Haven Global Partners, LLC
Market Outlook: 3rd Quarter 2026

Something Scary This Way Comes, or Does It?

October does more than merely follow the third quarter. It also happens to contain the most frightening holiday on the entire calendar. Whether you know it by the old-fashioned name of All Hallows Eve or just plain Halloween, it takes place at the end of this month. There are intrepid types who love a good scare, so the horror movies of this season appeal to many, but not the global equity investors that I know. Many of the market participants that I talk to are worried. In the six-and-half years since COVID, global stocks have been on something of a tear. Since the peak of the COVID outbreak, the MSCI ACWI ex-US index has averaged an 18.5% annualized return in US dollars. There was a slight correction during 2022 when bond yields spiked as investors tried to figure out how to understand and digest the most rapid interest rate rise in a hundred years, which had been spurred to fight off the inflation which all that COVID stimulus had generated. Other than that, though, stocks have been on a pretty straight line up. They aren't anymore, though. Here lately, investments of almost every type have stagnated all over the world. It has been very difficult to get positive returns of any significance no matter where you are in the world nor what investment you choose.

Tale of the Tape

The quarter was flat, very flat. That aforementioned MSCI ACWI ex-US index returned 50 basis points in the third quarter, the EAFE index returned 90 basis points, while the World ex-US index managed to return 1%. The US fared a little better as the S&P 500 produced a 2.3% return, and the NASDAQ generated 2.6%. Emerging Markets stocks lost 40 basis points, Japan's Nikkei lost 80bps and the FTSE 100 managed almost a 2% return. Like I said, flat! In the small cap space MSCI EAFE Small Cap was up 3% during the quarter but the Russell 2000 index of US Smal Cap stocks was down more than 7%. Bonds fared even worse. Before the US bombed Iran on the 28th of February, the US 10-year Treasury note had a yield of 3.9%. But during the third quarter, it went all the way up to 5.4%. With a sustained move higher in rates like that the returns on fixed income investments were not positive. Emerging Markets bonds lost ~4%, high-grade bonds lost 3.5% and high yield bonds lost 2%. Perhaps unsurprisingly, with the news headlines full of stories about inflation and war, gold managed to generate a positive return of almost 4% during the quarter though it is still down about that same (-4%) amount for the year-to-date.

The bond market and the stock market disagree

The MSCI ACWI ex-US index is only up 3% since the war in Iran started, but stock markets in the US have fared better. The S&P 500 is up 12%, and the NASDAQ is up 19% since the end of February. So, stocks are going up, but so are bond yields, which, of course, sends bond prices lower. That alone is cause for concern because when the stock market and the bond market "disagree", the bond market usually wins. That's because when bond yields rise, whether driven higher by credit spreads widening or inflation expectations increasing, the higher borrowing costs which are a direct function of the increase in yields, will eventually create tighter credit conditions and ultimately that catches up to corporate earnings, in the end requiring investors to reprice stocks at lower levels.

Trick or treat…or tragedy

So, getting back to our Halloween theme, should global equity investors be counting on treats ahead or will the global stock markets trick them with a market correction? There are a lot of woes facing investors today. They come in almost every variety. There are geopolitical risks (the US versus Iran, Russia versus Ukraine, leap to

mind). There are macroeconomic risks as long-term government bond yields are rising (US Treasury bond and note yields are at 20-year highs). And there are structural risks as the major indices have been driven higher by a relatively small group of very large cap stocks mostly associated with the theme of Artificial Intelligence. The structural risks have to do with the massive amounts of CapEx needed to build the data centers behind the AI phenomenon. There is no guarantee that the $800 billion which hyperscalers are expected to spend on the AI buildout will be rewarded with a suitable degree of demand from the market to generate anything approximating an appropriate level return on that investment.

There is an upside though

Corporate earnings have been consistently robust, at least among the most successful companies, employment has grown relatively consistently with unemployment for the most part under control, if for no other reason than in well-to-do countries their aging populations are shrinking the pool of people available to work thereby stabilizing unemployment rates and locking something of a floor under incomes. Can investors expect the good times to continue to roll, or should they hunker down and stay close to shore in case a storm of correction blows in? At Haven we don't try to answer such questions. Our decades of experience have taught us that portfolios constructed of high-quality stocks trading at a discount to their underlying fundamental value tend to outperform over the cycle, but such portfolios do particularly well when the market gets spooked. On the occasions when frightened investors go looking for a sure thing, they usually turn to quality stocks, and we will be right there as we always are with a portfolio full of them.