Market Digest

OCTOBER 2026

This commentary provides a review of global markets in October 2026, takes a closer look at the outlook and current topical themes, plus a market commentary covering the 12 months to 30 September 2026 .

> Oct 2026 highlights

UK equities bucked the global sell-off in October, returning 1.1%, while global equities fell 2.5%

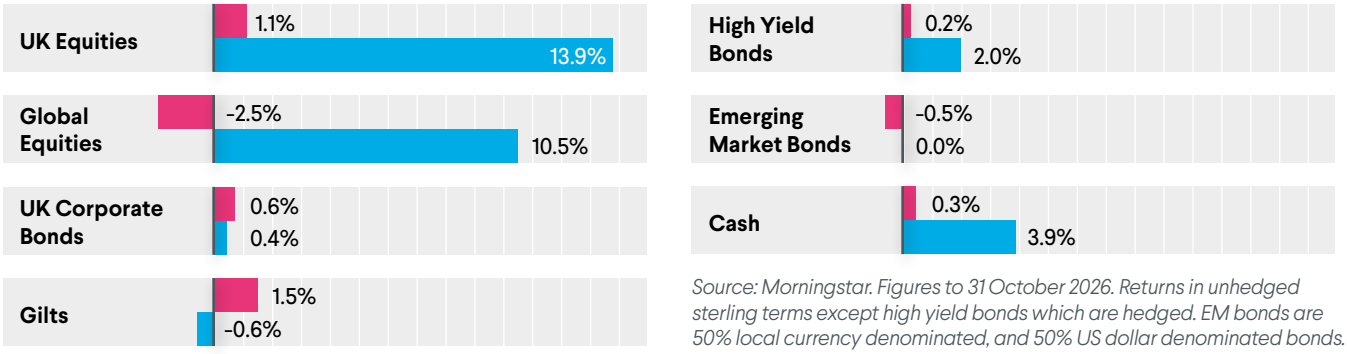
Falling bond yields helped drive positive returns for gilts over the month

Despite October's volatility, equities remained the strongest-performing asset class over the past 12 months

- Our model portfolios typically invest in a combination of the asset classes shown in the chart below.
- A strong rotation in equity performance occurred over October as AI-related stocks came under pressure. Most equity regions fell, with those regions more highly exposed to the Technology sector, such as Asia Pacific and Emerging Markets, experiencing the largest losses.
- Despite weaker Technology performance, several other sectors delivered strong returns. As a result, the UK equity market, with its limited exposure to the Technology sector, was the only major region to rise. Value stocks also outperformed Growth stocks.
- The sharp rise in bond yields seen during the third quarter reversed as investors turned to the safety of government bonds amid losses in Technology stocks. This pushed yields lower and helped gilts generate positive returns (bond prices rise as yields fall).
- Riskier parts of the bond market, including High Yield Bonds and Emerging Market Bonds, underperformed gilts as the risk-off sentiment drove credit spreads wider (corporate bonds underperform when spreads widen).
- With bonds and cash outperforming equities, lower-risk portfolios generally delivered stronger returns than higher-risk portfolios over the period.

Our model portfolios typically invest in a combination of the asset classes shown in this chart

This chart shows percentage asset class returns for October 2026 *October 2026* *12 months*



Source: Morningstar. Figures to 31 October 2026. Returns in unhedged sterling terms except high yield bonds which are hedged. EM bonds are 50% local currency denominated, and 50% US dollar denominated bonds.

Technology stocks fell sharply in October as investors questioned the returns from rapidly rising AI investment

Democratic victories in both houses of Congress increase the prospect of political gridlock

Political uncertainty in the US could limit further fiscal expansion and provide support for US Treasury bonds

The AI rally comes under pressure

October saw some of the air escape from the AI-led stock market rally. The pressure was relatively concentrated in the Technology sector, which fell almost 10% over the month. By contrast, defensive sectors such as Utilities, Consumer Staples and Health Care all generated positive returns.

The catalyst was earnings reports from some of the largest US technology firms, which prompted investors to question the economics of the AI investment boom. Companies such as Meta, Alphabet and Amazon continue to increase spending on AI infrastructure, including data centres and chips. While revenues remain strong, particularly in cloud computing, rising capital expenditure is taking an increasing share of the cash flows generated by some of the world's most profitable businesses.

It is impossible to know whether this marks the beginning of the end of the AI investment story or simply a bump in the road. Technological revolutions evolve as they mature. We expect more of the economic benefits to eventually shift from the companies building the infrastructure to those using the technology most effectively. This reinforces our focus on retaining region and style diversification within our equity portfolios.

US mid-terms point to gridlock in Washington

Following the mid-terms, the Technology sell-off accelerated, please read here for more.

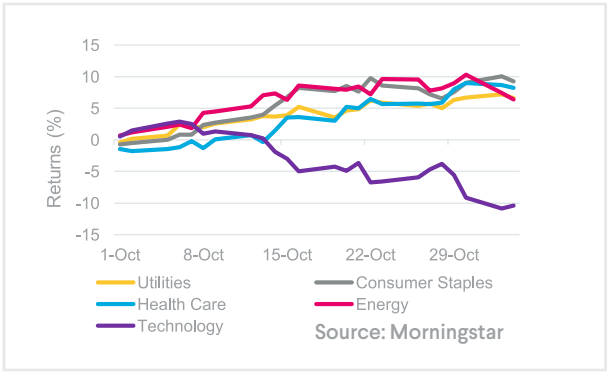
The US mid-terms delivered a significant setback to President Trump's political standing, particularly domestically. As widely expected, the Democrats took the House of Representatives, the chamber of Congress which has the greatest influence over fiscal policy. Importantly, the Democrats also gained control of the Senate, where the outcome had been less certain ahead of the vote.

For markets, the most immediate consequence is likely to be political gridlock. With Congress under Democratic control but Trump remaining in the White House, passing major new tax and spending legislation will become considerably more difficult. This reduces the prospect of another large fiscal package similar to the 'One Big Beautiful Bill,' potentially implying a more restrained fiscal outlook which could, in turn, provide some support for US Treasury bonds.

Chart of the month

Technology has fallen, but other sectors have picked up the baton

This chart shows the returns across different global equity sectors in October.



Key takeaways

- October's sell-off was more selective than broad-based, with clear differences in sector performance
- While Technology stocks fell sharply, defensive sectors including Health Care, Consumer Staples and Utilities (as well as Energy) continued to make gains
- This highlights the rotation taking place beneath the surface of the market.

There could also be implications for the AI investment boom. The construction of large data centres has become a politically contentious topic in the US, with some candidates campaigning for greater restrictions or scrutiny of new developments. Read more about the market reaction to the US mid-terms here.

Annual market summary: covering the 12 months to 30 September 2026

12m > 30 Sep

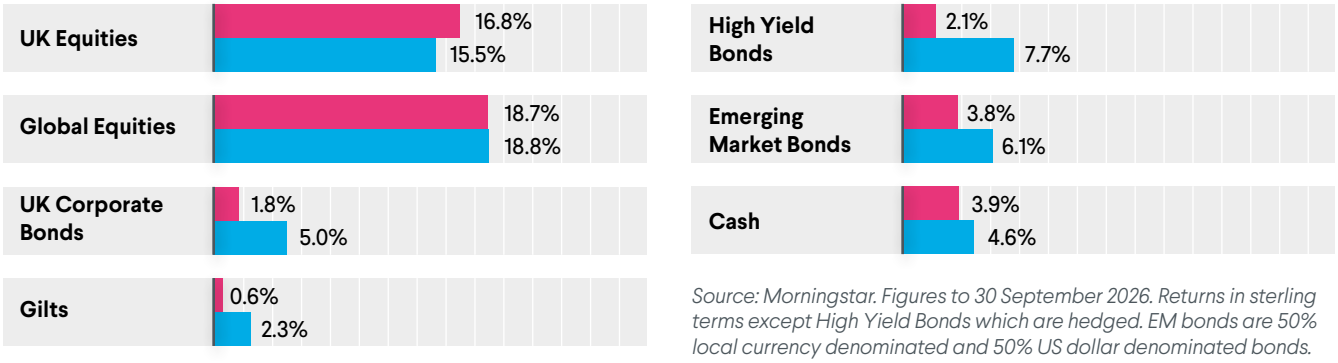
Global equities delivered positive returns despite geopolitical tensions and periods of market volatility

Interest rate expectations shifted as higher energy prices increased concerns over inflation

Bond markets delivered modest positive returns, with corporate bonds outperforming government bonds

Our model portfolios invest in a combination of asset classes shown in this chart

This chart shows percentage asset class returns for the 12 months ending 30 September 2026 versus the three years ending 30 September 2026. 1 year 3 years (p.a.)



Source: Morningstar. Figures to 30 September 2026. Returns in sterling terms except High Yield Bonds which are hedged. EM bonds are 50% local currency denominated and 50% US dollar denominated bonds.

Markets remain resilient

The period began with concerns around high technology sector valuations and the level of AI spending, but equity performance remained strong.

These trends continued into 2026, until the US and Israel's attacks on Iran at the end of February triggered a sharp fall in global equities, ending the first quarter of 2026 in negative territory. Global equities rebounded in the second quarter as resilient corporate earnings and renewed optimism around AI returned, following strong semiconductor manufacturers' earnings and hopes of progress in the Middle East.

Equities also performed well in the third quarter. Despite limited progress in the Middle East, strong economic data and corporate earnings growth continued to provide support.

Central bank policy developments

In the final quarter of 2025, the Bank of England and Federal Reserve both cut interest rates by 0.25% to 3.75%. Both central banks then paused further cuts in the first half of 2026, as the escalating conflict in the Middle East raised concerns about inflation.

In September 2026, the Federal Reserve raised rates by 0.25% to 4.00%. Higher oil and gas prices have increased expectations of further rate rises, including from the Bank of England.

Equity market performance

Despite periods of volatility driven by geopolitical events, global equities delivered positive returns over the 12 months to 30 September 2026. Asia Pacific ex Japan and Japan were the strongest-performing regions, supported by significant exposure to technology stocks, particularly semiconductor companies.

Fixed income and credit markets

Bond markets also delivered positive returns, although gains were more modest than those from equities. Gilt returns were positive despite yields rising over the period (bond prices fall as yields rise). Political uncertainty in the UK and conflict in the Middle East pushed yields higher over 2026, but bond income helped offset the price falls, resulting in a slightly positive performance.

Corporate bonds outperformed government bonds, supported by strong earnings growth. High-yield and emerging market bonds also delivered positive 12-month returns, despite credit spreads (the additional yield received on corporate over government bonds) rising over the period (bond prices fall as spreads rise) as the income on bonds offset the fall in capital values.

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