CAIM CROWN AGENTS INVESTMENT MANAGEMENT

Capital Markets Monthly
FIXED INCOME

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Strong Rally in Global Bonds as Rate Hike Expectations Scaled back

In October 2026, U.S. Treasury markets rallied strongly, with yields falling significantly across the curve as investors reacted to a softer-than-expected employment report and growing expectations that economic momentum may be moderating. While inflation surprised to the upside, with CPI rising from 3.4% to 3.7%, the bond market largely looked through the near-term inflation pressure, focusing instead on signs of a cooling labour market and the prospect of a more accommodative policy outlook. Economic data sent mixed signals, however, as consumer confidence remained exceptionally strong, highlighting the continued resilience of household spending and suggesting that recession risks remain limited. Looking ahead, investor attention is increasingly turning to the upcoming U.S. midterm elections, where current polling and political trends point to a potentially strong outcome for Democrats, a development that could influence expectations for fiscal policy and Treasury supply dynamics in 2027. We have significantly pared back our expectations for additional policy tightening. Beyond a final 25 basis point rate hike in December, we expect the Federal Reserve to keep rates unchanged throughout 2027 as growth moderates and inflation gradually returns towards target.

UK gilts delivered mixed performance in October 2026, with the yield curve flattening as short-dated yields rose while longer-dated yields declined. Front-end yields moved higher as investors increasingly priced in further monetary tightening, with inflation remaining uncomfortably elevated and markets assigning a high probability to a Bank of England rate hike at the 5 November MPC meeting. In contrast, longer-maturity gilts benefited from expectations of weaker economic growth and a more limited policy path beyond the near term, resulting in lower long-end yields and a flatter curve overall. Attention also focused on the 28 October Budget, which proved largely uneventful from a gilt market perspective. The absence of significant fiscal surprises or additional borrowing requirements was well received by investors, helping to support longer-dated bonds. As a result, the month was characterised by a flattening of the curve, with fiscal stability underpinning the market while expectations of imminent monetary tightening weighed on short-maturity gilts.

European government bonds experienced a divergent month in October 2026, driven largely by developments in France. Concerns over France's deteriorating fiscal position and the prospect of rising government borrowing requirements weighed heavily on French sovereign debt, leading to a significant widening of OAT-Bund spreads as investors demanded greater compensation for holding French risk relative to German government bonds. The move reflected growing unease over the sustainability of France's public finances and the potential implications for its sovereign credit profile. However, sentiment improved markedly towards month-end following Moody's decision to leave France's sovereign rating unchanged, surprising many market participants who had feared a downgrade. The rating affirmation helped alleviate immediate fiscal concerns and triggered a recovery in French government bonds, with OATs outperforming core European markets as spreads versus Bunds narrowed from their widest levels. As a result, while fiscal concerns remained a key theme, the month ended with a partial reversal of the earlier underperformance in French sovereign debt.

Japanese government bonds rallied strongly in October 2026, with gains led by the long end of the curve as investors increasingly looked beyond near-term policy normalisation and focused on a more benign inflation and growth outlook. Long-dated JGB yields declined by around 30 basis points during the month, significantly outperforming shorter maturities and reinforcing the attractiveness of Japan's still-steep yield curve. In our view, the curve continues to offer compelling value, particularly at longer maturities where term premia remain elevated relative to the likely trajectory of interest rates. We also remain bullish on the Japanese yen, which offers an attractive asymmetric return profile. While further appreciation could be supported by narrowing interest-rate differentials and any repatriation of overseas capital, downside risks appear more limited, not least because renewed yen weakness would increase the likelihood of policy intervention by Japanese authorities. As a result, we continue to view both long-duration JGB exposure and the yen favourably within a global fixed-income portfolio.

Chinese government bonds were broadly stable in October 2026, with yields moving only modestly lower across the curve as subdued domestic inflation and accommodative policy expectations continued to support the market. Returns were driven primarily by carry rather than significant capital appreciation, with yield movements remaining relatively contained compared with other major government bond markets. The renminbi strengthened further against the US dollar during the month, extending its recent recovery and providing an additional source of return for unhedged investors. Chinese government bonds continue to offer valuable diversification benefits within a global fixed-income portfolio, reflecting their relatively low correlation with developed-market interest rates and distinct domestic policy cycle. While we remain constructive on the asset class from a portfolio diversification perspective, the scope for substantial capital gains, particularly at the short end of the curve, remains limited given already low yield levels. As such, the principal attraction of short-dated Chinese government bonds continues to be their defensive characteristics and diversification benefits rather than expectations of meaningful price appreciation.

Emerging market debt delivered positive returns in October 2026, benefiting from the sharp rally in US Treasuries as declining developed-market yields provided a supportive backdrop for hard-currency sovereign debt. The fall in US yields generated meaningful duration gains, more than offsetting generally stable credit spreads, while the asset class continued to benefit from its attractive carry profile. Local-currency debt also performed well, supported by lower domestic bond yields in several markets and a generally more favourable environment for emerging market currencies as the US dollar weakened. Performance was broad-based, with both sovereign and corporate segments contributing positively. While credit spreads remain relatively tight by historical standards, the combination of elevated all-in yields, improving global liquidity conditions and a less challenging US rates environment continues to support the asset class. We remain constructive on emerging market debt, particularly in countries with credible policy frameworks and attractive real yields, where investors can continue to benefit from both carry and the potential for capital appreciation should global rates remain on a declining trajectory.

The following chart shows the 2-year US Treasury yield, which declined 30bp in October 2026

2-Year US Treasury Yield



Source: Bloomberg Finance L.P., 31 October 2026.

CAIM CROWN AGENTS INVESTMENT MANAGEMENT



Capital Markets Monthly
FOREIGN EXCHANGE

November 2026

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Consensus Trades Meet Harsh Market Reality in October

The dominant macroeconomic drivers in October were central bank policy, a rapidly deteriorating appetite for risk assets, and increasing demand for liquidity. Both the Federal Reserve and the European Central Bank left interest rates unchanged, while keeping the door open to a potential rate hike at their December meetings amid elevated energy prices and persistent inflation concerns. In contrast, the Bank of Canada raised rates by 25 basis points, narrowing the policy rate gap with other major central banks.

Global financial flows deteriorated rapidly during the month, particularly within the AI-related equity sector and the high-yield credit market, where spreads showed signs of acute stress. Such an environment would typically be supportive of traditional safe-haven assets. While some experienced strong inflows, government bonds, particularly U.S. Treasuries, recovered all of their September underperformance. Others, however, failed to benefit. Precious metals delivered a disappointing performance, with both gold and silver retreating to levels not seen for several months.

In the foreign exchange market, several unusual trading patterns emerged. From the perspective of the U.S. Dollar Index (DXY), October proved to be another successful month. The index gained 0.4%, closing at 101.88, a level last seen before President Trump's tariff announcement in March 2025.

The euro was the primary contributor to the DXY's strength. The ECB's decision to leave rates unchanged pushed the single currency to a 17-month low, although it remained above the key support level at $1.1100. The euro was the worst-performing G10 currency in October, declining 1.6% against the U.S. dollar.

As for the Japanese yen, the DXY's second-largest component, it finished the month as the third-worst-performing G10 currency, losing 0.18% against the dollar. Nevertheless, from a broader G10 perspective, October was a mixed month for the U.S. dollar. The greenback depreciated against seven G10 currencies, losing nearly 0.8% versus the Chinese renminbi and almost 1.0% against the British pound.

The U.S. dollar performed particularly poorly against commodity-linked currencies. The Australian dollar advanced 1.2%, the Canadian dollar gained 1.7%, and the Norwegian krone surged 4.4%. This exceptional performance was largely driven by rising energy prices, particularly natural gas. It appears that global investors preferred exposure through proxy assets rather than direct commodity holdings, providing additional support for the Norwegian krone throughout October.

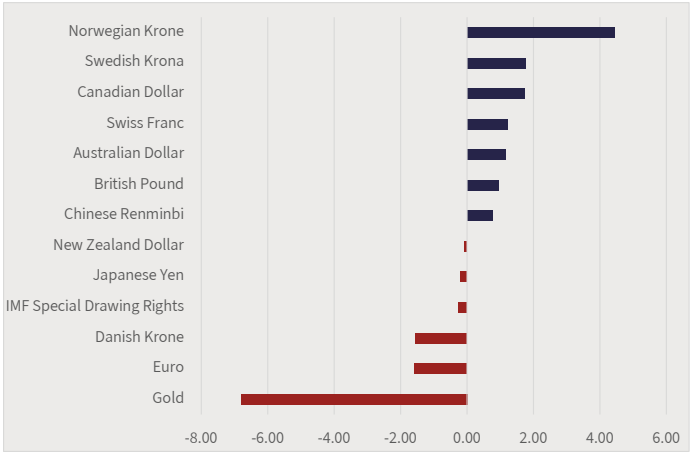
Looking ahead, geopolitical developments and the upcoming U.S. midterm elections are likely to play a key role in shaping the market landscape. Should the trends observed in October persist, diversification flows are expected to re-emerge. Greater political and economic stability in Europe could help ease pressure on battered bond markets, particularly in France, providing support for the euro.

However, for EUR/USD to decisively shake off downside risks, the pair will need to break above the key resistance level at 1.1350. Such a move would also be supportive of GBP/USD, where a decisive break above the major trendline around 1.3450 is required to generate sufficient upside momentum and open the way for a test of 1.3600.

As for the Japanese yen, USD/JPY must break below 157.00 to build enough bearish momentum and pave the way toward the 154.00 level.

More broadly, investors remain cautious, and elevated uncertainty is likely to keep foreign-exchange volatility at relatively high levels in the weeks ahead.

October performance vs. USD (%



Source: CAIM, 31 October 2026.

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Capital Markets Monthly
EQUITIES

November 2026

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United States

Strong rotation but limited retreat

U.S. equities were increasingly driven by the AI trade, which overtook France and energy as the main source of market volatility. Weakness in semiconductors broadened into concerns over whether substantial AI infrastructure spending would generate sufficient returns. Inflation also surprised to the upside, with broad-based strength reinforcing concerns over persistent price pressures.

The FOMC left rates unchanged at 3.75%-4.00%, as expected, though two members dissented in favour of a 25bp hike. The Committee upgraded its assessment of growth to "strong" and noted persistent inflation, while Chair Warsh's comments reinforced expectations for another rate increase before year-end. While acknowledging that economic conditions had tightened, Chair Warsh reiterated that he was "unable and unwilling to call them tight". Separately, Warsh also outlined plans to devote one of the eight annual FOMC meetings to strategy discussions from 2027, rising to two strategy meetings per year from 2028.

U.S. economic data remained resilient despite a weaker-than-expected September payrolls report, with broader labour market indicators, including unemployment, participation and underemployment, pointing to continued stability. Recent jobless claims data also suggest labour market conditions remain robust. Inflation surprised to the upside, strengthening expectations of further Fed tightening. While higher energy prices contributed to the increase, stronger-than-expected core inflation and broad-based price pressures indicated that inflation remains persistent beyond the energy sector.

Corporate earnings remained a key support for equities, although investors increasingly questioned whether strong profit growth could be sustained. Banks had a mixed start to the earnings season, with several reporting weaker-than-expected trading revenues, particularly in fixed income. However, earnings expectations for both Financials and the broader S&P 500 continued to move higher. Importantly, large U.S. banks reported that consumer fundamentals remain healthy, supported by solid income growth and contained credit losses. JPMorgan, Goldman Sachs and Citi all saw shares fall following results, despite generally resilient underlying business trends.

The hyperscalers remained at the centre of the AI debate, with investors increasingly focused on whether rising capital expenditure will generate adequate returns. Meta initially rallied after beating earnings and revenue expectations and raising its 2026 capex range, but later reversed as spending plans came under greater scrutiny. Microsoft delivered strong results, driven by Azure growth and robust AI demand, while guidance also exceeded expectations. In contrast, Alphabet disappointed on earnings and revenue despite strong cloud growth, fuelling concerns over execution and contributing to its sharp share price decline. Amazon's results highlighted a similar tension, with solid cloud growth overshadowed by a significant increase in capital expenditure, doing little to alleviate investor concerns around escalating AI-related spending.

US equity markets adopted a more defensive tone as higher oil prices raised concerns over the growth and inflation outlook, while higher interest rates and wider credit spreads prompted questions about the sustainability of the AI-driven capital expenditure cycle. This shift in sentiment supported traditionally defensive sectors such as consumer staples, utilities and healthcare, alongside energy, which benefited from stronger commodity prices. Meanwhile, communication services and technology underperformed as investors subjected the AI investment theme to greater scrutiny, focusing on stretched valuations, rising funding requirements, intensifying competition, regulatory risks and the pace at which AI-related revenues can be monetised.



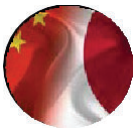
Europe

Equities benefit from the defensive rotation trade

European equities posted modest gains despite rising concerns over stagflation, weakening growth and France's fiscal outlook. While Moody's decision to maintain France's Aa3 sovereign credit rating provided some reassurance, this was partially offset by Fitch's move to revise its outlook on French sovereign debt to negative.

The ECB left rates unchanged at 2.50%, as expected, with President Christine Lagarde signalling that the "direction of travel" remains towards a further rate hike in December. Markets also digested news that Lagarde plans to step down on 7 February. While her departure had long been expected, the timing had not previously been known.

Corporate earnings have remained resilient, with results broadly exceeding expectations. While the energy sector continues to be the largest contributor to earnings growth, performance has been strong across the market, with eight of the remaining ten sectors delivering double-digit earnings growth. Market leadership shifted towards defensive sectors, with pharmaceuticals, consumer staples and utilities outperforming. In contrast, cyclical sectors, including financials, lagged amid concerns over French fiscal and credit stresses, while information technology underperformed as investors questioned the sustainability of AI-related spending and growth expectations.



Developed Asia

AI narrative questioning sees selling pressures

Developed Asia markets saw declines as investors increasingly questioned the global AI narrative amid decelerating ARR growth, elevated earnings expectations, limited free-cash-flow generation and rising financing needs. Risk aversion increased amid heightened tensions in the Middle Eastern and rising crude oil prices. The AI monetisation concerns led to a rotation out of AI semiconductor stocks and overseas demand-driven cyclicals into domestic demand-driven defensives, high-dividend, low-volatility, and quality stocks.

Emerging Markets



Emerging market equities saw substantial declines in October, the worst monthly performance since March, significantly underperforming their global developed counterparts.

Regional performance was mixed. EM Asia was the worst performing region, with the US earnings season highlighting AI monetisation risk, especially for the negative FCF hyperscalers, which saw contagion to EM tech, despite upbeat 2027 capex trends. Latam was hindered more by the surprising victory of the incumbent in Brazil's presidential elections against both polling and prediction markets pricing, prompting a sharp negative market reaction. CEEMEA was relatively the most resilient though still negative over the month.

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