



B Capital SA

Rue Jean-Calvin 14,
1204 Geneva,
Switzerland

Tel +41 22 317 7823

Monday 12 October 2026

B Capital Commentary and Outlook Update 4Q2026

Executive Summary

This has been a year in which the economy has behaved better than the headlines suggested, and in which our portfolios have done respectably without yet doing all we had hoped. The Federal Reserve raised rates in September for the first time in three years, the 10Y US Treasury yield touched 5.3%, Brent crude held above \$100 and the conflict in the Gulf has run past the point at which we expected it to end. Global equities shrugged all of this off and closed September 13% higher on the year, on course for a fourth consecutive year of double-digit gains. Corporate earnings, rather than sentiment, have carried them.

Our portfolios so far

Our models have made progress this year, though after three quarters they sit behind their peer group, and we would like them to have done better. Two positions account for most of the difference. Precious metals, which did much of the heavy lifting in 2024 and 2025, have given back part of those gains as the market has come to expect higher rates for longer. Our Chinese technology holdings have yet to join the wider advance in technology shares. Our results in recent years owed something to a weaker dollar and falling rates, and this year the wind has blown the other way. Neither thesis has been disproved, both stand to benefit when rates turn, and with a quarter still to run there is much to play for.

Were we too cautious?

At the end of 2025 the S&P 500 traded at around 23x forward P/E, and we chose to buy protection by placing collars around our American equity holding. With hindsight, we erred on the side of caution. Earnings have since outrun prices and done the market's correcting for it: the forward multiple has fallen to 19.1, below its five-year average of 19.8 and level with its ten-year average (Figure 1). FactSet expects third quarter earnings to rise by 29.6%, the third consecutive quarter above 25%. A record 72 companies raised guidance ahead of the reporting season, 44 of them in technology. Analysts look for growth of 32.7% this year and 15.8% in 2027.

We expect global equities to add a further 6% or so by the year end, and most regions to post double digit gains by the middle of 2027, driven by earnings rather than by richer multiples. We think that this may be right, and we intend to benefit from it. The collars expire in January, and through the fourth quarter we expect to lift the American equity allocation across the models.

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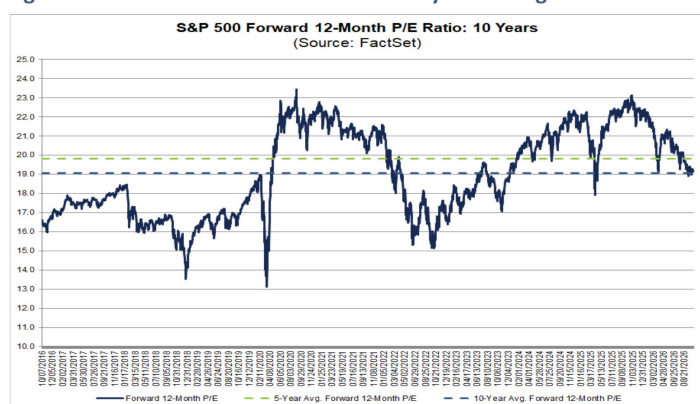


Why does artificial intelligence matter?

Every great technology has rewarded those who adopted it first. The steam engine and the power loom made Britain the workshop of the world within two generations, and the nations which mechanised later spent much of the following century catching up. The internet lifted American productivity in the late 1990s, and the smartphone put a computer into billions of pockets within a decade, building some of the most valuable companies in history.

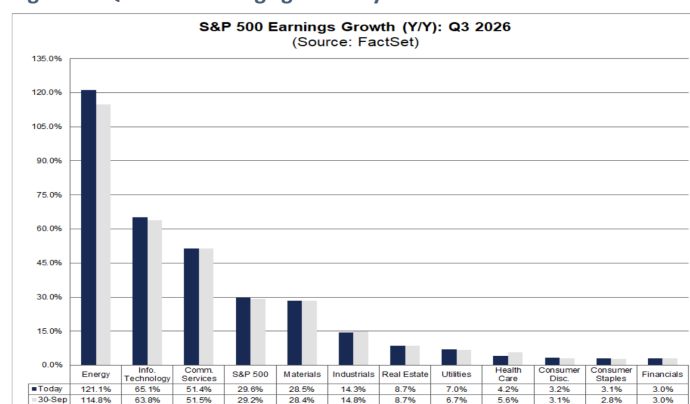
Artificial intelligence differs from its predecessors in two respects. It touches every industry at once rather than one at a time, and its adoption is measured in months rather than decades. There is little evidence so far that it has lifted output, which we read as an opportunity rather than a disappointment: the gains lie ahead. The investment which precedes them is plain to see in the semiconductor industry, where third quarter profits are expected to rise by 130%, carrying technology to the second fastest earnings growth of any sector (Figure 2). America, Taiwan, Korea and China are the early adopters, and we expect them to set the pace of global growth.

Figure 1: Valuation has returned to its ten-year average



Source: FactSet, Earnings Insight, 9 October 2026.

Figure 2: Q3 2026 earnings growth by sector



Source: FactSet, Earnings Insight, 9 October 2026.

Oil, inflation and the price of money

The conflict in the Gulf has outlasted our expectations, though not our conviction that it will end and that energy prices will fall when it does. Brent, the global benchmark, closed near \$104 on 9 October, some 57% above its level of a year ago. J.P. Morgan expects it to average \$64 in 2027 once flows through the Strait recover.

In America, core CPI, which strips out food and energy, rose 2.4% in the year to August, while the headline rate is expected at around 3.7% when September's figures are published on Wednesday. The difference is energy and little else, with petrol averaging \$4.33 a gallon in September. Should Brent fall below \$90 and stay there, the arithmetic turns in our favour. Prices have spent much of this year above \$100, which sets a high base for next year's comparison: energy would begin to subtract from headline inflation during the first half of 2027, pulling it back towards a core rate in the mid twos. TD Securities expects core inflation to end the year at 2.7%. That is uncomfortable for a central bank, but it is not the 1970s, and we do not regard it as cause for alarm.

Short term rates may rise further, which few foresaw a year ago, when the consensus expected the Federal Reserve to keep cutting. The economy looks able to absorb it. Net profit margins of 15.0% are the second highest since FactSet's records began in 2009, and history suggests that the first rise in a cycle tends to unsettle markets rather than end a bull run.



Bonds and precious metals

Higher rates have upended most of the asset allocation plans drawn up in January, ours among them. There is consolation in the bond market, where ten-year investment grade corporate bonds offer yields that were out of reach for most of the past fifteen years. We have been locking those in across the direct bond holdings, which make up 29% of the Balanced model and 58% of the Yield model.

Gold and silver have been a disappointment. Gold trades near \$4,180 against a record \$5,589 in January, held back by the prospect of further rate rises rather than by any weakening in the case for owning it. The allocation is modest, at 5% to 6% of the models, and we are reviewing where the best gains are likely to be made over the coming year. Allocations may change as a result, and a larger weighting in equities is among the options under consideration.

Looking to 2027

We expect 2027 to bring faster growth to America and Asia, where investment in artificial intelligence runs deepest. Europe should pick up a little but will continue to lag, short as it is of the research spending and technology champions that drive the cycle elsewhere.

We remain positive on equity markets. Three quarters into the year, the portfolios are well placed for what we expect to come next: lower energy prices, a turn in rates and a broadening of returns beyond American technology.

I remain available for conversations around any part of the strategic asset allocation plan, as ever.

Yours sincerely,

Lorne Baring
Managing Director