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Five things you need to know *from October's markets*

A spooky month but not for markets. Strong returns from all equity regions have delivered a treat to investors – but with more talk of a market bubble, is there a trick just around the corner...?

1 US and China strike a trade truce

The US and China agreed a tentative trade truce, marking a significant de-escalation in tensions that have weighed on global markets. While not a comprehensive deal, it signals a willingness from both sides to stabilise economic relations over the next year. Highlights include US tariffs on Fentanyl-related imports dropping from 20% to 10%, and China restarting soybean purchases while pausing rare earth export restrictions. Markets initially saw the negotiations as a win for China, despite Trump scoring the meeting a '12 out of 10'.

2 Fed holds rates and dampens hopes of further cuts

The Federal Reserve (Fed) held interest rates steady in October, citing a balanced outlook for inflation and growth. Markets had priced in a rate cut later this year, but the Fed's decision – and its accompanying commentary – signalled caution. Chair Jerome Powell emphasised that while inflation is moderating in some areas, underlying pressures remain, particularly in services and wages. Complicating matters, the ongoing government shutdown is limiting economic data, which adds a layer of uncertainty to proceedings. Treasury yields rose slightly, reflecting reduced expectations for monetary stimulus.

3 Japan welcomes a new Prime Minister

October saw a major political shift in Japan with the appointment of a new Prime Minister, Sanae Takaichi. She's the first woman to lead either the country or the Liberal Democratic Party. Her government signalled a commitment to maintaining the Bank of Japan's accommodative monetary stance, despite rising inflation. Key priorities included boosting fiscal spending – especially on defence – improving productivity, and addressing demographic challenges. There was also a commitment to reduce the debt-to-GDP ratio, with this being driven by economic growth, rather than austerity.

4 AI spending continues to make headlines

The AI story isn't slowing down. Big AI "hyperscalers" posted strong quarterly earnings, with ongoing AI investment driving US GDP growth. Over the last year or so, AI spending has been the dominant force behind US GDP growth and there is no sign of this letting up. Nvidia became the first company to reach a market capitalisation of \$5trn, fuelling further debate around whether we're in an AI bubble. At present, cash flow is supporting much of the spending, but that won't be the case forever, with next year looking pivotal for certain companies who could face tougher funding dynamics.

5 Markets keep moving up

Equity markets extended gains in October, supported by a combination of easing geopolitical tensions and resilient corporate earnings. The US-China trade truce provided a healthy backdrop for investor sentiment, while strong Q3 results reinforced confidence in business fundamentals. Bonds were broadly flat, though UK Government Bonds performed well, as yields fell through the month. Increased talk of tax increases and fiscal discipline ahead of the November Budget has been well received by the debt market so far.

Name	1m	3m	YTD	1yr	3yr
FTSE Actuaries UK Conventional Gilts All Stocks	2.74	2.41	4.66	4.00	3.46
ICE BofA Global Corporate	0.63	2.48	6.65	6.76	23.18
ICE BofA Global High Yield	0.27	2.02	7.36	8.19	34.75
FTSE All Share	3.71	6.61	20.91	22.50	50.86
FTSE USA	4.82	8.91	12.07	19.03	61.05
FTSE World Europe ex UK	3.04	6.89	23.77	21.32	58.35
FTSE Japan	5.12	13.29	18.99	22.28	55.37
FTSE Asia Pacific ex Japan	6.19	12.17	23.12	21.94	56.46
FTSE Emerging	4.39	11.39	20.22	20.26	52.54

Source: FE Analytics, GBP total return (%) to last month end

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