Atchison

October 2026

Monthly Market Update



Key Events in October 2026

- Global equity returns were mixed as weakness in AI-related technology stocks contrasted with strength across sectors and regions. The world index fell -0.8% in U.S. dollar terms but remained up +11.9% for the year to date.
- The AI spending boom came under greater funding scrutiny: Concerns around heavy AI-related capital expenditure (and the returns on that investment) along with pressure on hyperscaler free cash flow and signs of credit stress among so-called “neocloud” providers weighed on AI-related stocks, with renewed selling in Big Tech driving a sharp rotation into month end.
- U.S. equities diverged sharply; the S&P 500 Index declined modestly -0.9% but remained up +11.7% year to date, while the equal-weight S&P 500 rose +5.0%, marking its biggest outperformance relative to the market-cap-weighted benchmark since April 2009.
- The Nasdaq Composite had its worst month since March 2025, down around -5.3% in U.S. dollar terms, even as earnings from tech bellwethers and global chipmakers pointed to continued strong demand for AI computing capacity.
- Australian shares ended October on a stronger note, with the S&P/ASX 200 rising +1.4% for the month, supported by a broad recovery across nine of the 11 sectors.
- October's performance did however highlight a notable divergence across Australian equities. The strong rebound in financials and defensive sectors helped lift the broader index, even as weakness in resources and technology continued to weigh on sentiment.
- Eurozone equities were mostly higher in October as resilient economic growth and corporate earnings competed with higher energy costs and renewed political and fiscal uncertainty. The Europe ex United Kingdom Index rose +1.6% in local currency terms but declined -0.1% in U.S. dollar terms as the euro weakened. Germany advanced, while France was a notable laggard as fiscal and political concerns weighed on domestic assets, pushing French government bond yields higher and their spread over German bunds to the widest level since the early 2010s.
- Emerging market equities fell sharply in October as AI-related weakness across Asian technology markets, a stronger U.S. dollar, elevated oil prices, and country-specific political risks weighed on returns. The Emerging Markets Index declined -8.0% in U.S. dollar terms but remained up +13.8% year to date. Performance diverged substantially, with India and Mexico advancing while South Korea, Indonesia, Brazil, and Turkey posted steep declines. Performance figures below reference MSCI country indexes reported in U.S. dollar terms.
- October saw several major central banks take a patient approach to further tightening, with policymakers balancing elevated inflation risks against an uncertain growth outlook. While the Fed, ECB, and BoJ left policy unchanged, the Bank of Canada (BoC) became the latest to resume tightening, raising rates for the first time in over three years. Despite the holds elsewhere, further rate increases remain widely anticipated across several major economies before year end.
- Sovereign bonds appeared to regain their safe-haven status: The shift in risk sentiment prompted a defensive rotation that pushed government bond yields lower as traditional flight-to-safety dynamics kicked in. The move marked a sharp contrast from September, when inflation concerns, fiscal uncertainty, and heavy debt issuance sent long-dated bond yields to multi-year highs. Notably, the rate reprieve came despite oil prices marching higher again, with bond yields and crude prices diverging after largely moving in lockstep since June.
- Oil prices continued to rise amid heightened geopolitical tensions and uncertainty surrounding Middle East supply, with Brent crude advancing more than 13% during the month.
- The U.S. Dollar Index rose 0.4%, while the euro weakened against the dollar amid political and fiscal uncertainty in France.
- Gold fell nearly 7% as precious metals failed to benefit from the broader flight to safety.

.

Asset Class Summary

Table 1: Asset Class Returns – Periods to 31st October 2026

	1 Month	3 Months	1 Year	3 Years	5 Years	10 Years
	%	%	%	% pa	% pa	% pa
Australian Shares	1.4	0.4	3.6	13.3	7.9	9.3
Australian Small Companies	-6.5	-4.0	-15.0	9.0	0.0	5.3
International Shares (unhedged)	-2.0	0.4	4.3	18.2	12.1	14.0
International Shares (Hedged)	-0.7	1.0	12.5	21.5	10.3	12.5
Emerging Markets (Unhedged)	-9.1	-5.8	5.5	17.3	7.5	8.1
Australian Property Securities	2.6	-5.2	-9.9	13.6	3.2	6.6
Global Property Securities (Hedged)	2.6	-6.0	8.1	11.4	-0.6	
Global Listed Infrastructure (Hedged)	8.0	-0.1	13.5	16.1		
Australian Bonds	1.1	0.0	0.3	4.5	0.9	1.6
Global Bonds (hedged)	1.9	0.0	-0.3	4.2	-0.9	
Cash	0.4	1.1	4.2	4.3	3.5	
AUD/USD	0.90%	0.7040				

Past performance is not a reliable indicator of future performance.
Source: iShares Core S&P/ASX 200 ETF, iShares S&P/ASX Small Ordinaries ETF, Vanguard International Shares Index, Vanguard MSCI Index Intl Shrs (H) ETF, iShares MSCI Emerging Markets ETF, VanEck Australian Property ETF, VanEck FTSE Intl Prop Hdg ETF, iShares Core FTSE Global Infrastructure (AUD Hedged), iShares Core Composite Bond ETF, Vanguard Global Aggregate Bd Hdg ETF, iShares Core Cash ETF

Australian markets

Australian shares ended October on a stronger note, with the S&P/ASX 200 rising +1.4% for the month to 8,908.1 points, supported by a broad recovery across nine of the 11 sectors.

Financials were among the standout performers, climbing +7.2%, while the ASX 200 Banks Index surged +7.9%, significantly outperforming the broader market. Utilities led the sector gains with a +9.3% jump, followed by health care at +7.1% and consumer discretionary at +5.9%.
However, the recovery was uneven. Materials fell -7.2%, while information technology declined -3.8%. The ASX 200 Resources Index also dropped -6.1%, highlighting continued pressure on mining stocks.

October's performance did however highlight a notable divergence across Australian equities. The strong rebound in financials and defensive sectors helped lift the broader index, even as weakness in resources and technology continued to weigh on sentiment.

During October, a stark and historic performance gap emerged between large-cap and small-cap stocks on the Australian sharemarket. While the top end of the market powered ahead, smaller companies faced intense selling pressure. The S&P/ASX Small Ordinaries Index plunged by -6.5%, widening the annual performance gap against large caps by around 8% in October alone. Micro-caps fared even worse, with the S&P/ASX Emerging Companies Index dropping -9%.

Smaller companies were hit hardest because of:

- The Interest Rate Burden: smaller companies carry significantly more floating-rate bank debt compared to cash-flushed mega-caps.
- Sector Composition: The Small Ordinaries index is heavily weighted toward domestic consumer discretionary, real estate investment trusts (REITs), and early-stage technology or AI-growth stocks. Global "AI funding jitters" and cautious consumer sentiment crushed these sectors.
- The Large-Cap Cushion: Conversely, the large-cap indexes are dominated by the major banks (which historically benefit from wider interest margins in higher-rate environments) and massive, diversified miners that have much larger balance sheet buffers.

Looking ahead, the upcoming RBA policy meeting remains a key wildcard for the ASX recovery.

Global markets

Worldwide stock markets pulled back in October 2026. The major index returning -2.0% (unhedged) and -0.7% (hedged) for the month. A steep retreat in artificial intelligence (AI) hardware and infrastructure stocks fuelled the broad decline. Investors grew increasingly sceptical of technology sector valuations and questioned the long-term funding plans for the massive AI build-out, especially as these expensive capital outlays began spreading to companies without the immense cash reserves of the largest tech firms.

Amid the major repricing of technology and the countries with tech-heavy equity markets, defensive sectors like energy, consumer staples and healthcare showed notable strength globally.

US

The S&P 500 Index lost -0.9% in October. This modest decline did not reveal the major reallocation of capital that occurred beneath the surface during the month. Semiconductor stocks bore heavy losses under this pressure, as they gave back a portion of the massive AI-driven gains they had built up earlier in the year. Industrial shares similarly faltered, dragged down byheavy machinery and capital goods producers as shareholders grew anxious about a potential slowdown or pause in equipment orders from the mega-cap technology firms.

Eurozone

Eurozone equities fell in October with information technology and financials among the weakest sectors. Worries over France's political outlook and borrowing costs weighed on returns for banks while AI-related fears affected IT stocks.

UK

The UK's FTSE All-Share index gained in October, outperforming other major regional benchmarks. The higher weighting in energy and in defensive sectors such as health care, consumer staples and utilities proved positive for UK returns.

.

Emerging Markets (EM)

EM equities posted negative returns in October, ending markedly behind the World Index, in another month of heightened EM volatility. Weak performance from the larger AI-related markets of Korea and Taiwan led EM lower as concerns about AI monetisation continue to surface, while Lula's surprise election victory triggered a sharp sell-off in Brazil.

Asia- ex Japan

The Index dropped by -8.2% in U.S. dollar terms, with highly advanced, tech-dependent export powerhouses taking the hardest hit from the cooling of AI sentiment. South Korea ranked among the region's worst laggards.

Interest rates and bonds

Global bond markets remained volatile in October as three themes dominated: European sovereign stress centred on France; renewed geopolitical and energy risks; and growing doubts over the scale and financing of AI investment. The resulting risk-off move allowed government bonds to regain their traditional diversifier role.

Government bonds experienced a volatile, but ultimately stronger month with yields (which are inverse to price) falling across most major markets. Starting the month close to a multi-decade high, U.S. Treasuries led the rally as concerns over AI increasingly outweighed inflation fears. Strong inflation data complicated the outlook, but the U.S. Federal Reserve held rates at 3.75 - 4.00% as expected, despite two dissenting votes favouring tighter monetary policy.

Australian government bonds rallied in October 2026, their first monthly gain since June. The rally happened even though local inflation news pushed the RBA closer to another rate hike. Credit spreads widened as risk appetite faded.

The Australian 10-year yield closed September at about 5.33% and fell to about 5.1% by 30 October, an eight-week low. That is a drop of roughly 20–25bp, and therefore bond prices rose. Short-dated bonds, which track the cash rate most closely, were held back by this more than the 10-year was. The decline in yields occurred despite expectations of further policy tightening by the RBA.

The RBA's October Financial Stability Review flagged concerns about credit quality and valuations in parts of Australian private credit. However, the RBA saw these mainly as an investor-protection issue, not a threat to the financial system.

U.S. Treasuries led the rally: Around 22–23 October, U.S. Treasuries had their best day in more than two years, and Australian Bonds followed. The 10-year Treasury yield fluctuated near multi-year highs in the 5.20%–5.30% range as resilient macroeconomic indicators forced bond traders to price out near-term rate cuts and subsequently price in the possibility of future rate hikes.

Corporate credit underperformed government bonds, with negative excess returns across U.S. and European markets. High yield underperformed investment grade, with European high yield suffering the largest drawdown as French sovereign concerns, higher energy prices and AI financing risks drove spreads wider.

Currencies and commodity markets AUS/USD

The Australian dollar (AUD) traded in a volatile range against the US dollar (USD) during October, starting the month around 0.6928 USD, climbing to a mid-to-late month peak near 0.7054 USD around October 28, and finishing the month slightly higher at 0.7040 USD.

The S&P GSCI index gained in October, led by the energy component. Oil prices rose amid worries over fresh escalation of the conflict in the Middle East. Iran launched attacks on several tankers passing through the Strait of Hormuz, while investors also weighed the possibility of further US action after the November mid-term elections. Brent crude rose 14% over the month to US$118 per barrel, its highest level since the spring, despite a rise in exports from the Gulf as producers found alternative routes to sustain supply.

Other commodity components registered declines. Precious metals fell, with gold missing out on the rush to perceived "safe haven" assets that saw US Treasuries outperform. Gold declined -7% to US$3,875 per troy ounce as persistent inflation raised the likelihood that interest rates will stay high, increasing the opportunity cost of holding the non-yielding precious metal. Silver fell -19% to US$49 per ounce. The shares of precious metals producers underperformed gold, with the NYSE Arca Gold Miners Index declining -12% in the month. Total known holdings of gold by exchange traded funds, often seen as a proxy for desire to hold the precious metal, were unchanged.

Industrial metals were generally weaker in October, with the prices of iron ore (-2%), nickel (-4%) and aluminium (-3%) all falling. Copper (-2%), often seen as a bellwether for the global economy, also declined, reflecting concern about the impact on economic activity of higher rates, subdued demand in China, and reduced supply risks following progress in labour negotiations at a major copper mine in Chile.

In agriculture, grain prices were weaker partly after the US Department of Agriculture unexpectedly raised its forecasts in the October World Agricultural Supply and Demand Estimates (WASDE) report. Corn (-11%), wheat (-11%) and soybeans (-5%) all fell.

Outlook for Investment Markets

Elevated inflation remains the RBA's overriding concern. Despite falling housing prices, trimmed mean consumer price inflation (a measure of underlying inflation that cuts out extreme price spikes and drops from the standard Consumer Price Index (CPI) basket) remained elevated in the second quarter at 3.6% year over year. Higher oil prices leave near-term inflation risks clearly skewed to the upside, while AI-related data-centre investment is adding a further source of demand and capacity pressure.

More fundamentally, the Australian economy continues to operate beyond its sustainable capacity, with unemployment remaining low by historical standards. Against this backdrop, there is a material risk that above-target inflation becomes embedded in wage- and price-setting behaviour. Preventing such an outcome is arguably a more pressing challenge for the RBA than for many other major central banks.

A high-rate, inflation-led backdrop like this typically pushes Australian markets in the directions below. This is general market analysis, not personal advice.

What does this mean for Australian Bond

- Short end (2–3 year yields): These are anchored to a cash rate of 4.85%, the highest since 2008, so short-dated bonds and term deposits pay well. The 6–3 vote and the "last hike?" debate suggest the cash rate is near its peak. Short yields usually stop rising at that point, and they fall once markets start to expect cuts.
- Long end (10 year): This depends less on the RBA and more on whether markets think inflation is under control. Recent reports suggest the 10-year yield has slipped to around a two-month low since the hike. That fits the market reading November as close to the peak. I couldn't confirm exact levels.
- Curve: The curve is likely flat to inverted, with short rates at or above long rates. In the past that has signalled slower growth ahead.
- The case for bonds: Starting yields are high, and if the economy slows, bond prices gain as yields fall. The main risk is that inflation gets entrenched and the RBA has to hike again, which would hit longer-duration bonds hardest.

What does this mean for Australian Shares

- Valuations: When cash pays around 4.85%, investors want a bigger return from shares, which caps P/E multiples. Long-duration growth stocks (tech, unprofitable growth) are the most sensitive.
- Banks: Mixed. Higher rates help margins, but they also strain borrowers and slow credit growth, and the article points to housing prices already falling.
- REITs, utilities, infrastructure: These "bond proxies" are typically hit by rising yields, but they rally quickly once yields peak.
- Consumer discretionary and retail: Most exposed. Mortgage repayments are rising and real incomes are squeezed.
- Resources and energy: Partly insulated, because earnings depend on global prices and the AUD, not local rates. Higher oil prices help energy names.
- Possible bright spots: Data centres and related infrastructure and utilities, given the AI capex theme Vanguard mentions.

What does this mean for the AUD

A higher-for-longer RBA tends to support the dollar, especially if other central banks are cutting. That trims the AUD value of offshore assets and weighs on exporters.

Overall

The market is betting that the RBA's November rate rise will be the last in this cycle. If inflation cooperates, bonds (especially duration) and rate-sensitive shares have the most upside. If inflation stays sticky, cash, short-dated bonds and resources hold up better.

Atchison

Atchison

Level 1, 33 Cremorne St,
Cremorne

P: (03) 9642 3835
enquiries@atchison.com.au
www.atchison.com.au

ABN: 58 097 703 047
AFSL Number: 230846

To obtain further information,
please contact:

Jake Jodlowski
Principal
P: +61 408 175 036
E: jake@atchison.com.au

Mishan Dahia
Investment Analyst
P: +61 413 340 709
E: mishan@atchison.com.au