Key market themes Q4 2026



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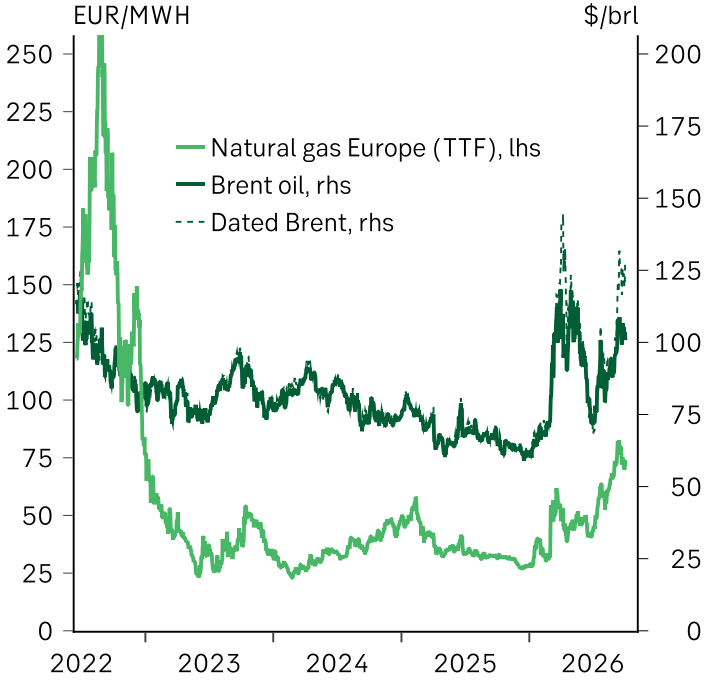
SEB

1. The energy shock

Rising inflation expectations → sharp central-bank repricing → higher market rates

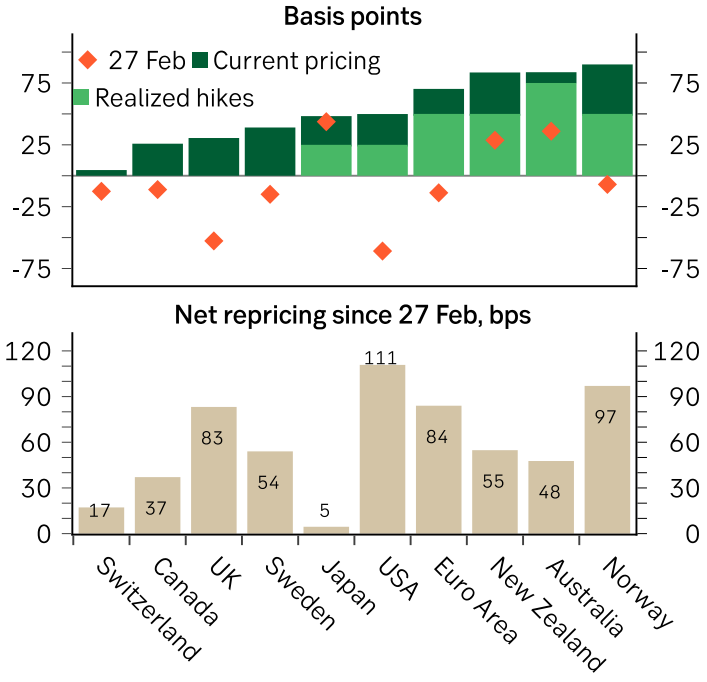
- When energy prices surged in the spring, central banks initially wanted to look through the temporary inflation shock.
- As energy prices started rising again over the summer, central banks have lost patience and need to respond to higher inflation expectations.
- Short-term inflation expectations have risen sharply and continue to correlate closely with oil prices.
- This has triggered a major repricing of central-bank policy: US markets have moved from pricing around three cuts to around 2.5 hikes by year-end.
- The repricing of monetary policy has been the single most important driver of the rise in global yields.
- European natural prices gas are at the highest level since 2022, and inventories are seasonally low.
- We do not expect energy prices to fall meaningfully before the US midterms on 3 November, as Iran has little incentive to ease pressure before the election.

Crude oil and natural gas



Source: Bloomberg, Macrobond, SEB

Market-implied policy rate change, end 2026

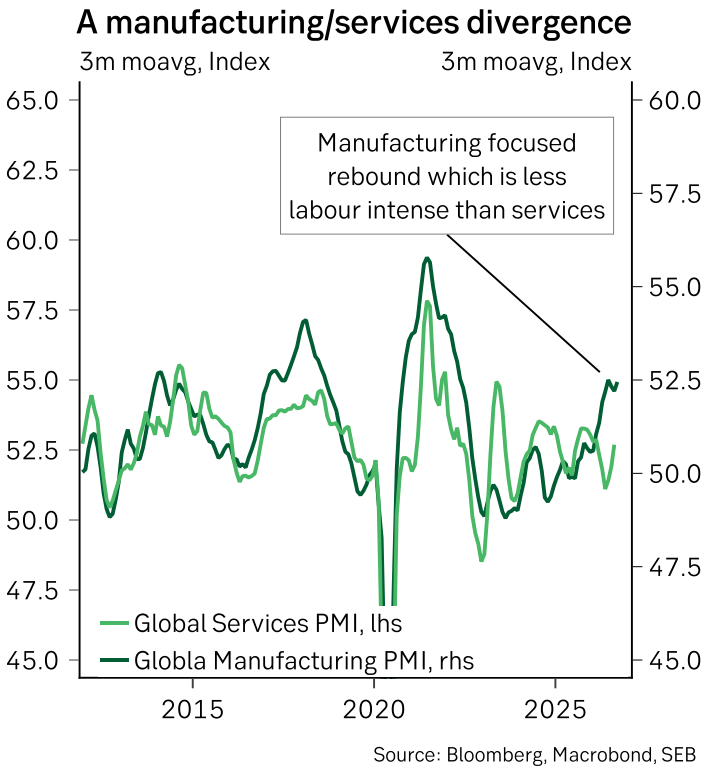


Source: Bloomberg, Macrobond, SEB

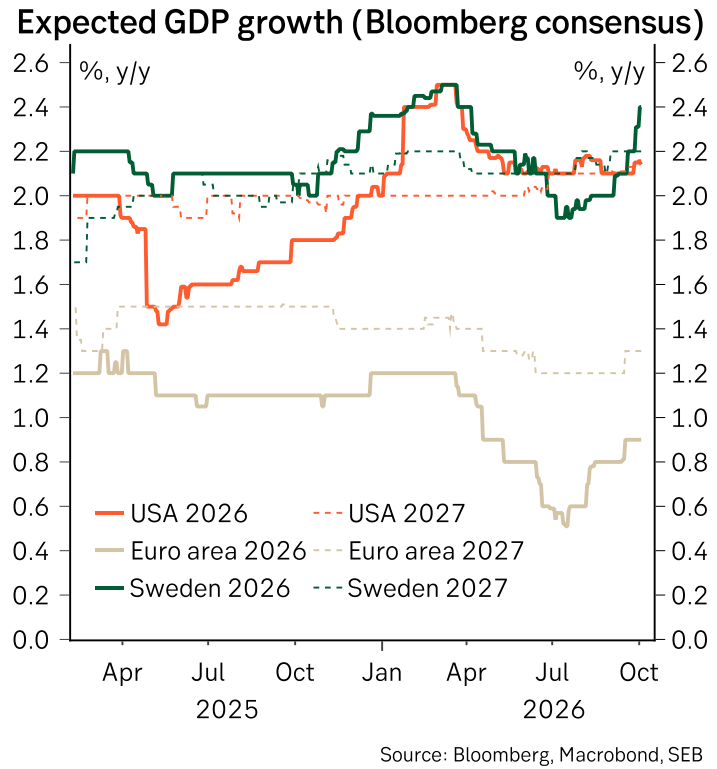
2. Global growth resilience

Where is the slowdown?

- Manufacturing activity has remained remarkably resilient despite higher energy prices and interest rates.
- The resilience has been supported by a global investment boom, led by AI, defence, green investment and infrastructure.
- Services activity has been much more subdued, with services PMI largely moving sideways.
- In September, however, both manufacturing and services PMIs picked up strongly, potentially signalling a broader recovery.
- This could indicate that the investment boom is beginning to spill over into the wider economy.
- Higher energy prices and interest rates remain important downside risks, but the global economy has so far been more resilient than expected.



Source: Bloomberg, Macrobond, SEB



Source: Bloomberg, Macrobond, SEB

SEB

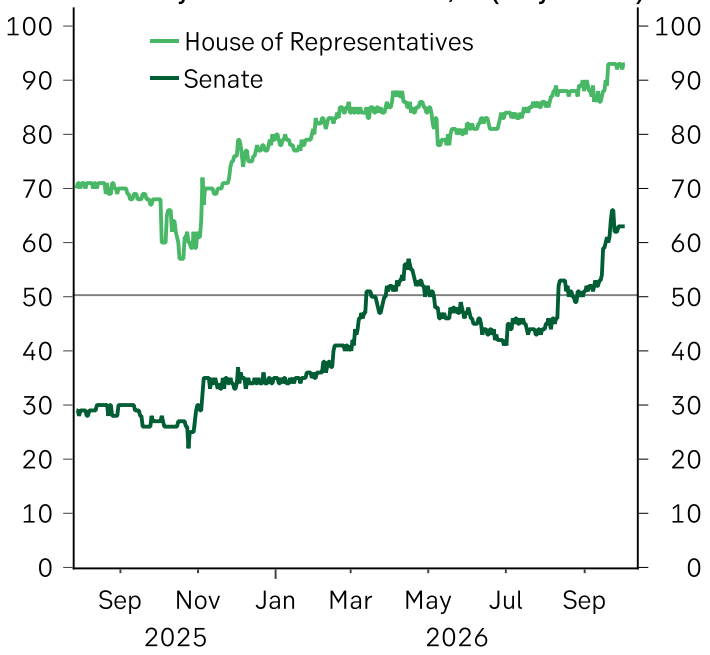
3. US Midterm elections

A Democratic sweep could lead to fiscal gridlock

- Democrats are increasingly likely to regain the House, while the Senate is also becoming more competitive.
- A Democratic Congress would constrain Trump's ability to pass new fiscal reforms and force greater bipartisan horse-trading.
- Trump would retain significant control over trade and foreign policy and could veto Democratic legislation.
- A Democratic Senate could block key appointments, including to the Federal Reserve and Supreme Court.
- A divided Congress could increase the risk of difficult budget and debt-ceiling negotiations.
- Fiscal policy could nevertheless become somewhat more expansionary if Democrats use budget negotiations to protect social spending in exchange for increased defence spending.

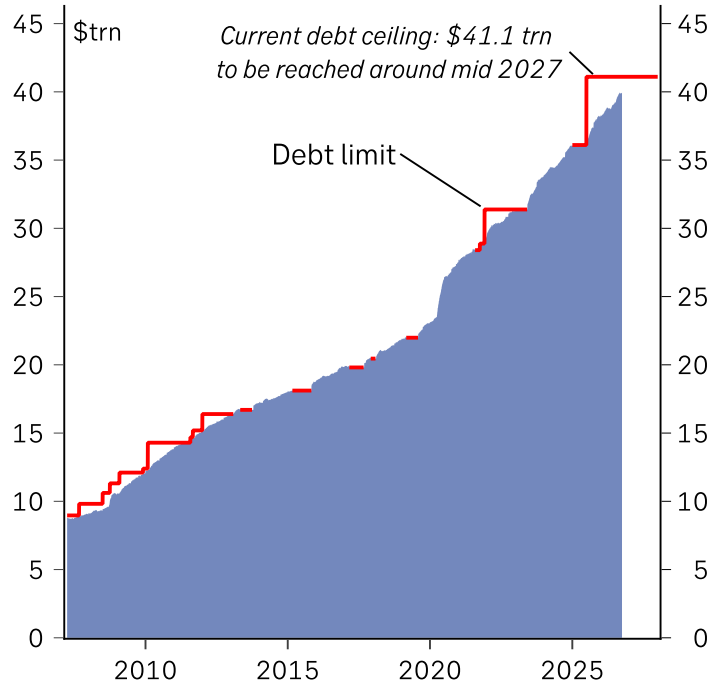
US Midterms election to Congress

Probability of Democratic control, % (Polymarket)



Source: Bloomberg, Macrobond, SEB

US Public debt and debt limit

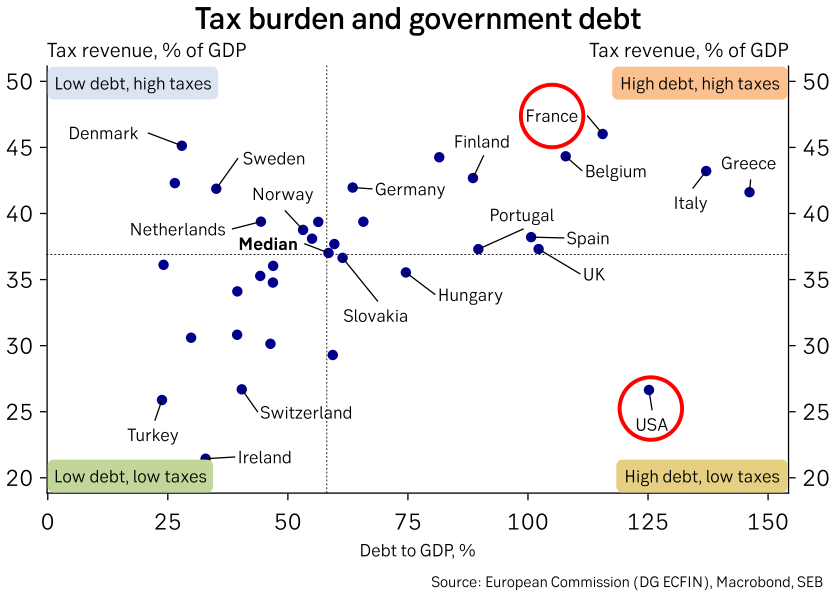


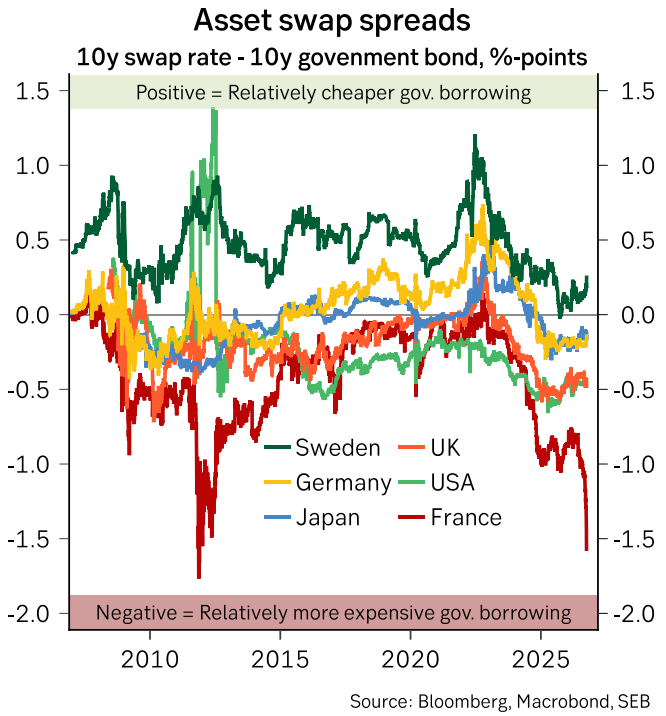
Source: Bloomberg, Macrobond, SEB

4. Public finances under pressure

Surging risk premia in France

- Rising government bond yields are putting increasing pressure on highly indebted economies, such as France and the US.
- Both France and the US run budget deficits of around 5 – 6% of GDP, but the US benefits from significantly stronger economic growth.
- France is unlikely to make meaningful progress in reducing its deficit over the coming year, with the risk that the fiscal position deteriorates further.
- French risk premia have risen sharply, with French swap spreads widening while spreads elsewhere in G10 have been relatively stable.
- The France – Germany 10Y spread has risen to its highest level since 2012, with France now paying the highest sovereign yield in the euro area.
- With rates remaining high, fiscal sustainability will stay in focus – particularly ahead of the French presidential election in April next year.



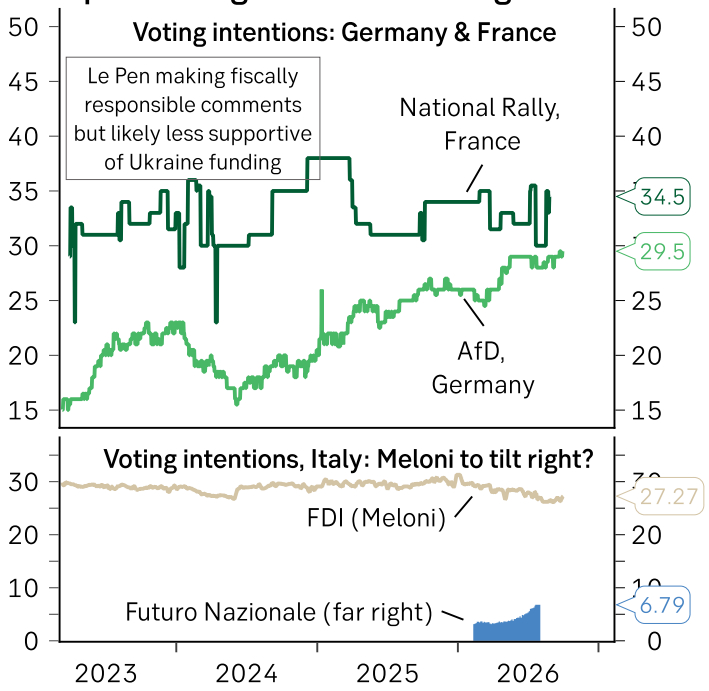


5. European elections

Political fragmentation and the rise of the right

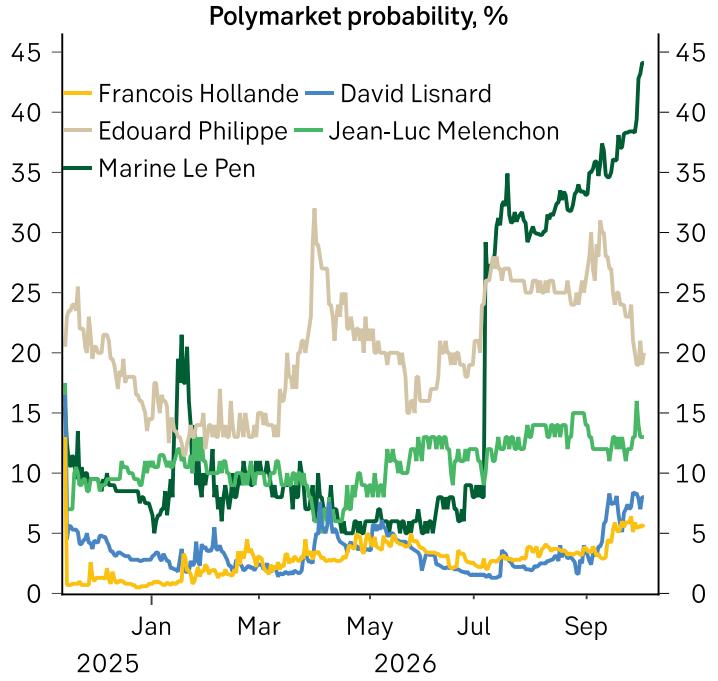
- France faces a crucial presidential election in April 2027, with candidates positioned across the political spectrum from the left to the centre and right.
- Public finances are already becoming a central issue in the political debate, with increasingly unconventional proposals (e.g. writing off French debt) being discussed.
- The election could potentially also trigger a snap parliamentary election, adding to political uncertainty.
- In Germany, AfD has gained momentum and several state elections are scheduled for 2027, increasing pressure on the government.
- Political developments in Italy and elsewhere also point to stronger right-wing forces across Europe.
- The broader trend is toward greater political fragmentation and potentially more EU- and euro-sceptic policies.

Euro politics: right shift a challange for Ukraine



Source: Polymarket, INSA, Politico, Wikipedia, Bloomberg, Macrobond, SEB

French presidential election 2027

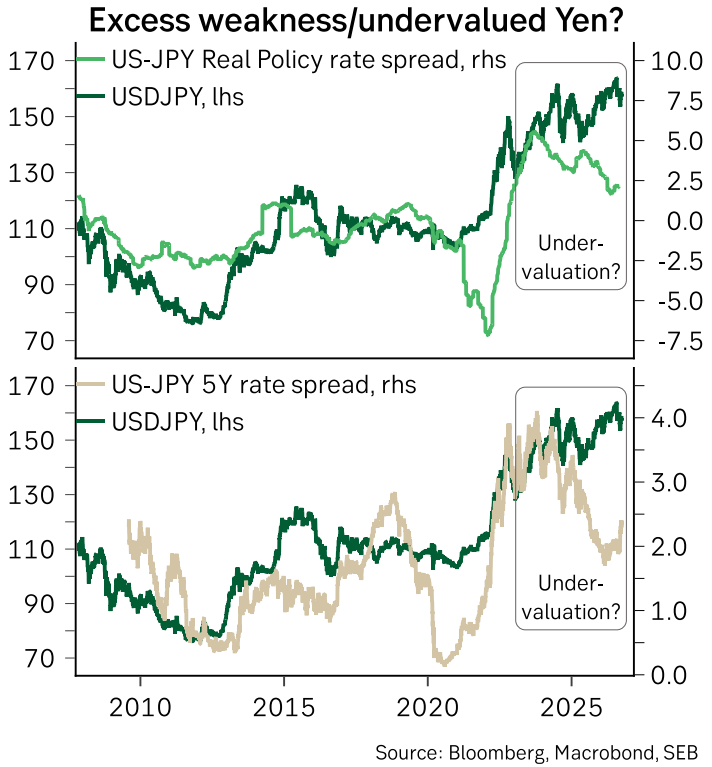


Source: Bloomberg, Macrobond, SEB

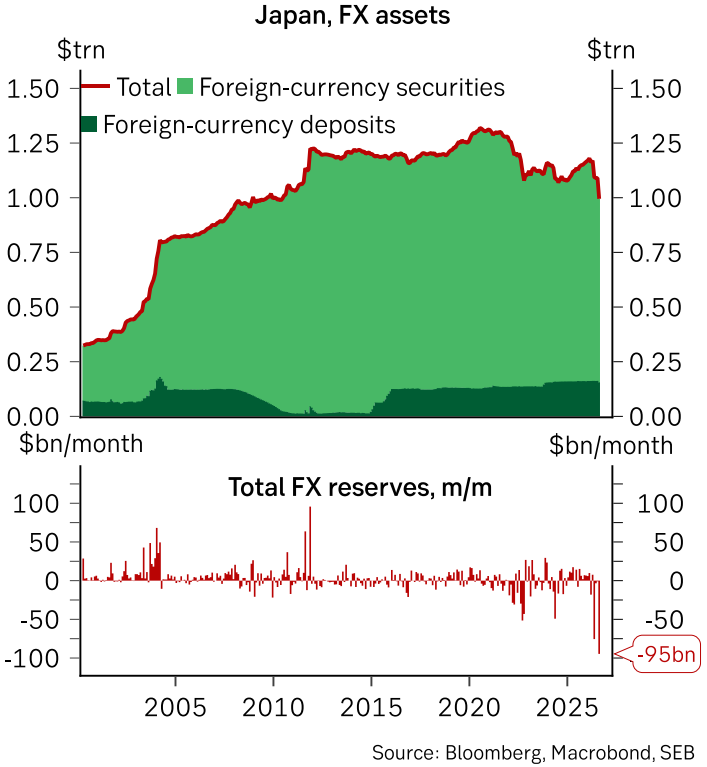
6. Japan – intervention and shifting capital flows

Enough to turn around the JPY super tanker?

- Japan's recent yen intervention was the largest ever, with the US participating for the first time in 30 years.
- Japan intervenes by selling dollars and buying yen, drawing down FX reserves largely invested in US Treasuries (light-green area in right chart).
- This creates a dilemma for the US: Washington wants a stronger JPY but does not want Japan selling Treasuries while US yields are high. Hence, US verbal intervention.
- A more hawkish BoJ could narrow the Japan–US rate differential, reduce carry incentives and limit the need for further intervention. US rates need to come down as well.
- Further intervention could put upward pressure on long-end US yields, while a shift from institutional investors such as the GPIF towards domestic assets could have major implications for global bond and equity markets.
- Read more here: JPY – A decisive turning point?



Source: Bloomberg, Macrobond, SEB



Source: Bloomberg, Macrobond, SEB

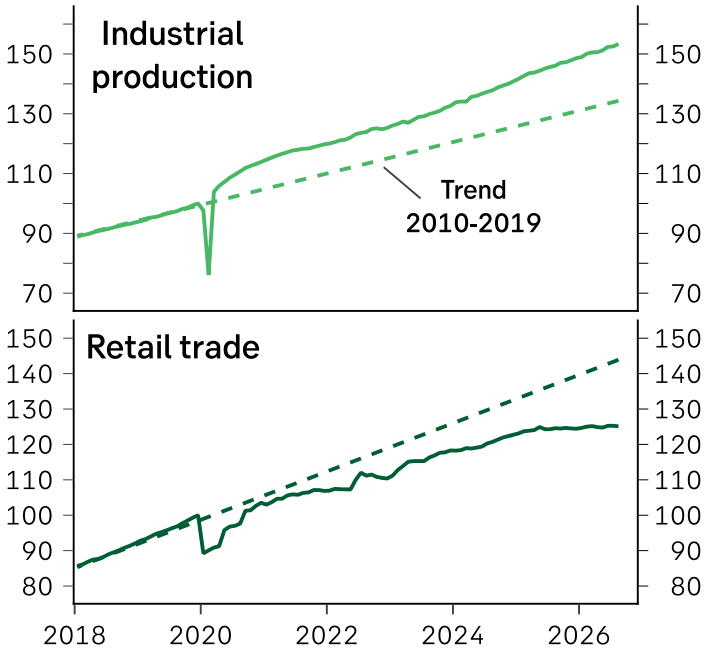
7. China 2.0 – mounting global trade tensions

Overproduction and underconsumption

- China's global trade surplus continues to reach new highs, despite a sharp decline in its surplus with the US.
- A growing share of China's trade surplus is being redirected towards Europe.
- This is increasing pressure on European industry and raising the likelihood of further EU trade barriers.
- China shows few signs of changing its strategy of building capacity in strategic sectors through extensive subsidies.
- The risk is therefore of rising EU–China tensions at a time when transatlantic trade relations are already under pressure.
- China's growing global export surplus remains an important source of potential trade friction.

Chinese production and domestic demand

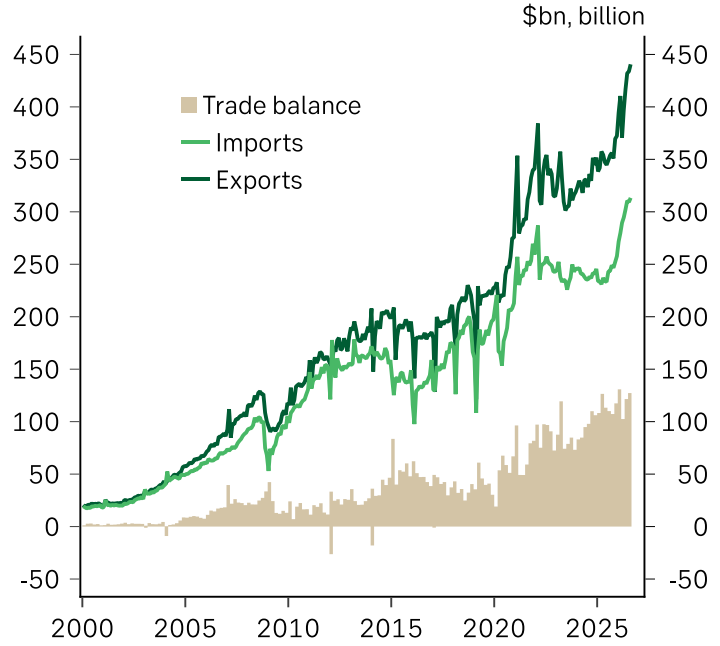
Index 2020 = 100



Source: Bloomberg, Macrobond, SEB

China, goods trade

Seasonally adjusted by SEB



Source: Bloomberg, Macrobond, SEB

8. New Fed under Kevin Warsh

Less guidance, smaller balance sheet and tighter policy objective

- Kevin Warsh initially sounded relatively dovish but has since shifted clearly towards a more hawkish stance.
- He faces a difficult balancing act between market expectations, the Fed consensus and Trump's repeated demands for lower rates.
- So far, Warsh has largely aligned himself with the internal Fed consensus and resisted political pressure for faster rate cuts.
- He has also been critical of forward guidance and appears to favour a less predictable communication strategy.
- Warsh has called for a broader "regime change" at the Fed, including a narrower and clearer monetary-policy mandate.
- Five task forces are examining areas that could reshape the Fed's reaction function and the way monetary policy is conducted.

Warsh's 5 task forces

1. Communications

How should the Fed communicate?

2. Balance Sheet

What should the Fed's balance sheet look like?

3. Data

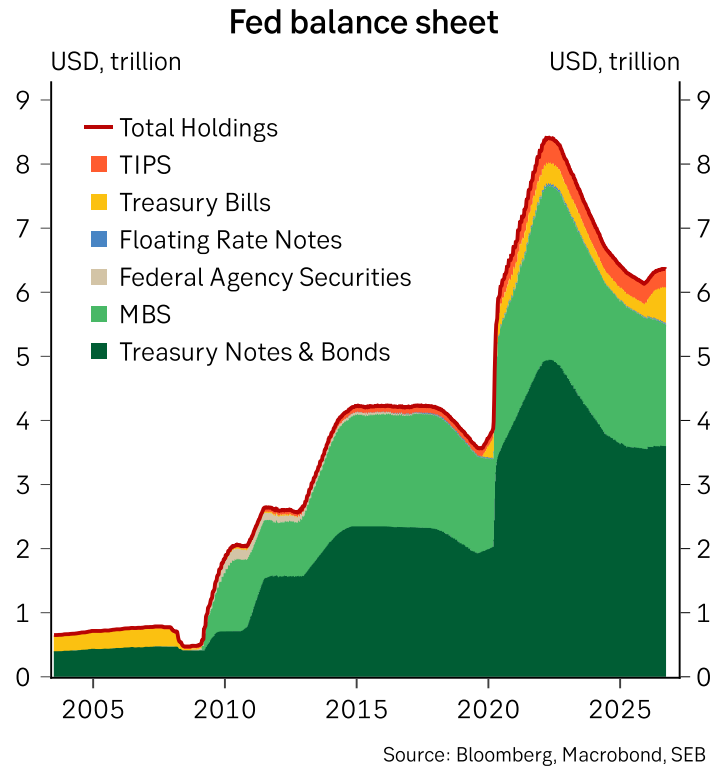
What data should the Fed rely on?

4. Productivity & Jobs

How is AI changing the economy?

5. Inflation Frameworks

Does the Fed need a new inflation framework?



Source: Bloomberg, Macrobond, SEB

9. Activist US Treasury

Most interventionist Treasury Secretary in decades

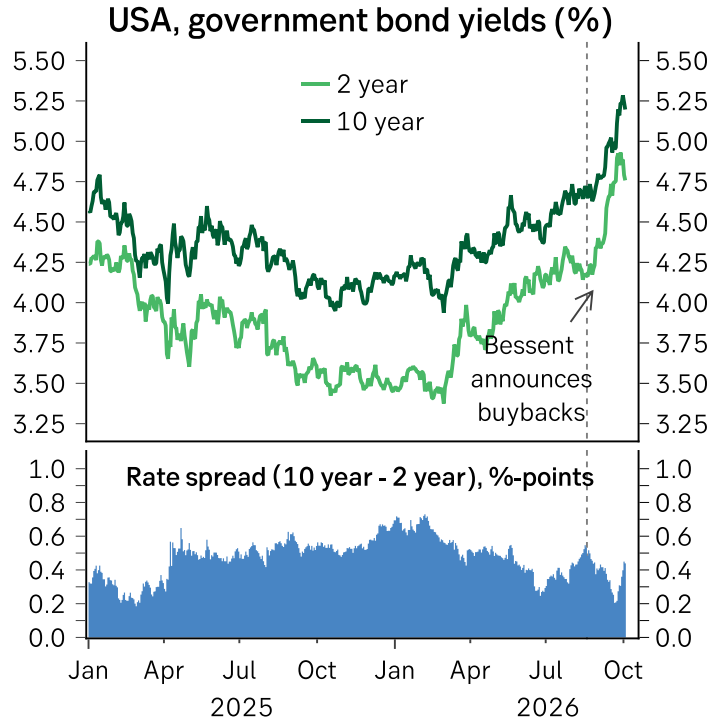
- Treasury Secretary Scott Bessent has become increasingly active in markets, including participating in efforts to support the yen and contain US yields.
- Treasury has announced larger buybacks of long-dated US Treasuries, with scope to increase volumes further if needed.
- Although the volumes remain small, the policy is viewed by many as an early intervention in the US yield curve – a "Treasury Operation Twist" to flatten the yield curve.
- Rising market rates are clearly creating pressure for the White House, increasing the incentive for unconventional measures.
- Further attempts to push down long-term yields could revive the USD debasement theme, which would mean a weaker dollar and renewed concerns about the erosion of US purchasing power.


'I am the house now': Bessent warns currency traders not to bet against yen

Comments follow July's rare joint intervention with Tokyo to support Japanese currency

US Treasury secretary Scott Bessent said he had 'pretty good insight' into what Japanese policymakers were going to do © Sam Wolfe/Reuters

Source: Financial Times



Source: Bloomberg, Macrobond, SEB

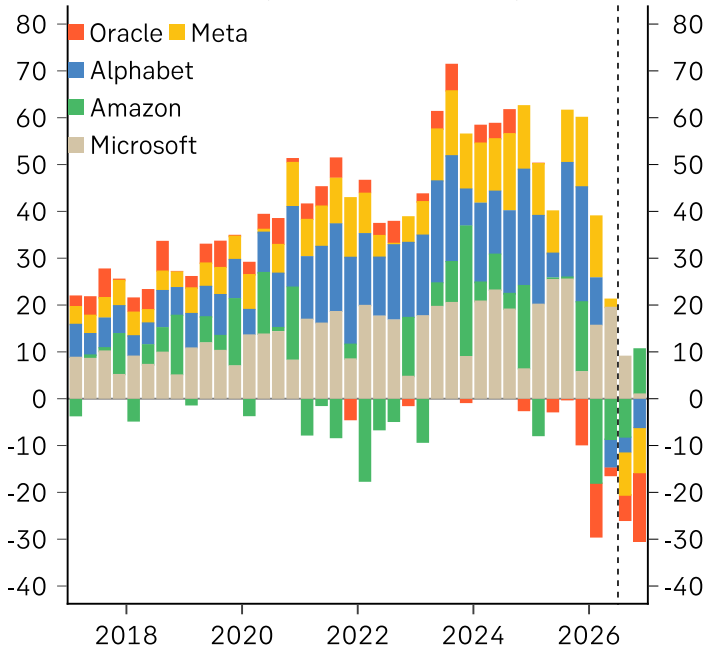
10. AI – bubble or investment boom?

Hyperscalers are burning through cash

- Hyperscalers' free cash flow has fallen sharply as AI-related investment has accelerated.
- Negative free cash flow means that some companies increasingly need to rely on banks and capital markets for additional financing.
- Several AI companies have postponed planned IPOs, meaning the market still has limited transparency into their underlying financials and business models.
- Investor concerns are increasingly shifting from high valuations towards leverage, financing needs and the sustainability of AI investment.
- AI investment is no longer just an equity-market story: data centres and other AI-related investment are becoming increasingly important for the real US and global economy.
- A correction in AI-related assets could therefore have consequences well beyond equity markets, potentially affecting the broader economic cycle.

Hyperscalers more reliant on debt

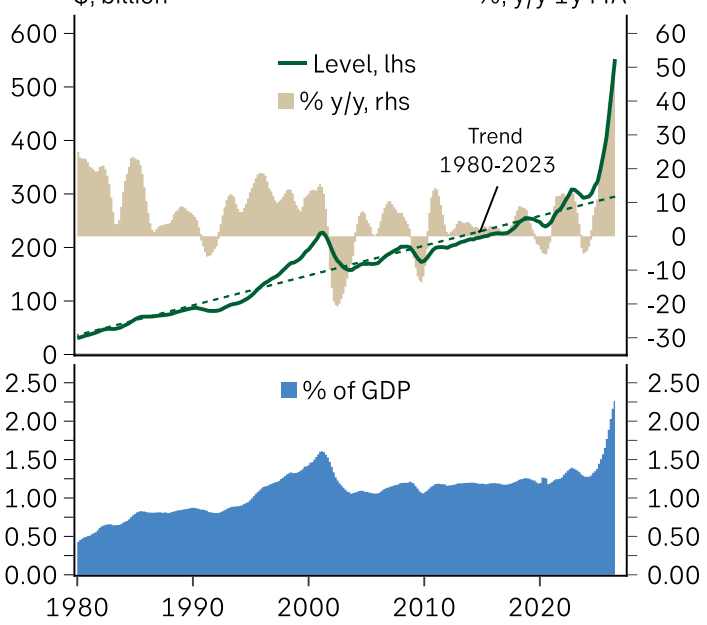
Free cashflow, consensus forecasts, USDbn



Source: Bloomberg, Macrobond, SEB

AI-related equipment investment in the US

Computers and information processing equipment



Source: Bloomberg, Macrobond, SEB

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