RATHBONES

RATHBONE GREENBANK GLOBAL SUSTAINABLE BOND FUND

QUARTERLY UPDATE SEPTEMBER 2026

Bond yields reset sharply higher as the war in the Middle East reignited inflation fears, central banks turned to rate hikes and governments kept borrowing heavily. A glut of debt from the AI giants added to the pressure, and credit markets finally began to show some strain.

The third quarter was a bruising one for bond markets. Worries about inflation and interest rates collided with concerns about rising government borrowing, while the flood of new debt from America's biggest tech companies stoked unease about how much supply investors can comfortably absorb. Together, these pressures drove a significant reset in yields across fixed income markets. During the quarter, the 10-year US Treasury yield rose from 4.42% to 5.29% to hit its highest level in almost 25 years. The 10-year UK government (gilt) yield rose only slightly less, increasing from 4.77% to 5.44%.

A BIG RESET IN BOND YIELDS



Source: Rathbones, FactSet as at 16 October 2026.

The trouble began in July, when an escalation in the Iran war sent oil prices sharply higher and revived inflation fears. The price of Brent crude has risen from around $60 per barrel before the war began to roughly $100 as at the end of September, having touched $120 along the way. Diesel prices have risen even more steeply.

Central banks hit the brakes

Headline inflation is rising again as a result. In the UK, inflation hit 3.1% in August, its highest rate in five months, while US inflation jumped to 3.7% in September, rising for the first time since May. This resurgence in inflation has dramatically changed the outlook for interest rates. In late February, investors were pricing in two quarter-point rate cuts from both the US Federal Reserve (Fed) and the Bank of England (BoE) this year. By September, they were expecting several hikes, adding up to roughly a full percentage point of tightening over the next 12 months. In mid-September, the Fed voted unanimously to raise rates by a quarter-point to 3.75-4.00%, its first hike since 2023. The European Central Bank (ECB) is also tightening policy and the BoE is widely expected to hike rates by a quarter-point in November.

In our view, central banks are more likely to make one to two hikes over the coming year, depending on how the Middle East conflict proceeds and how it flows through to inflation via energy prices. That's roughly half the tightening that investors expect. Growth is holding up better than many had feared, but if energy prices stay high, the resulting economic drag will intensify, making successive rate rises less likely. Here in the UK especially, the risks seem skewed toward a slowdown rather than an overheating economy. Given our view that expectations of between three and four quarter-point hikes in total could prove overly aggressive, we added to our duration exposure (our sensitivity to the direction of interest rates) over the quarter, especially our US duration exposure.

We did this by buying more US dollar supranational organisation **Inter-American Development Bank (IADB) 3.2% 2042s**. As a reminder, we don't own US Treasuries because they don't meet our screening criteria. Instead, when we want exposure to US interest-rate movements, we favour US dollar-denominated debt issued by highly rated supranationals like the IADB, which we expect to behave in a similar way to Treasuries. We also bought more **UK Treasury Green Gilt 1.5% 2053s**, thereby increasing our exposure to the direction of UK rates. We felt the summer's rise in longer-dated sovereign bond yields had created a more attractive entry point for duration exposure. With yields now much higher than in recent years, investors are being paid considerably more income, providing a stronger cushion against any further price volatility. At the same time, longer-dated government bonds retain the potential to generate capital gains at some point.

Too many bonds, too few buyers?

Inflation has been the key catalyst for the big reset in bond yields, but other factors have come into play too. Longer-dated yields have been driven up by growing unease about many governments' massive borrowing and the rising cost of servicing that debt. Investors are paying more attention to the sustainability of government spending plans and demanding more compensation (via higher yields) to lend to some governments long term. Right now, France is very much in the hot seat as its plans for record bond issuance next year are fuelling concerns about its mighty fiscal deficit (the gap between what the government spends and what it brings in from taxes). Those concerns are intensified by opinion polls suggesting that Marine Le Pen's Rassemblement National, which has historically favoured economically populist, pro-spending policies, could well take control of the presidency in elections next spring. All this has driven investors to demand a much steeper premium for owning French government bonds (OATs) versus German Bunds (Europe's borrowing benchmark).

Sustainability investment labels help investors find products that have a specific sustainability theme. This product has a 'Sustainability Focus' label: it invests mainly in assets that focus on sustainability for people or the planet.

Performance review

	3 months	6 months	1 year	Since launch 30 Nov 23
Rathbone Greenbank Global Sustainable Bond Fund	-3.37%	-0.99%	-0.61%	13.85%
Benchmark*	-2.96%	-1.08%	-0.64%	13.24%

	30 Sep 25-30 Sep 26	30 Sep 24-30 Sep 25
Rathbone Greenbank Global Sustainable Bond Fund	-0.61%	4.82%
Benchmark*	-0.64%	4.44%

* The fund's benchmark consists of 70% ICE BofA Global Corporate Index, 15% ICE BofA Global Government ex Japan Index, 15% ICE BofA All Maturity Global High Yield Index (all GBP hedged).

Source: Morningstar; data to 30 September, S-class (apart from since launch performance which is a combination of S-class and F-class shares where S-class was unavailable. S-class shares were launched on 8 Jan 2024), mid price to mid price.

These figures refer to past performance, which isn't a reliable indicator of future returns.

At the same time, investor demand for long-dated government bonds of all stripes seems less dependable. Governments used to count on a deep pool of price-insensitive buyers (such as central banks, pension funds and insurers) to absorb their longest-dated debt, but that pool is shrinking. Japan, the largest foreign holder of US Treasuries, is a good example: with 30-year Japanese government bond (JGB) yields above 4% and 10-year yields touching 3%, Japanese investors have far less reason to buy Treasuries in search of income.

The deluge of new debt from the AI hyperscalers complicates things further. Much of it is also long-dated and very highly rated (often AA to AAA), giving it some of the characteristics long-duration investors have traditionally sought in government bonds. Because the hyperscalers have issued so much debt so quickly (AI-related borrowing has rocketed from almost nothing in 2024 to an estimated $500 billion in the first nine months of 2026 alone), these firms have had to sweeten their yields to get deals away. That may be pushing up governments' borrowing costs as they compete for a limited pool of long-duration capital.

Credit's resilience cracks

After a long spell of resilience, credit spreads (the extra yield corporates offer over government debt) came under pressure in the final weeks of the quarter. Sterling investment grade spreads, as measured by the ICE Bank of America Sterling Corporate Bond index, began the quarter at 80 basis points (bps) and had widened to 87 bps by its end. The key driver was broad bond market volatility, not worries about a deterioration in corporate fundamentals specifically. Rising bond yields, inflation worries and rate hikes from the Fed and the ECB set the tone, while political and fiscal uncertainty in France added extra pressure in Europe.

Adding to French debt and subordinated bank bonds

The blowout in OAT yields means that almost 40% of France's investment-grade corporate debt now offers lower yields than sovereign debt of an equivalent maturity. It currently seems unlikely that the ECB will choose to ride to France's rescue and start buying OATs to help contain government borrowing costs until the government shows greater willingness to address its mighty budget deficit. That said, we also believe that the ECB won't allow those costs to spiral because of the risk of wider contagion across Eurozone debt markets. Against this backdrop, we opted to buy some **French OAT 3.25% 2032s** and **1.25% 2034s**.

We bought some French bank **Crédit Agricole 5.5% 2033s** and **5.375% 2037s**. French bank bond spreads have widened on concerns about the country's stretched public finances. We felt that created an opportunity: investors are worried about France's debt trajectory and deficit, not the financial resilience of its banks. Crédit Agricole remains in solid shape and, as a large, diversified global banking group, has significant operations beyond its domestic French market. That provides some insulation from France-specific political and fiscal risks, so these wider spreads looked like good value to us. We also bought some more French renewable energy supplier Engie 4% 2035s. In addition, we added to our subordinated bonds issued by a range of banks, buying some US dollar **Lloyds Bank 5.696% 2037s**, **Santander USA 5.22% 2032s** and **Italian bank Intesa Sanpaolo 6.005% 2037s**. The sharp rise in US Treasury yields has pushed these bonds' all-in yields to very attractive levels, allowing us to secure compelling income through exposure to some very strong issuers.

Putting the reset to work

For investors who look to bonds as a source of stability, the volatility of recent months has been uncomfortable at times. But the sizeable reset in bond yields is also creating very attractive opportunities, particularly for active managers with the flexibility to choose where to take risk and which bonds to own, rather than simply following an index.

As yields have grown much more generous over the last four years, investors benefit from a meaningful income cushion against near-term price swings, particularly in higher-yielding markets such as the UK. As at the end of September, broad indices of sterling investment grade credit were yielding comfortably above 5.5%. That's up from roughly 5.1% at the start of this year and a major jump from just over 2% at the start of 2022.

When you invest, you could lose some or all of your investment.

Moreover, the mechanics of bond markets mean that when bond yields rise, bond duration falls. In simple terms, bonds get less sensitive to future changes in interest rates. That means that a bond market with higher yields is generally better positioned to absorb further rate moves than one where yields are meagre. And the more generous starting yields on offer from many government bonds bolster their ability to serve as safe-haven assets in the event of growth scares or a weakening in investor risk appetite.

After years of falling short on income, protection and diversification potential, bonds are beginning to behave like bonds again. Higher bond yields are transforming the fixed income opportunity set. But making the most of that transformation requires sharper choices about which risks to take, how to take them and, just as importantly, which ones to avoid.



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For more info on our fund, including factsheets, performance and fund manager views, please click here.

If you require further clarification on this commentary, then please contact your adviser or Rathbones at the contact details below.

Any views and opinions are those of the investment manager, and coverage of any assets held must be taken in context of the constitution of the fund and in no way reflect an investment recommendation. Past performance should not be seen as an indication of future performance. When you invest, you could lose some or all of your investment.

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