

Global Markets Advance, Measured Policy Outlook

Markets rallied in October on easing inflation and trade progress. Supportive macro trends persist, but diversification beyond U.S. mega-cap equities and rate-sensitive assets is increasingly more critical.



**MARKET REVIEW
OCTOBER 2025**

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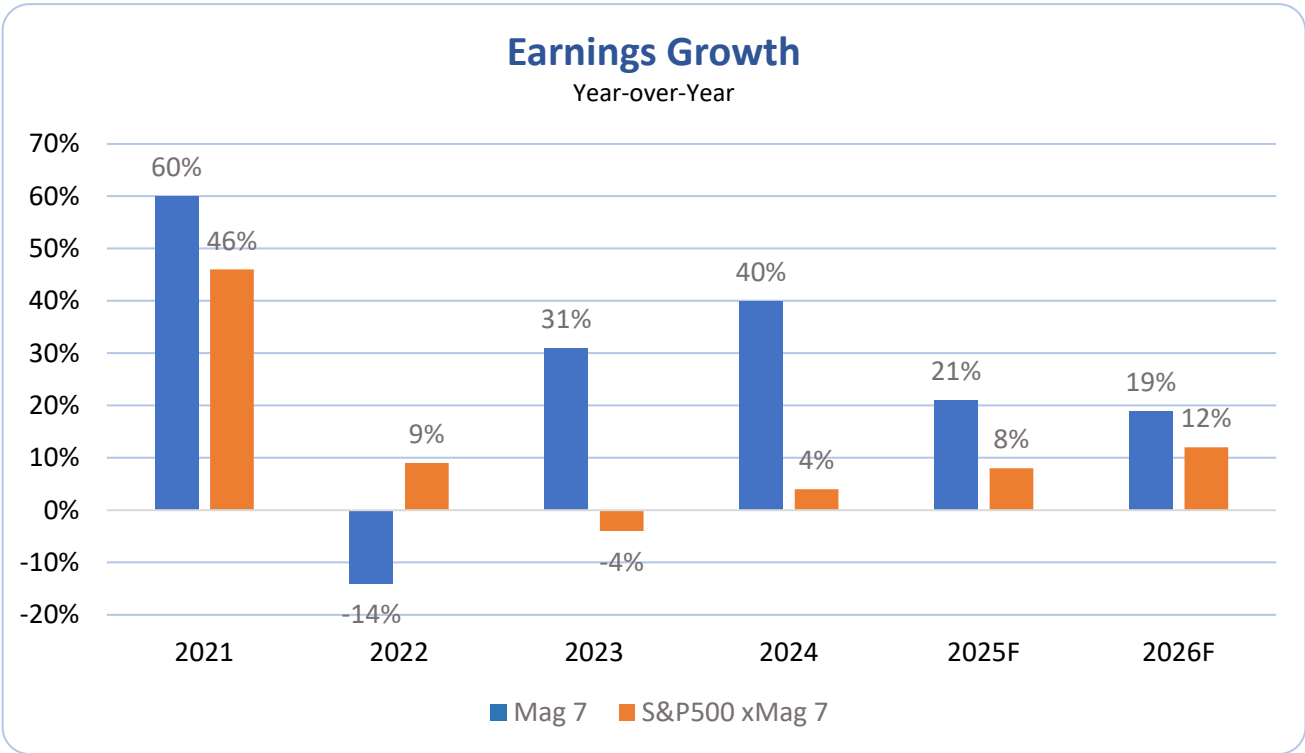
October proved to be a constructive month across most major asset classes, as moderating inflation and progress in U.S.–China trade negotiations helped lift sentiment. The Federal Reserve delivered a 25-basis-point rate cut to a 3.75–4.00% target range but signaled a potential pause ahead, prompting markets to temper expectations for additional easing. Global equities rallied, led by Japan’s policy-driven surge and strong gains across Asian semiconductor markets, while the U.S. advanced on resilient earnings and persistent enthusiasm for AI-related investment. Still, with the current bull market now up 92% from its 2022 lows, valuations appear stretched and market leadership increasingly concentrated, leaving sentiment vulnerable to “AI fatigue.” Fixed income markets reflected a mix of caution and opportunity. Investment-grade spreads widened on tariff and auto-sector concerns even as Treasury yields declined modestly and securitized assets outperformed. Meanwhile, real assets benefited from easing inflation and commodity strength, though real estate remained under pressure. Overall, October underscored the tension between supportive macro trends and the growing need for diversification beyond U.S. mega-cap equities and rate-sensitive assets.

Monetary Policy Update: The Federal Reserve cut rates by 25 basis points to a target range of 3.75–4.00%, supported by stress in the labor markets. However, Chair Jerome Powell signaled a more cautious stance, noting that another cut in December was not guaranteed. Markets interpreted his comments as a potential pause in the easing cycle, leading investors to scale back expectations for future rate cuts, removing nearly two quarter-point reductions from forecasts over the next year.

Equities: Global equity markets posted broad gains in October, led by Japan’s TOPIX, which benefited from both policy optimism and currency weakness. Sanae Takaichi’s appointment as Japan’s first female prime minister and her commitment to fiscal and monetary expansion boosted investor sentiment, while a softer yen further supported export-oriented equities. Across Asia, the MSCI Asia ex-Japan Index climbed 4.5%, with Korea and Taiwan seeing sharp rallies driven by improving U.S.–China trade dynamics and strong demand for semiconductors tied to AI and electronics production. Argentina stood out among emerging markets, where President Javier Milei’s party’s sweeping midterm victory fueled a 64% monthly surge in the MSCI Argentina Index. In developed markets, the S&P 500 advanced 2.3%, rebounding from early-month trade-related volatility as progress in U.S.–China negotiations and strong third-quarter earnings lifted sentiment. Europe lagged somewhat, with the MSCI Europe ex-UK Index up 2.1%, weighed down by political uncertainty in France and limited exposure to the commodity and AI-driven sectors that powered stronger performance elsewhere.

Now entering its fourth year, the current bull market has gained 92% since the October 2022 low. An impressive run, though still shorter and smaller than the average S&P 500 bull market, which typically lasts about two years longer and rises roughly 85% more. While median comparisons suggest additional upside potential, the rally remains heavily reliant on continued AI-related capital spending. Any slowdown in that trend could pose significant risks to an index increasingly concentrated in AI-driven names. As we’ve written, valuations remain a concern, yet today’s market differs notably from

the 2000 tech bubble. The 50 largest S&P 500 companies currently trade below 50x forward earnings, far less extreme than the valuations seen in 2000. Corporate profitability is also much stronger and more broadly based. Historical patterns show that earnings typically peak before markets turn, as seen in 2000 and 2007, but current projections for 2025 and 2026 have yet to roll over. This suggests the earnings cycle still has momentum, though upcoming reports from the large tech firms will shape the near-term narrative. Overall, the biggest risk remains a shift to “AI fatigue,” which would challenge one of the market’s core pillars of strength.



Source: JP Morgan Asset Management. As of October 31, 2025

Fixed Income: Investment-grade fixed income markets faced several crosscurrents in October, including the government shutdown, renewed tariff tensions, and stress in the auto sector. The federal shutdown on October 1st halted key economic data releases but had little direct impact on spreads. However, President Trump’s subsequent announcement of broad tariffs on Chinese imports widened IG spreads, while the collapse of a subprime auto issuer and a bankruptcy in the auto-parts space raised concerns about weaker credits. The Federal Reserve’s 25-basis-point rate cut later in the month helped stabilize sentiment, though Chair Powell’s caution about future cuts tempered expectations. Treasury yields fell modestly across maturities, with the 2-, 10-, and 30-year notes down 3, 7, and 8 bps, respectively. Corporate credit lagged comparable Treasuries as spreads widened across most sectors. Industrials underperformed amid tariff-related cost pressures, financials widened as banks disclosed auto-credit exposures, and utilities lagged despite growing optimism around AI-driven electricity demand. Securitized sectors were more resilient. Agency RMBS continued its strong run, outperforming Treasuries thanks to lower rate volatility and tighter spreads. Within CMBS, agency deals outperformed, while non-agency issues slipped slightly amid heavy supply. ABS

performance was subdued as roughly \$40 billion in new issuance led to modest spread widening, especially among subprime auto loans following issuer distress.

U.S. Treasury Yield Changes

	YTM	Change from Previous Month
3 Month	3.80%	-0.13%
1 Year	3.68%	+0.06%
2 Year	3.57%	-0.03%
3 Year	3.58%	-0.04%
5 Year	3.69%	-0.05%
10 Year	4.08%	-0.07%
30 Year	4.65%	-0.08%

Source: Bloomberg. As of October 31, 2025

Real Assets: U.S. inflation continued to ease, coming in below expectations despite modest tariff passthrough. Services and rent inflation remain on a downward trajectory, prompting the Federal Reserve to implement another rate cut. Commodities rose 2.9% overall, driven by industrial and precious metals, while gold and silver have surged 52% and 69% year to date. Energy was a laggard, with crude oil slipping 1.2%. In equities, REITs have shrunk to just 1.9% of the S&P 500 (SPY), reflecting the index's increasing dominance by technology and growth sectors and a shift in investor interest toward alternatives such as crypto. Commercial real estate's rebound has lost momentum, with the office sector still under pressure. The Green Street Commercial Property Index climbed 0.2% in October and is up 3.1% over the past twelve months. While fears of a total collapse have faded, structural headwinds persist. Apartment valuations have stabilized, but the narrow spread between cap rates and Treasuries continues to constrain relative appeal. Overall, CRE risks remain concentrated in office properties, where work-from-home trends keep occupancy low.

S&P 500 Sectors	Weight (%)
Information Technology	37.78
Financials	13.54
Consumer Discretionary	10.53
Communication Services	10.14
Health Care	8.86
Industrials	8.29
Consumer Staples	4.91
Energy	2.89
Utilities	2.35
Real Estate	1.94
Materials	1.78

Source: SPY

Diversifying Strategies: Hedge funds extended their winning streak in October, marking a sixth straight month of gains. Macro strategies led performance, boosted by strong moves in equities, metals, and currencies. Equity Hedge strategies also delivered positive returns, with Healthcare once again standing out alongside steady contributions from Energy and Technology securities. Event-Driven managers benefited from ongoing AI-related special situations and M&A activity, with the category advancing despite valuation concerns. Relative Value strategies were supported by rate-sensitive trades and strength in sovereign and volatility-oriented sub-indices, as investors recalibrated expectations for future rate cuts. Overall, hedge funds showed resilience amid shifting macro conditions and evolving tariff dynamics.

Private equity dealmaking gained momentum in the third quarter as investor confidence improved and markets stabilized. Both deal volume and value rose on a quarterly and annual basis, with total deal value already surpassing 2024 levels. Exit activity was mixed: overall exit value continued to decline for a third straight quarter, but the number of exits jumped 22% quarter over quarter, suggesting healthier market liquidity and more assets moving through the system. PE-backed IPOs also showed strength through Q3, though the recent government shutdown has created near-term uncertainty for that recovery. Looking forward, the Fed's September rate cut and potential further easing later this year could support additional deal and exit momentum. However, without a sharp rebound in exits by year-end, fundraising is expected to remain constrained, likely recording a second consecutive annual decline in both fund count and capital raised.

Exhibit 1: Asset Class Returns (2016 – YTD 2025)

2016	2017	2018	2019	2020	2021	2022	2023	2024	YTD
High Yield 17.1%	Intl Equity 27.2%	IG Bonds 0.0%	US Equity 31.5%	US Equity 18.4%	US Equity 28.7%	Cmdty 16.1%	US Equity 26.3%	US Equity 25.0%	Intl Equity 28.6%
US Equity 12.0%	US Equity 21.8%	High Yield -2.1%	REITs 23.1%	60/40 14.0%	REITs 27.2%	Diversifying -1.7%	60/40 18.0%	60/40 15.5%	US Equity 17.5%
Cmdty 11.8%	60/40 14.5%	60/40 -2.6%	60/40 22.4%	Intl Equity 10.7%	Cmdty 27.1%	High Yield -11.2%	Intl Equity 15.6%	Diversifying 9.8%	60/40 13.2%
60/40 8.3%	REITs 11.4%	US Equity -4.4%	Intl Equity 21.5%	Diversifying 8.4%	60/40 16.6%	IG Bonds -13.0%	High Yield 13.5%	High Yield 8.2%	Cmdty 12.5%
REITs 5.0%	Diversifying 7.5%	Diversifying -4.7%	High Yield 14.3%	IG Bonds 7.5%	Diversifying 9.8%	Intl Equity -16.0%	REITs 10.9%	Intl Equity 5.5%	REITs 9.6%
Diversifying 4.8%	High Yield 7.5%	REITs -4.7%	Diversifying 8.9%	High Yield 7.1%	Intl Equity 7.8%	60/40 -16.1%	Diversifying 7.4%	Cmdty 5.4%	Diversifying 8.9%
Intl Equity 4.5%	IG Bonds 3.5%	Cmdty -11.3%	IG Bonds 8.7%	Cmdty -3.1%	High Yield 5.3%	US Equity -18.1%	IG Bonds 5.5%	REITs 2.0%	High Yield 7.4%
IG Bonds 2.7%	Cmdty 1.7%	Intl Equity -14.2%	Cmdty 7.7%	REITs -8.2%	IG Bonds -1.5%	REITs -24.4%	Cmdty -7.9%	IG Bonds 1.3%	IG Bonds 6.8%

Source: IG Bonds = Bloomberg US Aggregate; US Equity = S&P500; Intl Equity = MSCI ACWI xUS; High Yield = Bloomberg US Corporate High Yield; REITs = FTSE EPRA/NAREIT Developed; Cmdty = Bloomberg Commodity; Diversifying = HFN Hedge Fund Aggregate; 60/40 = 60%S&P500/40%Bloomberg US Aggregate

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