Monthly Market Commentary from Chief Investment Officer, Andrea Ciaccio

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Market Review

It is finally happening. Anthropic, a "once-in-a-generation company", has taken a major step towards becoming the first American frontier AI developer to go public. On October 26th, the AI lab filed its Form S-1 registration statement with the SEC for a proposed IPO, expecting to list its Class A common stock on the Nasdaq Global Select Market under the symbol "ANT". The offering is led by Goldman Sachs and Morgan Stanley alongside another 8 US banks and 12 international banks, an exceptionally large underwriting syndicate assembled for only a handful of mega-IPOs in the past, among them Alibaba, Facebook, Uber and SpaceX. The prospectus revealed extraordinary top-line growth, with revenues "going vertical" to US$16.29 billion in the six months to June 30th, from just US$1.16 billion in the corresponding period a year earlier, already more than three times its full-year 2025 revenue of US$4.59 billion. Operating expenses totalled US$16.98 billion, including a substantial US$8.95 billion in compute and infrastructure costs. Nonetheless, the operating loss narrowed significantly to US$693 million, compared with US$2.14 billion in H1 2025. The headline net loss of US$80.7 billion was largely attributable to a US$72.4 billion non-cash accounting charge resulting from its financing structure. Ironically, because the company has raised a considerable amount of capital through convertible notes and so-called "SAFEs" (Simple Agreements for Future Equity), the more valuable it becomes, the larger its reported losses can grow as the fair value of those instruments, which can convert into equity at a later date, increases.

During the month, the creator of Claude also unveiled its grand philanthropic commitments. It announced the creation of the Anthropic Public Benefit Fund and pledged 5% of its equity to support charitable organisations and communities affected by technological change. Based on an assumed public-market valuation of US$2 trillion, the stake could be worth approximately US$100 billion. Separately, the firm's seven co-founders, including CEO Dario Amodei, have pledged to donate 80% of their personal equity holdings to humanitarian causes. Assuming their combined ownership remains at around 10% of the company, the vow could be worth a further US$160 billion at the same valuation. On the very same day as Anthropic's filing, SpaceX signed a binding commitment to enter an approximately US$40 billion master finance lease with private credit behemoth Apollo Global Management to fund the purchase of GPUs and related equipment needed to fuel its AI ambitions. The scramble for capital intensified one day later, when Meta increased the proposed size of its largest-ever equity offering to US$97.5 billion, seeking to finance an aggressive expansion of its AI infrastructure. The social media giant plans to raise US$25 billion through common stock issuance and a further US$12.5 billion through convertible preferred depositary shares. In addition, it has established a forward-sale programme to offload up to US$60 billion in shares over time at prevailing market prices. The stock sank more than 15% for the month, as shareholders balked at its US$2.12 billion cash burn in Q3, its first negative free cash flow in over a decade.

AI-related capital-markets activity extended well beyond the US, delivering a mixed bag of hits and misses. In Australia, Firmus shelved its proposed US$5.5 billion IPO on October 9th following insufficient investor demand at its targeted valuation. The Nvidia-backed AI data-centre operator had been positioning itself as a major beneficiary of the global AI infrastructure boom, with bold plans to develop large-scale computing facilities. Its proposed listing would have been Australia's second largest ever, behind only Telstra's landmark 1997 privatisation. In South Korea, Elice Group, a neocloud provider, suffered a disappointing market debut on October 20th. Despite raising approximately US$151 million at the top of its indicative IPO price range and attracting institutional

subscription demand of almost 389 times the shares on offer, its stock plunged approximately 32% on its first day of trading. Conversely, Jio Platforms' US$3.2 billion IPO became India's largest-ever offering. The shares of the digital services and telecommunications subsidiary of Mukesh Ambani-led Reliance Industries Limited surged approximately 27% on their trading debut on October 28th, valuing the business at around US$137 billion and making it the country's second-largest listed company by market capitalisation. Finally, adding to the uncertainty surrounding AI infrastructure listings, Nscale's proposed New York Stock Exchange IPO, which aimed to raise US$3-3.5 billion, came into question. According to Bloomberg, prospective investors pushed back against the targeted US$30 billion valuation sought by the Nvidia-backed British AI cloud and data centre developer, indicating that a range of US$16-19 billion would be more acceptable.

International Equities

US equities experienced a bout of AI indigestion, with the Nasdaq 100 (-6.65% in USD terms) recording its sixth-worst October in history and the VXN Index, which measures its expected volatility, jumping the most since July 2024. Weakness in the technology-heavy average was driven by chipmakers, with the Philadelphia Stock Exchange Semiconductor Index tumbling -15.36%, and by the "Magnificent Seven" group of stocks, which trailed the rest of US large caps by more than 600 Bps. Alphabet, Meta and Nvidia were all down double digits, Amazon extended its decline for a third consecutive month, while Microsoft, Apple and Tesla ended the month in positive territory. Notably, the iPhone maker, which has been absent from the AI race, climbed to a fresh record level. The S&P 500 (-0.93%) broke to new all-time highs on the 6th but subsequently reversed course, ending the month at its lowest level. In a significant turnaround from September, this time the slight decline masked a significantly stronger underlying market, with more than 70% of constituents up for the month. Not surprisingly, the "old economy"-heavy Dow Jones Industrial Average (+1.70%) and Russell 2000 (+0.54%) gained, while the S&P 500 Equal Weighted Index (+4.90%) logged its second-best monthly relative performance ever vis-à-vis its market-cap weighted counterpart.

Technology and communication services were the only sectors to suffer losses in October. The remaining groups soared, driven higher by energy, which managed to increase its advantage over technology, the second-best performing sector since the beginning of the year, by a further 20% in just a month. Defensives ripped higher, with the Consumer Staples Select Sector TR Index, the Utilities Select Sector TR Index and the Health Care Select Sector TR Index recording their 1st, 4th and 2nd best month in history respectively. Materials, financials and real estate surged between 5% and 9%, while industrials were broadly unchanged. High-dividend stocks caught a bid, while the S&P 500 Low Volatility TR bested the S&P 500 High Beta by nearly 18%, its fifth-best monthly relative return in history.

US equities outperformed the rest of the world (as exemplified by the MSCI AC World ex USA TR Index) for the third month in a row, completely erasing their YTD lag. However, Europe was the best-performing region on the back of its limited exposure to technology and greater representation in traditional industries. Japan trailed the general index, with the technology-heavy Nikkei 225 briefly reclaiming the 70,000 mark before plunging to its weakest close in six months. Emerging markets were the worst-performing region, weighed down by their largest constituents, Taiwan, South Korea and China. In contrast, India staged a recovery, benefiting from the rotation away from the AI trade and improving earnings momentum. Political and regulatory drama engulfed three populous, albeit

less represented, emerging countries. In Turkey, foreign investors rushed for the exit following the revelation of a major investment scandal. Several asset managers were suspected of manipulating the price of relatively illiquid small caps through coordinated trading, allowing their funds to report extraordinary returns and attract significant inflows. In Brazil, equities and the domestic currency crashed following the surprise re-election of President Luiz Inácio Lula da Silva. Indonesia was the worst performer among the three, as MSCI announced a consultation on a proposal to downgrade the country from "Emerging" to "Standalone" market status, a more severe outcome than the "Frontier" reclassification previously contemplated. All in all, the MSCI AC World Daily TR was down 1.64% in USD terms and 2.74% in AUD terms.

Australian Equities

Australian equities advanced in October, with the MSCI Australia Net TR outperforming the MSCI AC World Daily TR by more than 500 Bps, the largest margin since February. The S&P/ASX 300 added +1.11%, although performance varied considerably across sectors and individual stocks. Utilities topped the list, with Origin Energy and AGL Energy capitalising on higher energy and wholesale electricity prices. Banks rebounded strongly after a period of weakness and insurance built on recent gains, powering financials higher. Energy rose as West Texas Intermediate (WTI) crude surged +14.24% in October, whereas materials dropped sharply, with miners tracking the price of industrial and precious metals lower. Iron ore, gold and silver declined -3.29%, -6.59% and -18.59% respectively, while soft lithium prices added further downside pressure on the sector. Healthcare posted robust gains as CSL extended its rally, doubling in the space of five months. Consumer discretionary and telecom outperformed the broader index, while consumer staples lagged. Software names such as WiseTech and Xero saw a resurgence, but the technology sector remained a loser, this time on the back of the sell-off in NextDC. The stock almost halved on October 21st, suffering its worst day since listing in 2010, after the company slashed its full-year earnings guidance by a third, citing protests that had delayed power supply to one of its major sites in Melbourne. The data centre operator also reduced its capital expenditure outlook and placed all new developments and land acquisitions on hold, prioritising projects backed by near-term customer commitments. Its slump dragged on the Solactive Australia ex. 20 Index, which ended the month in negative territory.

International Fixed Income

Only one of the five major global central banks that met during the month raised interest rates, with the others holding steady. The Bank of Canada (BOC) was the outlier, hiking its benchmark overnight rate by 25 Bps to 2.50% on October 28th, bringing an end to a pause that had lasted seven consecutive meetings. That was its first increase since July 2023, when it last tightened policy before embarking on an easing cycle. On the same day, the Reserve Bank of New Zealand (RBNZ) unexpectedly kept its Official Cash Rate (OCR) at 2.75% in a narrow 4-3 Monetary Policy Committee vote, with Governor Anna Breman among those favouring the hold. The New Zealand dollar (NZD) weakened following the decision, as markets had been pricing in a greater than 70% probability of a hike ahead of the meeting. A day later, the Bank of Japan (BOJ) kept the benchmark rate unchanged at 1.25% but upgraded its inflation forecast for its fiscal year 2027 to 2.6% from 2.4%. Despite the "hawkish hold", the central bank stated that underlying inflation in the country was "generally consistent" with its 2% target, rather than "approaching 2%", the first time it had adopted such language since 2013. On the same day, the European Central Bank (ECB) left its policy interest rates

unchanged at 2.50%. The FOMC meeting of October 28th was the main event of the month. The FED maintained its target rate at a range of 3.75%-4.00% with a 10-2 vote. Governor Lisa Cook and Cleveland Fed President Beth Hammack dissented, favouring a hike. During the press conference, Kevin Warsh reiterated that the committee's responsibility was "to get inflation down" and said he was "unwilling and unable" to describe financial conditions as "tight", leaving the door open to further increases. At the same time, he stressed that the central bank did not consider economic growth to be running "too hot" or believe that it was "somehow causing inflation".

Global yields fell sharply in October, with yield curves "bull flattening" in all major markets as the long end fell faster than the short end. In the US, the ICE US Treasury 20+ Year Bond Index, a popular benchmark to track the performance of long-duration strategies, rallied the most since February 2025, up 5.35% in USD terms. In Europe the 10-year OAT/Bund spread, that is, the difference between the yield paid by the French government and the yield offered by the German government, reached 165 Bps, its highest level in more than three decades.

Credit underperformed government bonds, with high yield experiencing the sharpest spread widening. Investor concerns extended beyond elevated valuations to questions over whether hyperscalers could generate adequate returns on their substantial capital expenditure, as well as how the increasingly leveraged AI infrastructure buildout would be financed. As a result, primary market activity, while remaining relatively robust, moderated compared with previous months. The Bloomberg Barclays Global Aggregate Index hedged back to AUD rose by the most since July 2024, up 1.76% in October.

Australian Fixed Income

September inflation data highlighted persistent price pressures, with headline CPI accelerating to 4.3% YoY from 4.0% in August. Higher automotive fuel prices drove transport inflation to 8.7%, while housing inflation eased to 5.2% but remained the largest contributor. The Australian Bureau of Statistics (ABS) reported that the CPI Trimmed Mean also edged higher to 3.6% (from 3.5%), remaining above the RBA's 2-3% target band. Conversely, the labour market displayed signs of softening owing to a steep decline in part-time jobs, although unemployment was unchanged at 4.7%. Finally, the domestic housing downturn deepened in September, with national dwelling values falling for a sixth consecutive month. Prices declined 3.7% over Q3, their weakest quarterly showing in four years, while annual appreciation slowed to zero. The Bloomberg AusBond Composite 0+ Yr returned +1.16% as the yield curve shifted lower and flattened, with the 2-, 5- and 10-year yields shedding 9, 12 and 23 Bps to 4.87%, 4.85% and 5.12% respectively. At the end of the month, cash rate futures were pricing in one further hike, with a 100% probability of the move occurring before the end of the year. The Australian dollar strengthened across the board, ending the month above 70 cents against the greenback.

Real Assets

Global property rose +2.40% in USD terms and +1.25% in AUD terms for the month. The US was the best-performing region despite the rate for a 30-year US home fixed mortgage climbing to its highest level since April 2024. Sector-wise, self-storage was the standout performer while data centres lagged.

Global infrastructure jumped +6.91% in USD terms and +5.71% in AUD terms in October, fully recovering all losses suffered in September. Communication infrastructure was the best performing segment, buoyed by the announcement that SpaceX had reached an agreement to acquire a nationwide portfolio of low-band spectrum licences for its Starlink Mobile service.

Alternatives

Returns for Alternatives (-0.90%) were mixed across strategic mandates in October. Goldman Sachs highlighted a striking divergence between relatively resilient headline hedge fund index returns and significant losses beneath the surface, with its so-called "VIP" long basket plunging 10.03% versus the most-shorted stocks. Several funds, including some of the industry's most prominent names, suffered one of their sharpest reversals in years on the back of the unwinding of crowded AI-related positions.

Market Outlook

The midterm elections ended in a "Bluenami", with the Democrats taking control of both chambers by an unexpectedly wide margin. Despite Trump's tendency to personalise political outcomes, the Republican rout does not appear to have been caused by his absence from the ticket, as he publicly claimed. Rather, genuine dissatisfaction with the cost-of-living crisis, exacerbated by tariffs and the economic consequences of the Iran conflict, and the eruption of a nationwide backlash against data centres swung voters. Concerns over the advancement and deployment of AI have emerged as one of the few issues capable of generating bipartisan opposition in US politics. On November 3rd, voters decided 47 data-centre-related local ballot measures across 10 states, with 46 (97.9%) favouring restrictions on development or opposing proposed projects. Attention is now shifting from local resistance to potential constraints imposed by incoming governors, particularly across Texas, Georgia, Iowa, Nevada and Ohio, five key "data-centre-heavy" states where Democrats flipped Republican-held governorships. According to Michael Cembalest of JP Morgan Asset Management, while the 37 GW of capacity expected to come online in 2027 appears relatively insulated, given that approximately 75% is already under construction, the 96 GW pipeline projected for 2028 faces greater uncertainty. An estimated 37.5 GW could be exposed to development pauses, with a further 15 GW potentially subject to more limiting conditions. These could include requiring developers to fund grid infrastructure upgrades to protect existing ratepayers, eliminating tax incentives, imposing water-use limits, mandating onsite backup power and labour requirements and prohibiting nondisclosure agreements during permitting. While outright moratoriums pose the greatest risk to capacity additions, even conditional approvals could materially increase development costs and undermine project economics.

As the spectre of regulatory risk rears its ugly head, the company at the very epicentre of the entire AI industry is facing the unexpected departure of its generational founder Jensen Huang. His vision and leadership transformed Nvidia from a gaming graphics manufacturer into the world's most valuable publicly listed company in history. Having recognised the potential of general-purpose parallel computing long before the current boom, he built a full-stack platform spanning GPUs, CUDA software and networking. His exit raises questions about the chip giant's ability to maintain the same pace of innovation, execution, ecosystem coordination and, above all, profitability. In

addition, Nvidia's growing involvement in LLM development and investments in companies pursuing open-weight models could create tensions with US technology and national security priorities. Sales to China also remain a question mark amid allegations of potential export-control violations. On the positive side, the appointment of longtime CFO Colette Kress as interim CEO could lead to a more disciplined approach to capital allocation. A more selective stance towards strategic investments, financing guarantees and backstops for new ventures, combined with greater emphasis on share buybacks, could ultimately prove rewarding for shareholders. This is consistent with our view that we may be approaching peak AI capex growth, although not necessarily peak spending. According to data compiled by Citadel Securities, capital investment across nine leading cloud providers is estimated to increase to US$1.5 trillion in 2027, an annual increment of US$543 billion, or around 1.41% of US nominal GDP. This is comparable to the US$492 billion added in 2026, which accounted for 1.42% of GDP. As a meaningful share of this outlay flows overseas, the contribution to nominal US GDP growth in 2027 is a more modest 0.55%, a number in line with this year's economic impulse as well.

In short, even if our base case that the hyperscalers will maintain elevated investment commitments rather than embark on outright spending cuts proves correct, the incremental boost to economic activity is about to plateau. The current carnage in equities, with the Nasdaq 100 down 15.56% at the time of writing this note (November 19th) from its early-October top, seems to suggest that the market may be starting to recognise this shift and reprice future growth expectations. However, we do not subscribe to the thesis that the sell-off in AI names, which has since broadened to the rest of the stock market, has been driven primarily by the "Bank of Nvidia" tightening its purse strings. Rather, we believe another bank has its fingerprints all over this turmoil, and that is the FED. In fact, our assessment of its approach to monetary policy has evolved somewhat over the past few weeks. For some time, our view has been that Chairman Warsh is, in practice, not fundamentally different from his predecessors. Despite increasingly hawkish rhetoric, he and his colleagues remain reluctant to raise rates and tend to act only when circumstances leave them with little alternative. Recent policy decisions have supported this interpretation. In September, the Fed delivered a 25 Bps increase in line with heightened market expectations, while in October, as the probability of another hike declined towards 20%, it opted to hold rates unchanged. This points to what in jargon is known as an "asymmetric reaction function", with the central bank relatively slow to tighten but considerably more willing to ease when economic conditions deteriorate. However, the institution has very recently adopted a tougher tone, finally acknowledging that the AI infrastructure build-out is contributing to near-term inflationary pressures, a position that we have upheld for a long time.

Building data centres on an unprecedented scale requires enormous quantities of semiconductors, memory, power equipment, construction materials and skilled labour. Not surprisingly, the resulting demand pressures are contributing to higher input costs and resource constraints. The same investment boom that is supporting US economic growth is also contributing to the persistence of inflation. The fact that the FED agrees with us is not particularly comforting at this juncture, because, as detailed above, the underlying investment cycle may already be slowing down. The central bank is, once again, behind the curve, and about to go "max hawkish" in response to inflationary pressures that are already beginning to fade, potentially just as economic momentum weakens. In this context, lower oil prices may paradoxically reinforce rather than deter its resolve. When the FED was largely attributing persistent inflation to supply-side shocks, their normalisation would have

provided room to remain on hold or eventually turn more dovish. That may no longer be the case now that the focus has switched to demand-side inflation, as falling gasoline prices buoy households' disposable income and stimulate consumption. Our expectation is that the FED will deliver the 25 Bps increase that has largely been priced into markets, as a more aggressive 50 Bps move appears difficult to justify at this point. The real kicker, however, will be the accompanying forward guidance, with the central bank signalling that December's hike will not mark the end of the tightening cycle and that a further two to three rate increases could follow in 2027. As a result, markets are having to reassess not just the immediate cost of borrowing, but also the possibility that monetary conditions will remain restrictive for longer.

Unfortunately, further tightening is likely to prove procyclical and to put unnecessary pressure on financial conditions, with corporate earnings and equity valuations taking the brunt of the adjustment. However, we believe that such a stance is likely to ultimately prove unsustainable, and that as the financial and economic damage becomes increasingly apparent policymakers will have to reverse course. The present predicament is eerily reminiscent of the late 2018, early 2019 period. The FED had been hiking for most of the previous two years, taking its target rate from a range of 0.25%-0.50% in December 2016 to a range of 2%-2.25% in September 2018. In October, Chairman Powell (in)famously remarked that interest rates were "a long way from neutral", implying that further tightening lay ahead. The central bank promptly administered another 25 Bps increase on December 19th, pencilled in two additional hikes for 2019 (down from three) and declared that its quantitative tightening (QT) programme would continue on "automatic pilot". With the hopes of a dovish pivot dashed, markets threw a tantrum, and in the following days the S&P 500 fell sharply, culminating in the "Christmas Eve massacre" in which the index briefly entered bear market territory, down 20% from its September highs. In the end, Powell's resolution was short-lived, as on January 4th, 2019 he made a complete U-turn. He adopted an accommodative tone, pledging patience and flexibility and acknowledging that monetary policy was not on a predetermined course. The FED subsequently walked back its guidance, and first paused, then eventually began cutting rates in July of the same year.

Putting all things together, we do not view the FED's change of stance as a material issue for fixed income. Much of the policy adjustment was already reflected in the US yield curve and the central bank is aligning with markets, potentially seeking to get ahead of them. The vulnerability lies in equities, particularly in light of our expectation of an economic slowdown, which could be compounded by the proverbial "policy mistake" and cause another bout of volatility. As we have seen repeatedly in the past, central banks may only be spooked into reconsidering their stance once financial markets react sufficiently aggressively. It is a binary situation and holding our positions in growth assets feels uncomfortable, but we remain constructive on equities. Commodities have melted and appear to be pricing in the prospect of an impending recession. We do not see it. "Perma-bears" are drawing parallels with the stock market crash that ended the dot-com bubble, insisting that "this is it". In our opinion, it's not. Rather, the current environment calls for maintaining exposure and tolerating near-term volatility, while remaining alert to opportunities to rebuild positions in selected areas, particularly US equities and technology.

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