

ASSET ALLOCATION INSIGHTS

Monthly Update | Issue 113 | September 2026



Key takeaways

- September was the month the central banks caught up with the bond market. The ECB (10 September), the Fed (16 September) and the Bank of Japan (18 September) each raised rates by 25 basis points. It was the Fed's first rate hike since 2023, voted unanimously, with the median dot pointing to one more move before year end.
- The long end did not wait. The US 10-year yield broke through 5% on 23 September and reached around 5.25% on 28 September, its highest level since 2007, while the 30-year traded at levels last seen in 2004. Brent crude moved back above USD 100 as US-Iran talks stalled. Equities remained strong compared to bonds at the index level, but small caps slid towards correction territory, while gold gave back most of its late-August surge.
- Looking ahead, we expect the Fed, ECB, BoJ and BoE to hike rates twice and the SNB once by next summer, but we do not expect an aggressive tightening cycle. Growth is dampened, not derailed; earnings revisions remain positive across all major regions and valuations have improved as earnings outpaced prices. Near-term volatility is likely to persist into Q3 earnings and the US midterms.
- We make two changes to our asset allocation preferences grid. We upgrade 1-10-year government bonds from underweight to a moderate underweight, as higher yields restore some value at the front and belly of the curve. We downgrade all currencies (EUR, CHF, GBP, JPY and EM) from neutral to underweight against the US dollar. We stay neutral equities, overweight cash, underweight fixed income, overweight gold and commodities and neutral hedge funds.

THE BIG PICTURE

Rates: the global hiking cycle restarts

Three of the four major central banks tightened within eight days. The ECB moved first, lifting its deposit rate to 2.50%, its second hike of the year, and warning that the Middle East conflict will keep inflation well above target for an extended period. Its new staff projections see headline inflation averaging 3.0% in 2026.

The Fed followed on 16 September, raising the federal funds target range to 3.75%-4.00% in a 12-0 vote. Only two months earlier three members had dissented in favour of a hike; this time the committee moved as one. Chair Warsh described the decision as removing a dose of accommodation, and the dot plot now puts the median year-end rate at 4.1%, implying one further quarter-point move in 2026 and no change in 2027.

Two days later, the Bank of Japan raised its policy rate to 1.25%, the highest since 1995, in a 7-2 vote, just three months after its June hike. A historically weak yen, a coordinated intervention by Tokyo and Washington to support it, and a 10-year JGB yield above 3% for the first time in three decades all pushed in the same direction.

The message across all three is the same: central banks are not prepared to look through the energy shock while underlying price pressures, other than energy, have not shown a convincing downward trend. Refined products like diesel have surged far more than crude, which raises the risk of second-round effects.

Bonds: 5% is no longer a ceiling

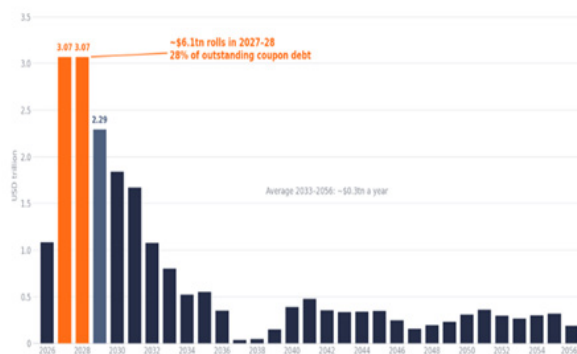
Last month, we expected the US 10-year yield to trade within a 4.5% to 5.0% range through year end. That range has been broken. On 23 September, the 10-year yield rose more than 13 basis points to above 5.10%, marking its biggest one-day move in nearly 18 months. The sell-off followed a combination of much stronger-than-expected activity surveys, hawkish Fed commentary, a poorly received five-year auction and Brent crude returning above USD 100.

The move extended on 28 September when the US rejected Iran's latest proposal to reopen the Strait of Hormuz. The 10-year yield reached around 5.25% and the 30-year around 5.5%. Over the last month, the 10-year yield rose by roughly 45 basis points, now sitting more than 100 basis points above its level a year ago.

The Treasury's expanded long-dated buyback programme, the hinge we identified last month, has so far done little to slow the climb. The drivers we set out in August — resilient nominal growth, wide deficits, heavy sovereign and AI-related duration supply, and uncertainty around the Fed — are all still in place. September added a fourth: an explicit tightening bias from central banks facing an energy shock that refuses to fade.

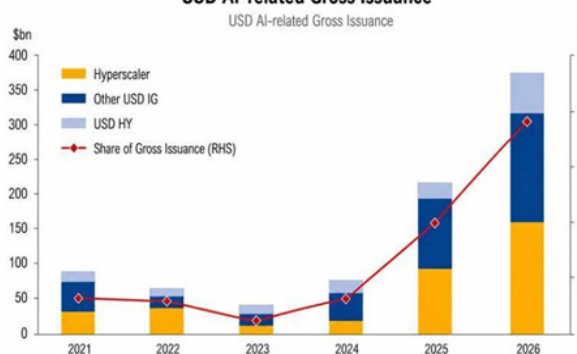
The wall has a date: US Treasury coupon maturities by year

Gross principal maturing each calendar year, coupon securities only (bills excluded); 2020-22 vintage paper rolls into a 4-5% curve.



Source: Bloomberg, US Treasury, Syz Bank

USD AI-related Gross Issuance



Source: Goldman Sachs

Equities: resilient at the index level, strained underneath

Given the scale of the bond move, the S&P 500 has been remarkably resilient, ending September within about 2% of its 12 August record. Strong earnings momentum and record margins continue to absorb higher discount rates for large caps.

Beneath the surface, the picture is less comfortable. The Russell 2000 is down almost 10% from its mid-August peak as the 10-year yield climbed about 60 basis points over the same period, a reminder that financing costs bite first where balance sheets are weakest. Our market factor indicators have softened accordingly (see below).

Gold: the debasement trade pauses

Gold fell by about 6% in September to around USD 4,170 per ounce, giving back most of the late-August rally and standing roughly a quarter below its January record of about USD 5,600. The narrative that drove August — fiscal credibility and dollar debasement — was overtaken by a rates narrative: higher real yields and a hawkish Fed raise the opportunity cost of holding a non-yielding asset, while a firmer dollar reduced its appeal to non-US buyers.

We read this as a pause rather than a reversal. Central bank demand and the structural case for gold as an inflation and geopolitical hedge are intact, which is why we keep the overweight despite the shorter-term headwind.

What sits ahead

Three points of framing for the coming weeks.

- ▶ The October FOMC is a closer call than the dot plot suggests. New York Fed President Williams signalled on 29 September that there is no urgency for the next move, and market odds of an October hike have fallen on softer data. The September payrolls report (2 October) and September CPI (mid-October) will decide whether the Fed moves again on 27-28 October or waits until December.
- ▶ Oil and the Strait of Hormuz remain the swing factor. The breakdown of the latest US-Iran proposal pushed

Brent crude back above USD 100, and Iranian officials have reportedly expressed pessimism about a deal before the US midterms in November. Our base case still assumes a new agreement in Q4, but the timeline has become more uncertain.

- ▶ Q3 earnings season will test the equity market's resilience. Consensus expects very strong EPS growth for 2026, with upgrades extending into 2027. With the S&P 500 close to its highs and yields at multi-decade levels, the bar for guidance is high.

The hinge: does the energy shock stay an energy shock?

The decisive variable this quarter is whether elevated energy prices feed into broader domestic price pressures. Our central scenario assumes they will only to a modest extent: energy prices moderate in Q4, second-round effects stay contained, and central banks deliver a measured sequence of hikes rather than an aggressive cycle.

If diesel and other refined products keep outpacing crude and core inflation re-accelerates, central banks would have to do more than the two further hikes we expect, and the pressure on real yields would move from the long end to the whole curve. For equities, the transmission channel to watch is credit: stress so far remains confined to CCC issuers, with no spillover into higher-quality segments. Corporate spreads and CDS are the early-warning indicators, and they are one reason we keep an overweight in cash alongside a neutral equity allocation.

OUR TOP-DOWN CORE SCENARIO

Global growth and inflation perspectives

We expect the economy to stay on a positive trend, even if elevated energy prices and central bank hikes slow it down. The latest escalation in the Middle East keeps energy prices elevated, which will dampen global growth in Q4, while the rate hikes of major central banks, including the Fed, will slow it in H1 2027.

We expect the Middle East situation and energy prices to moderate in Q4, so the global growth trend is dampened but not derailed. This should ease inflation pressures and keep second-round effects in check.

Supportive fiscal policies, including additional spending to cushion the impact of higher energy prices, together with a stabilisation of the trade system and still strong capex spending, should help to mostly offset the drag from high energy prices and higher rates.

Outlook on central banks

The latest escalation in the Middle East and the surge in energy prices have interrupted the easing of price pressures. Underlying inflation outside energy has also shown no convincing downward trend in recent data.

Together with concerns about stronger second-round effects, as refined petroleum prices such as diesel rose

much more sharply than crude, this prompted the Fed, ECB and BoJ to raise their policy rates in September.

Even assuming energy prices moderate in Q4, we now expect the Fed, ECB, BoJ and BoE to raise rates twice by next summer, with the SNB delivering one additional hike. However, we do not expect an aggressive hiking cycle at this stage.

Politics

The re-escalation of the Middle East crisis has raised geopolitical uncertainty, but we still believe the involved parties are incentivised to reach an agreement in Q4, allowing energy prices to moderate.

Apart from the energy shock, fiscal policy remains expansive and continues to support growth in 2026 in the US, where tariff refunds provide an additional boost, as well as in China and in Europe. Several governments have implemented additional stimulus to limit the economic impact of higher energy prices.

The Middle East crisis, US tariffs, and retaliatory measures continue to weigh on global trade momentum, though the negative impact has faded compared with H1 2026. The latest US trade dispute with Canada shows that the current US administration remains willing to open new tariff fronts.

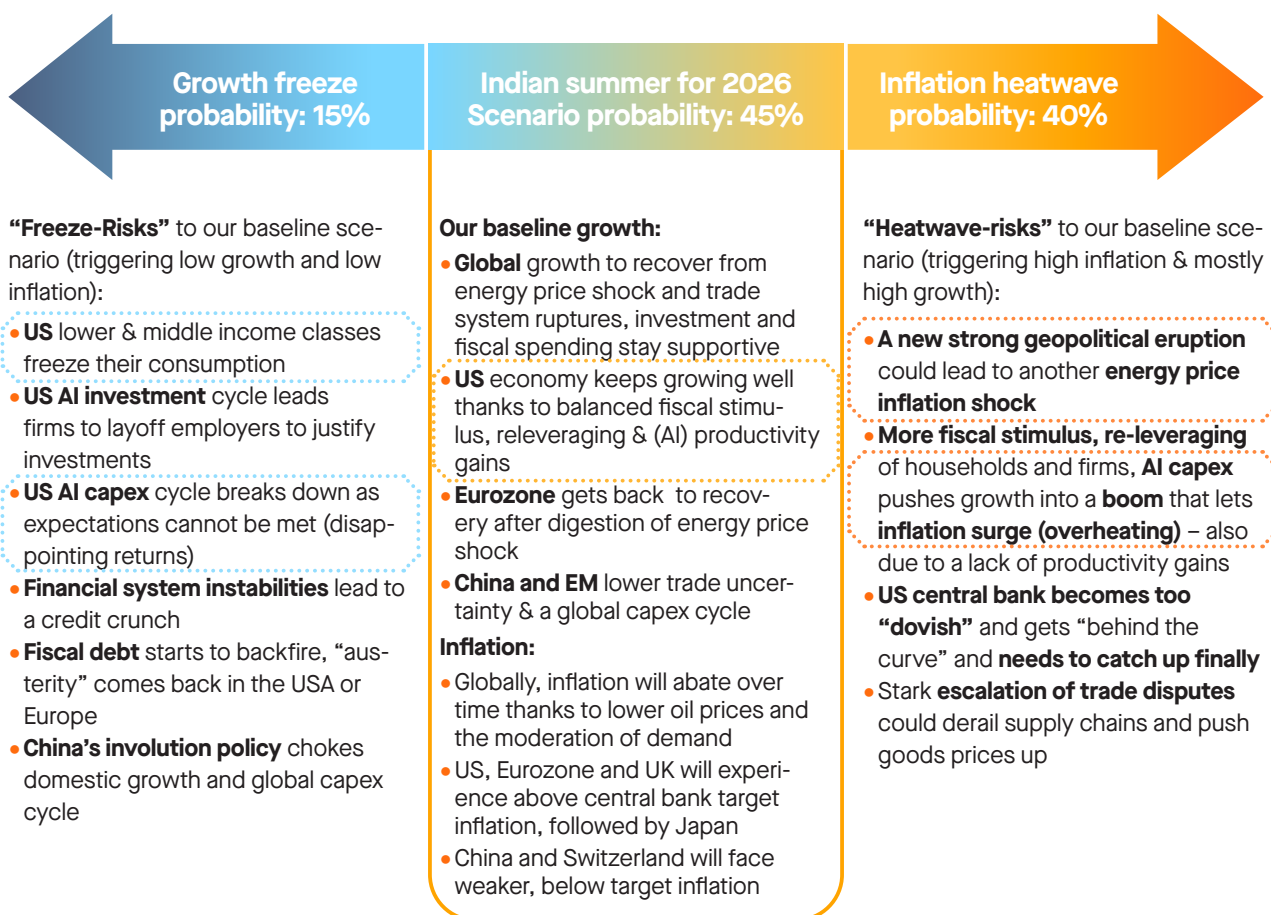
Our core and alternatives top-down scenarios

The starting point for positioning remains our three-scenario framework. Recent geopolitical and macro developments have led us to increase the probability of an “Inflation heatwave” scenario from 30% to 40% while decreasing the probability of a “growth freeze” from 20% to 15% and the baseline “Indian summer” scenario from 50% to 45%.

- ▶ **Indian summer for 2026 (baseline, probability 45%):** global growth recovers from the energy price shock, with investment and fiscal spending supportive. The US keeps growing on fiscal stimulus, leveraging and AI productivity gains, the eurozone recovers, and China and emerging markets ride a global capex cycle. Inflation abates over time, though the US, Eurozone

and UK run above target, and central banks tighten gradually.

- ▶ **Inflation heatwave (probability 40%):** a further geopolitical escalation delivers another energy shock, or stimulus, leveraging and AI capex push growth into an overheating boom; the energy shock broadens into core inflation, and central banks are forced into a more aggressive hiking cycle.
- ▶ **Growth freeze (probability 15%):** US consumption freezes, the AI capex cycle breaks down on disappointing returns or drives layoffs, higher rates trigger financial instability and a credit crunch, austerity returns, or China chokes the global capex cycle.



THE WEIGHT OF THE EVIDENCE

Our preferences rest on five indicators, four macro and fundamental and one of market dynamics. This month we lower the market factors pillar by one notch; the other four are unchanged.

Syz Bank's five asset allocation pillars

Negative (-)	Neutral (=)	Positive (+)
	Macro cycle	
	Liquidity	
		Earnings growth
	Valuations	
	Market Factors	

Source: Syz Research

- ▶ **Macro cycle (MODERATELY POSITIVE, unchanged):** the business cycle remains strong, and macro data came in above expectations in most major markets, China being the exception. Conversely, surging energy prices and the tenacity of underlying price pressures have led the Fed and other major central banks to start hiking, which keeps us at moderately positive rather than positive.
- ▶ **Liquidity (NEUTRAL, unchanged):** the upward trend in our global M2 proxy and accommodative financial conditions remain long-standing positives, but they are counterbalanced by the prospect of further significant rate hikes from most major central banks.
- ▶ **Earnings growth (POSITIVE, unchanged):** 2026 earnings growth continues to be revised upward across all major regions, and the same pattern is now emerging

for 2027, with expectations being upgraded across most regions.

- ▶ **Valuations (NEUTRAL, unchanged):** earnings have outrun prices. The S&P 500 forward P/E has compressed by around three points in 12 months to 19.1x (18.7x on 2027 estimates). Europe (14.3x), Japan (15.6x) and emerging markets (9.9x) trade close to or below their historical averages; MSCI ACWI is at 16.4x.
- ▶ **Market factors (lowered from POSITIVE to MODERATELY POSITIVE):** the US raw score dropped to 55%, with six of eleven indicators in positive territory (rate of change, new highs/lows, price-to-cycle, bull/bear and volume are negative). The European raw score declined to 60%, with six of ten indicators positive (rate of change, MACD, price-to-cycle and volume negative).

TACTICAL ASSET ALLOCATION (TAA) DECISIONS

The weight of the evidence leads us to stay NEUTRAL on equities, balancing a strong earnings and margin backdrop against increasing pressure from higher real yields. We make two changes to the grid, in fixed income and in currencies. In the model portfolios (reference: Balanced USD):

- ▶ **Equities remain NEUTRAL,** balancing a strong earnings and margin backdrop against increasing pressure from higher real yields. 2026 consensus EPS growth stands at 33.5% in the US, 20.3% in Europe and 19.4% in Japan, with broad participation beyond mega-cap technology. The S&P 500 trades at 19.1x forward earnings, while Europe, Japan and emerging markets trade close to or below historical averages.
- ▶ **Fixed income remains UNDERWEIGHT, with 1-10-year government bonds upgraded to a MODERATE UNDERWEIGHT.** Higher yields have restored some value at the short and intermediate part of the curve, where we prefer the 1-2-year segment. Long-dated

government bonds (10 years and above) stay underweight. Corporate IG, high yield and EM debt remain neutral, with EM debt our preferred segment and short maturities preferred throughout.

- ▶ **FX moves to UNDERWEIGHT on all currencies versus the USD** (EUR, CHF, GBP, JPY and EM), as higher Fed rate hike expectations, the upward drift of the US yield curve and flight-to-safety flows linked to the Middle East conflict support the dollar. Over the longer term we still see structural USD depreciation.
- ▶ **Commodities and gold stay OVERWEIGHT.** Commodities remain a hedge against renewed geopolitical escalation and energy price spikes. Gold remains a preferred long-term exposure as an inflation hedge supported by rising demand, even though higher Treasury yields have raised the short-term opportunity cost of holding it. Hedge funds stay neutral and cash stays overweight.

ASSET ALLOCATION GRID - TACTICAL ASSET ALLOCATION (TAA) – OCTOBER 2026

	Underweight -	Neutral =	Overweight +
			Cash
Asset Classes	Fixed Income	Equities	
		Alternatives	
		Govies 1-10	➡
	Govies 10+		
Fixed Income		Corporate IG (local)	
		High Yield (local / global hdg)	
		EM Debt	
		United States	
		Eurozone	
		UK	
Equity		Switzerland	
		Japan	
		Emerging Markets	
		China	
Alternatives		Hedge Funds	
Commodities			Gold
			Commodities
	EUR	⬅	
	CHF	⬅	
Forex (vs. USD)	GBP	⬅	
	JPY	⬅	
	EM Currencies	⬅	

⬅ ➡ Arrows show our latest TAA moves.

Source: Syz Research. Govies 1y–10y moved to moderate underweight; all currencies moved to underweight vs. USD.

Asset classes views

Equities

We maintain a neutral equity exposure, balancing a strong earnings and margin backdrop against increasing pressure from higher real yields.

Fundamentals remain constructive: Q2 earnings were exceptional, revisions are positive across all major regions and margins are at record highs. 2026 consensus EPS growth stands at 33.5% in the US, 20.3% in Europe and 19.4% in Japan, with broad participation beyond mega-cap technology.

Valuations have improved as earnings outpace prices. The S&P 500 forward P/E has compressed to 19.1x, while Europe, Japan, and emerging markets trade close to or below their historical averages.

The main risk is higher yields eroding corporate resilience. Credit stress remains confined to CCC issuers, with no spillover into higher-quality segments; corporate spreads and CDS remain the key indicators to monitor.

Fixed Income

We maintain an overall underweight stance on fixed income, but we upgrade 1-10-year government bonds from underweight to a moderate underweight.

Government bonds: higher yields have restored some value, with a preference for the 1-2-year segment. We avoid countries with weak public debt dynamics or central banks whose commitment to containing inflation is in doubt, and we favour fiscally solid sovereigns for safe-haven diversification in multi-asset portfolios.

Corporates: yields are attractive and our economic scenario remains constructive. However, tight spreads leave little margin of safety in a more uncertain macro environment. We stay neutral on corporates, with a clear preference for short maturities.

Emerging markets: EM debt remains our preferred fixed income segment. Fundamentals are robust overall, supported by global growth and moderate public and corporate leverage. With spreads already tight, we are selective and favour short and medium maturities.

Forex & Commodities

Higher rate hike expectations for the Fed, the upward drift of the US yield curve and flight-to-safety flows linked to the Middle East conflict currently support a positive view on the US dollar.

We have therefore moved all currencies (EUR, CHF, GBP, JPY and EM) to an underweight position against the US dollar.

Over the longer term, we still see the USD in a depreciation trend due to structural factors.

Although we see a weaker longer-term outlook for the energy complex, we prefer to maintain an overweight exposure as a hedge against renewed geopolitical escalation and energy price surges.

Over the longer term, gold remains one of our preferred exposures, as an inflation hedge and due to rising demand. In the shorter term, higher US Treasury yields have increased the opportunity cost of holding gold.

INVESTMENT CONCLUSIONS

Bonds are enduring another challenging year, extending a difficult period for the asset class since the pandemic. In our view, the adjustment to higher interest rates may still have further to run, leaving bond markets exposed to additional volatility.

Higher rates can also challenge equities by raising discount rates and tightening financial conditions, as seen in 2022. While volatility could increase, we believe a more substantial reassessment of the Fed's policy outlook than markets currently anticipate would be needed to derail the equity rally.

At this stage, we keep our preference for equities (neutral) against fixed income (underweight).

Earnings are strong, revisions positive and valuations more reasonable than a year ago, which argues against cutting exposure. But the combination of multi-decade highs in long yields, softer market internals and seasonal and political uncertainty into the midterms argues against adding.

Within equities, large-cap companies, particularly in technology, have proved resilient thanks to strong balance sheets and robust growth. Smaller companies have lagged, reflecting their greater sensitivity to borrowing costs and economic conditions. The technology-heavy Nasdaq's recent outperformance illustrates this shift in market leadership.

In fixed income, higher yields finally offer some compensation. We take a first, deliberately small step by moving 1-10-year government bonds to a moderate underweight, with a preference for the 1-2-year segment where yields are high and duration risk is limited. We do not extend into the long end: the forces pushing long yields higher — supply, deficits and an uncertain inflation path — remain firmly in place and carry rather than duration continues to drive returns.

Meanwhile, rising US yields have supported the dollar, reducing returns on international equities when translated into dollars for US investors. With the Fed tightening, the US curve drifting higher and safe-haven demand linked to the Middle East, the dollar has regained both its rate and its risk-off support. We move every major currency to underweight against it, while keeping in mind that the structural case for a weaker dollar has not gone away: this is a tactical call, and one we would revisit quickly if a Middle East agreement reopened the Strait of Hormuz.

Cash remains overweight as dry powder, and gold and commodities stay overweight as hedges against the energy and inflation risks that dominate the outlook.

Three developments would change our mind from here: evidence that the energy shock is feeding into core inflation, forcing central banks into more than the two further hikes we expect; a disorderly rise in long-end yields that spreads into credit beyond CCC issuers; or a durable Middle East agreement that brings oil down and removes the dollar's safe-haven premium. Until then, we stay invested, positioned for a higher-for-longer rate environment rather than against it.

Welcome to Syzerland®

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