Market Update - October 2026

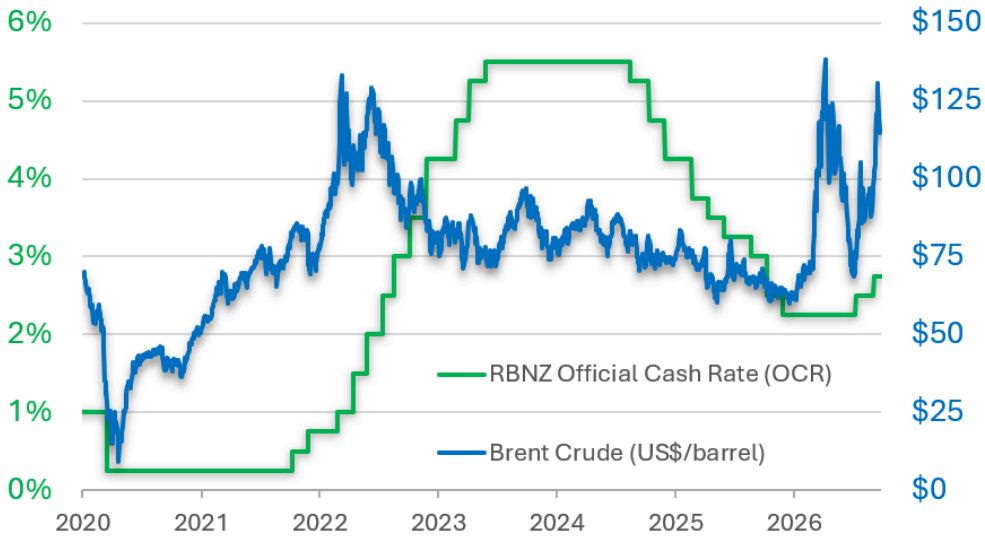
Time in the market has consistently proven more valuable than trying to time the market



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Quarterly summary

It was a negative quarter for investments in what has been a flat year for investors; due in most part to geopolitical tensions. The quarter ending September 2026 was impacted by the resumption of hostilities between the U.S. and Iran and its impact on global oil supply. This has seen the price of oil once again rise above US$100 per barrel. The prospect of higher inflation has pushed global bond yields higher, and now central banks around the world are once again raising their policy interest rates to curb inflation expectations. As seen in this chart, increased interest rates tend to follow higher oil prices.



While bonds have taken a hit recently, we must not look at the past for where we need to get future returns. If a quick resolution in the US-Iran conflict occurs, the current situation reverses, which would be good for bonds in the short-term. If the current situation persists, higher oil prices and higher interest rates are detrimental to broader economic growth, which is also good for bonds longer-term.

Against this backdrop, the enthusiasm surrounding AI shares has persisted. This has created a difference in performance between AI-related equities and the broader market. This same difference shows up in regional and country equity markets that have exposure to the AI sector and those that don't.

The market has moved to price in the risk of persistent inflation and bond yields are looking elevated at current levels, offering excellent value and increased income for investors going forward. Nevertheless, while conflict in the Middle East persists, there will be periods of volatility.



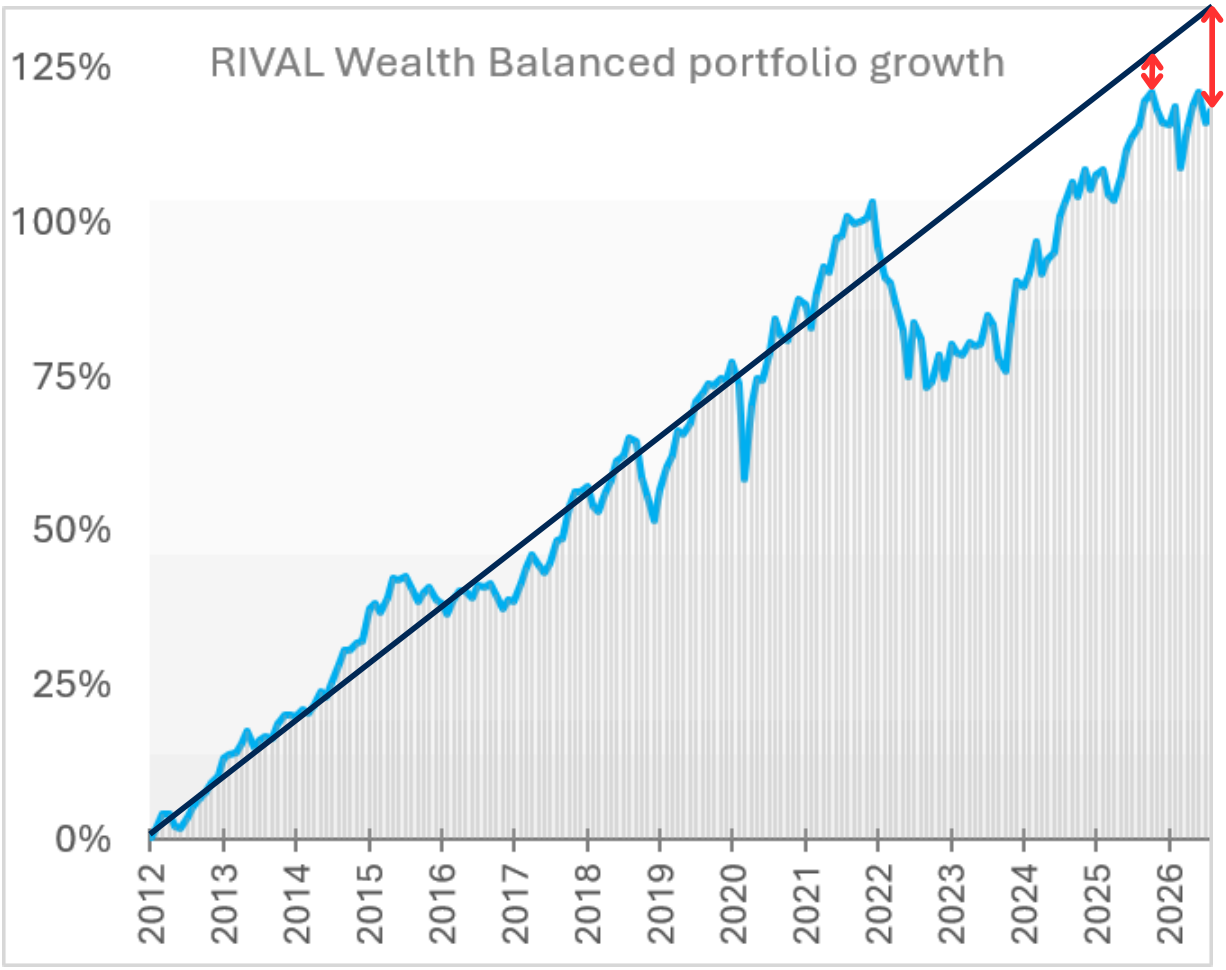
We have client portfolios positioned for the current environment.

To use an analogy, this is where we say, ***"ladies and gentlemen, this is your Captain speaking. We are anticipating some turbulence, so have turned on the fasten seatbelt sign."*** This is a normal part of the journey and is not cause for concern.

Emotions are normal

Humans are driven by their emotions more than we like to admit. We see it in client interactions and we're seeing its impact in world events.

As investors, we want to be insulated from emotional decision-making and remain detached from the fears that threaten to grip us during periods of market disruption. It's a challenge for all of us. However, we must accept that we do experience emotions and investing is not immune from that. Just like airline travel and the fasten seatbelt sign, we come to expect bumps as part of the journey whether it be mid-flight turbulence or an accidental hard landing.



This chart outlines that there are bumps in the journey and the last few years have had more than normal. For illustration, at the beginning of 2026, our Balanced portfolio was on track to get back to its long-term average returns, but the war in Iran is making the journey less comfortable. History teaches us that when markets fall it is a great time to buy, not sell.

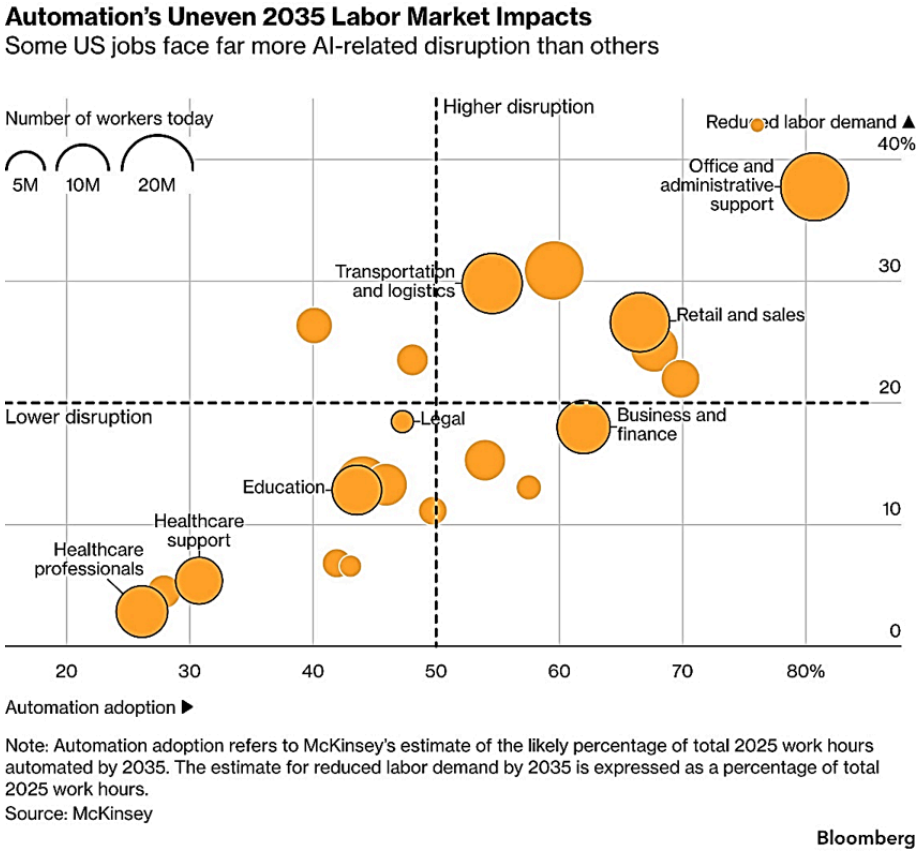
Similarly, as citizens, we want social stability. This coming quarter New Zealand has a general election, and the U.S. has its mid-term elections that decide its house of representatives. Elections are an opportunity for citizens to have a say on how they want their society to be shaped. Just like in investing, voting based on emotions does not produce the best outcomes. Setting aside political personalities and attempts at populist-type influence, voting should be based on policies that you want to see society built upon and whether the parties have the team to deliver. Irrespective of the local outcome, with small amounts in New Zealand Shares, the upcoming local election result will have little impact on our overall portfolio outcomes.

Impact of AI on the job market

A new report from McKinsey, has run the numbers on who will be forced out of their jobs and into a chaotic labour market because of AI-related displacement.

It predicts that some 7% of the US workforce, or 11 million workers, may need to change jobs by 2035 due to automation.

Among the workers most likely to be affected are those in office and administrative support, retail and sales, and transportation and logistics. This chart is full of insights on the anticipated fallout.



Support for every stage of your investment journey



The Investment team

Markets change, and sometimes your goals do too. We're here to help you stay focused on what matters most and ensure your portfolio continues to support where you're headed.

If you have any questions about your portfolio or the current market environment, please don't hesitate to get in touch.

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