



A VIEW FROM THE SQUARE

OCTOBER 2026

Change in the weather?

After a period of exceptional sunshine and warmth in the UK this Summer, will this lead to temperatures continuing above average in the early days of Autumn? Continuing this analogy, this is the year when the volatile effects of El Nino are expected, and with negative effect. In the UK and further afield, long-term interest rates have continued to rise and some in the US Fed committee propose that short term interest rates should now rise to stem inflationary pressures. However if the US continues to run large Budget deficits these costs will add further pressure to a deteriorating inflationary picture. In terms of actual numbers the US budget deficit is currently about 6% of GDP and may prove hard to contain given a sharp rise in interest rates and fuel costs.

Turning to the trade deficit, this has been a trend for a long period and represents the deficit arising from imports exceeding exports on an almost structural basis and has been possible through the US\$ position as the global reserve currency. However, this is now being challenged by China which encourages a growing number of countries to reduce or abandon trading in US\$ and is establishing rival trade pools in its own currency backed by Gold reserves to compete as a global power with the United States. With the US current account deficit on a deteriorating trend and roughly 3% of GDP this combines with the budget deficit in terms of effect on the currency.

The consequences of the above trends at their current levels are that they put pressure on the value of the US currency and we have been factoring this into investment strategy for some time looking to invest in promising stock markets without linking to the US currency where possible. There is a positive element to this in that, as seen in moments of crisis in the UK, currency devaluation can give a boost to corporate profits, and this is also evident in Japan at present, as exports have a cost advantage. However, imports become more expensive and this is a core reason for a rise in inflation; interest rates rise and long dated bonds deteriorate.

As the dominant Western economy, we pay close attention to US prospects, and believe it still justifies meaningful weighting but perhaps not the full scope of the global indices. As a country still fully dedicated to the capitalist system, equities prosper and returns can be exceptional, as we have clearly seen in the pharmaceutical sector. Areas where finance and patience for long term development are available can also produce exceptional returns such as from Moderna's new cancer treatment in the pharmaceutical sector. The other side of the equation is found in interest rate and inflation increases and bond deterioration that require constant supervision and an active approach.

We therefore seem to be at a critical juncture where failure to dampen long term interest rates could lead to a market sell off as interest rate increases traditionally curb the prices investors are prepared to pay for equities. We believe that new Fed chairman Warsh needs to retain and establish his own credibility despite interventions from President Trump. Given the negative impact of higher energy prices and the existing size of the twin deficits care needs to be taken over this period.

There are some very interesting opportunities around and bond yields of only 2% in China are an interesting and positive pointer, as are the surrounding countries. Similarly, Brazil and Latin America benefit from proximity to the US and a weaker US\$ is positive for their dollar debt. This background combined with China's trade ambitions bode well for Gold in the medium term too.

A number of commentators have compared current market conditions to those at the time of the tech bubble of 2000 and while we disagree with that view as cashflows are strong at present, you may wish to discuss your portfolio objectives at present.

If you would like a call to discuss your portfolio please let me know.

W Forsyth
Executive Chairman & CIO

15 October 2026

Important Information

Opinions constitute our judgement as of this date and are subject to change without warning. Neither CS Managers Ltd, Charlotte Square Investment Managers nor any connected company accepts responsibility for any direct or indirect or consequential loss suffered by you or any other person as a result of your acting, or deciding not to act, in reliance upon any information contained in this document.

Charlotte Square Investment Managers is a trading name of CS Managers Ltd, 43 Charlotte Square, Edinburgh EH2 4HQ. CS Managers Ltd is authorised and regulated by the Financial Conduct Authority CSFP20 1026

43 Charlotte Square
Edinburgh EH2 4HQ

T. 0131 624 7709
investments@csmanagers.com