CIO OFFICE MORNING MARKET WRAP

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Global equities rallied last week as moderating inflation, clearer policy signals, and calmer geopolitics lifted sentiment across major markets. The September U.S. CPI report showed another month of restrained price pressures, with core prices rising 0.2% and the annual rate holding below 3%. Services inflation continued to ease, led by slower shelter costs and moderation in health care. Goods prices extended their decline as supply chains normalized and inventory levels adjusted. Energy remained volatile but had a limited pass-through to broader inflation. Market-based inflation expectations also edged lower, with five-year breakevens slipping to 2.1%. Oil prices surged after Washington imposed sanctions on Russia's top producers, which reignited concerns over energy supply and added momentum to commodities. Over the weekend, the United States and China announced a new framework for cooperation covering trade, technology, and fentanyl control. The move marked a modest step toward stability ahead of next week's Trump–Xi summit. With inflation cooling, policy paths becoming clearer, and diplomacy beginning to stabilize, global markets ended the week with greater confidence.

In the United States, the S&P 500 advanced 1.9% to a new record high as expectations for easier policy strengthened. Treasury yields were steady with the 10-year anchored near 4.00%, and the dollar gained 0.5% for the week. Softer price data and stable growth allowed markets to shift focus toward earnings and sector leadership. IBM rose after outlining new progress in quantum computing, and Intel's stronger revenue outlook indicated that its turnaround is beginning to take hold. Ford's reaffirmed guidance helped support cyclicals, and energy shares climbed as crude prices advanced. Corporate bond markets remained orderly, with heavy new issuance absorbed across both investment-grade and high-yield segments. Earnings updates added structure to the broader recovery story. About one third of the S&P 500 has now reported, with profits tracking roughly 8% above expectations. Technology and industrial companies led the outperformance and continued to show resilient capital spending. IBM and AMD both delivered strong results on enterprise and AI-related demand. Intel's return to profitability marked an early milestone in its restructuring effort and supported sentiment across the semiconductor complex. Tesla's margins narrowed as price cuts and higher input costs weighed on profitability. Netflix recorded its sharpest share price decline in two years after a $619 million tax charge in Brazil. Porsche reported its first loss since listing after booking a €3.1 billion provision linked to its EV program. SAP's mixed cloud results underlined uneven enterprise demand across Europe.

In Europe, equities extended gains in step with global markets. The MSCI Europe rose 1.5% for the week as firmer data and a stable policy backdrop supported sentiment. Eurozone business activity expanded at its fastest pace in more than a year, led by a rebound in German services that offset weakness in France. Government bond yields edged higher as traders reduced expectations for additional ECB easing. The ECB meets this week and is expected to leave rates unchanged while acknowledging improving growth momentum. Corporate reports were mixed, with LVMH, Kering, and Volvo Car posting solid results and SAP lagging after revising guidance.

Asia delivered the strongest performance of the week. The MSCI China climbed 4.0% after Beijing's fourth plenum concluded with a detailed five-year plan focused on industrial strength and technological independence. The People's Bank of China pledged to maintain financial stability and advance yuan reform. Regulators outlined plans to raise listing standards and strengthen market oversight. The announcement of a new cooperation framework with Washington added to the positive tone, lifting Chinese technology and defense stocks. In Japan, the TOPIX gained 3.1% as semiconductor exporters rallied and confidence improved following Prime Minister Sanae Takaichi's cabinet appointments, which emphasized fiscal discipline and policy continuity. Intel's improved outlook boosted suppliers such as Advantest, Ibiden, and Tokyo Electron. Emerging markets overall advanced 2.1% as Asia's momentum accelerated and the dollar softened into the weekend.

Within commodities, brent crude rose 7.6% to $65.9 a barrel after new U.S. sanctions disrupted Russian supply flows and forced traders to cover short positions. Gold fell 3.1% to $4,113 an ounce as demand for havens eased. The dollar gained 0.5% over the week. The yield on the 10-year Treasury was unchanged at 4.00% on Friday, providing a steady backdrop ahead of the Federal Reserve meeting.

Markets this morning:

Today morning, Asian equities advanced on renewed optimism over a potential US-China trade deal. The MSCI Asia Pacific Index rose 1.4%, led by record gains in Japan and South Korea, with benchmarks in mainland China and Hong Kong also higher. Copper and oil climbed on, and futures for the S&P 500 and Nasdaq 100 pointed to further gains after both closed last week at record highs. The 10-year Treasury yield edged up to 4.03%, and gold slipped 1%. Asia entered its busiest week of the current earnings season, with roughly 500 of the 1,200 MSCI Asia Pacific Index constituents scheduled to report, including Samsung Electronics, Hitachi, China's major banks, Kweichow Moutai, and BYD.

Upcoming key events/data:

Key events and data head a packed week starting Monday, setting the tone for the final stretch of October. The Federal Reserve, European Central Bank, and Bank of Japan all meet, with the Fed expected to deliver another 25 bp rate cut on Wednesday and Chair Powell likely to strike a cautious tone on the inflation outlook. The ECB meets Thursday, where President Lagarde is expected to keep policy steady as growth stabilizes, followed by the BOJ's first policy gathering under Prime Minister Sanae Takaichi, watched closely for any sign of fresh easing. U.S. President Donald Trump continues his Asia visit, including bilateral meetings with Japan's new prime minister and China's President Xi Jinping during the APEC summit. Data releases are concentrated later in the week, including eurozone GDP and CPI, U.S. consumer confidence, and China's official PMIs. Japan reports Tokyo CPI, industrial production, and retail sales on Friday. Corporate earnings also stay in focus, with reports due from Apple, Amazon, Alphabet, Microsoft, and Meta in the U.S., and BNP Paribas, Airbus, and Toyota across Europe and Asia. Together, these events will shape how markets close the month, with optimism still high but policy and data set to determine whether the rally extends into November.

Have a good day!

Chief Investment Office
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