have run close to full capacity for three months but this didn't stop the White House summoning the heads of the biggest American oil refiners to push for lower fuel prices.

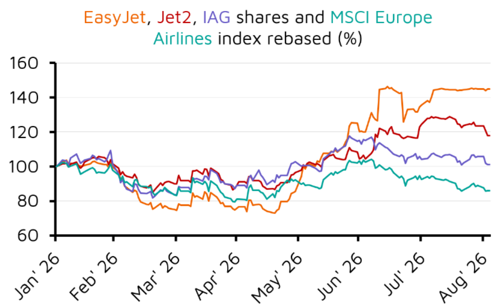
The price of natural gas has also been rising steadily in recent weeks. European natural gas prices are up almost 7% this week. Over the last month, European gas has increased more than 35% and UK gas prices are up around 38% as European countries compete for limited global supplies of liquified natural gas as they restock reserves in advance of winter from record low levels.



EQUITIES: AIRLINES WARN OF HIGHER FUEL COSTS DESPITE STRONG SALES

Ryanair is reducing its winter flight schedule as it deals with higher fuel costs. Europe's largest airline has cut more than 2 million tickets to reduce losses from the traditionally quieter (and loss-making) winter schedule. It maintained its profit forecast for this financial year as it expects 2026 summer sales to achieve 5% growth, but warned that if oil prices remain high then industry ticket prices are likely to be materially higher next year. Other airlines are also expected to cut passenger numbers significantly this year and airline trade body IATA expects global airline profits to fall by half this year, from $43bn to $23 due to tough trading conditions.

Meanwhile, EasyJet is returning to the FTSE 100 at the next rebalance after its takeover by Apollo Global Management sent its shares surging higher. Jet2 has also joined the main London market from the Aim junior market as it eyes further growth following strong summer sales for flights and package holidays.



Data sourced from FE Analytics, Federal Reserve Bank of St.Louis