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CAPITAL MARKETS
MONTHLY



CHARLES
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HEAD OF PORTFOLIO
MANAGEMENT

Solid Performance from Global Bonds

The ICE Bank of America US Treasury Index returned 0.6% in October, bringing year-to-date gains to 6.1%. We continue to remain constructive on the outlook for US Treasuries with the prospect of lower yields ahead. As expected, at its October meeting, the Federal Reserve delivered a 0.25% rate cut, following the move in September. The FOMC statement again cited a softer labour market and a rising unemployment rate. However, in his post-meeting remarks, Chair Powell surprised markets by cautioning that a further cut in December was not a foregone conclusion, despite futures pricing having fully discounted another easing move. While Fed funds futures continue to imply a gradual path of policy easing, ongoing weakness in employment could still prompt the Fed to cut more aggressively than currently signalled. The inflationary effects of earlier tariff measures have proved largely transitory, with underlying inflation expected to trend toward the Fed’s target over time. Political pressure, particularly from Trump, continues to tilt the balance toward lower short-term rates as the Fed seeks to fulfil its dual mandate of maximum employment and price stability. There is a growing consensus that the Federal Reserve is likely to end its quantitative tightening programme in early 2026. The balance sheet reduction has already slowed as the Fed seeks to manage reserve levels carefully and avoid renewed stress in money markets. With policy rates now on an easing trajectory and liquidity conditions tightening at the margin, a cessation of QT would represent a logical recalibration aimed at preserving financial stability while maintaining control over short-term rates. Such a move would mark the transition from quantitative restraint toward a more neutral balance sheet policy, consistent with the broader shift in the Fed’s monetary stance.

UK Gilts performed very strongly in October, with the ICE Bank of America UK Gilts All Stocks Index gaining 2.7%, bringing year-to-date returns to 4.7%. The rally reflected growing confidence that the Bank of England could begin easing policy before year-end, with markets now assigning a material probability of a rate cut at the upcoming MPC meeting on 6 November. Recent softer activity data have underlined the UK’s economic fragility, while the prospect of additional tax increases later this year remains a headwind to GDP. The forthcoming 26 November budget is expected to be difficult for the Labour government, given a financing gap of roughly £30 billion. Tax rises appear unavoidable, and welfare reforms offer limited scope for significant expenditure restraint. Fiscal policy will need to remain acutely sensitive to its impact on Gilt yields. The strong performance of Gilts last month suggests increased confidence on a positive outcome at the November budget.

European government bonds posted solid gains in October, supported by declining core yields and improving risk sentiment across the region. The spread between French and German sovereign bonds has not only stabilised but also narrowed modestly, reflecting reduced political risk and greater confidence in France’s fiscal trajectory. Peripheral markets benefited from similar dynamics, as investors responded to signs of easing inflation and a more dovish tone from the ECB. Overall, the combination of anchored inflation expectations and contained sovereign risk premiums continues to underpin a constructive outlook for European government debt. The ECB’s June rate cut may prove to have been the last of the cycle, leaving investors cautious about further policy support. Futures markets currently imply only 0.01% of additional cuts by year-end—consistent with a 5% probability of further easing in Q4.

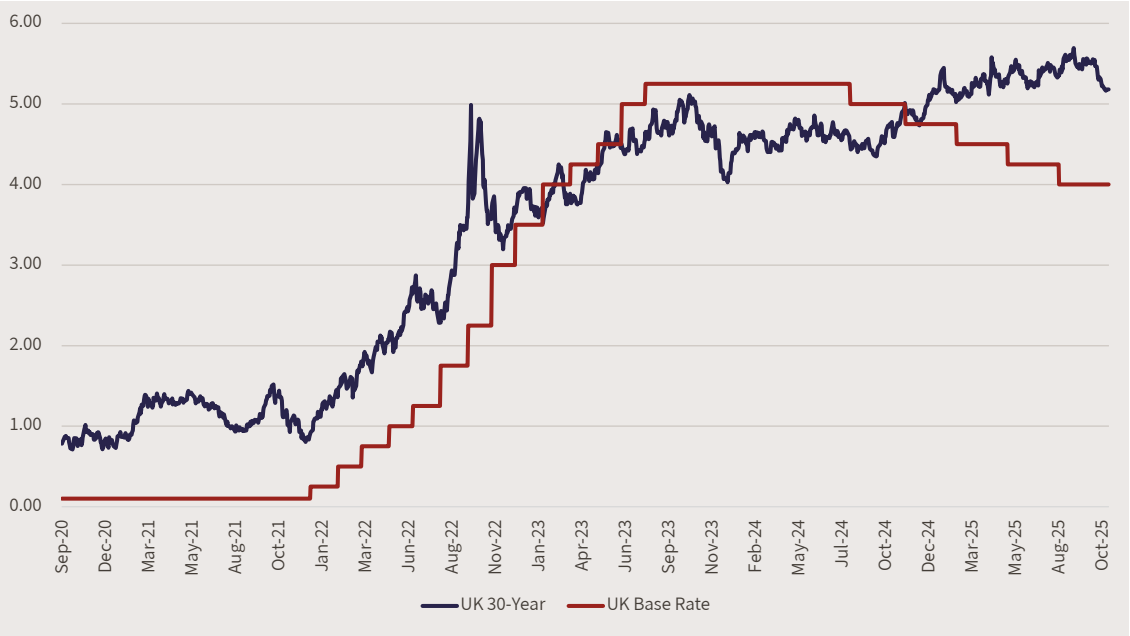
Japanese government bonds were relatively stable in October, as modest gains were tempered by political uncertainty following the recent change of government. The leadership transition has introduced an element of policy ambiguity, particularly regarding the future direction of fiscal support and potential coordination with the Bank of Japan. While inflation remains contained and monetary policy accommodative, investors are wary that shifts in political priorities could complicate the bond market outlook. Overall, JGBs continue to benefit from strong domestic demand and low global yields, but the evolving policy backdrop warrants close attention.

Chinese government bonds performed strongly in October, with yields declining across the curve as investors responded to easing inflation pressures and supportive policy signals. The market was further buoyed by positive developments in trade negotiations with the United States, which helped improve overall sentiment toward Chinese assets and reduced external risk premia. Softer domestic growth data continued to reinforce expectations of targeted fiscal and monetary support, while the renminbi remained broadly stable. Against this backdrop, Chinese government bonds maintained their appeal as a defensive allocation, supported by relatively attractive real yields and low correlation with global fixed income markets.

Emerging Market bonds delivered very strong performance in October, supported by narrowing sovereign spreads and a more favourable global rate backdrop. Investor risk appetite improved as US treasury yields stabilised and inflation pressures moderated across several EM economies. Positive developments in Argentina, including progress on fiscal consolidation and improved dialogue with international creditors, further buoyed sentiment toward high-beta sovereigns. Overall, the combination of tighter spreads, stronger fundamentals, and renewed confidence in select reform stories has reinforced the constructive outlook for EM debt.

The following chart shows the yield of the benchmark 30-year UK Gilt versus the Bank of England Base Rate. There is now a significant yield compensation for holding longer term Gilts versus cash rates.

UK 30-year Gilt Yield and Bank of England Base Rate



Source: Bloomberg Finance L.P., 31 October 2025.



SLAWOMIR
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HEAD OF FIXED INCOME

The Fed and Geopolitics Support U.S. Dollar Recovery

October proved to be a positive month for U.S. dollar valuations, as a combination of factors provided solid upward momentum for the U.S. Dollar Index (DXY).

From a technical perspective, the DXY managed to break above its 50-day and 100-day moving averages, which had capped its trajectory over the summer months. The index opened October at 97.80 and quickly surpassed these key levels — a relatively easy move, as both averages had converged within just 0.30 points above the starting level.

This breakout in the first few trading days triggered a strong upside move, pushing the index to 99.60 — a key resistance area defined by the 23.6% Fibonacci retracement level. The DXY tested this zone several times in the second week but failed to break through convincingly. As a result, the earlier positive momentum faded, and the index retreated toward the 50-day and 100-day moving averages near 98.00. After finding support there, the DXY traded sideways for several sessions.

In the final days of the month, new developments reignited a bullish tone for the dollar. In Japan, the appointment of a new Prime Minister was interpreted as a dovish signal for the Bank of Japan. In the U.S., the Fed’s rate cut was perceived as hawkish, leading markets to question the likelihood of a December cut that had been almost fully priced in. Meanwhile, in Europe, France’s credit rating concerns and mixed economic data revived expectations that the ECB might ease policy further.

Year-end positioning among hedge funds also contributed to the renewed dollar strength, helping the DXY close October at 99.80 — above the key Fibonacci resistance level, a price last seen in early August.

Within the G10 currency bloc, the Japanese yen (JPY) was the clear underperformer, closing the month 4% lower. Domestic political developments, combined with strong global risk appetite (historically negatively correlated with the yen), were key drivers of its weakness. The technical breakout of USD/JPY above the 150.00 resistance level further amplified selling pressure.

The euro (EUR) managed to hold above its key support level of 1.1520, while the British pound (GBP) was the second-worst performer in the bloc. Sterling came under pressure amid concerns over the upcoming budget announcement in November and its potential implications for the U.K. economy.

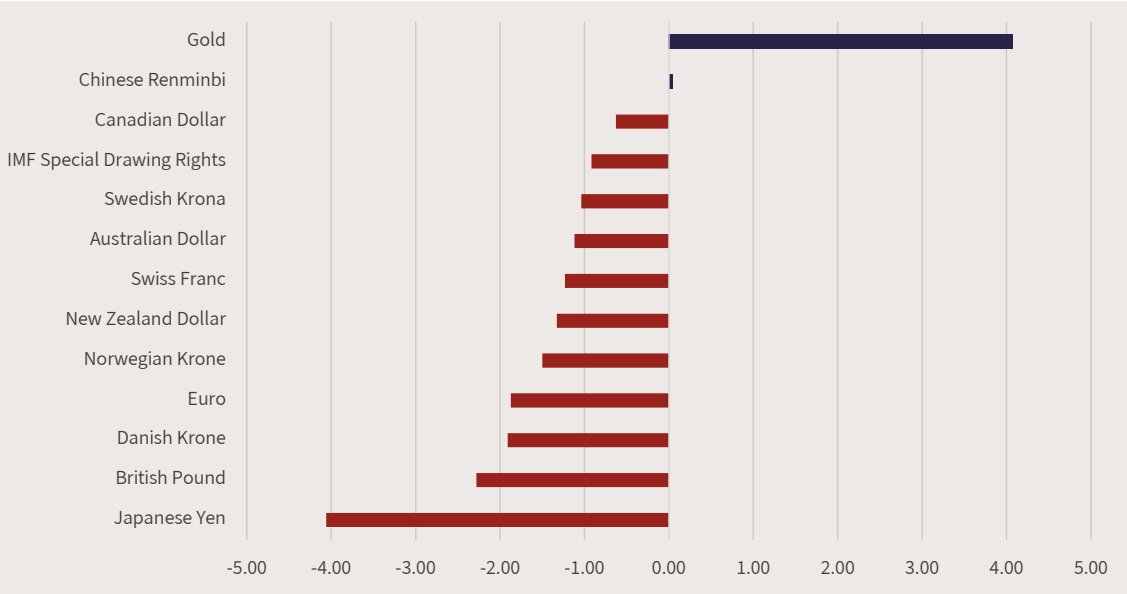
The Chinese renminbi (CNY) was the only major currency to maintain its value against the dollar during October.

Gold, once again, stood out as the clear winner, gaining 4% during the month. (For detailed performance figures, please refer to the table below.)

Looking ahead, with no Fed meeting scheduled this month, markets are likely to focus closely on upcoming economic data releases, which now appear to be the key determinant for the Fed’s December decision. Technical levels in several G10 pairs — particularly USD/JPY — will remain central to traders’ strategies.

From our perspective, we continue to believe that the risks for the U.S. dollar remain tilted to the downside, especially as speculation grows around potential candidates for the next Fed Chair — an additional source of uncertainty for the currency.

October performance vs. USD (%)



Source: CAIM, 31 October 2025.



SIMON PRICE
SENIOR EQUITY FUND
MANAGER



United States

October momentum aided by positive corporate earnings

U.S. equities reached new highs in October, supported by a constructive shift in U.S.-China trade relations, where initial consensus on key issues helped ease tensions and removed the immediate risk of escalation heading into November. Corporate earnings for the third quarter have so far exceeded expectations, with strong results across sectors and upward revisions to fourth-quarter guidance, reinforcing investor confidence. AI remains pivotal with further corporate activity, especially from Nvidia and OpenAI who unveiled a flurry of new partnerships. Softer CPI assisted the Fed in delivering a 25bp cut at the October meeting, however, Chair Powell’s comments pushed back against the notion that a December rate cut was a foregone conclusion.

Regarding monetary policy, as expected the Fed lowered the target range for the fed funds rate by 25bp to 3.75-4.0%, retaining its easing bias. However, dissents in opposite directions indicate the divisions within the Committee, with Schmid newly dissented in favour of no change in the target range, while Miran repeated his dissent in favour a 50bp cut. There was a hawkish element, as Chair Powell said that a “further reduction in the policy rate at the December meeting is not a foregone conclusion, far from it”. The Committee decided to end the reduction of the balance sheet on December 1, slightly earlier than market consensus.

In the macro backdrop, the ongoing government shutdown significantly disrupted the flow of economic data, most notably resulting in the absence of the Bureau of Labor Statistics’ monthly employment report. In its absence, the ADP private payrolls report took on greater importance but disappointed, raising concerns that the next official jobs report, whenever released, may also underwhelm. Fortunately, the CPI report was published, owing to its critical role in calculating the annual cost-of-living adjustment (COLA) for federal programs. The data showed a lower-than-expected headline and core CPI, largely driven by softness in owner-equivalent rents, which supported the Federal Reserve’s decision to cut rates by 25 basis points. However, there were pockets of concern, particularly in tariff-affected goods categories, where price pressures persisted. This mixed inflation picture, combined with the lack of labour market clarity, added complexity to the Fed’s policy outlook.

At this stage of the third-quarter earnings season, the S&P 500 is delivering strong results, both in terms of the proportion of companies beating earnings expectations and the magnitude of those surprises. Financials have been a key focus, with large money centre banks outperforming regional lenders amid headlines of bad loans at Zions Bancorp and Western Alliance, following recent failures at Tricolor Holdings and First Brands. The dominant themes in bank earnings include modest growth in net interest income and loan volumes, alongside strong investment banking and solid trading revenues. Among the “Magnificent Seven,” most have reported, with mixed market reactions: Alphabet beat expectations on search and ad revenue; Meta declined due to a one-time tax charge and unrealised expenses; Microsoft saw a lower-than-expected revenue surprise. Apple saw strong momentum from the iPhone 17, while Amazon surprised with its fastest AWS growth in 11 quarters and Tesla beat on revenue but disappointed on profits due to rising operating costs. A clear takeaway across the hyperscalers was their unwavering commitment to AI investment, with all four raising capex guidance for 2025 and projecting significantly higher capex growth in 2026 to meet surging infrastructure demand.

U.S. equities posted positive results in the month, but market depth declined. Interestingly the equal-weighted S&P posted its first monthly decline since the Liberation Day turmoil in April, while we saw one of the narrowest SPX one day rallies on record, with the lowest reading of advancers vs decliners. The technology sector led the rally, driven by robust performance from AI-linked firms such as Nvidia and OpenAI, which announced a series of new strategic partnerships. Communication services and consumer discretionary also posted solid gains, reflecting strength in digital advertising and resilient consumer demand. Financials were a laggard as US regional banks saw selling pressure on concerns around private credit.



Europe

Encouraging macro provide hopes to earnings upgrades

European equities posted modest gains in October, supported by encouraging macroeconomic data and a stabilising policy outlook. Final manufacturing PMIs showed resilience, and Euro Area inflation came in line with expectations, easing concerns over a potential hawkish pivot by the ECB. As anticipated, the ECB left rates unchanged, with President Lagarde reiterating that the central bank is “in a good place” and noting that downside risks to growth have eased. Political stability in France also aided sentiment, with the reappointment of Lecornu as Prime Minister and his survival of two no-confidence votes helping reduce geopolitical risk.

Sector-wise, AI-related trades continued to perform well, particularly Utilities, which benefited from expectations of rising power demand. Corporate earnings were a key driver, with Luxury stocks advancing on strong results from LVMH and Kering, while French banks lagged, with BNP disappointing on Q3 earnings and concerns over a proposed buyback tax weighing on the sector.



Developed Asia

“Sanaenomics”, a catalyst for change

Asian equities saw mixed performance with Hong Kong consolidating on early US-China trade tensions, which later calm down at month-end, while a lack of policy priority given to consumption by the 4th plenum disappointed and we saw profit taking pre-earnings announcements.

Japan, however, saw further gains on swift conclusion to the LDP election and coalition deal with the Japan Innovation Party, as Sanae Takaichi became Japan’s first female prime minister. Her pro-stimulus, including accelerated defense spending and growth strategies for advanced industries like AI and robotics and swift implementation of inflation countermeasures were deemed market positive. The perceived strengthening of Japan-US relations was also taken well by markets.



Emerging markets

Emerging market equities continued their advance as positive trade developments, including US and China who agreed a one-year trade truce. The continued gains in AI, from earnings and new partnerships, SK Hynix to supply chips to the artificial intelligence leader OpenAI were positives especially for Korea and Taiwan equity markets.

Regionally, EM Asia outperformed with EM Europe and EM Latam consolidating in USD terms.

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