T. Bailey Weekly Update

2nd November 2026

October in perspective

In this week's Weekly Update, **T. Bailey Fund Manager, Elliot Farley** examines October's changing equity market leadership, as some of the strongest performers of recent years came under pressure while previously overlooked sectors made gains.

The shift has brought renewed attention to the valuations and financing risks associated with AI, particularly as developers face substantial costs and computing commitments.

The update explores how our exposure to AI is evolving and why investments in areas such as healthcare, insurance and other specialist strategies provide additional sources of opportunity across our portfolios.

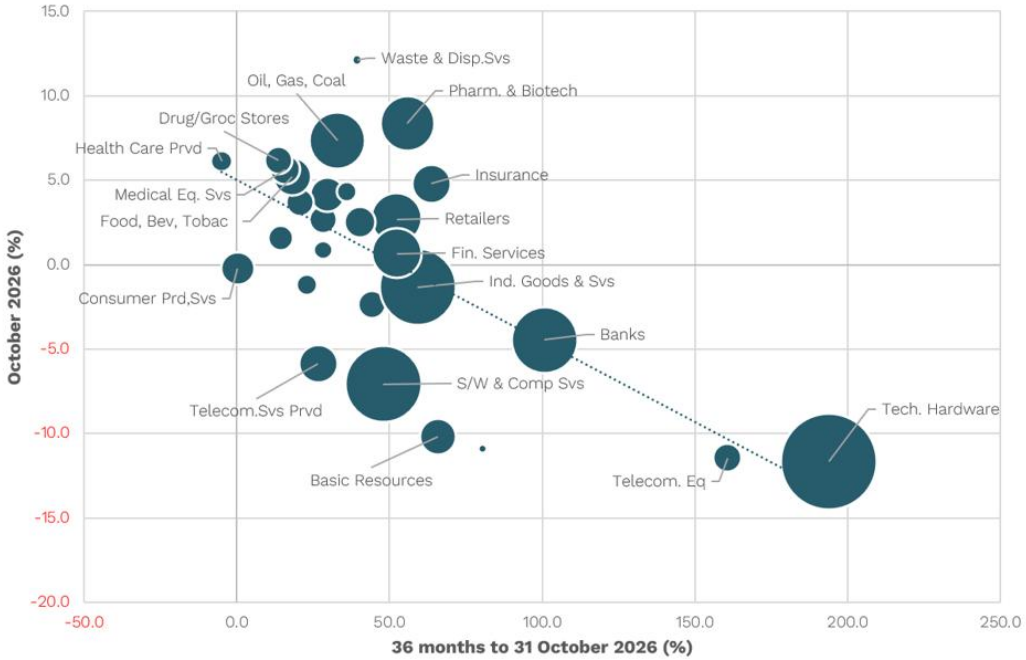
Markets do not need to move in one direction for portfolios to make progress. The challenge is to retain exposure to long-term opportunities without relying too heavily on the same businesses, expectations or sources of growth.

Sector returns for October put numbers to the change in market leadership we covered last week. Several areas that had delivered the strongest gains over three years were among the month's weakest performers whilst the laggards of recent years made respectable gains.

Technology hardware stands out in the chart below. The sector gained roughly 190% over the three years to the end of October, but fell around 12% during the month.

World Sector Performance: October 2026 against 3-year Performance

Bubble sizes are proportional to each sector's market capitalisation



Source T. Bailey, LSEG Workspace. Total return, GBP terms.

It is too early to call this a lasting reversal. Equity market leadership has changed direction several times this year, and a single month alone is not a reason to overhaul portfolios.
However, AI developer Anthropic's S-1 filing ahead of its proposed stock-market listing added to the financing questions we raised last week. Rapid revenue growth sits alongside substantial expenses and sizeable computing commitments. Demand for AI is growing, but so is the capital required to deliver it.

While we have not abandoned the theme our exposure to it has steadily shifted towards businesses using AI to improve their operations, alongside selected Asian chip and memory suppliers benefiting from the infrastructure build-out. We see more attractive valuations in these suppliers, reflecting less demanding expectations than in some better-known AI names.

But lower valuations do not insulate them from financing pressures elsewhere in the industry. If AI developers struggle to raise capital, infrastructure spending could slow and demand for chips and memory would consequently suffer. Whilst lower valuations improve the starting point for generating returns, these remain cyclical businesses.

Furthermore, October showed that returns are available beyond the market leaders of recent years. Holdings such as Havelock Global Select, Polar Capital Healthcare Opportunities, Polar Capital Global Insurance and Regnan Sustainable Water and Waste give us exposure to businesses with different earnings drivers. We remain invested in AI's development, without relying on it as the only source of growth in our investment portfolios.

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