T. Bailey Market Review

October 2026

October brought greater scrutiny of how the AI infrastructure build-out will be financed, contributing to sharp moves across technology and Asian equities. The review also considers higher energy prices, monetary policy, bonds, gold and how diversification affected T. Bailey portfolio holdings.

Paying for the Build-Out

- **A technology-led sell-off followed record highs:** US equities reached record highs early in October but ended the month lower with a sharp sell-off on 30 October. The equal-weighted S&P 500 held up far better than its market-cap-weighted counterpart.
- **Asian chipmakers felt the strain:** Asia Pacific ex Japan equities fell 10% in sterling terms, even though Samsung and SK Hynix reported sharply higher quarterly profits.
- **Financing became the big question for AI:** CoreWeave's credit default swaps widened above 1,000 basis points, SpaceX secured around US$40bn of debt and Meta announced plans to raise up to US$95bn of equity.
- **The US Federal Reserve paused:** The Fed held at 3.75-4.00% with two votes for an increase, while US inflation reached 3.7%, leaving markets expecting a further rise in December.
- **Oil reached US$117 yet US Treasuries rallied and gold fell:** Brent reached US$117 by the month end whilst the US 10-year yield fell below 5% and the iShares Physical Gold ETC lost 7.1% in sterling terms.

Back in July we noted that investors were beginning to ask who would earn a return on the money being spent to build artificial intelligence, and October brought a natural follow-up question of who pays for it, as the cost, funding and cash generation of the build-out attracted more scrutiny.
The market consequently became more selective between companies benefiting from strong demand and those carrying the rising cost of meeting it, so that several of the areas which had delivered the strongest gains over recent years were among October's weakest, whilst recent laggards made respectable progress. Although a single month does not make a trend, and leadership has changed direction several times this year, it is a useful reminder of why we seek to diversify the T. Bailey portfolios across multiple sources of growth.

A bill for the build-out

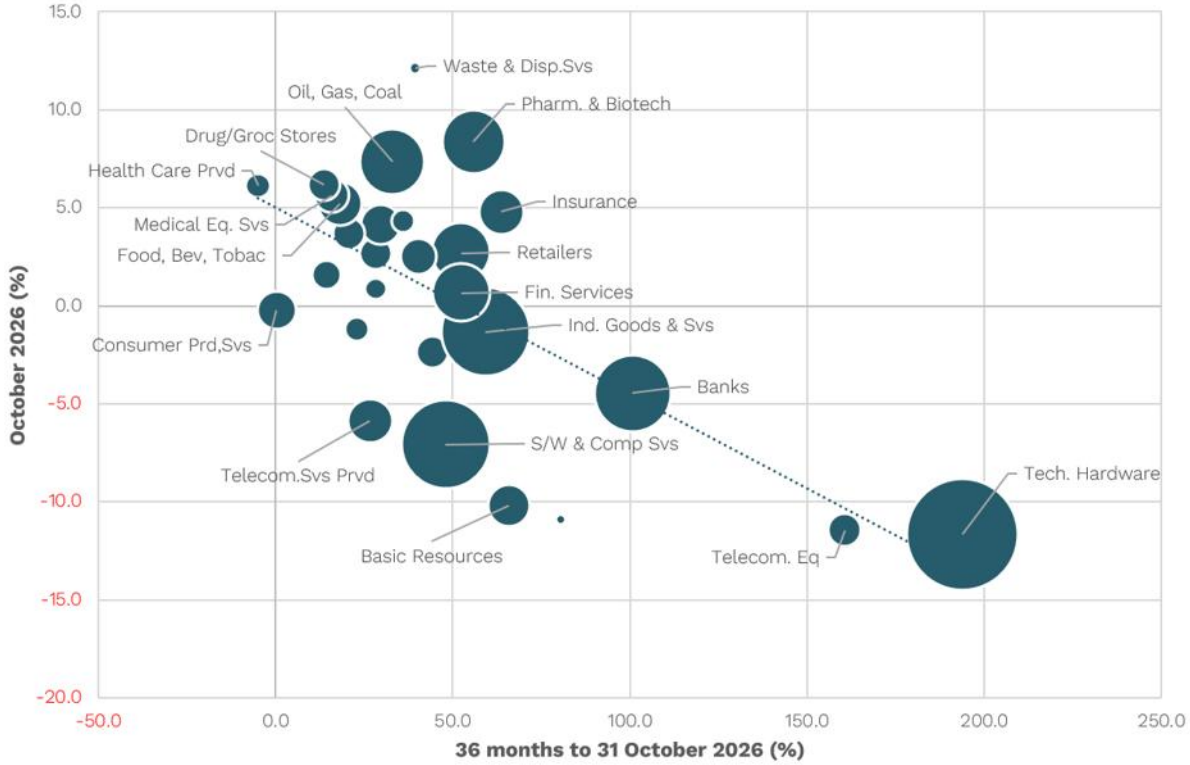
The month began with the S&P 500 and Nasdaq Composite at record closing highs and with semiconductor results to match, as Samsung and SK Hynix both reported substantial increases in quarterly operating profits. However, attention quickly moved from the size of the opportunity to the financial commitments it entails. AI cloud provider CoreWeave's credit default swap spreads widened above 1,000 basis points as investors reassessed its funding, SpaceX secured around US$40bn of debt to buy AI chips and Meta announced plans to raise up to US$95bn of equity, which together indicate just how much capital the industry requires and how much of it must now come from investors rather

than from cash generated through earnings. Credit markets showed some of the same unease, with the holding in the Man High Yield Opportunities Fund falling 1.6%.

Company results followed a similar path, shifting the test from growing revenues to cash generation, with Meta's negative free cash flow and heavy capital expenditure plans unsettling investors, Alphabet falling sharply towards the end of the month after missing revenue expectations, and Intel falling on the final trading day after a disappointing outlook compounded by disruption at its Israeli factory. Anthropic, one of the leading AI developers, added to the debate with its filing ahead of its proposed listing. First-half revenues of US$16.3bn, alongside sizeable commitments for computing power, show that demand for AI is growing, and so is the capital needed to deliver it.

World sector performance: October 2026 against three-year performance

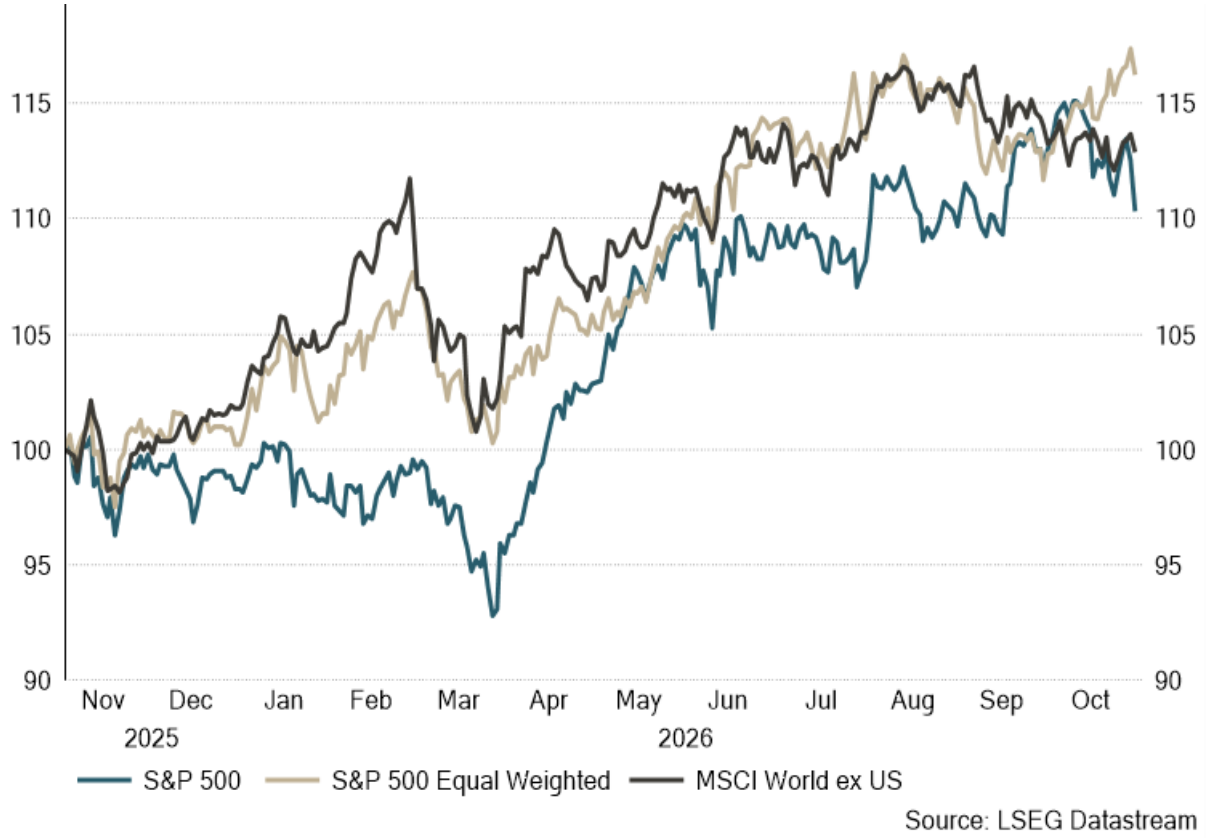
Bubble sizes are proportional to each sector's market capitalisation



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

The month ended with a pronounced sell-off, the S&P 500 closing at 7,580 and the Nasdaq Composite at 25,437 on 30 October, with healthcare and selected consumer shares attracting buyers as leadership rotated. Yet beneath the headline the equal-weighted S&P 500 rose by roughly 3.5% in October whilst the standard, market cap weighted, index fell by around 1.7% in sterling terms.

Same companies, different weights



Source LSEG Workspace. Total return, GBP terms.

Asia takes the strain

Asia Pacific and emerging market equities fell sharply over the month, with Korean technology shares reversing gains from earlier in the year despite strong results from Samsung and SK Hynix, modest valuations, and healthy near-term profit expectations. However, the question remains how long those profits can last if AI developers struggle to raise capital and infrastructure spending slows.

The Baillie Gifford Pacific Fund, with a sizeable allocation to Samsung, TSMC, SK Hynix and MediaTek, fell 12.7% against 7.9% for the average Asia Pacific ex Japan fund, whilst the HSBC MSCI Emerging Markets ETF fell 9.4%. The Merlin Fidelis Emerging Markets Fund fell a more modest 4.2% against 9.1% for the average emerging market fund as its manager owns relatively few of the chipmakers that dominate the index, albeit that has meant lagging in months such as August and September when such shares rallied strongly. In Japan, WS Zennor Japan Equity Income (-4.3%) again fell by less than the more growth-oriented JK Japan Fund (-6.8%).

Rates and bonds under pressure

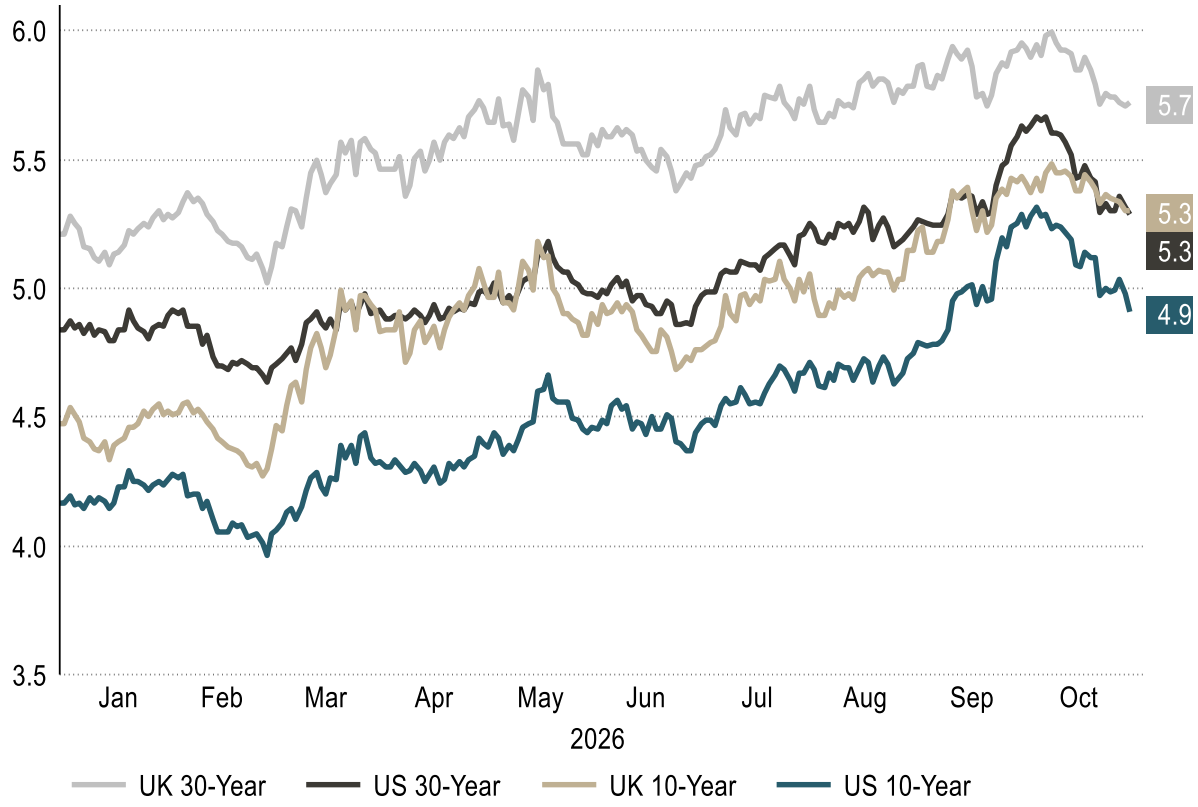
The US Federal Reserve held its policy rate at 3.75-4.00% a month after its first increase since 2023, with two committee members voting for a further rise and Chair Kevin Warsh offering little reassurance that the cycle has ended, so that markets continue to expect an increase in December. Recent economic data explains the caution, as September payrolls slowed to 29,000 and unemployment rose to 4.2%, yet third-quarter GDP grew at an annualised 3.4% and consumer prices rose 0.6% in September, lifting annual inflation to 3.7% with petrol accounting for more than half of the increase.

Other central banks faced similar dilemmas, with India and Canada raising rates, the ECB holding its deposit rate at 2.5% with a December increase still expected, and the Bank of Japan holding at 1.25% whilst signalling that it could tighten as soon as December.

Government bonds were volatile, with long-dated yields approaching multi-decade highs early in the month before a flight to safety helped US Treasuries recover, the 10-year yield falling back below 5% on 22 October and recording its largest monthly decline since 2023, which lifted the iShares $ Treasury Bond 7-10yr ETF (GBP hedged) by 2.7% and recovered most of September's loss. As we argued in our weekly update of 5 October, higher yields have restored income without making every maturity equally attractive, which is why we continue to prefer short and intermediate maturities rather than a wholesale return to long duration.

Fiscal credibility remained the concern in the UK, where the 30-year gilt yield briefly exceeded 6% and the 10-year reached about 5.53% early in the month, as inflation rose to 3.5% and public debt passed £3tn ahead of John Healey's first Budget on 28 October. The Budget proved cautious, meeting the government's borrowing rules (albeit with fiscal headroom reduced from £24bn to £15bn), raising taxes on banks, savings and landlords, and easing energy bills. The market reaction was muted, with the 10-year yield easing to around 5.3%. France was a further concern, with the 10-year yield rising above 5%, a wider spread over Bunds, and negative outlooks from both Moody's and Fitch.

US and UK 10-Year and 30-Year Benchmark Government Bond Yields: Year-to-Date



Source LSEG Workspace.

Oil and gold

Energy remained the link between geopolitics and the economic outlook, with repeated attacks on Saudi facilities and Gulf shipping taking Brent to over US$117 by the month end. While emergency stock releases have provided some relief, with America's Strategic Petroleum Reserve close to a forty-

year low, there is little cushion left. Higher fuel costs supported refiners but squeezed households and make life harder for central banks.

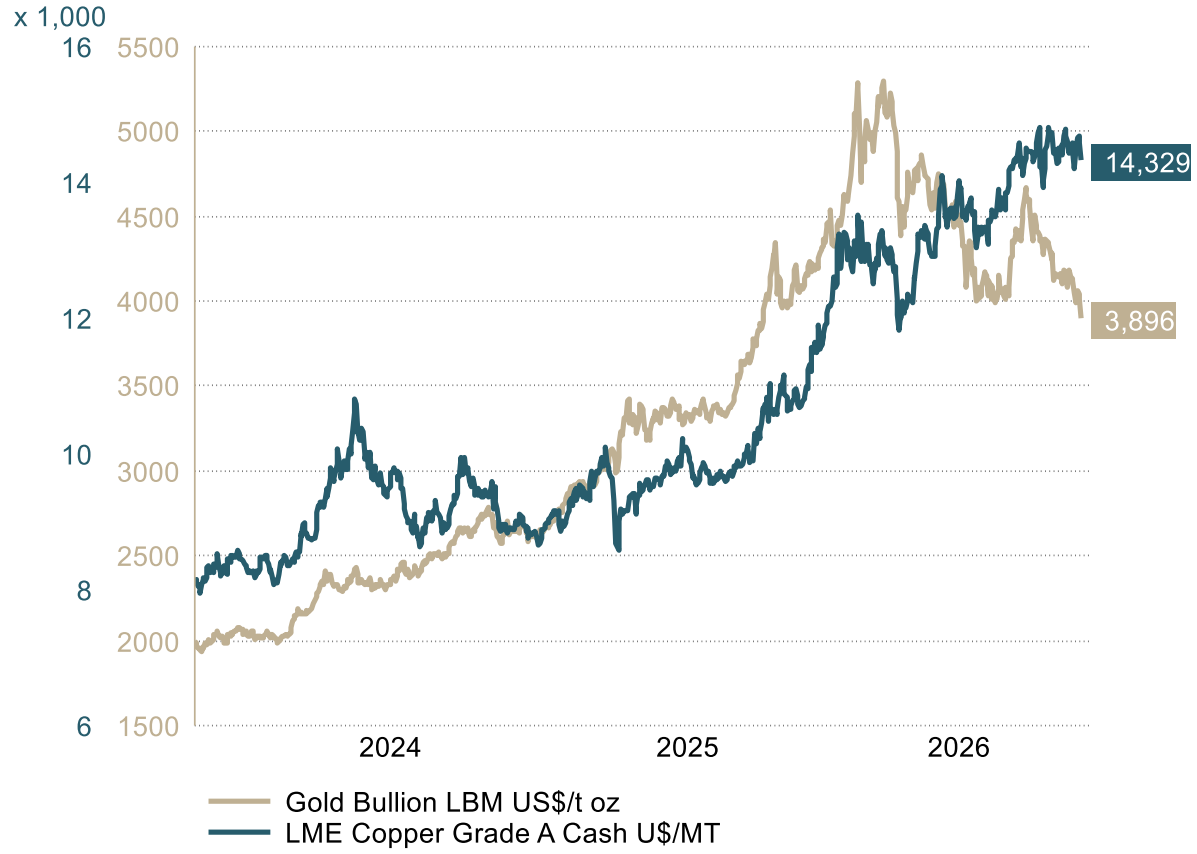
Oil price, year to date, USD.



Source LSEG Workspace.

Gold fell for a second month, the iShares Physical Gold ETC losing 7.1% in sterling terms following a 6.8% fall in September to leave it down 9.2% for the year, with the metal ending October at just under US$3,900 an ounce, which is unusual for a safe-haven asset in a month when the Gulf conflict escalated and oil spiked. In the short term, this looks more like the behaviour of a rate-sensitive asset than a geopolitical hedge, as higher energy prices strengthened the view that US rates will stay higher for longer and investors seeking safety bought US Treasuries instead. We continue to hold gold as a diversifier for fiscal stress and geopolitical shocks, supported by central bank buying, but two consecutive falls are a reminder that it will not diversify in every environment. The WisdomTree Copper ETC, our other real asset,fell 2.7% although it remains up 11.9% this year.

Gold and Copper prices, USD



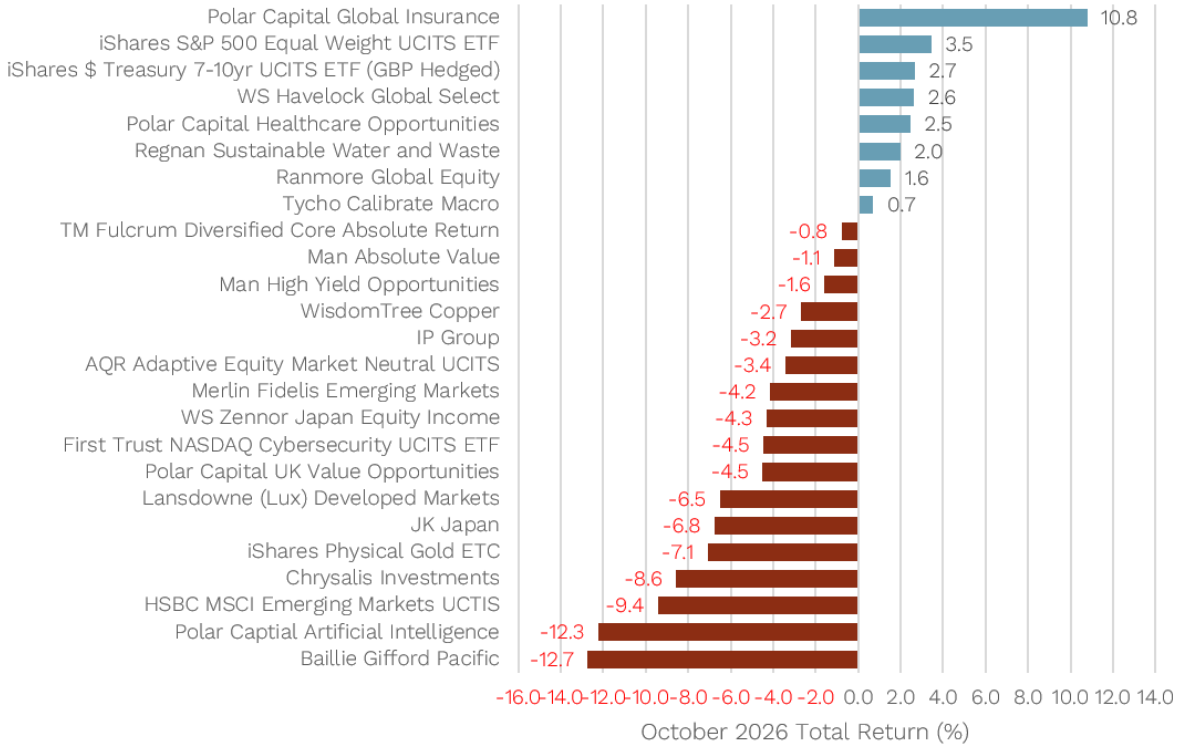
Source LSEG Workspace.

How our holdings fared

October rewarded those holdings whose earnings are not tied to AI spending whilst penalising those that are. The Polar Capital Artificial Intelligence Fund was the most significant detractor with a fall of 12.3% after a 5.7% gain in September, albeit the fund remains up 26.9% for the year to date. The Lansdowne Developed Markets Fund (-6.5%), Polar Capital UK Value Opportunities (-4.5%), the First Trust Nasdaq Cybersecurity ETF (-4.5%), on which we took profits in September, and the listed private equity holdings Chrysalis (-8.6%) and IP Group (-3.2%) were also lower.

Gains came from holdings with little exposure to AI spending, with Polar Capital Global Insurance returning 10.8%, more than recovering September's 4.7% fall since its earnings come from premiums and the income earned on them rather than from data-centre budgets. Polar Capital Healthcare Opportunities added 2.5% and WS Havelock Global Select (+2.6%), Regnan Sustainable Water and Waste (+2.0%) and Ranmore Global Equity (+1.6%) all rose in a month when the average global equity fund fell 1.5%. The absolute return holdings provided less protection than we would have liked, with AQR Adaptive Equity Market Neutral losing 3.4% and the Man and Fulcrum funds falling by between 0.8% and 1.6%, against a fall of 0.6% for the IA Targeted Absolute Return sector, although the recently added Tycho Calibrate Macro Fund gained 0.7%.

Funds referred to: October 2026 performance



Source FE Analytics, LSEG Workspace. GBP terms, total return.

Where we stand

October left markets facing two connected tests, whether elevated energy costs will require further monetary tightening and whether AI-related earnings can justify the vast investment commitments being made. We are not relying on either resolving in any particular way. We remain invested in AI's development without relying on it as the only source of growth, with our exposure shifting towards businesses using AI to improve their own operations alongside selected Asian chip and memory suppliers whose valuations are less demanding. Lower valuations do not insulate them from financing pressures elsewhere in the industry, which is why sizing matters at least as much as selection.

October also demonstrated that returns are available beyond the market leaders of recent years, with healthcare, insurance, water and waste, and global quality strategies earning their returns from different sources. In bonds we remain selective while inflation is above target in the US, UK and euro area, central banks are still tightening and governments are borrowing heavily, whilst gold and copper remain in the portfolios as diversifiers and for their long-term value.

T.Bailey

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