

Q3 Market Commentary 2026



The first half of 2026 has been defined by sharp shifts in market narrative, with sentiment moving quickly as investors reassess the outlook for growth, inflation and political policy.

A tale of two quarters

The first quarter of 2026 was dominated by geopolitical risk, particularly the escalation of conflict in the Middle East and its potential impact on global trade and energy supply. Markets responded by pricing in a more challenging macroeconomic backdrop. Expectations for interest rates moved higher, inflation was assumed to be more persistent, and growth forecasts were revised down. This combination led to increased volatility across both equity and bond markets.

The second quarter saw a notable shift. As the prospect of a resolution involving Iran became clearer, the perceived risk to energy markets began to ease. Oil prices softened, and with that came a moderation in long term inflation expectations. Interest rate expectations followed, with markets beginning to price a less restrictive path for central banks than had been assumed earlier in the year.

This change in narrative supported a recovery in risk assets, although returns were uneven. Market leadership became increasingly concentrated around areas linked to capital expenditure and artificial intelligence. The dispersion in returns highlighted the degree to which markets are being driven by a relatively narrow set of expectations around future growth.

What comes next?

Looking ahead, markets appear likely to remain unsettled. Rather than moving in a single clear direction, the dominant feature has been a tendency to oscillate between competing narratives.

A key tension lies in how investors interpret the current wave of capital expenditure, particularly in technology and infrastructure. On one hand, increased investment supports future productivity and growth. On the other, it raises questions about efficiency, returns on capital and whether current valuations already reflect overly optimistic assumptions. This creates a backdrop where both positive and negative outcomes are plausible, depending on how these investments translate into earnings over time.



Several important divides are likely to shape returns:

- The relative performance of the US compared with other regions, as valuations in the US remain elevated while opportunities elsewhere appear more attractively priced.
- The balance between technology and artificial intelligence related sectors, particularly large cap US technology and semiconductor funds, and broader market exposure, given the concentration of recent gains.
- The ongoing tension between growth and value styles, particularly as interest rate expectations evolve.
- The interaction between valuations and capital expenditure, with markets sensitive to any sign that spending may not deliver the expected returns.

Lower oil prices are also an important factor. They provide some relief on inflation and support the case for lower interest rates, but they may also reflect softer global demand.

All these questions will take time to answer and will evolve as we move through 2026 and beyond. Markets have shown repeatedly that outcomes can shift quickly as new information emerges. In this environment, maintaining a disciplined and diversified approach remains key. This is why we continue to run globally diversified multi asset portfolios,

designed to participate in rising markets while providing resilience during periods of weakness. We believe this approach is well suited to an environment where volatility is likely to remain elevated.

Political backdrop

Politics is set to play a more prominent role in the second half of the year as well.

In the UK, attention is focused on the evolving policy direction from Downing Street with the implementation of a new Prime Minister and what that may bring regarding changing policy and figure heads. Questions remain around fiscal policy, the framework for government spending and whether there will be any meaningful shift in approach under new leadership. The identity and stance of the Chancellor will be particularly important for gilt markets and domestically focused investments.

In the US, the approach to the midterm elections is likely to dominate headlines and sentiment across the Atlantic. Markets will be watching for signs of policy change, particularly in relation to fiscal spending and regulation. The durability of the current truce with Iran will also be critical, as any renewed tension could quickly feed back into energy markets and inflation expectations.



Portfolio positioning

In this environment, attempting to position portfolios for a single dominant scenario carries increased risk.

We believe that maintaining broad diversification across regions, asset classes and investment styles is essential. This is already embedded within MAIA's investment approach, through globally diversified multi asset funds designed to capture a range of return drivers rather than relying on any single outcome.

By maintaining this breadth of exposure, our portfolios are better placed to navigate shifting market narratives, whether driven by changes in interest rate expectations, regional performance, or which sectors of the market are performing strongest at any given time. This positioning reflects the reality that many of today's key questions remain unresolved, and outcomes are unlikely to be linear.

In a market defined by uncertainty and rapid change, we believe this diversified approach provides the most robust foundation for long term investment.

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