

Blackfriars Multi-Asset MPS Insights: October 2026

Month at a Glance

An AI-capex sell-off and an 8% fall in emerging markets pulled global equities down 1.6%, while government bonds rallied as yields retreated from September's highs.

- **Growth**: resilient — Q3 GDP grew 0.8% q/q in the US, 0.4% in the euro area; flash PMIs stayed in expansion.
- Inflation: energy-led and rising — Brent climbed 14% to US$118 as attacks on Hormuz shipping intensified.
- **Policy:** the Fed (28 Oct, 10–2) and ECB (29 Oct) held; markets price a Fed hike in Dec and a BoE hike in Nov.
- **Rates:** the US 10-year fell from 5.29% to 4.94%; France was the exception, with its spread over Bunds widening to 166 bp.
- **Equities:** sharp rotation — energy, staples, healthcare and utilities rallied; technology, communication services, Korea, Taiwan and Brazil fell hard.

Blackfriars Asset Management Limited is the manager, with a team of cross-asset portfolio managers led by Anastasia Levashova, PhD, supported by the Investment team & committee.

Learn here more about our investment team.



Anastasia Levashova, PhD
Portfolio Manager, Blackfriars AM

Global Overview

October saw a significant market correction, with global equities falling 1.6% in US-dollar terms; developed markets fell 0.8%, and emerging markets fell 8.0%. Beneath the headline, the S&P 500 slipped only 0.9%, while the Nasdaq Composite fell 5.3%, its worst month since March 2025; the equal-weight S&P 500 rose 5.0%, indicating resilience of the wider US economy. The Nasdaq Composite fell sharply as investors rotated away from AI-linked technology and into a rally in high-quality government bonds. The UK was the strongest major market, with the FTSE All-Share up 1.1%, and value outperformed growth by almost seven percentage points.

The month's central tension was between an intensifying energy shock and a reassessment of AI spending. Brent crude rose about 14% to around US$118 per barrel as attacks on shipping near the Strait of Hormuz reached their highest monthly count since the conflict began. At the same time, third-quarter results from Alphabet, Amazon and Intel shifted attention from AI revenue to its cost, and stress emerged among debt-laden AI infrastructure borrowers. Activity data stayed firm: US GDP grew at a 3.4% annualised pace in the
third quarter, and the euro area expanded 0.4%.

Government bonds rallied and once again cushioned equity losses. The Bloomberg Global Aggregate Index gained 1.4% in US-dollar terms. The US 10-year Treasury yield touched 5.31% early in the month before falling to 4.94%, and the 10-year gilt yield ended near 5.29% after reaching a 19-year high of 5.53%. France was the exception, as its 10-year spread over Bunds widened to 166 basis points. Global investment-grade credit returned 1.3%, while high yield was mixed: US high yield rose 0.3% and euro high yield fell 1.0%.

Global rotation away from AI-linked technology and into a rally in high-quality government bonds.

Global Assets	October Return, US$
Global equities	−1.6%
Developed market equities	−0.8%
Emerging market equities	−8.0%
Global value / growth	+2.7% / −4.2%
Bloomberg Global Aggregate	1.40%
Global investment grade	1.30%
Global inflation-linked	1.80%
EM debt	1.40%
US / euro high yield	+0.3% / −1.0%
Brent crude	+13.6% (c. US$118/bbl)
Gold (GLD)	−6.6%

United States

The Fed held but signalled a December hike as inflation rose to 3.7%; the S&P 500 slipped 0.9% while the equal-weight index gained 5.0% as AI mega-caps sold off.

- **Growth.** Q3 GDP grew at a 3.4% annualised pace, above the 3.2% consensus, led by business investment and consumer spending. Hiring stalled: September payrolls rose only 29,000, July–August were revised down 60,000, and unemployment edged up to 4.2%. University of Michigan sentiment held near record lows at 48.0, with year-ahead inflation expectations at 4.7%.
- **Inflation.** September CPI rose 0.6% m/m and 3.7% y/y (from 3.4%), driven by energy (+20.4% y/y). Core CPI was 2.6%; core PCE rose to 3.1%, the year's highest. PPI jumped 1.3% m/m to 6.3% y/y.
- **Policy.** The FOMC held 10–2, with Governor Cook and Cleveland Fed President Hammack voting for a 25 bp hike. Markets price a December hike at roughly 80%. Chair Warsh said one 2027 meeting will focus solely on strategy, with no rate vote.
- **Macro-to-market link**. strong growth and rising inflation argued for higher yields, but AI-related equity stress dominated and revived the negative stock-bond correlation.
- **Markets.**
  - Equities: Nasdaq −5.3%, its worst month since March 2025; Dow +1.7%. Mid caps (S&P 400) +1.9% and small caps (S&P 600) +3.2%.
  - AI names: Alphabet −18.7%, Meta −15.2%, Nvidia −10.4%, Broadcom −7.2% and Intel −28.6% as investors focused on AI capex and free cash flow. Stress spread to leveraged AI infrastructure credit such as CoreWeave.
  - Earnings: Q3 blended S&P 500 earnings growth of about 30% with 60% reported (FactSet).
  - Rates**.** the 10-year touched 5.31% early in the month, a level last seen in 2007, before a flight to safety on 22 October. Long Treasuries returned 5.6%.

The Fed holds rates unchanged ahead of early November mid-term election. AI-led sell-off doesn't affect broad market.

USA	October Return, US$
Policy rate	3.75–4.00% (held, 28 Oct)
CPI headline / core (Sep, y/y)	3.7% / 2.6%
PCE headline / core (Sep, y/y)	3.6% / 3.1%
Q3 GDP (annualised)	3.40%
Manufacturing Flash PMI (Oct)	56
Services Flash PMI (Oct)	57.9
10-year Treasury	4.94% (from 5.29%)
S&P 500	−0.9% (equal-weight +5.0%)

Eurozone

The ECB paused after two hikes as inflation reached 3.8%; French fiscal and political stress was the month's main regional risk, while defensives kept European equities slightly positive.

- **Growth.** Q3 GDP grew 0.4% q/q, a strong reading, and flash PMIs stayed in expansion.
- **Inflation.** September HICP rose to 3.8% from 3.2%, the highest since September 2023, with energy up 18.9% y/y. Core edged up to 2.5%. The October flash estimate is due on 4 November.
- **Policy.** The ECB held the deposit rate at 2.50%, in line with expectations, amid high energy prices and French fiscal tensions. President Lagarde announced she will step down early, in February 2027.
- **Macro-to-market link:** rising inflation kept the ECB hawkish on paper, but country-specific fiscal risk, not policy, drove European spreads and bank shares.
- **Markets:**
  - Equities: defensive sectors supported returns, but European financials fell 5.4% on concern that higher French borrowing costs could spill into banks.
  - France: the 10-year OAT yield crossed 5% on 21 October for the first time since 2002 amid budget gridlock and protests. Moody's kept France at Aa3 with a negative outlook on 23 October.
  - Rates: German government bonds returned 1.7% as Bund yields fell.
  - Credit: euro high yield fell 1.0%, hit by France-related concerns.

Unrest in France pushes CDS to 104, the highest level since October 2012.

Eurozone	October Return
Policy rate (deposit)	2.50% (held, 29 Oct)
HICP headline / core (Sep, y/y)	3.8% / 2.5%
Q3 GDP (q/q)	0.40%
10-year Bund	c. 3.38% (29 Oct)
OAT–Bund 10-year spread	166 bp at month end
MSCI Europe ex-UK	0.70%
EUR vs USD	c. 1.11–1.12

United Kingdom

UK equities were the best major market (+1.1%) on energy and defensive exposure; CPI at 3.5% has a November Bank Rate hike almost fully priced, and the Budget passed with little market reaction.

- **Growth.** Retail sales contracted more than expected, but October flash PMIs were strong.
- **Inflation.** CPI rose to 3.5% from 3.1%, the highest since October 2025 and above the 3.4% forecast. Motor fuels made the largest upward contribution. Core rose to 2.8% and services to 3.7%. The MPC expects inflation slightly above 4% in Q1 2027.
  - **Policy.** Bank Rate stayed at 3.75% (no October meeting). A 25 bp hike on 5 November would be the first since 2023.
- **Fiscal.** Chancellor John Healey's first Budget on 28 October cut fiscal headroom but kept the fiscal rules; measures included a rise in the bank surcharge from 3% to 6% for 15 months from January. Markets reacted little.
- **Macro-to-market link:** the sector mix shielded UK equities from the AI sell-off, while a near-certain November hike kept the front end of the gilt curve under pressure.
- **Markets.**
  - Equities: energy and defensive sectors drove the outperformance in a risk-off month.
  - Rates: gilts returned 1.6% as yields fell back from mid-month highs..

The UK Autumn Budget introduced a £100 payments to up to 20 mn households, funded partly by doubling the bank corporation tax surcharge from 3% to 6%, raising £1.5 billion; fiscal headroom shrunk by 60% to £15 bn for 2029–30, highlighting persistent pressure on public finances despite the government's commitment to fiscal discipline.

UK	October Return
Bank Rate	3.75% (hike c. 99% priced)
CPI headline / core / services	3.5% / 2.8% / 3.7%
10-year gilt	5.32% (5.46% on 14/10)
30-year gilt	5.71% (28 Oct)
FTSE All-Share	0.011
GBP vs USD	c. 1.33 (28 Oct)

Japan

The BoJ delivered a hawkish hold and opened the door to a December hike; the chip-heavy Nikkei fell about 5% as the AI sell-off reached Tokyo.

- **Growth.** Robust global AI demand supported exports, while energy costs and a weak yen squeezed households. Unemployment fell to 2.4%.
- **Inflation.** Tokyo core CPI exceeded the 2% target in October. The BoJ now judges underlying inflation as generally consistent with 2% and raised its FY2027 core forecast to 2.6%.
- **Policy.** The BoJ held at 1.25%; board member Takata voted for 1.5%. Guidance says the Bank will continue to raise rates, and December hike odds sit around 70–80%. ETF sales will more than double to about ¥860bn a year from January 2027.
- **Macro-to-market link:** index returns tracked AI and chip exposure more than domestic policy; the hawkish hold supported the yen without lifting stocks.
- **Markets.**
  - Equities: the Nikkei fell 4.9% on 15 October in the global tech rout and dropped 2.12% on 30 October on semiconductor selling (Fujitsu −16.2%, Lasertec −8.8%). TOPIX held up better on rotation into domestic and energy names.
  - Rates: JGBs returned 1.8%.

Pressure to moderate expansionary policies, while the government advanced plans to mobilise ¥370 tn ($2.4 tn) in strategic investment by 2040, particularly in semiconductors, AI and advanced manufacturing.

Japan	October Return
Snapshot	Reading
Policy rate	1.25% (held 8–1, 30 Oct)
CPI (Sep, y/y)	2.10%
Unemployment	2.40%
Nikkei 225	−5.2% (66,754 → 63,290)
TOPIX	3,965 at 30 Oct
USD/JPY	c. 157

China, Asia ex-Japan and Emerging Markets

EM equities fell 8.0%, the weakest major asset class: Asian chip markets bore the AI sell-off, and Brazil sold off after Lula's unexpected re-election.

- **Growth.** China's Q3 GDP beat the 4.4% forecast on strong high-tech exports; September industrial output rose 5.5%, but retail sales grew only 1.1%, and fixed-asset investment fell 7.2% year to date. The NBS itself flagged insufficient domestic demand.
- **Inflation.** China's CPI around 0.9%. India's inflation reached 5.54%, a 23-month high, on energy.
- **Policy.** China left lending rates unchanged for a 17th month, and the GDP beat reduced hopes of further stimulus. The Reserve Bank of India has raised rates in recent months.
- **Macro-to-market link:** country returns tracked AI exposure, Chinese competition and local politics; resilient Chinese growth did not translate into equity gains.
- **Markets**
  - Korea: the Kospi fell 7.5% on 15/10 alone, with Samsung Electronics and SK Hynix down 9–11%.
  - Brazil: after Lula's re-election on 25 October, the Bovespa fell 13.9% and the real 8.1% the next day; the Treasury cancelled scheduled bond auctions.
  - China: the Shanghai Composite hit a 52-week low on 30 October; the Hang Seng closed the month at 23,294, well below its first-quarter highs above 28,000.

South Korea and Taiwan hit by AI and semiconductor sell-off, Brazil sold off after elections.

GEM	October Return
MSCI Emerging Markets	−8.0% (USD)
MSCI Asia ex-Japan	−8.2% (USD)
MSCI Latin America	−7.6% (USD)
China Q3 GDP (y/y)	4.5% (Q2 4.3%)
China 1-year LPR	3.00% (unchanged)
EM debt	1.40%

Global cross-asset: bonds, credit, commodities and FX

- High-quality bonds were the month's diversifier, while stress appeared in leveraged AI credit and French sovereigns; oil rose for a fourth straight month as gold fell to a one-year low.
- Sovereign bonds. Developed-market government bonds rallied as yields retreated from September's highs: US +2.4%, Japan +1.8%, Germany +1.7%, UK +1.6%. A flight to safety on 22 October delivered the strongest one-day Treasury rally in over a year. France was the exception.
- Credit. Global investment grade returned 1.3%, helped by falling yields. High yield diverged: US +0.3%, euro −1.0%. Stress concentrated in leveraged AI infrastructure — CoreWeave's unsecured bond yields rose above 15% and its 5-year CDS above 10%. CCC yields moved above their 2022 peak.
- Commodities. Brent rose 13.6% and WTI 15.2%, with Brent near US$118 at month end, as at least 35 attacks on shipping around the Strait of Hormuz marked the conflict's most intense month. Gold fell 6.6% to its lowest close in a year as rate expectations rose; diversified commodities were roughly flat as metals offset crude.
- FX. EUR/USD traded near 1.11, close to its May 2025 low, on French stress; USD/JPY held around 157 and GBP/USD around 1.33.

Asset-Class & Instrument-Level Market Overview:

Government bonds

- October restored duration's role as a diversifier. Developed-market government bonds rallied as yields retreated from September's highs: US Treasuries returned 2.4%, Japanese government bonds 1.8%, Bunds 1.7% and gilts 1.6%, while global inflation-linked bonds gained 1.8%. The US 10-year yield touched 5.31% early in the month, its highest since 2007, before ending at 4.94%, about 35 basis points lower. The 2-year fell about 33 basis points to 4.56%, leaving the 2s10s spread little changed at 38 basis points. A flight to safety on 22 October, prompted by the AI sell-off, French bond stress and Middle East headlines, delivered the strongest one-day Treasury rally in over a year, and long-dated Treasuries added 5.6%.
- Outside the US, the 10-year gilt yield eased to about 5.32% ahead of the 28 October Budget and the Bund yield to about 3.38%. France was the exception: the 10-year OAT yield crossed 5% for the first time since 2002 and the OAT–Bund spread widened to 166 basis points by month end, after peaking near 176 basis points, amid budget gridlock, protests and a negative outlook from Moody's.

Corporate credit

- Credit split by quality. Falling government yields lifted longer-duration investment grade, and global investment-grade credit returned 1.3%. High yield was less resilient: US high yield rose only 0.3% and euro high yield fell 1.0% on France-related concerns. Spreads decompressed rather than moved uniformly — US investment-grade spreads widened from 81 to 84 basis points by mid-month, and the ICE BofA US High Yield spread rose from around 270 basis points in mid-September to roughly 338 before ending near 326. Stress was concentrated in leveraged AI infrastructure: CoreWeave's unsecured bonds yielded about 15% and its five-year CDS moved above 1,100 basis points, while Oracle's 2066 bond became the widest in the investment-grade index. With hyperscalers now more than 20% of the long-dated US investment-grade index, the financing of AI capex has become a central credit question.

Global fixed income

- Emerging-market debt rose 1.4% as lower Treasury yields offset local stress, though dispersion was high. Brazil's real fell 8.1% and its Treasury cancelled scheduled bond auctions after President Lula's unexpected re-election on 25 October. In currencies, the euro fell to around 1.11 against the dollar, near its May 2025 low, as French risk widened; the yen weakened towards 157–159 before stabilising after the BoJ's hawkish hold, and sterling held around 1.33 into the Budget.

Equities

- Leadership rotated sharply away from AI-linked growth. Global equities fell 1.6% in US dollars, but value rose 2.7% while growth fell 4.2%, a gap of almost seven percentage points. The equal-weighted S&P 500 gained 5.0% against a 0.9% fall for the cap-weighted index, and US small caps (S&P 600) rose 3.2%. Energy (+12.8%), consumer staples (+10.7%), healthcare (+9.9%) and utilities (+7.9%) led developed markets, while technology (−7.0%) and communication services (−13.5%) lagged; global semiconductors fell 13.7% as software edged up 0.9%. Scrutiny of AI capital spending and free cash flow hit Alphabet (−18.7%), Meta (−15.2%) and Nvidia (−10.4%). Chip-heavy markets suffered most: South Korea fell 15.6%, Taiwan 8.4% and the Nikkei about 5%, and emerging markets fell 8.0%. UK equities (+1.1%) were the strongest major market, helped by energy and defensive exposure.

Real estate

- Listed real estate staged a rate-driven recovery. The FTSE Nareit All Equity REITs Index returned 4.7% in October, recouping part of the losses from August and September and lifting its year-to-date gain to 13%, slightly ahead of the S&P 500; the Vanguard Real Estate ETF rose 4.8%, its best month since April. Gains were broad, with almost every property sector positive: telecom REITs led (+18.4%) on cell-network buildout news and lodging rose 14.3%. The rebound came from a low base — after September's sell-off the average US REIT traded at a discount of about 18% to net asset value — and lower Treasury yields eased pressure on discount rates and refinancing costs. In the UK, property shares remained sensitive to gilt yields and the prospect of a November Bank Rate rise.

Commodities

- Commodities divided sharply between energy and metals. Brent crude rose 13.6% to around US$118 per barrel and WTI 15.2%, a fourth consecutive monthly gain, as at least 35 attacks on shipping around the Strait of Hormuz marked the most intense month of the conflict and briefly collapsed flows mid-month. Energy equities have risen nearly 60% this year. Precious metals moved the other way as stronger growth and inflation data firmed expectations of a December Fed hike: gold fell 6.6% and silver about 18.6%, closing below US$50 an ounce for the first time this year, with the gold–silver ratio rising from about 69 to 79. Losses in precious and industrial metals offset the oil rally, leaving broad commodity indices roughly flat for the month.

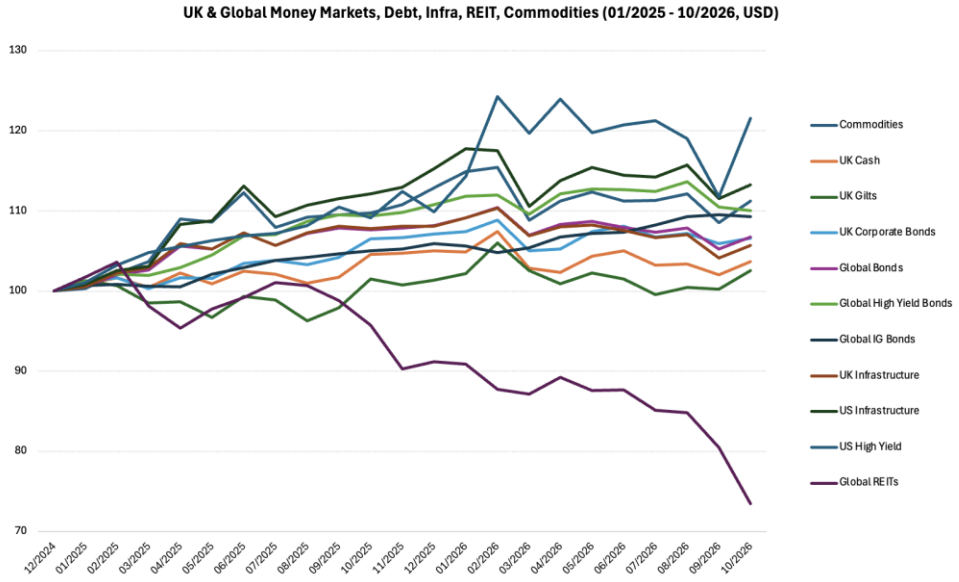
Portfolio implications

- For diversified Blackfriars MPS portfolios, October showed the value of balance within and across asset classes. In contrast to September, high-quality government bonds rallied as AI-linked equities fell, restoring the negative stock-bond correlation and cushioning equity losses. Diversification within equities also paid off: value, equal-weight, defensive sectors, energy and UK equities offset much of the weakness in mega-cap technology and Asian semiconductor markets. Even after October's rally, starting yields remain high, with US 10-year Treasuries near 4.9% and gilts above 5.3%, so bonds continue to offer both an income cushion and renewed protection value.
- The principal risks entering November are a Bank of England rate rise on 5 November and a likely Fed hike in December, further energy-driven inflation while Hormuz shipping remains disrupted, and the sustainability of AI capital spending and its debt financing. French fiscal stress, the US midterm elections and Brazil's political shock show that sovereign and political risk can surface quickly. Credit dispersion argues for favouring quality over yield, with caution towards leveraged, capex-heavy issuers and the lowest-rated high yield. Portfolio construction should therefore keep exposure to structural growth without concentration in a single theme, balanced with value, quality income, high-quality duration and real assets that can respond to inflation.

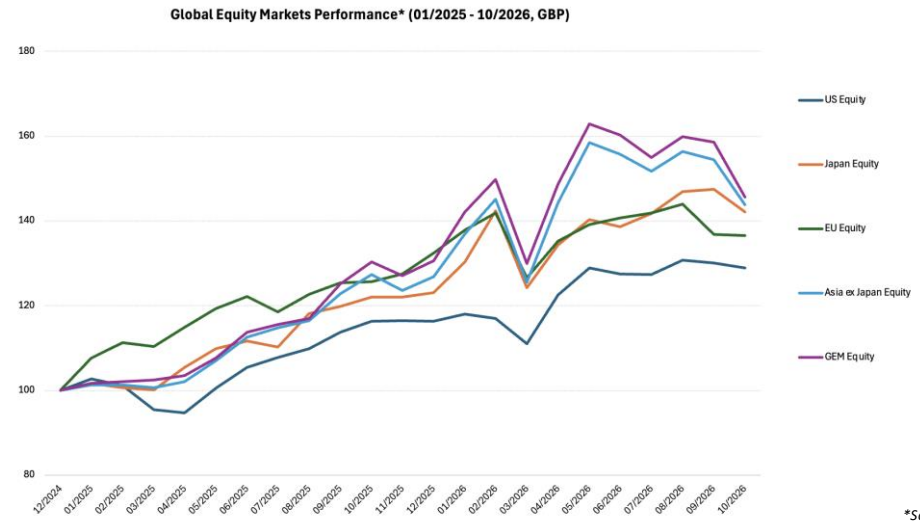
Asset-Class & Instrument-Level Performance*:

Asset Class	1m	3m	6m	YTD	1y	5y
UK Cash	2.5%	-0.1%	0.0%	-1.4%	1.3%	15.4%
UK Gilts	1.6%	0.5%	1.4%	-1.2%	-0.9%	3.1%
UK Corporate Bonds	0.6%	-0.1%	1.3%	-0.5%	0.0%	19.0%
Global Bonds	1.4%	-0.6%	-1.5%	-1.3%	-0.8%	11.0%
Global High Yield Bonds	-0.4%	-2.1%	-1.9%	-0.7%	0.6%	34.2%
Global IG Bonds	1.5%	-0.9%	-2.2%	-2.2%	-2.0%	9.2%
UK Infrastructure	1.6%	-0.8%	-0.4%	-1.8%	1.0%	27.3%
US Infrastructure	8.8%	0.2%	-1.9%	10.7%	11.4%	26.5%
US High Yield	-8.7%	-13.6%	-17.6%	-19.4%	-23.2%	14.0%
Global REITs	2.5%	-6.8%	-3.4%	5.0%	4.7%	13.9%
Commodities	-0.4%	6.9%	0.5%	28.7%	31.6%	25.2%
US Equity	-0.9%	1.2%	5.1%	10.7%	10.8%	97.4%
Japan Equity	-3.6%	0.3%	5.8%	15.5%	16.5%	74.4%
EU Equity	-0.2%	-3.8%	0.9%	3.1%	8.7%	58.2%
Asia ex Japan Equity	-6.9%	-5.3%	-0.4%	13.3%	12.9%	61.9%
GEM Equity	-8.1%	-6.0%	-2.1%	11.6%	11.8%	63.8%

Source: Blackfriars AM, Bloomberg. Data as of 31/10/2026. All in GBP.



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