DRUMNOR INVESTMENTS

Markets Review - to end October 2026

THORNTONS WEALTH

Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	1.0%	-0.9%	4.0%	10.4%
Global Equities	-2.6%	0.5%	5.9%	10.6%
UK Gilts	1.5%	0.5%	-1.0%	-5.0%
UK Property	0.1%	0.5%	1.7%	4.1%
Gold	-7.2%	-3.3%	-14.5%	-4.0%
Commodities	-0.3%	8.3%	7.6%	38.4%
Sterling	1.3%	0.7%	1.0%	3.2%

Returns to 30th October 2026. Source: Refinitiv

Market Overview

The October UK Budget proved to be pretty much the non-event that was expected and was probably designed to be. With plenty to distract elsewhere, UK markets were able to take it calmly and end the month marginally ahead. International stock markets were rather more concerned about the AI investment train and whether it would remain on track. Concern about the level of spending, and its sustainability, came to the fore with some of the results from companies most closely tied to AI, causing some stock market weakness at the end of October.

Bond markets benefitted from this uncertainty, reviving their status as a less risky place to hold savings. Central banks also opted to pass on increasing interest rates in October, but now look set to increase them this month, as inflation is on the rise again, with no imminent sign of price pressure abating. Meanwhile there is little sign of fiscal restraint across the Western world, despite warnings from the IMF, keeping the appeal of bonds restrained, despite the higher yields offered.

Economic data continues to show resilience to various conflicts, supply problems and inflation. A big part of this is down to the investment binge in AI infrastructure, which shows no sign of slowing, and with trillions of dollars being spent is powerful enough to tow much of the global economy along behind it. It has also helped turbo charge profits growth, keeping headline valuations reasonable.

Hopes that resolution talks between the US and Iran will take place have just lowered the price of oil, after a steady rise through October, but we have been here before. With the US mid-term elections likely to swing Congress to Democrats' control, US policy is likely to get bogged down, and with demonstrations across Europe, the UK doesn't look so bad. Low stock valuations and limited exposure to AI also offer attraction, if AI is a bubble. This is not yet clear and the pending listing of Anthropic may add some colour to probable returns on all its' investment.

Oil and fuel prices rose through October, as tensions rose over possible renewal of hostilities between the US/Israel and Iran, with blockades and attacks on shipping continuing. Increased Houthi involvement makes resolution more difficult. The elevated energy costs are leaking into inflation expectations, further exacerbated by the rise in the cost of electronics. Food prices are also rising, due to low harvest yields in drought conditions, impacting river and canal shipments as well. Metal prices continue to be firm, as demand from infrastructure build out keeps markets tight.

Asia, followed by Europe has proven to be most exposed to the supply disruption, with some Asian countries having to ration fuel. China with substantial strategic reserves and its rapid transition to renewables looks well-placed to keep competitive advantage in a range of manufacturing areas. Resource nationalism and 'security' has replaced globalisation, and free flowing supply replaced by the friction of contested and constrained reserves.

Bond yields clearly signal concern. With no sign of government fiscal discipline, heavy debt issuance, and inflation tilting back up, the willingness of buyers is being tested. The expectation of a global cycle of interest rate cuts at the start of the year has been put into reverse. Only peaceful agreement on the Strait of Hormuz, with a rapid return of shipments, is likely to give significant relief to bond markets.

Politicians need to tread a careful line on fiscal policy, as they test the patience of bond markets; witness France! Despite the stimulus of AI investment, growth (particularly across Europe) is not sufficient to eat into government deficits. Credit quality is also coming under increased scrutiny, with the lowest quality credit and highly leveraged firms seeing steep rises in their cost of borrowing.

The attractions of property and listed infrastructure have been reflected in a spate of takeovers, and challenges to trust boards, to realise underlying asset values. Many trusts still trade on a discount to asset values and remain attractive, particularly for physical 'long-life' assets.

In the UK and Europe economic activity and confidence remain fragile, but data has yet to report any significant downturn from tariff and supply issues. Meanwhile the tricky issue of how to fund greater levels of defence spending only adds to the deficit problem. Although there is some softness beginning to emerge in the employment market, with particular concern about the availability of entry-level jobs, saving levels are high. In aggregate, both household and business balance sheets are generally quite healthy. A return of confidence if inflation and interest rates ease, could see discretionary spending increase.

The red-hot investment binge in AI shows no sign of slowing, pulling adjacent spend up with it. Third quarter company results have continued to show exceptional growth, particularly from oil and tech companies, however, projections of further heavy capital expenditure are causing some concern. Some consumers have been showing greater price sensitivity, in what has been called a 'K' shaped economy, where those without investment savings, continue to struggle.

Obviously, AI and the conflict with Iran dominates everything and it is perhaps sobering to reflect that the war between Russia and Ukraine is four and a half years old, with little sign of resolution. Wars are easier to start than finish. This has led to a substantial policy shift in Europe, with recognition that 'national security' needs a significant increase in defence spending. Some companies will be obvious beneficiaries of this, but this will need to be paid for, either with spending cuts elsewhere, tax increases or even more debt issuance.

Clearly peaceful settlement with Iran would be in everyone's interest, but that still feels a way off. Financial markets are likely to be volatile as they scrabble around for certainty. Staying calm, but vigilant, in this atmosphere is a challenge but is likely to provide a better outcome than rash decisions on emotional judgement.

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Equities	Despite a strong start to company Q3 results in October, stock markets came under some pressure as concern grew about the level of spend on AI data centres and rising interest rate expectations, due to inflationary pressures. With economic activity showing resilience and corporate fundamentals generally healthy, we continue to expect further profits growth, if not at the breakneck rates currently seen. This growth and reasonable valuations keep equity investment attractive, although we remain alert to the widespread concerns about a possible AI bubble.
Fixed Interest	October saw bond markets catch a bid, after consistent selling since the start of the Gulf conflict, with yields in excess of 5% and nervousness over AI investment generating some interest. As inflation pushes higher due to fuel costs and other supply constraints, further bank interest rate increases are expected. Bond yields are likely to remain sensitive to moves in the oil price, but whilst fiscal deficit concerns remain, such as in France, long-term bonds are unlikely to appreciate much unless there is a substantive resolution with Iran.
Commercial Property	The rise in the cost of debt has checked the gentle recovery that has been taking place in property. Discounts on listed property, however, are still significant, and with higher build costs and higher energy standards required, it is still cheaper to buy, than to build new. This attraction has been reflected in the recent acceptance of an American offer for one of the largest UK property companies, Segro, and purchase of Metrocentre by Land Securities.
Alternative Assets	UK Infrastructure investment funds have been selling some assets to reduce debt loads and providing reassurance on valuations, whilst private equity funds have attracted interest due to significant discounts to asset value. Stabilising debt costs, secured returns on physical assets and some attractive growth prospects, keep their appeal. Commodities benefit from infrastructure investment demand, whilst gold continues to see structural demand from central banks.
Cash	Cash and cash like instrument returns, although eroded by inflation, continue to provide security in volatile markets.

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