7IM

Market review

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September 2026 Lagging through the Dog Days

The ancient Greeks and Romans thought that the hot, humid weather throughout August was caused by Sirius – the "Dog Star" – being in the sky at the same time as the Sun. In reality, August heat owes more to "thermal lag" than the Dog Star. The Earth slowly absorbs warmth during spring and summer, then releases it back over the following months. It's why the sea is often warmer in October than during the summer holidays.

As we head into the final third of the year, there are a few economic/financial lags which are worth watching.

The first is the data centre spending lag. Right now, companies which build the data centres (and the bits that go in them) are recording record sales, and a backlog of orders stretching over years. And the companies which are *placing* those orders (Amazon, Microsoft, Alphabet, Meta etc) are also recording record sales. The question lots of people are asking is *"what will happen when the orders dry up?"* That's a good question; but a better one is "*how long is the lag to cancelling orders?*"

It's not an easy question to answer – it means huge, fast-growing tech businesses downgrading their own future prospects. Which means the billionaires running them admitting they were wrong. When does the commercial argument outweigh the ego of a billionaire? The lag could be a lot *longer* than people realise.

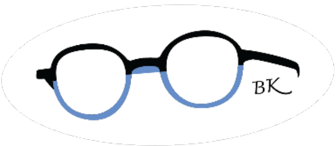
The second lag is food price inflation – the closure of the Strait of Hormuz has impacted fertiliser supplies for the key growing period of 2026, with an added curveball from the El Nino impact. We *know* pressure is building, but not how much. By the time it reaches supermarket shelves, it will feel sudden. In reality, the causes were baked in months earlier.

The third lag is human health. The use and availability of weight-loss drugs in the developed world is huge. US BMIs are falling for the first time in decades.

And the ripple effects are only just starting. The first-order effects are obvious – for example, households with members on GLP-1 medication buy 5-6% less food, and spend ~10% less in restaurants, leading food companies to pivot to smaller portions.

The next ripples are more complicated. Do GLP-1 users prefer lifting weights to cardio? Do they bulk-buy a new wardrobe? Do they travel more or less?

The timing of when a lag catches up to the market is uncertain. But they're worth spending some time thinking about, to be prepared to react (or not) to the headlines when they do come.



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~~Chart~~ Table of the Month: Bond Maths Matters

As interest rates fall, the price of a bond goes up, when interest rates rise, bond prices fall. Simple? Not so fast. Bonds have a quirk that's worth understanding – the technical name is convexity, which means that a move in rates doesn't translate to the same move in price.

Roughly, the higher the starting yield, the more return you get if rates fall. A 30 Year UK government bond pays around 5.8% a year currently. If interest rates stay unchanged, you'll make 5.8% by the end of 12 months (blue box). If interest rates ***rise*** by 1%, you would see a return of -6.9% (red box). But if interest rates ***fall*** by 1%, that return turns into a 22% gain.

	Estimated change in 1 year total-return for a shift in Interest Rates						
UK Gilt	**+3%**	**+2%**	**+1%**	**0%**	**-1%**	**-2%**	**-3%**
2 Year (4.5% yield)	2.3%	3.0%	3.8%	**4.5%**	5.3%	6.0%	6.8%
5 Year (4.7% yield)	-5.9%	-2.5%	1.0%	**4.7%**	8.6%	12.7%	16.9%
10 Year (5.2% Yield)	-13.6%	-7.8%	-1.6%	**5.2%**	12.5%	20.5%	29.2%
20 Year (5.8% yield)	-23.7%	-15.4%	-5.6%	**5.8%**	19.2%	35.1%	54.0%
30 Year (5.8% yield)	-25.8%	-17.3%	-6.9%	**5.8%**	21.5%	41.0%	65.6%

Source: 7IM / LSEG Workstation. Data as at 02.09.2026. Total return includes interest

If you rewind to 2022, a 30-year bond had a yield barely more than 1%, with interest rates at a record low of 0.1%. Not much in the way of yield, and very little chance of a further fall in rates to boost returns. A lot of risk for no reward.

Today, the odds are more in your favour, and you're being paid to wait. For cautious investors, that's a much better position.

August Markets Wrap

Following a poor July, technology and AI related stocks rebounded in August, after a strong earnings cycle for the big spenders of the AI trade. The Magnificent Seven names who have struggled throughout 2026, finally bounced back with fears around capital expenditure reducing, amid news of strong AI demand and continued revenue growth.

These companies still dominate the US market, which returned around 2% in sterling terms as a result of this positive earnings period. Emerging Market equities also benefitted from this technology related rally, with Taiwan adding 7% to an already stellar year. Elsewhere, despite the strong month for energy related names, the UK and Europe suffered due to the lack of technology and finished the month broadly flat.

Bond markets struggled in August, although remain positive over the course of 12 months. Higher oil prices reignited inflation concerns and pushed government bond yields higher across major developed economies. Central banks including the Federal Reserve, Bank of England and European Central Bank met across the month, yet left interest rates unchanged.

The murky inflationary picture amid the continued pressure on oil prices has led to central banks opting for a wait and see approach as they assessed the potential economic impact of energy market disruption. Rising yields weighed on longer-dated government bonds, although corporate bonds proved more resilient, given the strong earnings cycle.

Market Movers

Equity	5 Yr	1 Yr	1 Mth
FTSE 100	13%	22%	0%
S&P 500	13%	20%	2%
MSCI Europe ex-UK	10%	21%	1%
Topix (Japan equity)	11%	27%	3%
MSCI Emerging Markets	9%	39%	3%
Gov Bonds			
Gilts	-5%	2%	0%
US Treasuries	-1%	1%	0%
Bunds	-3%	0%	-1%
Currency **			
USD v GBP	0%	-1%	-1%
EUR v GBP	0%	-1%	0%
JPY v GBP	-7%	-8%	-1%

Source: Factset. Quoted returns are in GBP. Returns over 1 year are annualised.

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If you have any questions, please contact your financial planner at Aspire.
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