

BILLEN CAPITAL RESEARCH

Global Equity Strategy | Quarterly Review | October 2026

Q3 2026: The cost of capital reasserts itself

Rate shock, energy shock and a rotation towards valuation — positioning for Q4

Prepared for the Investment Committee. Top-down strategy note; no rating or target price.

Summary

Q3 2026 was a repricing of risk, not a growth shock. A supply-driven energy shock, synchronised tightening by the Federal Reserve, the ECB and the Bank of Japan, and record AI-related bond issuance lifted the US 10-year Treasury yield to 5.29%, its highest since 2007. Headline indices held up; breadth did not.

- **Narrow leadership.** Gains were confined to AI infrastructure and energy; the Russell 2000 fell 7.5% and the CAC 40 –5.2%.
- **Style rotation.** Value and Yield led across all major regions as higher discount rates penalised long-duration and high-beta equities; Momentum staged a tactical recovery in September.
- **Nordic dispersion.** Norway outperformed on oil, Denmark stalled on Novo Nordisk, Finland lagged and Sweden consolidated with the Riksbank on hold.
- **Q4 stance.** Overweight European and UK duration, IG over HY, US and Japanese equities with a quality bias, and gold; underweight European equities; selective in the Nordics.

Key data, end-Q3 2026

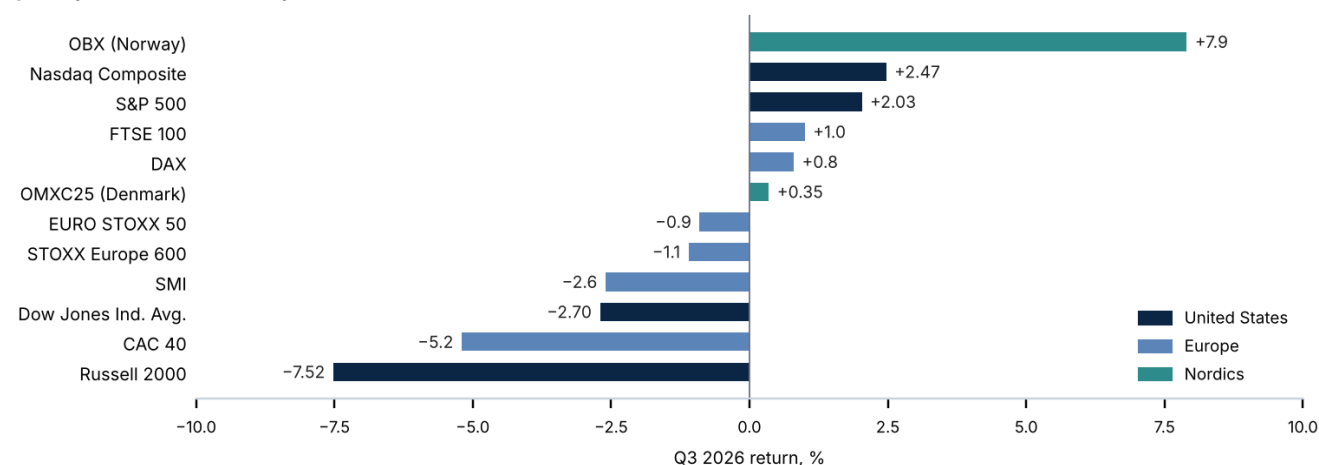
US 10-year Treasury	5.29%
Fed funds target	3.75–4.00%
Riksbank policy rate	1.75%
German 10-year Bund	3.58%
France–Germany spread	1.20 pp
Crude oil, Q3	+29%
Gold	c. \$4,150/oz
S&P 500 fwd P/E	19.1x

Q4 2026 positioning

European/UK duration	Overweight
Credit	IG over HY
US equities	Overweight
Japanese equities	Overweight
European equities	Underweight
Nordic equities	Selective
Gold	Overweight

Exhibit 1: Q3 2026 index returns — extreme dispersion beneath stable headlines

Quarterly return, %, local currency. OMXS30 and OMXH25 not shown.



Source: Billen Capital Research.

Energy-heavy and mega-cap-led markets finished higher; small caps and France absorbed the rate shock.

Macro and rates: the cost of capital reasserts itself

Energy: a supply shock reverses the disinflation narrative

The energy shock was the quarter's principal macro surprise. Renewed US–Iran tension, logistical bottlenecks in the Strait of Hormuz and strikes on Russian refining capacity tightened supply abruptly. Crude rose more than 29% in Q3 and Brent briefly traded above \$100 per barrel in September before diplomatic progress took prices back towards \$90 by quarter-end. Pass-through via fuel and transport costs was rapid: US core PCE held at 3.0% in August and Eurozone headline CPI rose to 3.8% in September. Eurozone core inflation of c. 2.5% and the absence of second-round wage effects indicate that pressure remains concentrated in supply-constrained segments — a distinction that matters for the duration call.

Policy: synchronised tightening, with Sweden the outlier

Central banks prioritised credibility over growth. The Federal Reserve raised rates by 25 bp in September to 3.75–4.00%, and the ECB and Bank of Japan each tightened by 25 bp. The Riksbank held at 1.75% in August and September while flagging upside inflation risk from a weaker krona and fuel prices. Long-end yields moved further than policy rates: the Bund 10-year rose 73 bp to 3.58%, the OAT–Bund spread reached 120 bp (widest since 2012) and the UK 30-year gilt broke 6% for the first time since 1998.

Exhibit 2: Policy and rates dashboard, end-Q3 2026

Levels and changes as stated; bp = basis points.

Policy	Level / move	Rates and commodities	Level / move
Federal Reserve	3.75–4.00% (+25 bp, Sep)	US 10-year Treasury	5.29% (highest since 2007)
ECB / Bank of Japan	+25 bp each	German 10-year Bund	3.58% (+73 bp in Q3)
Riksbank	1.75% (on hold, Aug and Sep)	OAT–Bund 10-year spread	120 bp (widest since 2012)
US core PCE (Aug)	3.0%	UK 30-year gilt	Above 6% (first since 1998)
Eurozone CPI (Sep)	3.8% headline; c. 2.5% core	Crude oil / gold	+29% in Q3 / c. \$4,150 per oz

Source: Billen Capital Research.

Policy tightened everywhere except Sweden; the long end did the heavy lifting.

Credit: hyperscaler issuance has become a rates-market event

The AI build-out has migrated from the equity market to the bond market. Alphabet, Amazon, Meta, Microsoft and Oracle are expected to deploy c. \$750–820 billion of capex in 2026 — c. 38% of combined revenue — against operating cash flow of c. \$750 billion. The group has consequently abandoned its capital-light funding model: bond issuance reached c. \$220 billion in 1H26 versus \$108 billion in FY2025, has been diversified into EUR, CHF, GBP and CAD, and is supplemented by off-balance-sheet structures such as Meta's \$27 billion private-credit data-centre joint venture.

Supply of this scale carries a price, and it is being paid across the curve. Median 2–4 year hyperscaler spreads widened from 30 bp to 40 bp, and 20-year-plus spreads from 108.5 bp to 118 bp; 78 of the 91 hyperscaler bonds issued in 2026 ended the quarter wider than at issue. We read this as supply indigestion rather than credit deterioration at the top of the rating scale. The second-order effect is the important one: a higher floor for corporate funding costs crowds out weaker borrowers, linking the AI capex cycle directly to small-cap and real-estate underperformance.

Exhibit 3: Hyperscaler funding: capex now exceeds internal funding capacity

US\$ billions unless stated; spreads in basis points over US Treasuries.

Metric	Prior	Current	Read-across
Capex, five hyperscalers (2026E)	—	c. 750–820 (c. 38% of revenue)	At or above internal funding capacity
Operating cash flow (2026E)	—	c. 750	Funding gap closed with debt
Bond issuance	108 (FY2025)	c. 220 (1H26)	Twice the prior full year in six months
Median spread, 2–4 year	30 (2025)	40 (Q3 2026)	Supply premium at the front end
Median spread, 20+ year	108.5 (2025)	118 (Q3 2026)	Duration supply weighs on the long end
2026 issues trading wider than issue	—	78 of 91	Secondary market absorbing supply poorly

Source: Billen Capital Research.

The AI investment cycle is now as much a fixed-income event as an equity theme.

US equities: earnings carry a narrow market

Index resilience conceals a two-tier market. The S&P 500 returned +2.03% and the Nasdaq Composite +2.47%, while the Dow Jones Industrial Average fell 2.70% and the Russell 2000 7.52%. The c. 10 pp gap between the Nasdaq and the Russell 2000 reflects balance-sheet structure: smaller companies carry a far higher share of floating-rate and short-dated debt, so a policy rate near 4% and a 10-year yield above 5% transmit directly to net margins.

Delivery at the largest companies is doing all of the work. Consensus Q3 EPS growth for the S&P 500 has been revised up to 29.6% year on year from 26.7% at end-June; if delivered, it would mark a third consecutive quarter above 25%. Information Technology and Energy are expected to post net margins of 32.3% and 14.7%, well above five-year averages, while Real Estate and Financials compress. At 19.1x forward earnings the index trades in line with its ten-year average, but the aggregate masks premium multiples at the top and materially lower valuations across the remainder. Breadth — not valuation — is the principal risk to US equities in our view.

Style and factors: equities reprice duration

Factor leadership confirms the rates narrative. After a Q2 led by higher-risk and momentum exposures, Value and Yield were the most consistent outperformers in Q3 across the US, Europe, the UK, Emerging Markets and Canada, alongside measures of earnings stability. This is the expected response to a higher discount rate: it penalises equities whose value lies far in the future and rewards near-term cash generation.

Exhibit 4: Factor leadership by region — Q3 versus September

Qualitative assessment of excess return versus market; sector-adjusted (country- and sector-adjusted for Europe and EM).

Region	Q3 2026 — outperformed	Q3 2026 — lagged	September 2026 — outperformed
US	Earnings and cash-flow yield, Yield, Quality	Momentum, higher volatility	Momentum 12-1, Volatility, forecast growth
Europe	Sales, earnings and cash-flow yield; dividend payers; ROE; earnings stability	Historical growth, price momentum	Momentum 12-1, earnings revisions, dividend and forecast growth
UK	Cash-flow and sales yield; Dividend and Shareholder Yield	Net profit margin, low gearing	Momentum 12-1, dividend and earnings growth, higher beta
EM	Book-to-price, cash-flow yield; Dividend and Shareholder Yield; growth stability	Profitability, higher volatility, momentum	Momentum 12-1, EBITDA/EV, higher volatility
Canada	Momentum 12-1, earnings revisions, Value, ROE	None of note; Yield lead narrowed	Earnings revisions, Momentum 12-1, all Value measures

Source: Billen Capital Research.

Value and Yield defined the quarter; Momentum defined September.

Two nuances are relevant for stock selection. First, September's Momentum recovery coincided with renewed leadership from mega-cap technology and energy — ExxonMobil, BP, Shell, Canadian Natural Resources and Suncor featured among momentum and cash-flow winners — so the oil shock is partly embedded in the momentum signal. Second, Quality was not a single trade: earnings and sales stability improved while profitability and leverage measures lagged. For Q4 we therefore define quality as cash-flow resilience and low refinancing needs rather than margin level alone.

Europe: stagnation and a French risk premium

Europe lacked a growth engine and acquired a sovereign-risk problem. The STOXX Europe 600 fell 1.1%, with a weak September erasing August's record highs. France was the weakest link: the CAC 40 lost 5.2% and closed below 8,000 as a widening deficit and political instability undermined confidence in the bond market; French government bonds lost more than 5% over the quarter. Germany proved resilient at index level (DAX +0.8%) on selected exporters despite soft domestic data. The FTSE 100 (+1.0%) recorded a seventh consecutive positive quarter, protected by low technology weight and high commodity and energy exposure. Defence was volatile, with the STOXX Europe Targeted Defence index down 5.9% in September after an early-quarter rally.

Nordics: four markets, four narratives**Exhibit 5: Nordic scorecard, Q3 2026**

Index return where stated; qualitative assessment of drivers.

Market	Q3 2026	Primary driver	Names in focus
Norway (OBX)	+7.9%	Oil and shipping; exceptional dividends	Vår Energi, Frontline, Hafnia, CMB Tech
Sweden (OMXS30)	Consolidated	Riksbank on hold; bank results; telecom strength	Ericsson, Telia, Nordea
Denmark (OMXC25)	+0.35%	Novo Nordisk de-rating	Novo Nordisk, TORM
Finland (OMXH25)	Underperformed	Cyclical exports; forestry restructuring	Nokia, Stora Enso, Neste, Fortum

Source: Billen Capital Research.

Energy, rates and single-stock concentration drove the Nordic indices apart.

Sweden: consolidation pending policy relief

Stockholm consolidated within a constructive year-to-date trend. Telecom outperformed: Ericsson beat on adjusted EBITA and revenue and announced structural simplification, with the shares up more than 8.5% in results week, while Telia gained 4.0% on broker upgrades. Real estate bifurcated between highly levered smaller names and consolidators such as Emilshus, which grew earnings through acquisitions and raised guidance. Banks weakened late in the period: Nordea's Q3 operating profit of EUR 1.54 billion missed expectations of EUR 1.63 billion and buybacks were paused until at least 2027 pending an ECB model review, sending the shares 5% lower. Swedish banks nonetheless remain highly profitable, with Swedbank and SEB at 1.6–1.9x book and ROE consistently above 15%.

Norway: energy-driven outperformance

Oslo was Europe's standout market. The OBX rose 7.9%, with total return enhanced by exceptional dividends and near-complete correlation to oil. Vår Energi deployed strong cash flow to acquire Pandion Energy's portfolio and refinanced in the US dollar bond market; Frontline, Hafnia and CMB Tech benefited as geopolitical risk tightened freight capacity.

Denmark: single-stock concentration exposed

Novo Nordisk's de-rating explains the OMXC25's flat quarter. Priced at c. 1.05x EV/NPV, the shares offered no cushion against setbacks. US sales of oral Wegovy missed consensus by 3%, concerns grew over US pricing pressure from Medicare negotiations and decelerating Ozempic growth, and disappointing CagriSema data shifted focus to the pipeline ahead of semaglutide patent expiry in 2031. TORM raised full-year EBITDA guidance by 27% on strong freight rates.

Finland: structural underperformance continues

Finland was the weakest Nordic market. Heavy exposure to cyclical exports, forestry and machinery weighed. Nokia corrected after a strong Q2 as global 5G roll-out prospects were questioned in a higher-rate world; Stora Enso divested its German packaging sites to protect the balance sheet; and Neste and Fortum offered limited upside despite the energy shock, constrained by political and operational factors in the European power market.

M&A and the rise of Nordic private credit

Higher funding costs slowed deal flow without stopping it. Norway recorded 234 announced transactions in Q3, down from 276 in Q2, as the bid–ask gap widened, particularly in software. Private equity still accounted for 38% of Norwegian volume, led by buy-and-build strategies in technical installation. Strategic activity continued, including A.P. Møller Holding's c. \$3 billion acquisition of Ocean Yield from KKR and Telenor's majority stake in Bahnhof. Structurally, tighter bank capital rules and a saturated bond market are accelerating Nordic direct lending, reshaping how mid-sized companies finance themselves.

Investment conclusion: positioning for Q4 2026

Nominal growth is holding up; policy is now above the pain threshold for leveraged balance sheets. Our Q4 framework rests on three pillars: duration as an asymmetric hedge, equities at neutral to modest overweight with a pronounced regional tilt, and gold as the primary real-asset hedge.

Exhibit 6: Q4 2026 positioning framework

Qualitative stance relative to a neutral strategic allocation.

Asset class	Stance	Rationale	What would change our view
Government bonds (Europe, UK)	Overweight duration	Yields at multi-year highs; growth weaker than in the US	A further energy-led inflation surprise
Credit	IG over HY	Refinancing wall likely to lift high-yield defaults	A sustained decline in yields
US equities	Overweight, quality bias	Superior earnings momentum from technology and AI build-out	Q3 earnings disappointment or AI funding stress
Japanese equities	Overweight	Record profitability (ROE 10.5%) and supportive currency	Faster BoJ tightening and a sharp yen rally
European equities	Underweight	Weak manufacturing PMIs; French fiscal and political risk	Sustained narrowing of the OAT–Bund spread
Nordic equities	Selective	Strong balance sheets, energy cash flows and profitable banks; avoid levered real estate	Riksbank easing, which would favour rate-sensitive sectors
Gold	Overweight	Central-bank demand and geopolitical hedging raise the price floor	Higher real yields alongside geopolitical de-escalation
Oil and energy	Neutral	Expected trading range of \$80–120 per barrel	Durable resolution in the Middle East

Source: Billen Capital Research.

We favour cash-generative quality and European duration over leverage and European cyclicals.

Key risks to our view

- **Bond-supply indigestion.** Further hyperscaler and sovereign issuance could lift long yields and compress equity multiples.
- **Breadth.** An AI earnings disappointment would expose the narrowness of US index leadership.
- **French fiscal stress.** Escalation would widen peripheral spreads and weigh on European banks.
- **Energy.** Renewed disruption in the Strait of Hormuz would re-accelerate inflation and defer policy relief.

Bottom line. Q3 confirmed that the era of free liquidity is over and that the price of capital now discriminates sharply between companies. Rate-sensitive sectors, real estate and small caps fell 5–8% in three months, exposing businesses without pricing power or substantial free cash flow. We see balance-sheet quality and low refinancing needs in equities, combined with historically high European government bond yields, as the most asymmetric positioning into year-end.

Important disclosures

Authorship. This report has been prepared by Billen Capital Research for the Investment Committee of Billen Capital. The views expressed are those of Billen Capital Research at the date of issue.

Purpose and scope. This is a top-down review of global and Nordic equity, rates and commodity markets for the third quarter of 2026, with a positioning framework for the fourth quarter. It is intended to inform asset-allocation discussion and does not constitute a recommendation to buy or sell any security.

Information sources. The report draws on publicly available market and index data, central bank decisions, company reports and third-party research and data, including sector-adjusted factor analytics. Figures are stated as reported by those sources and have not been independently verified by Billen Capital Research. Exhibits are compiled by Billen Capital Research from these figures.

No rating or target price. This report does not carry an investment rating, target price or price objective for any security, index or asset class. Companies are named solely to illustrate market developments. Stances in Exhibit 6 are qualitative and relative to a neutral strategic allocation.

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Method. Top-down analysis combining macroeconomic, rates, index, earnings and factor data. Index returns are quarterly returns in local currency as reported. Factor leadership in Exhibit 4 is based on the return of the top 50% of stocks by market capitalisation ranked on each factor relative to the market (top 70% for Size), adjusted to sector-average relative values within each country. Derived figures, such as return gaps, are arithmetic differences. Qualitative classifications are the assessment of Billen Capital Research.

Data notes. Nordea's Q3 results were published after quarter-end. US EPS growth and margin figures are consensus expectations as of October 2026, ahead of reporting.

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