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GREED & FEAR

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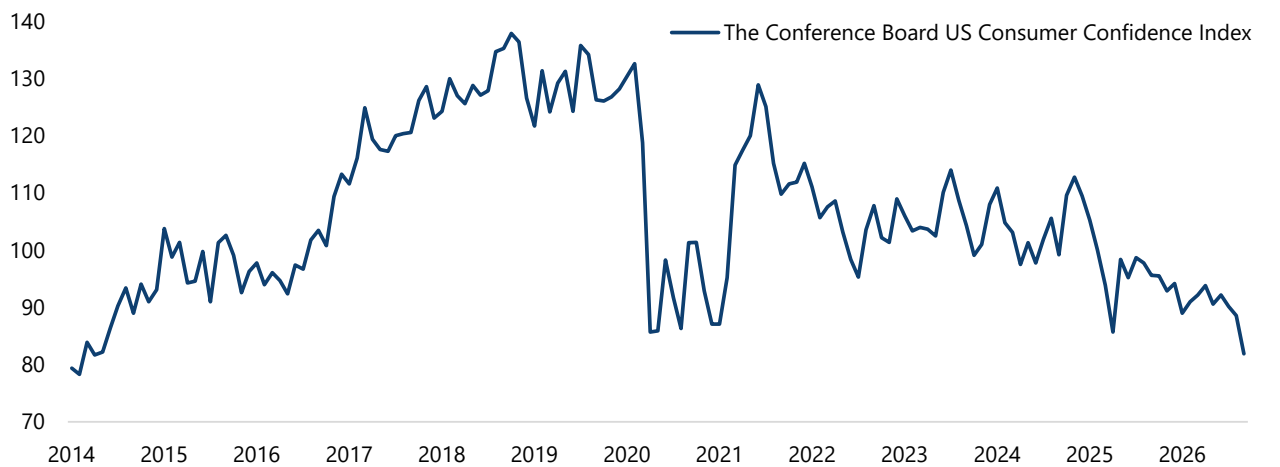
1 October 2026

Election rout pending and credit tremors

Verbier

Trading financial markets around consumer confidence data has never made too much sense to *GREED & fear*, most particularly in a world of ever more K-shaped economies. But the same does not apply from a political standpoint. And the latest US consumer confidence is such as to make *GREED & fear* assume, until proven otherwise, that a rout is facing the Republicans in the forthcoming mid-term elections. The Conference Board's US consumer confidence index declined by 6.7 points to 81.9 in September, the lowest level since April 2014 (see Exhibit 1), compared with consensus expectations of 89.0.

Exhibit 1: The Conference Board's US Consumer Confidence Index

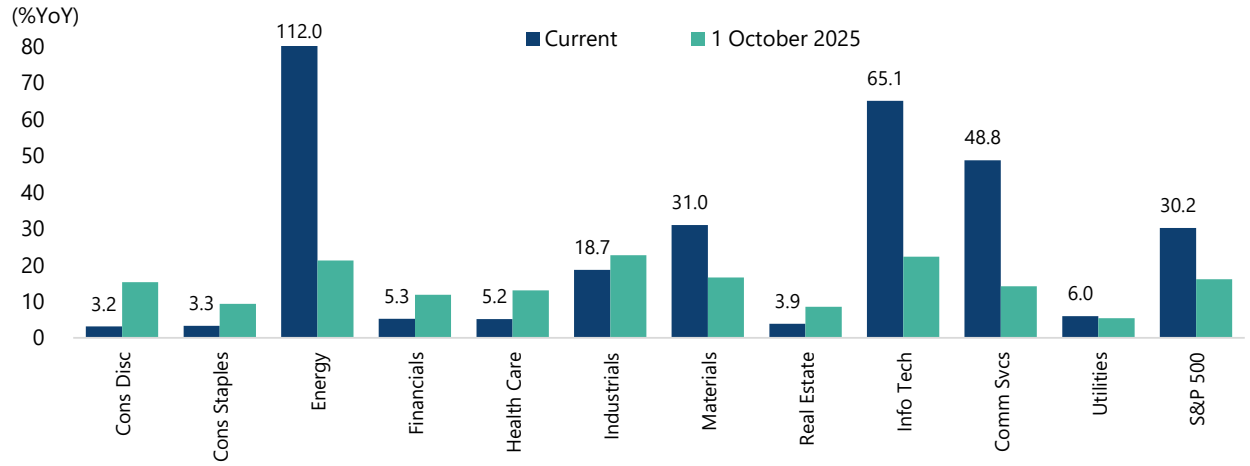


Source: Bloomberg, The Conference Board

That is not necessarily terrible for markets, and *GREED & fear* has read a lot of late about how the US stock market usually rallies after the mid-terms. But, there again, the stock market has historically done relatively badly going into the mid-terms whereas that has not been the case so far this year, primarily because of the stellar earnings growth driven by the highly earnings-accretive AI capex cycle. The LSEG I/B/E/S consensus data as of 25 September shows that S&P500 3Q26 earnings are expected to rise by 30.2% YoY, up from 16.1% growth expected last October. The IT sector has the second-highest forecast 3Q26 earnings growth of 65.1%, up from 22.3% last October (see Exhibit 2). All 12 sub-industries in the IT sector have higher forecast earnings than a year ago, with the semiconductor and semiconductor materials & equipment sub-industries having the highest earning growth (131.7% and 68.9%, respectively).

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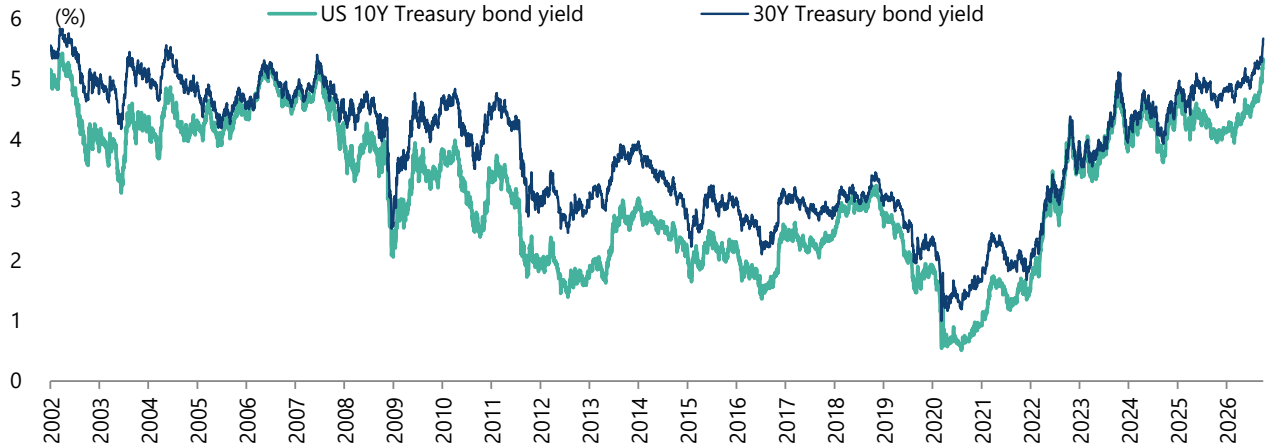
Exhibit 2: S&P500 3Q26 consensus earnings growth forecast revisions by sector



Note: Based on earnings growth forecasts as of 25 September 2026. Source: LSEG I/B/E/S

This is the key reason why US equities have so far been able, more or less, to ignore rising bond yields and rising geopolitical tensions. Still, the bond market is now reaching levels where the risks to equities are growing, most particularly with the emergence of a new more hawkish Federal Reserve as discussed here last week (see *GREED & fear – The virtues of small over large*, 24 September 2026). The ten-year and 30-year bond yields, at 5.34% and 5.69%, reached their highest levels this week since April 2002 and May 2002, respectively (see Exhibit 3). That is a major move which reconfirms, again. *GREED & fear*'s base case since March 2020, namely that G7 bonds have entered a structural bear market after a 39-year bull market. While a two-year Treasury bond yield at a peak of 4.96% this week, or 108bp above the midpoint of the federal funds rate, should be seen as a sign that more rate hikes are coming (see Exhibit 4).

Exhibit 3: US 10-year and 30-year Treasury bond yields

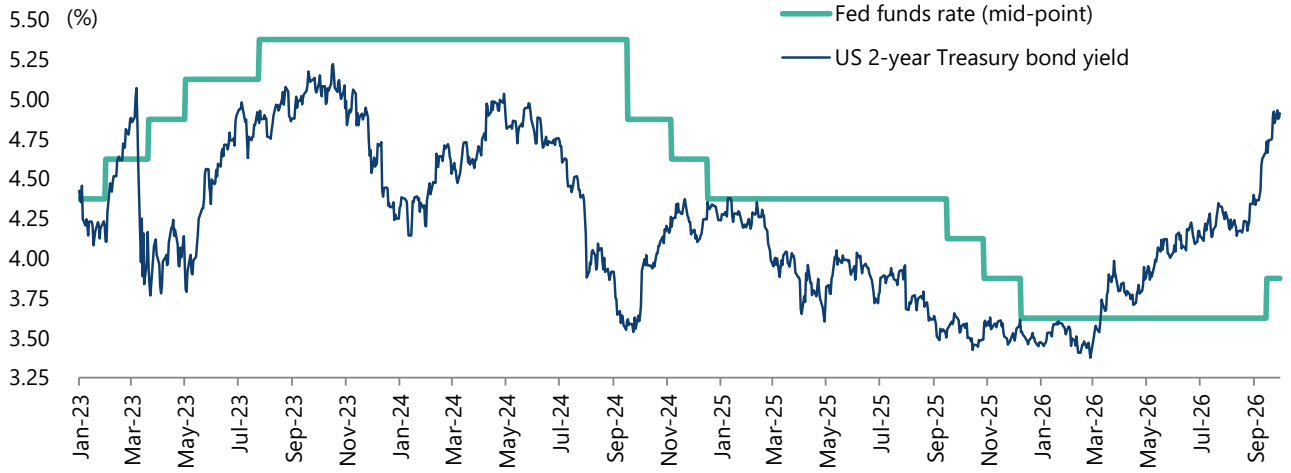


Source: Bloomberg

Furthermore, the bond rout has now triggered a pickup in both volatility and credit spreads. The MOVE index is almost back at the level prevailing when the US-Israel attack on Iran was launched (see Exhibit 5), and *GREED & fear* continues to view the MOVE as now far more important than the VIX, as bonds represent the collateral in a highly leveraged system. While US high-yield spreads have also finally begun to move (see Exhibit 6). Meanwhile, the real damage in the credit space cannot be seen on a mark-to-market basis. That, of course, is private credit.

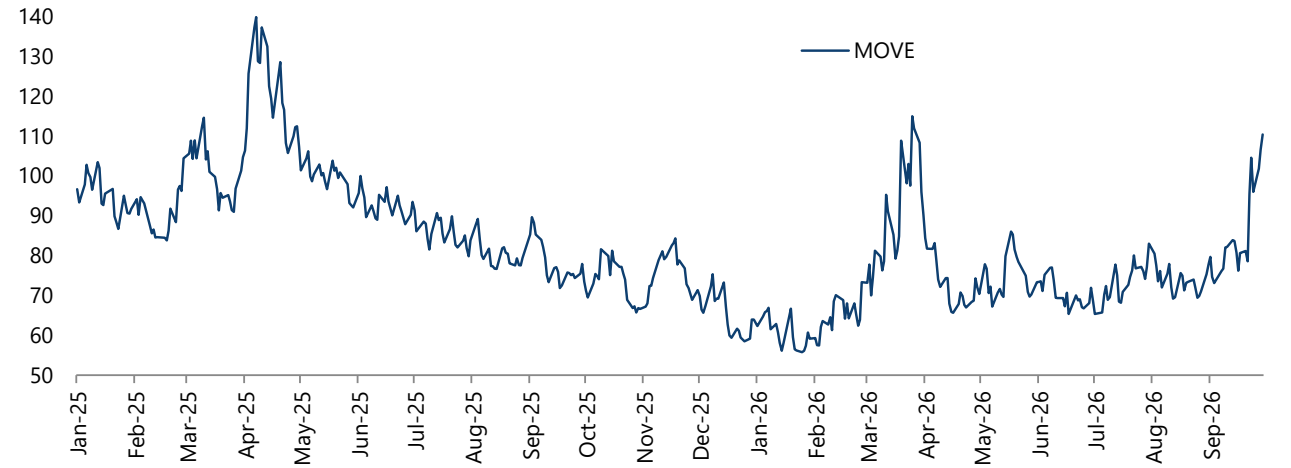
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Exhibit 4: US 2-year Treasury note yield and Fed funds rate (mid-point)



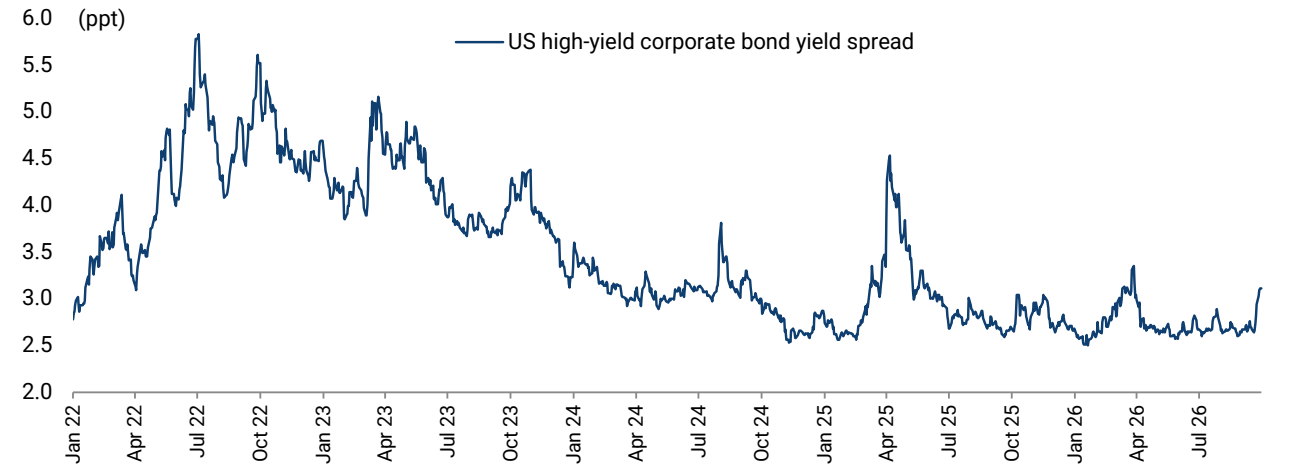
Source: Bloomberg

Exhibit 5: MOVE index of US Treasury bond market volatility



Source: Bloomberg

Exhibit 6: US high-yield corporate bond yield spread



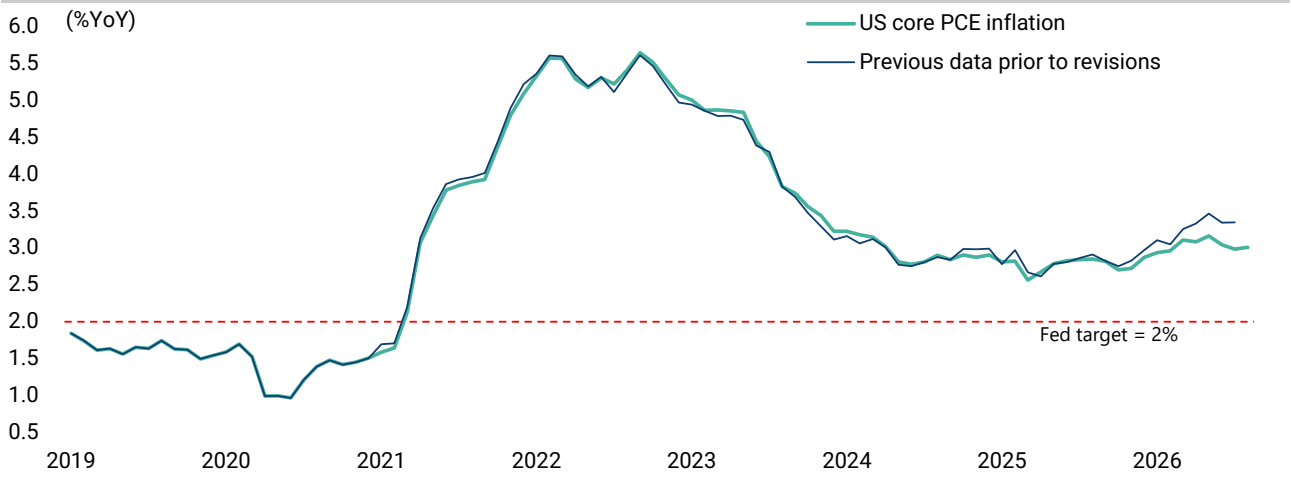
Source: Bloomberg

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Clearly, a counter-trend bond rally can happen at any time after such a big move with the 10-year Treasury yield up 82bp last quarter, and doubtless contrarians would highlight that sentiment indicators on Treasuries are almost universally bearish, or at least *GREED & fear* assumes that they are. But *GREED & fear* has no interest in playing such a rally; though *GREED & fear* has to admit that if Kevin Warsh really raises the federal funds rate by 75bp this year that could be positive for the long end. Meanwhile, yesterday's core PCE inflation data, the Fed's favourite inflation indicator, has served to reduce expectations of a rate hike this month. The core PCE price index rose by 3.0% YoY in August, compared with consensus expectations of 3.3%. While the annual revisions to GDP and PCE data show that core PCE inflation has been revised down by 0.3-0.4ppt in the previous three months to 3.0% YoY in July (see Exhibit 7). The money markets are now discounting "only" 30bp in further rate hikes by the end of this year, down from 52bp in mid-September.

As for the sell-off in the long end, the political fallout is a mortgage rate at 7.3%. This is another major negative for the While House incumbent, with the mortgage applications index having collapsed. The mortgage applications index declined by 6% WoW in the week ended 25 September and is now down 37% YoY (see Exhibit 8).

Exhibit 7: US core PCE inflation



Source: Bureau of Economic Analysis

Exhibit 8: US mortgage applications index



Source: Mortgage Bankers Association (MBA)

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All this is why the 47th American president's polling on the economy remains dire. The same negative polling continues on the Iran War, as has been the case ever since the conflict commenced. A Reuters/Ipsos poll conducted 17-20 September shows that 62% of Americans disapprove of US military strikes on Iran while 67% disapprove of Trump's handling of the economy. Writing the *Asia Maxima* quarterly over the past week, there are clearly three dominant issues facing investors in *GREED & fear*'s view. The first, and perhaps most important for equities, is the duration of the AI capex cycle and whether there will be adequate returns from the massive spending. The second is the renewed realisation that G7 government bonds are in a structural bear market and what that means. The third is the state of play in shifting geopolitics. This week, *GREED & fear* has heard two completely contrasting narratives as regards the state of play in the US-Iran negotiations. What is clear to *GREED & fear* is that Iran, by sending its president and foreign minister to the United Nations General Assembly last week, wanted to be seen to be trying to negotiate. Still, *GREED & fear* also takes the view that Iran is serious when it says it will only negotiate on the basis of the MOU signed by Donald Trump in Versailles in June.

The contrary view is that the economic pressures on Tehran are becoming such that they will be forced to be more accommodative. The reason *GREED & fear* does not buy this is that Iran has a demonstrated ability to take a lot of pain. Still, a key variable is the attitude of China as that is the one country with leverage over Tehran. In *GREED & fear*'s view, President Xi Jinping will have been pleased that the Iranians were in New York being seen to try and negotiate, though he skipped the UN General Assembly during his US visit last week. Meanwhile, the optics of the Chinese president's state visit to America were much better for Xi, in *GREED & fear*'s view, than for his American counterpart.

Staying on the subject of China, this week has seen some moves to support domestic demand, most importantly with policies focused on the all-important residential property market. The State Council executive meeting on Monday, chaired by Premier Li Qiang, stated, among other things, that the government will roll out policies and measures aimed at stabilising the real estate market and promote employment and income growth (see *Xinhua* article: "*Chinese premier chairs State Council executive meeting on macro policies, investment*", 28 September 2026). This was followed the next day by the Ministry of Finance and People's Bank of China announcing a set of policies of which the most important is a new mortgage interest rate subsidy. The subsidy is offered to first-time buyers of units of up to 120sqm and worth Rmb1.5m or less. Eligible new borrowers will receive an interest subsidy of an annualised one percentage point up to Rmb1m of mortgages for a maximum of five years.

Given the maximum amounts involved, this is primarily aimed at supporting lower-income households in tier-three and tier-four cities. This is why the new policy has not excited the stock market, with the MSCI China Property Index up only 2.6% since the announcement (see Exhibit 9). Still, it is a sign that the authorities are not completely oblivious to bad data on the "let them eat rice" angle. For this new policy came out after data showing an outright contraction in household borrowing, as discussed here last week (see *GREED & fear – The virtues of small over large*, 24 September 2026). Thus, household loans declined by 1.6% YoY in August, with a record decline of Rmb1.03tn recorded in the first eight months of this year (see Exhibit 10). This is also the first time there has been a central government nationwide measure to support housing demand.

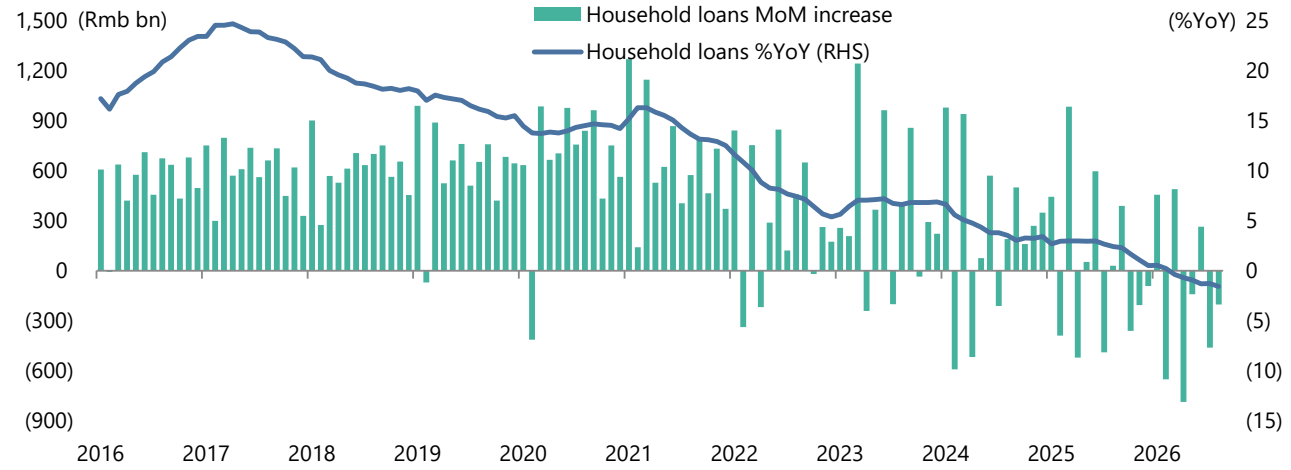
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Exhibit 9: MSCI China Property Index



Source: Bloomberg

Exhibit 10: China household loan growth



Source: PBOC, CEIC Data

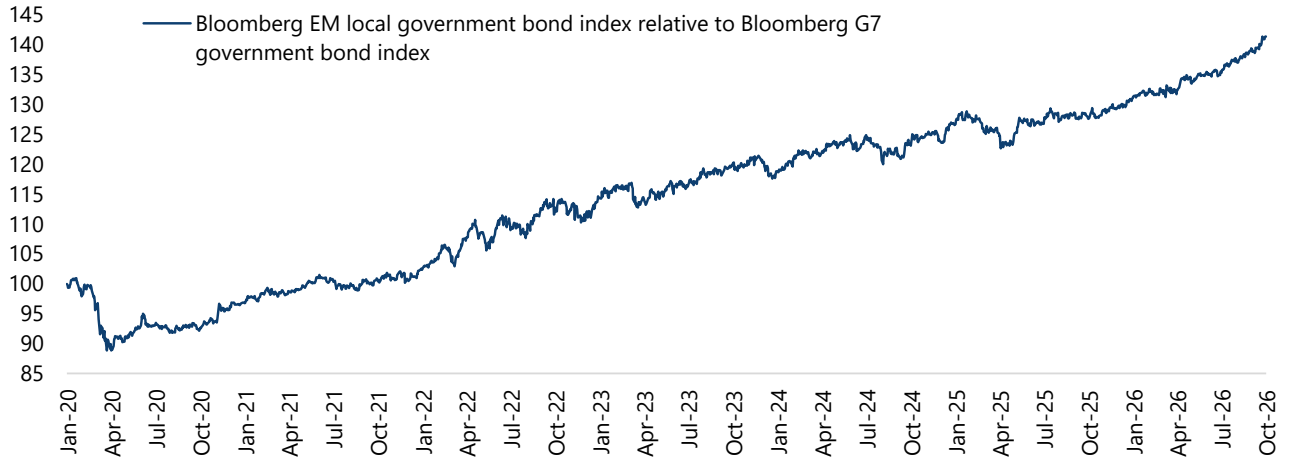
Meanwhile, returning to the topical subject of G7 government bond markets, it is worth reiterating that emerging market local currency government bonds have continued to outperform G7 government bonds in US dollar terms. The Bloomberg Emerging Markets local currency government bond index has now outperformed the Bloomberg G7 government bond index by 59% since March 2020 (see Exhibit 11).

For similar reasons, *GREED & fear*'s global sovereign debt portfolio (see Exhibit 12), which has always consisted entirely of local currency government bonds, has outperformed the Bloomberg G7 government bond index by 73.5% since it was launched on 26 March 2020 when *GREED & fear* said sell all G7 government bonds.

To be more specific, the portfolio rose by 2.9% last quarter in US dollar terms on a total-return basis, compared with a 2.7% decline in the G7 bond index. It has also outperformed year-to-date, rising by 4.8%, compared with a 4.2% decline in the G7 bond index. As a consequence, the portfolio has risen by 39.8% since inception, compared with a 19.4% decline in the G7 government bond index (see Exhibit 13).

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Exhibit 11: Bloomberg EM local government bond index relative to G7 government bond index



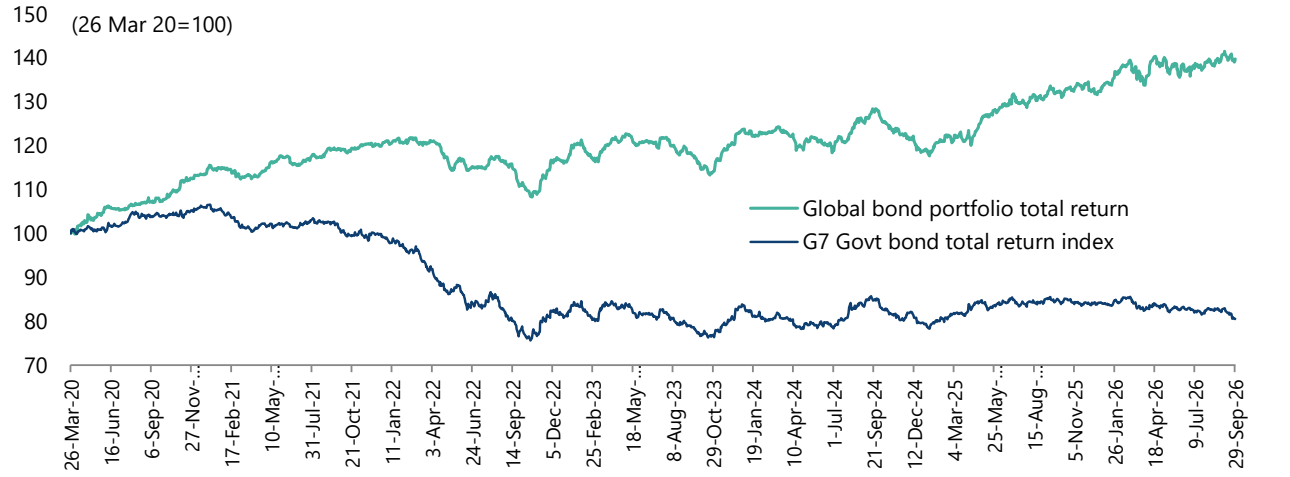
Source: Bloomberg, Jefferies

Exhibit 12: Global sovereign bond portfolio

Government bonds	Yield (%)	Weight (%)
China renminbi 5-year	1.40	20
India rupee 15-year	7.38	25
Singapore dollar 10-year	2.45	25
Brazil real 10-year	14.10	30
Average yield/Total weight	**6.97**	**100**

Source: Jefferies

Exhibit 13: Global sovereign bond portfolio total-return performance vs G7 govt bond index (US$ terms)



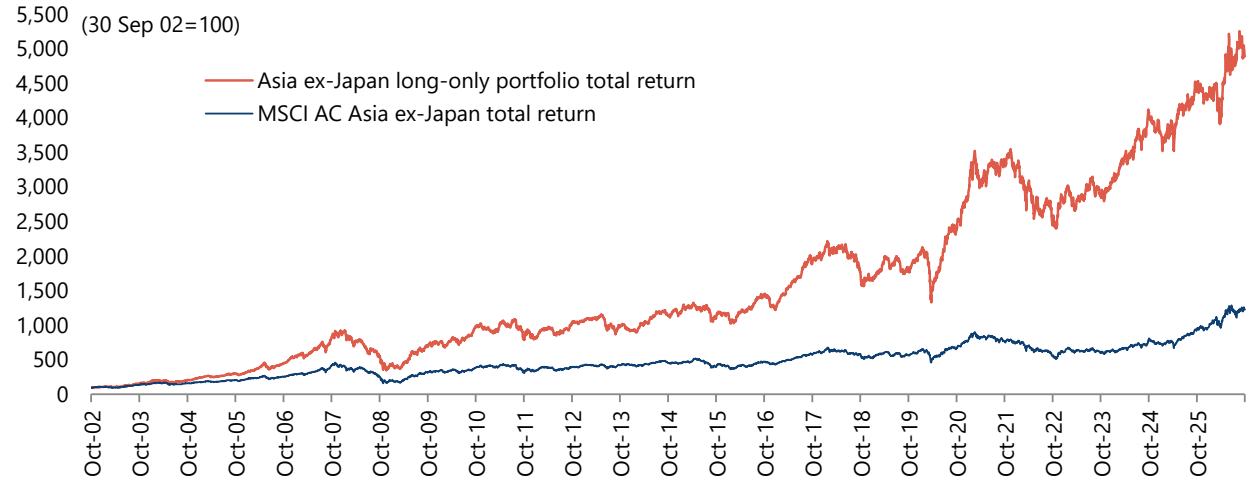
Note: G7 bond performance based on the Bloomberg G7 bond index. Data up to 30 September 2026. Source: Bloomberg, Jefferies

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Meanwhile, the start of a new quarter is a good time to review the performances of the rest of *GREED & fear*'s various long-only portfolios. It should be noted that none of the portfolios can own cash. All performances recorded are as of the end of last quarter.

The long-term performance of the Asia ex-Japan thematic portfolio remains, for now, relatively satisfactory. Since its inception 24 years ago at the end of 3Q02, the portfolio has risen on a total-return basis by 4,792% in US dollar terms, compared with a 1,128% increase in the MSCI AC Asia ex-Japan Index and a 1,379% increase in the S&P500 (see Exhibit 14). This means the portfolio has risen by an annualised 17.6% since inception, compared with an annualised 11% increase in the MSCI AC Asia ex-Japan Index and an annualised 11.9% gain in the S&P500.

Exhibit 14: Asia ex-Japan long-only portfolio total-return performance vs MSCI AC Asia ex-Japan (US$ terms)



Note: Data up to 30 September 2026. Source: Datastream, Jefferies

The portfolio outperformed last quarter, rising by 3.2% on a total-return basis, compared with a 0.2% decline in the MSCI AC Asia ex-Japan Index. But it remains an underperformer year to date, rising by 13.6%, compared with a 26.0% gain in the regional benchmark, reflecting the underweight in the major semiconductor stocks. Three stocks, TSMC, Samsung Electronics, and Hynix still account for 33.5% of the MSCI AC Asia ex-Japan benchmark, though down from 35.4% at the end of 2Q26.

The portfolio ended last quarter 20% invested in India, way down from a peak of 50% in mid-February 2024, and 40% invested in China/Hong Kong. The portfolio also has 26% invested in Taiwan and Korea. It should be noted again that the stated performance of the absolute-return portfolio is on a total-return basis.

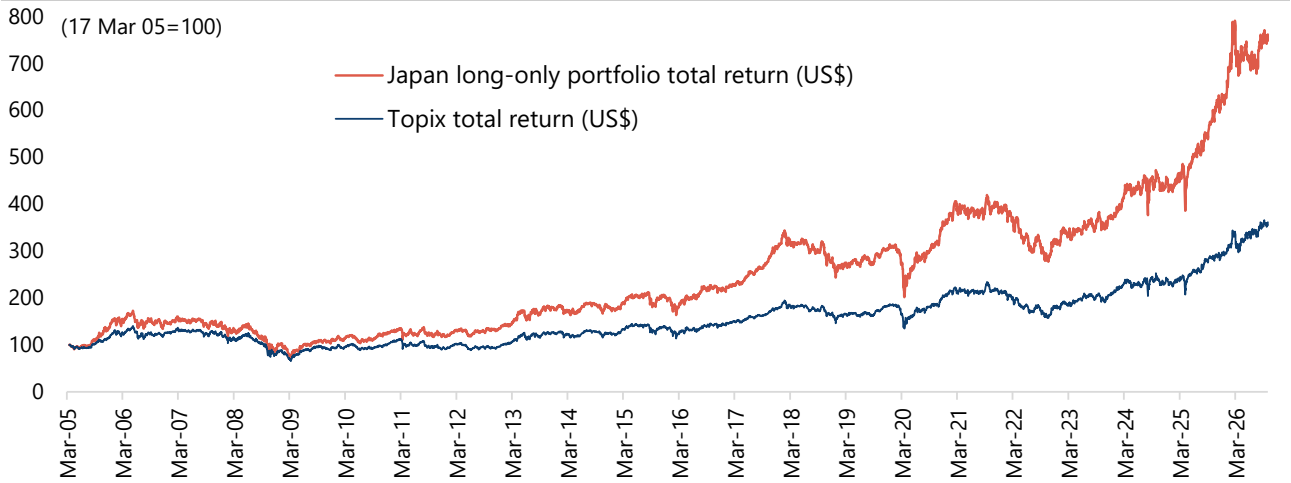
The absolute-return thematic portfolio for Japan, introduced on 17 March 2005, outperformed last quarter. It rose on a total-return basis last quarter by 10.2% in US dollar terms, compared with a 7.4% gain in the Topix. Still the portfolio remains a slight underperformer year to date, rising by 21.7% in US dollar terms compared with a 22.8% gain in the Topix.

From a longer-term perspective, the Japan portfolio is now up 661% in US dollar terms on a total-return basis since inception, while the Topix has risen by 261% in US dollar terms over the same period (see Exhibit 15). This translates into an annualised gain of 9.9% in US dollar terms since inception, compared with a 6.1% annualised gain for the Topix.

Again, the portfolio may not own cash. As with the Asian portfolio, the above-stated performance is on a total-return basis. The Japan portfolio remains a combination of domestic demand names and exporters.

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Exhibit 15: Japan long-only portfolio total-return performance vs Topix (US$ terms)



Note: Data up to 30 September 2026. Source: Datastream, Jefferies

A Japanese equity dividend income portfolio was launched on 12 September 2019 with an average forecast dividend yield of 4.8% to highlight the superior yields to be obtained from Japanese equities at that time relative to Japanese government bonds for yen income–oriented investors. It is shown in the table below (see Exhibit 16). The portfolio rose by 17.4% in yen terms last quarter and is up 28.0% year-to-date, after rising by 26.7% last year.

Given this is a dividend portfolio geared to income, the most appropriate relevant performance measure is against the 10-year JGB in yen terms. By this measure, the portfolio has outperformed dramatically since inception. The 10-year JGB has declined by 15.4% on a total-return basis since 12 September 2019, compared with a 256.7% gain in the dividend portfolio on a total-return basis in yen terms (see Exhibit 17). The portfolio's average 12-month forward dividend yield is now 3.3%. It also should be noted, by way of comparison, that the Topix is up 207.4% in yen terms over the comparable period since inception.

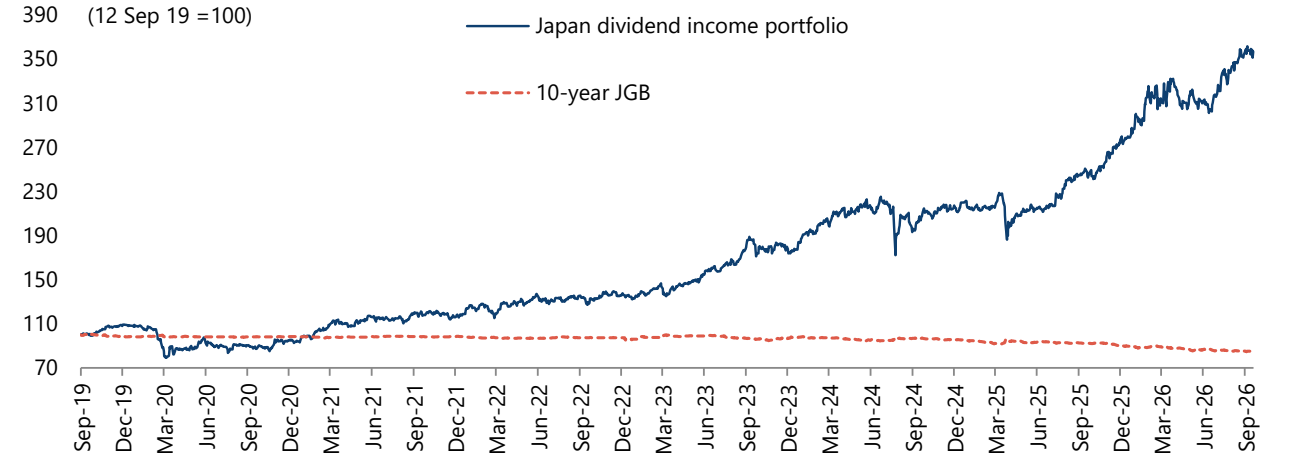
Exhibit 16: Japan dividend income portfolio

Stock code	Stock name	Sector	12MF div yld (%)
2914 JP	Japan Tobacco	FBT	4.2
5020 JP	ENEOS Holdings	Energy	3.0
8306 JP	MUFG	Banks	2.9
8031 JP	Mitsui & Co	Trading	2.9
7267 JP	Honda Motor	Auto	4.4
8410 JP	Seven Bank	Banks	3.2
5108 JP	Bridgestone	Auto	4.0
9433 JP	KDDI	Telecom	3.0
9432 JP	NTT	Telecom	3.3
8316 JP	SMFG	Banks	2.9
9104 JP	Mitsui OSK Lines	Shipping	3.1
5019 JP	Idemitsu Kosan	Oil & gas	2.7
1605 JP	INPEX Corp	Oil & gas	3.5
4502 JP	Takeda Pharmaceutical	Pharma	3.6
	Average		**3.3**

Note: Dividend yields as of 30 September 2026. Source: Jefferies, FactSet

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Exhibit 17: Japan dividend income portfolio total-return performance vs 10-year JGB (in yen terms)



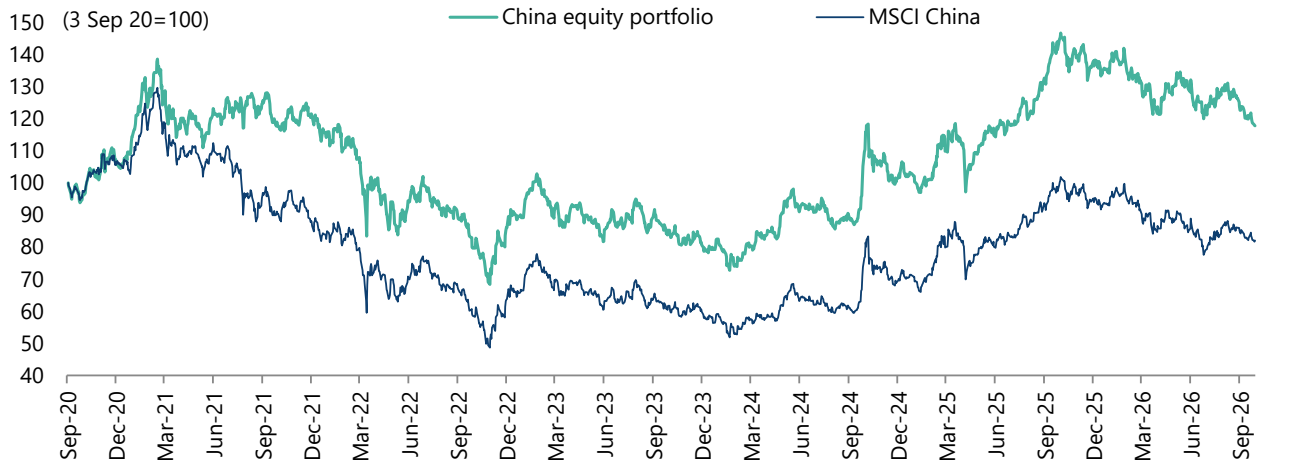
Source: Datastream, Jefferies

This portfolio's performance since inception highlights the dramatic wealth destruction suffered by Japanese institutional investors maintaining overweights in yen fixed income and not reallocating to Japanese equities, which is precisely what most of them have done.

The China long-only portfolio, launched on 3 September 2020, declined by 5.1% in US dollar terms last quarter on a total-return basis, compared with a 3.7% gain in the MSCI China Index and a 10.7% decline in the CSI 300 Index. It has declined by 12.2% year to date, compared with an 11.7% decline in MSCI China and a flat return in the CSI 300.

Still, the portfolio remains for now an outperformer since inception, rising by 17.8%, compared with a 17.9% decline in the MSCI China benchmark and a 6.5% gain in the CSI 300 (see Exhibit 18).

Exhibit 18: China long-only equity portfolio total-return performance vs MSCI China (US$ terms)



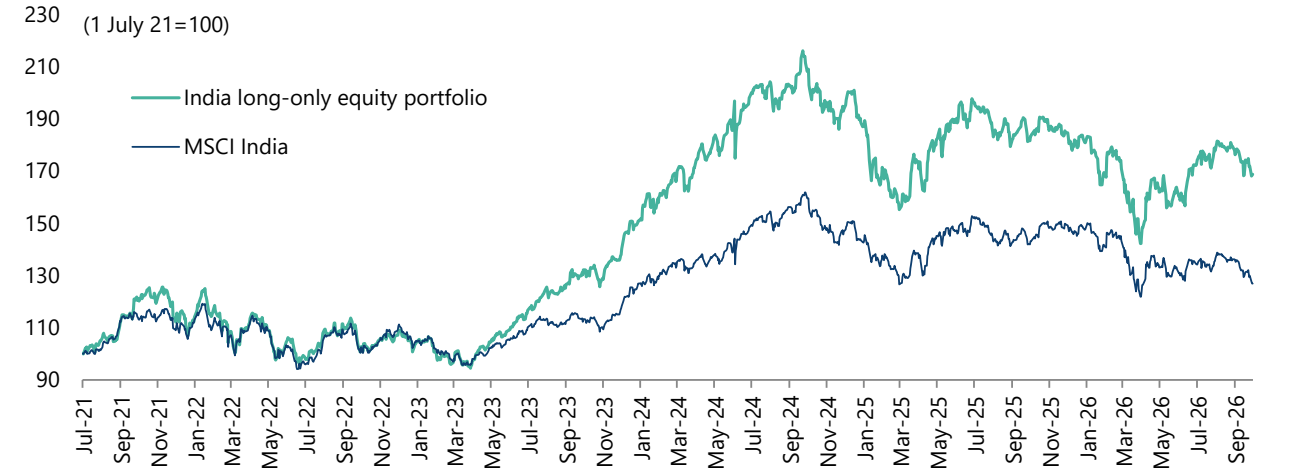
Note: Data up to 30 September 2026. Source: Datastream, Jefferies

The long-only portfolio for India, launched on 1 July 2021, declined last quarter by 2.2% in US dollar terms on a total-return basis, compared with a 5.5% decline in the MSCI India benchmark. The portfolio has outperformed year to date declining by 7.2%, compared with a 14.7% decline in the MSCI India Index.

The portfolio is still an outperformer since inception rising by 68.7% compared with a 26.8% increase in the MSCI India Index and a 19.4% gain in the Nifty (see Exhibit 19).

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Exhibit 19: India long-only equity portfolio total-return performance vs MSCI Inda (in US dollar terms)

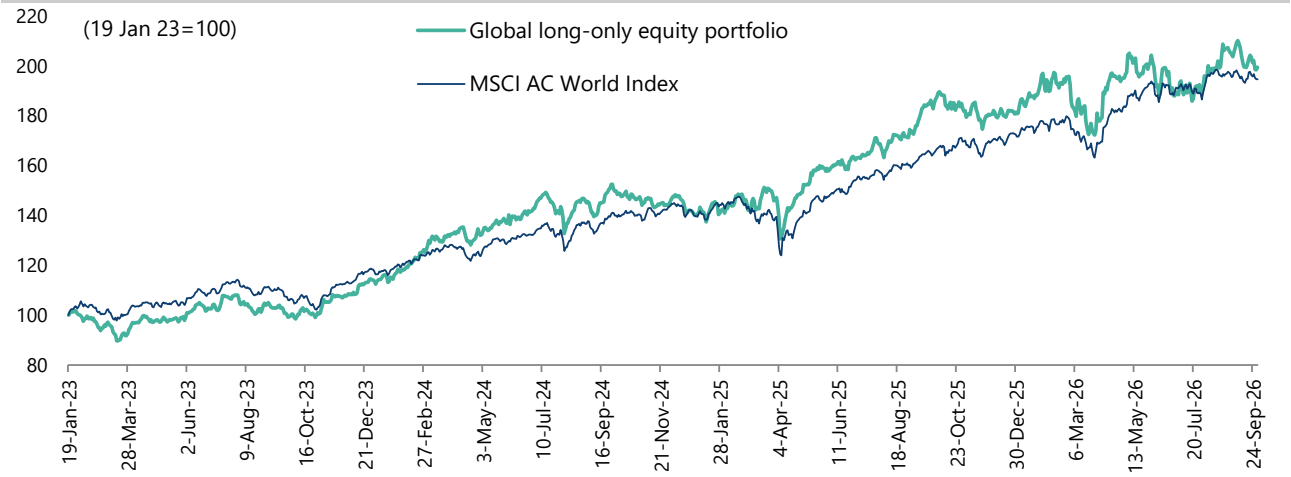


Note: Data up to 30 September 2026. Source: Datastream, Jefferies

Moving away from regionally orientated equity portfolios, a global long-only equity portfolio was introduced on 19 January 2023, or four days before the announcement of the Microsoft investment in ChatGPT-maker OpenAI served as the catalyst for the AI narrative to drive Wall Street–correlated world stock markets. This timing proved an initial negative for the portfolio, which began with a 66% weighting in Asia Pacific, of which 23% comprised India.

The portfolio outperformed last quarter, rising by 5.3% in US dollar terms, compared with a 1.7% rise in MSCI AC World. But it remains an underperformer year to date, rising by 10.3%, compared with a 13.4% gain in the benchmark. The portfolio is now up 99.6% since inception in US dollar terms on a total-return basis, compared with a 94.6% gain in MSCI AC World (see Exhibit 20).

Exhibit 20: Global long-only equity portfolio total-return performance vs MSCI AC World (in US dollar terms)



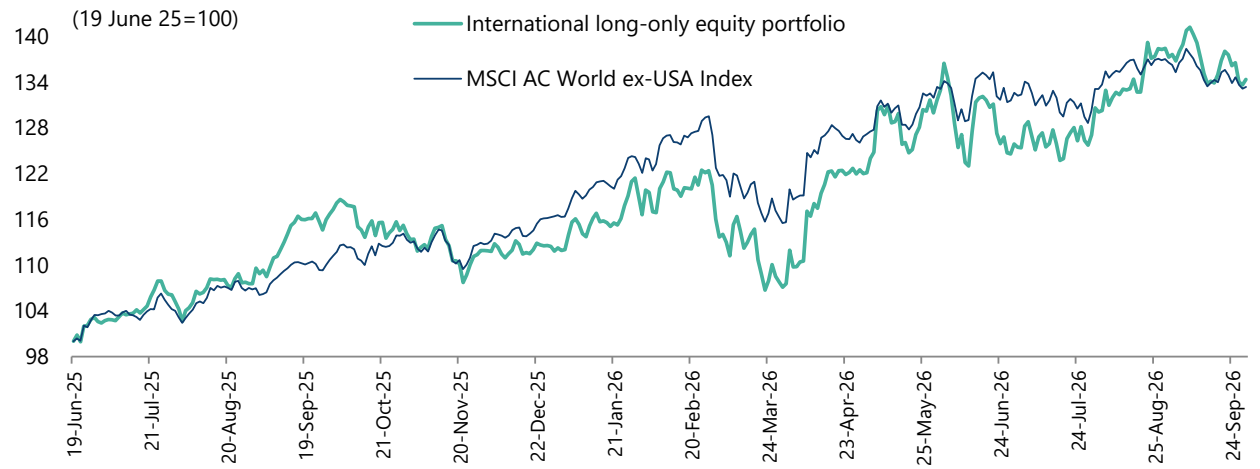
Note: Data up to 30 September 2026. Source: Datastream, Jefferies

An “international” long-only equity portfolio, for stocks listed outside the US, was launched on 19 June 2025. The portfolio is not so different from the global long-only equity portfolio. The portfolio rose by 6.7% last quarter in US dollar terms on a total-return basis, compared with a 0.6% gain in the MSCI AC World ex-US Index. It is also an outperformer year to date, rising by 20.1%, compared with a 14.7% gain in the benchmark.

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The portfolio is also now a marginal outperformer since inception, rising by 34.4% in US dollar terms on a total-return basis since inception on 19 June 2025, compared with a 33.4% gain in the MSCI AC World ex-US Index (see Exhibit 21).

Exhibit 21: International long-only equity portfolio performance



Note: Total-return performance in US dollar terms. Data up to 30 September 2026. Source: Datastream, Jefferies

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(Article 3(1)e and Article 7 of MAR)

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The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below $10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

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Other Companies Mentioned in This Report

- ENEOS Holdings (5020 JP: ¥1,386, RESTRICTED)
- Idemitsu Kosan Co., Ltd. (5019 JP: ¥1,591, BUY)
- Japan Tobacco (2914 JP: ¥6,986, HOLD)
- KDDI Corporation (9433 JP: ¥2,928, UNDERPERFORM)
- Microsoft Corporation (MSFT: $512.90, BUY)
- Mitsui & Company (8031 JP: ¥4,930, HOLD)
- Mitsui OSK Lines Ltd (9104 JP: ¥7,090, BUY)
- Takeda Pharmaceutical Co. (4502 JP: ¥5,780, BUY)

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			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	2253	62.93%	368	16.33%	112	4.97%
HOLD	1178	32.91%	80	6.79%	12	1.02%
UNDERPERFORM	149	4.16%	0	0.00%	0	0.00%

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