

What will move markets in Q4 2026

Earnings can carry the S&P 500 through Q4 if AI spending keeps turning into profits, but the index rests on a few AI companies and has little cushion against a ten-year Treasury above 5%. The main risks are Fed tightening in response to supply-driven inflation, the AI labs' revenue and France.

AS OF
9 October 2026

SCOPE
US shares and the AI trade,
Treasuries, oil, France, the UK and
the midterms

KEY POINTS

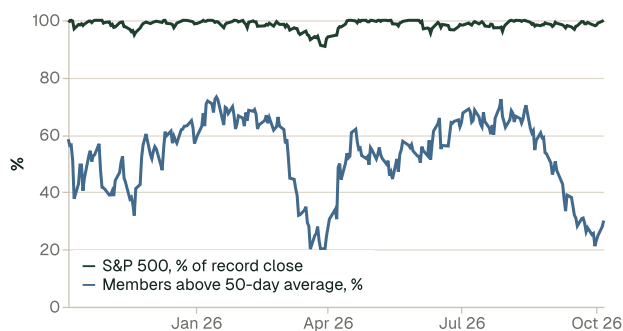
- **The index's record depends on continued profit growth at a few AI companies.** Microsoft, Nvidia, Apple and Meta produced 192% of the Q3 gain in our index reconstruction, while the typical stock returned -4.0%. On ten years of average profits the index is as expensive as in 1999-2000, but close to its historical average on forecasts. An earnings shortfall would also put the valuation multiple at risk.
- **AI spending supports earnings growth, and demand for AI is still rising fast.** Companies have beaten forecasts for eight quarters. Q3 growth nearer 32.7% than the 26.8% expected would be consistent with that pattern. Microsoft, Alphabet, Meta and Amazon are likely to raise their spending plans at results expected on 28-29 October. Their plans depend on revenue growth at the AI labs that buy their computing power. Profits outside tech show little evidence of gains from AI so far.
- **Higher yields are the main market risk, while rate rises do little to address the supply disruptions driving inflation.** The ten-year Treasury yield reached 5.31%, and the gap between the trailing earnings yield and real Treasury yields is in the bottom tenth of our history since 1960. Diesel has doubled because Gulf refineries are exporting far less, keeping inflation above target. A December hike is still likely, and higher rates are already hurting housing.
- **France is the main political risk.** Its debt is rising faster than its economy and a downgrade is likely, while the UK Budget on 28 October is the test for UK government bonds. The China truce should hold and the midterms will change little. We favour companies with strong earnings over the index and would buy insurance against a fall in the last week of October.

A record with a third of stocks in a bear market

The S&P 500 closed at a record on 6 October, but most of the stocks in it are not taking part in the rally. Only 30.1% trade above their 50-day average, a common measure of short-term trend, and 34.5% are in a bear market, at least 20% below their 52-week closing high. On the 352 record closes since 2016 that share averaged 14.9%, and only 8, all in August 2020, had more. In the third quarter the typical stock returned -4.0%. The gain came from a few large companies, almost all tied to the AI trade: Microsoft, Nvidia, Apple and Meta produced 192% of the Q3 gain in our index reconstruction, so without them it would have fallen. The ten largest companies now make up 40.4% of the index's market value, more than the 26.6% they held at the peak of the 2000 tech bubble, and Nvidia alone makes up 7.9%.

The index sets a record while most stocks lag

S&P 500 as % of its record close; % of members above their 50-day average



Members as of each date; a company with two share classes counts once. One year to 6 October 2026, when the index closed at a record (highest close since 1950).

We expect volatility to rise in Q4

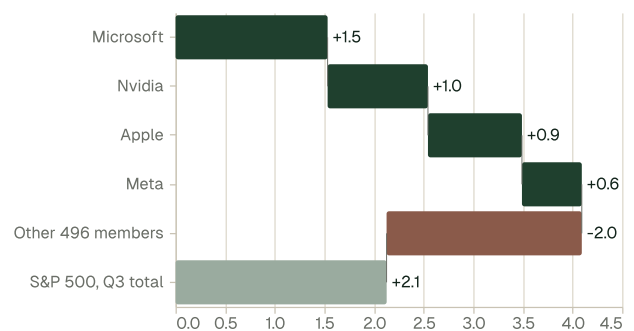
Over three months the ten largest companies moved about 1.4% for every 1% move in the index, while the other 490 moved only about 0.7%, so the leaders now set the index's direction. Their correlation with the rest is 0.04, against a ten-year average of 0.26. Cboe's index of the correlation priced into options on the largest stocks stands at 11.5, in the lowest 2% of days since 2006. Since 2006 the index fell 10% or more in 13% of the three-month spells that began with implied correlation in its bottom historical tenth, against 21% at other times. The VIX rose five points or more within three months after 82% of them, against 64% after other spells with a VIX as low. All 3 completed episodes were followed within three months by a drawdown of 10% or more; their endpoints are known only in hindsight. This one, at 322 trading days, is the longest yet. We expect volatility to rise in Q4, but a bear market is not our base case. We would retain equity exposure and buy protection against a fall.

The ten largest earn close to their share of value

At the 2000 peak the ten largest companies made up 26.6% of the index's value but earned only 15.9% of its profits. At the end of September they made up 40.2% of the value and earned 35.6% of the profits, a premium of only 4.6 percentage points, below its average since 2017. Their share of profits has risen from 21.4% at the end of 2017, almost as fast as their share of market value. Analysts expect them to earn 37.6% of next year's profits. The comparison suggests that today's concentration is better supported by earnings than it was in 2000.

Four stocks delivered nearly twice the index's gain

Contribution to the S&P 500's Q3 2026 total return, percentage points



Members on 30 June weighted by full market value, dividends reinvested. EA and AvalonBay, acquired in August, are valued at their last close as members.

AI spending still pays, but breadth stays narrow

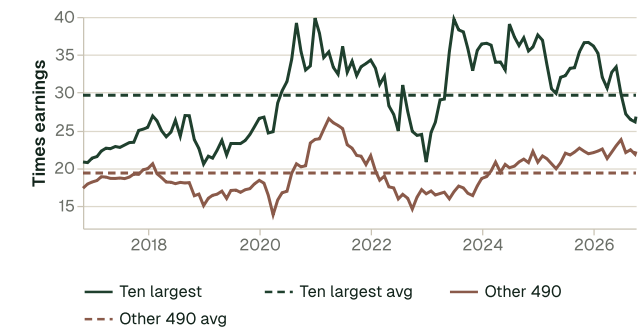
Companies making up 46.5% of the index's value are expected to report in the week of 26 October. Their growth depends on continued demand for AI. Google and OpenAI disclosures through July imply annualised token-volume growth of 4.9x to 6.2x, though token counts also rise with more computation per task. Returns on new capital remain above the cost of capital, but have fallen. The five biggest spenders raised capital spending 81% in a year. Each extra dollar of capital earned 17%, down from 31% a year earlier, against our estimated cost of capital of about 9.7%. If the annual profit increase stays unchanged, their spending plans imply about 11% on new capital and insufficient cash to restore buybacks without borrowing. We do not expect the market to broaden this quarter or next. Since 2016 the equal-weighted index has beaten the cap-weighted one in only 28% of quarters, and in only 9% of those that began with the ten largest at a record weight. We expect broader market gains later, as companies using AI cut costs.

Valuations are high on past profits but close to average on forecasts

The index trades at 41.6 times its average inflation-adjusted earnings over the past ten years, a level exceeded only in 16 months of the dot-com boom. Its forward valuation is closer to its historical average, at 19.3 times expected earnings, approximately the 71st percentile of months since 1995. Since 1996 the forward P/E has explained almost none of the variation in three-month returns (R^2 0.00), while changes in the multiple have accounted for 76% of quarterly swings, against 24% for earnings. This year earnings growth explains much of the index's rise. Earnings rose +25.5% while the multiple moved -9.0%. The ten largest companies trade at 26.8 times trailing earnings, below their decade average of 29.6 times, while the other 490 trade at 22.2 times, above their average of 19.3 times. Yet analysts expect the other 490's profits to grow +20.7% next year against +29.0% for the ten largest.

Ten largest below their average P/E, the rest above

Trailing P/E of the ten largest S&P 500 members and the other 490, month-end



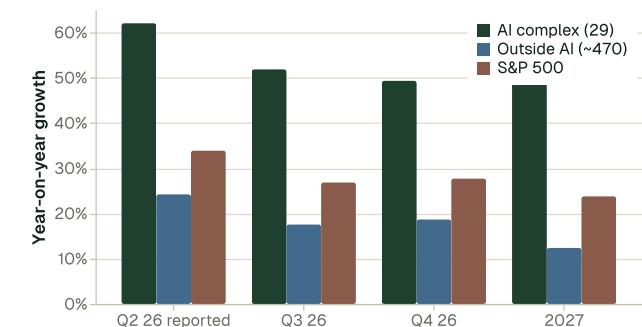
Point-in-time members, operating earnings over the last four quarters. Dashed: each group's average, October 2016 to September 2026. Last point 6 October 2026.

Q2 beats were broad, while 2027 forecasts rely on AI

Q2 earnings grew 33.9% on a year earlier, excluding large one-off gains and charges, against 22.8% expected before companies reported. 86% of companies beat the earnings forecast and 77% the revenue forecast. Outside the 29 AI companies earnings grew 24.2% against 12.9% expected. Analysts raised their Q3 estimates by 1.4% during the quarter, according to FactSet, against an average cut of 2.2% over the past five years. Energy and technology led the estimate increases, while eight of the 11 sectors had their estimates cut. We expect Q3 growth in the middle of the 32.7% to 37.5% range implied by the last eight quarters' earnings surprises, with larger surprises outside AI. Outside AI consensus growth is 17.5% in Q3, 18.7% in Q4 and 12.4% in 2027, so the AI group's share of the expected increase rises from 52% in Q3 to 64% in 2027. Since June, forecasts for 2027 have risen +4.8%, with Nvidia accounting for 47% of the increase, and only +1.5% outside AI and energy. The 2027 forecasts also assume the net margin widens from 15.0% to 17.0% while revenue outside AI grows 4.8%. On the results calls, we will look for capital spending plans for 2027 and evidence that AI is lowering costs at companies outside the AI trade. On the July and August calls 69% of them mentioned AI, but only 11 put a number on what it did for their costs or earnings.

Consensus has growth outside AI slowing in 2027

S&P 500 EPS growth on a year earlier, Q2 2026 reported and today's consensus



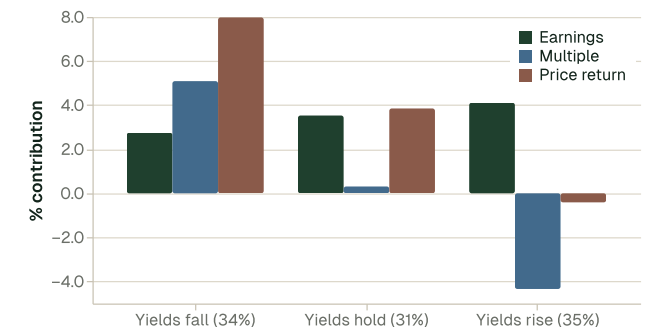
AI complex: 29 builders, suppliers and power firms. 6 Oct members and share counts, large one-offs replaced. 2027 is fiscal years. Q4 is partly derived from annual forecasts.

We expect the S&P 500 to rise about 4% in Q4

Our model puts the S&P 500 at +4.3% above its 6 October close at year-end, mainly from earnings. Forward earnings rose +21.1% over the past two quarters. After two-quarter gains above 8%, the next quarter's median gain was +3.7%, supporting an earnings contribution of +3.5%. From 5.27%, the ten-year yield has been about as likely to rise as fall. Multiple changes contribute little to average returns but 86% of simulated variance, with a 31% loss probability and a one-in-ten outcome of -7.2% or worse. Since 2022, a 25bp yield rise has been associated with a -2.3% multiple change. Our 4.75% yield scenario gives a +8.5% median return; 5.77% gives +0.3%. Across 83 historical forecasts, 83% of returns fell within the 10th-90th percentile range, but direction forecasts did no better than historical frequencies. In 14 periods since 2018 with positioning like today's—trend-followers long, few puts traded, low VIX and expensive single-stock options—the worst subsequent three-month close averaged -7.2%, against -4.6% generally. A 10% earnings shortfall and a multiple one point lower would imply -14.7% for the index.

Earnings add about 3.5% whichever way yields go

Q4 S&P 500 price return by ten-year path; average contribution of each part, %



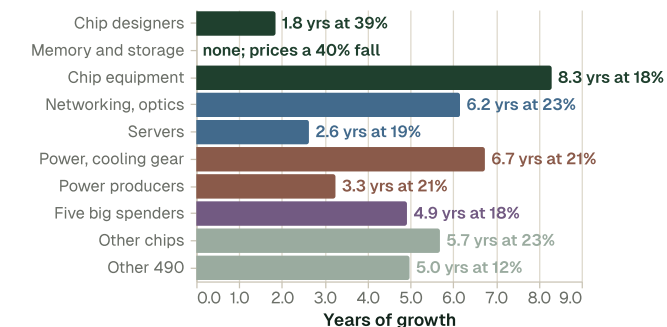
Our simulation, 20,000 draws, 6 Oct to 31 Dec. Yield paths and odds from quarters since 1962 that began near 5.3%. Bars are averages; medians in the text run slightly higher.

Chip designers are priced for less growth than the rest of the AI supply chain

We value the S&P 500's AI suppliers and spenders at an 8.8% discount rate. At that rate, a company with flat profits would trade at about 11.3 times expected earnings. Nvidia, Broadcom, AMD and Marvell trade at 19.8 times, which implies 1.8 years of growth at the 39% a year analysts expect, although their 2028 forecasts have risen +24% since June. At that growth rate, the price implies profits reaching 1.84 times today's expected level, about the same as for the index (1.86 times). Other suppliers are priced for longer periods of growth: chip equipment for 8.3 years, taking earnings to 3.83 times their forward level, networking and optics for 6.2 years, and power and cooling equipment for 6.7 years. Memory and storage makers trade at 6.8 times, below the value of flat profits, so their price assumes earnings fall 40%, which is common near the peak of a memory cycle. With a higher discount rate for the more volatile chip shares, power and cooling equipment is still priced for 4.2 years more growth than the chip designers. We favour the chip designers into the late-October results if the largest AI spenders issue guidance above consensus. Our model links chip earnings forecasts to customer capital spending growth of about +38% in 2027, in line with the consensus of about 38% that Goldman Sachs cited in late September. That consensus was up from 22% in June, while Goldman itself expects 54%.

Implied years of growth along the AI supply chain

Years of growth at consensus pace that today's price implies, 8.8% rate



Consensus net income growing at each group's 2026-29 pace for N years, then flat. Memory trades below the value of flat profits. S&P 500 members; rate: 10y yield + 3.5%.

The Fed drives the ten-year; supply drives the thirty-year

The ten-year Treasury yield hit 5.31% on 5 October, its highest since 2002. A Fed staff model attributes +59 bp of this year's +113 bp yield rise to expectations of higher Fed rates. It attributes +51 bp to the term premium, the extra return investors require for holding long bonds.

In our model, no further Fed hike leaves the year-end ten-year yield near 5.01%, and if it hikes twice, near 5.51%, against 5.27% on 6 October. Yields also move about 36bp in a typical quarter on days without scheduled news, so the two outcomes overlap. The thirty-year reacts much less to the Fed and more to bond supply. It ends about +20bp above 6 October in the larger-auction scenario and +19bp higher in the Japanese bond sell-off scenario.

At the ten-year auction on 7 October, a day after the cut-off for our other figures, investors bid 2.77 times the \$39bn on offer, the most since January 2016, and dealers had to take only 2.5%, the smallest share in 215 auctions since 2009. At about 5.3% the Treasury can sell its current auction sizes, although strong auctions have in the past lowered yields for only a day.

Treasuries now do less to protect a portfolio of shares. Most of our cases raise yields, and the main exception, a flight to safety if AI spending disappoints, has worked less often since 2022. When shares fell 5% or more, the ten-year yield fell in 72% of cases from 1990 to 2021 but in only 29% since 2022, when equity sell-offs more often coincided with rising yields.

Yields and the S&P 500 in seven Q4 scenarios

Median change from the 6 October close to 31 December

	Odds	10Y chg	30Y chg	S&P 500
No hike	26%	-26bp	-17bp	+6.2%
One hike, steady auctions	58%	+7bp	+3bp	+3.5%
Two hikes	17%	+24bp	+13bp	+1.8%
One hike, larger auctions	-	+22bp	+20bp	+2.3%
Flight to safety (AI miss)	-	-17bp	-9bp	-10.0%
JGB sell-off (30 Oct BoJ)	-	+18bp	+19bp	+2.7%
Brent \$130, firm CPI	-	+25bp	+17bp	+1.8%

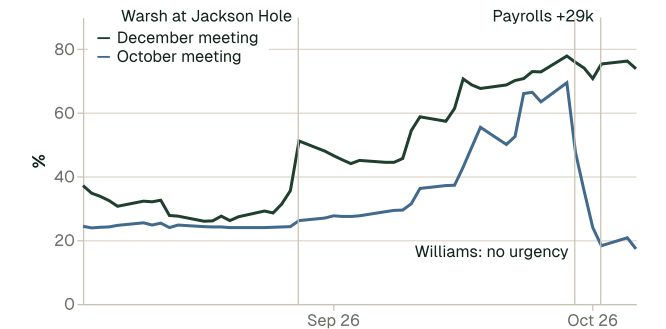
Fed-row odds are Polymarket and Kalshi at 6 October; the other rows are conditional cases with no market price. Auction sizes are our assumption. The AI row includes its shock.

The calendar points to a December hike, not an October one

At the 6 October close, Polymarket and Kalshi put the chance of a hike on 28 October at 17% and 18%, respectively. For 9 December, their probabilities were 76% and 72%. September CPI on 14 October is the only major release before the October meeting. Unless it comes in well above forecast, we do not expect the Fed to hike six days before the 3 November midterms, when a hike would look political. By 9 December the Fed will have two more payroll reports and October's inflation figures. In our scenarios, a December hike leaves the ten-year yield +36bp and the thirty-year yield +23bp higher at year-end than a hold would. A 25bp rise in the Fed's median 2027 rate projection adds only +4bp. This year each 10bp rise in the ten-year yield has been associated with an S&P 500 move of about -0.8%. We do not model two term-premium risks: the 3 November midterms, which bear on 2027-28 deficits more than on this quarter's \$628bn of borrowing, and changes to Fed Treasury holdings, \$4.35tn in the March staff-paper baseline.

Markets moved the next Fed hike to December

Probability of a hike at each FOMC meeting, average of Polymarket and Kalshi, %



New York 16:00 closes, 3 August to 6 October 2026, outcome prices scaled to sum to one. Lines mark speeches by Warsh (Jackson Hole) and Williams, and September payrolls.

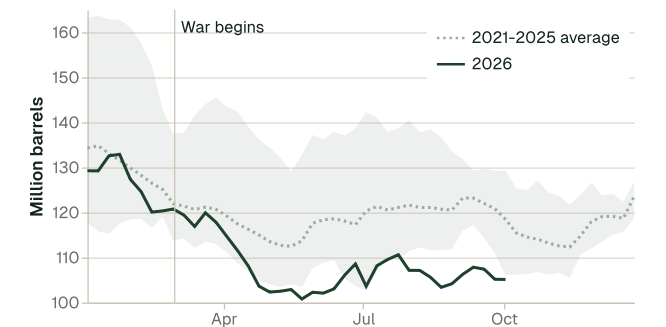
Crude is getting through, but diesel is short going into winter

Gulf crude exports have recovered more than shipments of diesel and other refined products. Kpler tracked 10.1 mb/d of crude through the Strait of Hormuz in the week to 6 October, 74% of its pre-war rate, while exports via the Red Sea and Gulf of Oman partly offset the shortfall. Saudi Arabia's East-West pipeline, the largest of them, was hit by drones in September and was back above 80% of capacity by 5 October. Refined products through the strait have fallen to 0.7 mb/d from 3.6 mb/d, because damaged Gulf refineries run well below capacity, and Kpler does not expect them to recover fully before Q2 2027. Refiners elsewhere are paying up for crude to make diesel, so Dated Brent, the price of crude loading within weeks, averaged \$114 in September against \$101 for futures on 6 October. The G7 agreed on 2 October to release up to 100 mb of emergency stocks over four months, diesel first, but the US Strategic Petroleum Reserve already holds the least crude since 1982.

President Trump has said strikes on Iran could resume after the 3 November midterms if there is no deal, and a third US carrier group is heading to the region. Polymarket gives a US-Iran agreement on the strait by the end of the year a 37% chance. We expect a stalemate through Q4, with Brent near \$100, close to futures and below the EIA's \$105, set before the G7 release. A deal that lifts the US blockade of Iran's ports would take Brent towards \$80, although diesel would stay short until the Gulf refineries are repaired. Renewed strikes would take it towards \$130, and Iran's fractured leadership leaves room for factions to attack ships during talks.

US diesel stocks have been below normal since May

US diesel and heating oil stocks, million barrels; shaded: 2021-2025 range



EIA data to 2 October 2026. The dotted line is the 2021-2025 average for the same week; on 2 October stocks were 105 mb, 11% below it.

Fuel costs have risen alongside freight prices and airfares

New York Harbor diesel doubled from \$105 a barrel in February to \$210 at the end of September, and US diesel stocks were -11% against their 2021-2025 average on 2 October. Prices have eased a little since the G7 release, and futures price a gradual fall through the winter. We expect the gap between diesel and crude to stay above \$70, twice its February level, until Gulf refineries return in spring. Trucking prices rose 2.0% in August, and airfares were 23% higher than a year earlier, consistent with the pattern after past diesel price rises. The Cleveland Fed's nowcast of 0.2% a month for core CPI in September and October suggests limited broader inflation pressure so far. The Fed raised rates by 25bp in September, and the minutes warn that the longer energy prices stay high, the greater the risk that costs spread to other prices. Markets give a December hike about three chances in four, so the risk for shares is that persistent diesel inflation prompts further hikes in 2027. The September and October CPI reports, both out before the 9 December meeting, will show whether other prices are following.

Diesel has risen much further than crude this year

New York Harbor diesel (dark) and Dated Brent (red), US\$ per barrel, since 2025



The shaded gap is what diesel costs above crude. It was \$96 on 29 September, above 99% of days in 2016-2025, against \$34 in February and \$117 at the 2022 peak.

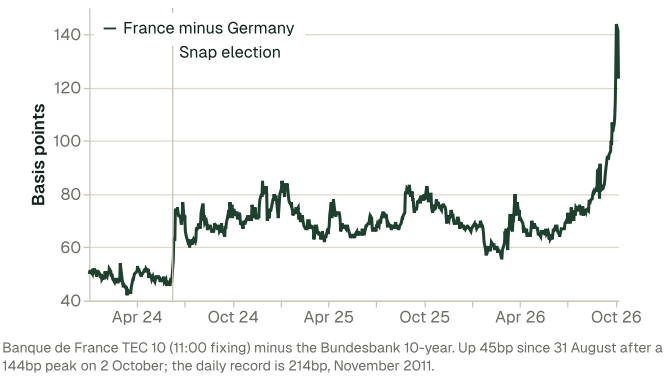
France's debt path is the problem, and the 2027 election is the test

French bonds are falling because France keeps running large deficits, and pensions are part of the reason. French men leave work at 61.9 on average, against 64.7 across the OECD. The 2023 reform that was to raise the pension age to 64 has been paused. The government now expects this year's deficit to reach 5.4% of GDP, more than last year's 5.1% and the 4.6% it first planned. For 2027 it plans a deficit before interest of 2.1% of GDP, which needs €54bn of spending cuts and tax rises that it lacks the votes in parliament to pass. Even if the plan holds, we calculate that France would borrow 1.9 points of GDP more than it can without its debt growing faster than its economy. The calculation uses the low average interest rate on its existing bonds. As old bonds are replaced with new ones at today's ten-year yield, France would need a surplus before interest of 2.4% of GDP.

The ECB can intervene and buy a country's bonds to stop yields rising without good reason, through its Transmission Protection Instrument, but only if the country's debt is sustainable and it follows EU fiscal rules. Scope cut France's rating to A+ on 18 September. The extra yield France pays over Germany closed above 100bp on 24 September for the first time since 2012. Moody's reviews its rating on 23 Oct, and the National Assembly votes on the budget on 17 Nov 2026. Both front-runners in the April 2027 presidential election worry bond investors. Marine Le Pen leads the polls at 35% and wants to return the pension age to 62. Jean-Luc Mélenchon has proposed cancelling the 18% of French debt held by the Banque de France, which EU treaties forbid.

France pays the most over Germany since 2012

French minus German 10-year government yield, daily, basis points

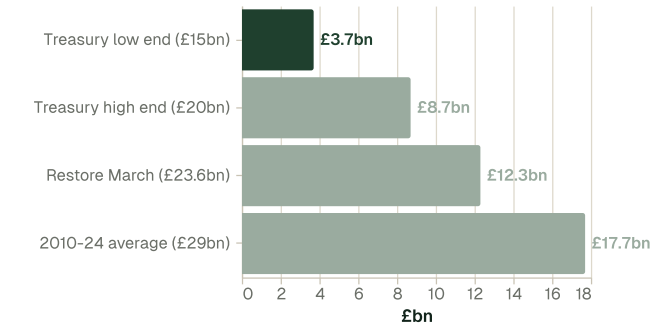


Healey needs about £12bn to restore his buffer and is likely to find less

Chancellor John Healey has promised to meet the fiscal rules in his first Budget on 28 Oct 2026. The binding rule requires revenue to cover day-to-day spending in 2029-30, and the OBR's March forecast left £23.6bn to spare. Since then the ten-year gilt yield has risen 0.85 percentage points to 5.33%, which on the OBR's rule of thumb adds about £7bn to that year's debt interest. With weaker growth and higher inflation, EY now puts the margin at £11.3bn. Restoring March's buffer would take about £12bn of tax rises or spending cuts, and matching the £29bn average buffer of 2010-2024 about £18bn. That is less than the £26bn raised in November 2025, but income tax, VAT and employee National Insurance, about 70% of tax revenue, are ruled out. The Treasury has sounded out investors on a buffer of £15-20bn. We expect it to aim for the low end, which needs about £4bn. A thin buffer would leave gilts exposed to the next rise in yields: the thirty-year reached 6.04% on 7 October, the highest since 1998, and markets price a Bank of England hike on 5 Nov at about 80%.

Healey must find £4-18bn, depending on his buffer

Tax rises or spending cuts needed in 2029-30 for each buffer, £bn



Need = buffer minus EY's £11.3bn headroom estimate (5 Oct); dark bar is our view. The OBR left £23.6bn in March; higher gilt yields have since cost about £7bn of it.

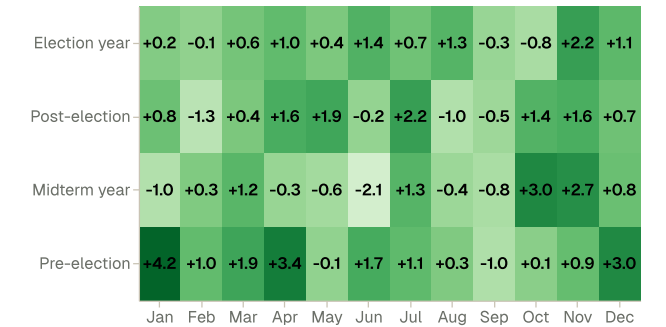
The midterms matter more for 2027 than for Q4

Prediction markets favour Democrats winning both chambers of Congress on 3 November. We find no statistically clear relationship between changes in those odds and asset prices so far. Republicans hold 53 Senate seats, so Democrats need a net gain of four. Polymarket gives them a 65% chance of winning the Senate, up from 25% in August 2025, and 91% for the House. The cost of living dominates the campaign, and in a KFF poll 60% of voters said they worry about gasoline and transport costs, tied with health costs as their top concern. About seven Senate races are close enough to decide control, among them Ohio, Maine, Texas, Iowa and Alaska. Alaska and Maine count voters' second choices when no candidate wins a majority, which takes time, so control may not be known for a week or more after the vote.

In weekly data since August 2025, none of fifteen sector and style funds has a statistically significant relationship with the Senate odds. The strongest link has a t-statistic of 1.5, below the conventional threshold of about 2. The ten-year yield has moved +3bp for each 10-point rise in the odds, also not statistically distinguishable from zero. Election results have moved markets little in the past, because investors usually price the likely winner before the vote. On the day after a midterm the index has moved 1.03% on average, against 0.67% on an ordinary day. Strong fourth quarters in midterm years are a weak guide too. Since 1950 the fourth quarter of a midterm year has returned +6.6% against +3.4% in other years. Since 1999 that lead has reversed to -1.1 pp, and it usually followed a weak summer, while this year the index returned +17.2% from April to September.

The midterm autumn lead rests on a few strong years

Average S&P 500 price return, %, by month and year of the presidential cycle

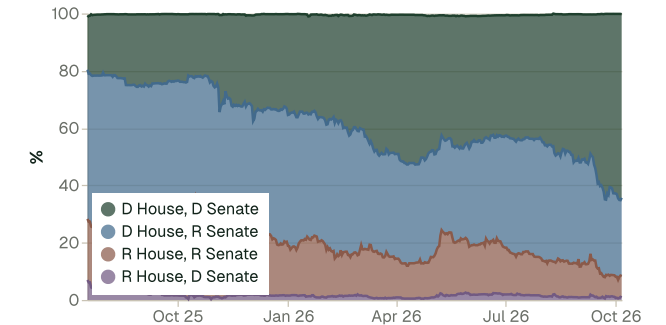


1950-2025, 18 to 19 years per cell. Midterm Octobers average +3.0% against +0.9% in all years, but dropping 1998 alone cuts the midterm Q4 lead by a quarter.

A Democratic House would mean divided government, preventing either party from passing a tax and spending bill alone in 2027 and 2028. Raising the debt limit, reached again in 2027, would require agreement between the parties. Before the new Congress sits in January, the outgoing Republican majority is likely to try to pass a budget bill that needs only a simple majority in the Senate, with \$350bn for defence, in the same weeks as the 11 December funding deadline. The election does not itself remove tariffs imposed under existing trade laws. For the AI trade, Morgan Stanley's policy team argued on 7 October that the vote matters through local resistance to new data centres more than through federal AI rules. It sees a Republican sweep as the best outcome for investor confidence in AI construction and a Democratic sweep as the worst. The decisions that actually delay projects, such as grid connections, power prices for large users, zoning and water permits, are taken by states, utility commissions and local governments.

Markets expect a Democratic House; the Senate is open

Polymarket odds of the four House and Senate outcomes, %, normalised to 100



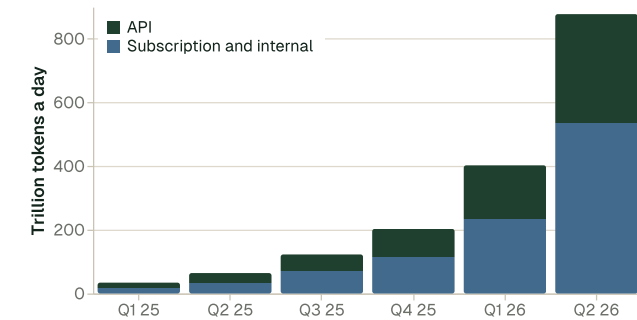
A sweep is priced at 64%, above the 59% implied if the two chambers were independent, so markets expect one national swing to decide both. Kalshi: House 91%, Senate 63% D.

AI spending plans should rise again, and the AI labs' revenue is the main risk

Microsoft, Alphabet, Meta and Amazon are likely to raise their spending plans at results expected on 28-29 October, because demand for computing power still runs ahead of supply. One-year rental prices for Nvidia's H100 chips rose about 40% between October and March, and OpenAI's API traffic grew 2.5 times in the five months to April. Consensus cited by Goldman Sachs puts 2027 spending growth for those four companies plus Oracle at about 38%. SemiAnalysis expects OpenAI and Anthropic to use 40-50% of new computing power in 2027, making their revenue growth a risk to these plans. AI shares fell after the Financial Times reported OpenAI's September annualised revenue at about \$50bn on 8 October; differing treatment of cloud-partner sales complicates comparisons. TSMC's results on 15 Oct and Anthropic's reported November listing, raising up to \$100bn at a valuation of up to \$2tn, are the other tests. Post-results index moves have averaged 0.95% since 2023. The VIX at 15.0 measures 30-day volatility; late-October protection needs to be assessed at the relevant option prices.

World AI token use rose about 25-fold in five quarters

Tokens processed worldwide, trillions a day, quarterly average



Exponential View estimate for all major providers including China, read from its June 2026 chart; June 2026 was its estimate. Subscription and internal use include chat apps.

Q3 results are unlikely to show AI spreading beyond tech

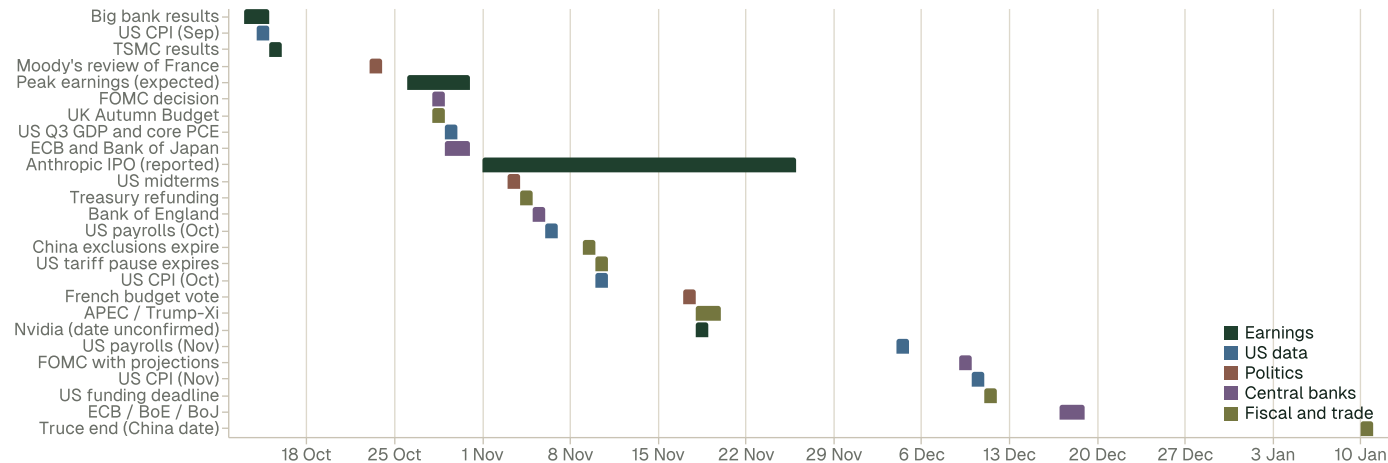
Profits outside tech show little evidence of gains from AI yet. Most of the 26.8% consensus Q3 earnings growth comes from chips, oil and a few tech firms, while FactSet expects financials to grow 3.0%. The banks report on 13-14 Oct. Quantified savings remain sparse outside tech, but the transcript sample includes non-bank companies too. Until those savings show in costs, the index stays dependent on a few AI companies.

Higher rates are hurting housing and borrowers, not the AI build-out

The largest AI spenders have continued borrowing despite higher Treasury yields. The 30-year mortgage rate reached 7.28% on 1 October, from 6.15% at the end of 2025, adding about \$300 a month on a \$400,000 loan. S&P 500 homebuilders are -12.0% this year against +14.2% for the index. A high-yield spread above 4%, against 3.12% now, would suggest private-credit strains are spreading to public markets.

Q4 2026: the risk bunches in the last week of October

Events and reported plans, 13 October 2026 to 10 January 2027



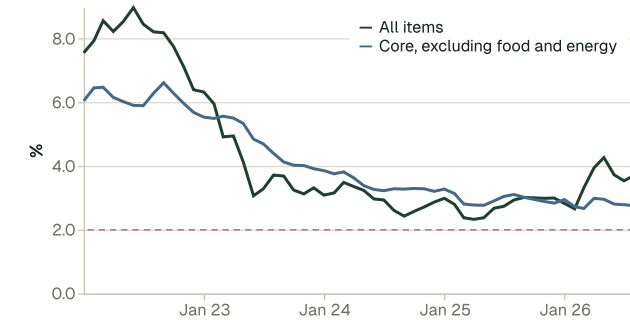
Dates: BLS, BEA, central banks, HMT, Treasury and USTR. Company results dates estimated except TSMC; IPO month reported, not confirmed. Tariff expiries are as written.

Inflation should stay above target, and the Fed is likely to hike in December anyway

Higher rates cannot repair the energy supply disruptions contributing to inflation. We nevertheless expect the Fed to consider a December hike to limit their effect on other prices. Consumer prices rose 3.4% in the year to August, driven by energy and the war, while core prices rose 2.4%. Goldman Sachs estimated in July that AI's contribution to core PCE inflation would rise from 0.2 to 0.5 points by year-end. Warsh said in September that the Fed cannot affect any individual price and can only stop rises from spreading, so its hikes work mainly by cooling demand. September CPI on 14 October and core PCE on 29 October are the dates to watch, and markets give a December hike 76%. Long yields are unlikely to fall while governments across rich countries borrow more. The US term premium has moved +51 bp this year. The thirty-year gilt yield reached 6.04% and Japan's thirty-year yield hit a record. Markets assign a about one in four chance to a Bank of Japan hike on 29-30 October, leaving scope for a surprise.

Headline inflation has pulled away from core

US consumer prices, % change on a year earlier, monthly



BLS CPI via FRED, to August 2026. Core leaves out food and energy; the gap since March is mostly energy and the war. Dashed: 2% reference; the Fed targets PCE, not CPI.

France faces a downgrade, the China truce should hold and the midterms will change little

France should get through the quarter with a downgrade but no crisis. We think a Moody's cut on 23 Oct is more likely than not, and a failed budget vote on 17 Nov 2026 would leave the option of a special funding law. The gap over German yields, 123bp now, should stay between about 120 and 150bp. A censure motion that brings down the government would push it above 150bp and the euro lower. The China truce looks set to be extended. Watch the tariff exclusions expiring on 9-10 November and the expected Trump-Xi meeting in Shenzhen on 18-19 Nov. High inflation gives the US an incentive to avoid a renewed trade war. Democrats are likely to win the House, priced at 91%, while the Senate is closer at 65%, but past midterms moved the index only 1.03% the next day. The bigger risk is a lame-duck budget bill with \$350bn for defence before the 11 December funding deadline, which would push long yields up. A short funding extension, with no shutdown, is the more likely outcome.

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