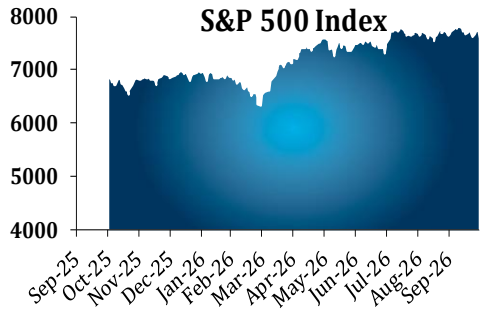
This Month in the Markets

October 2026

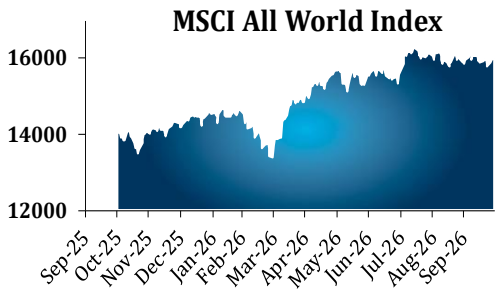
Equity Commentary: AI Fears Stoke Tech Wreck

October was a negative month for equities. The MSCI ACWI Index fell 1.5% for the month, while the MSCI Emerging Markets Index sank 8.3%. In the U.S., 3Q earnings are coming in strong with just over half of companies reporting. 69% of companies have exceeded consensus EPS estimates and 66% have reported better than estimated revenue. This was not enough to lift the indexes however, as the S&P 500 fell 1.1% and the tech heavy NASDAQ 100 ended the month lower by 6.7%.

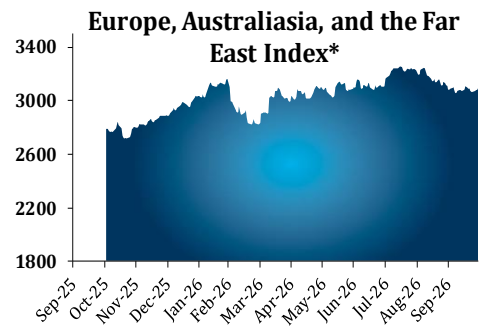


Capital flowed to the defensive end of the spectrum as the MSCI ACWI Consumer Staples sector was the top performer, gaining 11.1%. The MSCI ACWI Communications sector was the weakest performer, falling 11.9% as weak reports from Alphabet and Meta along with disruption fears surrounding traditional telco companies like Verizon and AT&T pulled down the sector.

According to Jefferies, as reported by Bloomberg, October was the largest "net sell month" for tech in more than five years. Fears surfaced over the timeframe, financing and sheer dollar volume of investment in AI, leading investors to question the ultimate return on investment needed to justify the spending. This caused a drop of over 17% for semiconductor stocks. According to Morgan Stanley, hedge funds have cut their exposure so much that they are now underweight artificial intelligence for the first time since early 2023, capping the longest sustained stretch of portfolio de-risking in over 15 years. Although there is no one who can know for sure, we don't think the AI trade is over quite yet. We feel a lot of the sell off was due to overly aggressive portfolio positioning, and leverage. Earning reports from various companies along with the AI value chain were constructive and suggest that the data center build out is extending and growing. Our assessment is that the risk at this stage of overinvestment is low, but there of course could be a time when excess spending leads to lower than expected returns. We feel, however, we are in the early to middle innings of the AI buildout and Anthropic's S-1 seems to suggest revenue and spending is progressing well in terms of AI adoption. The ultimate trajectory of equities is and will be dominated by the success or failure of AI as it holds a disproportioned weight in indexes and even across asset classes, including, for example, the corporate debt market.



We sold one stock in October, Axon Enterprises Inc. ("AXON"). While we like AXON's growth profile and product positioning, in a world of higher for longer interest rates, multiples paid for growth companies are likely to come under pressure, and free cash flow will become increasingly valuable.



We purchased Adyen in October - a founder-led payments platform that processes transactions for many of the world's largest merchants, combining strong, durable revenue growth with high margins and a net-cash balance sheet, which we were able to buy at an attractive valuation after a period of weak sentiment.

The worst performing position in October was Western Digital Corp. ("WDC"), which declined 20.9%. Despite posting a better-than-expected quarter of earnings, raised guidance and good visibility to 2030-31, the company was caught up in the unwinding of the AI trade and fears associated with infrastructure spending peaking.

The best performer was Genmab A/S ("GMAB") which increased 65.2%. GMAB delivered a series of very positive drug results for Petosemtamab for both metastatic colorectal cancer and head and neck cancer.

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Fixed Income Commentary: Treasuries Rally, Credit Faces Scrutiny

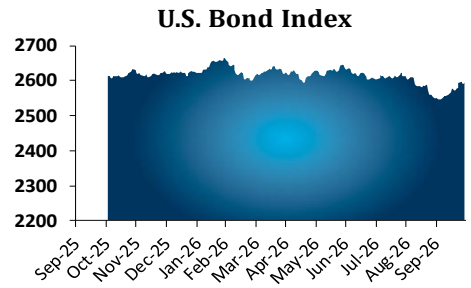
October saw large reversal in interest rates, with US Treasury yields falling sharply across the curve: the 2-year yield fell 0.30%, the 5-year 0.37%, the 10-year 0.36% and the 30-year 0.32%. Two sessions stood out for their intraday swings. On October 14th, CPI came in above consensus on practically every measure, and yields initially rose rapidly before reversing to end the day lower. The following day's PPI release showed an even larger upside surprise. The initial reaction was a flattening of the curve, with short-end yields rising and long-end yields declining, before yields across the curve ended the day lower. The PPI release also coincided with mounting concerns about neocloud AI providers, leaving rates markets to digest both the implications of higher-than-expected inflation—including the possibility of further rate hikes—and doubts about the staying power of the most vulnerable players in the AI infrastructure build-out.

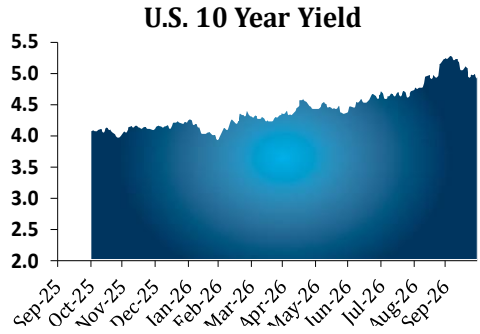
Those doubts center on whether the AI build-out will deliver adequate returns on investment and how it is being financed. The hyperscalers' huge capex plans have been funded through a range of sources, including operating earnings, public-market debt in various currencies (Alphabet and Amazon), private credit, chip-backed debt (Broadcom) and equity (Meta, Oracle). October brought several examples. Broadcom (AVGO) arranged $63 billion in financing, comprising both chip-backed and unsecured debt, through a newly formed SPV that will buy Broadcom chips to lease to Anthropic. Broadcom will guarantee a portion of the debt raised. Meta announced a major equity raise, with $37.5 billion completed in October and up to another $60 million available through an at-the-market programme. Microsoft raised $25 billion in USD debt in its first bond offering since 2017; the deal was more than four times oversubscribed. Oracle, meanwhile, used its analyst day to clarify its funding plans and set a net leverage target of 3.5x by fiscal year 2029.

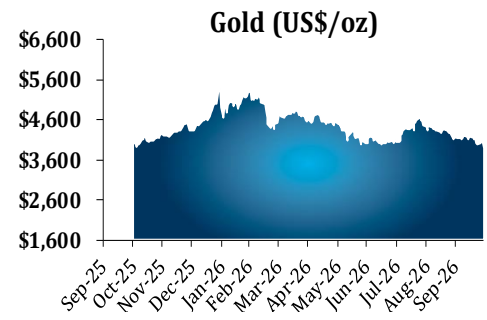
Beyond the hyperscalers, the credit spread widening that began in September continued in October. Weakness was concentrated in CCCs, the lowest-rated cohort of the high-yield universe, whose spreads widened by another 1.09% in October following a 1.49% increase in September. While CCCs are showing real stress, spread widening was more muted elsewhere: B spreads widened by 0.34%, BB spreads by 0.18% and BBB spreads by 0.13%.

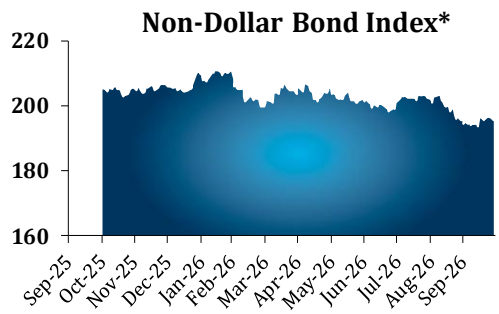
Turning to monetary policy, the Federal Open Market Committee (FOMC) held the upper bound of the fed funds rate steady at 4.0%, as expected. Warsh sought to frame the decision as a hawkish hold. However, the rates market's reaction—with 2-year yields falling and 10-year yields rising—suggested that investors were unconvinced by his tough rhetoric on inflation, especially given the stronger-than-expected CPI and PPI figures earlier in the month. Also contributing to the market's dovish interpretation was Warsh's announcement that one FOMC meeting next year and two in 2028 would be dedicated to strategy, leaving fewer "live" meetings for policy rate adjustments.

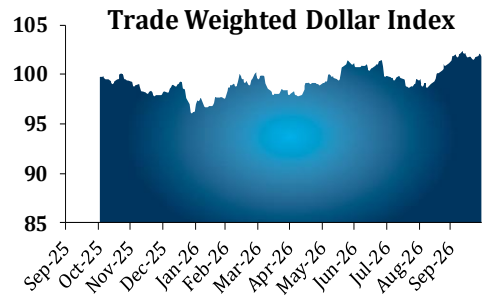
Warsh has taken a markedly different approach from his predecessors as FOMC Chair. He makes a point of answering only one question per reporter and deliberately keeps his responses broad to avoid committing himself or the committee to a predetermined path, consistently playing down the significance of any single data point. While reporters and pundits have expressed frustration with the lack of precise directional guidance, we view Warsh's stance as practical. Reducing the Fed's interest rate guidance—and, ultimately, its overall role in capital markets—should be viewed as a positive development.











*Merrill Lynch Global Broad Market, Ex US Dollar Index

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