Equity Trustees

October 2026

MONTHLY SUMMARY

MARKET SUMMARY

October was characterised by a shift towards more defensive area of the market. Australian shares outperformed global shares supported by strong gains from banks, utilities and healthcare companies and benefited from lower tech exposure. Looking ahead, inflation and interest rates remain key drivers for markets, although falling bond yields suggest investors are becoming more confident that economic growth and inflation may gradually moderate over time.

EQUITY MARKET PERFORMANCE – AUSTRALIAN SHARES OUTPERFORMED GLOBAL EQUITIES

Australian shares delivered positive returns in October, with the S&P/ASX 200 rising 1.4% over the month. Despite ongoing uncertainty around interest rates and global growth, investors were encouraged by falling bond yields and moved back into larger, more established companies. Smaller companies generally underperformed, reflecting ongoing caution toward higher-risk areas of the market.

International equity markets mostly fell. The MSCI World ex Australia dropped 0.84% and 1.94% in USD and $A terms respectively. Emerging Markets (EM) were particularly weak sinking 7.4% as investors sold tech exposures. The US Nasdaq plunged 5.3%, while Chinese equities fell 8.5% as fading policy support, AI earnings doubts and credit concerns weighed. The US S&P500 (-0.9%) and Japanese Nikkei (-5.2%) share markets also fell, while Europe (ex UK) gained 0.7%.

Many global equity markets were impacted by a rotation out of AI related stocks as investors scrutinised data centre cost build outs, construction delays and project financing concerns. Locally, Firmus pulled its float while NextDC dropped 46% as their Melbourne data centre build faced community opposition delaying timeframes.

ASX 200 SECTOR PERFORMANCE - PERFORMANCE VARIED SIGNIFICANTLY ACROSS SECTORS.

The strongest performing sectors were Utilities, Financials and Healthcare. Investors favoured businesses with more stable earnings streams, particularly as concerns about economic growth remained in focus. Major banks and CSL were among the largest contributors to market gains during the month as investors moved out of AI and Resource names. AREIT's (property stocks +1.6%) rallied as investors began to take a 'look through' view that trough valuations may have already been reached and rates are nearing peak levels.

The Materials sector was the weakest performer. Falling commodity prices weighed on mining companies and offset gains elsewhere in the market. Large cap miners BHP and Rio Tinto were the major drag on the ASX200. Technology shares were also weaker during the month negatively impacted by NextDC.

FIXED INTEREST – BONDS PERFORMED WELL AS YIELDS FELL GLOBALLY

Bond markets produced positive returns in October as government bond yields fell across most major economies. Australian bonds (Bloomberg Ausbond Comp 0+Y index) rose 1.16%. Investors sought the safety of bonds rotating from equities given increasing uncertainty around the AI trade.

Australian 10-year government bond yields declined (23bps to 5.12%) during the month, while US 10-year government bond yields fell (36bps to 4.93%) even further. Falling yields generally support fixed interest returns and can also provide support for share market valuations.

However, markets continue to expect interest rates to remain relatively high, reflecting persistent inflation pressures and resilient economic conditions.

AUSTRALIAN ECONOMIC NEWS – INFLATION REMAINED THE KEY ISSUE

The latest inflation data showed that price pressures remain above the Reserve Bank of Australia's target range. While employment conditions have softened slightly, the labour market remains relatively resilient. As a result, markets increasingly expected the RBA to raise interest rates for the fifth time this year (+25bps to 4.80%) at its November meeting (which they have since done). The $A rose 1.2% against the USD to 70.32c.

The housing market also continued to weaken under the impact of higher borrowing costs with lower sales activity and softer dwelling prices evident across much of the country.

GLOBAL ECONOMIC NEWS – REMAINED MIXED

Investors continued to assess the impact of higher interest rates on economic growth while monitoring inflation trends across major economies. Despite this, global growth has continued to be quite resilient supported by a strong US economy and AI related business spend. Company reporting so far in Q3 suggests that the hyperscalers generally plan to continue to grow spending quickly next year.

In the United States, attention remained focused on the outlook for interest rates, corporate earnings and the upcoming mid-term elections. The Fed held rates steady, but many expect two more hikes from here. China continued to experience slower economic growth, which contributed to weaker demand expectations for many industrial commodities. European investors focused on French political and fiscal risks rotating out of French debt into German and UK paper. The European Central Bank held rates steady and corporate earnings remained resilient offsetting higher energy prices, bond volatility and AI investment concerns.

Geopolitical uncertainty continued to pressure energy prices and inflation. Despite these challenges, bond markets appeared increasingly confident that global growth and inflation could moderate over the coming year.

COMMODITY MARKETS - GENERALLY WEAKER EX ENERGY MARKETS

Iron ore prices declined 3.2% as demand from China's steel industry remained subdued, base metals dropped 2.2% and lithium prices (-30%) experienced a sharp fall following concerns about future supply and weaker demand expectations. Gold prices (-7%) also moved lower during the month.

Energy markets were the main exception. Oil prices (+15%) rose strongly and thermal coal prices (+4%) also increased, reflecting ongoing supply constraints and geopolitical uncertainty.

EARNINGS AND VALUATION

ASX200 earnings have been revised down recently. Company trading updates for the 7 weeks since the beginning of September tell a story of an Australian consumer slowing their spending.

FY27 ASX200 earnings are now forecast to grow by around 6.9% on FY26. This pace of earnings growth represents a marked deceleration given only four months ago consensus expectations were for almost 13% EPS growth for the FY27 year. It appears the lags of tighter monetary policy and financial conditions – with negative wealth effects, higher oil prices and the labour market easing – are just starting to 'bite the economy'. In this sort of environment, we think quality stocks with valuation appeal will relatively outperform.

The ASX200 ended the month trading on a 12-month forward price-earnings ratio of 18x, a 7% premium to its 10-year average. Global equities are trading on a 12-month forward price-earnings ratio of ~18.5x and are expected to grow earnings by ~24% in FY27F.

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