September 21, 2026

Weekly Investment Insights

Equities came under pressure at the beginning of last week after leading voices in the AI industry called for a slower pace of technological development. Sentiment improved mid-week, with both stocks and bonds rebounding after the Federal Reserve raised interest rates by 25 basis points. While the response from risk assets may appear counterintuitive, two factors helped explain the reaction. Firstly, the Fed demonstrated its independence by resisting repeated calls from President Trump for lower rates. Secondly, the rate hike and accompanying guidance reinforced confidence in the central bank's commitment to keeping inflation under control. While these factors provided near-term support for markets, the longer-term implications of higher interest rates and bond yields remain a challenge, as they can reduce the relative appeal of equities and other risk assets.

The Bank of Japan also delivered a 25 basis point hike, leaving the benchmark rate at 1.25% - its highest level since 1995. The yen weakened following the meeting, likely due to the fact that two policymakers dissented, while Governor Ueda did not show his cards regarding the pace of future tightening. The Bank of England (BoE), on the other hand, held its benchmark interest rate at 3.75% for the sixth time in a row - despite an energy-induced pick up in inflation (3.1% in August). The decision was accompanied with a warning that rates might need to rise further in the future, as well as an announcement that the pace of its balance sheet reduction would be slowed. This offered some support to Gilts.

This week, focus falls on the Trump-Xi Summit, scheduled to take place on Thursday in Washington. The two superpowers' expiring trade truce, tens of billions in tariff relief and AI are all up for discussion.

MARKET SNAPSHOT

	Friday Close	5 Day Percentage Change	MTD Percentage Change	YTD Percentage Change
S&P 500	7650,5	-0,08	-0,46	11,76
Nasdaq Composite	26522,54	0,72	0,58	14,11
EuroStoxx 50	6236,2	0,61	-1,90	8,75
CAC40	8065,02	0,00	-2,60	-0,39
DAX	25304,06	0,28	-2,84	4,17
CSI 300	4507,393	1,33	-1,85	-1,95
US 10 Year Yield (%)	4,9961	-0,53	4,45	19,06
Germany 10 Year Yield (%)	3,519	-1,28	4,48	21,65
Gold Spot ($/Oz)	4378,63	1,25	-1,89	0,79

Source: Bloomberg, BIL. 21 September 2026

MACRO SNAPSHOT

Fed delivers first rate hike since 2023

On Thursday, the US Federal Reserve hiked its key rate by 25 basis points to a target range of 3.75%-4%. It was the first rate increase since 2023, and comes as the ongoing conflict in Iran continues to push up energy costs, leading to a renewed rise in inflation. Headline inflation has been above the Fed's 2% target continually since March 2021, and now sits at 3.4%. The accompanying statement noted, "Today's policy action will support a timelier return to the Committee's 2 percent goal. The Committee will deliver price stability."

Perhaps the most interesting takeaway was that the hike was unanimous, with all 12 rate setters rallying around the decision. At the previous FOMC in July, the committee was divided with 9 voting members opting to keep rates steady, and 3 voting for a hike. In less than two months, the majority has not convinced the hawks, rather the hawks have won over the majority. Markets are now pricing in one more hike before the end of 2026. This squares with the updated "dot plot" projections which showed that a strong majority of officials (16 out of 18) think another hike is possible later this year.

Absent detailed formal guidance, this is interesting for what comes next, implying that internal resistance is gone. Recent economic data has played into the hands of the hawks, with growth, consumption and the labour market all holding up well.

Refreshed economic projections show that the US central bank expects slightly stronger growth than it did in June, and stickier inflation. CPI is still projected to be above the 2% target in 2028.

FOMC Economic Projections, June 2026

	2026		2027		2028	
	September	June	September	June	September	June
Real GDP	2.3	2.2	2.4	2.3	2.2	2.2
Unemployment	4.1	4.3	4.1	4.3	4.1	4.2
PCE Inflation	3.7	3.6	2.3	2.3	2.1	2.0
Core PCE Inflation	3.4	3.3	2.5	2.5	2.2	2.1

Source: US Federal Reserve, BIL as of 17/9/26

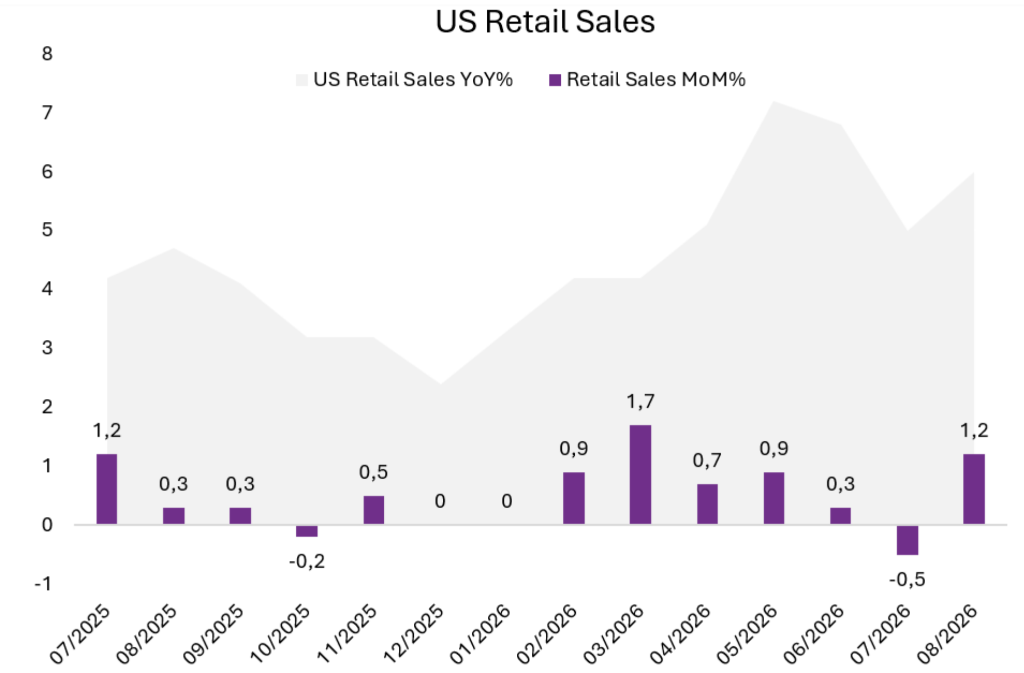
Kevin Warsh, the relatively new Fed Chair, noted that inflation is "too high and has been for too long", and that he thought it a stretch to say that current interest rates were so high that they would slow the economy. Prior to the vote, investors were becoming impatient with the US central bank's perceived tolerance for high inflation. The 10 year Treasury yield breached 5% in recent days, on a culmination of factors, including inflation risks and policy uncertainty. The Fed's decision brought some consolation, leading global bond yields to retreat on Thursday.

President Trump – long a proponent of low rates – posted on his Truth Social platform that "Interest Rates in the United States should be 1%, or less, because we are the Best Credit in the World — BY FAR". Though he later commented that he had confidence in Warsh, and rather took aim at the Fed Board.

US retail sales bounce back in August

US consumers continued to demonstrate remarkable resilience in August, with retail sales rising 1.2% MoM, comfortably beating expectations for a 0.8% increase. The strength was broad-based, with 12 of 13 retail categories posting gains, highlighting the continued willingness of households to spend despite lingering economic headwinds. Gasoline stations recorded the largest increase, with sales rising 3.1% (retail sales data is not adjusted for inflation, so this also reflects higher prices), while back-to-school shopping likely provided an additional boost to spending across several discretionary categories.

Perhaps most notably, so-called core retail sales, which feed directly into GDP calculations, surged 1.4%, far exceeding expectations for a 0.4% increase. The robust outturn suggests consumer spending remains a key pillar of economic growth, even in the face of elevated inflation, national average gasoline prices above USD 6 per gallon, and declining consumer confidence, underscoring the continued strength of the US consumer.



Source: Bloomberg, BIL

China's uneven recovery persists into Q3

A kaleidoscope of data from China last week gave investors insight into how the world's second largest economy is faring. In a nutshell, a two-speed economy is still at play, with industrial production – particularly that related to high-tech industries – proving strong, while domestic demand and the property market dwindle.

China's industrial production grew 5.2% YoY in August, accelerating from 4.5% in July and exceeding expectations of 4.8%. Manufacturing garnered speed (6.1% vs 5.5% in July), and 29 of the 41 major industries recorded growth, led by computers and communications equipment (17.2%), railway and shipbuilding (13.4%), general equipment (9.8%), special equipment (11.4%), electrical machinery (9.9%), and automotives (8.7%). Coal mining and washing was a key drag (-5.6%).

Turning to the real estate market, new home prices across China's 70 major cities fell 3% YoY in August, after a 3.2% drop in July. Amid ongoing weakness in the property sector, Beijing has introduced a series of measures, including extending the maximum term for mortgage loans from 30 to 40 years.

After the property crisis put a sizable dent in consumer confidence, domestic demand has been weak. This continued into August, with retail sales decreasing 0.13% over the month. This leaves them at +0.4% year-on-year, slowing from +0.6% in July and below market expectations of a +0.8%. Car sales continued to decline, falling 18.5%, while furniture (-7.9%), building materials (-11.8%), and gold and silver jewelry sales (-17.5%) also fell. On the other hand, communication equipment sales surged 27.3%. Other categories showing increases included tobacco and alcohol (+12.5%), cultural and office supplies (+5.8%), and cosmetics (+4.9%).

Overall, the latest data reinforces the view that China's economic recovery remains uneven. While industrial production, particularly in higher-value manufacturing and technology sectors, continues to benefit from policy support and external demand, weak consumer spending and a prolonged property downturn continue to weigh on the outlook. Until household confidence improves and the housing market stabilizes, China is likely to remain a two-speed economy.

CALENDAR FOR THE WEEK AHEAD

Monday – China Loan Prime Rate. US Fed Goolsbee Speech

Tuesday – Spain Balance of Trade. UK Gilt Auction (new 2032 issue). Eurozone Consumer Confidence (Flash, September). US Fed Williams and Jefferson Speech

Wednesday – Eurozone, US, UK Composite PMI (Flash, September).

Thursday – Japan Composite PMI (Flash, September). France Business and Consumer Confidence. Germany IFO Business Climate. US Weekly Jobless Claims, Fed Hammack and Paulson Speeches, New Home Sales. Trump and Xi Summit

Friday – UK Gfk Consumer Confidence. Germany Gfk Consumer Confidence. Eurozone M3 Money Supply. France Nonfarm Payrolls. US Durable Goods Orders, Michigan Consumer Sentiment (Final, September), Fed Hammack speech

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