



INVESTMENT UPDATE

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INVESTMENT UPDATE

Index	Level 30 Sept	Level 31 Oct	Change*
S&P 500	6688	6840	+2.3%
FTSE 100	9350	9717	+3.9%
Euro Stoxx 600	558	571	+2.3%
Nikkei 225	44932	52411	+16.6%
Shanghai	3883	3954	+1.8%
US 10 Yr Treasury Yield	4.15%	4.10%	-0.05
UK 10 Yr Gilt Yield	4.69%	4.40%	-0.29
Bund 10 Yr	2.71%	2.64%	-0.07

*all returns in local currency terms. Past performance is not a guide to future returns.

Overview

Global equity markets posted strong gains in October, buoyed by optimism around artificial intelligence (AI) innovation, easing inflationary pressures, and central bank policy shifts. The S&P 500 rose 2%, led by mega-cap tech stocks, but Japan's Nikkei 225 stole the show as it hit a record high following a leadership change and renewed fiscal stimulus. Indeed, the Asia region led the way, as Korea soared on the back of AI-related spending, plus corporate governance reforms. Emerging markets also rallied, with Latin America

rebounding after Argentina's midterm elections delivered a market-friendly outcome, following Javier Milei's surprise victory, which gave him a mandate to further apply his libertarian policies.

Bond markets too had a positive month, which was led by the UK gilt market, as the Chancellor received a boost from softer than expected inflation data that was released for September, providing optimism over further interest rate cuts. This was despite widely expected Office of Budgetary Responsibility (OBR) downgrades on UK productivity, possibly restricting her choices in the forthcoming budget. Corporate bond markets settled down, following an initial spike in yields fuelled by fears over a potential systemic issue in the sector, after two significant US borrowers defaulted, which ultimately proved unfounded.

Given the positive moves seen across all asset classes and most regions, it was hardly surprising, but nonetheless welcome, that this was reflected in portfolio returns across the board over the month.

US

The second interest rate cut of the year was accompanied by hawkish comments from the Federal Reserve (Fed) Chairman, Jerome Powell, who consequently dampened enthusiasm over the certainty of future cuts. The main market rally during the month was very narrow and still very much led by the technology sector. In contrast, the mid and small cap markets were very subdued, showing slightly negative returns. Other than the interest rate cut, the bond markets were buoyed by the Fed announcing that it would halt its 'Quantitative Tightening' programme. This programme involved either not rolling over expiring government bonds or selling holdings, which had led to oversupply issues in the market. Whilst there are still concerns over the government's borrowing levels, this should help to ease pressure when issuing bonds, particularly with longer-term debt.

The US government shutdown continues and is now the longest in history. Thus far, the markets seem unconcerned, as the effects are affecting the poorest areas of the population, although many employees in the public sector continue not to be paid. The main impact on the market is the lack of economic statistics being produced by the government, but the Fed and market participants do have proprietary sources for these.

On the corporate bond front, there was a rush of panic in the market during October, as two significant, high-profile borrowers, First Brands and Tricolour, defaulted on their loans. This initially caused high yield bond yields to rise relative to better quality areas of the market, as concerns arose about potential systemic issues in the sector. However, as investors took time to examine the fundamental reasons behind the defaults, the market quickly recovered, having decided the defaults were caused by issues specific to the companies concerned and not representative of any wider issues in the sector.

On the trade front, a widely anticipated trade deal with China was announced following a meeting between President Trump and President Xi Jinping. Whilst the headline tariff rate is still high, any further escalation of their trade dispute was avoided, as China used its leverage over the supply of rare earth materials to secure a cut in the 10% fentanyl related tariff. The announcement was widely viewed as a pause in proceedings, as tariffs remain at a level of 45%, but the parties seemed content with the result so far. Further meetings are planned in this area.

UK

The UK main market continued its excellent run this year, reflecting the global appetite for equities as opposed to any AI-related theme, to which the UK market has very little exposure. A weaker sterling undoubtedly helped, given the high percentage of UK corporate earnings that are derived from overseas. Domestically, there is certainly an element of 'hold your breath' among business and market participants ahead of the November budget. The low level of UK economic growth and higher taxation is perhaps reflected in the more UK-centric FTSE Mid-250 index, which is lagging the FTSE 100 by around 12% this year.

On the economy front, although inflation remains sticky at 3.8%, September's print was below market expectations and encouraged speculation about the potential for further rate cuts. It should be observed that although UK government borrowing rates are the highest in the G7, they have declined substantially since the start of the year and this trend continued during October. This suggests that the market has greater confidence in the government's management of the public finances than the media suggests, despite the enormous headwinds faced by the Chancellor.

Europe

France remained in political flux, with Prime Minister Lecornu surviving two no-confidence votes but facing mounting pressure over budget negotiations and wealth tax proposals. Political instability dampened investor sentiment, and long-term French bond yields remained elevated. However, it was noteworthy that we saw a return to more centrist politics in Europe, following the dramatic success of the liberal D66 party in the Dutch elections. Germany saw industrial production fall to levels not seen for 20 years, as the auto sector continues to struggle in the face of overseas EV competition. GDP growth here was near zero, as the widely anticipated positive effects of increased government spending have yet to manifest themselves. Eurozone inflation remains subdued at 2.1%, reflecting the ECB's decision to keep interest rates on hold.

Japan

As mentioned earlier, the Nikkei 225 index experienced an exceptional month with its return of over 16%, breaching the 50000 level for the first time. However, this index is quite unusual in its construction and can be influenced by strong performance in a small number of stocks. The broader, market capitalisation based, Topix index, which is perhaps more representative, was up a more modest, but still impressive, 6%. Foreign investors were key participants in this rally. Optimism has been fuelled by the appointment of the LDP's Sanae Takaichi as the country's first female Prime Minister. She has a clear focus on reviving the economy with her expansionist, pro-growth, policies; pledging to spend more in areas such as defence, which certainly helped the dynamics in her first meeting with Donald Trump. She has her work cut out, as the country has the highest debt-to-GDP level in the G7, the economy is sluggish, but with upward pressure on inflation, dogging both government and central bank policymakers.

Asia and Emerging Markets

There were some extraordinary performances in some markets in these regions. Korea was up over 20%, dwarfing Taiwan's 'paltry' 9.5%, as AI-related spending fuelled speculation in companies perceived to be beneficiaries in this area. This was also reflected in the S&P's regional IT sector index, which was up by 12%. Korea's performance was further helped by positive domestic and overseas sentiment over corporate governance reforms. The Chinese market's muted response to the trade deal with the US possibly reflects

the fact that the domestic economy is still weighed down by deflationary forces driven by the continued downturn in the property market.

Argentina was again a notable outlier, as overt US support of President Milei and the peso led to a landslide victory in the country's election, thus handing him a mandate to continue his reformist policies. Underlining the volatility of both the country's stock market and currency was the Merval index return of 69% over the month, which follows its decline of 30% in September.

Summary

The AI theme continues to dominate the headlines, but when we examine the source of returns in October, these were generated from a number of themes, most of which were not AI spending related. This continues to demonstrate the value of a globally diversified approach, both in equity markets and bond markets alike. As previously reported, the benefits or otherwise of the value of AI infrastructure spending will take time to emerge. This may be in the form of increased productivity, and we are beginning to see signs of this amongst white collar professions, or improved earnings from those companies who secure market share, provided of course that they are able to monetise the technology. Inflation does appear to have squeezed out of the system in Europe and the US, so the interest rate environment should be supportive of bond markets. However, investors scrutiny of government spending will continue to impact these markets, particularly in the area of longer-term borrowing rates, so diversification remains key here, as much as it does in global equities.

Rockhold Asset Management, with contributions from 7IM, November 2025



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