ARAB BANK EUROPE

October 2026

# Monthly briefing

Economic and market outlooks across monetary policy, equities, commodities and property

CAPITAL ECONOMICS

Independent analysis from Capital Economics, prepared for Arab Bank Europe

# Foreword By Arab Bank Europe / Capital Economics

This monthly briefing for October outlines how energy prices remain high, contributing to rising inflation which should prompt major central banks to raise interest rates in the coming months. It also highlights how the AI-fuelled equity boom is likely nearing its end, with falls expected in US equities next year.

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This report should be read in conjunction with the full disclaimer provided at the end of this document.

# Key developments

## Monetary policy

- Inflation is rising in the US, the UK and the euro-zone towards an expected peak of around 4% in early 2027, driven by the effects of higher energy prices and, in the US, strong domestic demand.
- The Bank of England is expected to raise rates from 3.75% to 4.00% in November and to 4.25% in February, and the ECB from 2.50% to 2.75% in December.
- In the US, stronger growth and a tightening labour market mean the Fed is also expected to hike further, from 3.88% now to 4.38% by early 2027.
- Loose labour markets should limit the extent to which higher energy prices feed through to higher wages, which should help inflation fall back towards target by late 2027, prompting the central banks to begin their cutting cycles.

## Commodities

- The recent escalation in attacks on shipping and energy infrastructure and further disruptions to energy exports from the Gulf are keeping oil and gas prices elevated.
- Brent crude is expected to remain around $100 per barrel through 2026 as inventories remain depleted, before a recovery in Gulf supply pushes the price down to $70 per barrel by end-2027.
- European natural gas prices are forecast to end 2026 at €80/MWh, driven by tight supply and low European storage levels, before falling to €40/MWh by end-2027 as Qatari exports recover and US Liquefied Natural Gas (LNG) export capacity expands.
- The gold price is expected to fall from $4,200 to $3,600 per ounce by end-2027, as speculative buying fades and Fed rate hikes and a stronger dollar weigh on prices.

## Equities

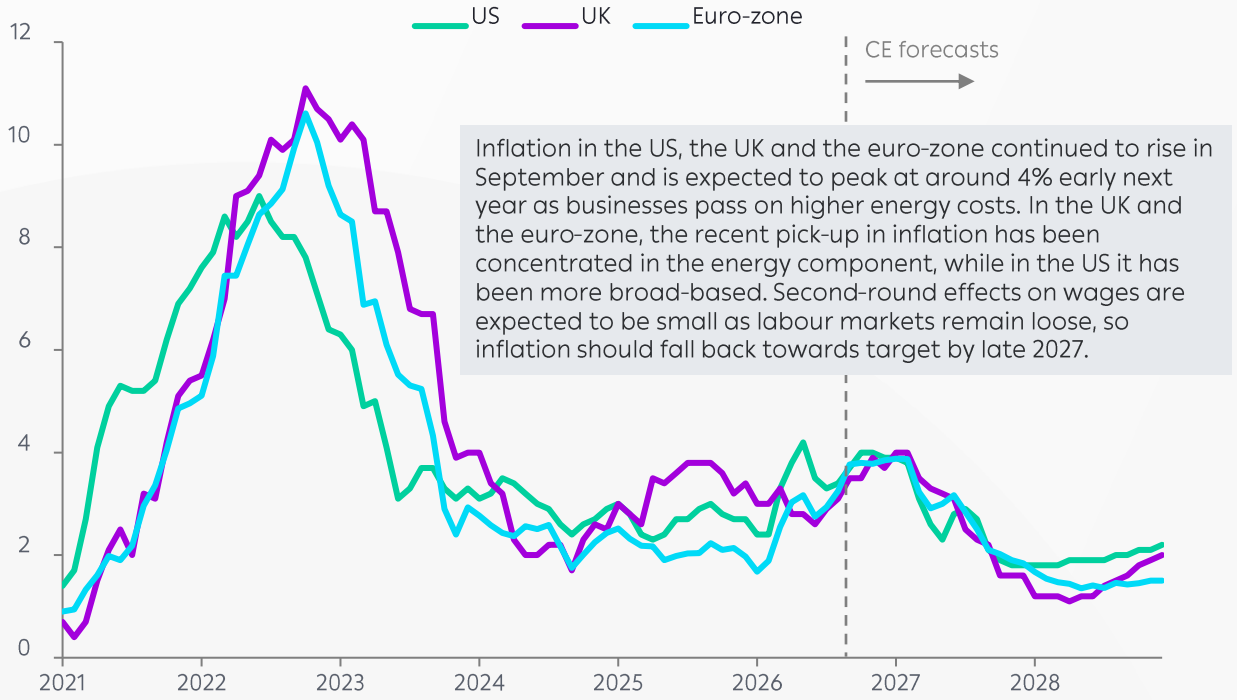
- Signs are emerging that the AI-fuelled equity rally is nearing its end, including volatile equity markets, tech underperformance and indicators suggesting US equities are increasingly overvalued.
- Still, further gains are expected this year from the AI-fuelled rally, and both the S&P 500 and the FTSE 100 are likely to edge higher by end-2026.
- Looking ahead, the S&P 500 is expected to fall next year as the strong AI-driven earnings growth currently priced into tech and chip stocks fails to fully materialise.
- The FTSE 100 is expected to fall by less than the S&P 500, as its lower tech exposure limits the impact of the AI downturn.

## Property

- Higher mortgage rates will contribute to falling UK house price growth towards mid-2027, but stronger demand and tight supply will support rising price growth further out.
- Year-on-year house price growth is expected to be relatively subdued at 0.5% at end-2026 and 1.9% at end-2027, before rising to 3.0% by end-2028.
- London's relative house price underperformance could continue for longer than previously expected, reflecting affordability pressures and tax uncertainty.
- Rising yields will contribute to keeping UK commercial property returns subdued at end-2026, but returns will improve in 2027 as investors largely look through the temporary rise in risk-free rates from the Iran war.

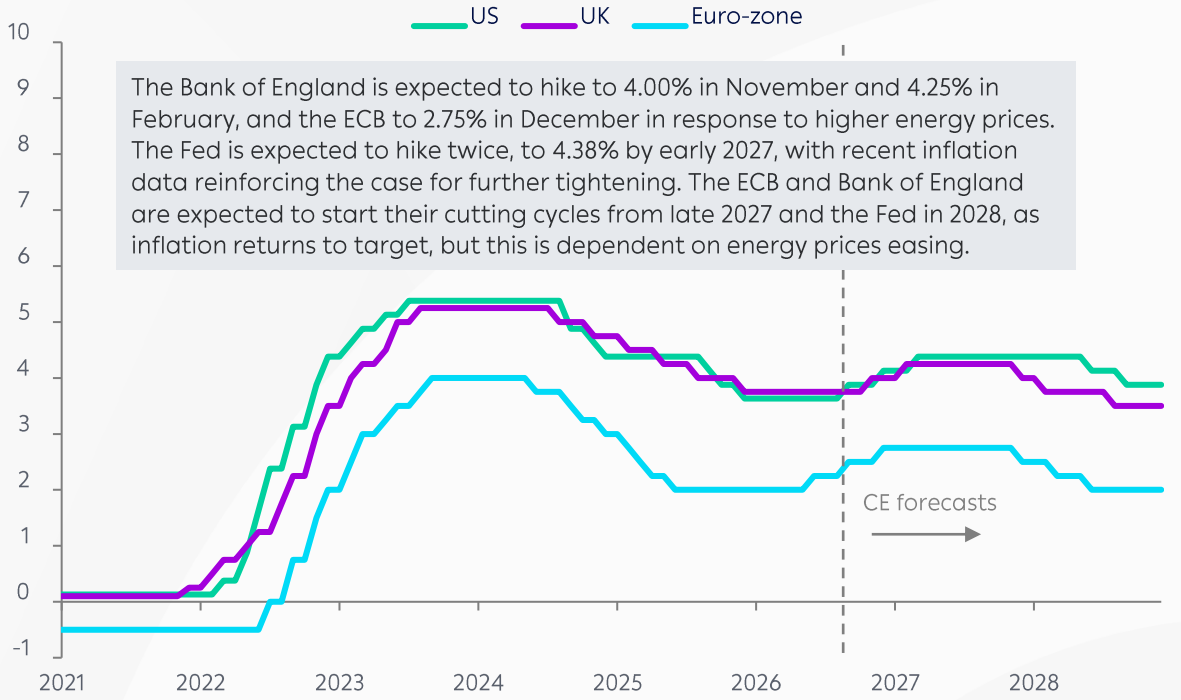
# Inflation across the US, UK and euro-zone is rising towards an expected peak in early 2027, pushed up by higher energy prices and strong demand in the US, which will likely prompt all central banks to hike rates

## Headline CPI inflation (%)




Inflation in the US, the UK and the euro-zone continued to rise in September and is expected to peak at around 4% early next year as businesses pass on higher energy costs. In the UK and the euro-zone, the recent pick-up in inflation has been concentrated in the energy component, while in the US it has been more broad-based. Second-round effects on wages are expected to be small as labour markets remain loose, so inflation should fall back towards target by late 2027.

## Policy interest rate (%)

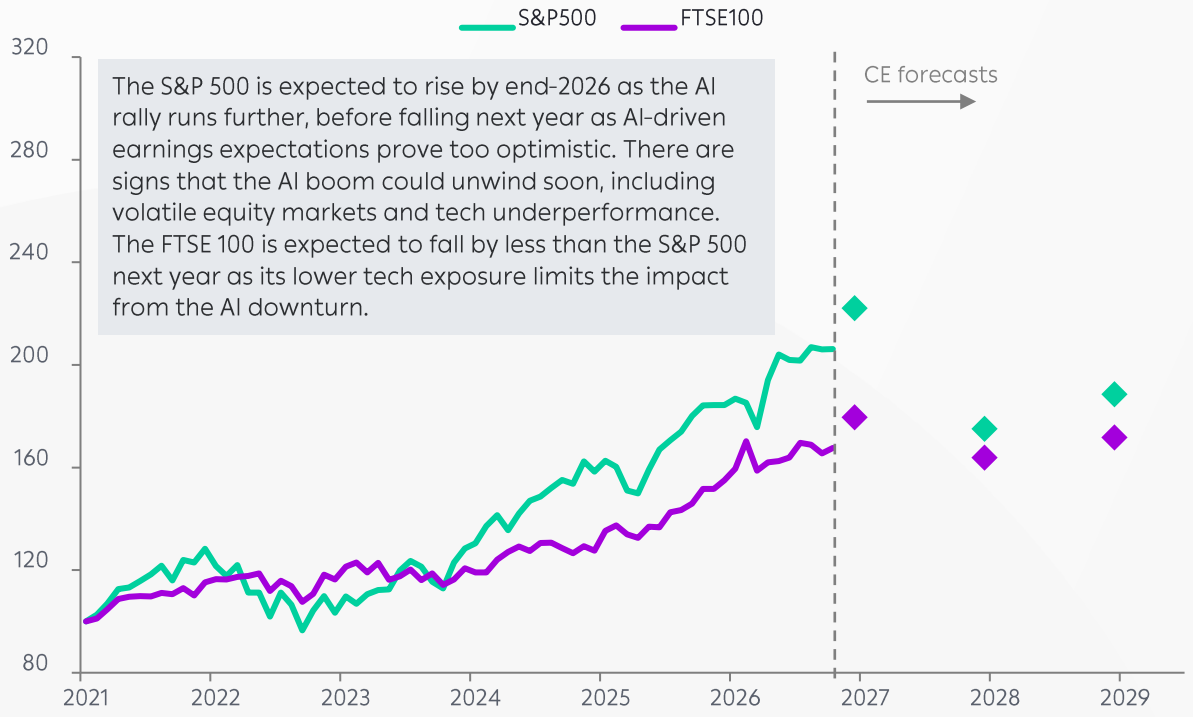



The Bank of England is expected to hike to 4.00% in November and 4.25% in February, and the ECB to 2.75% in December in response to higher energy prices. The Fed is expected to hike twice, to 4.38% by early 2027, with recent inflation data reinforcing the case for further tightening. The ECB and Bank of England are expected to start their cutting cycles from late 2027 and the Fed in 2028, as inflation returns to target, but this is dependent on energy prices easing.

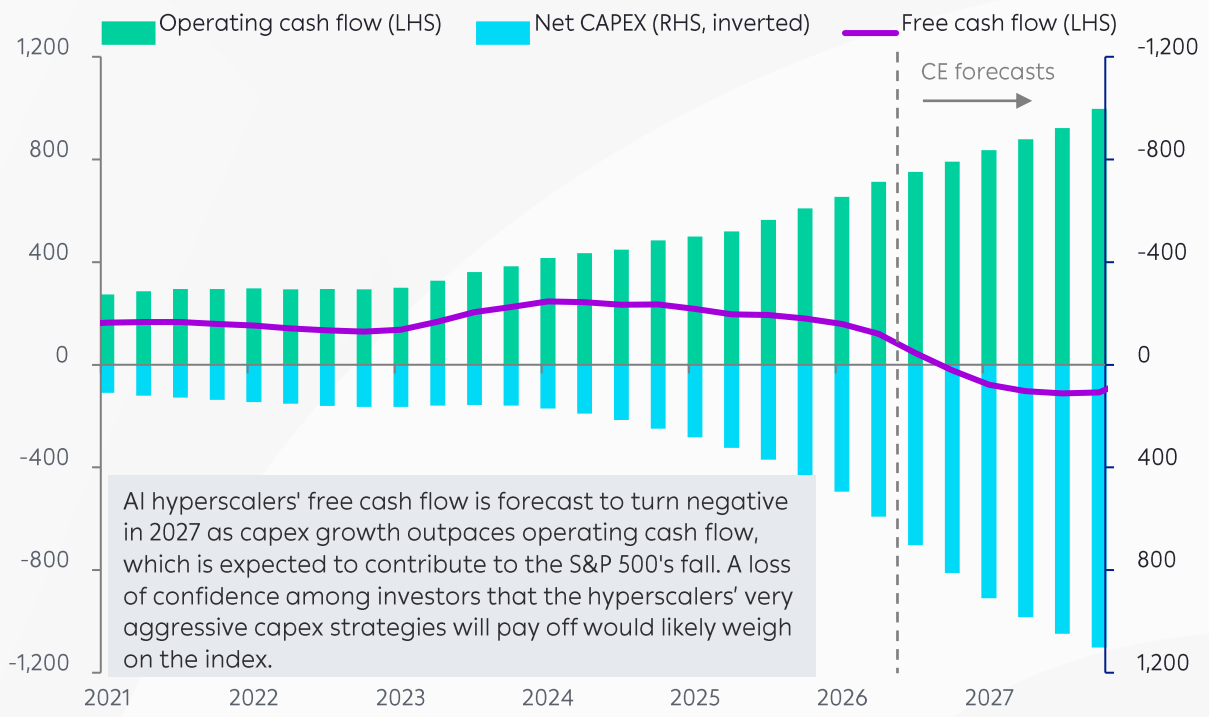
Sources: Capital Economics, Bureau of Labor Statistics, the ONS, Eurostat, the Bank of England, the Federal Reserve and the ECB

# Signs are emerging that the AI-fuelled equity boom is nearing its end, although further gains are still expected this year before a fall in equities next year

## S&P 500 and FTSE 100 price indices (index, January 2021 = 100)




## Combined operating cash flow, net CAPEX and free cash flow of five US hyperscalers (12-month running total, USD billions)*

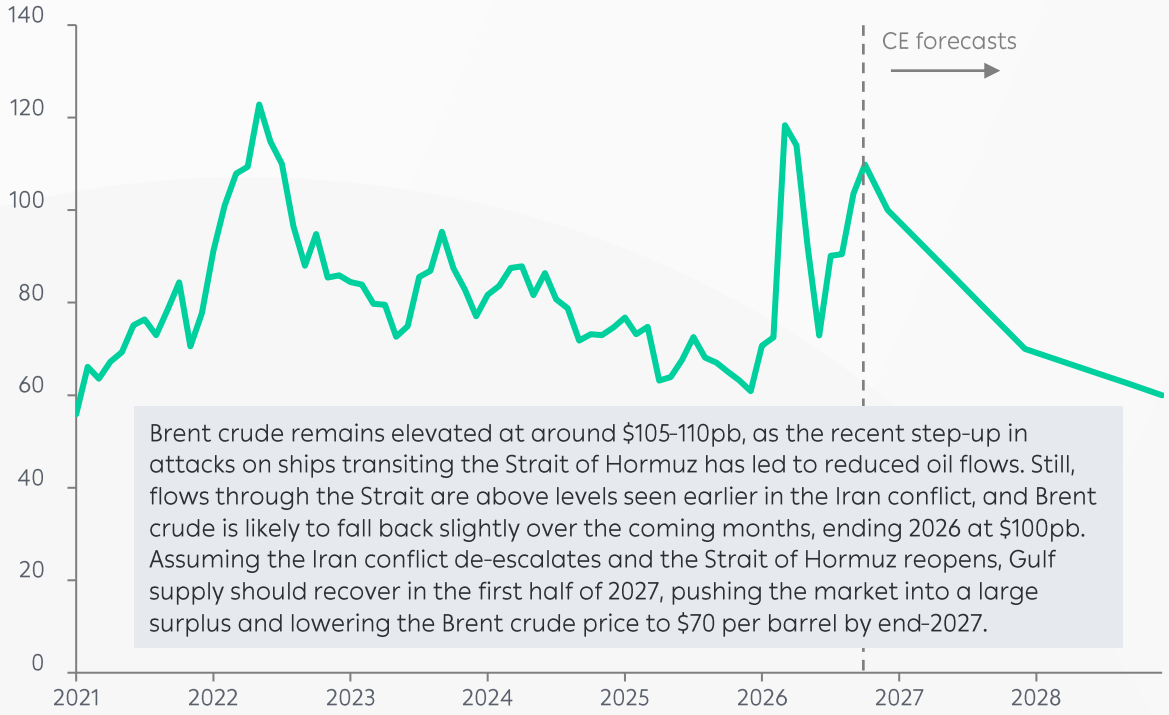



Sources: Capital Economics and LSEG Data & Analytics

*Note: Free cash flow is the cash generated by operations less capital expenditure. The five hyperscalers are Amazon.com Inc, Alphabet Inc, Microsoft Corp, Meta Platforms Inc and Oracle Corp.

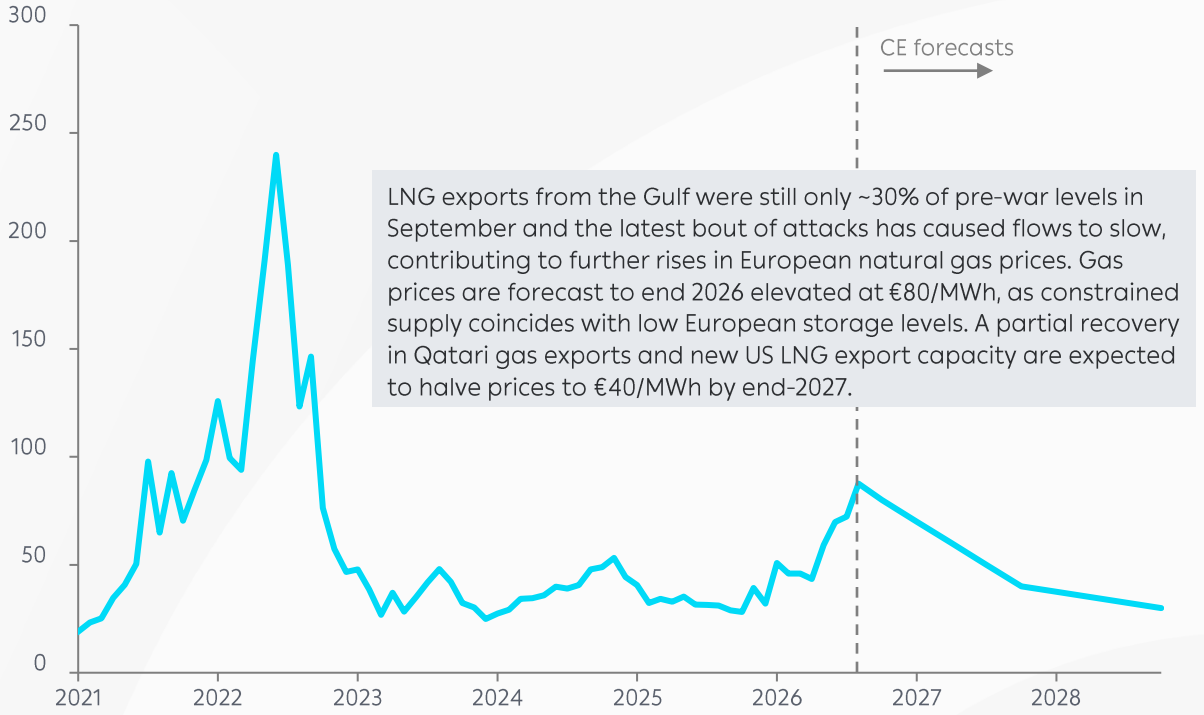
# Recent attacks and further disruption to Gulf energy exports are keeping oil and gas prices elevated, but a recovery in supply and new US LNG capacity should contribute to easing energy prices next year

## Brent crude price (USD per barrel)




Brent crude remains elevated at around $105-110pb, as the recent step-up in attacks on ships transiting the Strait of Hormuz has led to reduced oil flows. Still, flows through the Strait are above levels seen earlier in the Iran conflict, and Brent crude is likely to fall back slightly over the coming months, ending 2026 at $100pb. Assuming the Iran conflict de-escalates and the Strait of Hormuz reopens, Gulf supply should recover in the first half of 2027, pushing the market into a large surplus and lowering the Brent crude price to $70 per barrel by end-2027.

## European natural gas price (EUR per MWh)

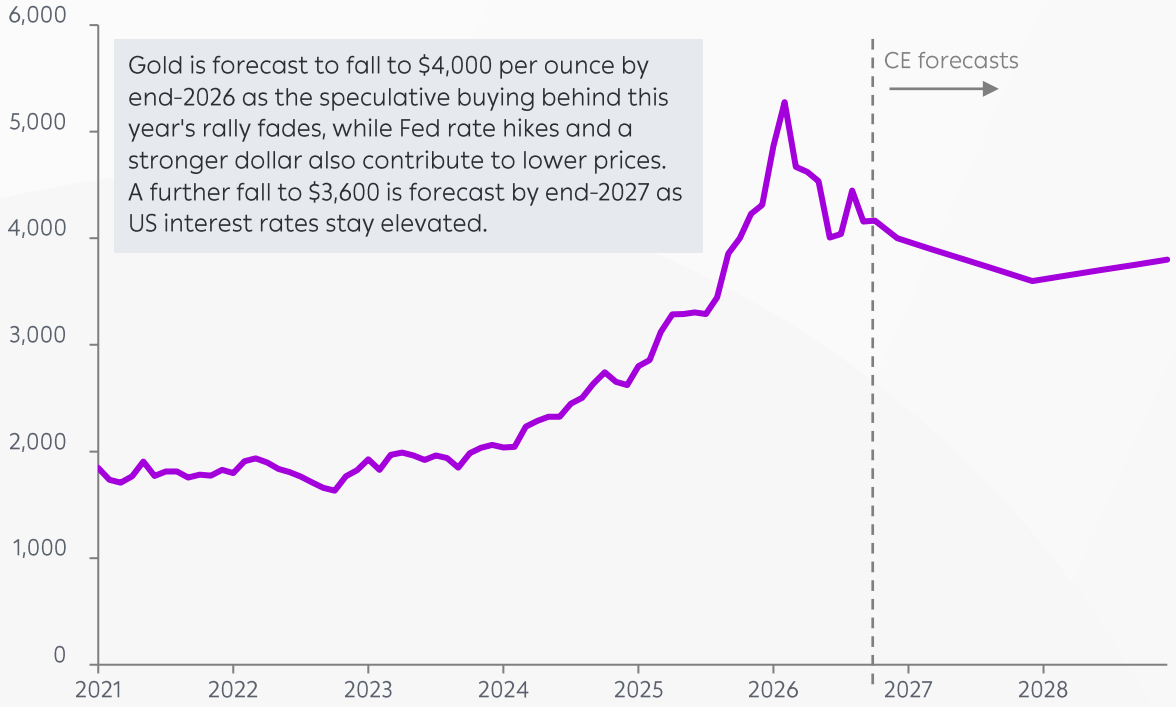



LNG exports from the Gulf were still only ~30% of pre-war levels in September and the latest bout of attacks has caused flows to slow, contributing to further rises in European natural gas prices. Gas prices are forecast to end 2026 elevated at €80/MWh, as constrained supply coincides with low European storage levels. A partial recovery in Qatari gas exports and new US LNG export capacity are expected to halve prices to €40/MWh by end-2027.

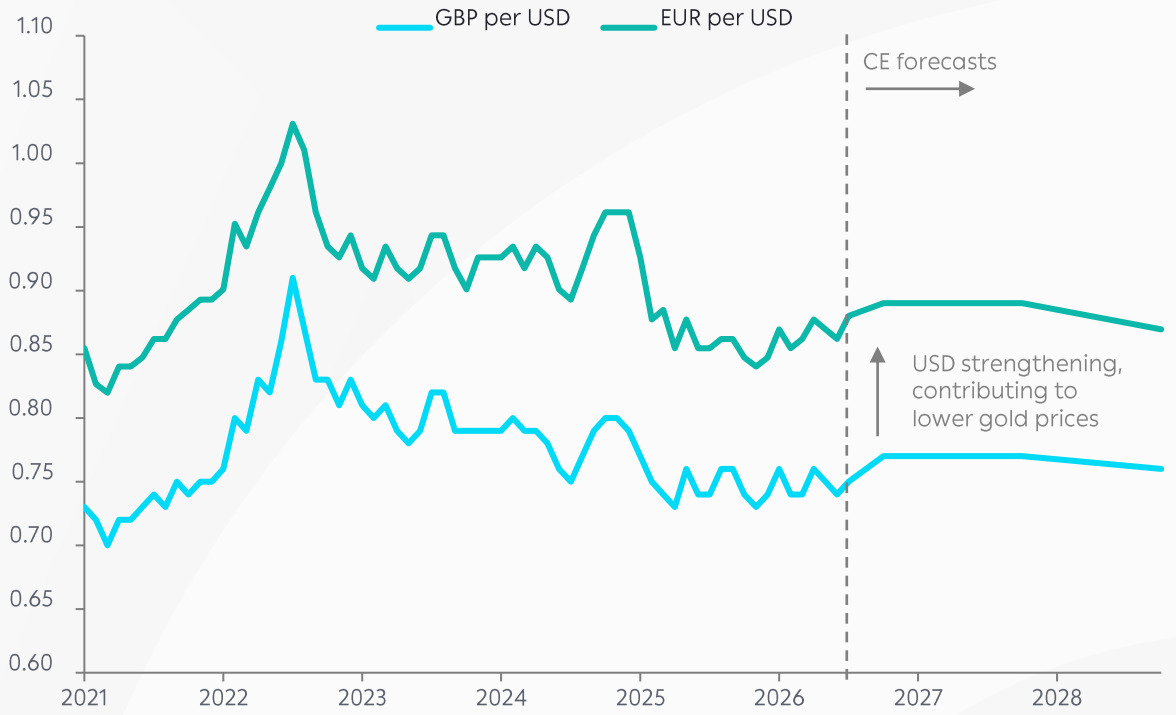
Sources: Capital Economics and LSEG Data & Analytics

# Gold prices have risen beyond the levels justified by the fundamentals and are expected to fall through 2027 as higher US interest rates and a stronger dollar weigh on the market for precious metals

## Gold prices (USD per Ounce)



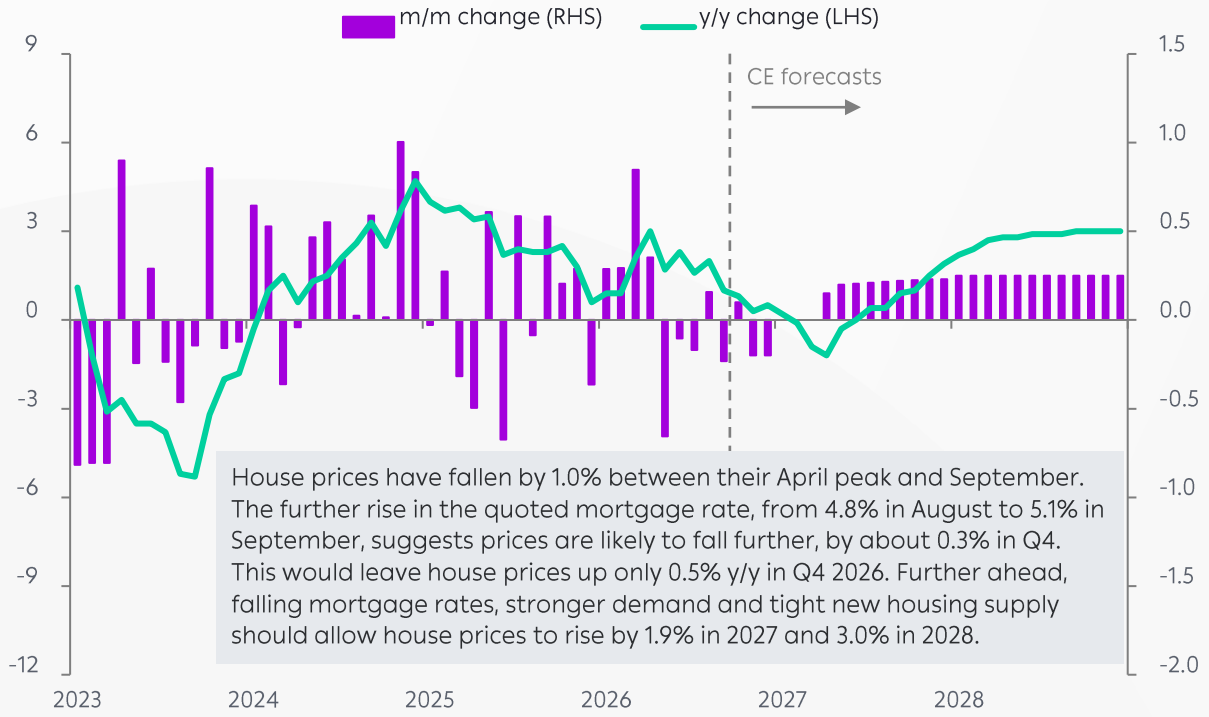

## Sterling and euro exchange rates (GBP and EUR per USD)




Sources: Capital Economics, Bank for International Settlements, ICE Benchmark Administration and LSEG Data & Analytics

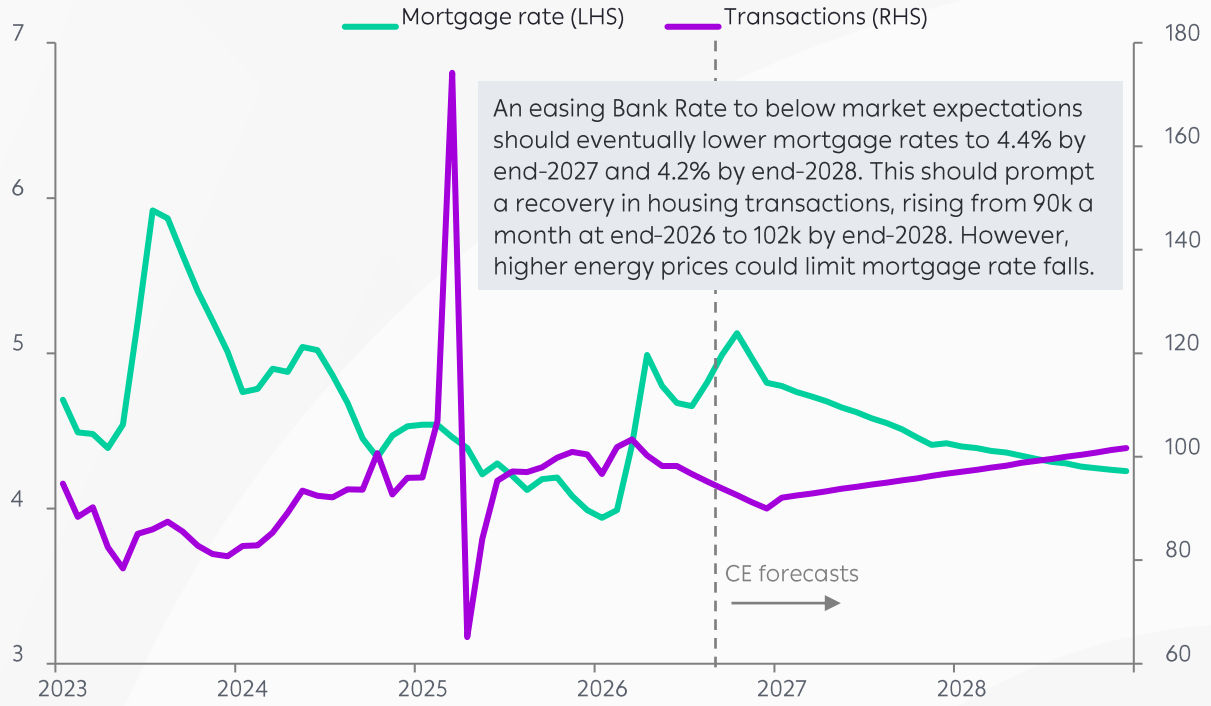
# Higher mortgage rates and a weaker economy following the Iran conflict will slow the UK housing recovery, with house price growth remaining subdued in the coming quarters before picking up in 2028

## UK house prices (month-on-month and year-on-year change, %)




House prices have fallen by 1.0% between their April peak and September. The further rise in the quoted mortgage rate, from 4.8% in August to 5.1% in September, suggests prices are likely to fall further, by about 0.3% in Q4. This would leave house prices up only 0.5% y/y in Q4 2026. Further ahead, falling mortgage rates, stronger demand and tight new housing supply should allow house prices to rise by 1.9% in 2027 and 3.0% in 2028.

## Average quoted mortgage rate* (%) and housing transactions per month (000s)



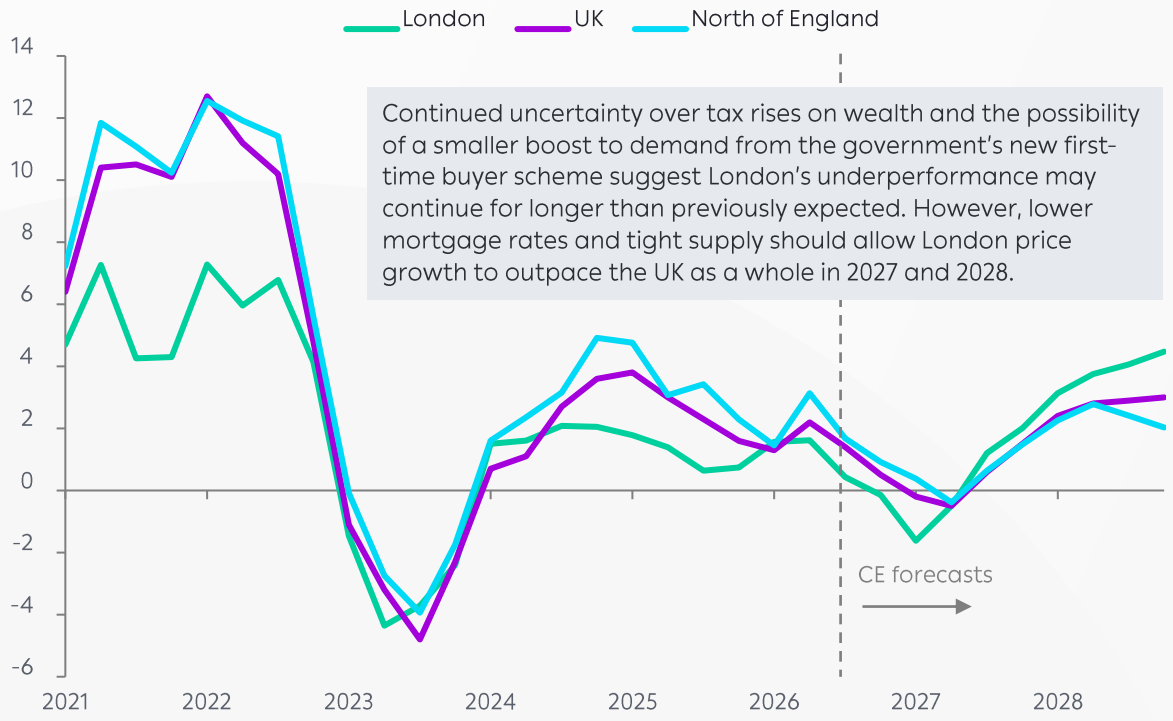

An easing Bank Rate to below market expectations should eventually lower mortgage rates to 4.4% by end-2027 and 4.2% by end-2028. This should prompt a recovery in housing transactions, rising from 90k a month at end-2026 to 102k by end-2028. However, higher energy prices could limit mortgage rate falls.

Sources: Capital Economics, the ONS, Nationwide and HM Customs and Excise

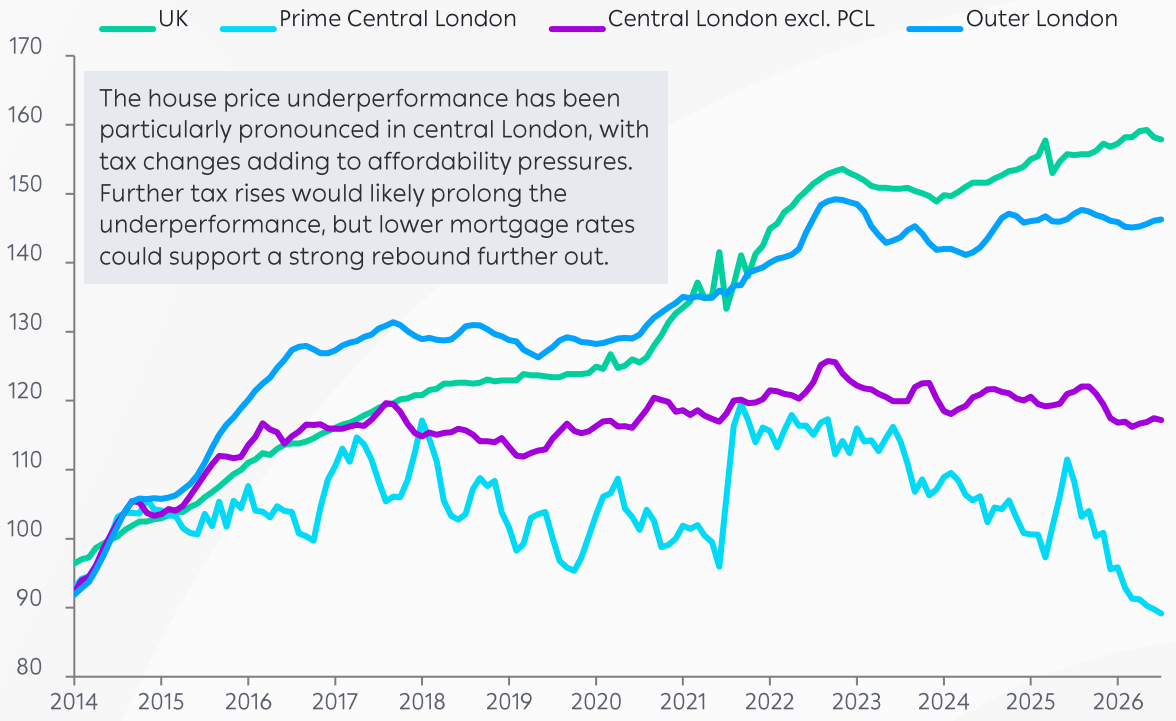
*The average quoted mortgage rate is a composite of rates on 2-year fixed, 5-year fixed and 2-year variable mortgages, all at 75% LTV, weighted by each product's share of new mortgage lending. On average, fixed rate mortgages make up around 90% of the composite rate.

# London's relative house price underperformance could continue longer than previously expected, driven by higher mortgage rates, worsening affordability and continued uncertainty over tax rises on wealth

## Regional house prices (year-on-year change, %)



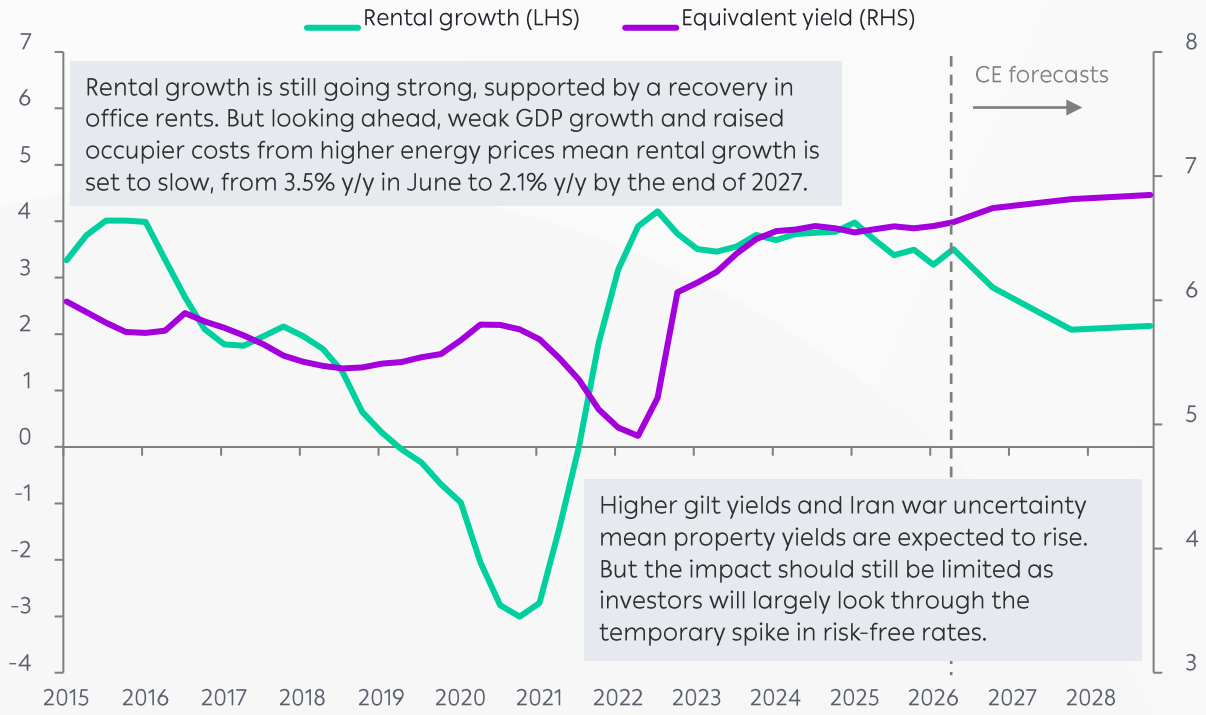

## London house prices (index, 2014 = 100)



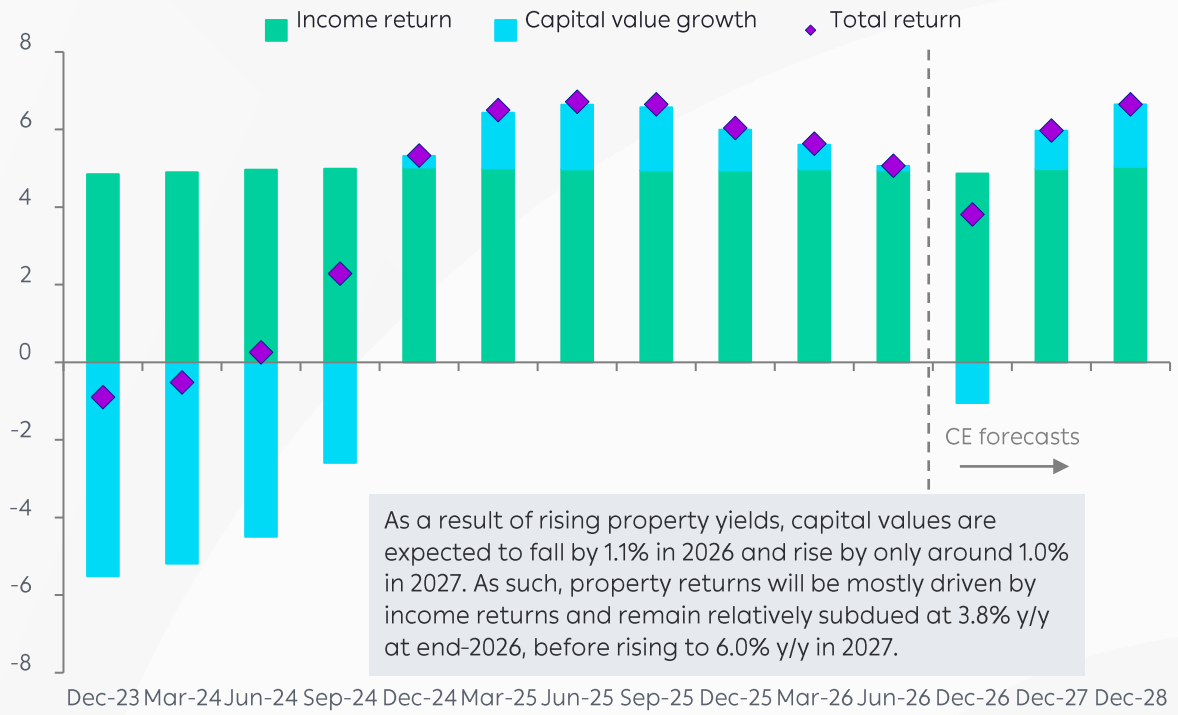

Sources: Capital Economics, Nationwide and HM Land Registry

# Rising yields will contribute to keeping UK commercial property returns subdued at end-2026, but returns will improve in 2027 as investors largely look through the temporary rise in risk-free rates

## All-property rental value growth (year-on-year change, %) and equivalent yield (%)




## All-property income return, capital value growth and total return (year-on-year change, %)




Sources: Capital Economics and MSCI

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