XPS Group

October 2026

Investment News

Our market round-up and news affecting UK investments

Rising oil prices to blame for a surge in global bond yields

Quarter in brief

Oil prices top $100 a barrel by quarter end as war in Iran continues

Rising yields become a challenge for the UK's October Budget

The ECB, BOJ and Fed raise interest rates but BOE holds firm for now

Equity returns remain positive as AI optimism returns

Aggregate UK DB pension scheme funding levels rose

Brent Crude Oil breached the $100 a barrel threshold again at the end of Q3, having begun the quarter at $72. The US conflict with Iran seems no closer to a resolution and as a result, global inflation continues to be pushed higher.

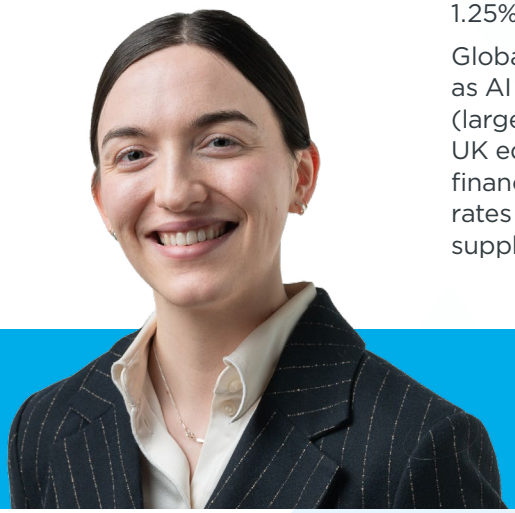
Inflation – and thus the growing expectation of further central bank rate rises in the near future – have driven a global bond sell off over the third quarter. The US Treasury took rare measures to intervene in the US Treasuries market over August by announcing it would double its buy backs of long-term government bonds in a bid to contain the rising costs of financing its own debt.

The UK has also felt the pinch of rising borrowing costs ahead of UK Chancellor John Healy's first Autumn Budget. Fiscal headroom rules have constrained the government's ability to fund public spending through additional debt and whilst the government has sought to ease some of the spending pressure on households through the removal of VAT on energy bills, tax increases seem likely. Prime Minister Andy Burnham has also committed to ending the state pension triple-lock at the end of the current parliament to help fund a proposed National Care Service as the UK government looks to rebalance its use of public money.

Despite UK Consumer Prices Inflation rising to 3.1% in the 12-months to August, the Bank of England narrowly voted not to increase the bank rate from 3.75% in September. On the other hand, the Federal Reserve (Fed) unanimously voted to increase their interest rate by a quarter percentage point for the first time since 2023. The Fed rate now sits at a range of 3.75% - 4.00% and four more rate rises have been priced into futures markets over the next 12 months.

The European Central Bank (ECB) and Bank of Japan (BOJ) joined the Fed with 0.25% rate increases during the quarter. This was the second rate hike of the year by the ECB, up to 2.5%. The BOJ's interest rate of 1.25% is the highest it has been for over three decades.

Global equity market performance was positive over the third quarter as AI confidence returned, providing a boost to both developed markets (largely driven by the performance of the US) and emerging markets. UK equities performed particularly well in Q3 thanks to its exposure to financials benefitting from the expectations of higher-for-longer interest rates and the energy sector benefitting from rising global energy supply costs.



Emma Coleman
Senior Investment Consultant

Click to watch Emma's video.

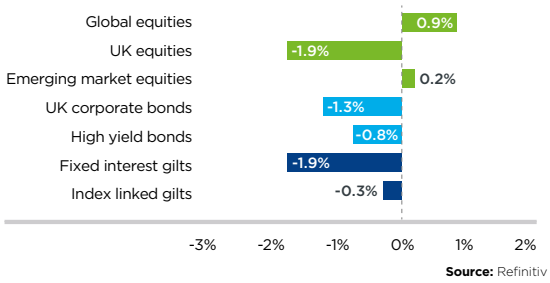
UK fixed interest gilt yields rose to their highest levels since 2007 just before the quarter end and so it is no surprise that the asset class performed poorly over the third quarter. Index linked gilts also posted negative returns but were offset by rising long-term inflation expectations. Despite the sell-off in UK gilts, Liability Driven Investment (LDI) recapitalisation activity for UK defined benefit pension schemes has been relatively muted thus far, testament to the improved resilience of the leveraged LDI market since the 2022 mini-budget gilts crisis. UK corporate bonds and global high yield bonds both suffered negative performance as global sovereign bond yields around the globe rose.

Aggregate UK DB pension scheme funding levels on a low risk basis rose thanks to rising yields reducing the present value of their liabilities. This will have been matched to some extent by a fall in liability hedging assets but positive growth asset performance has helped assets to outpace liabilities overall.

Market returns

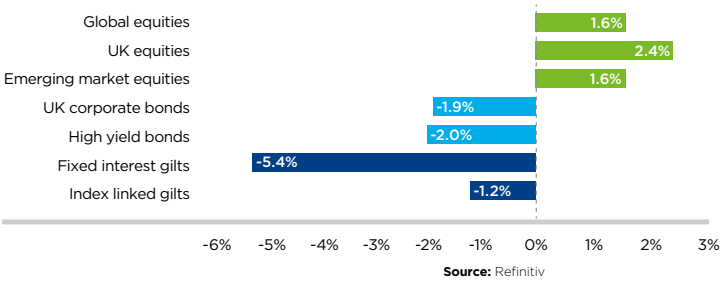
UK equities performed strongly over the third quarter

1 month to 30 September 2026



Source: Refinitiv

3 months to 30 September 2026



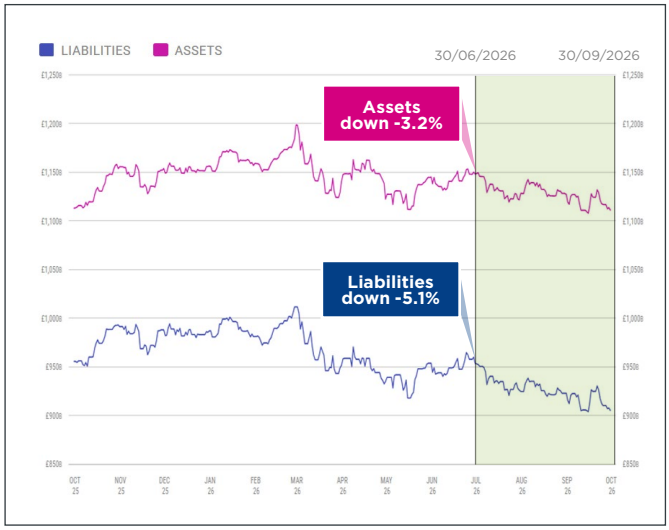
Source: Refinitiv



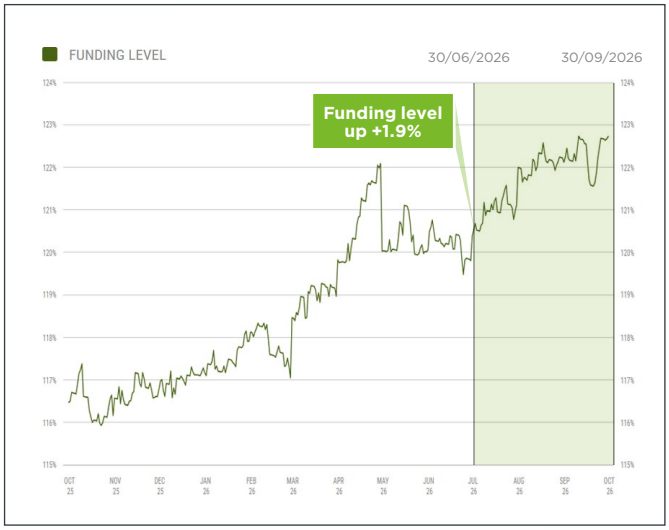
Despite the sell-off in UK gilts, LDI recapitalisation activity for UK defined benefit pension schemes has been relatively muted thus far, testament to the improved resilience of the leveraged LDI market since the 2022 mini-budget gilts crisis.

Simeon Willis
Chief Investment Officer

Asset and liability progression
for the DB:UK universe



Funding level progression
for the DB:UK universe



Source: XPS DB:UK | xpsgroup.com/DBUK

The charts above are based on data from The Pensions Regulator, the PPF 7800 Index and the XPS data pool. The assumptions used in the UK:DB long-term target basis include a discount interest rate of gilt yields plus 0.5%. The assumed asset allocation is 15.5% equities, 24.4% credit, 4.5% multi-asset, 5.9% property and 49.7% in liability driven investment (LDI) with the LDI overlay providing an 85% hedge on inflation and interest rates.

XPS Investment asset class views

Asset class	Favourable	Neutral	Unfavourable	Movement
UK Equity		●		
Developed Market Equity		●		
Emerging Market Equity		●		
Investment Grade Credit			●	
High Yield Credit			●	
Senior Secured Direct Lending		●		
Balanced Property		●		↓
Long Lease Property			●	
Private Equity		●		
Infrastructure		●		
Equity Protection Strategies	●			
Buy-in	●			
Cash		●		

Find out more

To discuss any of the issues covered in this edition, please get in touch with Simeon Willis or Emma Coleman Alternatively, please speak to your usual XPS contact.



Simeon Willis
Chief Investment Officer
simeon.willis@xpsgroup.com



Emma Coleman
Senior Investment Consultant
emma.coleman@xpsgroup.com

xpsgroup

About us

XPS Group is a leading UK consulting and administration business specialising in the pensions and insurance sectors. A FTSE 250 company, XPS combines expertise and insight with advanced technology and analytics to address the needs of over 1,300 pension schemes and their sponsoring employers on an ongoing and project basis. We undertake pensions administration for c. 1.2 million members and provide advisory services to schemes and corporate sponsors in respect of schemes of all sizes, including 81 with assets over £1bn. We also provide wider ranging support to insurance companies in the life and bulk annuities sector.

Award winning

Pensions advisory

Investment consulting

Administration

Corporate

Culture and Sustainability

Important information: Please note the information and opinions expressed herein do not take into account the circumstances of individual pension funds and accordingly may not be representative of the circumstances affecting your fund. This note, and the work undertaken to produce it, is compliant with TAS 100, set by the Financial Reporting Council. No other TASs apply. The note has been written on the basis that decisions will not be based on its contents. Appropriate advice should be obtained before any decisions are made. The information expressed is provided in good faith and has been prepared using sources considered to be reasonable and appropriate. While information from third parties is believed to be reliable, no representations, guarantees or warranties are made as to the accuracy of information presented, and no responsibility or liability can be accepted for any error, omission or inaccuracy in respect of this. This document may also include our views and expectations, which cannot be taken as fact. The value of investments and the income from them can go down as well as up as a result of market and currency fluctuations and investors may not get back the amount invested. Past performance is not necessarily a guide to future returns. The views set out in this document are intentionally broad market views and are not intended to constitute investment advice as they do not take into account any client's particular circumstances.

Please note that all material produced by XPS Investment is directed at, and intended solely for the consideration of, professional clients within the meaning of the Financial Services and Markets Act 2000 (FSMA). Retail or other clients must not place any reliance upon the contents.

This document should not be distributed to any third parties and is not intended to, and must not be, relied upon by them. Unauthorised copying of this document is prohibited.

© XPS Group. XPS Pensions Consulting Limited, Registered No. 2459442. XPS Pensions Limited, Registered No. 3842603. XPS Administration Limited, Registered No. 9428346. XPS Pensions (RL) Limited, Registered No. 5817049. XPS Pensions (Trigon) Limited, Registered No. 12085392. XPS Covenant Ltd, Registered No. 08020393. XPS IC Ltd, Registered No. 9640309. XPS Investment Limited, Registered No. 6242672, authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774). All registered at: Phoenix House, 1 Station Hill, Reading, RG1 1NB. APR Actuarial Solutions (Europe) Limited, Registered No. 677130. Registered at: South Point, Herbert House, Harmony Row, Dublin 2, Ireland, D02 H270.

This communication is based on our understanding of the position as at the date shown. It should not be relied upon for detailed advice or taken as an authoritative statement of the law.