Hamon Commentary - 3Q 2026

The third quarter was characterized by resilient headline equity indices but weakening market breadth. Gains were concentrated in selective large-cap tech and AI-related companies, particularly during September, when rising yields and energy costs weighed on most other sectors. Consequently, headline index performance did not fully reflect the challenging conditions experienced by diversified equity and multi-asset portfolios.

Geopolitical tensions involving US and Iran, as well as Russia and Ukraine, continued to weigh on sentiment. Oil prices remained elevated, with Brent oil trading above US$100 per barrel. US inflation pressures increased, prompting the Federal Reserve to resume rate hikes in September for the first time since 2023. Government bond yields also rose across major markets, increasing the valuation hurdle for equities and putting pressure on bond prices.

We see limited prospects for a near-term resolution to the US-Iran conflict. Significant inventory drawdowns and constrained oil supply underpin our expectation that energy prices will remain elevated for a longer period.

The US economy remains resilient. September's ISM manufacturing and services PMI stood at 54.5 and 54.9 respectively, indicating continued expansion, although PCE in August remains sticky at 3.4% YoY. Against this backdrop, we believe the economy is moving away from a "Goldilocks" environment towards one characterised by firmer inflation, higher interest rates, and resilient growth.

We expect the US dollar to remain supported in the near term by relatively high bond yields and resilient economic activity, although the longer-term trend of "de-dollarization" remains intact. Higher real yields and a stronger dollar may create near-term headwinds for gold. Nevertheless, we retain a constructive longer-term view, reflecting gold's role as a hedge against geopolitical risk, fiscal deterioration, and potential currency debasement.

We remain positive on energy and selective industrial commodities. Copper should benefit from investment in AI infrastructure, electricity grids, and broader electrification, provided global demand remains resilient. We also expect agricultural commodities, particularly grains and sugar, to receive support from higher fertilizer and energy costs.

We remain positive on AI semiconductors, which is supported by earnings growth prospects going into 2027. Our preference is for companies combining strong competitive positions, healthy balance sheets and attractive cash-flow generation. Within AI hardware, we favor computing power, including GPUs and CPUs, optical networking, and selected components that are early in their pricing upcycles.

The US midterm elections on November 3 could introduce policy uncertainty and short-term volatility. We will monitor the implications for technology regulation, trade restrictions, taxation, and investment incentives. Our longer-term conviction in AI remains intact.

With interest rates likely to remain elevated, we favour companies with strong free cash flow with strong balance sheets. We are cautious on small/mid cap companies dependent on external financing and on highly leveraged businesses. High-dividend stocks may face greater competition from cash and short-duration fixed income. Overall, we favour quality businesses with strong growth prospects at reasonable valuations.