

Key Market Highlights

- Global sentiment turned risk-off as earnings from major United States (US) technology companies failed to meet elevated expectations, and major stock markets erased their early week gains.
- Anxiety surrounding the artificial intelligence (AI) trade drove safe-haven demand, with US 10-year Treasury yields recording their biggest single-day decline in more than two years, despite the continued rise in oil prices causing energy-driven inflation concerns.
- China's economic growth accelerated to 4.5% year-on-year (y/y) in the third quarter of 2026, bringing growth for the first nine months of the year to 4.6%. However, the economy continued to show a two-track path, with strong technology-related production and exports contrasting with subdued domestic consumption.
- The absence of large-scale policy stimulus, alongside concerns over the spending and profitability of Chinese AI companies, led China's CSI 300 Index into bear market territory, before recovering on aggressive exchanged traded funds (ETF) purchasing by state-backed funds.

Topics of the Week:

The Federal Reserve may pause in October

- The Federal Reserve (Fed) is expected to keep interest rates unchanged at 3.75% - 4.00% this week, following September's rate hike.
- Despite persistent inflation risks, recent comments by Fed officials have not clearly signalled the need for another immediate hike, with markets pricing in a near 90% probability of an October policy hold.
- A pause would give the Fed time to assess upcoming economic data rather than signal the end of tightening, and the prospect of further hikes remain on the table if inflation remains persistent.
- **House View:** We expect the Fed to hold rates in October, deliver a 25 basis points (bps) hike in December and another in the first quarter of 2027, before keeping interest rates on hold for the rest of 2027.
- Financial conditions have tightened modestly in recent months, and the US stock market rally has stalled.
- We expect limited further tightening rather than a prolonged rate hike cycle, assuming inflation pressures moderate as anticipated
- Higher financing costs reinforce the importance of selectivity, favouring companies with strong balance sheets, robust free cash flows and sustainable earnings growth.

AI weakness drives rotation within and beyond technology

- Crowded investor positioning, narrow market breadth and greater scrutiny of AI-related capital expenditure have made AI and semiconductor stocks more vulnerable to negative surprises.
- The S&P 500 Equal Weight Index has recently outperformed the market-cap-weighted index amid



technology weakness, suggesting broader participation beyond the largest technology stocks.

- Easing expectations for an immediate Fed hike appear to have supported US equities beyond large-cap technology stocks, with recent moves pointing towards rotation than indiscriminate selling.
- Financially strong technology companies remain better positioned to sustain AI infrastructure investment, supported by robust cash flows and solid balance sheets, while highly leveraged companies face greater pressure from rising financing costs.
- Since July 2026, the MSCI USA AI Adopters Select Index has shown greater resilience than the Philadelphia Semiconductor Index, highlighting opportunities beyond AI infrastructure as investors become more selective.
- Ongoing technology earnings will be key for the AI theme, as investors assess whether elevated spending can translate into sustainable earnings growth and free cash flow.

Investment Strategy

- We remain positive on AI as a structural theme, but recent volatility reinforces the need for greater selectivity.
- Within technology, we favour companies with sustainable competitive advantages, strong balance sheets, robust free cash flow and a clear path to monetising AI investments.
- Look beyond AI infrastructure leaders to adopters that can improve productivity, reduce costs, grow revenues or enhance margins.
- Investors with heavy AI exposure should consider diversifying into sectors with differentiated earnings drivers, like financials, healthcare, defence and dividend-paying companies, to reduce concentration risk.
- Long-short equity strategies may offer suitable investors another way to capture relative-value opportunities in an uncertain market environment.
- Complement selective equity exposure with high-quality investment grade bonds, favouring an average duration of four to five years.

Asset Class Performance

Equities	Current	Performance (%)			
		1 Week	1 Month	3 Months	Year-To-Date
S&P 500 (USD)	7623.68	-0.47	-1.07	2.86	11.37
Dow Jones (USD)	52215.16	0.41	1.37	0.52	8.64
NASDAQ 100 (USD)	28957.53	-0.79	-4.96	2.95	14.68
FTSE 100 (GBP)	10690.36	-1.76	-0.14	-0.43	7.64
S&P/ASX 200 (AUD)	8795.226	-0.13	0.34	0.26	0.93
DAX (EUR)	25181.65	-1.72	-0.90	0.33	2.82
Swiss Market Index (CHF)	14462.36	0.49	3.88	0.94	9.01
HSCEI Index (HKD)	7756.25	-4.58	-6.26	-6.22	-12.98
Hang Seng Index (HKD)	23093.37	-4.52	-7.01	-7.49	-9.90
Nikkei 225 (JPY)	62693.16	-4.03	-3.58	-2.97	24.54
Commodities & Currencies	Current	1 Week	1 Month	3 Months	Year-To-Date
Brent Crude (USD)	116.72	6.24	18.96	36.48	93.82
Gold (USD)	3996.1	-4.07	-6.80	-1.40	-7.48
EURUSD	1.1202	-0.33	-1.58	-1.48	-4.63
GBPUSD	1.3374	0.35	1.02	0.37	-0.75
USDJPY	156.87	-0.73	-0.92	-4.25	0.10
Bonds	Current (%)	Basis points Change			
		1 Week	1 Month	3 Months	Year-To-Date
US 10-year Treasury yield	4.995	-0.078	-0.120	0.317	0.828
German 10-year Bund yield	3.345	-0.081	-0.210	0.173	0.490
UK 10-year Gilts yield	5.356	-0.017	0.009	0.324	0.877
Japan 10-year bond yield	2.806	-0.124	-0.183	-0.010	0.740

1 week for the period 16-Oct-2026 to 23-Oct-2026

1 month for the period 23-Sep-2026 to 23-Oct-2026

3 months for the period 24-Jul-2026 to 23-Oct-2026

Year-to-date for the period 31-Dec-2025 to 23-Oct-2026

Source: Bloomberg (last update: Sat, 24 October 2026 9:28 AM SGT)



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