Market wrap and outlook – October 2026

Asset class total return to 31/10/2026	1M (%)	3M (%)	6M (%)	1Y (%)	3Y (% p.a.)	5Y (% p.a.)	Current Yield (%)
Cash	0.4	1.1	2.2	4.1	4.1	3.5	4.9
Fixed Term Deposits	0.5	1.3	2.5	5.0	4.5	3.8	5.3
Australian Bonds	1.2	0.1	2.2	0.4	4.6	1.0	5.0
Australian Bank Hybrids	0.7	1.2	3.3	4.6	3.6	3.5	5.3
Australian Property	1.6	-6.9	-2.5	-13.2	12.1	3.1	3.8
Australian Shares	1.4	0.5	4.6	3.7	13.4	8.0	3.3
Global Shares (unhedged)	-1.9	0.4	7.3	4.3	18.2	12.0	1.2
Global Infrastructure (hedged)	8.8	0.6	1.6	13.3	15.5	7.1	3.0

Total returns and yields are before franking credits and fees. Source (in order): RBA cash rate, 12M Bank term deposit, Bloomberg Austbond Composite Index, Solactive Aust Banking Preferred shares Index, S&P/ASX 300 A-REIT Index TR, S&P/ASX 200 TR, MSCI World ex-Aust unhedged TR, FTSE Developed Core Infrastructure 50/50 TR (hedged).

Financial indicator movement to 31/10/2026	1M	3M	6M	1Y	3Y	5Y	Current Value
AUD/USD (cents)	0.01	0.00	-0.02	0.05	0.07	-0.05	0.70
Aust. 10-year bond yield (%)	-0.20	0.19	0.06	0.82	0.22	3.14	5.13
Gold US$/ounce (% p.a.)	-6.8%	-4.1%	-16.2%	-3.2%	25.0%	16.8%	3,875
Brent oil US$/bbl (% p.a.)	13.6%	30.5%	3.2%	80.8%	10.4%	6.9%	118
Iron ore US$/t (% p.a.)	-6.1%	-7.4%	-15.4%	-14.3%	-5.0%	-3.3%	91
Copper US$/pound (% p.a.)	-1.5%	0.3%	9.0%	27.5%	21.0%	8.1%	6.46

Source: LSEG data. Note: Past performance is not a reliable indicator of future performance.

Global wrap

The AI trade got the wobbles in October with some doubts creeping in over return on capital and free cash flow. There was a switch from technology to defensive sectors like healthcare, infrastructure and property. In a welcome development, bond yields retreated as expectations grew that the Democrats would win a majority in both the House and Senate in the US mid-term elections (confirmed in early November).

There is an expectation that a Democrat-controlled Congress will have a greater focus on exiting the Iran conflict and addressing fiscal policy. By early November, both the oil price and bond yields were retreating, which is a positive, but great uncertainty remains regarding how President Trump will react to the election result in his last two years of office. Perhaps for that reason, gold also rallied, climbing above US$4,000/oz, once again.

By early November, the Nasdaq retreated 15% from its highs but is likely to find support relatively quickly. We view this as a healthy correction in the technology sector rather than the start of a bear market. A resolution to the Iran conflict would be a major positive that would likely support equity markets and keep bond yields contained. That said, it seems the Fed is due to increase the cash rate again in December after holding off in October. Although, the US cash rate is still relatively low at 3.875%, so a move to 4.125% would not be overly restrictive.

Australian wrap

The Australia equity market outperformed in October as the switch from technology to defensive and value sectors benefited the local market. The Australian market has generally lagged global equities over the past decade, but it still offers a relatively attractive yield and defensive qualities. It also has relatively high exposure to resources and energy stocks, which helps diversify the technology-heavy global equity indices.

Australian earnings growth remains moderate, but inflation continues to run above the RBA's 2.0-3.0% target. The RBA has lost patience with inflation resulting in rate hikes over October and November, lifting the cash rate to 4.85%. Core inflation remains around 3.5% and has been driven by government spending, a surge in energy costs and poor productivity.

The RBA is likely to remain on hold from here to observe how much the economy slows and inflation retreats. Any resolution to the Iran conflict, which would lower oil prices, would be a major boost to the inflation outlook. Indeed, futures markets are pricing in no more rate hikes, with rate cuts to begin by mid-2027.

Australia has a few challenges ahead, which include defence, the energy transition, low productivity and high regulation. On the positive side, Australia should still benefit from the investment boom regarding resources, energy and data centres.

Outlook

We seem to be in an 'inflationary boom' cycle. There are three major investment themes – the energy transition, AI capex and defence spending which have added to demand. But geopolitical issues around global trade and conflicts in Ukraine and Iran have limited supply and added to inflation.

Inflation running above target and interest rates rising sharply would normally cause a correction in growth assets. This cycle, business investment and government spending are supporting growth and company earnings. If the Iran conflict can be resolved, thus easing energy prices and inflation, there is a good chance that equity markets could sustain momentum. However, persistent inflation and ever-higher interest rates would eventually drag on economic growth and company earnings causing a market correction. The swing to the Democrats in the US, gives us some hope that US policy will have a more balanced approach moving forward but that remains to be seen! We adopt a **'cautiously optimistic'** stance, mainly on the view that oil and gas flow through the Strait of Hormuz will be partly or mostly restored.

Key known risks

1. Persian Gulf oil and gas flows remain restricted;
2. Inflation remains above target;
3. Rising interest rates in response to rising inflation and budget deficits;
4. The AI investment boom fails to earn a decent return on investment;
5. Leverage in the private equity/debt space comes undone; and
6. Geopolitics and/or natural events impact financial markets.

Next key events

- Aust. AGM season – November 2026
- RBA meeting – 7/8 December 2026
- Fed meeting – 8/9 December 2026



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Warnings, Disclosures and Disclaimer

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