
Market Review

On October 1st, the US entered a federal government shutdown after Congress failed to pass a stopgap (“continuing resolution”) or a full-year budget following the expiration of the previous funding. Before 1980, agencies typically continued functioning during lapses in appropriations, but that changed when Attorney General Benjamin Civiletti issued a legal opinion stating that they had no authority to operate without allocated funds. During his presidency, Ronald Reagan experienced eight shutdowns, none lasting more than three days. Between 1990 and 1995 there were three additional funding gaps, one under George H. W. Bush and two under Bill Clinton, followed by a long stint without any until 2013, when disagreements over the implementation of the Affordable Care Act (ACA) led to a 16-day shutdown under Barack Obama. Donald Trump presided over two government shutdowns during his first term, with the second one stretching to 35 days. Over the past decade, the risk of shutdowns has increased markedly, a sign of growing governance dysfunction and political fracture. According to the Congressional Budget Office (CBO), the latest iteration could cost the economy up to 14 billion USD as hundreds of thousands of federal employees are furloughed. In addition, the latest high-stakes budget standoff is delaying many economic data releases, introducing near-term uncertainty into markets.

Against an already fragile backdrop came a warning from the CEO of JPMorgan Chase. During an earnings call held on October 14th, Jamie Dimon announced that the bank had taken a 170 million USD write-off in the third quarter related to the bankruptcy of the subprime auto lender Tricolor. Commenting on the booming private credit and non-bank lending sectors, which have swelled to trillions of dollars with limited regulatory oversight, he stated that “when you see one cockroach, there are probably more”. The remarks intensified scrutiny of bank stocks and alternative funds, as investors fretted about weak underwriting standards, opaque exposures and hidden liabilities. Since mid-July, the Red Rocks Global Listed Private Equity Index and the Cliffwater BDC Index, which measures the performance of listed Business Development Companies, have trended lower, with the latter ending the month in negative territory since the beginning of the year. Moreover, shares of Jefferies tumbled in October following the collapse of auto parts manufacturer First Brands, to which the largest pure-play global investment bank had extended financing through its investment management and structured finance arms. After the company had filed for Chapter 11 at the end of September, it emerged that it was holding 2.3 billion USD in off-balance sheet private debt backed in significant part by non-existent or doctored invoices.

On October 21st, Japan underwent a political realignment as Sanae Takaichi won the parliamentary vote, becoming the country’s first female prime minister. Renowned for her advocacy of fiscal expansion and pro-growth stimulus, she is expected to pursue a policy agenda similar to that of the former, longest-serving premier Shinzo Abe, who championed a reflationary economic strategy known as “Abenomics” during his second term in office, from 2012 to 2020. Takaichi’s election was widely interpreted as likely to postpone the Bank of Japan’s (BOJ) normalisation of its ultra-accommodative monetary policy in favour of measures supporting domestic demand. Financial markets immediately moved to price in this prospect, with the Japanese Yen (JPY) weakening sharply, equities surging and government bond yields rising. Her victory is also signalling a bold shift in Japan’s defence and foreign policy as it aims to establish itself as a major international arms player, reflecting a more assertive stance in the global security markets. Takaichi has partnered with coalition allies who are pushing for a significant liberalisation of the sector, breaking from post-WWII restrictions. The governing coalition, composed of the Liberal Democratic Party (LDP) and the Japan Innovation Party (JIP), intends to ease regulations on domestic weapons

production and exports, while accelerating investment in the nation's military infrastructure and capabilities.

Between October 20th and 23rd, the Chinese Communist Party (CCP) convened its Fourth Plenum, laying the groundwork for the 15th five-year plan set to be finalised early next year. The government's blueprint emphasises significant investment in artificial intelligence, computing and high-tech industries, including nuclear fusion. It also highlights space development as a top national priority for the first time. The gathering wrapped up just days ahead of the most anticipated geopolitical event of the month, that is, the meeting on October 31st between Donald Trump and Xi Jinping on the sidelines of the APEC Summit in Busan, which concluded with a surprisingly conciliatory outcome. The US agreed to reduce the tariff rate on Chinese products from 57% to approximately 47%, with fentanyl-related levies halved from 20% to 10%. In addition, it suspended the enforcement of export licensing restrictions for companies in any country that are at least 50% Chinese-owned or have business ties to the Chinese military. On its part, China agreed to suspend its planned restrictions on rare earth mineral exports for one year and to immediately resume purchases of American agricultural exports. Markets reacted with cautious optimism as the encounter eased global anxieties, though ultimately its scope was limited, resulting in a temporary agreement rather than a comprehensive accord. The Chinese side confirmed only selected concessions, while broader issues such as Taiwan, semiconductors (including Nvidia's Blackwell processors) and long-term trade frameworks were not resolved.

International Equities

US equities powered ahead during the month that historically has been the most volatile of the year for the stock market. The S&P 500 (+2.27% in USD terms) recorded 8 new all-time highs, the most since October 2017. The Dow Jones Industrial surged +2.51% and the Nasdaq 100 (+4.77%) was propelled higher by a second consecutive month of double-digits returns for the semiconductor sub-sector. The AI spending super-cycle continued to dominate market attention, highlighted by the Cboe Global Markets' latest initiative. The world's largest options exchange is launching futures and options on the new Cboe Magnificent 10 Index, an equal-weighted equity benchmark designed to track the performance of the most actively traded AI-focused technology stocks; those includes all of the "Magnificent Seven" names, along with Advanced Micro Devices (AMD), Broadcom and Palantir. The expanded successor trounced its smaller predecessor in October, and both outperformed the rest of US large caps. US equities remained top-heavy as the Bloomberg 500 ex Magnificent 7 Total Return Index rose only marginally, and the S&P 500 Equal Weighted Index fell -1.04%, logging its 11th worst monthly relative performance vis-à-vis the S&P 500. The S&P 500 High Dividend Index Total Return Index fell sharply, dragged down by regional banks after Zions Bancorporation and Western Alliance revealed exposure to loans tied to allegedly fraudulent borrowers. Technology and healthcare were the only groups to outperform the S&P 500 in October. Utilities posted solid gains, while industrials and consumer discretionary lagged. All other sectors ended the month in the red.

US equities outperformed the rest of the world (as exemplified by the MSCI AC World Index ex USA Total Return Index) in October, largely due to weakness in European markets. Emerging markets topped the list owing, once again, to the relentless rally in the Asian AI beneficiaries. In fact, by month-end, South Korea's Kospi stood as the world's best-performing major stock index on a year-to-date basis. China declined on the back of softer retail sales and industrial production, while Japan recorded another strong month. All in all,

the MSCI AC World Daily Total Return Index was up +2.24% in USD terms and +3.51% in AUD terms.

Australian Equities

Australian equities rose modestly in October, with the MSCI Australia Total Return Index underperforming the MSCI AC World Daily Total Return Index by more than 300 basis points for the second month in a row. After a positive start, the S&P/ASX 300 (+0.42%) surrendered its early-month gains following higher-than-expected inflation data, a decline in consumer sentiment and a jump in the unemployment rate to 4.5% (from 4.3%), its highest level since November 2021. Miners drove materials higher. Copper and lithium producers were the standout performers, while gold extended its upward climb and silver broke out to a new all-time high, its first in more than fourteen years. Energy, financials, industrials and utilities gained, while consumer staples were unchanged; however, they managed to outperform consumer discretionary by the most since February 2022, as the latter exhibited broad based weakness. Technology was the worst performing group, with Xero stumbling on fears about the impact of AI on software providers and WiseTech crashing following the announcement of an ASIC investigation on its founder's share dealings. Healthcare recorded further losses, with CSL closing the month at its lowest level since November 2018. The Ex-20 index trailed the Top 20, though mid-caps and smaller companies continued to experience positive momentum.

International Fixed Income

Two of the five major global central banks that met during the month held interest rates steady; those include the European Central Bank (ECB) and the Bank of Japan (BOJ). On October 8th, the Reserve Bank of New Zealand (RBNZ) reduced its Official Cash Rate (OCR) by 50 basis points to 2.50%, noting that it "remains open to further reductions [...] as required" to help stabilise economic activity. On October 29th, the Bank of Canada (BOC) reduced its benchmark overnight rate by 25 basis points to 2.25%. On the same day, the FED decreased its target rate by 25 basis points, bringing it to a range of 3.75%-4%. The vote was 10-2, with two dissents, the newly appointed (and potentially politicised) Stephen Miran advocating for a larger 50 basis points cut and Jeffrey Schmid, President of the Federal Reserve Bank of Kansas, favouring no change. Two other regional presidents, Beth Hammack of the Federal Reserve Bank of Cleveland and Lorie Logan of the Federal Reserve of Dallas, publicly opposed an interest rate cut in October, arguing that inflation risks remained elevated and that the central bank needed to keep policy firmly restrictive. However, both serve as "alternate members" of the FOMC, meaning that they do not have voting power for the year. In addition, the central bank announced that, starting from December 1st, it would end its program of "Quantitative Tightening" (QT) by reinvesting maturing mortgage-backed securities into Treasury bills, effectively maintaining the overall size of the balance sheet while adjusting its composition. The Bloomberg Barclays Global Aggregate Index hedged back to AUD advanced +0.75% for the month, as falling long-end rates boosted bond prices. Yield curves were generally flatter across the world, with credit spreads slightly wider in the US and tighter across Europe.

Australian Fixed Income

After falling for 4 consecutive quarters, domestic headline inflation quickened to +3.2% YoY (from +2.1%) in Q3 on the back of a rise in electricity costs prompted by the July price reviews taking effect. More worryingly, the Australia Monthly CPI Trimmed Mean, the measure preferred by the central bank, accelerated to +3.0% YoY (from +2.7%), surpassing expectations and interrupting a 10-month softening streak. This development may point to underlying inflation pressures picking up again, raising the prospect of a cautious RBA in the months ahead. As a result, at the end of the October the cash futures had pushed the timing of the only remaining rate cut in the current easing cycle further into H2 2026. Domestic fixed income remained resilient, with the Bloomberg AusBond Composite 0+ Yr adding +0.36% on the back of tighter credit spreads. The yield curve flattened as the belly transposed higher, with the 2- and 5- year yields adding 7 and 2 basis points to 3.56% and 3.77% respectively, while the 10- year yield was flat at 4.30%. The Australian Dollar was a mixed bag, losing ground against the greenback, but appreciating vis-à-vis the Euro, the Sterling Pound (GBP) and the Japanese Yen.

Real Assets

Global property declined 1.53% in USD terms and 0.31% in AUD terms in September. Australia bucked the trend in local currency as the Australia CoreLogic - Median City Values rose +1.1% MoM in October, the most since June 2023 and the ninth consecutive month of sequential acceleration.

Global infrastructure was down 0.28% in USD terms but up 0.95% in AUD terms for the month. Electric and gas utilities led gains, followed by toll roads. Conversely, communication and energy infrastructure, mid-stream in particular, lagged.

Alternatives

Alternatives (-0.34%) consolidated the gains accumulated in prior months during October. Discretionary macro and trend following mandates led the charge, while quantitative strategies were caught off guard by a sudden spike in volatility, which was subsequently reabsorbed.

Market Outlook

At the end of October, the Nasdaq 100 had posted seven consecutive months of gains, a milestone achieved (or exceeded) only five other times in its more than 40-year history, specifically in 1986 (8 months), 1995 (10 months), 2003, 2009 and 2017. At the time of the writing of this note (November 19th), the leading, tech-heavy benchmark has declined by 7.75% from peak to trough, leaving investors wondering whether the top in the AI euphoria has already been reached and whether it is time to seek refuge. Momentum had certainly become stretched, and three striking examples suffice to illustrate how much positiveness had been priced in markets. First, the best performing investment “factor” this year is not “quality”, “growth”, or “value” but rather “unprofitability”. In fact, after recording its 9th best month ever in October, the GS Non-Profitable Tech index was generating returns nearly triple those of the “Magnificent Seven” in 2025. Second, the degree of crowding into speculative stocks by retail investors, evident in the substantial outperformance of the S&P 500 High Beta Index relative to the S&P 500 Low Volatility Index, had reached extremes historically observed only after major inflection points or recession troughs, such as in May

2009 and in February 2021; back then, the world was emerging from the Global Financial Crisis (GFC) and, following the vaccine announcements of early November 2020, from the pandemic. Third, at 5 trillion USD, the market capitalisation of Nvidia was approximately equal to an astonishing 16% of US GDP. Even if we do not subscribe to the thesis that today's environment is mirroring that of the Dot-Com boom and bust, as the structural context of 2025 is vastly different from that of the Clinton's era, it is worth noting that Microsoft, the bellwether stock of the late 1990s, accounted for less than 6% of US GDP at its 2000 peak.

In short, from a technical point of view, a correction was overdue, and not surprisingly the recent one has (so far) been sharpest in AI-related names, crypto currencies and even in gold and silver, that is, in the assets that have benefited the most from the so-called "debasement trade" popularised by Wall Street. The prevailing narrative making the rounds is that markets are waking up to the reality that AI is far more complex than simply building out capex and watching valuations climb. Oracle's roundtrip serves a case in point: its stock surged +35.95% on September 10th after unveiling a partnership with OpenAI, only to give back the entire move (and more) in the following 2 months. A growing chorus of analysts has started to question what pricing power exists in AI inference services, given that most Large Language Models (LLMs) look and feel broadly similar, while the infrastructure requirements, and costs, are enormous. Also, it remains unclear how the companies' part of the ecosystem will extract significant and sustainable revenues from the technology. On that note, we agree that a notable shift in investor sentiment appears to have occurred. On July 30th, Meta communicated to its shareholders that its AI initiatives will "result in a 2026 YoY expense growth rate that is above the 2025 expense growth", igniting a +11.25% jump in the stock. Fast forward to October 29th, Mark Zuckerberg reiterated the same, exact message during an earnings call but with a diametrically opposite result, as Meta plummeted -11.33%. However, we do not deem those events as indicative of the popping of an AI bubble that may still be in its early stages. In our opinion, the market's anxiety today is less about tech valuations and more about macro timing errors.

A simpler and more fundamental reason for the recent volatility is to be found in the incrementally hawkish stance adopted by the FED at its most recent meeting, coupled with the US economy entering what may be its softest period of the cycle. We posit that "Too late" Powell is about to mistime policy yet again. His most recent comment that "a further reduction in the policy rate at the December meeting is not a foregone conclusion, far from it" and the internal dissent within the FOMC suggest a central bank determined to pause and assess inflation again. The market clearly dislikes that. Moreover, we have just come out of a 43-day government shutdown, which, although largely dismissed as routine Washington theatrics, we think will have real economic consequences in a system that is dependent on ongoing stimulus, such as the current US economy. When the government stops pumping money for over a month, you get a short-term drag. The labour market was already losing steam and now we have a FED that wants to dangerously "pause" at precisely the wrong time. Putting all things together, that's not a healthy environment for growth assets in the short term. Yet none of this meaningfully alters our broader outlook. Data releases that were delayed during the shutdown will now resume and we expect those numbers to look weak. Between now and the December meeting we believe the central bank will be forced to acknowledge that deterioration and to ultimately lower rates. Paradoxically, its current reluctance may be what makes the cut more likely: markets wobble, financial conditions tighten and the economy softens further, forcing the FED to finally concede.

Politics, too, is playing an outsized role in market behavior. The Republican Party appears to be in full panic mode after the decisive losses suffered in the New York's mayoral contest, to a self-described "socialist", and in the gubernatorial races in Virginia and in New Jersey. Democrats have begun explicitly talking about the "cost of living crisis", which is what voters actually care about. Inflation, as a headline issue, has faded. The new conversation is about "affordability", as prices remain roughly 30% above pre-COVID levels. Households are concerned that their expenses are permanently higher and will not be content even if the CPI finally gets back to its 2% target. This is the heart of America's "K-shaped" economy. The upper-K, big tech, AI and asset owners, is thriving. Markets are near highs; property values are elevated and (still) high interest rates benefit the wealthier cohorts earning a positive yield on deposits. The lower-K, (small businesses, lower-income households and certain segments of real estate), is struggling under those same rates and elevated prices. The tariffs introduced by the Trump administration have disproportionately and regressively hurt the lower-K. In addition, excessive government spending has delayed rate cuts and strained affordability further. Now AI investment is absorbing enormous energy resources and pushing up, among other things, electricity costs, another burden on the lower-K. The GOP now appears to recognise this. Trump's proposal for a US\$2,000 "tariff dividend" for low-income Americans is one sign, and Scott Bessent's suggestion to temporarily lower tariffs on certain food items is another. Tactically, these ideas may be intended to make it harder for the Supreme Court to declare tariffs illegal by earmarking their proceeds for citizens. Strategically, they indicate a genuine response to the anger of voters who feel left behind, with the aim to build political support ahead of the midterm elections. At any rate, they point toward more fiscal largesse and, when taken in concert with the forthcoming tax relief and deregulation under the "One Big Beautiful Bill Act" (OBBBA), they give further weight to our expectation of a robust re-acceleration of the US economy in 2026.

In summary, we should expect continued volatility and perhaps a period of weaker growth heading into the FED's decision window; however, despite the turbulence, there is no need to change course. The central bank will be back into easing mode sooner rather than later, and should it decide to skip December, it will have to make up for it in January. Besides, the prospect of a new and likely more dovish Chairman looms large, providing structural support for growth assets. Remaining invested and selectively adding risk seems to be the correct approach. Hence, we remain constructive on equities over the medium term and are advocates of international diversification. If anything, the pullback presents an opportunity to increase portfolios' sensitivity at the margin by allocating to global small caps. That segment of the market stands to benefit from lower interest rates, a cyclical pick-up in economic activity through 2026 and the meaningful productivity gains that can arise from efficient AI adoption at a lower implementation cost than that faced by the hyperscalers. Conversely, we remain sanguine on fixed income in the short term, but cautious looking ahead to mid-2026. Current conditions offer attractive opportunities, as market participants have drastically reduced their expectations for a December cut. Australian fixed income, which we recently reduced exposure to, is also drawing our attention as markets price in the end of the RBA easing cycle. That said, the political inclination to send money directly to households may rekindle the fire of inflation. While tariffs on their own tend to suppress demand, the combination of tariffs and cash transfers creates conditions that are conducive to pass-through inflation. That dynamic may complicate duration exposure next year, but for now fixed income still looks reasonably valued.

Monthly Market Commentary With Portfolio Manager, Andrea Ciaccio As of 31 October 2025



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