StanfordBrown Private Wealth

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Investment Markets Report

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Chief Investment Officer



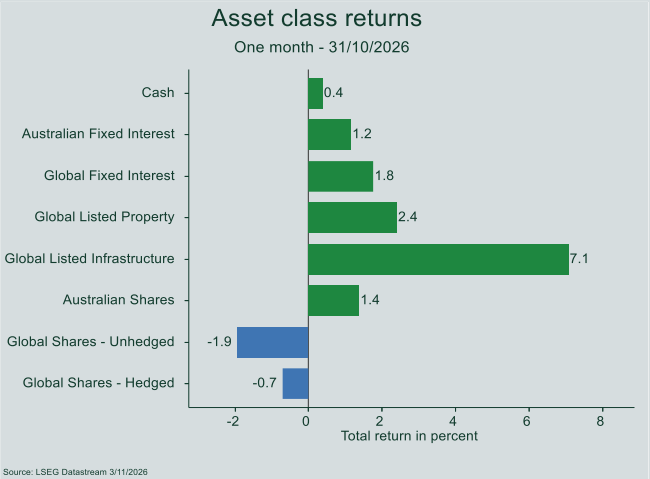
Our investment office unpacks what happened in the past month, current tactical positioning and what this means for our portfolio weightings to different asset classes.

What's changed in October?

Global financial markets remained volatile in October as investors grappled with fears around lower returns from artificial intelligence (AI) investments, weak French government finances and risks of US-Iran conflict escalation following the US mid-term elections. US treasury bond yields reached their highest levels since 2002 in early October but declined following the sell-off in tech stocks and interest rate pauses from the US Federal Reserve, European Central Bank and Bank of Japan. Equities were mixed, as the US NASDAQ Composite Index sold off on concerns over AI capital expenditures, while markets with little exposure to AI, such as Australia and Europe, were positive in October.

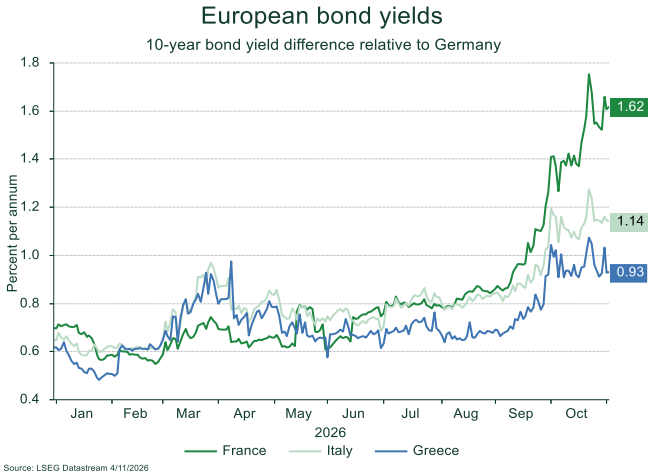
EXECUTIVE SUMMARY

- In currency-hedged terms, developed market equities (MSCI World ex-Australia) lost 0.7% in October. The US equity market (S&P 500) returned -0.9% and the tech-heavy NASDAQ Composite was down 5.3%. Australian shares (S&P/ASX 200) returned +1.4%, European shares (STOXX 600) rose 2.0% while Emerging Market shares (MSCI Emerging Markets) fell 7.4% in local currency terms.
- 10-year government bond yields fell 38 basis points (bps) in the US, 29bps in Japan, 26bps in Germany, 20bps in Australia and 13bps in the UK. French yields rose 14bps to their highest yield spread over German bonds since 2011.
- Investment-grade corporate bond spreads in the US rose 10bps to 94bps over US treasuries, while US high yield bond spreads rose 32bps to 344bps.
- The Australian Dollar rose 0.8 US cents to US$0.7035.
- Oil prices gained 17.3% to US$107.56 per barrel (WTI). Gold lost 6.4% to US$3,896 per troy ounce. Iron ore prices fell 2.5% to US$90.87 per tonne.



Tactical Positioning

Financial markets had to deal with a range of cross currents in October; rising fears that the US may resume its attacks on Iran following the mid-term elections which drove oil prices higher, increasing concerns that major US technology companies are spending too much on AI, worries about France's budget deficit and debt position and a widening of credit spreads for lower rated corporate borrowers. Despite these concerns, equity prices are close to record highs, supported by the strong global growth backdrop and 30%+ annual growth in US earnings.

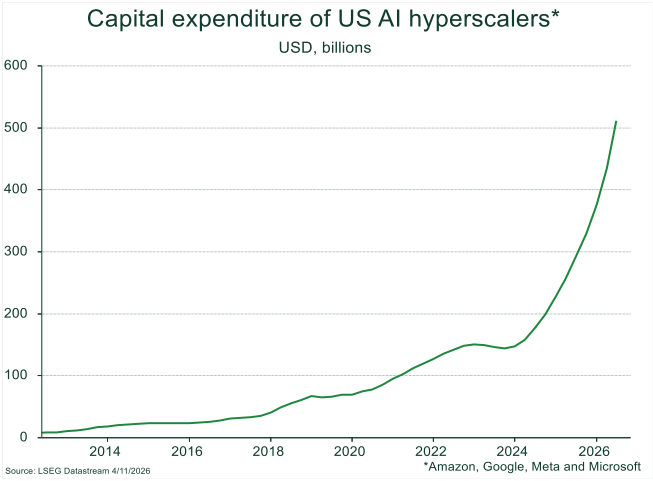


The sharp rise in government bond yields in September continued into early October. When fears of a deflating AI bubble rose later in the month, bond yields fell sharply, signalling that bonds still retain some of their safe-haven role and ability to hedge equity and growth risks in multi-asset portfolios. The decline in bond yields in October does not suggest that inflation risks have subsided, and central banks are done with further rate hikes, but rather the earlier sell-off in bonds may have gone too far and that risks around AI overinvestment, rising inflation, unsustainable government budget deficits and higher geopolitical risks may have offsetting influences on bond yields.

As October progressed, the unwinding of the AI trade replaced concerns around France's finances and energy supply as the main drivers of volatility. Weakness in data centre and 'neocloud' companies, following the failure of the Firmus float in Australia, spread to semiconductor stocks and then broadened into worries about returns on the massive investment in AI by major tech companies. Shares in Alphabet fell 13% after its earnings result, its worst day on record. Market indices tied to tech stocks were all down significantly in October, while non-tech markets such as Australia and Europe were positive over the month.

While growth forecasts for Australia have been revised lower following the fifth interest rate rise from the RBA this year, in our view Australian equities provide some diversification in portfolios if US tech and AI related investments continue to underperform. Likewise, government bonds also serve an important portfolio diversification role while also offering attractive yields and income that reduces chances of a negative total return over a 12-month period.

We continue to retain neutral risk exposure across portfolios based on our fundamentals, valuations and sentiment methodology which are still supportive of equities and growth assets. The recent pull back in AI-related tech stocks and rotation into other sectors and themes and high-quality bonds is healthy in our view. Although there are a variety of risks, as we have highlighted, these are currently offsetting each other.

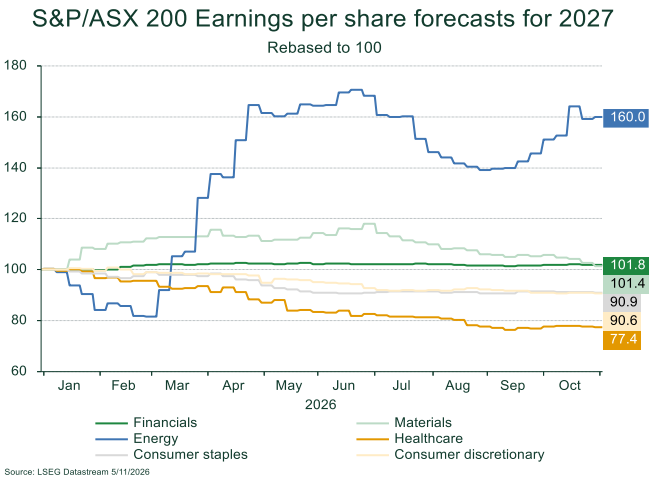


EQUITIES:

With two third of companies in the S&P 500 US equity index having reported earnings for the third quarter, results have continued their recent trend of being extremely strong with 32% year-on-year growth in earnings and a 14% annual increase in revenues. AI-related sectors as well energy, materials and industrials showed very strong earnings relative to the same quarter in 2025. Even though the reported earnings have been better than expected, there were large negative price reactions for those companies in AI-related sectors that missed analyst forecasts. In some cases, share price declines were compounded by managers providing weaker guidance for future earnings or forecasts for larger capital expenditures.

In Europe, third quarter earnings are on track to grow strongly in the September quarter, with 24% year-over-year earnings growth or 10% excluding the energy sector. Energy, materials and technology drove a large part of the earnings growth over the quarter. For the full 2026 calendar year, earnings for the STOXX 600 index of European companies is expected to show 21% growth.

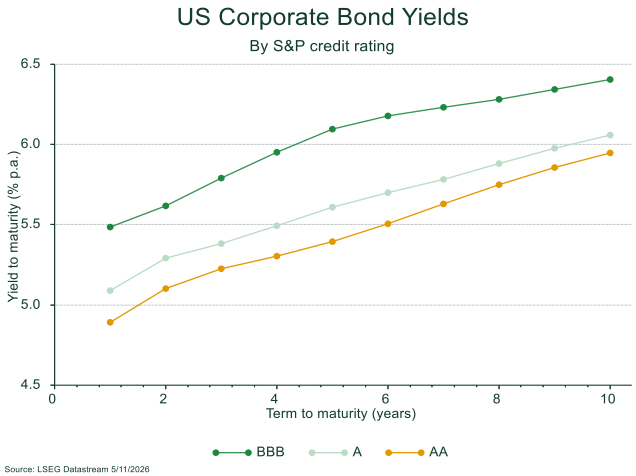
The strong earnings growth for global companies has meant that valuation ratios have continued to decline and the price-to-earnings ratio for the MSCI World equity index is back at its long run average of 17.5 down from 20.5 at the start of the year. The Price to Earnings to Growth (PEG) ratio, which measures the valuation ratio divided by the earnings growth rate, suggests that US equities have only been more attractively priced coming out of the COVID, Global Financial Crisis and dot-com recessions.



Earnings growth forecasts are more subdued in Australia at 6.9% for the next financial year, due to low exposure to the AI investment theme, except indirectly through base metals prices. However, even though there have been interest rate rises that dampen bank earnings and consumer sector outlooks, Australian shares have outperformed international shares over the past six months. This has been helped by the higher weighting to energy and materials and smaller exposure in technology stocks as well as a strong rebound in healthcare stocks such as CSL.

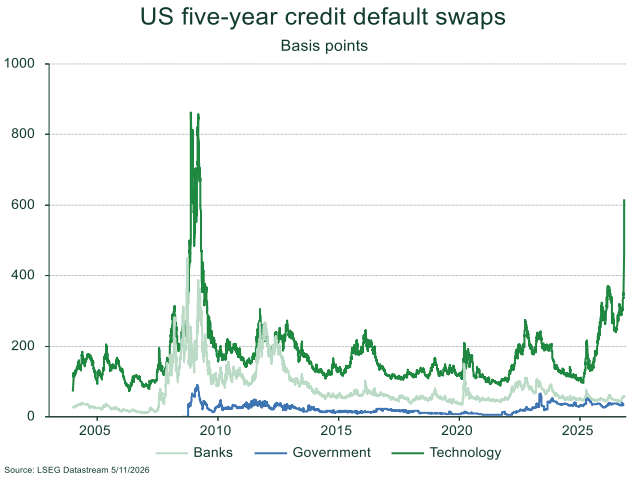
FIXED INCOME:

Bond yields declined from multi-year highs in October, however the sell off in recent months, due to stronger economic growth and inflation, data centre investment and concerns about rising debt levels, means that forward-looking yields are attractive. High-quality fixed rate government and corporate bonds provide yields of 5-7% and, as shown in October, bonds can generate positive performance in periods when equities suffer.



In Australia, following September's inflation data which saw underlying inflation rise to 3.7%, the RBA lifted the cash rate for the fifth time this year. Markets are now pricing little chance of further hikes this cycle and there is an expectation that higher interest rates will slow the economy and lower inflation next year, allowing for rate cuts in late 2027. While there are some risks of another rate rise, it is more likely that Australian interest rates are on hold for an extended period, in our view.

Credit spreads, particularly for lower quality companies or companies exposed to software, technology and AI have widened significantly due to rising fears of ballooning debt levels, weak returns from AI investment and rising defaults from private equity owned software companies.

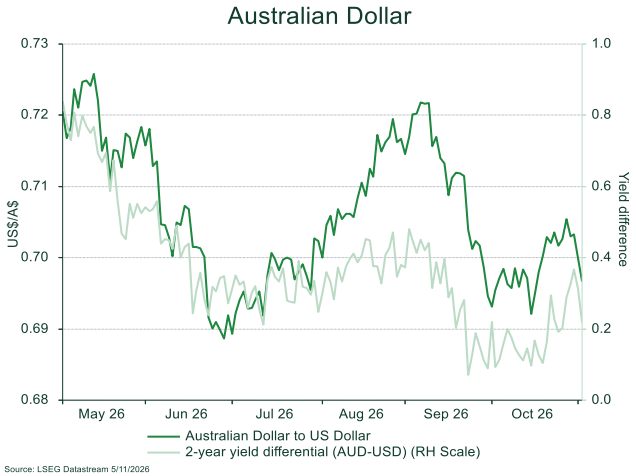


PROPERTY AND REAL ASSETS:

Global listed property and listed infrastructure bounced back from the recent bond driven sell off in October due to the fall in longer term government bond yields. We continue to have a positive view of property and infrastructure as a source of defensive growth with inflation protection, particularly given the favourable demand-supply imbalance.

ALTERNATIVE ASSETS:

Alternative assets returned -1.2% in October according to the HFRX Global Hedge Fund index, with negative performance from all the four major sub-strategies. Macro strategies returned -2.2% in October as price trends in bonds, equities and commodities reversed. Equity long/short funds returned -2.5%, event driven returned -0.3%, and relative value funds -0.2%.



CURRENCY:

The Australian Dollar appreciated in October helped by rising expectations of a November rate hike and a stronger Chinese Yuan. We remain currency unhedged in global shares given the currency is around fair value and the Australian Dollar is a good shock absorber within portfolios with unhedged currency exposure.

Current Balanced portfolio positioning summary

ASSET CLASS	POSITIONING	VIEW
Cash	Neutral	There is a small prospect of further rate hikes in 2027, but the more likely scenario is the RBA is at, or very near, the end of its hiking cycle.
Australian Debt	Neutral	Retain a neutral weighting with interest rate duration close to benchmark of around five years. Following the sell off in bonds over the past few months, longer term bond yields allow investors to lock in attractive income, and bonds can provide a portfolio hedge in equity sell offs.
Global Debt	Neutral	Hold a neutral weighting with interest rate duration close to benchmark of around six years. Higher yields provide attractive income and real yields. Credit is more attractive after the spread widening and can provide attractive returns in a non-recessionary environment where defaults remain contained, which is our current view.
Alternative Defensive	Neutral	Alternative strategies should help to diversify portfolios. These strategies have traditionally held up relatively well when more traditional defensive strategies, tied to bond yields and the credit outlook, have suffered.
Alternative Growth	Neutral	Alternative growth strategies benefit from higher price volatility and dispersion with returns less correlated to broader risk sentiment. Trend-following strategies can provide portfolio insurance-like characteristics by capturing price trends in financial, currency and commodity (including precious and industrial metals, oil and gas) markets.
Property & Real Assets	Neutral	Property and infrastructure should provide inflation protection and a more defensive exposure in a global downturn, relative to equities. The demand and supply dynamics for property and infrastructure assets (particularly in energy and digital infrastructure) are improving.
Australian Shares	Neutral	The earnings growth outlook is weakening for domestic focussed companies. Australian resources companies are benefiting from higher energy and metals prices. Any sell off in growth/tech sectors favours Australian Shares given the higher weight to banks and miners. As a market with high exposure to commodity prices, Australian Shares can outperform if there is a supply-driven energy shock.
Global Shares	Neutral	Hold a neutral allocation, as economic and corporate fundamentals, such as solid earnings growth, remain supportive for global shares. US tech companies are better value now after the recent earnings results. Investor sentiment is more balanced with less speculative excess in parts of the market which reduces risks of a sharp correction.
Currency hedging	Fully unhedged	The US Dollar retains some of its safe-haven status as there are few alternatives and, in a risk-off scenario having unhedged exposure to the US Dollar helps diversify portfolio risk. Most analysis suggests the Australian Dollar is close to fair value against the US Dollar. Stay currency unhedged in Global Shares.

Strategic Asset Allocation (SAA) and Dynamic Asset Allocation (DAA) weights

PORTFOLIO	CONSERVATIVE		MODERATE		BALANCED		GROWTH		HIGH GROWTH	
ASSET CLASS	SAA	DAA	SAA	DAA	SAA	DAA	SAA	DAA	SAA	DAA
Defensive Assets	70.0	70.0	50.0	50.0	35.0	35.0	20.0	20.0	5.0	5.0
Cash	15.0	15.0	10.0	10.0	5.0	5.0	2.5	2.5	2.5	2.5
Australian Debt	20.0	20.0	10.0	10.0	5.0	5.0	0	0	0	0
Global Debt	30.0	30.0	25.0	25.0	20.0	20.0	15.0	15.0	0	0
Alternative Defensive	5.0	5.0	5.0	5.0	5.0	5.0	2.5	2.5	2.5	2.5
Growth Assets	30.0	30.0	50.0	50.0	65.0	65.0	80.0	80.0	95.0	95.0
Property & Real Assets	5.0	5.0	7.5	7.5	10.0	10.0	10.0	10.0	10.0	10.0
Alternative Growth	5.0	5.0	7.5	7.5	10.0	10.0	7.5	7.5	7.5	7.5
Australian Shares	5.0	5.0	15.0	15.0	20.0	20.0	25.0	25.0	25.0	25.0
Global Shares	15.0	15.0	20.0	20.0	25.0	25.0	37.5	37.5	52.5	52.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Major Financial Markets

To 31 October 2026	Latest	1 month	3 month	Year-to-date	1 year	3 year	5 year
Equities	Local currency returns including dividends in percentage, not annualised						
Australia - S&P/ ASX 200	8908	1.4	0.5	5.2	3.7	45.7	46.9
Japan - Nikkei 225	63290	-5.2	-1.0	27.6	22.7	116.4	141.3
US - S&P 500	7580	-0.9	1.5	11.8	12.1	87.9	76.7
US - NASDAQ Composite	25437	-5.3	0.4	10.0	7.9	102.0	70.2
UK - FTSE 100	10730	1.3	-0.5	11.0	13.9	62.6	77.3
Europe - STOXX 600	647	2.0	0.0	12.3	16.6	64.2	59.6
Developed Markets - MSCI World	3790	-0.7	0.9	11.9	12.8	82.6	73.2
Emerging Markets - MSCI EM	97794	-7.4	-6.0	14.2	15.4	87.9	57.7
Government bond yields					Change in annual yield in percentage points		
Australia - 2 year	4.93	-0.02	0.40	0.86	1.35	0.45	4.31
Australia -10 year	5.14	-0.20	0.20	0.38	0.82	0.20	3.07
US - 2 year	4.57	-0.30	0.30	1.10	0.98	-0.49	4.08
US - 10 year	4.91	-0.38	0.20	0.75	0.82	0.00	3.35
UK - 10 year	5.30	-0.13	0.25	0.83	0.89	0.79	4.27
Germany -10 year	3.32	-0.26	0.12	0.47	0.68	0.51	3.47
Currencies and Commodities							Change in price
Australian Dollar (US$)	0.7035	0.0078	0.001	0.037	0.049	0.070	-0.048
US Dollar Index	101.88	0.43	1.97	3.56	2.08	-4.78	7.76
Gold (US$/ounce)	3896.00	-267.97	-150.96	-428.67	-82.95	1900.10	2119.19
Iron Ore (US$/tonne)	90.87	-2.34	-4.19	-15.12	-16.40	-31.46	-14.31
Crude oil (WTI, US$/barrel)	107.56	15.89	21.40	50.30	45.81	25.92	24.06

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