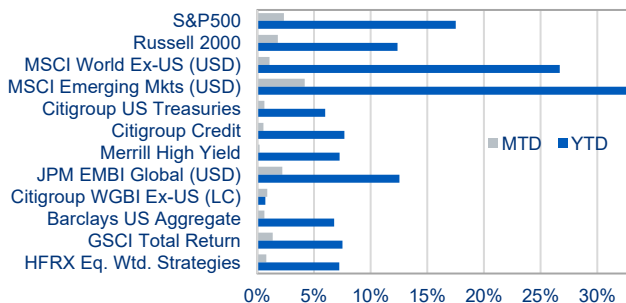


Global Market Review

Equity risk premiums and credit spreads remain compressed, and measures of expected market volatility are low. U.S. equities powered further ahead in October to close the month near yet another all-time high. Non-U.S. developed and emerging equity markets also rose in U.S. dollar terms, notwithstanding the dollar's appreciation. They have outperformed the U.S. market so far this year. AI-related firms remain the dominant driver of the U.S. market, accounting for the bulk of the market's gains as well as its increasing concentration. The Fed cut rates by 25 basis points as widely expected and ended its program of quantitative tightening. But Chair Powell sought to dampen expectations on the pace of further easing. The U.S. Treasury market remains unconcerned about inflation risks and the prospect of increasing Treasury issuance. Investment grade and high-yield bonds rose slightly in October, adding to earlier solid gains. Oil prices fell in October and are down nearly 15% so far this year. The dollar index rose in October but remains down 8% in 2025.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



U.S. equity market gains rest on a narrow foundation.

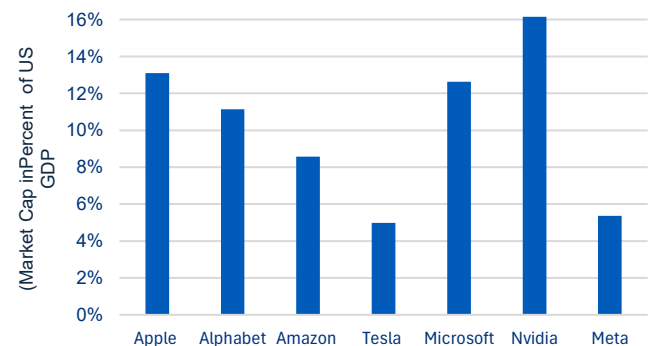
U.S. Equity Market's Bad Breadth

The S&P 500 rose 2.3% in October, its sixth consecutive monthly advance, bringing its gain so far this year to 17.5%. The current valuation of U.S. equities remains only just shy of their all-time high reached during the tech bubble. Growth stocks outpaced value in October, rising 3.5% versus value's increase of 0.4%. For the year as a whole, growth (+20.9%) has led value (+12%) by a wide margin.

The foundation for the bulk of the market's gain and net income growth rests on a tiny sliver of mega cap tech stocks whose capitalization has exploded in recent years. While NVIDIA's colossal capitalization of \$5 trillion singles it out among AI giants, other members of the Magnificent 7 are not far behind (Exhibit 1). Together they represent 36% of the total capitalization of the S&P 500 and over 72% of U.S. GDP.

Exhibit 1. Mag 7 Market Capitalization in Perspective

Source: Bloomberg. Market capitalization as a percent of U.S. GDP. The Mag 7 index: Apple, Amazon, Microsoft, Alphabet, Meta, NVIDIA, and Tesla.



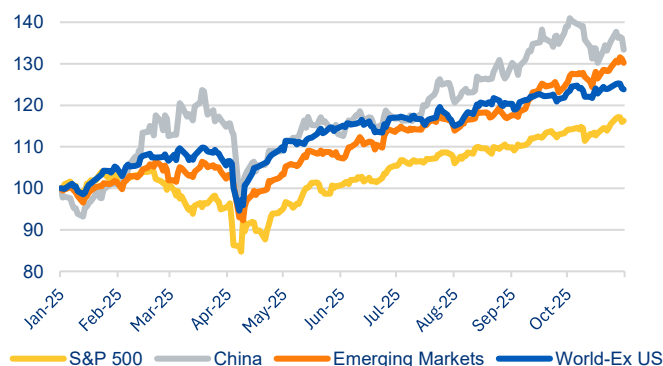
In addition to heavy market concentration and high market multiples, the financing of the massive investment needed to build AI infrastructure poses another market risk. Open AI, for example, appears to be in a desperate race to secure ever more computing capacity to power its AI ambitions. It aims to place itself at the core of an interconnected web of AI firms. To this end, it has struck deals totaling about \$1.5 trillion with NVIDIA, AMD, Oracle, Google and others to gain access to chips. Many of these deals involve elements of circular financing and all are predicated on Open AI's ability to transform current operating losses into rapidly growing profits.

Non-U.S. Equity Markets Continue to Outperform U.S.

The MSCI World ex-US index of advanced non-U.S. equity markets rose 1.1% in October to bring its gain for the year to 26.7% (Exhibit 2). Japanese equities led other advanced equity markets in October, rising 3.4%. They are up 24.8% so far this year, reflecting expectations for continued rising profitability and improvements in corporate governance. European equities lagged in October but are up 28.4% so far this year. European equities have performed well notwithstanding sluggish German growth and political disarray in France in the face of the politically unpalatable need to tighten the deficit to rein in mounting public debt.

Exhibit 2. U.S. Equities Lag Other Markets

Source: Bloomberg. Index January 1, 2025 = 100.



Emerging equity markets rose 4.2% in October, notwithstanding a 3.8% decline in the Chinese market. For the year as a whole, China remains the best performing major market. Despite China's decline, Asian emerging markets rose 4.9% in October. This increase largely reflects the stellar performance of Korean equities, which have benefitted from an AI-related surge.

Emerging equity markets have performed exceptionally well so far this year, outpacing their advanced economy counterparts. According to the IMF, part of this strong performance is attributable to the significant strides emerging markets have made in increasing the resilience of their economies through macro policy reform. These measures include strengthening fiscal discipline, deepening local capital markets, and focusing monetary policy on price stability. Taken together, supportive policies and a relatively benign external financing environment have contributed to the strong performance of emerging equity markets notwithstanding the uncertainty generated by U.S. tariffs.

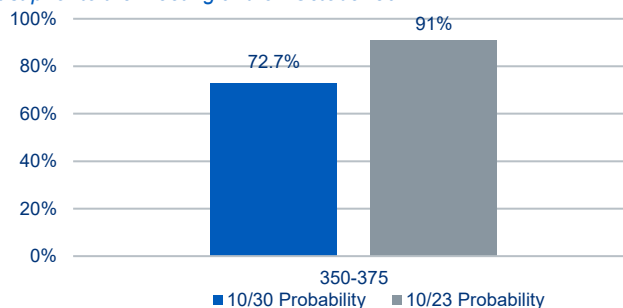
Few Signs of Inflation Fears in U.S. Treasury Market

The Fed reduced its policy rate by 25 basis points in October; its fifth rate cut this cycle. There were two dissenting voices on the FOMC, one advocating a deeper cut and another favoring no change. While the move was widely anticipated, Chair Powell's remarks aimed at dampening expectations for a further rate cut in December were not, leading to a slight

reduction in the probability the market is attaching to a December rate cut (Exhibit 3).

Exhibit 3. Powell Dampens December Rate Cut Hopes

Source: CME Group. Rate cut probabilities in percent on October 23 just prior to the meeting and on October 30.



The U.S. Treasury yield curve steepened slightly in October, as short-term rates declined and longer-term yields remained little changed. Since the beginning of the year, however, the slope of the yield curve has remained stable, with 3-month and 10-year yields declining by similar amounts. The decline in 10-year Treasury yields since the beginning of the year largely reflects falling real yields with little change in long-term inflation expectations. This sanguine Treasury market outlook for long-term price pressures stands in stark contrast to survey-based measures of short-term inflation expectations.

The FOMC also announced at its October meeting that it was ending its program of quantitative tightening. This decision was taken to ease recent funding pressures in the money market. It has the side benefit of shoring up the demand for U.S. Treasuries and thus reducing the impact of rising Treasury issuance on yields.

The move was also aimed at reducing the risk to Treasury market liquidity posed by the massive volume of basis trades undertaken by hedge funds. These highly leveraged trades aim to exploit small anomalies in the pricing of Treasury futures. An increase in Treasury market volatility can trigger a sudden unwinding of these trades that could dry up liquidity in the market and amplify volatility. A partial unwinding in March 2020, for example, led to significant strains in the Treasury and repo markets and necessitated Fed intervention, including the purchase of \$1 trillion in Treasuries. The volume of these basis trades has grown considerably since.

Performance of Major Market Indices through 10-31-2025

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	2.3%	2.3%	17.5%	21.5%	22.7%	17.6%
Russell 2000	1.8%	1.8%	12.4%	14.4%	11.9%	11.5%
MSCI World Ex-US (USD)	1.1%	1.1%	26.7%	23.6%	19.9%	12.7%
MSCI Emerging Mkts (USD)	4.2%	4.2%	32.9%	27.9%	21.1%	7.5%
Citigroup US Treasuries	0.6%	0.6%	6.0%	5.2%	4.3%	-1.0%
Citigroup Credit	0.5%	0.5%	7.7%	7.0%	7.6%	0.5%
Merrill High Yield	0.2%	0.2%	7.3%	8.0%	10.0%	5.5%
JPM EMBI Global (USD)	2.2%	2.2%	12.5%	12.2%	12.2%	2.7%
Citigroup WGBI Ex-US (LC)	0.9%	0.9%	0.7%	1.5%	1.7%	-2.3%
Barclays US Aggregate	0.6%	0.6%	6.8%	6.2%	5.6%	-0.2%
GSCI Total Return	1.3%	1.3%	7.5%	11.1%	2.9%	18.7%
HFRX Eq. Wtd. Strategies	0.8%	0.8%	7.2%	8.2%	5.4%	3.8%