



October 2025 Performance Pulse

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STRONG Q2 EARNINGS AND TRADE DEVELOPMENTS SUPPORT MARKETS IN AUGUST



Global stock markets rallied to new historical highs amid easing trade tensions, strong Q3 corporate earnings and positive sentiment towards the AI theme.

Bond yields declined, aided by improved control of inflation and Federal Reserve easing, and supported positive fixed income returns in October.

The US dollar rose against the euro as the potential for fewer Fed rate cuts in the coming months supported the former.

Lenny McLoughlin

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US

The US government shutdown meant that a large amount of data was not released by government agencies in October, including the closely watched employment report. As a result, there was more focus on alternative data like those from the private sector. New weekly releases by ADP suggested some stabilisation in the labour market, with 57,000 jobs created in the four weeks to October 11th. The release of September inflation data was delayed but indicated that upward price pressures were not excessive. Headline prices rose 3.0% y/y, up marginally from 2.9% in August, while core inflation decelerated slightly to 3.0%, with both readings below market expectations.

This backdrop supported the Fed's decision to ease policy at its October meeting, with the Fed funds rate cut by 25bps to a target range of 3.75-4.00%. The central bank also said it would end its quantitative tightening ("QT") programme on 1st December 2025. However, there was a more hawkish tone than expected and a split in the rate-setting committee (FOMC) as one member voted for no change in rates and another for a 50bps cut. Powell stated that there were "strongly differing views" within the FOMC, with some members worried about a slowing labour market while others suggested that still elevated inflation should limit the amount of further monetary loosening. Meanwhile, the Supreme Court rejected President Trump's demand for Fed Governor Cook's immediate dismissal and arguments in the case will be heard in January 2026.

Europe

Eurozone inflation remained close to the European Central Bank's (ECB) 2% target in October. Headline inflation was 2.1% y/y while core prices rose by 2.4%. With inflation under control, the ECB was comfortable leaving its policy rates unchanged at its October meeting, with President Lagarde stating that policy is "in a good place". However, it was also stated that the ECB was ready to respond if conditions change. Indeed, some activity indicators suggested that Germany, for example, is facing economic headwinds.

Industrial production declined by 4.3% m/m in August, which was much larger than expected and was mainly due to an 18.5% fall in the automotive sector, although this was partly due to seasonal holiday factors.

MARKET ROUND-UP

Equities

Global stock markets rallied to new historical highs in October, supported by the US-China trade war truce, policy easing from the Fed and robust Q3 corporate earnings. The MSCI All Country World index ended the month up by 2.8% (4.1% in euros), with the MSCI USA rising by 2.4% (4.2% in euros) amid broadly positive big tech earnings and optimism around the AI theme. The MSCI Emerging Markets (EM) index rallied by 4.6% (6.1% in euros), supported by strong rallies in the MSCI South Korea (24.6% in local terms, 24.9% in euros) and the MSCI Taiwan (10.8% in local terms, 11.8% in euros), partly due to the ongoing expansion in AI capex. European stocks also gained, with the MSCI Europe ex-UK higher by 2.1% (2.3% in euros) in October.

Bonds

Eurozone government bond returns were positive, with the ICE BofA 5+ Year Euro Government bond index returning 1.3%, supported by capital gains from falling yields. The 10-year German Bund yield declined by 7bps to 2.64% in October.



CHARTS OF THE MONTH

Global equities



Source: ILIM, FactSet. Data is accurate as at 31 October 2025.

Bonds – German 10-year yield



Source: ILIM, FactSet. Data is accurate as at 31 October 2025.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	MTD Return (%)	YTD Return (%)	2024 Return (%)
MSCI Ireland	2.5	25.4	22.8
MSCI United Kingdom	3.5	15.2	14.7
MSCI Europe ex UK	2.3	16.1	7.7
MSCI North America	4.1	6.0	32.9
MSCI Japan	5.3	12.3	15.9
MSCI EM (Emerging Markets)	6.1	19.9	15.3
MSCI AC World	4.1	9.0	25.9
10-Year Yields	Yield last month	2024 Yield (%)	2023 Yield (%)
US	4.09	4.57	3.88
Germany	2.64	2.35	2.02
UK	4.43	4.56	3.54
Japan	1.65	1.09	0.61
Ireland	2.86	2.63	2.38
Italy	3.37	3.51	3.69
Greece	3.26	3.23	3.06
Portugal	2.99	2.84	2.66
Spain	3.15	3.04	2.99
FX Rates	End last month	2024 Rates	2023 Rates
U.S. Dollar per Euro	1.15	1.04	1.10
British Pounds per Euro	0.88	0.83	0.87
U.S. Dollar per British Pounds	1.31	1.25	1.27
Commodities (USD)	MTD Return (%)	YTD Return (%)	2024 Return (%)
Oil (Brent)	-2.9	-12.8	-3.1
Gold (Oz)	3.7	51.5	27.1
S&P Goldman Sachs Commodity Index	1.3	7.5	9.2

Source: ILIM, Bloomberg. Data is accurate as at 1 November 2025.

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THE ILM VIEW – LOOKING AHEAD

The fundamental backdrop for global equities on a 12-month view remains positive despite uncertain US policy. The agreement of trade deals provides clarity and helps remove uncertainty. While tariffs are higher than at the start of the year, they are at levels which should not lead to a recession. Earnings forecasts have stabilised and show positive growth; consumer balance sheets are strong; ongoing disinflation is expected through 2026; and expected Fed rate cuts and a corporate-friendly stance from the US government should mean a favourable environment for the asset class. Divergence within regional equity performance, however, is likely to remain a feature as policies in the US and the rest of the world are set to remain in flux.

Global equities valuations are above long-term averages, trading on a 12-month forward P/E multiple of 19.5x against a long-term average of 16.2x. However, with a positive growth and earnings backdrop, multiples can remain close to current levels. The 12-month forward P/E for the MSCI USA is 23.1x against a long-term average of 16.6x. Equities outside the US offer better relative value in absolute terms and are trading closer to their long-term average P/E levels. Equities remain expensive against both bonds and cash given the high yields currently available on these assets.

Despite equities appearing fully valued, the outlook on a 12-month view is constructive. With growth expected to remain positive and US corporates eventually set to benefit from growth-friendly policies from the new administration through

2026, earnings are forecast to rise over the next one to two years, which should be supportive. Additional rate cuts in a positive fundamental backdrop can also contribute to further gains. Over the medium term, the rollout of AI should boost efficiencies and earnings across the whole market and allow equities trade at higher valuation levels. Any short-term volatility in markets is likely to be offset by the above factors, resulting in positive returns on a 12-month timeframe.

Sovereign bond yields have been volatile over the past year amid somewhat sticky inflation, but both German and US 10-year yields are below their October 2023 highs. With inflation having fallen significantly, some central banks can cut rates further, enabling bond yields to decline over the next 12 months.

On a 12-month view, our base case is that German and US 10-year government bond yields fall from current levels of 2.64% and 4.09% to 2.25% and 3.75%, respectively. We believe fixed income offers a strong risk-reward profile at this stage in the cycle, with the potential to offer protection if the economy slows. The asset class is attractive from an income perspective while also providing potential for capital gains via falling yields. We believe that the risks of materially higher bond yields have reduced and, if the economy falters, major central banks will be able to cut rates to support growth. In that scenario we would expect bonds to outperform.



THE MONTH AHEAD

November

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
	11 Australia NAB Business Confidence UK unemployment rate; employment change; average earnings Euro Area Lagarde speech; ZEW Economic Sentiment Index Germany ZEW Economic Sentiment Index; ZEW Current Conditions Brazil inflation rate MoM, YoY	12 US Fed speeches speech; MBA 30-year mortgage rate Italy industrial production MoM, YoY India inflation rate MoM, YoY	13 UK RICS house price balance; GDP growth rate QoQ prel, YoY prel, MoM; business investment QoQ prel; goods trade balance; industrial & manufacturing production MoM Euro Area industrial production MoM, YoY Brazil retail sales MoM; business confidence Russia GDP growth rate YoY prel	14 China House Price Index YoY; industrial production YoY; retail sales YoY; fixed asset investment YoY Germany wholesale prices MoM, YoY Euro Area balance of trade; employment change QoQ prel, YoY prel; GDP growth rate QoQ, YoY 2nd est. Russia inflation rate MoM, YoY
17 Japan GDP growth rate QoQ prel; GDP growth annualised prel Canada inflation rate YoY, MoM; core inflation rate YoY US Empire State Manufacturing Index	18 Canada housing starts US ADP employment change weekly; import & export prices MoM, YoY; industrial & manufacturing production MoM, YoY	19 Japan balance of trade; exports & imports YoY; machinery orders MoM, YoY UK inflation rate YoY, MoM; core inflation rate YoY, MoM US housing starts; building permits prel; FOMC minutes	20 China loan prime rate 1y, 5y Germany PPI YoY, MoM Spain balance of trade UK CBI industrial trends orders US initial jobless claims; Philadelphia Fed Manufacturing Index; existing home sales; Fed Goolsbee speech Euro Area consumer confidence flash	21 Japan inflation rate YoY, MoM; core inflation rate YoY, MoM; S&P Global PMI flashes India HSBC PMI flashes UK retail sales MoM, YoY; S&P Global PMI flashes France business confidence; HCOB PMI flashes Germany HCOB PMI flashes Euro Area HCOB PMI flashes Canada retail sales MoM, YoY; new housing price index MoM US S&P Global PMI flashes; Michigan Consumer Sentiment final
24 Germany Ifo business climate; Ifo current conditions; Ifo expectations US Chicago Fed National Activity Index; Dallas Fed Manufacturing Index Korea consumer confidence	25 EU new car registrations YoY France consumer confidence UK CBI distributive trades US ADP employment change weekly; S&P/Case-Shiller home price MoM; CB consumer confidence; pending home sales MoM, YoY	26 US MBA 30y mortgage rate		

Source: tradingeconomics.com

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Figures referenced herein have been sourced from ILIM and Bloomberg. Forecast figures have been prepared by ILIM based on reasonable assumptions, internal data and data sourced from Bloomberg.

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