

Quarterly Investment Report – Q3 2026

October 06, 2026

What changed in Q3?

This quarter's report is somewhat more detailed than usual. The reason is simple: **interest rates have become one of the most important drivers of financial markets again.** To understand what this means for equities, precious metals, Bitcoin and the economy, we will spend a little more time on the bond market, including some simple bond maths. We will keep it as practical as possible.

The third quarter marked another important shift in the interest-rate environment.

In Q1, markets were dominated by the geopolitical and inflationary consequences of the conflict in the Middle East. In Q2, the U.S. Treasury curve bear-flattened as investors mainly repriced the Federal Reserve. Short- and intermediate-term yields rose much more than long-term yields.

In Q3, the pressure moved decisively to the long end of the bond market.

By the end of September, the U.S. 10-year Treasury yield had risen above 5.2%, its highest level since 2007. Similar moves occurred across other developed markets: German Bund yields reached levels not seen for many years, while Japan's 10-year government bond yield moved above 3%, a level last seen around three decades ago.

This matters because Q3 was not simply another U.S. interest-rate shock. It increasingly became a **global repricing of long-term capital**.

Chart: Development of 10Y government bond yields y-t-d; U.S., Germany, France, U.K., and Japan



Source: Bloomberg, SerMont AM

The chart illustrates how broad the move became. Japan experienced the largest relative increase, while France saw one of the sharpest absolute moves in Europe. In France, deteriorating fiscal expectations and political uncertainty added to the global pressure on yields.

The global bond sell-off was driven by several forces acting at the same time:

- the Iran war and the oil-price shock;
- synchronized global central-bank tightening;
- persistent and broader inflation pressures;
- rising real yields and term premia;
- deteriorating fiscal positions;
- strong AI-related capital expenditure, which increased competition for capital;
- and weaker structural demand for long-duration government bonds.

What made Q3 unusual was not any one of these factors in isolation. It was their **combination**. Higher energy prices increased inflation pressure. Central banks reacted more cautiously or more hawkishly. Governments continued to issue large amounts of debt. At the same time, companies, particularly in AI infrastructure, competed for the same pool of global capital.

The result was a significant increase in the compensation investors demanded for providing long-term financing, pushing bond yields higher and bond prices lower.

Table: Total Return 10Y Government Bonds in Q3 and y-t-d

Market	Q3 2026 Total Return	YTD 2026 Total Return
France (OAT)	-8.14%	-8.16%
US Treasury	-3.88%	-3.80%
UK Gilt	-3.24%	-1.41%
Germany (Bund)	-3.12%	-2.02%
Japan (JGB)	-1.40%	-1.58%

Source: Bloomberg, SerMont AM

Q3 Market Performance

The sharp rise in global bond yields did not affect all asset classes equally. While government bonds suffered significant losses, equity markets proved relatively resilient and real assets delivered a very mixed picture.

This divergence is important because it shows that Q3 was not a simple risk-off quarter. Different assets reacted very differently to the combination of higher real yields, strong earnings, geopolitical risk and changing liquidity conditions.

Table: Q3 Asset Performance in Q3

Asset	Asset Class	Q3 2026 Return	Notes
Brent Crude	Commodity	+44.66%	Price return
Bitcoin	Crypto	+40.83%	Price return (USD)
Nasdaq Composite	Equity	+3.15%	Price return
S&P 500	Equity	+2.25%	Price return
Euro Stoxx 50	Equity	-0.21%	Price return
US 10Y Treasury	Fixed Income	-3.88%	Total return; yield: 4.48% → 5.29% (+81 bps)
French 10Y OAT	Fixed Income	-8.14%	Total return

Source: Bloomberg, SerMont AM

Is Inflation Really the Main Problem?

At first glance, a 10-year Treasury yield above 5% looks like a major inflation warning. But the reason behind the rise matters.

A nominal government bond yield can be simplified as:

Nominal yield $\approx$ Real Yield + Inflation Compensation

For the U.S. 10-year Treasury, the real component can be approximated using the 10-year TIPS yield. The difference between the nominal Treasury yield and the TIPS yield gives a rough indication of long-term inflation compensation.

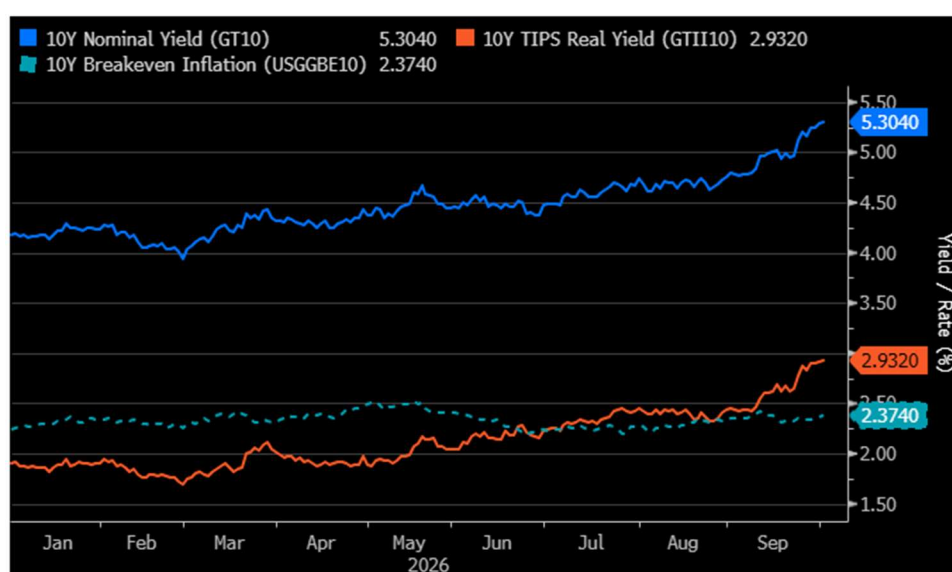
During Q3, most of the increase in the 10-year Treasury yield came from **higher real yields**, while long-term inflation expectations rose only modestly.

The market was therefore not primarily saying: “Inflation is getting out of control.” It was increasingly saying: **“We require a much higher real return to hold long-term government debt.”**

That is a very different message in our view.

A 5% Treasury yield driven mainly by inflation expectations would point to a credibility problem for the Federal Reserve. A 5% Treasury yield driven mainly by a high real yield points to tighter financial conditions, a higher cost of capital and a higher return demanded for holding duration. For investors, the second scenario is particularly important.

Chart: US 10Y Nominal Yield vs. TIPS vs. Breakeven – YTD 2026



Source: Bloomberg, SerMont AM

Why Do Real Yields Matter?

Real yields represent the inflation-adjusted return available on a relatively safe asset. When real yields rise sharply, the hurdle rate for almost every other investment rises with them. Investors therefore require higher expected returns to justify taking additional risk.

Equity valuations come under pressure because future earnings are discounted at a higher rate. Gold becomes less attractive relative to assets offering a higher real return. Corporate borrowing becomes more expensive, while mortgage and real-estate financing costs also rise.

This helps explain why the rise in real yields during Q3 mattered more than the increase in nominal yields alone.

It also explains why the bond market increasingly became a macroeconomic issue rather than simply a fixed-income story.

Why Are Long-Term Yields Still Rising? From Fed Risk to Term-Premium Risk

In Q2, higher yields were mainly a Fed story. In Q3, the long end increasingly moved independently. This points to a higher term premium. This is the additional return investors require for holding long-duration bonds.

Part of this premium may increasingly reflect fiscal risk. Large deficits and refinancing needs mean that investors must absorb more government debt at the same time as private-sector demand for capital remains high.

We would not call this full fiscal dominance. But it does mean that higher rates are becoming a more complicated policy tool: they restrain private demand while also raising government interest costs and future financing needs.

The mechanism can become self-reinforcing:

Higher rates → higher government interest costs → larger deficits → more Treasury issuance → more supply for investors to absorb.

The key consequence is that financial conditions can remain tight even if the Fed stops hiking.

Can the Economy Tighten Even if the Fed Stops Hiking?

The short answer is yes.

This may be one of the most important implications of the quarter.

Government bond yields are reference rates for much of the financial system. When they rise, the effect spreads to mortgage rates, corporate borrowing costs, commercial real estate, infrastructure finance and equity valuations.

The Fed could therefore stop raising short-term rates while the bond market continues to tighten financial conditions.

We would describe this as **passive tightening**.

- For households, this means expensive mortgages and weaker housing affordability.
- For companies, refinancing costs rise and fewer investment projects meet the required return.
- For governments, the impact is direct: higher yields increase debt-service costs.

This is particularly relevant against the weak consumer backdrop and significant Treasury refinancing needs already discussed in our Q2 report.

And this is not only a U.S. issue. Europe also faces materially higher financing costs, while Japan is adjusting to an interest-rate environment not experienced for decades.

The same 3% yield has a very different economic meaning in Japan than in the U.S. Japan's economy, banks and investors operated for many years under near-zero or negative rates. A move above 3% therefore represents a major structural change.

What Is Oil Telling Us About Inflation?

Energy remained one of the most important macro drivers in Q3. Developments around the Strait of Hormuz repeatedly changed expectations for oil supply, shipping routes and transport costs. Commercial traffic through the Strait of Hormuz remained severely impaired at the time of writing, with vessel crossings running at roughly 10% of pre-war levels.

This is where the distinction between **short-term and long-term inflation expectations** becomes useful.

The U.S. one-year inflation swap is sensitive to oil, gasoline, freight costs and other price pressures that can feed quickly into consumer inflation.

The 10-year breakeven inflation rate answers a different question: whether investors expect inflation to remain elevated over a much longer period.

During Q3, **short-term inflation expectations reacted strongly to changes in energy prices** , while **long-term inflation expectations remained relatively stable**.

That suggests markets continued to view the energy shock mainly as a **near-term inflation problem rather than a permanent loss of Fed credibility** .

We therefore monitor the sequence Oil → 1Y Inflation Swap → Fed expectations → short-term Treasury yields → real yields. The 1Y swap helps distinguish between a temporary energy shock and inflation that is becoming more persistent.

Why Did Equities Hold Up So Well?

Equity markets proved more resilient than the bond market would have suggested. The S&P 500 gained **2.5%**, while European markets delivered more modest returns. The EURO STOXX 50 was broadly unchanged, the FTSE 100 gained around **2.0%**, and the DAX rose only slightly.

Japan was the notable exception during the quarter. The Nikkei 225 fell **4.7% in Q3**, although it remained the strongest major equity market year-to-date, up more than **30%**.

Table: Performance of major stock indices Q3 and year-to-date

Index	Q3 2026	YTD 2026
S&P 500	+2,52%	+12,50%
EURO STOXX 50	+0,10%	+9,88%
FTSE 100	+1,98%	+9,30%
DAX	+0,63%	+2,69%
Nikkei 225	-4,71%	+30,67%

Source: Bloomberg, SerMont AM

The key message is that higher interest rates have not yet triggered a broad equity-market correction. Markets with strong earnings support, particularly in the U.S., have been better able to absorb higher discount rates.

One important reason is the continued investment boom in artificial intelligence, data centres and semiconductors. This creates an unusual tension: **AI investment supports corporate earnings and economic growth, but at the same time increases the demand for capital and may therefore contribute to higher real long-term interest rates**.

For equities, this means that future returns are likely to depend increasingly on **earnings growth rather than further valuation expansion** .

What Does This Mean For Gold?

The sharp rise in real yields created a difficult environment for precious metals, especially in September. This is logical. Higher real yields increase the opportunity cost of holding gold because investors can earn a higher inflation-adjusted return on government bonds. **That is why real yields generally matter more for gold than nominal yields alone.**

A rise in nominal yields because inflation expectations are increasing can actually strengthen the case for an inflation hedge. A rise in **real yields** is different. It **creates a direct competitor to gold**.

Despite this environment, gold remained more resilient than the increase in real yields alone might have suggested. That may indicate continued support from geopolitical risk, central-bank diversification and fiscal concerns.

For Q4, we see one particularly important signal: **If gold starts rising while long-term real yields remain high and the U.S. dollar weakens, the market may increasingly be treating gold as a hedge against fiscal and monetary regime risk.**

Chart: Gold & Silver vs. U.S. 10Y TIPS Real Yield (4 years)



Source: Bloomberg, SerMont AM

The classic inverse relationship held in 2021 – 2023. As real yields (blue line) surged into positive territory in the aftermath of the pandemic, both Gold and Silver came under pressure, consistent with rising opportunity costs of holding a non-yielding asset.

This relationship broke materially in 2024-2026. Despite real yields remaining elevated gold and silver reached new highs. This divergence suggests that structural demand drivers such as central-bank buying, geopolitical hedging and de-dollarisation increasingly offset the traditional real-rate headwind.

Despite the sharp rise in real yields, gold still ended Q3 modestly higher, although it suffered a significant correction in September. Platinum was the top-performing precious metal in Q3, but remains a laggard year to date.

Table: Performance gold, silver, and platinum in Q3 and y-t-d

Metal	Q3 2026 Return	YTD 2026 Return
Gold	+2.12%	-4.12%
Silver	+0.33%	-14.49%
Platinum	+7.36%	-16.58%

Source: Bloomberg, SerMont AM

Bitcoin: ETF Demand Changed the Market Structure

Bitcoin entered Q3 after a very difficult second quarter.

In Q2, U.S. spot Bitcoin ETFs saw persistent outflows and Bitcoin traded close to its long-term valuation bands and 200-week moving average. At the time, we considered valuations increasingly attractive from a long-term perspective.

Q3 was very different. Institutional demand returned through U.S. spot Bitcoin ETFs and helped Bitcoin recover materially. **Bitcoin gained roughly 41% during Q3, despite sharply higher U.S. real yields and a stronger dollar.**

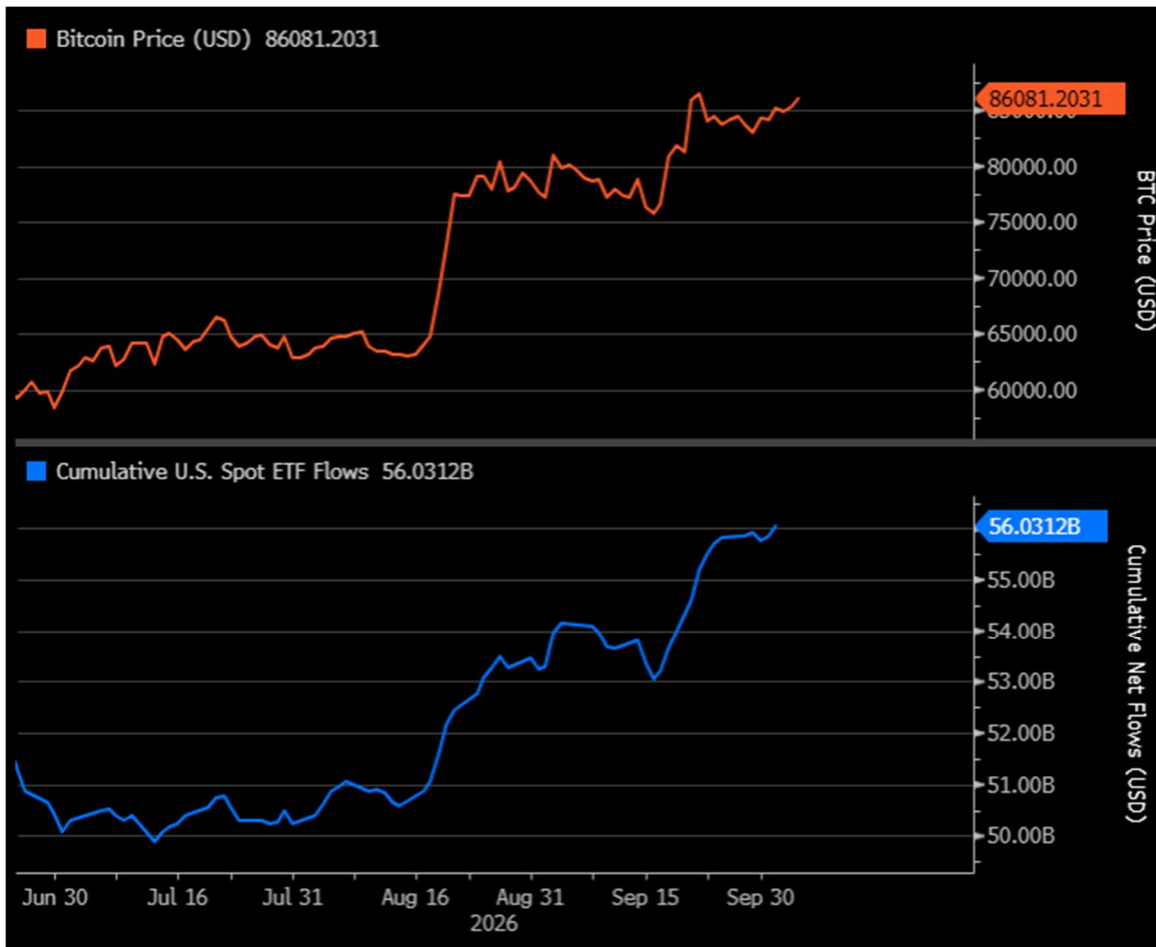
Normally, both would be clear macro headwinds. During much of Q3, however, ETF buying was strong enough to offset them. That is becoming an important feature of Bitcoin's market structure:

ETF flows have created a meaningful new source of institutional demand.

Macro conditions still matter. Toward the end of the quarter, as ETF inflows slowed while real yields remained high, Bitcoin again became more sensitive to the rates environment.

For Q4, the interaction between **ETF flows and real yields** remains one of the most important variables to watch.

Chart: Bitcoin Price vs. Cumulative U.S. Spot ETF Flows in Q3



Source: Bloomberg, SerMont AM

Portfolio Positioning

The strong U.S. dollar was a modest headwind for our portfolios because part of our dollar exposure remained hedged. We have since reduced these hedges slightly.

Our medium- to long-term view remains unchanged: we expect gradual de-dollarisation and a weaker U.S. dollar over time, even if high real yields can support the currency in the short term. We therefore remain constructive on precious metals and Bitcoin, while our core equity exposure continues to focus on high-quality companies with strong balance sheets, pricing power and sustainable cash flows.

Conclusion

Q3 marked the transition from a Fed-driven rates repricing to a broader global real-yield and term-premium shock. Long-term inflation expectations remained relatively contained, suggesting that the rise in yields reflected less a loss of inflation credibility and more a higher real return demanded for holding duration. **For Q4, the key question is whether this pressure fades as inflation normalises, or whether the global cost of long-term capital has structurally moved higher.**

Kind regards,

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