FORUM

FINANCE



OCTOBER 2026 Newsletter

Market Review

Google's October Shock: from AI Enthusiasm to Earnings Scrutiny

October's standout technology-market event was the sharp repricing of Alphabet, Google's parent company. On October 29, its shares fell approximately 13%, erasing around $500 billion in market capitalisation after disappointing quarterly results. The scale of the decline, illustrated in the accompanying chart, reflected more than an earnings miss: investors questioned whether the company's extraordinary investment in artificial intelligence would generate sufficient returns without undermining the profitability of its established businesses.

Exhibit 1: Largest One-Day Losses in Market Capitalization



Source: Dow Jones Market Data, FactSet

Alphabet's results were far from a picture of collapsing demand. Third-quarter revenue rose approximately 25% year-on-year to $127.6 billion, although it fell slightly short of analysts' expectations of $128.2 billion. Google Cloud revenue roughly doubled to $30.7 billion, exceeding forecasts and demonstrating substantial demand for computing infrastructure and AI services. Nevertheless, net income fell around 25% to $26.2 billion. The contrast between strong sales growth and weaker earnings became central to the market's reaction.

The principal concern was monetisation: how effectively Alphabet could convert technological adoption and infrastructure investment into sustainable cash generation. Quarterly capital expenditure reached approximately $51.4 billion, while free cash flow was negative $9.1 billion. Alphabet also maintained full-year

capital expenditure guidance of $195 billion–$205 billion. These figures brought the financing demands of the AI build-out into sharper focus. Investors were no longer prepared to treat expanding capacity as sufficient evidence of future shareholder value.

The episode marks a shift in how markets assess the AI theme. Investors are moving from rewarding ambition to demanding evidence of returns, scrutinising cash conversion, capital-expenditure discipline and the resilience of established profit pools alongside headline growth. This more discriminating approach also helps explain the renewed interest in value strategies during the month. Equally, the resulting correction may create selective opportunities in companies able to demonstrate profitable execution.

China: Resilient Industry, Hesitant Equities

China's recent economic releases point to continued industrial resilience, but the recovery remains uneven. Third-quarter GDP growth accelerated to 4.5% year-on-year from 4.3% in the previous quarter, slightly exceeding expectations of 4.4%. Exports and technology-related manufacturing remained important growth drivers, while consumption, property and private investment continued to lag. The headline improvement therefore signals stabilisation rather than a broad-based economic rebound.

October's manufacturing surveys reinforced this mixed picture. The private PMI remained in expansionary territory at 52.0, with factory output growing at its fastest pace in six months, although export-order growth slowed. By contrast, the official manufacturing PMI slipped to 49.3, while the non-manufacturing index fell below the 50 threshold separating expansion from contraction. Taken together, these readings suggest that pockets of industrial strength have yet to spread convincingly across the economy.

Exhibit 2: China CSI 300



SHSZ300 Index
Source: Bloomberg
Data as of the close on 30 October 2026 – Note: DMA – Daily Moving Average (**50**, **125**, and **200** days)

This helps explain the disconnect between relatively resilient activity and continued weakness in the CSI 300. Equity investors need evidence that stronger production is translating into higher revenues, improved margins and sustainable earnings growth. That transmission remains inconsistent: technology-linked manufacturers have benefited from the global AI investment cycle, while more domestically oriented businesses continue to face subdued demand and pressure on profitability. Strong industrial volumes alone are therefore insufficient to support a broad market recovery.

-11.1%

OCTOBER PERFORMANCE OF THE CHINA A-SHARE EQUITY INDEX IN US DOLLARS

Investment Strategy: Rebuilding Fixed Income Allocation

The recent repricing in bond markets has strengthened the case for gradually rebuilding the fixed-income sleeve of multi-asset portfolios. After a prolonged period of cautious positioning—and an underweight allocation in our own portfolios—higher yields offer a more compelling opportunity to secure income and improve prospective medium-term returns. While the precise positioning of other investors varies, portfolios that have maintained limited bond exposure now have reason to reassess that stance.

The improvement in prospective returns has come in two stages. Over the course of the year, higher government-bond yields did most of the work, with US 10-year Treasury yields still around 75 basis points higher since the start of the year despite

October's rally. More recently, wider credit spreads have kept all-in yields elevated even as Treasury yields eased. Together, these developments have restored a meaningful income cushion, with yields of around 8%–9% available in selected higher-yielding segments.

However, it is essential to distinguish attractive absolute yields from inexpensive credit valuations. Credit spreads remain below longer-term historical averages on the measures we follow, suggesting that investors are being compensated more generously through the underlying interest-rate component than through an unusually large premium for assuming corporate risk. The opportunity is therefore primarily one of income, rather than distressed valuation.

Our historical analysis supports a constructive, but measured, approach. Using the historical episodes identified in AllianceBernstein's study, but measuring returns from the end of the relevant month over the following 12 months, our calculations show average returns of 7.0% for investment-grade (IG) bonds, 7.4% for high yield (HY) and 6.8% for emerging-market corporate debt. The only negative observation in our sample was July 2022 to June 2023 for IG bonds. These results are specific to our month-end methodology and should not be compared directly with calculations using the precise day on which yields crossed the threshold.

Exhibit 3: One-Year Total Return When US Corporate High Yield Crosses an 8% Yield

	Corporate IG	Corporate HY	Corporate EM
August 8, 2011	10.1%	8.1%	6.4%
September 29,2015	9.6%	9.1%	9.4%
December 24, 2018	15.9%	9.7%	13.3%
March 12, 2020	2.8%	9.4%	6.1%
June 13, 2022	(1.7%)	0.0%	(0.3%)
May 29, 2024	7.6%	8.7%	8.2%
April 4, 2025	4.8%	7.0%	4.3%
Average	**7.0%**	**7.4%**	**6.8%**

Source: Bloomberg; AllianceBernstein, Forum Finance calculations.
Note: All returns are measured from month-end over the next 12 months.

Two conclusions stand out. First, higher starting yields have generally provided a supportive entry point across several credit segments. Second, the relatively modest difference between the average returns of IG and HY argues against automatically pursuing the highest available yield.

We do not need to identify the exact peak in yields to begin rebuilding exposure. Equally, below-average spreads argue for retaining capacity to add if credit valuations become more attractive.

Portfolio Activity

We maintained our positioning during October, following the reduction in equity exposure implemented in September, particularly in emerging markets and developed Asia-Pacific, including Korea. In retrospect, these adjustments proved beneficial, as

the two markets declined by 9.4% and 7.8%, respectively, in US-dollar terms during October.

A positive development was the renewed contribution from value strategies across geographies, as weakness in AI-related stocks prompted a rotation in market leadership. Several of our alternative strategies also demonstrated encouraging resilience, notably the global long/short strategy introduced during September's rebalancing. Performance was more mixed elsewhere: our multi-strategy exposure gave back some gains following an exceptional September.

Currency movements were less favourable. The sharp strengthening of the US dollar weighed on our cautious, underweight positioning in the currency. Meanwhile, the combination of higher real yields and a stronger dollar put pressure on gold, where we retain a residual allocation.

Looking ahead, and in line with our investment strategy, we are considering a gradual increase in our fixed-income allocation. Any such move would be funded first from our remaining cash and then, potentially, by exiting our residual gold position, which has become less compelling given recent market dynamics.

Within equities, recent weakness has led us to adopt a more neutral stance on emerging markets, while our relative assessment of US equities has become more constructive. The period following the US midterm elections could provide a more supportive backdrop, although we would not rely on the electoral calendar alone as an investment signal.

The correction in AI-related stocks may also create selective entry opportunities, provided the risk-off dynamics prevailing since September begin to ease and greater confidence in earnings and cash-flow prospects emerges.

	31/12/2024	31/12/2025	31/10/2026	October	Year-to-Date
Yield (%)				Δ In basis points	Δ In basis points
U.S. 3-Month	4.31	3.63	4.08	(3)	45
German 3-Month	2.49	1.99	2.49	1	50
U.S. 2-Year	4.24	3.47	4.59	(30)	111
German 2-Year	2.08	2.12	3.04	(16)	92
U.S. 10-Year	4.57	4.17	4.93	(36)	76
German 10-Year	2.36	2.85	3.32	(26)	47
Currencies				Δ In %	Δ In %
EUR/USD	1.0354	1.1746	1.1160	(1.5)	(5.0)
USD/CHF	0.9074	0.7926	0.8250	(1.3)	4.1
EUR/CHF	0.9401	0.9307	0.9204	(2.8)	(1.1)
GBP/USD	1.2516	1.3475	1.3391	0.9	(0.6)
Commodities				Δ In %	Δ In %
Oil (WTI)	$71.7	$57.4	$104.1	15.2	81.3
Copper	$402.7	$568.2	$648.2	(2.1)	14.1
Gold	$2,625	$4,319	$3,875	(6.8)	(10.3)