UBP
Weekly View

14 SEPTEMBER 2026

UNION BANCAIRE PRIVÉE

Central banks move to tighten policies as inflation rises

SUMMARY

Oil's surge past USD 100 a barrel amid the escalating conflict in the Middle East drove a broad sell-off in government bonds and equities last week, as inflation fears pushed yields sharply higher across the US, eurozone and UK. The ECB delivered a hawkish 25-bp rate hike, and markets are now pricing in a Fed hike with 90% probability. The Fed, BoE and BoJ all meet this week, which will show whether central banks confirm the tightening already priced in. A resilient economic backdrop and the possibility of policy intervention suggest the recent market volatility could prove to be short-lived.

MARKET RECAP

Asset classes	Last Close (11.09.2026)	1-Week Total Return	1-Month Total Return	Year-to-Date Total Return
S&P 500	7 657	-0.8%	-0.9%	11.9%
NASDAQ Composite	26 333	-0.7%	-0.4%	13.3%
STOXX Europe 600	639	-1.7%	-3.2%	7.9%
MSCI Japan	2 479	-1.6%	-1.7%	18.6%
MSCI EM	1 722	-0.3%	3.4%	22.6%
US 10-year Yield	4.97%	19 bps	28 bps	81 bps
Gold (USD/oz)	4 350	-1.9%	-0.5%	0.8%
Brent Crude Oil (USD/bbl)	105	8.7%	17.7%	71.9%

Source(s): Refinitiv

Beyond the numbers

MACROECONOMICS

Last week, the focus was on US inflation. The August consumer price index (CPI) was in line with expectations but remained elevated at 3.4% y/y. Core CPI rose 0.3% m/m, driven by higher airline, communication, and education costs, while the annual rate edged down from 2.5% to 2.4%. The US Producer Price Index (PPI) also matched expectations, reflecting higher energy and transport costs. Headline PPI accelerated from 4.8% y/y to 5.4% y/y, while core PPI was unchanged at 4.7% y/y. Consumer confidence weakened, with the Michigan index falling from 51.7 to 47.8. Sentiment deteriorated for both current conditions and future expectations, while concerns about the economic outlook and inflation resurfaced. One-year inflation expectations rose from 4.0% to 4.6%.

In the eurozone, the European Central Bank (ECB) raised rates by 25 basis points (bps) to 2.50%, as expected. Growth projections were revised slightly higher (0.9% in 2026, 1.4% in 2027), and inflation is projected to come in at 2.5% in 2027 and 2.1% in 2028. The ECB has shown a hawkish bias, but it could be patient at its next meeting. Eurozone Q2 gross domestic product (GDP) growth was revised up to 0.6% q/q, due to a strong rebound in Ireland linked to multinationals' activity. German inflation was confirmed at 2.9% y/y in August, mainly reflecting energy prices.

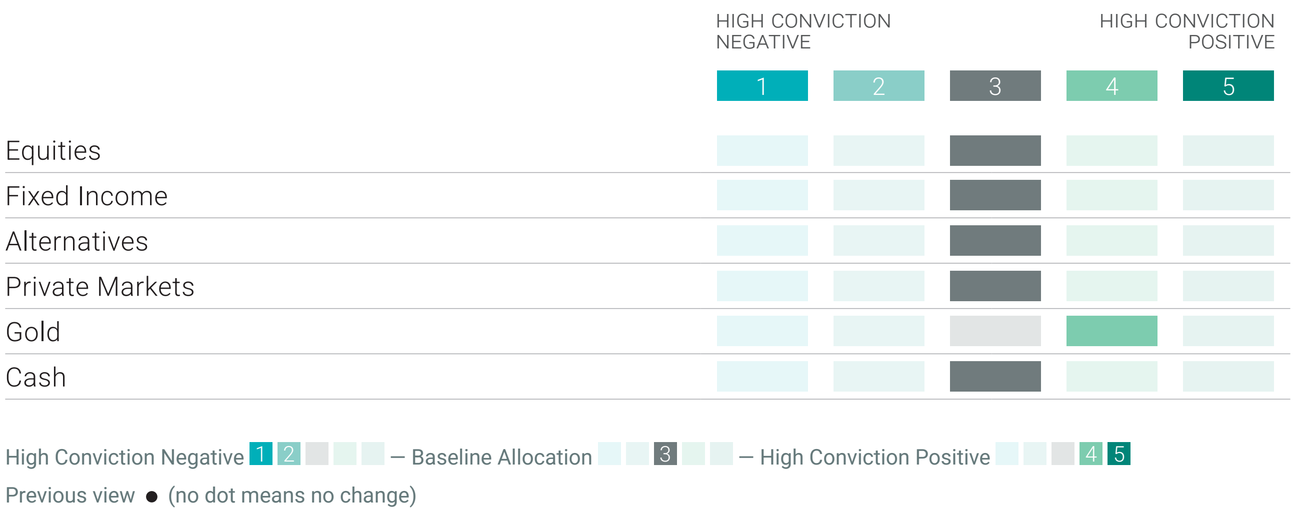
This week, the FOMC decision remains balanced. Hawkish members are likely to argue for a tighter policy, while dovish members may emphasise limited pass-through to core inflation and a relatively stable inflation trend despite elevated energy prices. US retail sales are expected to rebound in August, with core sales rising 0.4%. Industrial production should remain resilient, although regional business confidence indices are expected to weaken.

In China, industrial production is expected to accelerate slightly (4.8% y/y), while retail sales should remain subdued (0.8% y/y expected). Housing data are likely to continue to point to a contraction.

Eurozone final August inflation data should confirm the 0.4% m/m increase and the rise from 2.9% y/y to 3.3% y/y. In the UK, labour data are expected to be mixed, but unemployment should stay stable at 4.9%. August inflation is projected to rise 0.5% m/m and 3.1% y/y, driven by higher energy prices. The Bank of England (BoE) is not expected to raise its rates, although its communications may be slightly hawkish. A modest slowdown in quantitative tightening is also expected.

In Japan, market pressures may encourage the Bank of Japan (BoJ) to raise its rates further.

ASSET ALLOCATION: STRATEGIC VIEWS AS AT SEPTEMBER 2026



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Equities

Global equities ended the week lower (MSCI ACWI total return -0.9%) as the escalating conflict in the Middle East drove oil prices sharply higher, fuelled inflation concerns, and put upward pressure on interest rates.

The global energy sector was among the only two sectors to finish the week positively at +1.7%, followed by communications services at +1.0%. Healthcare lagged behind sharply (-3.8%) following a cascade of negative company-specific catalysts that rippled across the sector through sympathy selling.

Regionally, European equities led the declines (STOXX Europe 600 -1.7%), with the region hit on several fronts: 1) its position as oil importer; 2) weak industrial production figures from the two largest economies (France, Germany); and 3) further monetary tightening by the ECB. Signals from officials tilted hawkish, leading markets to price in two further rate hikes over the next six months.

This last week tested the two triggers flagged in our September House View as potential drivers of a pullback in the near term: overshoots in oil prices and interest rates. Market strength observed at the end of the week is consistent with our expectation that such bouts of volatility are likely to be short-lived against a still-constructive economic backdrop and with the belief that the US Federal Reserve (Fed) and US Treasury would step in if yields rose too sharply.

In the week ahead, investors will be looking to the Fed's policy decision as the key market event in addition to other central bank decisions (Bank of England, Bank of Japan). Heading into these, we are maintaining a broad exposure to the equity asset class with limited concentrated bets other than a continued preference for US equities.

Oil and rate spikes tested the risks flagged in our September House View, but we expect the volatility to be short-lived given a resilient economic backdrop and a likely Fed/Treasury intervention if yields overshoot.

Fixed income

Government bond markets spent the week repricing an energy shock. At the front end, US 2-year yields rose 26 bps to 4.63%, Bunds 25 bps to 3.20% and gilts 28 bps to 4.81%, while 10-year yields added between 17 bps and 21 bps. The 10-year Treasury closed at its highest since October 2023, flirting with the 5.00% mark.

On Thursday, the ECB hiked its interest rates by 25 bps to 2.50% (as priced in), and this was coupled with hawkish staff projections, leaving inflation above target at the end of the horizon. Markets are pricing in more than 75 bps of ECB tightening by mid-2027. Gilts moved the most, as they have throughout the conflict in the Middle East: UK yields are currently sitting near multi-decade highs, yet markets are only pricing in a 20% probability of a BoE rate hike on Thursday.

Energy was again the culprit. Brent crude crossed USD 100/bbl on Wednesday for the first time since July, and reached USD 109/bbl on Thursday after reports that the Houthis had taken the city of Mocha, roughly 80 km north of the Bab el-Mandeb Strait, and that Saudi production had fallen to its lowest since 1990 following strikes on its infrastructure and reports that the country's east-west pipeline had been shut after a drone strike. US President Trump conceded the conflict would run past the midterm elections, while hopes of an Iran-GCC summit later in the week have since faded after reports that it was postponed.

The US Treasury's buyback programme, which had moved from USD 2 billion to 'at least USD 4 billion' per week, was upsized again. Thursday's operation was announced at USD 6 billion and bought USD 5.2 billion across 23 bonds in the 10–20-year range with the weakest participation the programme has seen. The buyback runs to 4 November, coincidentally the day after the midterms. Rates rose more than 10 bps on the day, attributable either to the underwhelming size of the buyback or to the large upward move in oil. Either way, it looks like the Treasury needs to pull a bigger gun out of its armoury.

Friday's inflation print did not help. Core CPI for August rose 0.29% against a 0.2% consensus expectation, with headline inflation in line at 0.40%; this is small, but still enough to compound the upward pressure on rates. The probability of a Fed rate hike jumped from 60% to 90% over the week, a move the Fed now looks cornered into delivering to avoid losing credibility. The press conference will clear up if Warsh sticks to his laconic communication style. The dot plot will also extend into 2029 for the first time.

Spreads stayed calm through the rate volatility, tightening 1–2 bps and remaining tight. That was not enough to avoid negative returns across the board. In dollars, Treasuries returned -0.7% on the week, investment grade (IG) -0.8%, high-yield (HY) -0.5%, additional tier 1 bonds (AT1s) -0.6% and emerging markets (EM) -0.9%. Year-to-date, HY, AT1s and EM have delivered between 1.9% and 2.2%, while Treasuries and IG have slipped into negative territory.

Global bond markets sold off sharply this week as an escalating Middle East conflict drove oil above USD 100/bbl and stoked inflation fears, pushing the ECB and Fed towards further tightening.

Forex and Commodities

There are several important central bank meetings over the coming week, which could have important implications for FX markets in the near term.

The main event for the USD is the Fed meeting on Wednesday. Markets have priced in a 25-bp rate hike with a 90% probability following last week's publication of higher-than-expected m/m core CPI data. The Fed's meeting has already been heavily priced in, so it is likely to hold an asymmetric reaction function. If the FOMC does not raise rates, the USD should depreciate on concerns of falling Fed credibility; if the Fed does hike, the bar for further USD appreciation is set quite high given elevated terminal rate expectations of around 4.50% (implying a further 50 bps in Fed rate hikes over the coming year).

The Bank of England (BoE) meeting is the key risk event for the GBP ahead of the October budget, with markets giving a 20% chance of a 25-bp rate hike. We note that UK inflation expectations (measured by 5-year breakevens) have risen materially in recent weeks. Markets have priced in just under 100 bps in BoE rate hikes over the coming year, which we think is on the high side. If Governor Bailey gives any signs of a less aggressive rate-hiking cycle, sterling is likely to weaken. We note that the GBP is trading well above spread levels against both the USD and the EUR, giving some scope for weakness in the coming weeks.

The Bank of Japan (BoJ) meeting on Friday is widely anticipated to result in a 25-bp rate hike, taking the deposit rate to 1.25%. This has been priced in, with markets anticipating an additional 50 bps in rate hikes over the coming year based on the terminal rate. This sets a high bar for further JPY appreciation from current levels in the near term given that so much has been priced in. Short JPY positions have been curtailed aggressively since late July, giving the yen only limited appreciation potential on a short squeeze.

Gold traded to lows of around USD 4,300 per oz last week, following the publication of US CPI data. US real rate expectations have skyrocketed and this would normally weigh on gold substantially; this has not manifested itself, however, suggesting a re-emergence of the decorrelation between gold and US 10-year TIPS yields which took place in 2024 and 2025. Gold is unlikely to have significant downside given the large rise in retail and institutional positioning in recent weeks.

Fed and BoJ rate hikes are already priced in, leaving little room for upside surprises, while the BoE meeting hinges on whether Bailey turns more hawkish amid rising inflation expectations.

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