Fordel

Staring into the Abyss?

Q4 2026 Market Outlook

Quarterly Outlook October 2026

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Staring into the Abyss?

Authors' note

In March, we set out how a Middle East escalation would likely cause an oil spike, and a period of elevated volatility, but that the shock would prove short-lived rather than structural. The conflict has not been resolved, Oil remains high, however markets sit at all-time highs.

Oil has moved closer to $100 a barrel, a level not seen since early in the crisis. Inflation, which had been drifting back towards the 2% central bank targets, is creeping back up as energy costs feed through to CPI numbers.

In response, the US Federal Reserve, Bank of Japan and European Central Bank have raised interest rates. A tightening move, in sharp contrast to the rate-cut markets had been pricing at the start of the year. Resulting in government bond yields rising to levels last seen before the global financial crisis.

Market backdrop has changed, warranting a fresh review of markets, both the risks and the opportunities.

As we enter the final quarter of 2026, and plan for next year, Fordel has four key messages for our clients:

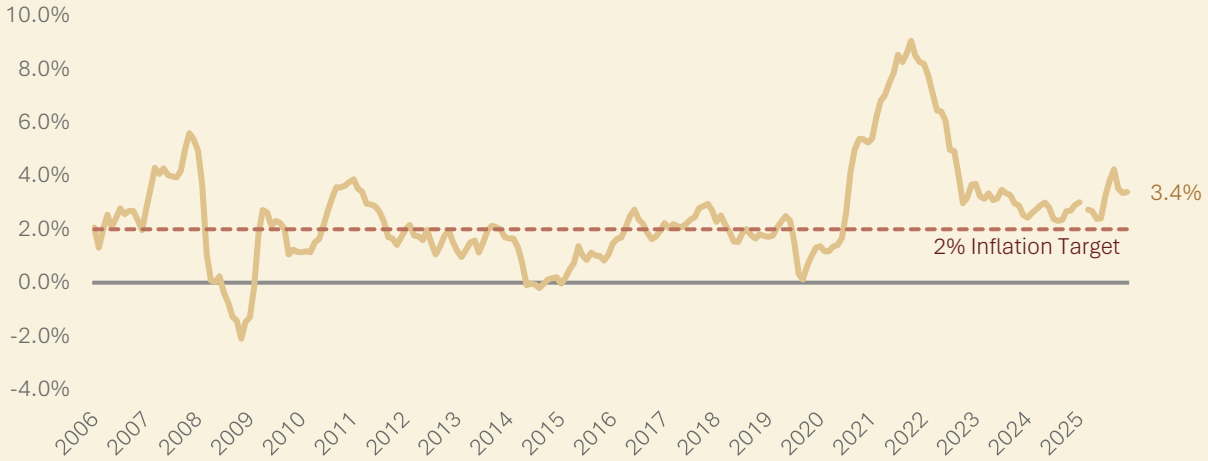
1. Market sell-off: Investors should always consider an equity market drawdown very possible. While we do not envisage a major market correction, a tightening cycle and higher yields bring about major headwinds to equities.
2. Higher yield options: Bond yields now offer a return that can triple the net return of bank deposits. Inertia is costing Irish investors significant returns. Bonds can now also offer an alternative to equity market risk. Understanding your time horizons is critical at this juncture.
3. Review your risk: After several strong years in markets, we recommend all clients review their risk profile and time horizons with their Fordel adviser. Making sure you are diversified and rebalancing where appropriate can help reduce the risk of drawdowns at the wrong time for you.
4. For investors holding cash: If you are planning a longer-term investment strategy, now is the time to prepare. With markets and rates at multi-decade highs we expect to see volatility. Markets recover quickly after drawdowns. It pays to have strategies ready before the fact.

Inflation, interest rates and the bond market

The mechanical transmission we flagged in March, higher oil prices feeding into headline inflation which in turn feed into rate expectations, is now playing out.

In our view, central banks have reacted more proactively this time around when compared to the inflation spike in 2022/2023. At this moment inflation numbers have crept up but remain just above the 3% range. We do not foresee runaway inflation which may cause a hurried interest rate hiking cycle. For now, expectations are for a slow gradual interest rate increase of c.1% in both Europe and US between now and December 2027.

US CPI: INFLATION RISES BACK ABOVE 3%



Source: Refinitiv. Inflation data as of August 2026

The consequence has been a shift in central bank policy from rate cuts to rate hikes and a sustained rise in bond yields. For example, the US 2-year yield is approximately 1.4% higher in 2026, and the 10-year yield has increased by about 1.1%. Similar increases were seen across Euro and UK government bond yields.

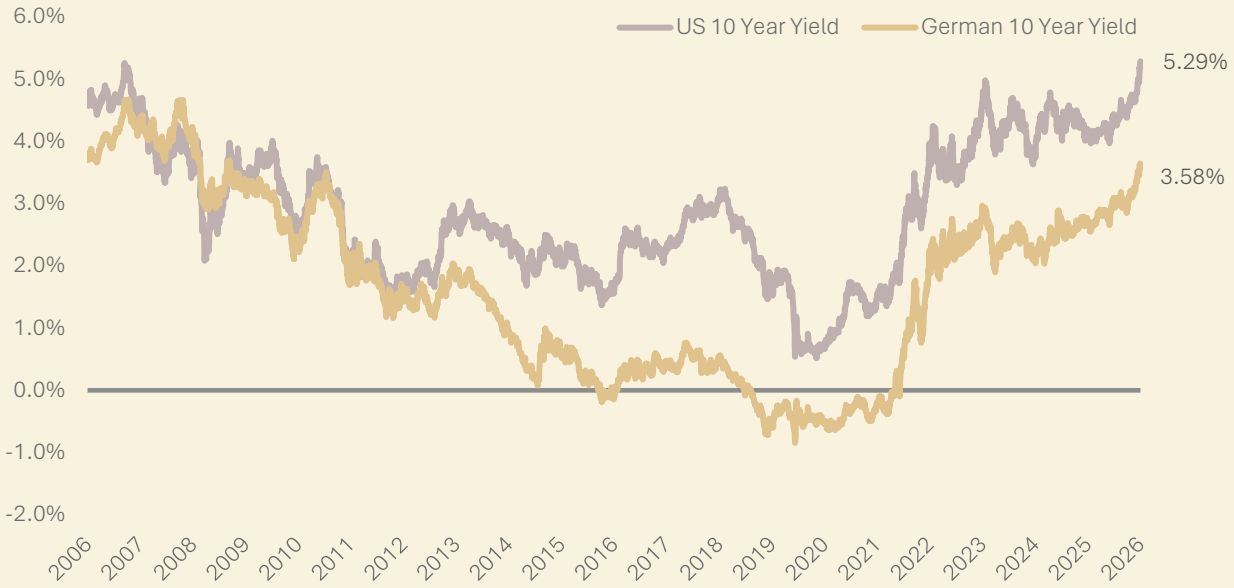
ECB Deposit Rate
2.50% Current Rate
+0.50% Change in 2026
+1.12% Implied change by Dec 2027

USD FED Funds Rate
4.00% Current Rate
+0.25% Change in 2026
+0.94% Implied change by Dec 2027

The pace of these increases matters nearly as much as the absolute change. A fast and unexpected rate hiking cycle can result in a sharp equity market sell-off as we saw in 2022. This is the key risk we foresee in markets. For now, expectations are for higher rates in a more gradual increase.

Note: The implied change is based on market prices of interest rate derivatives. Effectively calculating what market participants are expecting from interest rates.

BOND YIELDS: BACK TO LEVELS NOT SEEN IN 20 YEARS



Source: Refinitiv. Data as of 30/09/2026.

No doubt higher yields have changed the way we view markets. As central banks battle to keep inflation in check it will undoubtedly impede economic activity and underlying economic growth. A negative for equity markets.

What's more, it is no longer the case that investors need to chase returns in riskier assets and opportunities are now presenting themselves in bond markets which will naturally attract capital as yields rise.

For income-seeking or risk averse investors, this means high-quality government bonds are offering a genuinely competitive return relative to equities at much reduced risk. That relative attractiveness matters as equities and bonds compete for investors' capital.

This begs the question: Will higher rates stop equity markets in their tracks?

Equity markets in blissful denial

To date markets have barely flinched in the face of the Iran war, higher inflation and higher rates, which is somewhat surprising. After some volatility in March 2025 (Trump Tariffs) and March 2026 (Iran War), markets have continued to power forward with global equities up 13.4% year to date and +38.1% over the past two years.

Higher yields will reduce forward looking economic activity and dampen the demand for equities. There are examples in the past where high yields and positive markets co-existed (1970's and 1980's), but in practice we believe it acts as a cap on valuations and ultimately is a headwind for equity markets.

GLOBAL EQUITIES: STEADY IN THE FACE OF UNCERTAINTY



Source: Refinitiv. Data as of 30/09/2026.Total returns in USD.

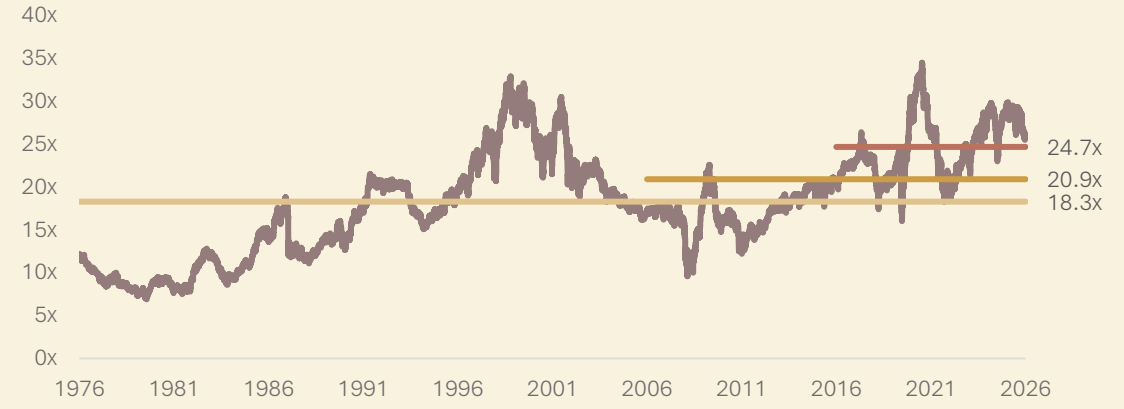
Normalisation from the ultra-low rate environment between 2010 and 2020 was warranted however the danger is rates overshoot and continue their rise. At 5% yield on the US 10 year, we view it as a headwind and not the cause of a major shock. If this were to move quickly to 6% it would prompt us to change our view.

The reality is that interest rate tightening cycles often result in an equity market reaction which we saw before the Dot Com Crash, the Global Financial Crisis, and again in 2022/3. There is a legitimate cause for concern.

Valuations and US equity concentration

There is no doubt that equity markets are at a heightened point of sensitivity. We have seen this across the media landscape with an increasing volume of bearish opinion pieces. The concentration of equity indices in US technology and AI related companies is also worrying investors and bringing an extra dynamic to a potential market correction. In this section we review those narratives in more detail.

S&P 500 P/E RATIO: CLOSE TO 10 YEAR AVERAGE



	10 Year	20 Year	50 Year
Current PE Ratio	25.8	25.8	25.8
Historical Avg.	24.7	20.9	18.3
Difference	4.5%	23.4%	41.0%

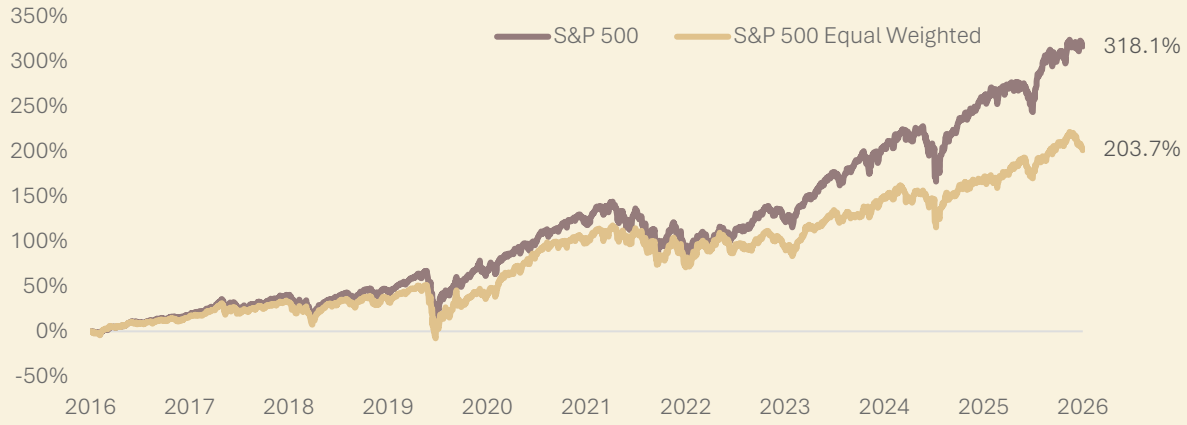
Source: Refinitiv. Data as of 30/09/2026

From a valuation view point the S&P 500 P/E ratio now sits at 25.8x. This is about 4.5% above its 10-year average of 24.7x (2016 – 2026) and 23% above its 20-year average of 20.9x. Valuations are high but not at extreme levels in our view. Currently there is a balancing act on valuations which are high after a long bull market. For equity investors, the hope is that AI (higher growth and lower costs) supports strong earnings growth going forward.

A related point to valuations is concern around market concentration and the performance of large cap stocks (namely the Magnificent 7 stocks or "Mag 7"). It is true this cohort has significantly outpaced broad markets for the past 5 years.

The S&P 500 has outpaced its equal weighted counterpart by 115% over the past decade, most of this coming since about 2022.

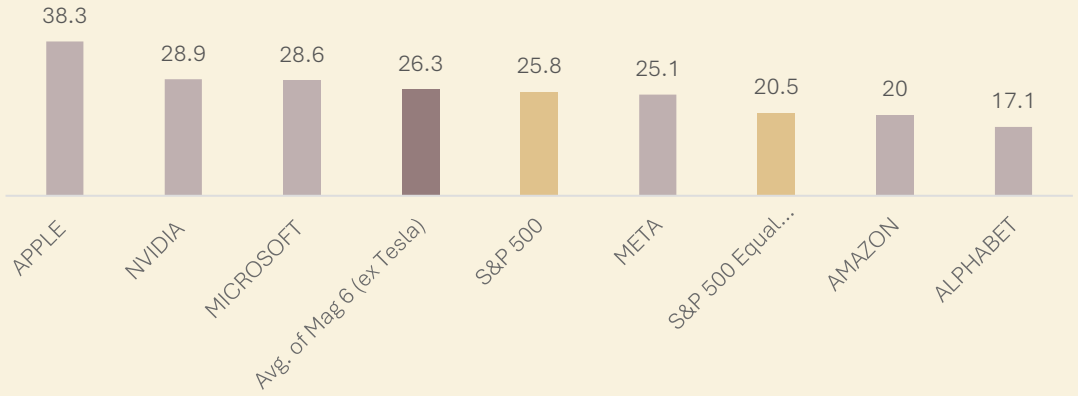
US EQUITIES: LARGE CAP HAS OUTPERFORMED OVER 10 YEARS



Source: Refinitiv. Data as of 30/09/2026.Total returns in USD.

In Fordel's view this is largely justified based on the quality and growth of the underlying companies. Mag 7 valuations are not at extreme levels to warrant major concern. Tesla being the exception at an absurd 380x P/E ratio, however for the remaining stocks, they are in a range of 20-30x which we view as fairly valued.

MAG 7 & PE VALUATIONS: CLOSE TO BROAD MARKET



Source: Refinitiv. Data as of 30/09/2026.

When discussing market concentration, it is important to view it in the context of an investor's overall portfolio, not just the S&P 500. While the Magnificent 7 stocks account for 34.5% of the S&P 500, it translates to c. 21.5% of the global equity market but less than 11% for an investor in a balanced multi asset portfolio. Diversification is critical for clients hoping to protect assets on the downside.

Understanding how far markets fall

For clients invested in markets we often remind them that volatility is an inherent part of investing and comes hand in hand with longer-term investment returns. Drawdowns of 20/30% happen every few years. In some cases, large crashes can bring the market down 50%+ as seen in the Dot Com crash of 2001/2002 and the Global financial crisis in 2008.

Again, this must be taken in the context of a diversified portfolio. Any allocation to bonds, cash or diversified alternatives will dampen the drawdowns experienced.

GLOBAL EQUITIES: HISTORICAL MARKET DRAWDOWNS



Source: Refinitiv. Total returns in USD. Data as of 22/09/2026.

How quickly do markets recover?

Just as important as the depth of a drawdown is the speed of the recovery that typically follows it. Historically, a rebound can be sharp in the days and weeks immediately following the market bottom. This is well before it is obvious, in hindsight, that the bottom has been reached.

This is the central argument against trying to time an exit and a re-entry around a drawdown: the recovery tends to be front-loaded, concentrated, and hard to predict in advance. Investors who de-risk during the fall and wait for confidence to return before re-investing typically miss the bulk of the recovery.

GLOBAL EQUITIES: HISTORICAL DRAWDOWNS AND PERFORMANCE

			Performance following bottom	
Description	Date of Bottom	Equity Markets	1 Month	3 Month
Dot Com Crash	09/10/2002	-48.8%	11.9%	17.3%
Global Financial Crisis	09/03/2009	-57.5%	25.6%	44.5%
Covid	23/03/2020	-34.0%	23.6%	40.6%
Inflation & Interest Rate Hikes	12/10/2022	-25.8%	12.2%	15.4%
Trump Tariffs	08/04/2025	-16.5%	14.2%	24.6%
Average		**-36.5%**	**17.5%**	**28.5%**

Source: Refinitiv. Data as of 30/09/2026. Total returns in USD.

Why do we not believe a major crash is imminent?

Despite a significant uptick in market commentary which has become increasingly bearish, we view it as a bit premature based on market fundamentals.

1. Economic growth has been resilient
2. Earnings growth has supported equity markets
3. Valuations are not at extreme levels
4. Rates are higher than recent history, but are not yet at significantly restrictive levels (yet)
5. Central banks have been more proactive in tackling inflation

Equity market corrections may occur at any point without notice however we do not recommend that investors de-risk at this time. A 10-20% drawdown in markets is very possible over the coming year but very difficult to time accurately.

Fordel do not believe markets are heading for a deep or protracted correction.

What could shake market confidence?

There are several scenarios which would change our view and make us rethink our approach to risk. These include:

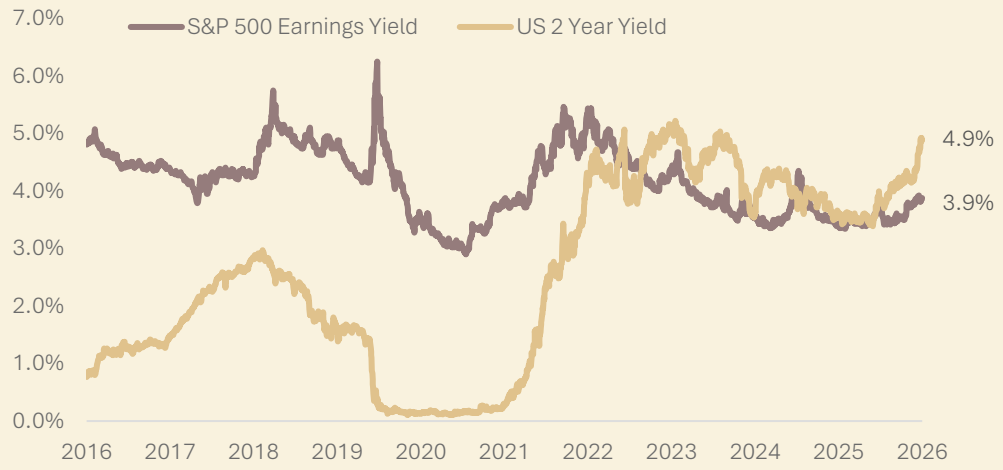
1. Continued or increasingly elevated oil prices above $100
2. Inflation numbers materially above current expectations
3. Rapid upward shift in interest rate expectations and bond yields. For example, US 10 Year yields breaching 6% over a short period
4. Deteriorating economic and earnings fundamentals
5. Trump and US midterms confusing the fiscal and monetary outlook

Bonds as alternative to risky assets?

With yields at multi-decade highs, the relative attractiveness of high-quality bonds has improved markedly, and this is now doing more to shape client conversations than the geopolitical headlines themselves.

One common way to view the relative attractiveness of equities versus bonds is to look at the yields of both asset classes. In the US one way to do this is to compare the US 2 Year Treasury yield against the earnings yield of the S&P 500 (instead of the P/E ratio, this is simply the E/P ratio).

RELATIVE VALUATIONS: US EQUITIES VERSUS BONDS



Source: Refinitiv. Data as of 30/09/2026.

For most of the last decade bonds offered little to no return versus equities and investors were enticed into risky assets without much alternative. The phrase

TINA was often used after the Global Financial Crisis in 2008 which stands for "There Is No Alternative." In equity markets, it describes the dynamic that investors buy stocks not because stocks look especially cheap or attractive, but because the other options look even worse.

As you can see from the chart, bond yields have spiked while equity markets remain slightly above long-term valuation averages. Bond yields are increasingly becoming more attractive. For clarity, the long term expected return for equities remains higher than that for bonds, but investors now face a choice.

For clients that have a lower risk tolerance or shorter time horizons, the bond market now offers opportunities and options that have been missing for 20 years.

IRISH GOVERNMENT BONDS: TAX EFFICIENT YIELD ENHANCEMENT

In Europe bond yields are lower than those in the US or the UK, however for Irish investors, domestic government bonds still offer a tax efficient yield in some circumstances.

This is of course subject to tax advice for each client specific situation however an example we use with clients is using Irish Government Bonds which now offers returns in the 3% to 3.5% range. In the case where the return comes from capital gains rather than income (e.g. buying a bond at a discount), the return is tax efficient. Capital gains are exempt in this scenario.

As a comparison, equity returns (through a fund or ETF and held outside of a pension) are taxed at 35% Fund Exit Tax on realised gains. A 5% gross return, taxed at that rate, nets down to 3.25%.

Bond Example	Yield to Maturity	Tax Treatment	Net Return
Irish Govt. Bond	3.25%	CGT Exempt	3.25%

Investment/Cash Option	Return you need	Tax Treatment	Net Return
Irish Bank Deposit	4.85%	DIRT (33%)	3.25%
Equity Market Fund	5.00%	Fund Exit Tax (35%)	3.25%

Current bank deposits currently sit at close to 0% in current accounts and up to around 2% gross in fixed deposits. After Deposit Interest Retention Tax (DIRT) this nets to somewhere in the region of 1.34%. To match the government bond return, a bank would need to offer their clients a 4.85% interest rate.

Note: Illustrative figures for comparison purposes only; actual tax treatment depends on individual circumstances and should be confirmed with your Wealth Manager and tax adviser.

What actions should investors take?

For Clients Already Invested

- Revisit your risk profile and required return and link this to your financial plan. Do not let short term market noise override your long-term financial plan.
- Review your time horizon. If you are investing over five years or more, this is not, on its own, a reason to reduce risk.
- Rebalance to target allocations. Market moves will have drifted portfolios away from target weights (invertedly driving up risk exposure); bring them back in line.
- Check diversification. Confirm you are not overly concentrated in any one sector, region, or theme e.g. AI.
- Do not try to time the market. Timing is not a repeatable strategy; consistent process is.

For Clients Not Yet Invested

- Open your account and identify your investable amount now, so you are ready to act rather than reacting after the fact.
- Phase into markets over time rather than investing a lump sum in one move and be ready to accelerate that phasing if markets fall.
- Consider tax-efficient Irish Government Bonds — the 2031 bond, currently offering a 3.4% net return for individual investors, is a credible place to hold capital while phasing in or waiting.
- Be decisive if markets fall. Recovery after a market low has historically happened quickly; set your rules of engagement now, before you need them, rather than deciding in the moment.

Contact your Fordel Wealth Manager to discuss what this means for your specific portfolio and financial plan.

If you have any concerns, we're always happy to discuss them. Please get in contact with your Fordel Wealth Manager or reach out to us via the www.fordel.ie website.



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