DRUMMOND

CAPITAL PARTNERS



INVESTMENT PERSPECTIVES

October 2026

Month In Review

Global Equities -1.5%	Aus Equities 1.4%	Global REITs 0.3%	Infrastructure 7.3%
Aus Bonds 1.4%	IG Credit 2.5%	Commodities 4.8%	AUD/USD 0.9%

The MSCI All Country World Index (ACWI) fell by 1.5% in October, as technology mega-cap index constituents broadly missed on earnings expectations, stoking scrutiny on AI hyperscaler debt issuance and future growth. The Middle East conflict drove energy prices higher, with global government bond yields falling on strong investor demand. There was regional and sector divergence, as rate-sensitive and defensive sectors performed strongly.

US markets finished lower as investors digested earnings from major technology companies late in the month. The S&P 500 Index fell 0.9%, though energy and consumer staples gained 14.0% and 11.6%, respectively, supported by higher oil prices and a shift towards defensive sectors. The Nasdaq Composite fell 5.3%, as results from Alphabet, Amazon and Meta raised doubts on whether heavy AI spending will translate into sustainable free cash flow and earnings growth. Alphabet experienced its largest single-day decline in history, while Intel fell nearly 30% in a single session on weak forward revenue guidance.

The S&P/ASX 200 Index rose by 1.4%, outperforming global markets. Investors rotated into defensive sectors and financial institutions as momentum exposures sold off, with utilities and financials rising by 9.3% and 7.0% respectively. In line with September, information technology and materials were the main detractors, dipping 3.5% and 7.8% respectively. Emerging markets declined 8.0%, with major AI-adjacent stocks leading the index lower.

The US Federal Reserve held interest rates steady, with fixed income markets shrugging off concerns around government debt sustainability, higher core inflation and increased interest rate expectations. US bonds and Australian bonds rebounded 2.5% and 1.4% respectively, as investors sought refuge from the rout in mega-cap technology equities. Credit performed strongly as global bond yields eased, with investment grade and high-yield credit finishing 2.5% and 0.7% higher. Despite this, corporate bond spreads approached 18-month highs with investors weighing record hyperscaler corporate issuance and concerns over the balance sheets of lower quality issuers in a rising base rate environment.

Oil rose by 10.7% with investors weighing supply risks following the ongoing Middle East war. Gold fell sharply by 6.4% amid the late-month sell-off in high-beta trades, with investors also pricing in further short-term interest rate hikes.

Things That Matter

1.	Bond markets are pricing in short-term interest rate increases as central banks become increasingly hawkish in tone
2.	Deglobalisation and geopolitical tensions are fragmenting global supply chains
3.	AI adoption is still early stage, yet its effects are reshaping competitive dynamics and economies
4.	Big tech's record AI capex issuance is creating balance sheet leverage, corporate debt supply and increased interest rate sensitivity
5.	Government spending and fiscal debt burdens are pushing bond yields to multi-year highs across markets

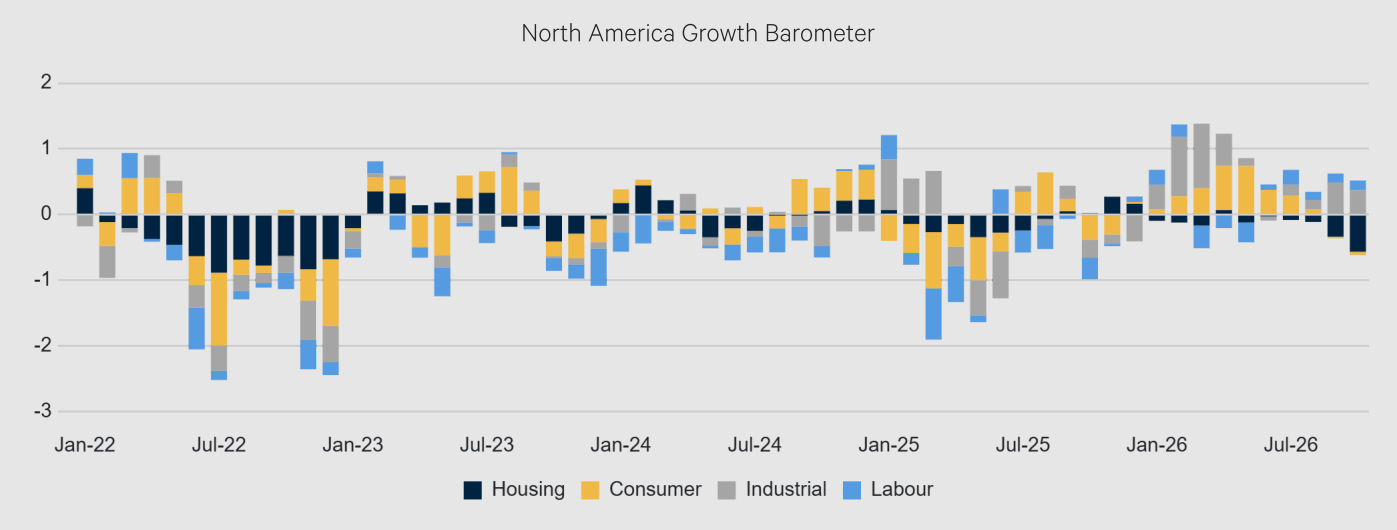
Asset Class Positioning

Asset Class	Strong Underweight	Underweight	Neutral	Overweight	Strong Overweight
Australian Equities	○	●	○	○	○
Global Equities	○	○	○	●	○
Property	○	○	●	○	○
Infrastructure	○	○	○	●	○
Government Bonds	●	○	○	○	○
Corporate Debt	○	○	○	○	●
Cash	○	○	○	●	○
Total Growth vs Defensive	○	○	●	○	○

Macroeconomic Overview

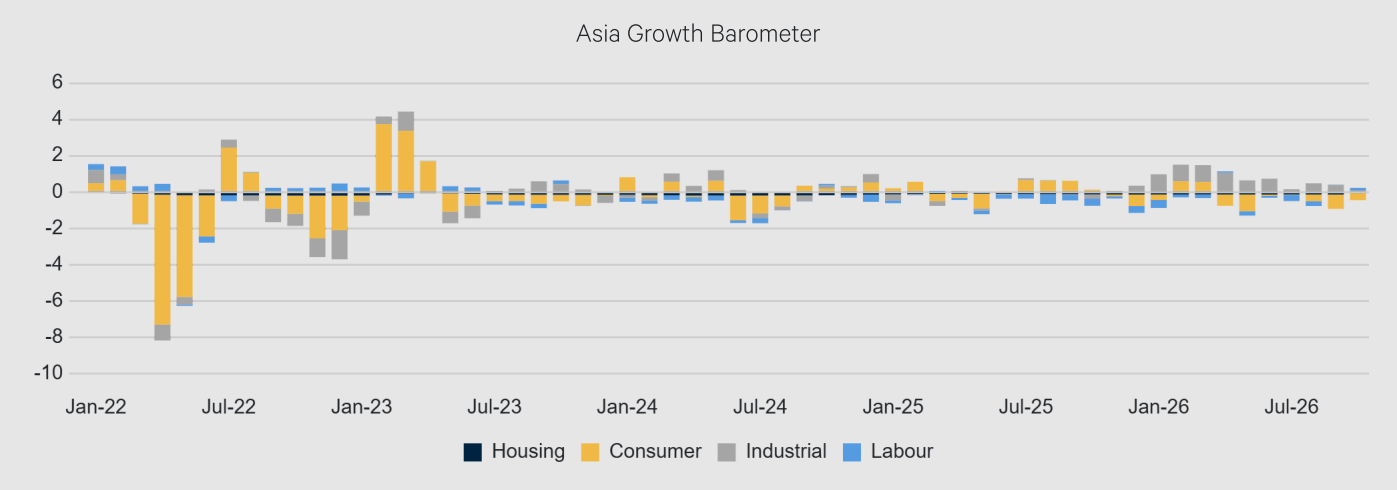
North America

The US Federal Reserve left the Federal Funds Target Rate unchanged at its October meeting. The recent surge to multi-year highs in government benchmark bond yields subsided, as investors took refuge in risk-off assets. Investors also priced the higher probability of a Democratic sweep of the House and Senate. The Fed's preferred measure of core inflation in September was higher than expected, following a string of results that have been above the Fed's target. Overall, the US economy remains healthy with strong GDP growth and manufacturing output fuelled by AI-related capex. Although there has been softening in the labour market and consumer confidence is low, actual consumer spending remains solid. The housing sector has also shown signs of weakness in construction and prices, caused by higher mortgage rates and worsening affordability, particularly in lower income households.



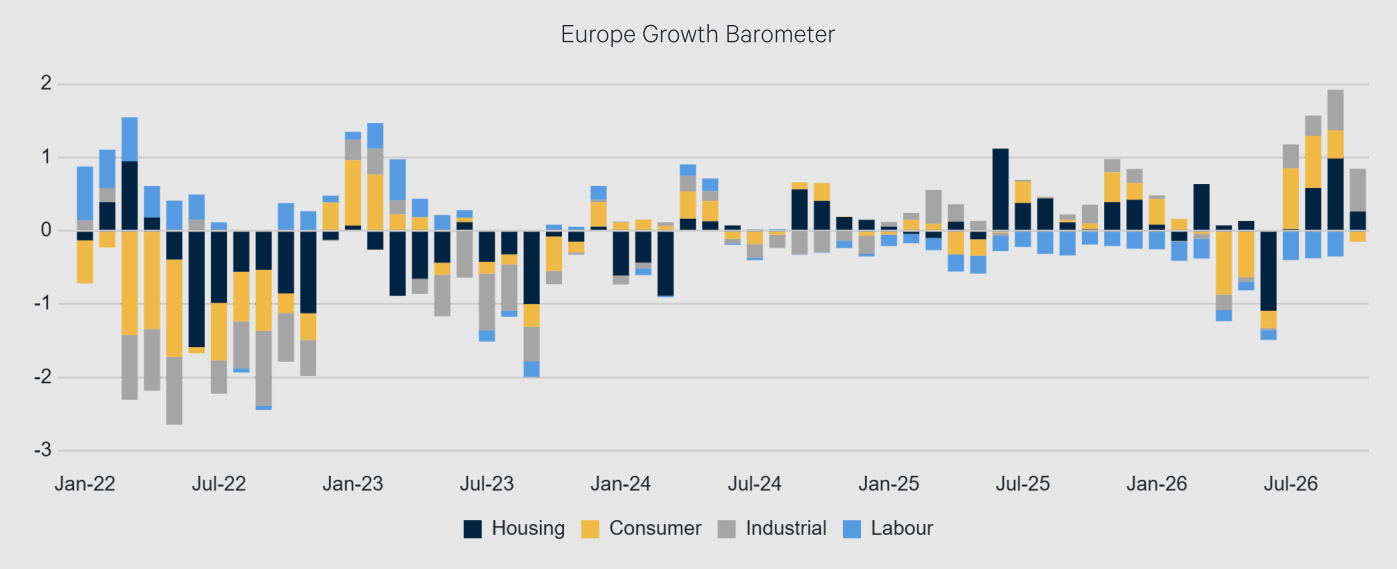
Asia

China's economy flashed deteriorating demand signals in recent months, with weak inflation, employment and consumer demand. That said, Q3 GDP growth outperformed expectations as the Chinese economy remains two-speed in nature, given most sectors are sluggish outside of technology-related and government-favoured sectors. In previous months, this has prompted Chinese domestic mini-stimulus measures to revive frail demand and to help achieve its growth targets. AI capex continues to underpin strong export and manufacturing data in South Korea and Taiwan, with China also seeing a modest lift. In Japan, the BoJ held interest rates but signalled further hikes to counter upward pressure on import and wholesale prices from higher energy costs and yen weakness. The Japanese Yen remains near multi-decade lows, although it has mildly rebounded on the back of co-ordinated US-Japan currency market intervention and expectations of further BoJ tightening.



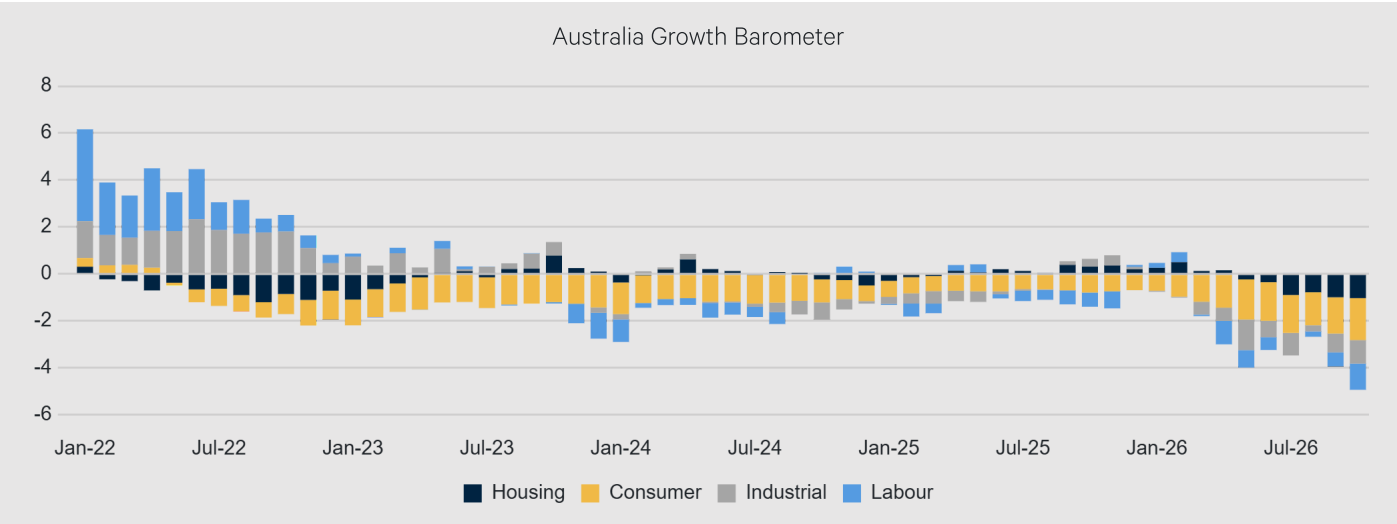
Europe

The ECB held the deposit facility rate at 2.50% in October, with further interest rate rises expected in future quarters. The primary driver has been higher inflation prints catalysed by higher energy prices stemming from the Middle East conflict. Major European economies have exhibited modest GDP growth in 2026, with sturdy manufacturing data underscored by AI and defence-related spending. However, the Euro area continues to exhibit structurally weak labour markets, with consumer data broadly rebounding in recent times despite weakness in October. France remains fundamentally challenged with weakening growth, surging government bond yields and severe social pressures. The UK economy has delivered mild GDP growth, soft employment data and robust inflation with market participants pricing in an interest rate hike in November 2026. Structurally, Europe's labour force demographics and productivity are hindrances to longer-term growth, while elevated energy costs remain headwinds across several countries and industries.



Australia

The RBA did not convene in October, though a cash rate increase was widely expected at the November meeting. Inflation increased once again, and remains above target, given ongoing domestic capacity and energy cost pressures from the Middle East war. The unemployment rate remains near multi-year highs with falling real wage growth. The Cotality Home Value Index has materially fallen in 2026, as domestic house prices in capital cities have been affected by higher interest rates and investor tax changes. Consumer and business sentiment remains subdued relative to historical levels, amid cautious spending and tightening monetary policy conditions. The RBA has flagged lacklustre productivity growth, with economic growth driven almost solely by population growth. This provides structural headwinds with little prospect of short-term improvement without materially increasing inflation.



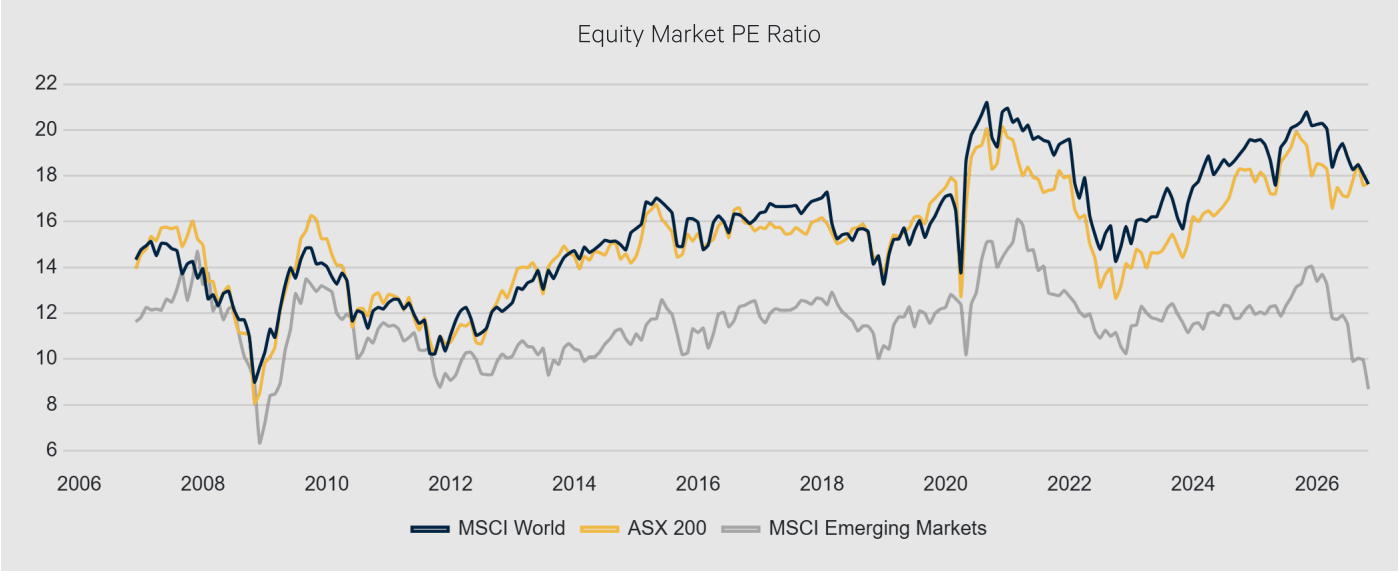
Asset Class Overview

Australian Equities	**Underweight**
Global Equities	**Overweight**
Government Bonds	**Strong Underweight**
Corporate Debt	**Strong Overweight**
Infrastructure	**Overweight**
Property	**Neutral**



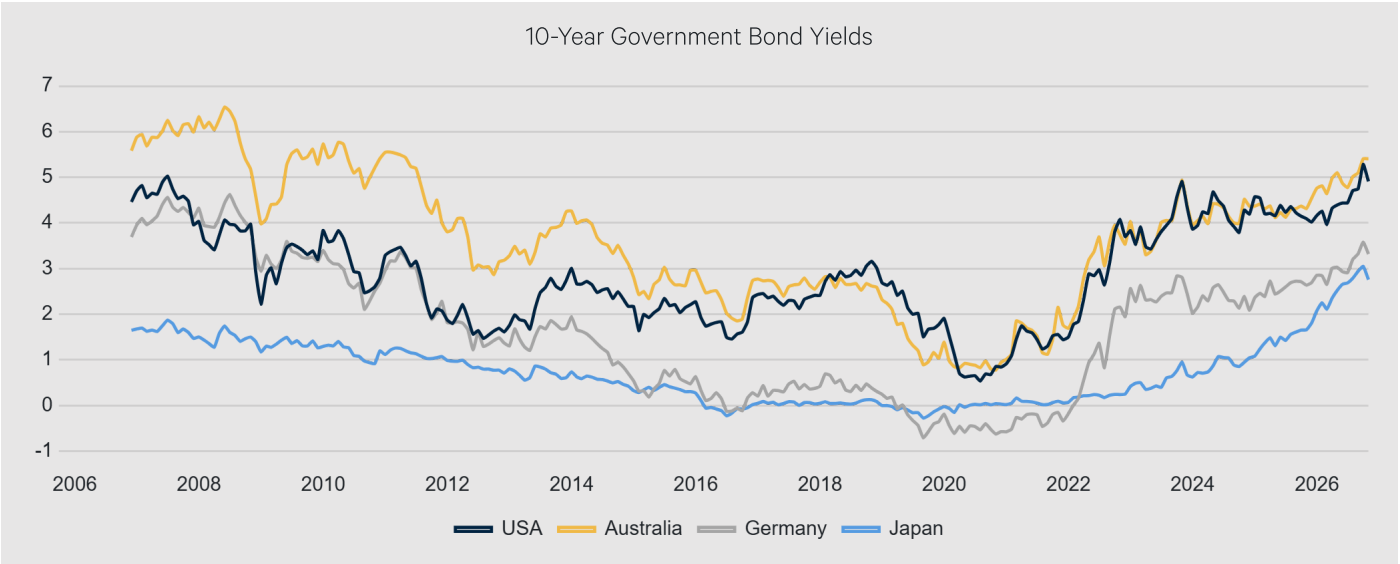
Equities

Global equities finished lower, amid a rotation into defensive sectors as several leading US technology mega-caps missed lofty earnings expectations in late October. The MSCI ACWI and S&P 500 Index fell by 1.5% and 0.9% respectively. The Nasdaq Composite dipped 5.3% as it experienced its worst month since March 2025, amidst fears over AI capex issuance and free cash flow generation. Despite this, US earnings growth remains strong with record forward-looking earnings and broadening positive earnings revisions across stocks supporting an 18.8x S&P 500 forward PE multiple. The S&P 500 Equal-Weight Index reversed its substantial underperformance from September, as it outperformed market-capitalisation by its widest margin since 2009. The S&P/ASX 200 Index rallied by 1.4%, partially reversing a sharp sell-off in September as investors pivoted into defensive stocks and leading financials constituents. Emerging markets fell by 8.0% as South Korean and Taiwanese AI-related momentum stocks followed leading hyperscalers lower.



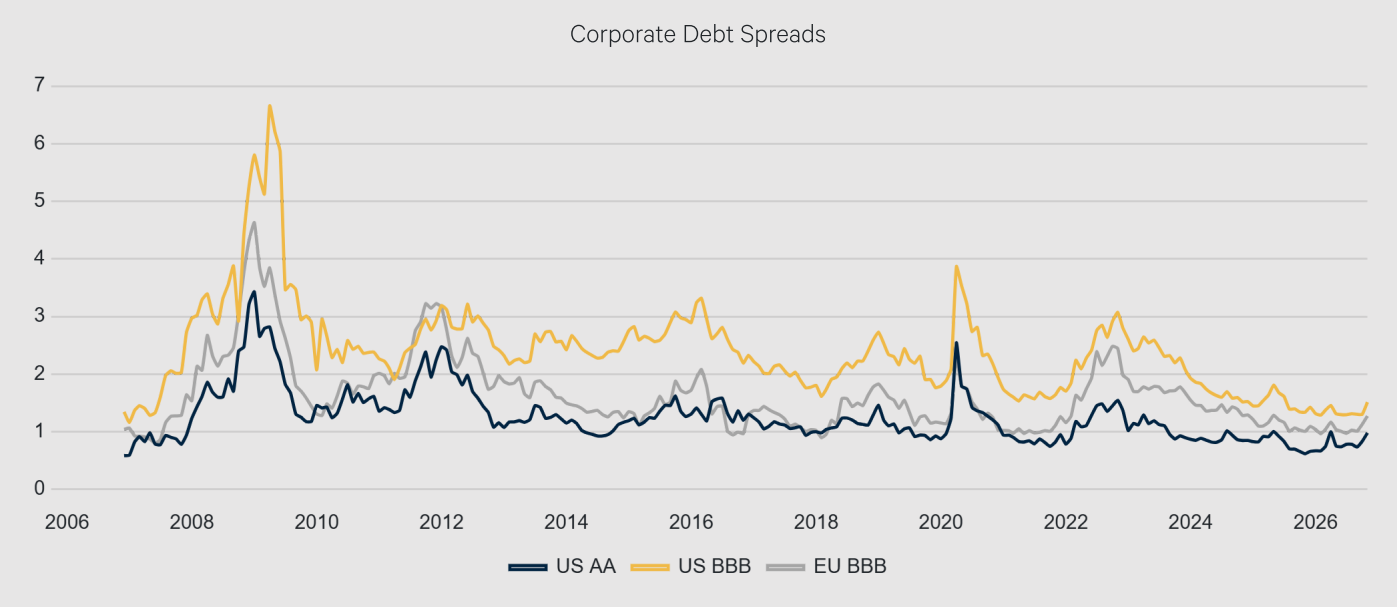
Bonds

In October, global bonds rallied as the 10-year and 30-year benchmark yields in major economies eased from multi-year highs. This was underscored by investor demand for sovereign debt amidst risk-off sentiment from equity markets. However, global bonds have experienced continued volatility in recent months, as yields have repriced higher in light of elevated uncertainty across financial markets. Broadly speaking, a combination of inflation and fiscal concerns has driven persistent bond sell offs in 2026. Major central banks continue to grapple with stubborn inflation data stemming from surging energy prices, data centre capex and strong economic growth. As such, markets continue to price in near-term interest rate rises across central bank policy paths in major economies.



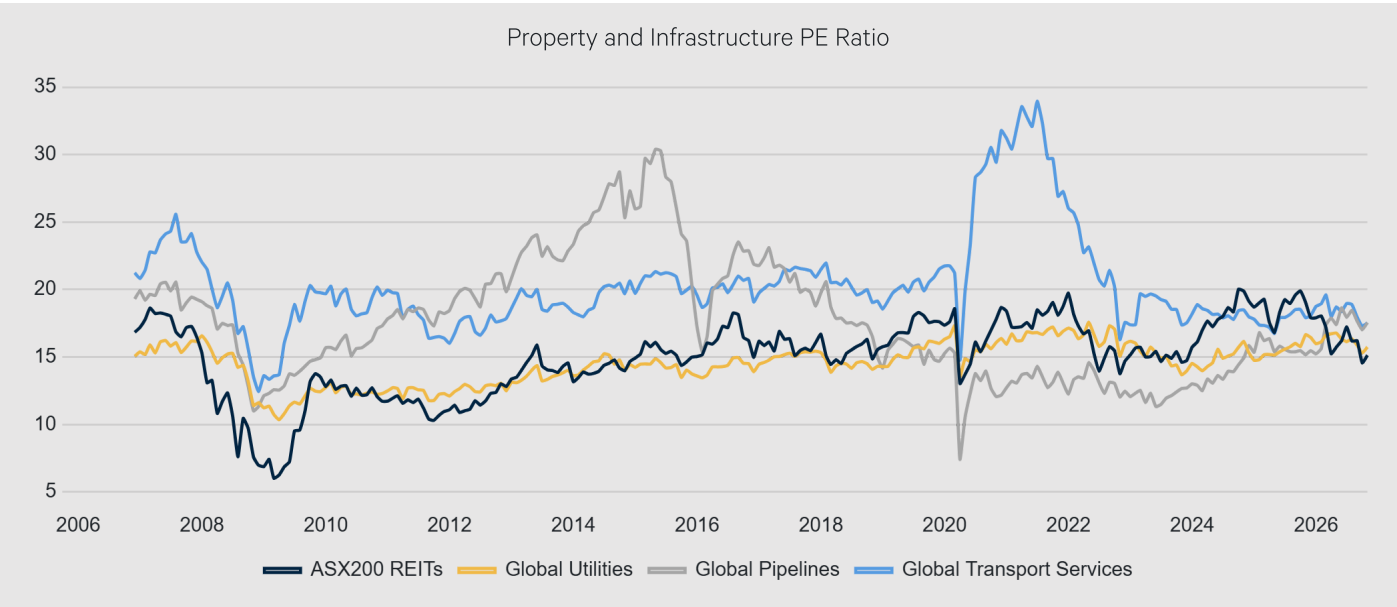
Corporate Debt

Global investment grade and high-yield corporate spreads continued to widen in October in response to broader market uncertainty, though they remain tight by long-term historical standards. Robust domestic corporate balance sheets have supported floating rate Australian credit, which has been resilient through recent bouts of global volatility, driven by strong demand for income and broadly healthy fundamentals. Domestic credit remains compelling, offering a yield premium over comparable offshore exposures. The higher quality and more liquid domestic credit exposures possess stable and cash rate-aligned coupons. As such, they have been relatively protected from recent sector dispersion stemming from higher domestic interest rates and weakening consumption.



Property / Infrastructure

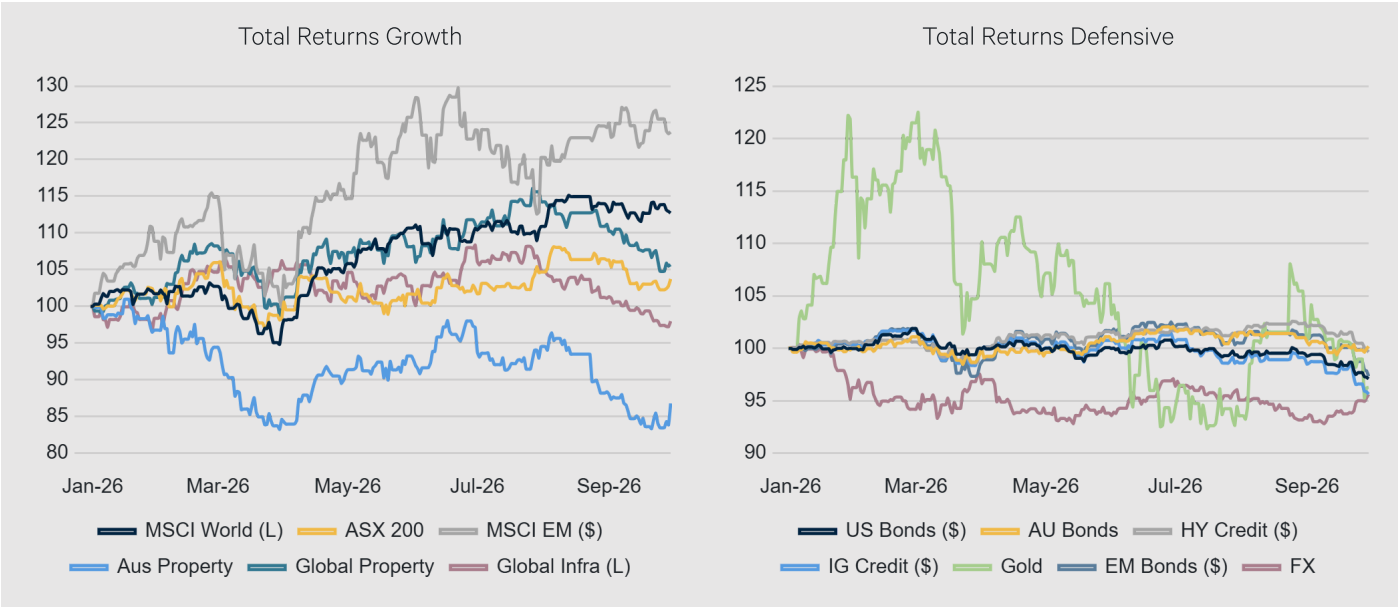
In October, listed infrastructure delivered strong performance amidst falling yields and strength in utilities, with listed property also increasing mildly. These asset classes typically have strong inflation hedging characteristics over the long term. REIT income typically grows annually through fixed or inflation-linked mechanisms, providing multi-year structural growth tailwinds. Infrastructure delivers essential services with earnings visibility spanning long periods through contracts and regulatory frameworks. Current valuations are compelling relative to global equities as power and digital connectivity demand drives ongoing infrastructure expansion.



Asset Class Returns

As at 31 October 2026	Latest Value	Monthly	Quarterly	Half Year	Yearly
MSCI World All Countries	3,219	-1.5%	0.1%	5.1%	13.1%
S&P/ASX 200	123,816	1.4%	0.5%	4.6%	3.7%
MSCI Emerging Markets	4,362	-8.0%	-5.4%	-0.7%	14.4%
S&P 500	17,011	-0.9%	1.5%	5.7%	12.1%
Nasdaq Composite	31,426	-5.3%	0.4%	2.5%	7.9%
Euro Stoxx	379	-1.5%	-2.7%	5.0%	12.3%
Topix	7,139	-3.5%	-0.0%	7.5%	21.7%
Australian Property	343	1.3%	-7.0%	-3.2%	-13.4%
International Property	111	0.3%	-7.2%	0.4%	7.6%
Global Infrastructure	183	7.3%	0.8%	3.7%	7.3%
Australian Bonds	1,073	1.4%	0.1%	2.3%	-0.5%
US Bonds	610	2.5%	0.4%	-0.4%	-0.3%
Emerging Market Bonds	154	1.9%	-1.3%	-1.5%	-0.3%
High Yield Credit	250	0.7%	-1.1%	-0.8%	1.6%
Investment Grade Credit	278	2.5%	-0.6%	-1.9%	-1.8%
US $ / Australian $	0.7000	0.9%	0.1%	-1.0%	7.5%
Australian $ / UK Pound	1.9000	0.2%	-0.5%	0.5%	-5.3%
S&P GSCI Commodity TR	6,371	4.8%	16.5%	9.2%	62.1%
Crude Oil-WTI	108	10.7%	24.8%	-1.0%	74.2%
Gold Bullion	3,896	-6.4%	-3.7%	-15.7%	-2.1%

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



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