

Crystal Wealth Partners Market Commentary – September 2026

September brought a clear shift in the interest rate landscape, and with it some natural questions about what this means for investors. We have worked through some of the key questions in this update, from rising bond yields to a falling gold price.

Three developments shaped the month:

- Central banks in the US, Australia, Europe and Japan lifted interest rates, responding to domestic pressures and an ongoing energy shock that has kept inflation higher than hoped;
- Bond markets came under selling pressure, with the US 10-year government bond yield closing above 5% for the first time since 2007; and
- Share markets diverged, as artificial intelligence (AI) linked technology stocks rose while most other sectors, including gold, fell.

At home, the Reserve Bank of Australia (RBA) raised the cash rate to 4.60%, its highest level since 2011, and Australian shares recorded their weakest month in six months.

Global Markets

Why did so many central banks raise interest rates in September?

The common thread was inflation proving more persistent than hoped, kept alive by an energy shock linked to the Middle East conflict. In September the conflict spread beyond the Strait of Hormuz, with drones striking Saudi Arabia's East-West pipeline, one of the main oil routes for bypassing Hormuz. The international Brent oil benchmark rose around 14%, and higher fuel costs feed directly into headline inflation. The Federal Reserve raised rates for the first time since 2023, the RBA delivered its fourth increase of the year, the European Central Bank (ECB) made its second increase of the cycle, and the Bank of Japan took its policy rate to a 31-year high. The Bank of England was the notable exception, holding steady, although a third of its committee voted to raise.

How did share markets perform, and why did technology hold up when other sectors fell?

Results were mixed. In the US, the S&P 500 eased 0.44% and the Dow Jones fell 4.29%, while the Nasdaq 100 gained 1.86% and set a fresh record close. Rising bond yields weighed on companies most sensitive to interest rates, such as utilities and real estate, which make up a larger share of the Dow index. Technology held up as enthusiasm for AI returned, helped by a strong take-up of Meta's new AI assistant, Muse, which lifted chip and technology stocks more broadly. Elsewhere, Germany's DAX fell 4.03% as higher energy costs weighed on its

industrial base, while the UK's FTSE 100 fell a more modest 2.02%, cushioned by its large energy producers. Japan's Nikkei 225 edged up 0.67%, helped by chip stocks.

Is AI enthusiasm affecting interest rates as well as share prices?

Yes, in more ways than one. AI was the main reason technology shares rose in September while broader markets fell. But the same boom is adding to inflation and borrowing concerns. The RBA cited AI-related price pressures, reflecting strong demand for technology related goods, as one reason for raising rates. Companies are also borrowing heavily to fund data centres, adding to the supply of bonds at a time when demand is weaker, which has helped push yields higher. In other words, AI enthusiasm is supporting some share price rises while contributing to the higher interest rates that weigh on others.

What did the US Federal Reserve do, and what comes next?

The Fed raised its target rate by 0.25% to a range of 3.75% to 4.00% on 16 September, in a unanimous decision. Chair Kevin Warsh was direct, stating that inflation is too high and has been for too long, and 16 of 18 policymakers expect at least one further increase before year end. The data gave the Fed little reason to hesitate, with August payrolls rising a solid 162,000 and core inflation a firmer than expected 0.3% for the month. Late in the month, more cautious comments from New York Fed President John Williams and a softer inflation reading pushed the odds of an October

increase below even, although markets still expect at least one more rise before year end. The Fed next meets on 27 and 28 October.

Why did the Japanese yen weaken even though Japan raised interest rates?

Higher interest rates generally support a currency, so the yen's reaction surprised many. The Bank of Japan raised its policy rate to 1.25% on 18 September, but the decision was split 7-2 and Governor Ueda gave little signal of further increases. With US rates still far higher, the incentive to hold US dollars over yen remained, and the yen drifted back towards 158 before reports of an official rate check, often a precursor to intervention, helped it recover. Meanwhile, Japan's 10-year government bond yield reached 3% for the first time since 1996. After 25 years of near-zero rates, higher local yields may gradually encourage Japanese investors, long-time large buyers of overseas assets, to keep more of their money at home.

Did President Xi's visit to Washington change anything for US-China trade?

Not a great deal. The visit extended the trade truce by two months to 10 January 2027, cut tariffs on around US\$30 billion of goods in each direction, secured a Chinese commitment to buy more US coal and launched a new dialogue on AI. However, soybeans, rare earths and technology restrictions were left unresolved, and markets judged the outcome as buying time rather than solving the underlying disputes. Chinese technology stocks fell sharply on the first trading day after the summit, with the ChiNext growth index down more than 4.5% in a single session. For the month, the Shanghai Composite fell 3.61% and the Hang Seng 3.73%, with slowing industrial profits adding to the pressure.

Bond Markets

Why have bond yields risen so much, and why is demand for long-term bonds weak?

Several forces pushed yields higher at once. Oil above US\$100 a barrel revived concerns about persistent inflation, growth within the US economy has proved resilient, governments are running large budget deficits, and companies are borrowing heavily to fund the AI boom. As central banks raised rates, hopes of lower rates any time soon faded. Global government bonds had their worst quarter since late 2024. The US 10-year yield closed above 5% for the first time since 2007, the 30-year yield climbed above 5.6%, its highest since 2002, and French bonds had their worst quarter since the euro

was introduced. Demand for long-dated bonds is weak because investors are wary of locking in money for 20 or 30 years while the level of cash rates, government and corporate borrowing remain uncertain. Investors are asking for a higher return to compensate for the risks, and the US Treasury has expanded its program of buying back older bonds to help support the market.

Why does a rise in yields mean bonds have fallen in value?

A fixed rate bond pays a fixed rate of interest until it matures. Imagine you own a bond paying 4% a year. If new bonds are issued paying 5%, no one will pay the full price for your 4% bond, so its price falls until its return matches what is available elsewhere. That is why bond prices move in the opposite direction to yields, and why longer-dated bonds, which lock in a rate for longer, move the most (up and down). The good news is that higher yields mean higher starting income, which provides a buffer against further price falls, while any easing in rates provides capital gains on top of the regular income payments. For example, Bloomberg data suggests a one percentage point rise in US 10-year yields over the next year would produce a total loss under -2%, while a one percentage point fall in rates would deliver around 13% total return. This is the asymmetrical nature of bond returns currently.

Australia

Is inflation getting better or worse?

The picture is mixed. Headline inflation rose to 4.0% in the year to August, up from 3.5% in July, as fuel prices jumped almost 15% in the month on higher oil prices and the end of federal fuel excise relief. Underlying inflation, as measured by the trimmed mean measure, held steady at 3.6% for a third month. That is well above the RBA's 2% to 3% target band, but at least not rising. The RBA did not wait for this data, raising the cash rate by 0.25% to 4.60% on 29 September, its fourth increase this year and the highest level since 2011. As recently as August, all four major retail banks expected rates to stay at 4.35%. Governor Michele Bullock has since indicated that further increases may not be needed if inflation eases, and markets have scaled back expectations of a move when the RBA next meets on 3 November. The jury is out as we wait for the September quarter inflation figures to be released by this time.

Why did Australian shares have their weakest month in six months?

The S&P/ASX 200 fell 3.16% as investors braced for another rate rise, with the banks under pressure for much of the month. The trigger for the fall was stronger than expected growth, suggesting pressure on rates still. The June quarter national accounts showed the economy expanding 0.4% in the quarter and 2.1% over the year, helped by a 10.3% jump in vehicle purchases, driven largely by electric vehicles. Demand was proving more resilient than the RBA had assumed. For households, Canstar estimates this year's four rate rises add around \$364 a month to repayments on a \$600,000 loan. There was some relief late in the month, when technology stocks rallied on the day of the RBA decision, and over three months the ASX 200 is still up 0.12%.

Commodities & Currencies

Why are oil prices still rising seven months into the conflict?

Because the disruption to supply has spread rather than eased and the strait is practically closed. Drone attacks left Saudi Arabia's East-West pipeline, which carries around 4 million barrels a day to the Red Sea, partially offline, and traffic through the Strait of Hormuz remained a small fraction of pre-war levels. Brent rose around 14% to near US\$103.50 a barrel after briefly topping US\$108, while the US benchmark, WTI, gained a more modest 5.33% to around US\$90, as the disruption is concentrated in Middle East supply. Prices came off their highs late in the month as US-Iran talks were held in New York on a phased reopening of the Strait. A recovery in pipeline flows also eased supply concerns. The diesel market in particular remains tight, which matters for Australian fuel prices affecting agriculture and industrial activity.

Why did gold fall when the world still feels so uncertain?

Gold fell 6.55% in September, giving back much of August's rally as it slid from around US\$4,500 an ounce to a seven-week low below US\$4,150. As we noted last month, gold is particularly sensitive to real rates (ie. Nominal yields – inflation), and September showed why. With US bond yields at their highest in almost two decades, the Fed raising rates and a stronger US dollar, the cost of holding an asset that pays no income rose considerably. When a 10-year US government bond pays more than 5%, investors need a stronger reason to hold gold instead. Gold responds as much to interest

rates as to geopolitical risk, although continued central bank buying provides underlying support.

Why has the Australian dollar fallen below 70 US cents, and does it matter for my investments?

The Australian dollar fell 3.08% in September to just below 70 US cents. The fall largely reflected US dollar strength, as the Fed's rate increase and the gap between US and other interest rates drew money towards US assets. Governor Bullock's comments that further increases may not be needed also weighed on the currency late in the month. For investors, a weaker Australian dollar lifts the value of overseas investments that are not currency hedged, which helped cushion the fall in global share markets this month. It is one of the ways currency exposure can add diversification to a portfolio.

What about iron ore?

Iron ore edged up 0.56% for the month, trading between about US\$93 and US\$100 a tonne, as weak Chinese steel demand offset support from higher freight and raw material costs. China's crude steel output fell 3.7% from a year earlier in August, and mills have been cautious in restocking as their profit margins come under pressure. A genuine recovery in Chinese construction would be needed for prices to break out of their current range. Even so, stable prices at these levels continue to support Australia's export revenues and the major miners.

Our View

What does September tell us about investing through uncertain periods?

September showed how quickly the outlook can change and the difficulty in picking 'winners'. Within weeks, the view that rates had peaked was overturned and market leadership narrowed to a group of AI-linked technology stocks. Portfolios positioned around a single or narrow range of forecasts have struggled. Higher yields have been uncomfortable for bond holders in the short term, but they also mean higher income looking forward, and high-quality bonds are once again providing meaningful income and diversification opportunities. Markets will remain sensitive to the Middle East, inflation and the next moves by the Fed (and the RBA). Our objective remains to position the portfolios around a range of scenarios utilising quality, diversification and a long-term view not simply a reaction to monthly volatility.

Index*	1 Month	3 Months	1 Year
US – Dow Jones	-4.29%	-2.70%	9.72%
US – Nasdaq (100)	1.86%	2.47%	18.54%
US – S&P 500	-0.44%	2.04%	14.40%
Germany – DAX	-4.03%	0.81%	5.52%
UK – FTSE 100	-2.02%	1.04%	13.43%
Shanghai Composite – SSE	-3.61%	-6.16%	-1.05%
Hong Kong – Hang Seng	-3.73%	7.57%	-8.35%
Japan – Nikkei 225	0.67%	-4.72%	48.56%
S&P/ASX 200	-3.16%	0.12%	-0.67%
All Ordinaries Index	-3.26%	-0.19%	-1.82%
Gold (USD)	-6.55%	3.71%	7.73%
Oil (USD) – WTI	5.33%	28.86%	44.83%
Iron Ore (USD)	0.56%	-3.60%	-8.26%
Δ 10 Year Aus Gov't Bonds (Yield)	6.00%	13.79%	23.34%
Δ 10 Year US Gov't Bonds (Yield)	11.18%	19.63%	27.54%
AUD/USD	-3.08%	0.39%	5.02%

* Percentage change in local currency unless stated otherwise

If you have any questions in relation to the above, or require any additional portfolio or investment information, please do not hesitate to contact your Adviser to discuss your particular circumstances.