

MONTHLY MARKET REPORT SUMMARY: OCTOBER 2026

October 2026 was a softer month for global developed shares, as the AI trade came under pressure and Middle East tensions intensified. Losses in technology and communication services shares more than offset gains in energy and defensive sectors, while Brent crude rose 13.6% as attacks on tankers near the Strait of Hormuz hit their highest level since the conflict began. Government bonds rallied as investors again sought safety, unwinding much of September's sell-off. The Federal Reserve left rates on hold but upgraded its assessment of the US economy to "strong", with markets pricing a further increase in December.

Australian shares outperformed global peers, returning 1.4%, as its low exposure to technology worked in its favour. Inflation accelerated, however, and the RBA raised the cash rate for the fifth time in 2026. Rate-sensitive assets benefited from lower yields, while emerging market shares were the weakest part of the global share market, and the Australian dollar rose against the US dollar. Gold and iron ore fell as expectations of further rate increases and weak Chinese growth weighed on commodities other than oil.

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KEY SECTOR TAKEAWAYS

GLOBAL DEVELOPED SHARES

Unhedged global shares returned -1.9% in AUD terms over October, leaving them up 5.4% for the year to date. In USD terms, the S&P 500 lost 0.9%, while the Nasdaq Composite dropped 5.3%, its weakest monthly result since March 2025. Pressure built on the AI trade as investors began to doubt whether the returns on offer could justify the sheer scale of AI investment. Weakness in technology and communication services more than offset gains in energy, consumer staples, utilities and other defensive parts of the market. Earnings from the large technology companies then triggered a sell-off at the end of the month.

AUSTRALIAN SHARES

Australian shares returned 1.4% in October, compared with -1.9% for global shares in AUD terms. The Small Ordinaries returned -6.4%, while the Mid-cap index returned 0.9%. The local market's small technology weighting worked in its favour as the global AI trade unwound, while lower bond yields drew investors back to large, defensive companies. Utilities, financials and health care led the market, while materials lagged as lower commodity prices weighed on BHP and Rio Tinto.

KEY SECTOR TAKEAWAYS

EMERGING MARKETS

Emerging market shares fell 9.1% in AUD terms in October, cutting the year-to-date gain to 7.5%, with the index down around 8.0% in USD terms. North Asia's technology-heavy markets bore the brunt of the sell-off in AI-related hardware and semiconductor stocks. Investors grew concerned about the financing of the data centre build-out and the risk posed by Chinese memory-chip makers. Korea's KOSPI fell 16.2% and Taiwan's TAIEX dropped 5.7%, its weakest October on record, while net foreign outflows from emerging markets reached US$33.8 billion, the most in a single month since March. Brazil also declined following President Lula's re-election, while India bucked the trend, with the Sensex rising 2.7%.

PROPERTY AND INFRASTRUCTURE

Hedged global listed property gained 2.5% in October and is now up 5.6% for the year to date. Hedged global listed infrastructure returned around 7.7%, lifting its year-to-date return to around 12.0%, while Australian listed property rose 1.6% but remains around 11.7% lower since the start of the year. The retreat in long-dated bond yields from their early-October highs provided a tailwind for these long-duration assets. Infrastructure was also helped by lower real discount rates and the move into defensive sectors, while Australian listed property rose as investors started to consider that valuations may have bottomed. Whether long-dated yields can settle remains the key nearterm issue for the sector, with markets pricing further Fed increases in December.

KEY SECTOR TAKEAWAYS

GLOBAL FIXED INTEREST

In USD terms, the Bloomberg Global Aggregate bond index gained 1.4% in October. Government bonds staged a rally that unwound much of September's sell-off, with the US 10-year Treasury yield falling 0.36% to 4.93% after reaching 5.31%, its highest level since 2007, early in the month. Worries about AI spending and how the data centre build-out is being financed pushed investors towards defensive assets. The rally stood out given Brent crude climbed more than 13.0% over the month, breaking the tight link between oil prices and yields that had held since June.

AUSTRALIAN FIXED INTEREST

The Australian 10-year bond yield fell 0.24% over October to 5.13%, having climbed to around 5.4% early in the month. Australian yields followed global markets lower, although by less than in the US. The market-implied probability of a November increase jumped from around 20% in mid-October to 85% following the stronger than expected September quarter CPI, with the trimmed mean up 1.0% in the quarter. The RBA duly delivered, lifting the cash rate by 0.25% to 4.85% on 3 November, shortly after month end, its fifth increase of 2026. However, the 6-3 vote and a softening economy, with unemployment at 4.7% and house prices falling, suggest a more balanced approach from here.

KEY SECTOR TAKEAWAYS

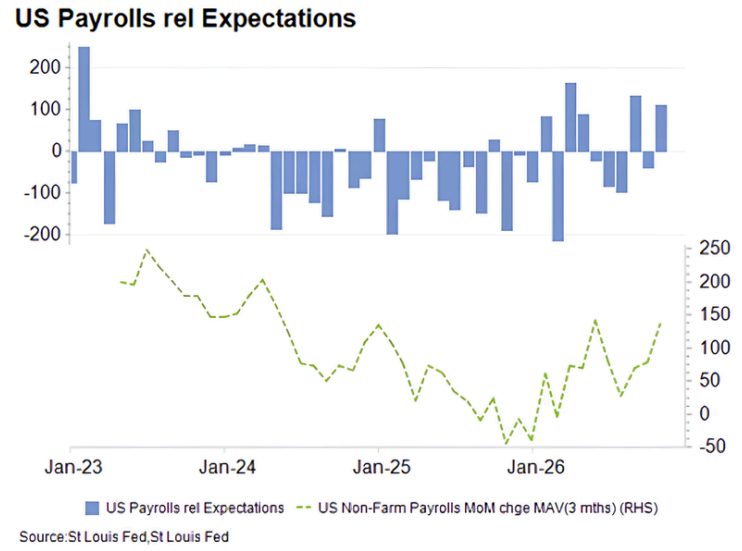
COMMODITIES

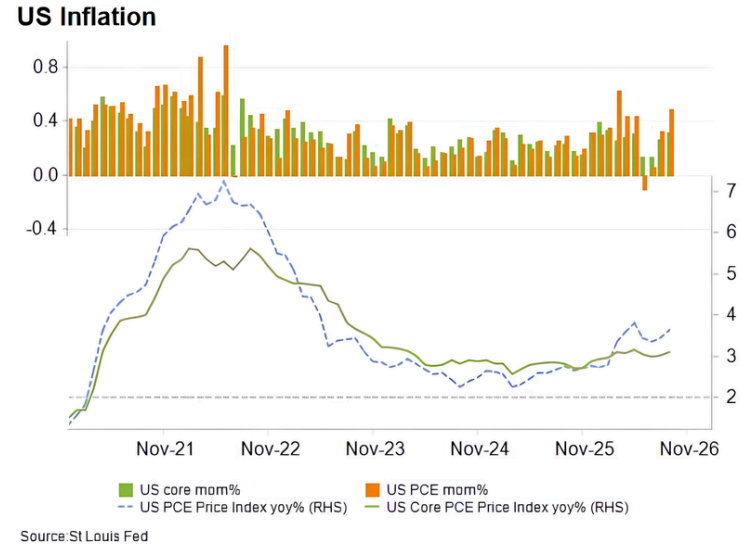
Brent crude rose 13.6% in USD terms to US$117.64 a barrel, marking a fourth straight monthly rise and its highest level since late April. Concerns over supply grew as attacks on tankers in and near the Strait of Hormuz hit a wartime high and Houthi forces claimed strikes on Saudi energy facilities. Gold fell around 7.0% in USD terms to about US$3,900 an ounce, as the prospect of further rate increases outweighed its appeal as a safe haven. Iron ore dropped about 6.0% to around US$91 a tonne, its lowest level in two years, due in part to soft Chinese growth. Copper eased around 2.0% to about US$14,140 a tonne, its first monthly decline since June, as worries about AI spending dampened risk appetite.

CURRENCIES

The Australian dollar gained 1.2% against the US dollar in October to finish around US$0.70, having dipped to near US$0.69 in the middle of the month. The currency was supported by the hawkish RBA minutes released on 13 October and again by the stronger than expected September quarter CPI on 28 October. The US dollar was mixed, supported early in the month by higher US yields and safe-haven demand before losing ground in the second half, while the euro was the poorest performer among the major currencies.

ECONOMIC HIGHLIGHTS

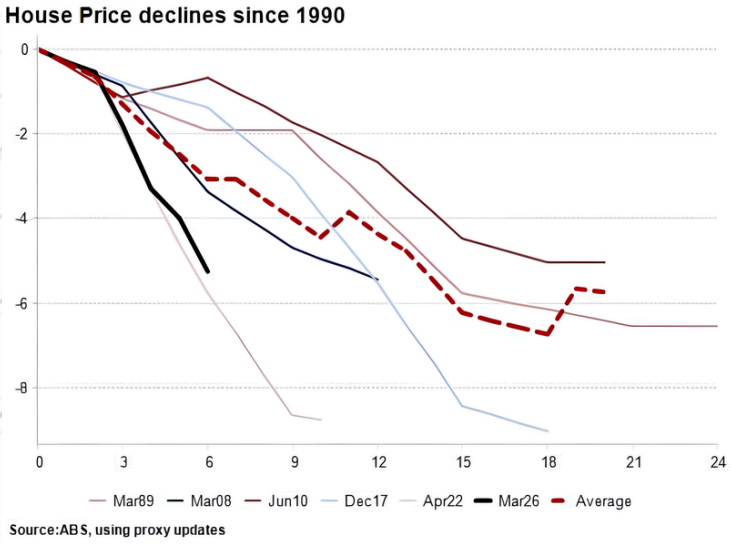


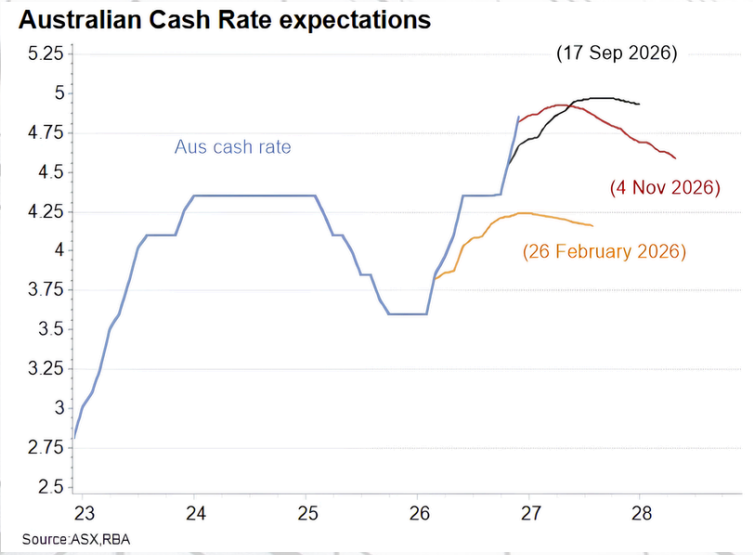


UNITED STATES: A STRONGER LABOUR MARKET AND ELEVATED INFLATION

The Federal Reserve held the federal funds rate steady at 3.75% – 4.00% on 28 October, although two members dissented in favour of a 25 basis point increase, and futures markets are now pricing around an 85.0% chance of a further increase at the 9 December meeting. October payrolls rose 165,000, well ahead of expectations for a 55,000 lift, leaving the 3-month average at 137,000, and the unemployment rate edged down to 4.1%. Wages growth, however, slowed to 3.0%, below recent inflation. Core PCE inflation, the Fed's preferred gauge, edged up to 3.1% in September, while headline PCE inflation of 3.6% remains too high for the Fed. Activity stayed elevated, with the ISM manufacturing index climbing to 55.5, its highest reading since May 2022, the ISM services index easing to 54.5 and the ISM prices paid series holding above 70.

ECONOMIC HIGHLIGHTS





AUSTRALIA: ACCELERATING INFLATION AND A FIFTH RATE HIKE

Inflation accelerated, with the monthly CPI up 4.3% in annual terms in September, compared with 4.0% in August. The closely watched quarterly trimmed mean rose 1.0%, ahead of the RBA's expectations, for an annual increase of 3.7%. The RBA lifted the cash rate by 0.25% to 4.85% on 3 November, the fifth increase this year, taking the cash rate to its highest level since late 2008. That said, the split 6-3 Board vote, the removal of guidance on further hikes and an unemployment rate of 4.7% suggest the tightening cycle may be close to its peak, with markets assigning a small probability to a further hike in early 2027, followed by cuts. Nationally, house prices fell 1.2% in October, a seventh consecutive monthly decline that leaves values 6.7% below the March peak, following four rate hikes earlier in the year and Federal Budget changes to CGT and negative gearing.

ASSET CLASS RETURNS

	Month Return (%)	1 Year Return (%)	3 Year Return (p.a %)	5 Year Return (p.a %)
Australian Cash	0.4	4.1	4.2	3.4
Australian Bonds	1.2	0.4	4.6	1.0
Global Bonds (Hedged)	1.8	0.4	4.5	-0.1
Australian Shares	1.4	3.7	13.4	8.0
Global Shares (Unhedged)	-1.9	4.3	18.2	12.0
Global Shares (Hedged)	-0.7	12.5	21.5	10.3
Emerging Markets	-9.1	6.1	18.1	8.3
Global Infrastructure (Hedged)	7.7	13.2	15.5	6.7
Australian Listed Property	1.7	-13.4	12.3	3.2
Global Listed Property (Hedged)	2.4	6.2	11.2	-0.1
AUD / USD	0.9	7.5	3.5	-1.4

GLOBAL SECTOR RETURNS

	Month Return (%)	1 Year Return (%)	3 Year Return (p.a %)	5 Year Return (p.a %)
Consumer Staples	10.7	17.3	12.0	5.9
Consumer Discretionary	3.0	-4.9	13.8	2.6
Energy	12.8	57.7	21.6	21.0
Financials	1.7	15.1	27.3	12.3
Health Care	9.9	24.0	14.0	6.4
Industrials	-1.2	7.8	21.6	10.4
Information Tech	-7.0	14.4	32.7	17.1
Materials	-0.8	19.0	15.1	7.1
Telecom	-13.5	-7.8	21.4	7.1
Utilities	7.9	5.5	18.1	8.6

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AUSTRALIAN SECTOR RETURNS

	Month Return (%)	1 Year Return (%)	3 Year Return (p.a %)	5 Year Return (p.a %)
Consumer Staples	0.6	14.2	6.8	2.7
Consumer Discretionary	3.6	-10.5	10.2	2.7
Energy	1.5	31.6	5.0	11.9
Financials	6.9	4.7	22.1	12.1
Health Care	5.6	-2.2	1.2	-4.1
Industrials	1.6	-0.7	15.2	9.3
Information Tech	-2.7	-38.2	1.3	-6.4
Materials	-8.1	16.1	13.1	12.9
Telecom	3.1	-10.5	7.2	4.1
Utilities	9.3	12.6	14.2	18.4

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CONCLUSION

- Global developed shares slipped as pressure mounted on the AI trade, with losses in technology and communication services outweighing gains in energy and defensive sectors.
- Australian shares outperformed global peers with a 1.4% return, helped by limited exposure to technology, although the RBA lifted the cash rate to 4.85% as inflation accelerated.
- Emerging market shares were the weakest part of the market, falling 9.1% in AUD terms, with North Asia hit hardest by the semiconductor sell-off.
- Government bonds rallied as investors returned to safe-haven assets, with the US 10year Treasury yield falling 0.36% to 4.93%.
- Falling yields gave rate-sensitive assets a lift, with hedged global infrastructure returning around 7.7%, hedged global listed property 2.5% and Australian listed property 1.6%.
- Brent crude rose 13.6% in USD terms as Middle East tensions intensified, while gold fell around 7.0% in USD terms and the Australian dollar rose 1.2% against the US dollar.

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