

MONTHLY SUMMARY

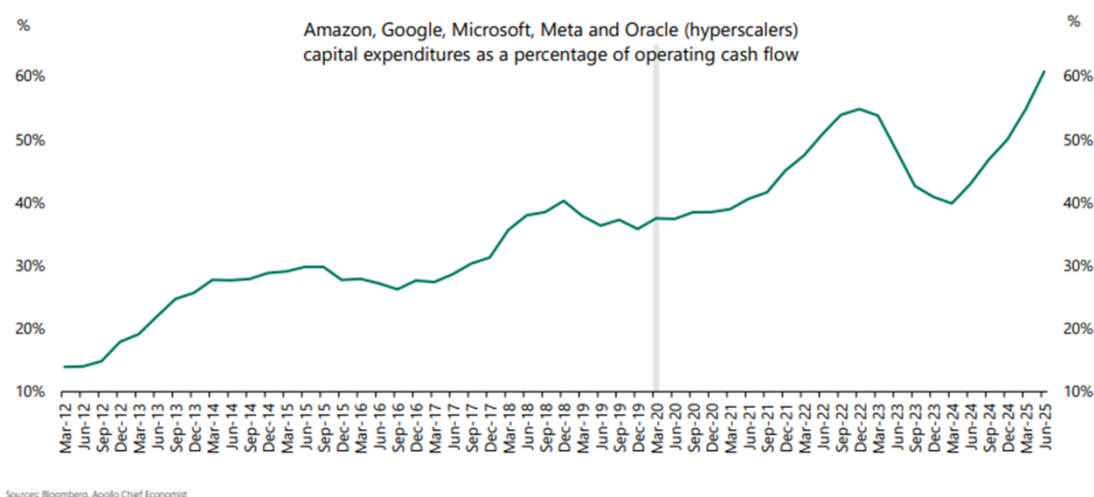
MARKET SUMMARY

- **Global Equities rallied strongly; ASX200 lagged** – In local currency, the ASX200 (0.4%) underperformed global equities (MSCI World) +2.2% (USD terms). The AI theme remained the key driver for global markets with the Mag-7 stocks jumping another 4.9%, while stronger than expected inflation and less rate cuts forecasts weighed on the ASX200. Globally, notable performers included the Japanese Nikkei 225 (+16.7%), Taiwan's Wgt TAIEX (9.3%), US Nasdaq (+4.7%) and UK FTSE (+4%) with easing trade concerns a tailwind. Emerging Markets (+5.3%) outperformed Developed Markets (+2.6%).
- **Japan boosted by the new PM** – Sanae Takaichi became the first female Prime Minister of Japan on 21st October and quickly announced a range of measures to counter inflation and accelerate defense spending. In addition, growth strategies for AI and robotics industries were launched, US-Japanese ties were strengthened and investment deals confirmed. Overall, political changes, slight yen depreciation, ongoing corporate reform, an easing of US-China tensions and resilient US economic conditions bolstered the Japanese equity market.
- **Sector performance; ASX Resources rally on higher commodity prices** – The best performers for the month within the ASX200 were Materials (+4.3%), Energy (+3.7%) and Financials ex property (+1.5%). Resource companies stood out. Among the ASX100, Pilbara Minerals (+31%), Mineral Resources (+17.6%), and South32 (+15.7%) were the best performers. The worst performers were Information Technology (-8.4%), Consumer Discretionary (-6.8%) and Healthcare (-4.8%). IT was impacted by earnings and governance concerns at Wisetech Global, Healthcare fell as CSL downgraded earnings again while Consumer discretionary was hurt by the RBA's hawkish shift. Small caps outperformed large caps in Australia. Globally IT, Healthcare and Utilities were all strong, while REITs, Materials and Financials were soft.
- **ASX Index Contributors** – Taking market capitalisation into account, the key index contributors to the ASX200 included the major banks (ANZ and CBA) and major iron ore names (BHP, RIO and Fortescue). Conversely, stocks that dragged on the market included CSL, Wesfarmers, Wisetech Global and Aristocrat Leisure.
- **Global Bond yields fell while AU Bonds were unchanged** - US 10-year bond yields fell 7bps to 4.08%. Softer inflation saw UK 10-year yields fall 29bps to 4.41%. Australian 10-year bond yields remained unchanged at 4.3%, however a higher quarterly CPI print locally saw Aust 2-year bond yields rise 7bp and the yield curve flatten.
- **Global economy** – US-China trade talks ended favourably. The US Fed cut rates by 25bps to 3.75-4% but didn't commit to more cuts this year. The USD was stronger against most major currencies (+2%) – only the second monthly gain this year. The US Government shutdown has continued closing in to the longest in history (ie 35 days). The China Plenum (15th 5-year plan) indicated a shift to domestic demand and consumption, proactive fiscal policy and market reforms, along with technology self-sufficiency and innovation. Otherwise, Chinese economic trends have remained broadly similar, that is, reasonable overall, but mixed below the surface. The Bank of Japan and European Central Bank (ECB) both held rates steady – the ECB for the third consecutive meeting. The ECB commented that inflation is in check and economic growth is soft, but slowly recovering.
- **Australian economy** – Higher than expected inflation data (1% qoq & 3% yoy in trimmed mean) saw markets price out any further rate cuts this year. The unemployment rate rose to 4.5%. Domestic demand has started to recover, credit remains readily available, bank bad debts remain low, and housing prices continued to move higher. The AUD/USD fell 1% to 65.45c.
- **US Reporting Season** – US companies have reported solid results relative to expectations with more than 80% of companies beating earnings estimates. Reporting earnings have been ~5% above estimates. Some initial credit quality concerns have been characterised as idiosyncratic within the regional bank space. Company guidance remains broadly robust. AI Hyperscalers have reported strong cloud related revenues and capex plans remain buoyant given apparent capacity constraints. The chart below shows that hyperscalers are currently

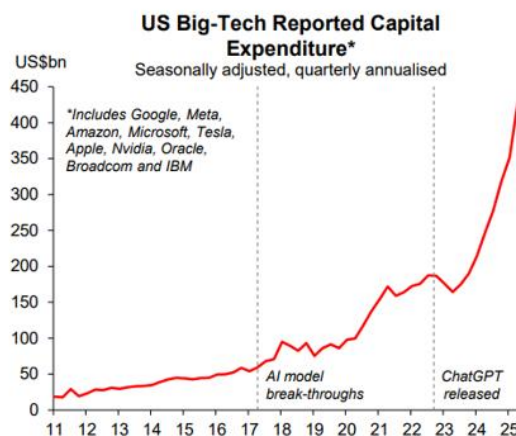
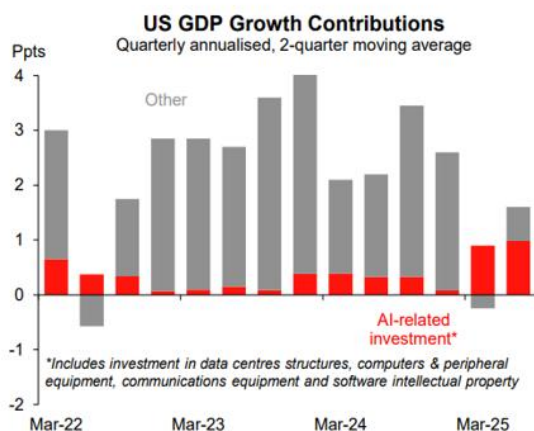


spending a record high 60% of their operating cash flow on capex. Notably, mega-cap IT companies are issuing more debt to fund their large-scale data centre fit outs.

Capex share of operating cash flow for hyperscalers: 60%



The two charts below (Source: Macquarie Research) shows the magnitude of increasing spend from Mega-tech companies and the impact it is having on US economic growth



- **Commodities rallied** - The LME Base Metals index rose 5.5%, and precious metals gained 3.2% (gold +3.7%). Copper (+6.3%) and Aluminium (+7.3%) surged due to supply shocks and robust industrial activity. Robust steel production drove Coking coal and iron ore prices higher by 19.1% and 3.5% respectively. Lithium (Spod) prices rose 14.5% on battery demand. The US and Australian governments signed a framework agreement on the mining and processing of critical minerals and rare earths. Oil remained sluggish falling 2% to US\$61/bbl.
- **Earnings and valuations** – Notably ASX200 consensus earnings were revised 3% higher driven by upgrades to the Materials sector. These upgrades flowed through following higher commodity price forecasts. AGM season has also been supportive to Australian listed corporate earnings. Globally, earnings expectations rose by 1.7% driven by upgrades to Emerging Markets (+4.6%). FY26F earnings growth for the ASX200 is now forecast at 6.4%. The ASX200 12-month-forward (12MF) Price-earnings ratio (19.1x) is at a 17% premium to the 10-year average. The ASX200 12MF dividend yield is 3.3%. While equity markets aren't cheap,

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