Market Watch

October 2026

Defensive Rotation Amid AI Concerns

Global equity markets declined modestly in October, as rising bond yields, escalating geopolitical tensions and concerns over the scale of AI infrastructure spending weighed on investor sentiment. While US equities initially reached record highs, concerns about rising AI-related capital expenditure and corporate borrowing, together with uncertainty surrounding the upcoming US Congressional elections in November, weighed on investor enthusiasm. This led investors to shift away from growth stocks towards value and defensive sectors, with energy, consumer staples and healthcare delivering some of the strongest returns. Meanwhile, the emerging markets declined sharply, particularly in technology-heavy markets such as Korea and Taiwan, where semiconductor stocks came under substantial selling pressure amid questions over the sustainability of future growth in AI demand.

The Australian share market made mild gains in October, led by strong performances across several defensive sectors. The Utilities sector rose +9.3%, while the Financials and Health Care sectors gained +7.0% and +6.3% respectively. Persistent inflationary pressures and the RBA's November cash rate increase added to investor concerns about the Australian economic outlook. Meanwhile, the Materials sector fell approximately -8% as global iron ore and gold prices softened. Technology stocks also continued their disappointing run, declining -3.5% over the month.

Global listed property and infrastructure markets rebounded in October, supported by falling government bond yields and a shift towards more defensive assets as concerns over AI-related investment weighed on technology stocks. Lower yields improved the relative appeal of listed property, while infrastructure delivered stronger gains as investors favoured income-generating assets. Longer-term growth drivers, including rising electricity demand, investment in energy networks and the expansion of data centres to support AI, continued to underpin the sector's outlook.

The global bond market recovered in October, as government bond yields eased across most major economies following the sharp increase in September. The Bloomberg Global Aggregate Bond Index returned 1.8%, supported by stronger demand for government bonds amid increased volatility in equity markets. Concerns over the level of AI-related investment and the funding needs of technology companies also contributed to a more cautious market environment, with investors showing greater interest in higher-quality bonds. France was an exception, with its government bond yields rising amid ongoing fiscal and political uncertainty.

The Australian bond market recovered in October, as government bond yields eased following the sharp rise in September. The Bloomberg AusBond Composite Index gained 1.2%, supported by lower bond yields. However, inflation remained elevated, keeping pressure on the domestic interest rate outlook as investors increased their expectations that the Reserve Bank of Australia's (RBA's) would increase the cash rate in the November.

The AUD/USD strengthened from approx. US$0.698 at the beginning of September to US$0.704 by month-end, as a hawkish RBA stance, a softer US dollar, and easing US Treasury yields, supported the Australian dollar.

Economics:

U.S.

- The U.S. unemployment rate declined to 4.1% in October, slightly below market expectations of 4.2%.
- Interest rates remained unchanged at 4.00% in October following the 0.25 percentage point increase in September.

Domestic

- Australia's annual inflation rate increased to 4.3% in September which supported the RBA to raise the cash rate by 0.25% to 4.85% in the first week of November.
- In September, Australia's seasonally adjusted unemployment rate stood at 4.7%, slightly above market expectations of 4.6%.

Major Asset Class Performance

Asset classes	1 Mth %	1 Yr %	3 Yrs (p.a.) %	5 Yrs (p.a.) %
Australian Shares	1.4%	3.7%	13.4%	8.0%
Australian Small Companies	-6.4%	-14.4%	10.0%	0.6%
Global Shares (unhedged)	-2.8%	4.5%	18.2%	11.6%
Global Shares (hedged)	-1.5%	12.8%	21.5%	9.9%
Global Small Companies (unhedged)	-0.7%	7.7%	16.4%	7.7%
Global Emerging Markets (unhedged)	-9.1%	6.1%	18.1%	8.3%
Global Listed Property (hedged)	2.4%	6.2%	11.2%	-0.1%
Listed Infrastructure (hedged)	7.7%	13.2%	15.4%	6.7%
Australian Fixed Income	1.2%	0.4%	4.6%	1.0%
International Fixed Income	1.8%	0.4%	4.5%	-0.1%
Cash	0.4%	4.1%	4.2%	3.4%

Source: Lonsec iRate, Rhombus Advisory, 31 October 2026.

Indices used: Australian Shares: S&P/ASX 200 Accumulation Index, Australian small companies: S&P/ASX Small Ordinaries Accumulation Index, Global shares (unhedged): MSCI World ex Australia Net Total Return (in AUD), Global shares (hedged): MSCI World ex Australia Hedged AUD Net Total Return Index; Global small companies (unhedged): MSCI World Small Cap Net Total Return USD Index (in AUD); Global emerging markets (unhedged): MSCI Emerging Markets EM Net Total Return AUD Index; Global listed property (hedged): FTSE EPRA/NAREIT Developed Index Hedged in AUD Net Total Return; Listed Infrastructure (hedged): FTSE Global Core Infrastructure 50/50 NR Index (AUD Hedged) Cash: Bloomberg AusBond Bank Bill Index; Australian fixed income: Bloomberg AusBond Composite 0+ Yr Index; International fixed income: Bloomberg Barclays Global Aggregate Total Return Index Hedged AUD

Please note: Past performance is not indicative of future performance.

Currency markets

Exchange rates	At close on 31/10	1 Mth change %	1 Yr change %	3 Yrs change %
AUD/USD	0.0704	0.90%	7.46%	3.52%
AUD/GBP	0.5258	-0.17%	5.60%	0.20%
AUD/Euro	0.6293	2.33%	11.14%	1.66%
AUD/Yen	110.82	1.23%	9.90%	5.16%

Source: Reserve Bank of Australia, Lonsec iRate, Rhombus Advisory, 31 October 2026.
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