

Asset Allocation Report

October 2026



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Monthly Market Review

September was a challenging month for global markets, dominated by a severe bond rout, elevated energy prices, and mixed equity performance. Global bonds posted their worst monthly performance in years as soaring inflation expectations and persistent geopolitical tensions in the Middle East drove yields sharply higher. Equities were more resilient but still ended the month lower in most developed markets.

Global bond yields surged to multi-decade highs. US Treasury yields rose around 55 basis points across the curve, driven by persistent inflation, rising oil prices, heavy sovereign issuance, and a reassessment for the pathway for rates. The Federal Reserve hiked rates for the first time since 2023 in a unanimous decision, signaling further rate hikes ahead. The RBA also hiked rates as inflation reaccelerated back up to 4% in August. The Bank of Japan raised its benchmark policy rate by 25 basis points to 1.25%, the highest level since April 1995. The decision was widely expected by markets but marked an acceleration in the pace of tightening, coming just three months after the previous hike in June.

The S&P 500 fell 0.5% over the month, however the tech-heavy Nasdaq saw a 3.2% gain, indicating that it was a small cluster of AI-related megacap tech names that carried the index, while the bulk of the market struggled under the weight of surging bond yields and elevated oil prices. Eight of eleven sectors were lower, with financials down over 7% on rising bond yields.

In Australia, however, tech was the worst performer over the month, falling over 10%. The overall index fell 3.2% with only the healthcare sector delivering positive returns. Australia's higher-for-longer rate environment and a hawkish RBA have kept local rates and risk premiums elevated, pressuring growth-stock valuations more than in the US where the narrative of AI-driven productivity gains has partly offset rate concerns. Governor Bullock also explicitly flagged AI data-centre capex as inflationary which has weighed on tech sentiment.

Elsewhere, global equity markets were broadly negative as surging sovereign bond yields and oil prices weighed on risk appetite. European bond yields surged, though not as sharply as the US. Asian markets were pressured with Chinese equities underperforming on Fed tightening, escalating US-China tech restrictions, and weak domestic data.

Monthly Market Movements

Interest rates (%)	Close	1 month	1 year	YTD
RBA cash	4.60	0.25	1.00	1.00
3-year Aus bond yield	4.93	0.27	1.38	0.79
10-year aus bond yield	5.35	0.26	1.05	0.61
Fed Funds rate	4.00	0.25	-0.25	0.25
2-year US Treasury yield	4.89	0.55	1.28	1.41
10-year US Treasury yield	5.28	0.53	1.13	1.12
ECB rate	2.50	0.25	0.50	0.50
2-year German Bund yield	3.21	0.27	1.19	1.09
10-year German Bund yield	3.59	0.26	0.88	0.73
US IG Credit spread	0.85	0.05	0.07	0.05
US HY Credit spread	3.18	0.45	0.38	0.36

Commodities	Close	1 month	1 year	YTD
Brent Oil (USD/bbl)	104	14.4%	54.5%	70.1%
Gold (USD/oz)	4157	-6.3%	7.7%	-3.7%

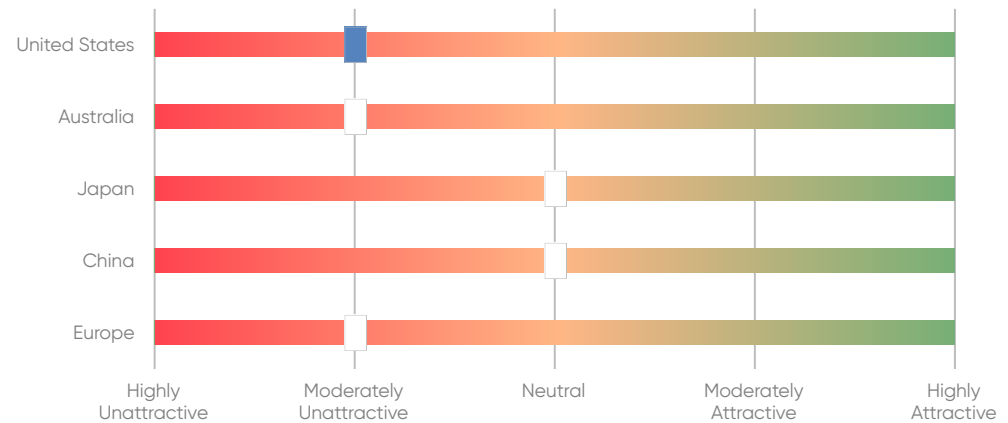
Equities	Close	1 month	1 year	YTD
S&P/ASX200 (Australia)	8789	-3.2%	-0.7%	0.9%
S&P500 (US)	7652	-0.5%	14.4%	11.8%
FTSE 100 (UK)	10606	-2.0%	13.4%	6.8%
DJ Stoxx 600 (Europe)	635	-2.5%	13.7%	7.2%
Nikkei 225 (Japan)	66754	0.7%	48.6%	32.6%
CSI 300 (China)	4358	-5.8%	-6.1%	-5.9%
Hang Seng (HK)	24613	-3.7%	-8.3%	-4.0%
MSCI World	4903	-1.3%	13.8%	10.7%

Currencies	Close	1 month	1 year	YTD
AUD/USD	0.6947	-3.1%	5.1%	4.1%
EUR/USD	1.1330	-2.5%	-3.4%	-3.5%
USD/JPY	157.4100	-1.5%	6.4%	0.4%
GBP/USD	1.3265	-2.1%	-1.3%	-1.6%
USD/RMB	6.7060	-0.2%	-5.8%	-4.0%
USD Index	101.4510	2.0%	3.8%	3.2%

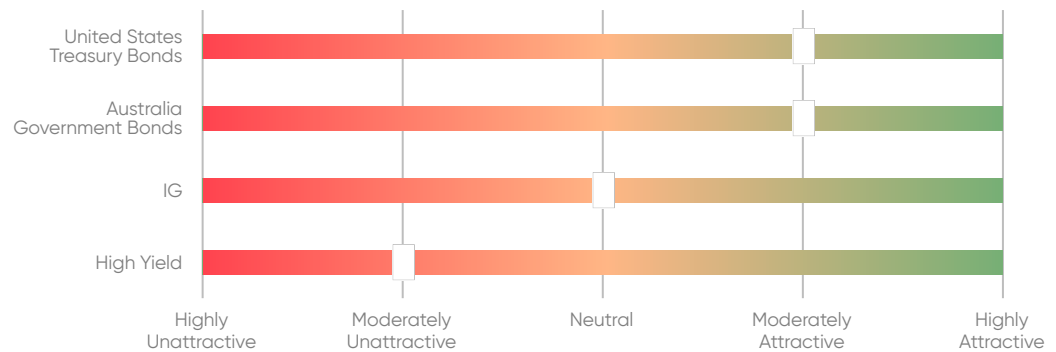
Asset Allocation Review



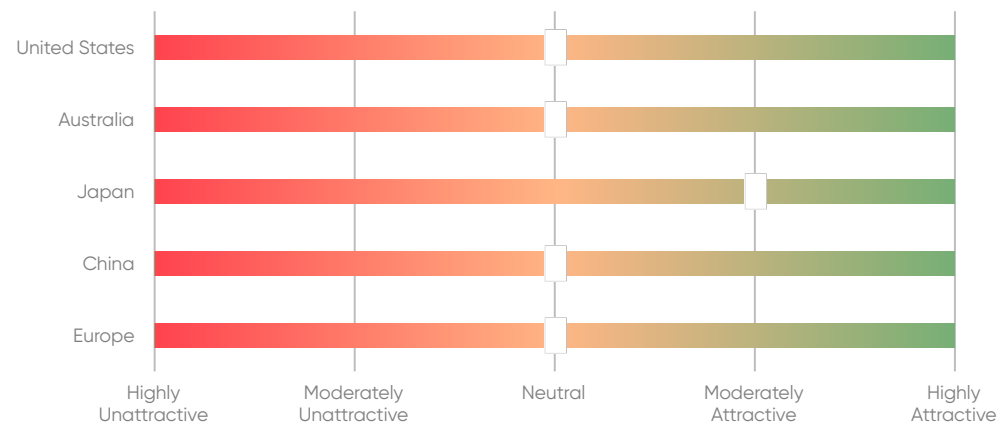
Equities



Fixed Income



Currency



The colour represents strength of conviction.

- Strong Conviction
- Moderate Conviction
- Low Conviction
- Represents a change from previous month's rating



Review: Global equities had a roller coaster month in September. The MSCI World was down -1.3% and the S&P 500 index ended the month -0.5% lower. The relatively mild headline losses failed to capture the risk-off momentum outside of the AI sector. Within the AI and tech sector, Meta joined the agentic AI race, CPU stocks like AMD, Intel benefitted, and AI capex continued. Heightened geopolitical tensions, a strong US labour report, and elevated inflation led to higher oil price and treasury yields. These headwinds brought 9 out of 11 sectors lower with financials suffering a -7.3% drop. The Fed raised rates 0.25% on 16th September and the market is pricing another hike by the end of the year. Higher yields weighed on equities somewhat but the impact was mild.

Australian equities were also weaker. Higher oil prices/inflation risk and hawkish central bank commentary were the drivers. Iron ore prices came under pressure, and mining stocks were weaker. There were also some valuation concerns in the Australian technology sector, which was down more than -10.8% over the month.

Emerging market equities were rather flat, ending the month lower -0.8%. AI semiconductors remained the key support, but the index performance was offset by countries outside of North Asia. Oil-sensitive markets like India suffered weakness. China and Hong Kong equities were impacted by domestically weak demand and higher rates in the US. The Trump-Xi Summit did not provide much uplift to the markets despite the tariff truce agreement.

Our view: Global equity valuations remain elevated compared to historical long term levels. There is a broad recognition that energy prices could sustain at a higher level due to the time required to resume maritime traffic and restart some energy facilities in the Middle East that were damaged during the war. Inflation expectations and production cost pressures have started to climb. Ultimately higher prices will be passed on to cash-strapped consumers. That suggests earnings growth will not reaccelerate meaningfully for sectors outside technology. We are concerned that slower sales growth and tighter margins could kick in through 2026, at odds with positive expectations.

The ultimate inflation trajectory is uncertain and the markets have diverse views. The Fed now looks likely to hike rates further over 2026, but we do not expect aggressive rate hikes. We suspect aggressively chasing returns after a very strong period for investors over the past five years will not be rewarded - instead returns are likely to be closer to historic averages in the single digits. This is true in the US but also in Australia, where negative earnings growth and weak profitability has been no barrier to higher valuations. Diversification is likely remain critical for investors looking to manage portfolio risks.

Recommendations:

- Downside risks and short-term volatility remain material. We think quality value can contribute to portfolio resilience in this environment.
- We think geographical diversification can help smooth returns if there is a sudden downturn in equities.
- We are more convinced that investors should move somewhat underweight equity beta risk as valuations become more stretched.

Chart 1. We expect equity returns will be somewhat weak relative to history.

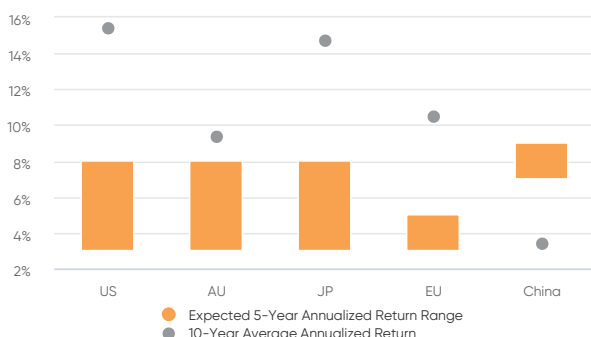
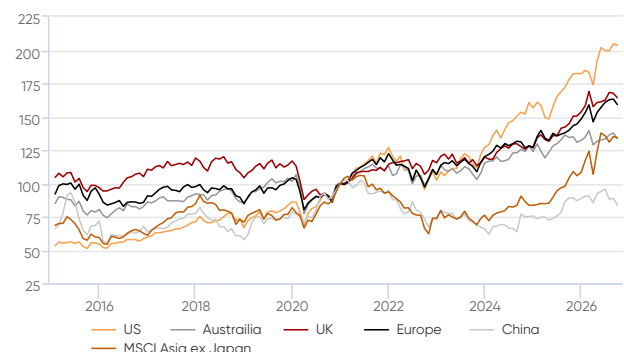


Chart 2. Global equities were weaker in September.





Review: Government bonds experienced a severe sell-off through September driving yields to multi-decade highs. The rout was anchored by the United States, where a confluence of resilient economic growth, mounting fiscal deficits, and a sharp rebound in oil prices reignited persistent inflation anxieties. The sell-off deepened under heavy supply pressure, driven by the continued deluge of corporate debt from hyperscalers funding their AI capital programmes. US Treasury yields surged over 0.50% across the curve, with the US 10-year reaching over 5.2%, while the 2-year reached over 5.0%. Markets repriced aggressively for further rate hikes. The Fed delivered its first rate hike since 2023 in a unanimous decision. The latest Statement of Economic Projections indicated that the Committee expects at least one more rate hike by the end of 2026.

The Reserve Bank of Australia delivered its fourth rate hike of the year in late September. That put the cash rate at the highest rate since 2011. The rate hike was already fully priced in, and a relatively less hawkish press conference allowed yields to ease. However, over the month, Australian government bond yields surged more than 0.20% across the curve, largely pressured by elevated inflation and rising oil prices driving global bond yields higher.

Our view: While it has been a challenging time in bond markets, we maintain a moderately attractive view on both Australian and US government bonds. Higher starting yields have improved the return outlook, providing more compelling carry and better medium-term expected returns. In the US, the 10-year Treasury yield is around 5.2%, while shorter-dated maturities offer approximately 4.7%–4.8%. At these levels, government bonds provide a more attractive income return and a greater cushion against future market volatility than they did earlier in the cycle.

Given the increases in yield across the curve, we see value in moving towards index like duration. This does not mean investors should move to the long-end of the curve, out beyond 10-years. Investors can access yields close to those previously available in 10-year Treasuries with considerably less sensitivity to a further rise in yields. This represents a modest shift from our previous view, but the direction of travel remains moving out in duration. While a 10-year yield around 5.2% offers improved carry and would benefit from a sharper-than-expected slowdown in growth or inflation, the near-term catalysts for a sustained rally in long-dated Treasuries remain limited. Inflation is still above target, the Federal Reserve has resumed tightening, economic activity remains resilient, and elevated fiscal issuance and term-premium pressures continue to weigh on the long end. Our central case remains that restrictive monetary policy will eventually moderate demand and bring inflation lower over the medium term, supporting continued exposure to government bonds at current yield levels rather than moving to an underweight position.

We retain a preference for Australian government bonds over US Treasuries, although Australia also faces near-term inflation and policy-rate risks. The RBA has raised the cash rate by 0.75% to contain persistent price pressures, and Governor Bullock has indicated that the Bank's forecasts do not see inflation returning to around the midpoint of the 2–3% target range until late 2027. Ten-year Australian government bond yields near 5.37% offer meaningful nominal carry, while Australia's more manageable fiscal position should reduce the risk of a prolonged, US-style fiscal term-premium shock. Although further RBA tightening could create short-term volatility, the combination of attractive yields and a more credible medium-term fiscal outlook supports maintaining a preference for Australian government bonds over US Treasuries.

Recommendations:

- We continue to hold a moderately attractive view for US and Australian government bonds.
- We continue to prefer Australian government bonds on a relative basis, as there are higher returns on offer.
- We continue to believe that allocating to sovereign bonds offers downside protection in the case of slowing growth.

Chart 1. At higher starting yields, there are higher returns on offer in both Australia and US.

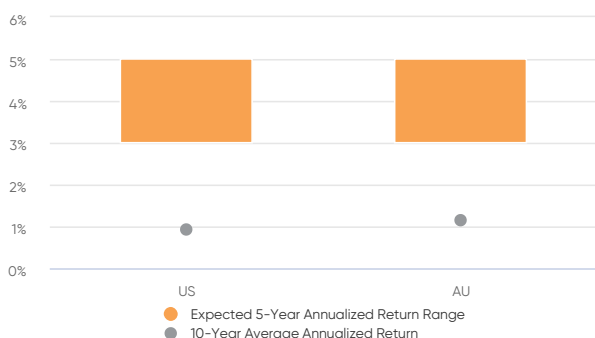
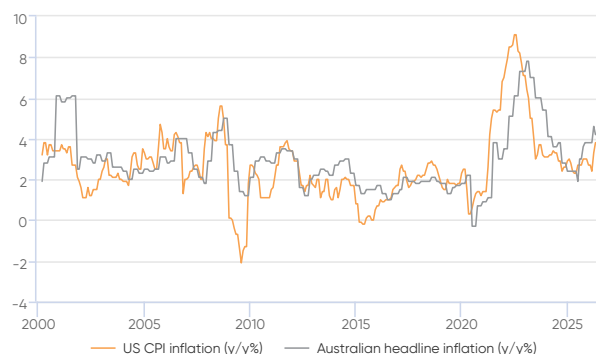


Chart 2. Inflation remains a challenge to central banks globally.





Review: Credit markets came under pressure in September as spreads widened. High yield credit spreads widened more than investment grade. Global high yield spreads widened by around 0.45% to 3.18% and US high yield by around 0.50% to 3.11%, with most of the widening taking place in the final week of September. The weakness was concentrated in the lowest-rated credits, with CCC yields rising to their highest level since late 2023. Investment grade was more resilient, with global IG spreads and US IG widening only modestly. In emerging markets, spread widening has been relatively well contained as markets have focused on fiscal discipline and growth, although spreads still widened around 0.14%.

Spread widening was exacerbated by a coordinated round of central bank tightening and a sharp sell-off in government bonds. The Fed raised rates by 0.25% to 3.75–4.00%, and the BoJ, ECB and RBA also each hiked by 0.25%. US Treasury yields rose sharply across the curve, with the 2-year and 10-year up around more than 0.55% to 4.89% and 5.28% respectively. Brent crude oil prices increased around 14% to over US\$103, adding to inflation concerns.

Total returns were negative across fixed income. The Bloomberg Global Agg fell around 2.4%, the US Agg around 2.6% and the Euro Agg around 1.9%. The speed of the government bond sell off and the accompanying spread widening meant that higher starting yields offered less cushion: the Bloomberg Global HY index fell around 3.0% and US HY around 2.5%, as wider spreads compounded the rise in underlying yields. Long-dated US corporate bonds fell around 4.5% over the month.

Despite the volatility, the primary market stayed open and demand for new issuance held up. September was reported as one of the busiest issuance months of the year. AI-related supply continued to weigh on the technology sector. Hyperscaler bonds were reported to be trading around 1.15% over Treasuries, around 0.40% wider than the broader IG market. Most hyperscaler bonds issued this year now trade at higher yields than at issue. Investors are still absorbing AI-related supply, but they are demanding a growing premium to do so.

In Australia, the RBA raised the cash rate by 0.25% to 4.60% citing persistently high inflation and solid domestic demand. Australian government bond yields were higher across the curve. Australian credit spreads widened modestly over the month.

Our view: Spreads remain historically tight despite an unprecedented scale of corporate issuance driven by technology companies and hyperscalers. We've seen the market start to struggle to digest some of this issuance due to the sheer scale of new supply rather than any fundamental deterioration in underlying credit quality. However, we think the current combination of these tight spreads and elevated interest rates that investors are not being adequately compensated for broader macroeconomic, geopolitical, and inflation risks. This risk-reward asymmetry is especially pronounced in the high-yield space, warranting a highly selective approach.

We continue to favour Australian credit. It currently offers a more compelling opportunity on an absolute yield basis, underpinned by a comparatively stable macroeconomic environment. Furthermore, robust foreign demand continues to provide a strong technical tailwind and additional structural support for the asset class. Recent reports of stress within the Australian private credit market last week do not alter our constructive outlook. These pressures are largely concentrated among highly leveraged, mid-market borrowers grappling with elevated refinancing costs, rather than being indicative of broader systemic weakness. The public investment-grade market remains well-insulated, supported by robust corporate balance sheets and strong regulatory oversight.

Recommendations:

- We retain a preference for higher quality credit and short spread duration, with a modest preference for Australian credit over US.

Chart 1. We prefer high quality credit in the current environment.

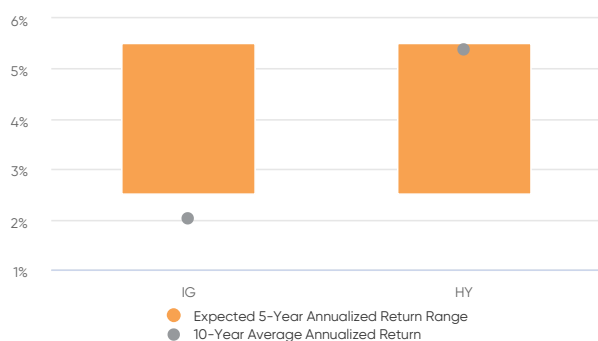
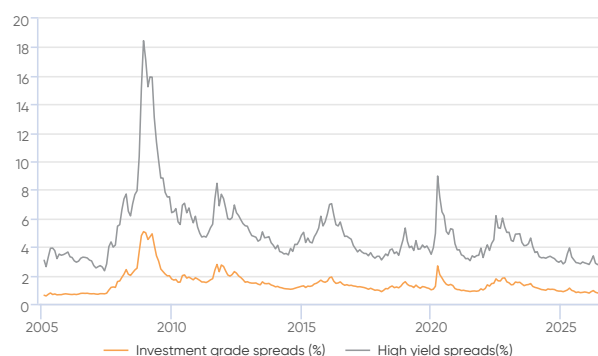


Chart 2. Credit spreads widened in September.





Review: The USD strengthened broadly in September, with the Dollar Index rising around 2.0% to close at 101.45, more than reversing its August softness and leaving it up 0.3% for the quarter. The key driver was the Federal Reserve rate hike of 0.25% to 3.75%–4.00%. This was the first hike since 2023 and the accompanying dot plot suggested further hikes are likely over the course of 2026. Energy-driven inflation and sticky headline and core inflation had already left markets pricing in several rate hikes over 2026 and 2027, pushing shorter-dated Treasury yields higher in anticipation and widening the US yield advantage across the G10.

The euro and sterling were weaker. EUR/USD declined 2.5% to 1.1330 even though the ECB raised its deposit rate by 25bps to 2.50%, citing Middle East-driven inflation pressure. GBP/USD fell 2.1% to 1.3265.

The yen was the notable exception to dollar strength. USD/JPY fell 1.5% to 157.41 after Japanese authorities conducted a rate check early in the month, the step that typically precedes intervention, and the Bank of Japan raised its policy rate by 0.25% to 1.25%. This is the highest level since 1995. Markets were left disappointed however as the 7–2 vote showed some resistance to the pace of tightening.

The AUD fell 3.1% to close at 0.6947, slipping back below the 0.70 level, despite the RBA raising the cash rate for a fourth time in 2026 to the highest level since 2011. Governor Bullock signalled readiness to tighten further. The currency still slipped after the announcement. A stronger US dollar, weaker risk appetite and some weakness in commodities, especially gold, outweighed the domestic yield support. The RMB edged 0.2% firmer against the dollar to 6.706, consistent with the PBoC's continued management of the fix, while Asian currencies more broadly were little changed.

Our view: The weakening USD alongside rising Treasury yields signalled something more at play than just typical correlations given that rising yields typically attracts inflows into the USD to take advantage of yield differentials. Instead, this divergence could imply growing market unease regarding US fiscal credibility and sovereign creditworthiness rather than standard macroeconomic fundamentals. While we do not view this as a resurgence of last year's structural "de-dollarisation" narrative, the shifting relationship between US rates and the dollar warrants close monitoring as debt sustainability concerns linger.

In this environment, we expect cross-currency dynamics could remain volatile. We would not be surprised to see Japanese authorities step in with further foreign exchange intervention to support the yen, particularly around key psychological levels and despite anticipated Bank of Japan rate hikes later in the year. Meanwhile, the Australian dollar appears to be trading within a range that we consider around fair value, where solid yield support and a stable domestic backdrop are balanced against broader global growth crosscurrents.

Recommendations:

- We recommend hedging international fixed interest where possible.
- We think currencies will remain a pressure release valve amid economic and market uncertainty, increasing portfolio volatility.
- For now, we suggest investors remain near their neutral hedge ratio for international equities.

Chart 1. The USD index strengthened through September.

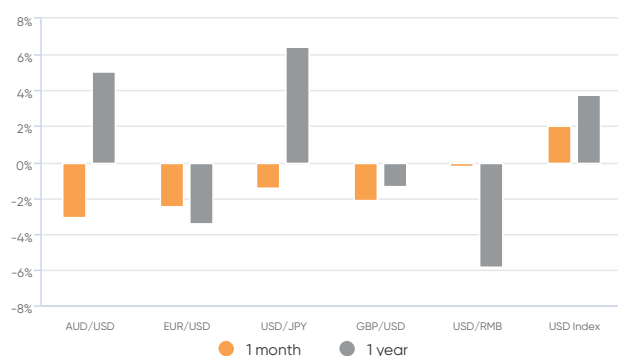
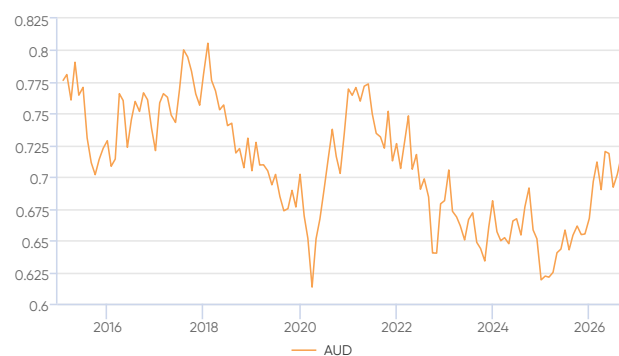


Chart 2. The AUD weakened despite another rate hike from the Reserve Bank of Australia.



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