



STRATEGY UPDATE • OCTOBER 2026

Real yields near our 3% line leave equities with no cushion

KEY TAKEAWAYS

- **Real yields have reached our line**

The ten-year real yield is now within touching distance of the 3% level we named last month as the point at which we would reconsider our positioning. We treat that trigger as effectively live and are watching it daily. A sustained move above it would bring our equity weight down.

- **Reshaping equity risk, not reducing it**

We intend to stay overweight equities because earnings remain genuinely strong. With no valuation cushion left, composition now matters more than weight. We plan to reduce long-duration US growth and bring forward the trim in emerging markets, where a handful of semiconductor names drive the index.

- **Insurance and energy on our radar**

We are looking at European insurers, which gain from higher rates through both their life and non-life books. We are also looking at integrated energy majors as a hedge against inflation pushing yields higher. Together they cover the two paths the rate story can take.

- **Midterms change noise, not arithmetic**

A Democratic Congress facing a Republican president points to legislative stalemate rather than policy change. It keeps our healthcare exposure narrow. It leaves the deficit, and therefore bond supply, exactly where it was.

SEPTEMBER IN REVIEW

September was the month the bond market stopped arguing and started insisting. The Fed, the ECB and the Bank of Japan all raised rates, and futures now price more tightening from Washington than the Fed itself has signaled. Long yields did the rest. The ten-year Treasury

climbed to its highest level since 2007 and the thirty-year to levels last seen in 2002, even though the Treasury was buying back long paper at three times its previous pace. Equities barely noticed at the index level. The S&P 500 ended the month roughly flat and close to its record, carried by an earnings season that keeps clearing a high bar. Underneath, the strain showed. US financials had their worst month since the regional bank scare of March 2023, as private credit funds limited withdrawals and investors began asking what a higher-for-longer world does to illiquid loans. Brent held above 100 dollars after Washington rejected Iran's conditional offer on Hormuz. The dollar firmed, and the yen weakened again despite a Bank of Japan hike and verbal intervention. Gold gave back most of its August gain. European utilities sold off in precisely the rate shock we warned about in July. The month closed with consumer confidence falling sharply and the August inflation data expected to confirm core inflation well above 3%.

NO CUSHION LEFT

Last month we wrote down, in advance, the one number that would change our view: US real yields at 3%. The ten-year real yield is now within a few basis points of it, and how it got there matters as much as the level. Nominal yields rose while inflation expectations barely moved, so **this is not the market pricing more inflation. It is the market demanding more compensation for holding a growing stock of government paper.** That is the "too many bonds, too few loyal buyers" story we set out in our fixed income report, arriving faster than we would have liked.

Real yields are close to the post-GFC high



Source: Macrobond, Julius Baer Research

Equities are caught in a tug of war between this **rising discount rate and earnings** that remain exceptional. That is what separates today from 2000: the companies leading this market report profits, not promises, and **earnings growth has run well ahead of already ambitious forecasts.** But strong earnings are now holding valuations up rather than lifting them. The earnings yield on the S&P 500 roughly matches what a ten-year Treasury pays, which leaves the equity risk premium at about zero, so **investors today are paid for owning equities with little beyond the growth they expect.** That is the definition of a market with no cushion. It does not have to fall, since expensive markets can stay expensive for a long time. But it has no room for disappointment on inflation, on the Fed or on the returns from AI spending.

We therefore do not intend to cut our equity overweight, but we do intend to change what it is made of. The exposure most vulnerable to rising real yields is long-duration growth: companies valued on cash flows far in the future and increasingly dependent on external financing. Higher rates reach them twice, through the discount rate and through the funding cost. We plan to reduce that part of our US exposure specifically, rather than selling the index broadly and giving

up the sectors we want to keep. In emerging markets we intend to bring forward the trim we flagged for year-end, and Korea illustrates why. Its memory and hardware champions earn real money at modest multiples, so this is not a duration argument. The case is that the market has behaved as a leveraged version of the AI trade, rising faster than the Nasdaq and liable to fall faster too. Where clients hold defined-outcome buffer structures, part of the protection we want is already in place.

WHERE WE LOOK

The harder question is what to own instead, since rotating into another corner of the same trade changes nothing. We are looking in two places, each chosen because it benefits from a different version of what is happening.

The first is European insurance. When rates rise, the long-dated liabilities of a life book fall in present value faster than its assets, which releases solvency capital. Non-life insurers, meanwhile, reprice policies and reinvest premiums at higher yields. The European sector, dominated by composites and reinsurers, is more rate-sensitive than its US counterpart, which leans toward brokers and property and casualty businesses without the same balance sheet mechanism.

The second is integrated energy. **If real yields keep rising because of bond supply, insurers win. If yields rise instead because inflation reaccelerates, which would be the more dangerous path, energy is the natural beneficiary.** That matters at a time when gold has been trading more as a rate asset than as the fiscal insurance we own it for. We favor the integrated majors over crude or pure producers for two reasons. Their refining and trading arms often earn more when oil falls, which damps volatility, and their cash returns are underwritten at oil prices well below today's. We are realistic about what this hedge does. It should hold up well in a valuation event led by technology, but in a recession oil demand falls and energy falls with it, as 2008 showed. Neither idea is a trade yet, and we will set out instruments in a dedicated Investment Alert once we have tested them.

WHAT CHANGES OUR MIND

The midterm elections have shifted beneath us. A month ago markets expected a split Congress. They now expect Democrats to take both chambers, facing a Republican president. For investors that points to stalemate rather than change: tax policy frozen, appropriations harder, and louder headlines on drug pricing that are unlikely to become law. That keeps our healthcare exposure tilted toward pharmaceuticals, biotechnology and medical technology rather than managed care. What it does not change is the deficit, since neither party is campaigning on consolidation. The election changes the noise, not the arithmetic, and the arithmetic is what drives real yields.

We enter the final quarter still overweight equities, reshaping rather than reducing, with our triggers written down. Three carry forward from last month. The first has moved decisively: real yields at 3% is no longer a distant marker but a level we watch daily, and a sustained move through it would bring our equity weight down, not merely change its composition. The second has also moved: hyperscaler credit spreads have widened further, though they remain short of stress. A move into stress would tell us the capex cycle is being financed on worse terms than its returns can bear. The third is unchanged: earnings breadth has narrowed on the charts but not in the numbers, and only a fundamental break would change our view. Until one of them fires, we stay invested, with less duration in our equities and a clear idea of what we would own if the rate story turns in either direction.

OUTLOOK AND POSITIONING

Still overweight, with less duration in our equities

ASSET CLASS VIEWS

Equities

OVERWEIGHT



We stay overweight because earnings remain genuinely strong, but we are changing what the exposure is made of: less long-duration US growth, healthcare tilted toward pharmaceuticals, biotechnology and medical technology, Japan and the European periphery favored, and the emerging markets trim brought forward.

Fixed income

UNDERWEIGHT



We hold no long-dated government paper across the G7 and keep the allocation at the short end, where yields still absorb a sizeable rise in rates before income turns to loss. Bond supply, not inflation, is what is pushing real yields higher.

Alternatives

OVERWEIGHT



A deliberate strategic overweight. We favor daily-liquidity market neutral and macro strategies, which raise resilience without lowering equity weight, and prefer liquid vehicles now that private credit funds have begun limiting withdrawals.

Liquidity

TACTICAL BUFFER



Liquidity is held for flexibility rather than as a view, ready to fund the ideas we are testing in European insurers and integrated energy, and to act quickly if one of our triggers fires.

KEY RISKS

01 Real yields through 3%

The ten-year real yield sits within a few basis points of our 3% line. A sustained move through it would bring our equity weight down, not merely change its composition.

02 AI monetization

With the equity risk premium near zero, the market has no room for disappointment on the returns from AI spending. A fundamental rather than technical break in earnings breadth would trigger a sharp de-rating in US large-cap growth.

03 Hyperscaler funding

The largest spenders increasingly depend on external financing, and their credit spreads widened further in September. A move into stress would tell us the capex cycle is being financed on worse terms than its returns can bear.

04 Inflation and energy

The Fed, the ECB and the Bank of Japan all raised rates in September, and Brent holds above 100 dollars after Washington rejected Iran's offer on Hormuz. Core inflation well above 3% keeps another hike live.

DISCLAIMER

This publication is for information only and reflects Acumentum AG's general market views as of the publication date. It is not investment, legal or tax advice, nor a personal recommendation, offer or solicitation to buy or sell any financial instrument, and it does not take account of any individual's circumstances. Investments involve risks, including the loss of capital; depending on the instrument, these include market, interest-rate, credit, liquidity and currency risk, and complex instruments may not suit every investor. Past performance is no guarantee of future results. Please seek professional advice before investing.

While the information has been obtained from sources believed to be reliable, its accuracy or completeness cannot be guaranteed. The information and views expressed are subject to change without notice.

GENERAL CONTACT · Acumentum AG · Stadthausquai 1 · 8001 Zurich · Switzerland
Tel. +41 43 497 27 42 · Fax +41 43 497 27 43 · info@acumentum.ch · www.acumentum.ch