SHERLOCK WEALTH 1970

Market Momentum | October 2026 | Sherlock Wealth

Investors reassessed the AI investment cycle in October. Technology shares fell after results from Alphabet and Meta, and emerging markets fell 9.1%, their largest monthly decline in years. Bond yields fell and bonds rallied, while Australian shares rose 1.1% on gains in utilities and banks.

RBA CASH RATE	AUS INFLATION	AUS UNEMPLOYMENT	US 10-YEAR YIELD
4.85%	**4.3%**	**4.7%**	**5.1%**
Fifth rise this year, November	September, up from 4.0% in August	Already at the RBA's December 2027 forecast	13 Nov, below its 5.3% peak on 5 Oct

How asset classes performed

	Month	12 Mth
International Property (H)	**+2.4%**	+7.3%
Australian Property	**+1.6%**	−13.2%
International Credit (H)	**+1.5%**	+0.4%
Australian Bonds	**+1.4%**	+0.1%
Australian Shares	**+1.1%**	+3.1%
International Shares (H)	**−0.7%**	+12.5%
Emerging Market Debt (UH)	**−1.8%**	−4.4%
Australian Small Caps	**−6.4%**	−14.4%
Emerging Markets (UH)	**−9.1%**	+6.1%

SOURCE: LSEG DATASTREAM, BLOOMBERG. INDEX RETURNS IN AUD; (H) HEDGED, (UH) UNHEDGED. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

What happened

AUSTRALIA

Australian shares rose 1.1% in October, led by defensive sectors. Utilities rose 9.0% and financials 6.8% as lower bond yields made dividend-paying shares more attractive. Materials fell 8.1% on weaker metals prices and softer Chinese steel demand, which weighed on the major miners. Small caps fell 6.4%.

Inflation rose to 4.3% in September from 4.0% in August, mainly on energy prices. Unemployment rose to 4.7% as employment fell by 39,300 jobs, against expectations of 20,000 new jobs. That is the level the RBA had forecast for December 2027.

The economy is losing momentum. The services PMI fell to 47.8 from 51.9, signalling contraction, and business confidence fell to -13. Government bonds rose 1.4% as yields fell, and listed property rose 1.6%, although it is still 13.2% lower over 12 months.

GLOBAL

Hedged global shares fell 0.7%, a second weak month. Technology fell 6.9% after Alphabet disappointed on earnings and Meta flagged higher spending alongside negative cash flow. Energy rose 12.5% as Brent climbed above US$110 a barrel, and European shares held up better on their tilt to defensive sectors.

Emerging markets fell 9.1%, led by Taiwan and South Korea, and China's CSI 300 had its worst month since January 2016. Lower yields lifted bonds: global government bonds rose 1.7% and credit 1.5%, although credit spreads widened from tight levels. Global infrastructure rose 7.7% and listed property 2.4%.

The Fed, the ECB and the Bank of Japan held rates, while the Bank of Canada raised by 0.25%. US inflation rose to 3.7%, and a 9.1% jump in petrol prices accounted for more than half of the monthly rise. China's economy grew 4.5% in the September quarter, above market forecasts.

How we see it

The US midterms gave Democrats both houses of Congress, but not the power to reverse policy: the President keeps his veto and most Senate bills still need 60 votes. The more important result came from the states, where voters approved more than 30 local measures limiting data centre construction.

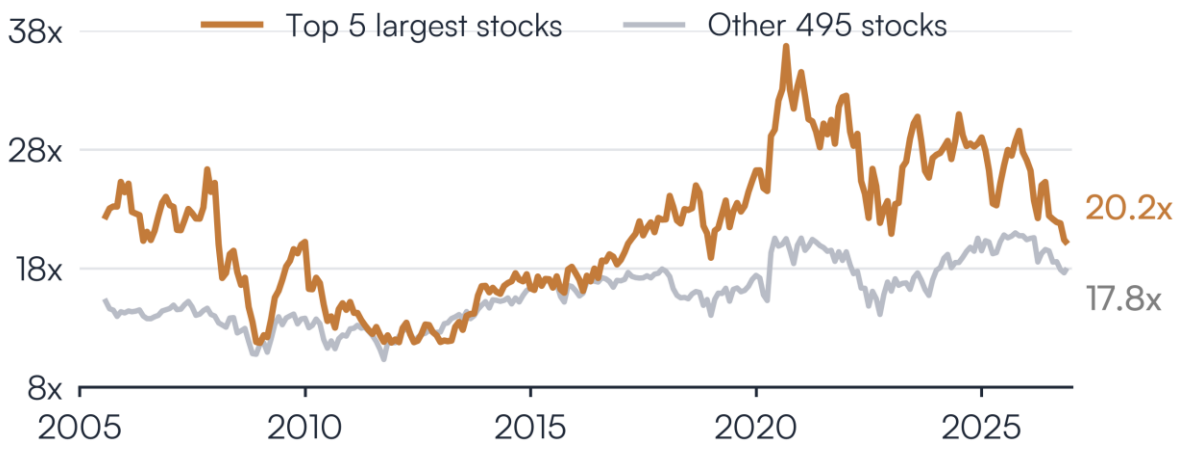
Capacity due in 2027 is largely committed, with about 75% of the 37 GW already under construction. The risk sits in 2028 and beyond, and much of it is in Texas, which accounts for roughly 41% of new capacity slated for 2028 and elected a governor who campaigned on a moratorium. Some of that capacity will move elsewhere, and tighter local rules favour hyperscalers and developers that can fund their own power.

US company earnings for the September quarter were about 30% higher than a year earlier, but beat forecasts by only 2.7%, the smallest margin since late 2022. The five largest US companies now trade on 20.2x forward earnings against 17.8x for the other 495. With less room for valuations to rise, returns depend on earnings beating expectations while rates remain elevated.

The Point: The AI investment cycle remains intact, but the hurdle has risen, so we expect larger and more frequent drawdowns and a wider gap between companies that earn a return on AI investment and those that do not.

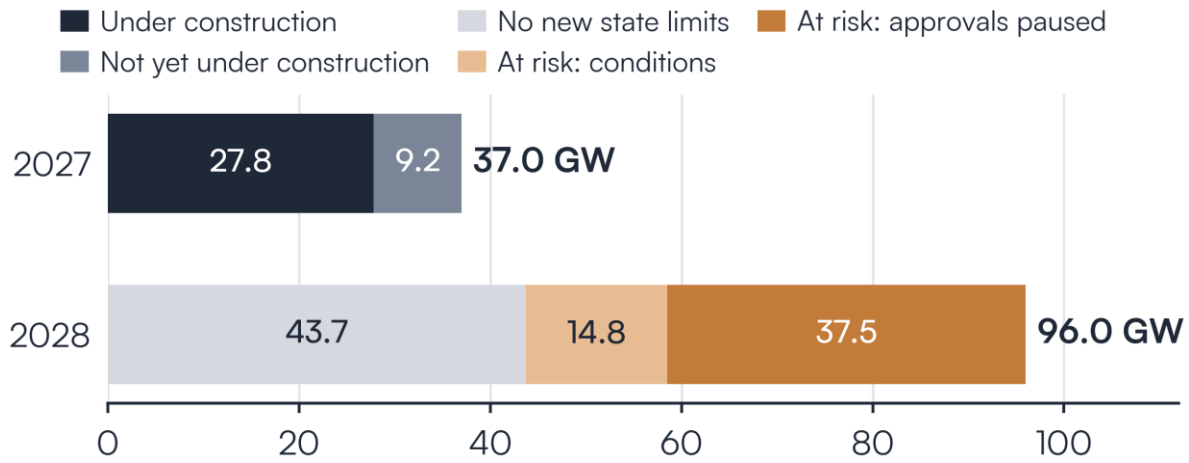
Charts of the month

THE TOP FIVE US STOCKS' VALUATION PREMIUM HAS NARROWED



Source: Bloomberg, Arcpoint. S&P 500 forward P/E, five largest stocks vs the other 495, to 11 Nov 2026.

37.5 GW OF DATA-CENTRE CAPACITY DUE IN 2028 FACES PAUSED APPROVALS



SOURCE: ARCPOINT. US DATA-CENTRE CAPACITY DUE, GW, BY STATE LIMITS AFTER THE NOVEMBER 2026 ELECTIONS.

What we are watching

- **Australian jobs and inflation (19 and 25 November).** The RBA raised the cash rate to 4.85% in November, its fifth rise this year. With house prices falling at their fastest pace in more than four decades, the bar for further rises is getting higher.
- **Oil.** Oil fell more than 8% after the election on hopes of de-escalation with Iran, but reserves remain depleted and diesel tight. A lasting fall in energy prices is the precondition for interest rates ending 2027 lower.
- **US data centre construction.** Grid access and planning approvals are the constraint, and support for moratoriums is growing in both parties. Will the Democrat sweep of Congress slow construction of the computing capacity that AI earnings growth depends on?

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