Highland ReCAP

A Review of Capital Markets

Highland
CONSULTING ASSOCIATES, INC.
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Summary

Stocks continued to fall in October while bonds yields rallied off multi-decade highs, providing relief to fixed income investors. Growing concerns over the viability of massive CAPEX from hyperscalers intensified during the month, erasing gains and sending Mag 7 names negative, while stocks more insulated from the AI trade held up well during the month. The Federal Reserve board met mid-month and opted to hold rates steady into mid-term elections. While oil prices eased, inflation remained in the news with September CPI coming in above market expectations.

Equities

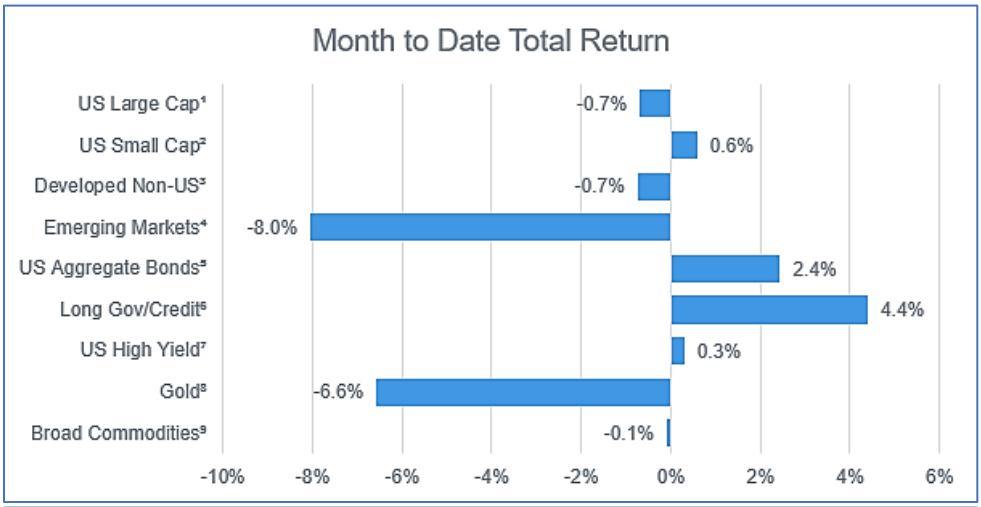
The AI trade turned negative driving concentrated indexes in the US and emerging markets lower for the month. While the month started strong off a rocky September, sentiment soon shifted, with investors rotating from high flying AI stocks into safer treasuries into month-end. AI lynchpin Anthropic began the IPO process, affording investors a more detailed look at the financial situation for the artificial intelligence company. Meanwhile, Meta and Google increased their spending forecasts and were punished by investors. Domestic small caps, which are seen as less sensitive to the AI trade, held up well, while political turmoil undercut developed international stocks. Emerging markets, which have become more concentrated in AI names during the runup, paid the price in October, falling over 8% for the month.

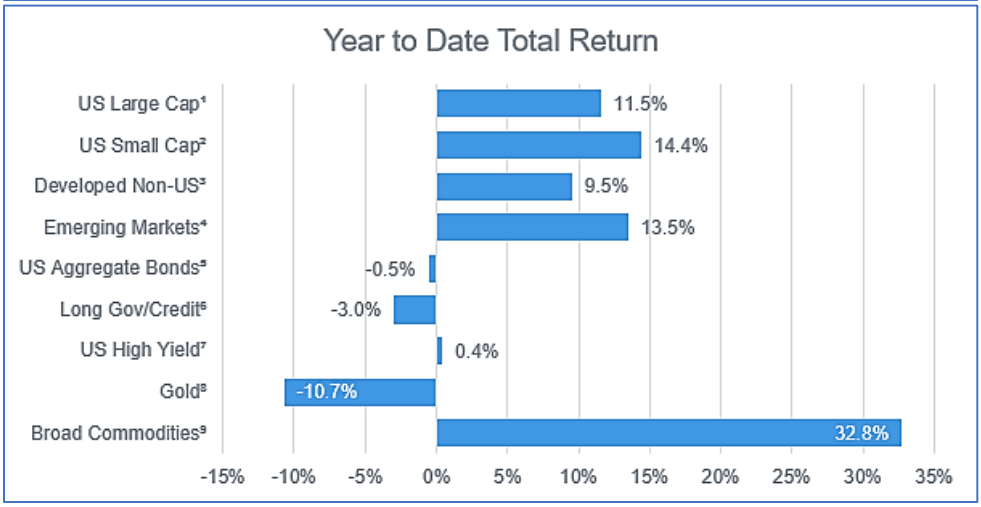
Fixed Income

The trend of rising Treasury yields abated in October, thanks in part to the risk-off sentiment hitting equities. Fixed income investors hunkered down in government debt heading into November's mid-terms, and bond returns were positive for the month. The Fed held rates steady, even as US GDP for the third quarter accelerated to 3.4%, and inflation came in a tick higher than expectations. Credit spreads moved wider, as the borrowing spree from AI megacaps began to see the first signs of resistance from bond investors.

Market Trends

As of October 31, 2026





	1M	3M	YTD	1Y	3Y	5Y	10Y
US Large Cap¹	-0.70%	1.50%	11.50%	11.80%	23.20%	11.40%	15.20%
US Small Cap²	0.60%	-3.80%	14.40%	14.80%	20.80%	5.60%	10.40%
Developed Non-US³	-0.70%	-1.90%	9.50%	13.50%	19.70%	8.60%	9.20%
Emerging Markets⁴	-8.00%	-5.50%	13.50%	14.10%	22.30%	6.90%	8.10%
US Aggregate Bonds⁵	2.40%	0.20%	-0.50%	-0.10%	5.50%	-0.20%	1.50%
Long Gov/Credit⁶	4.40%	0.30%	-3.00%	-3.90%	5.50%	-4.90%	0.50%
US High Yield⁷	0.30%	-1.30%	0.40%	1.60%	8.60%	3.70%	5.00%
Gold⁸	-6.60%	-4.20%	-10.70%	-3.20%	24.00%	16.10%	10.80%
Broad Commodities⁹	-0.10%	7.90%	32.80%	36.60%	15.50%	10.70%	7.90%

1 – Russell 1000, 2 – Russell 2000, 3 – MSCI EAFE, 4 – MSCI Emerging Markets, 5 – Bloomberg US Agg, 6 – Bloomberg US Long Gov/Credit
7 – Bloomberg US Corporate High Yield, 8 – Bloomberg Gold Subindex, 9 – Bloomberg Commodity

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