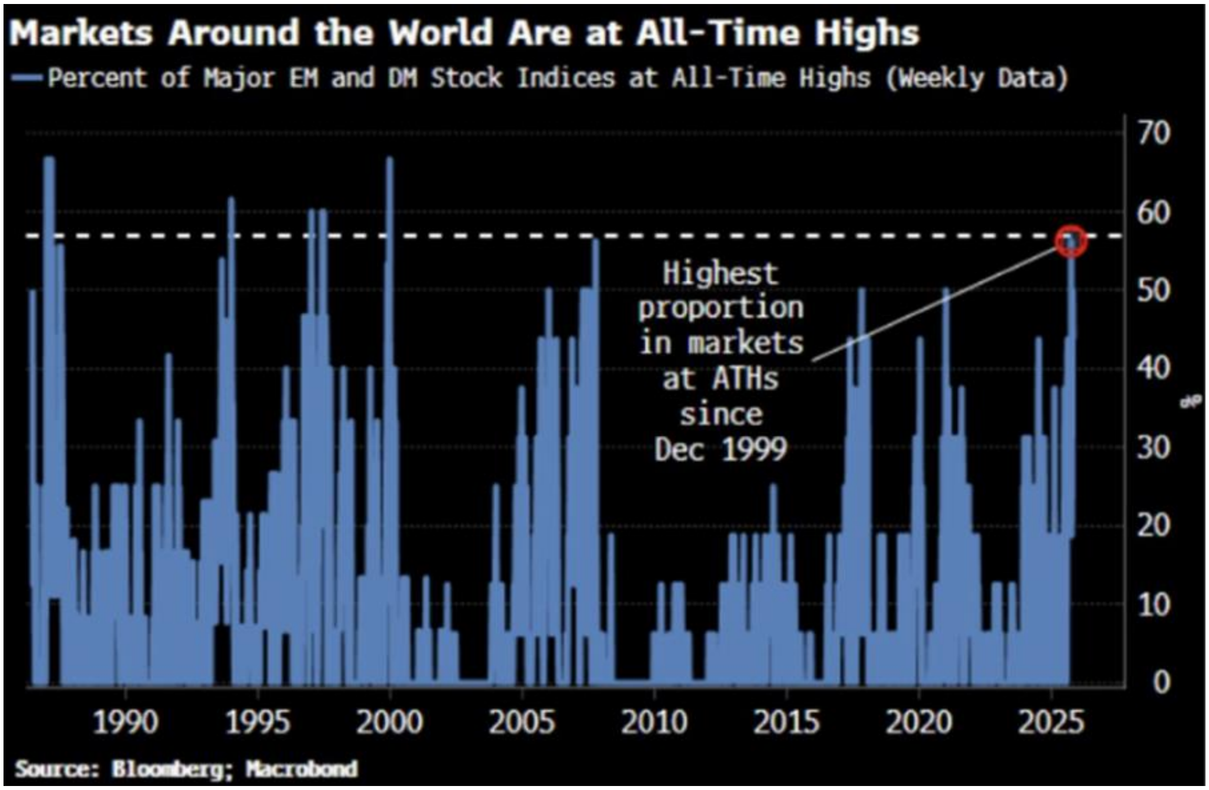
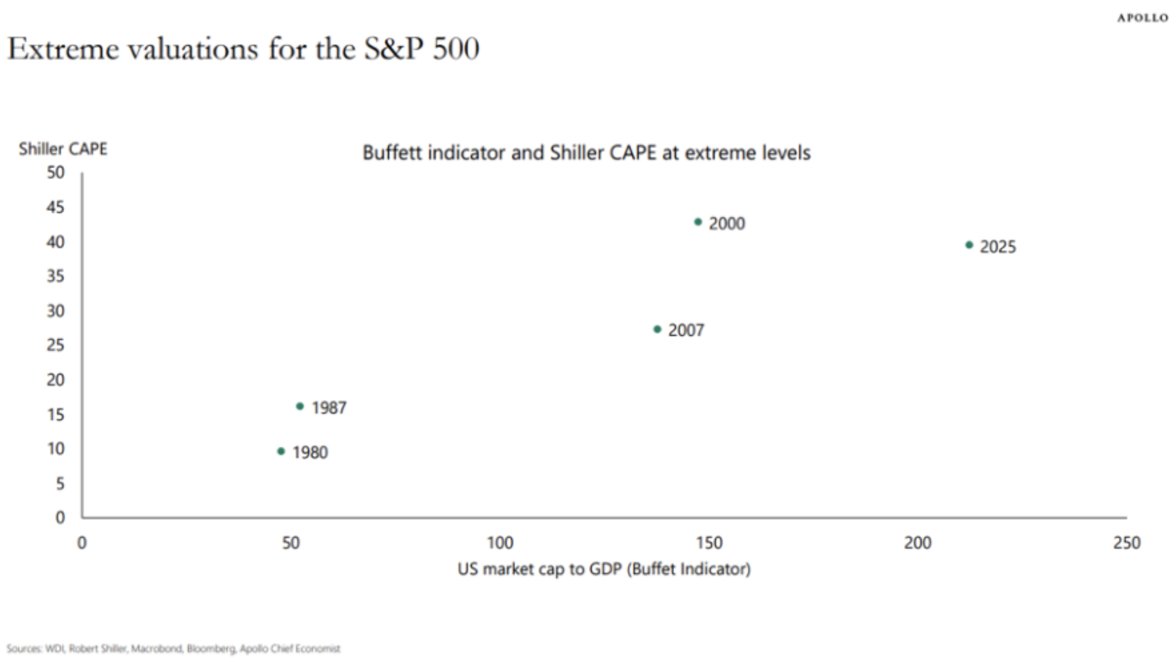
October Market Commentary | New Highs, Old Lessons

With October behind us and only two months to go in 2025, markets continue to show remarkable strength. Last month, the S&P 500 gained 2.3% (total return in U.S. dollars), reaching another all-time high. Canadian stocks did not fare quite as well, returning 1.0% (total return in Canadian dollars), but this was still enough to set a new record high.

Global equity markets are also participating, with the highest share of markets at all-time highs since December 1999. The comparison is not entirely comforting. A few months after those 1999 highs, the dot-com bubble burst and it took more than seven years for the S&P 500 to reclaim its prior peak.



Valuations add to the unease. Apollo highlights that both the Buffett indicator (U.S. market cap to GDP) and the Shiller CAPE (cyclically adjusted P/E) are at extreme levels. This raises a natural question: is today's market a bubble waiting to unwind? Eventually, perhaps, but the current backdrop still provides some support.



Policy backdrop shifts from hikes in 1999 to cuts in 2025.

On June 30, 1999, the Federal Reserve began a rate-hiking cycle that ultimately raised the Fed Funds Rate by 1.75% in less than a year. Today, the Fed is moving in the opposite direction. It cut rates again in late October, the second reduction in 2025.

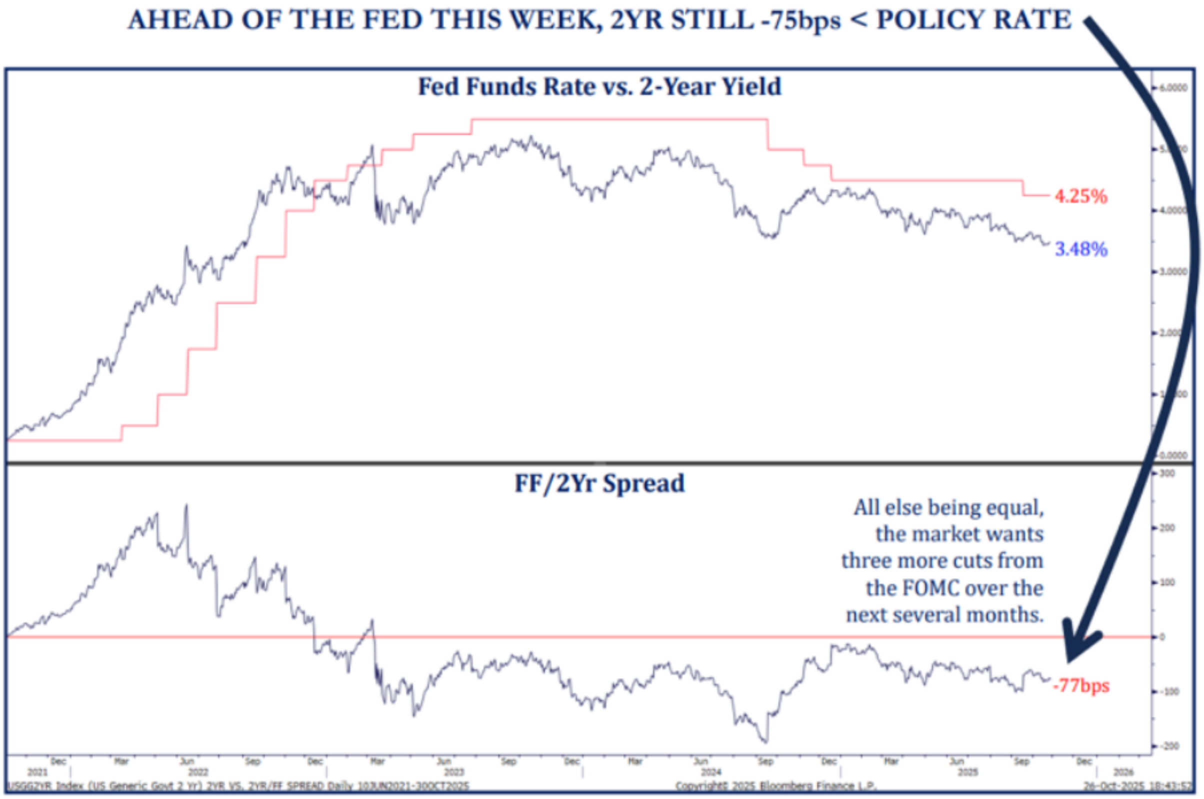
A recent S&P Global Investment Manager Index Survey suggests central bank policy is expected to be the largest positive contributor to U.S. equity returns over the next 30 days. Goldman Sachs believes markets have shifted from a “Goldilocks” environment, where growth is neither too hot nor too cold, to a “central bank put” regime in which any material economic or market weakness prompts additional easing.

Two-year Treasury yields are also trading well below the current Fed Funds Rate, implying that markets expect another two cuts over the next several months. It is hard to become aggressively bearish on equities when the Fed is cutting rates. While the ongoing government shutdown and data gaps mean policymakers are flying somewhat blind, the near-term path for policy rates appears lower, not higher.

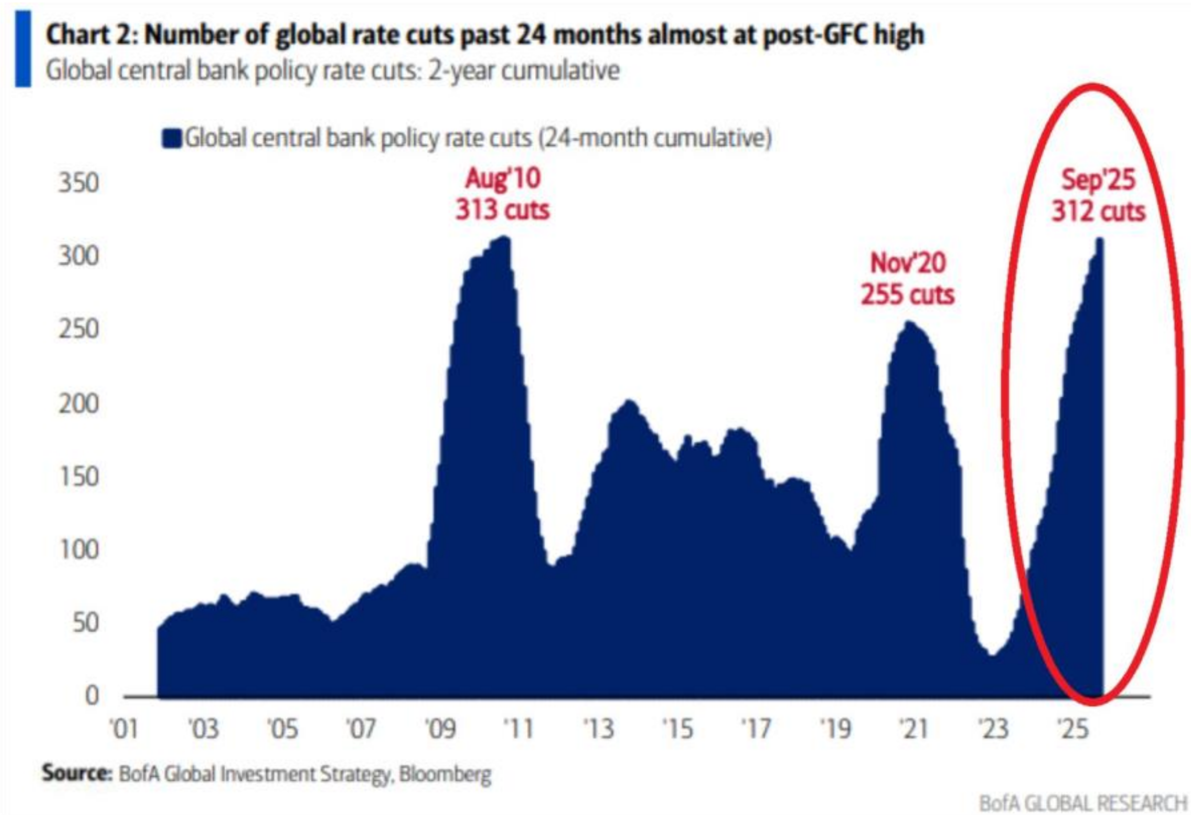
Fed ends quantitative tightening as global conditions loosen.

Supportive policy does not end with rate cuts. The Fed has also signaled an end to its quantitative tightening program. To inject liquidity during the pandemic, the Fed expanded its balance sheet to nearly $9 trillion USD. Since 2022, it has been allowing maturing securities to roll off in an effort to normalize its holdings.

With the balance sheet now around $6.6 trillion USD, the Fed announced it will no longer seek to shrink its portfolio further. While markets anticipate further rate cuts, they are possible but not guaranteed.



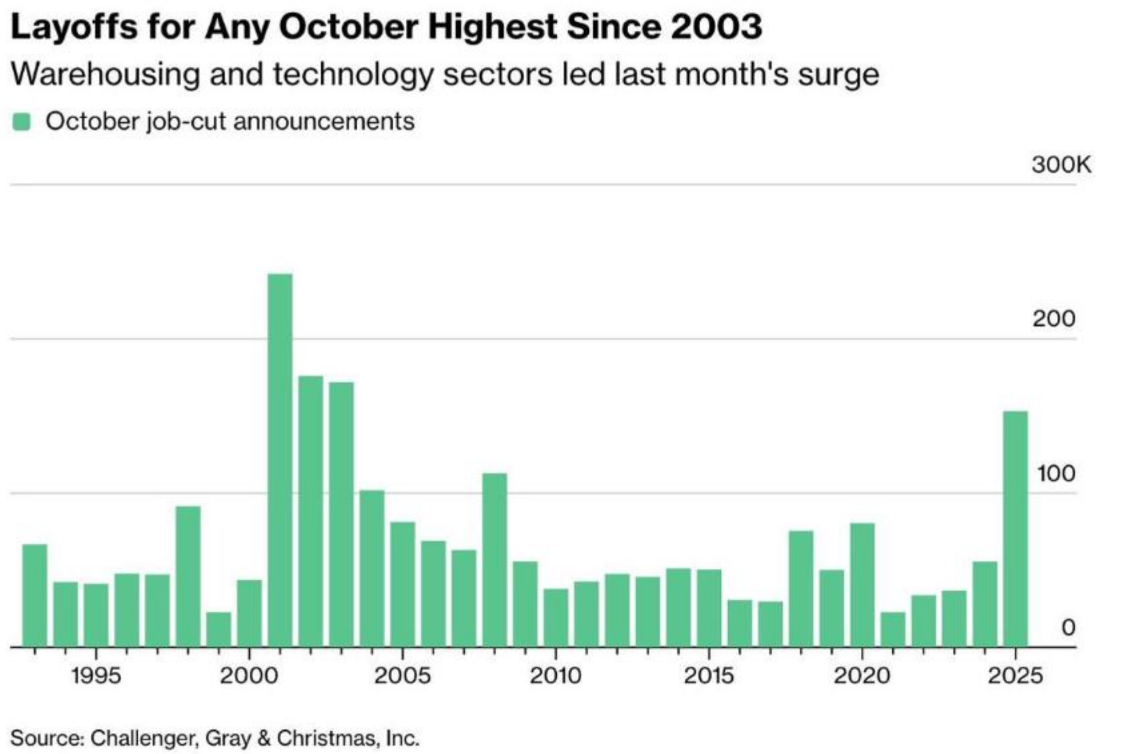
The Fed is not alone. Bank of America research shows that global rate cuts over the past 24 months are approaching levels last seen after the global financial crisis. This trend has translated into very loose global financial conditions, providing an additional tailwind for risk assets.



Labour market weakness collides with stubborn inflation.

The Fed's challenge is to balance a slowing labour market against persistent inflation. So far, it appears more concerned about employment than inflation, although the trade-off is closer than market optimism suggests.

Job growth has been weak for months, but layoffs have also remained relatively muted. Initial jobless claims have been stable, suggesting employers are not yet cutting staff aggressively. However, recent data indicates layoffs may be starting to rise. Further deterioration in the job market could push the Fed to cut more quickly.

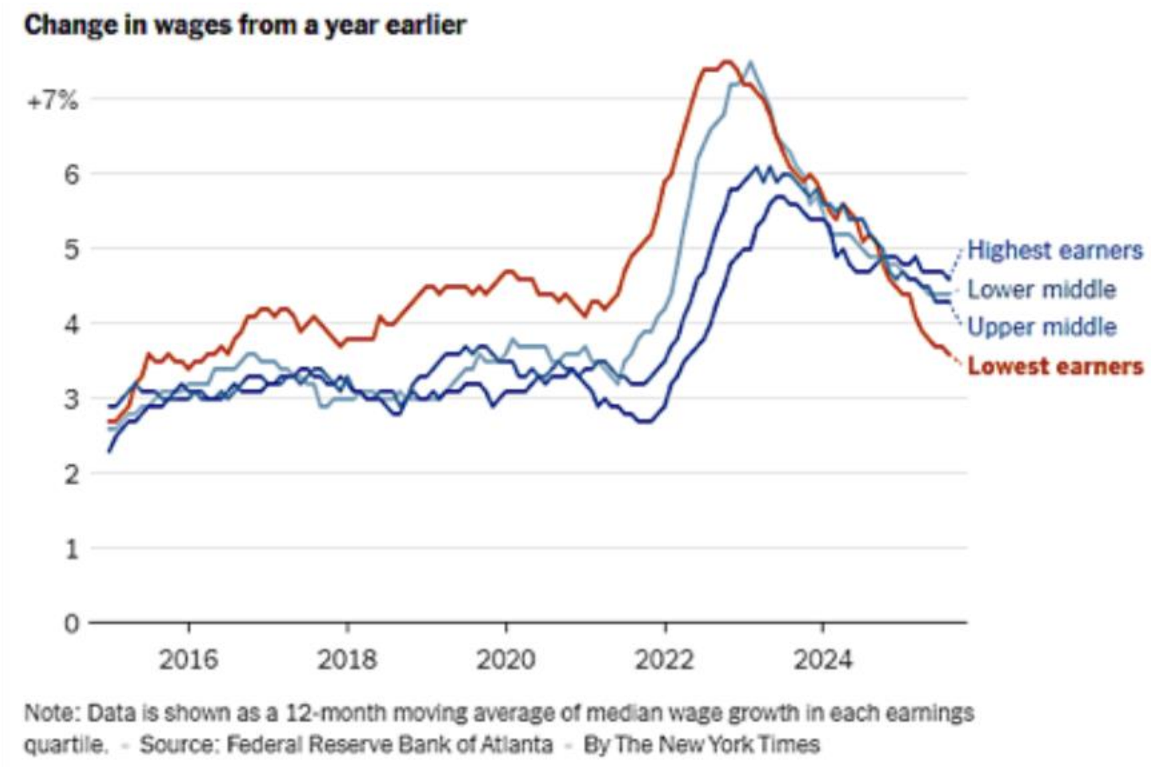


Inflation complicates the picture. Core CPI rose 3.0% in September, which was better than expected, but the three-month annualized rate remains around 3.6%, still somewhat hot. Much of the September moderation came from softer housing costs, which may not be sustainable. Excluding shelter, so-called "supercore" inflation remains what Bloomberg recently described as "perky."

Bloomberg also notes that [inflation appears stuck] near 3%. If this becomes the de facto new target, rate cuts are likely to continue, with the Fed showing a willingness to tolerate higher inflation to support a weakening job market.

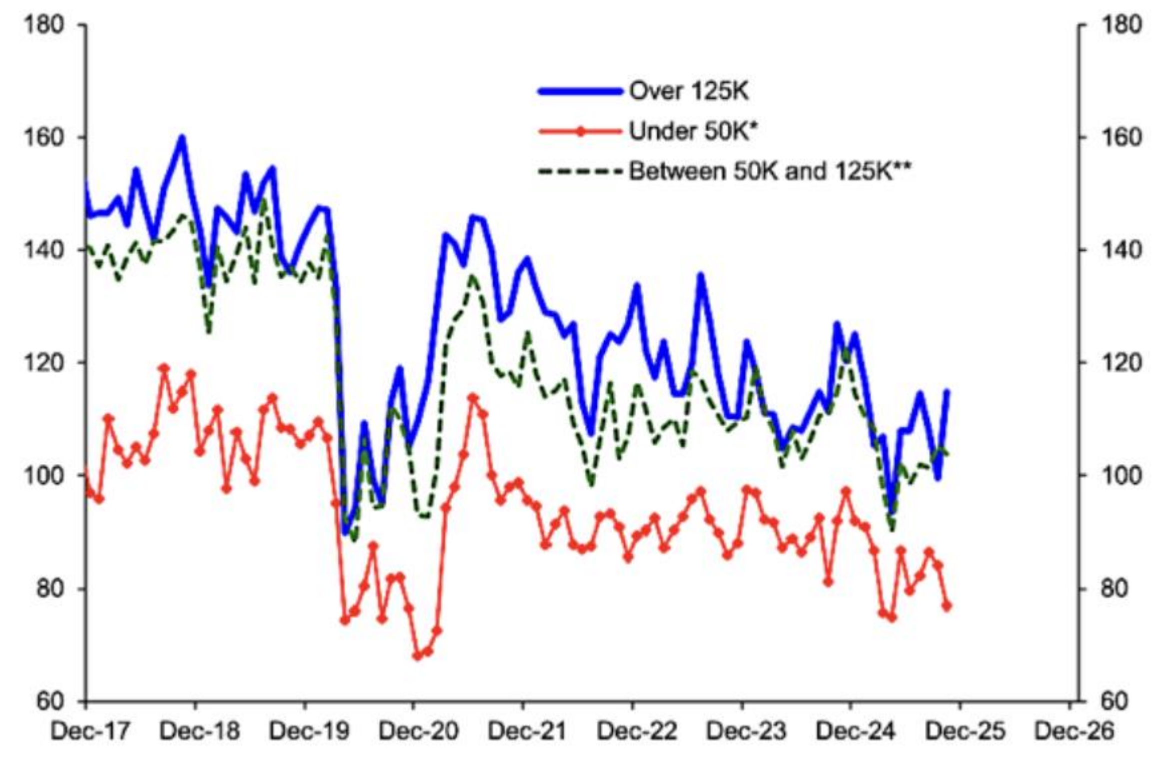
A K-shaped economy highlights widening household disparities.

Balancing a weak job market and persistent inflation is not the Fed's only challenge. The economy increasingly resembles what some have called a K-shaped recovery, where aggregates such as overall consumer spending obscure diverging outcomes across income groups.
The Federal Reserve Bank of Atlanta notes that while the bottom 20% of earners have experienced wage gains over the past two years, median wage growth for the lowest earners has lagged over the past year. Scotiabank reports that consumer confidence for workers earning under $50,000 USD has turned lower, while confidence among those earning more than $125,000 USD is trending higher.



The stock market is also influencing sentiment. Data from the University of Michigan shows confidence falling among non-stockholders and rising among investors. This is not surprising when one considers that Federal Reserve data shows the top 20% of households own 87% of stocks and mutual funds.

Exhibit 1 - Consumer Confidence Index By Income



*Average of all categories below $59K per year ** Average of all categories between 50K and 125K per year

Source: Scotiabank GBM Portfolio Strategy, Bloomberg.

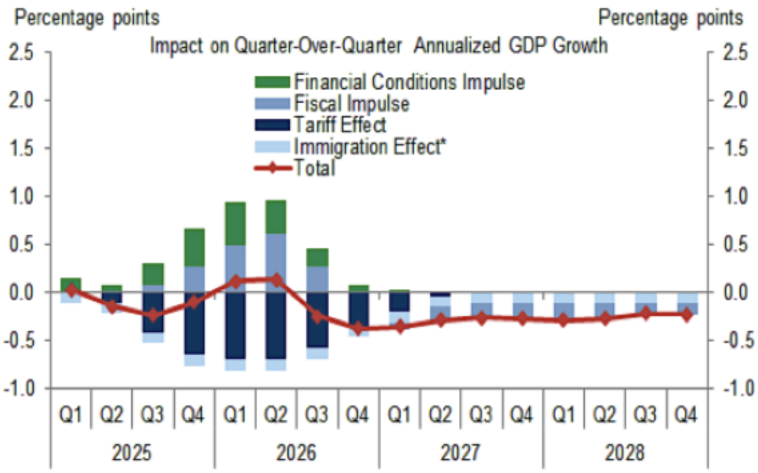
This K-shaped dynamic is visible in markets as well. Consumer and consumer discretionary sectors have been nearly flat for the year, despite strong headline index performance.

Soft data weakens, but hard data and policy support remain constructive.

The current environment is not necessarily destined for recession. Augur Infinity notes that soft economic data, such as surveys and sentiment, has weakened materially, but hard economic data remains strong.

Capital spending has been a key support. Most of this investment is tied to artificial intelligence. Excluding AI-related spending, there is essentially no growth in corporate capex. Looking ahead, 2026 appears more promising. Goldman Sachs highlights that the combined growth impulse from economic policy and financial conditions bottomed in the third quarter of 2025 and should rebound over the coming quarters, peaking in the second quarter of 2026.

Exhibit 3: Our Estimate of the Combined Growth Impulse from Changes in Financial Conditions and Economic Policy Bottomed in 2025Q3 and Will Rebound in Coming Quarters as the Fiscal Boost Arrives



* Impact of current immigration rate relative to the average pre-pandemic rate of about 1mn per year.

Source: Goldman Sachs Global Investment Research

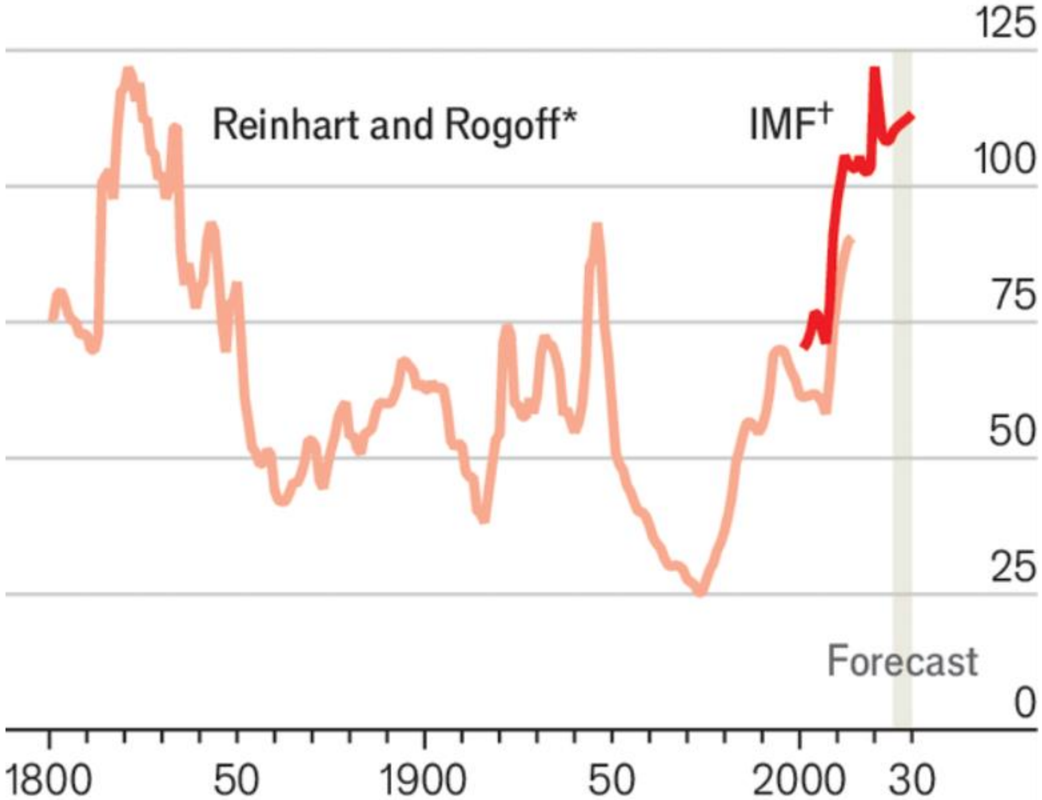
Rising sovereign debt remains a critical long-term risk.

One of the key risks to this relatively constructive outlook is rising global government debt. Most developed economies already carry high debt loads and are expected to add more in the coming years.

The Economist notes that gross government debt in advanced economies is near 110% of GDP, close to an all-time high, with IMF forecasts suggesting further increases. The IMF's baseline projection sees U.S. debt rising from just under 100% of GDP in 2025 to just under 105% by 2030. In its "bad" scenario, debt to GDP approaches 110%.

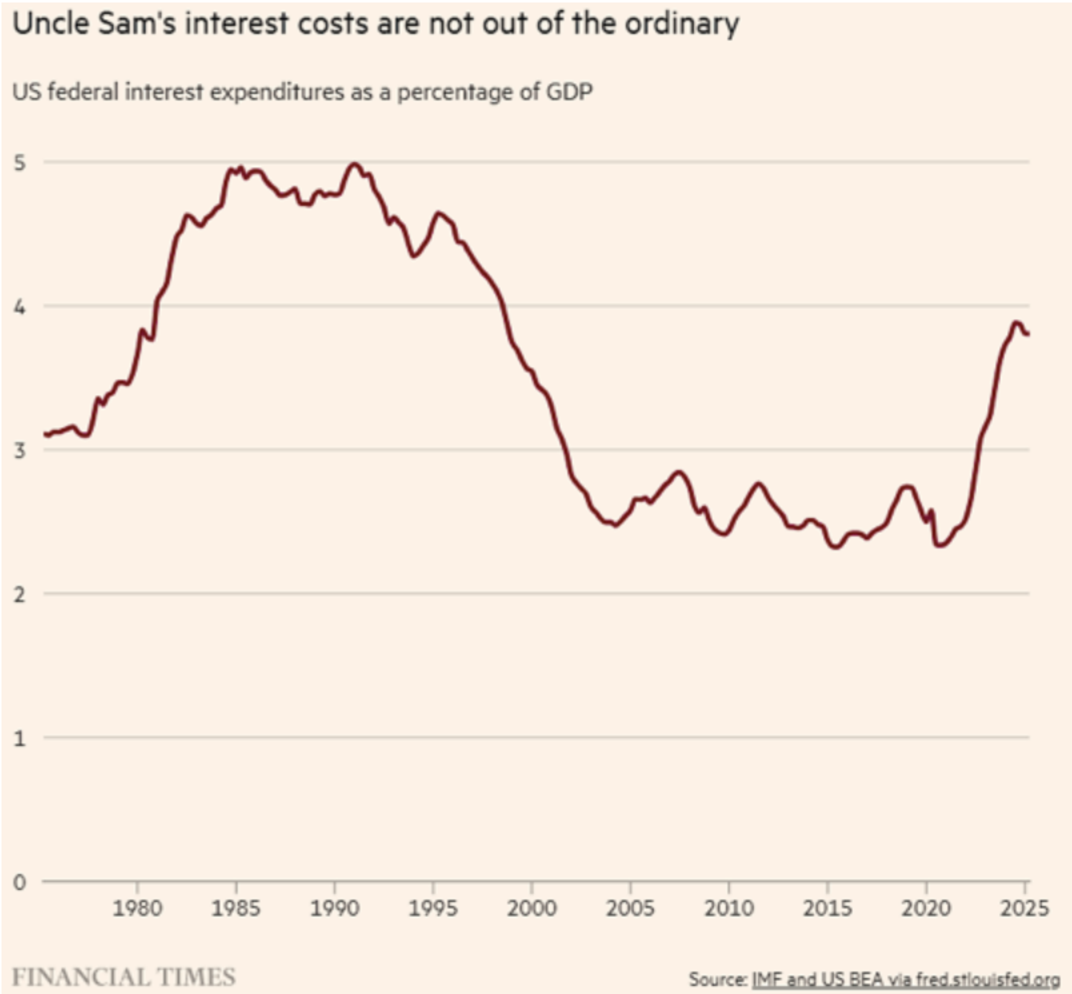
Living on borrowed dimes

Advanced economies, gross government debt as % of GDP



*Simple average, 22 countries †Weighted average, 41 countries
Sources: Reinhart and Rogoff, 2011 and updates; IMF

The Financial Times observes that current interest costs around 4% of GDP are not unprecedented, but in the IMF's adverse scenario, markets may demand a much higher risk premium, raising borrowing costs and increasing the risk that interest expenses begin to spiral.

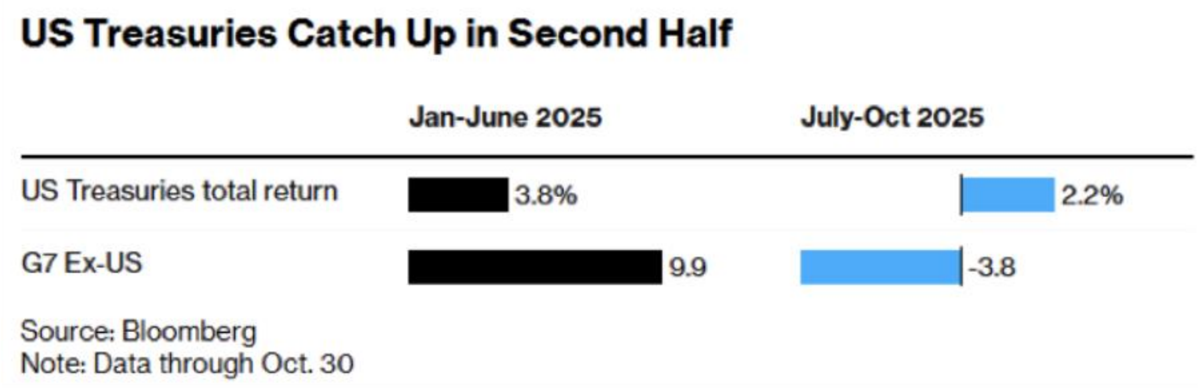


So far, bond markets and the U.S. dollar remain supportive.

In this "bad scenario," two key indicators to watch would be longer-term bond yields and the U.S. dollar. For now, both remain relatively well behaved.

The U.S. dollar strengthened for the second consecutive month in October, and that U.S. Treasury yields are outperforming G7 peers. U.S. 10-year Treasury yields are down nearly 50 basis points year to date and 30-year yields have fallen 13 basis points. In contrast, France, Germany and Japan have seen their 10- and 30-year yields rise between 23 and 77 basis points.

Since June 30, total returns on U.S. Treasuries have been a positive 2.2%, compared with a 3.8% loss for G7 ex-U.S. government bonds. For now, talk of "the end of U.S. exceptionalism" appears premature.

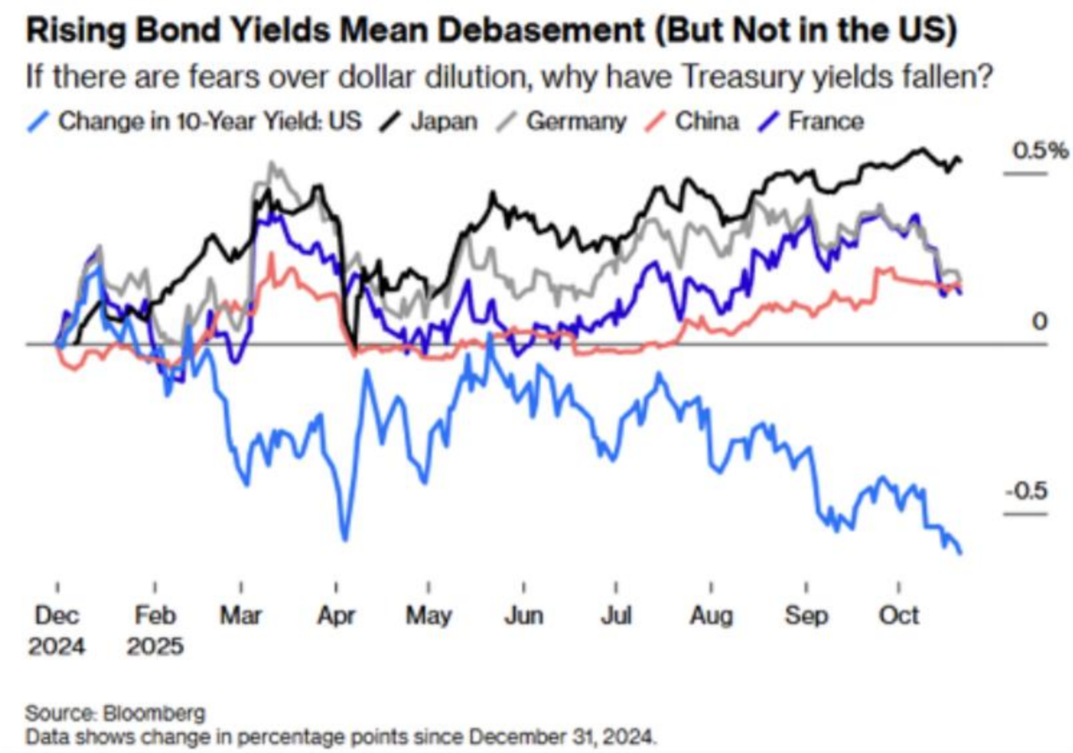


Out-of-control government debt remains a risk for U.S. yields and the dollar, but the U.S. is not alone. Many countries face similar challenges, and the dollar still enjoys the benefits of reserve currency status.

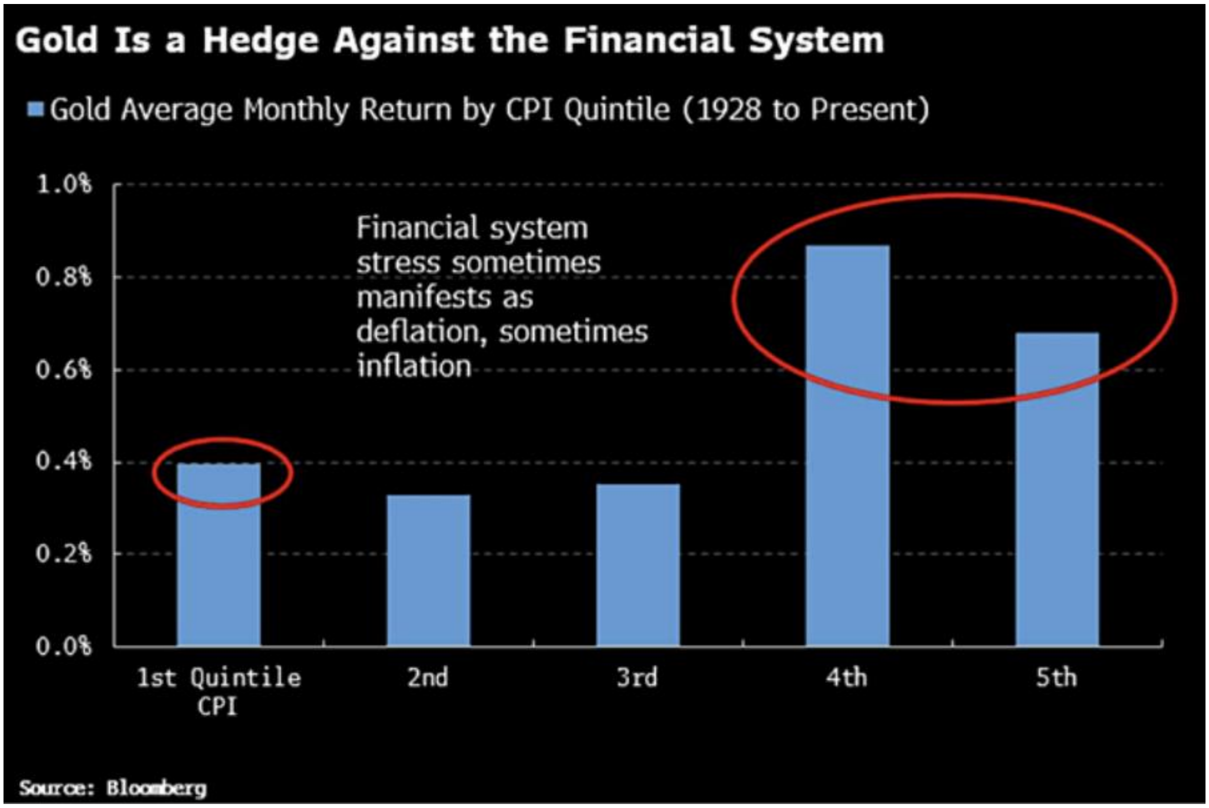
Gold's "debasement trade" reflects long-term concerns.

This context helps explain the powerful rally in gold. The metal briefly moved above $4,300 USD an ounce in October before settling around $4,000 USD by month-end. The near-parabolic move in gold has been described as the "debasement trade," reflecting concerns that central banks will eventually be forced to adopt policies that erode the purchasing power of their currencies in order to stabilize unsustainable debt burdens. In this playbook, rising bond yields indicate that investors expect higher inflation and demand higher returns as compensation.

Gold is viewed as a hedge against this debasement because it has preserved purchasing power over long periods. Bloomberg notes that yields are rising in several markets, suggesting aspects of the debasement trade may be playing out, just not primarily in the United States at this point.

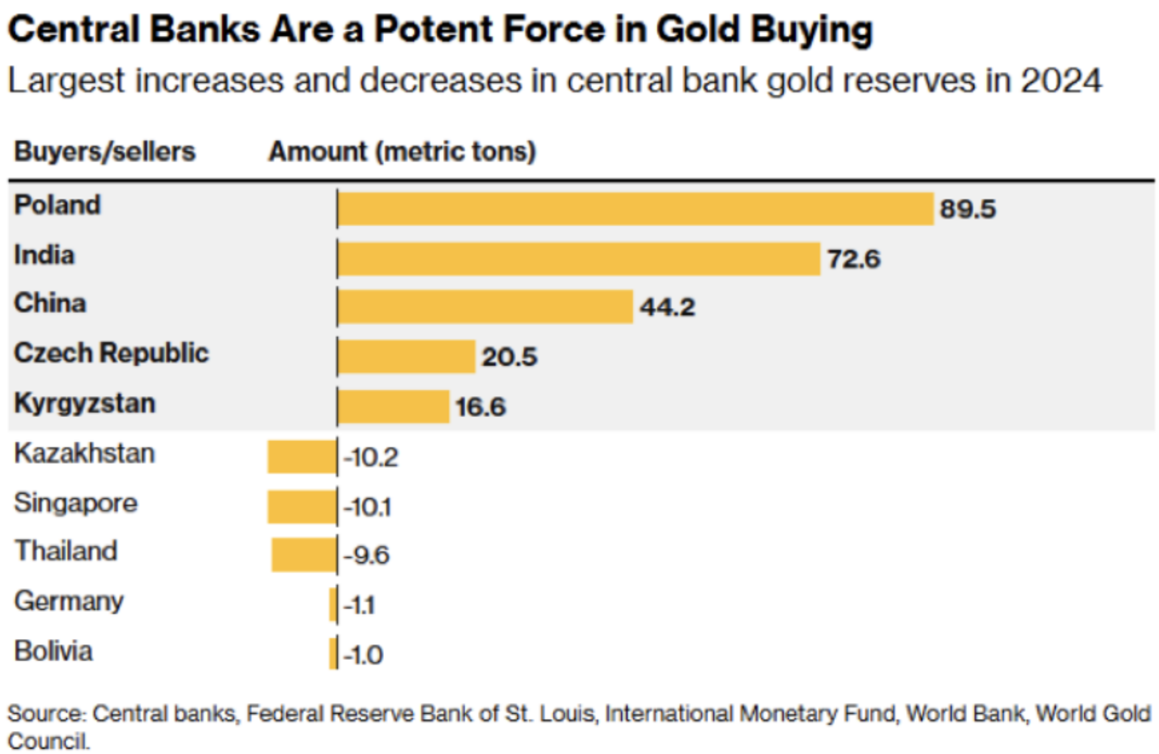


Gold can also be seen as a hedge against broader financial system stress, not just inflation. As Bloomberg's Simon White points out, that stress can manifest as either inflation or deflation, and gold has produced strong returns in both environments.



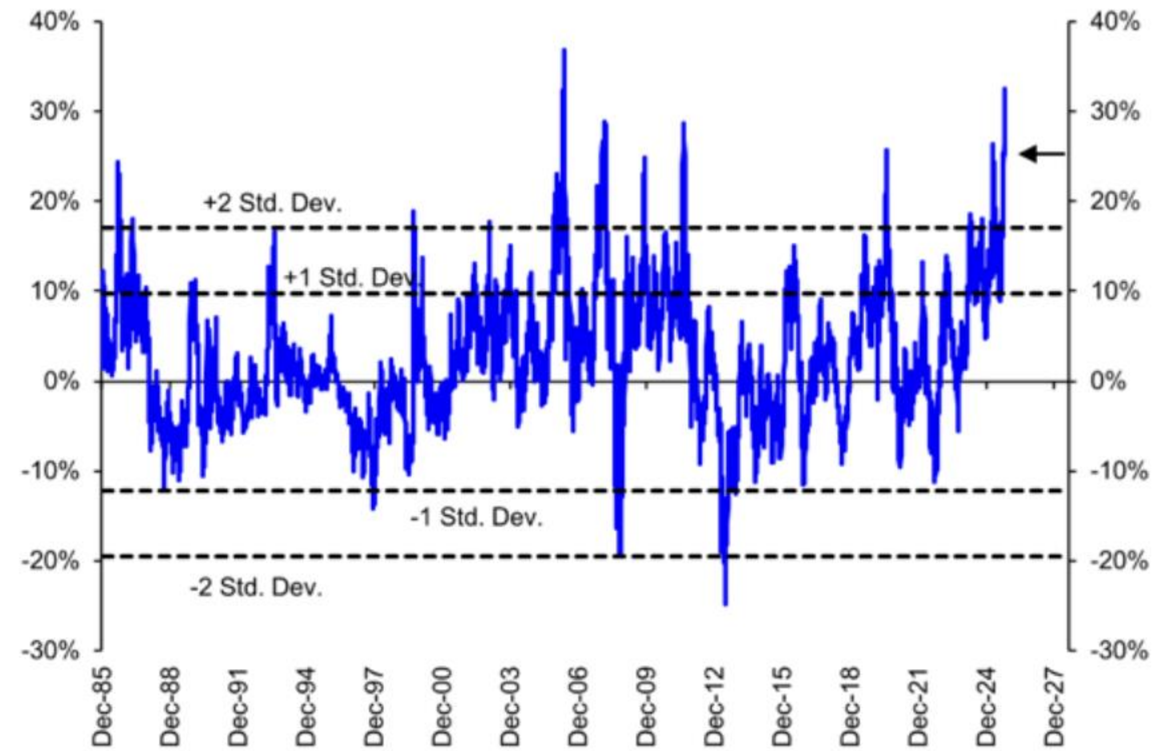
Central banks, led by China, add another layer of support to gold.

China is playing a critical role in gold markets. Apollo reports that China has been aggressively increasing its gold reserves, and other central banks are following. Poland, India, the Czech Republic and Kyrgyzstan as notable buyers in 2024. Global central banks now hold more gold than U.S. dollars.



Momentum has likely contributed as well. Scotiabank notes that bullion traded three standard deviations above its 200-day moving average before its recent correction, which suggests some fear of missing out may have been at play.

Exhibit 2 - Gold Deviation From 200-D Line



Source: Scotiabank GBM Portfolio, Bloomberg.

Whether this constitutes a bubble is difficult to say. Gold does not pay a dividend or generate earnings, and its value is driven entirely by supply and demand. As a share of global investable assets, gold could move substantially higher. In the early 1980s, gold represented more than 20% of global investable assets versus roughly 5% today. Societe Generale calculates that a gold price of $6,666 USD would generate the same magnitude of 10-year rolling return as the 2002–2011 bull market.

Based on 10y rolling returns, gold at $6,666 would return the same magnitude as the previous bull market from 2002 to 2011

Source: Bloomberg, SG Cross Asset Research/Global Asset Allocation

Rather than trying to forecast gold's ultimate price or label it definitively as a bubble, we focus on the message it is sending. That message is not reassuring. Government debt levels are high, and investors are increasingly concerned about long-term erosion of purchasing power. This is not solely a U.S. issue. Global investors and central banks appear less willing to rely exclusively on the U.S. dollar as their risk-free anchor.

AI-driven gains raise both opportunity and bubble risk.

While gold's message may be more relevant over the long term, artificial intelligence is front and centre for markets today. A recent Bank of America Global Fund Manager Survey cited AI equity bubble risk as the biggest tail risk.

Since the launch of ChatGPT in November 2022, AI-related stocks have rallied 165%, compared with 70% for the S&P 500, according to the Financial Times and Coatue Management. Excluding AI names, the S&P 500 would be up only 25%. Bloomberg reports that media references to both "AI" and "bubble" have surged.

Yet the rally has not been driven solely by enthusiasm. Societe Generale notes that the relative outperformance of technology sector earnings has tracked the sector's share price outperformance. Morgan Stanley believes most of the AI-related capex cycle still lies ahead, suggesting earnings could continue to grow. All of this is occurring in an environment of falling interest rates and easy financial conditions. It may prove to be a bubble, but the timing of any reversal is highly uncertain.

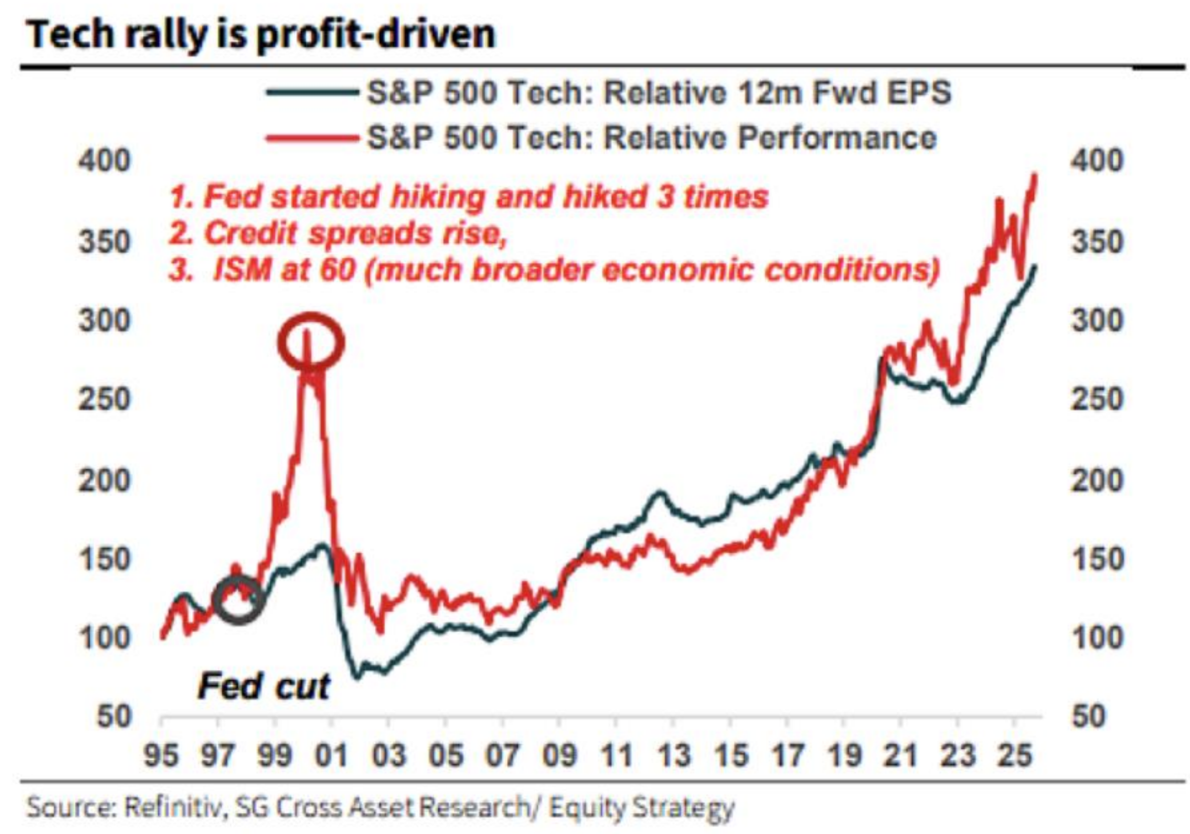
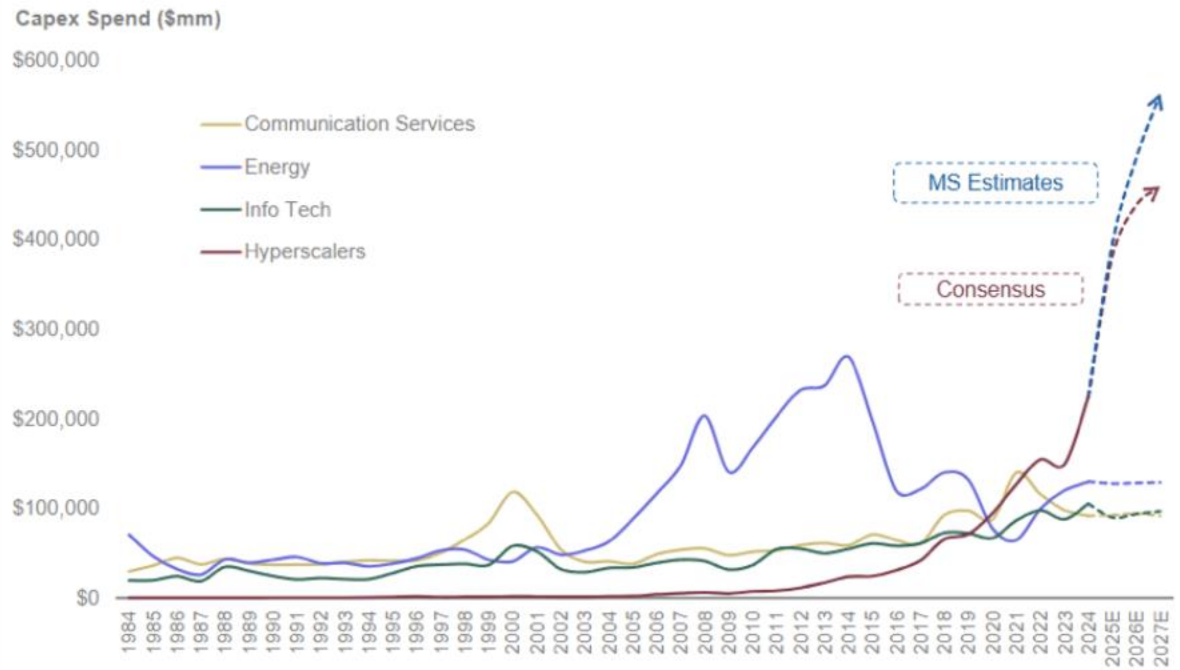


Exhibit 10: The bulk of AI-related capex is still ahead of us. Get ready



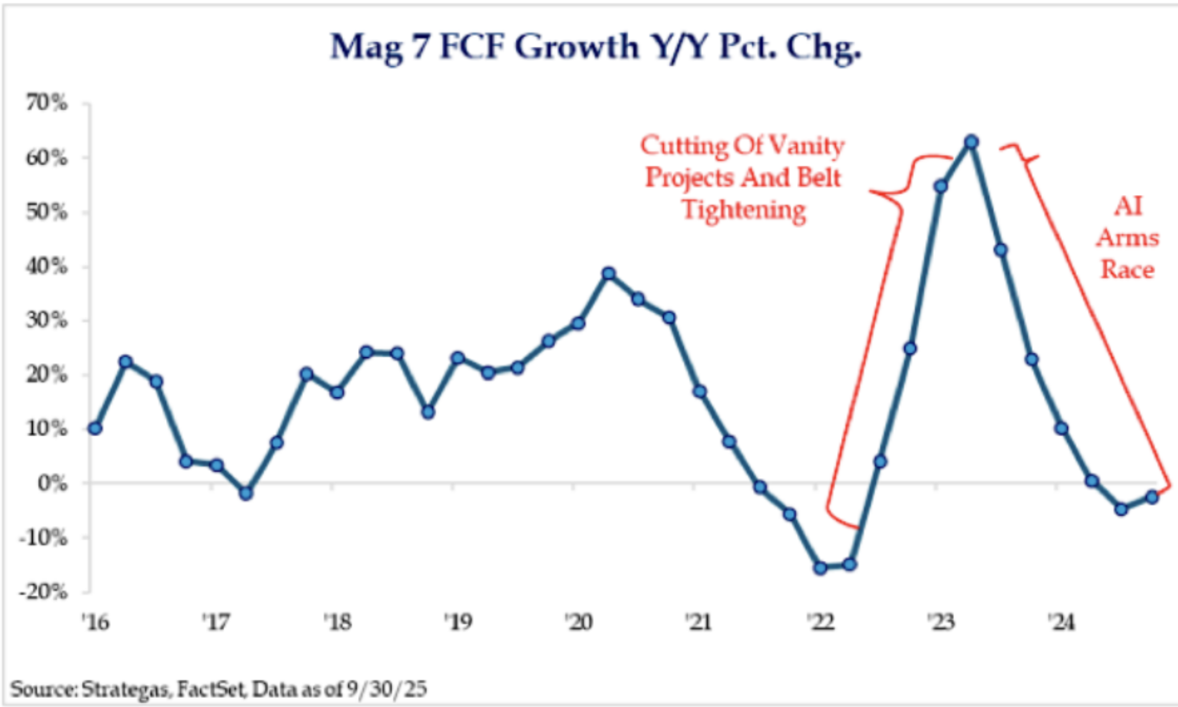
Source: FactSet, Morgan Stanley Research estimates

As AI investment grows, funding and earnings dispersion will matter more.

The longer any bubble expands, the greater the eventual risk to the broader market. Until now, most AI-related capex has been financed out of the free cash flow of the Magnificent Seven, including Microsoft, Alphabet, Amazon and Meta.

Strategas recently highlighted that free cash flow for the Magnificent Seven has turned negative, which implies that debt will increasingly be required to fund further AI investment. At the same time, investors are becoming more discriminating, rewarding companies that can demonstrate near-term revenue and earnings contributions from AI and punishing those that cannot.

MAG 7 FREE CASH FLOW GROWTH NOW NEGATIVE FOR TWO QUARTERS



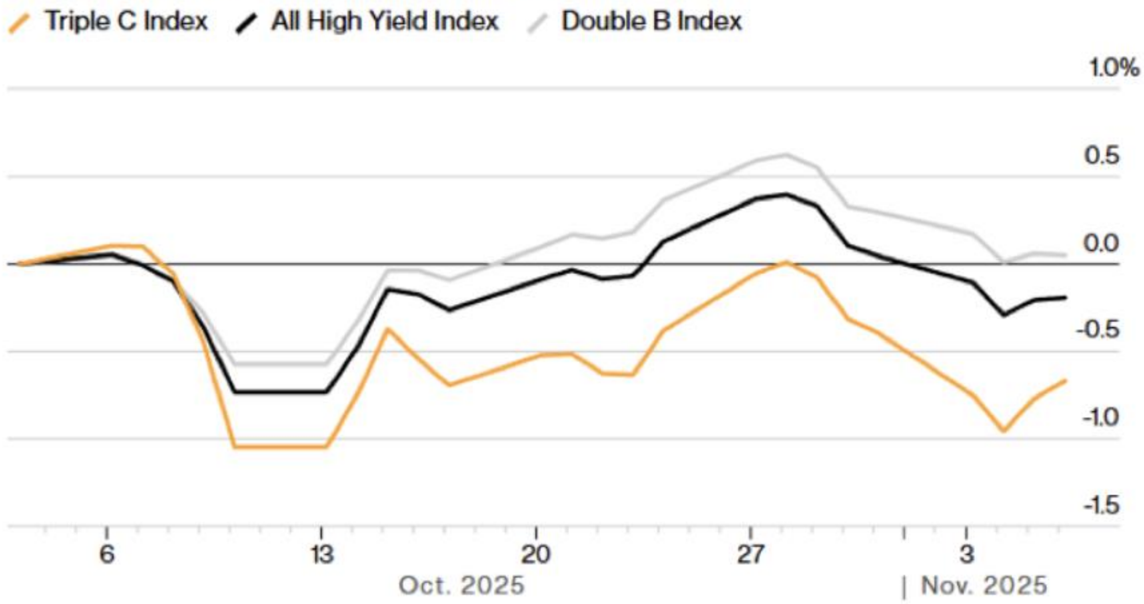
Meta fell into the latter category in early November, when its shares dropped more than 10% in a single session after results failed to reassure investors about the near-term payoff from its AI spending.

Private credit and tight spreads underscore rising tail risks.

Another area that drew attention in October was the credit market, particularly private credit. Most of the recent questions have been centered around two bankruptcies in the auto lending and parts sector. While these appear idiosyncratic, they have prompted some industry observers to pay closer attention.

In aggregate, however, credit markets remain calm. Spreads are tight for both corporate credit and emerging market sovereign bonds. Bloomberg has questioned whether markets are underpricing risk, but notes that while CCC-rated debt began to underperform in early November, the broader high-yield and investment-grade sectors remain well behaved. Apollo adds that weekly bankruptcy filings have actually been falling.

Returns Lag For Riskiest High Yield Debt



Source: Bloomberg
Data is through November 6, normalized with percentage appreciation as of October 3.

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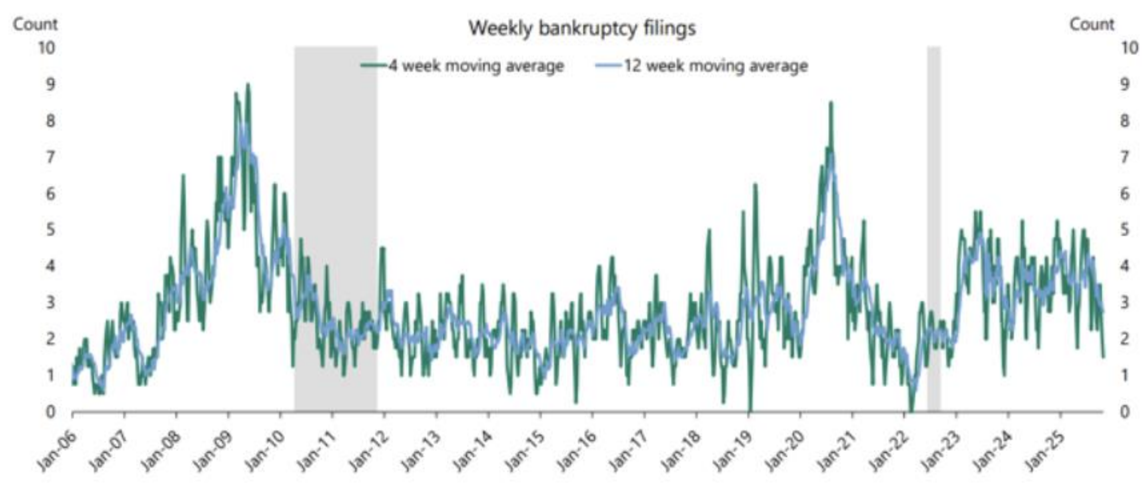
Weekly bankruptcy filings declining



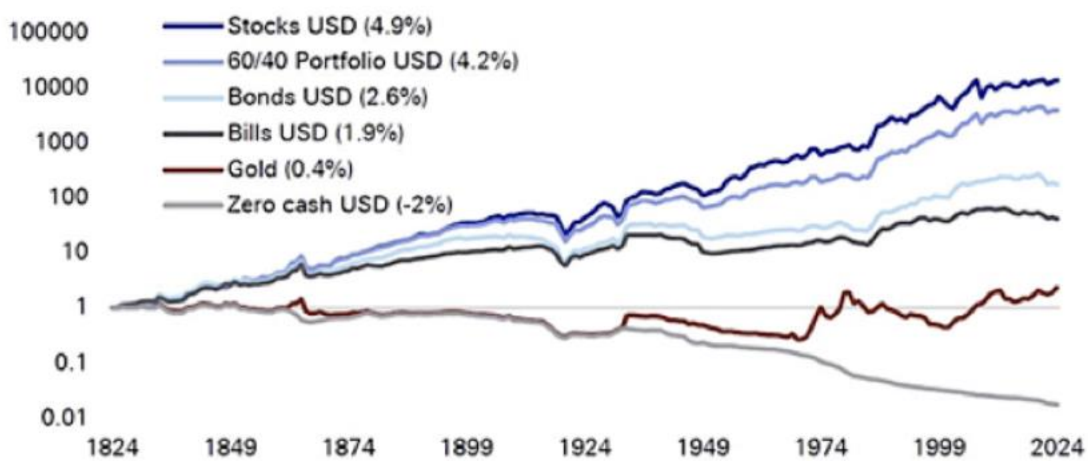
Note: Filings are for companies with more than $50mn in liabilities. For week ending on October 28, 2025. Sources: Bloomberg, Apollo Chief Economist

Like equities, credit is not cheap, but it remains difficult to call a definitive top. Spreads may be tight, but gross yields are still attractive. In both public and private credit, tail risk has increased, which places a premium on manager selection and fundamental credit work. Managers who can avoid bankruptcies and fraud are likely to fare better through all cycles.

High valuations heighten concern, but diversification remains a core tool.

It is natural to question the durability of a rally when valuations are high. A recent Wall Street Journal article asked whether investors should simply buy stocks and hold them for life. Over the long term, equity returns have been compelling. Since 1824, real returns have averaged 4.9% for stocks, versus 2.6% for bonds, 1.9% for T-bills and 0.4% for gold, according to Deutsche Bank.

Figure 2: Median global real total return in USD by asset class, cumulative since 1824 (=1)



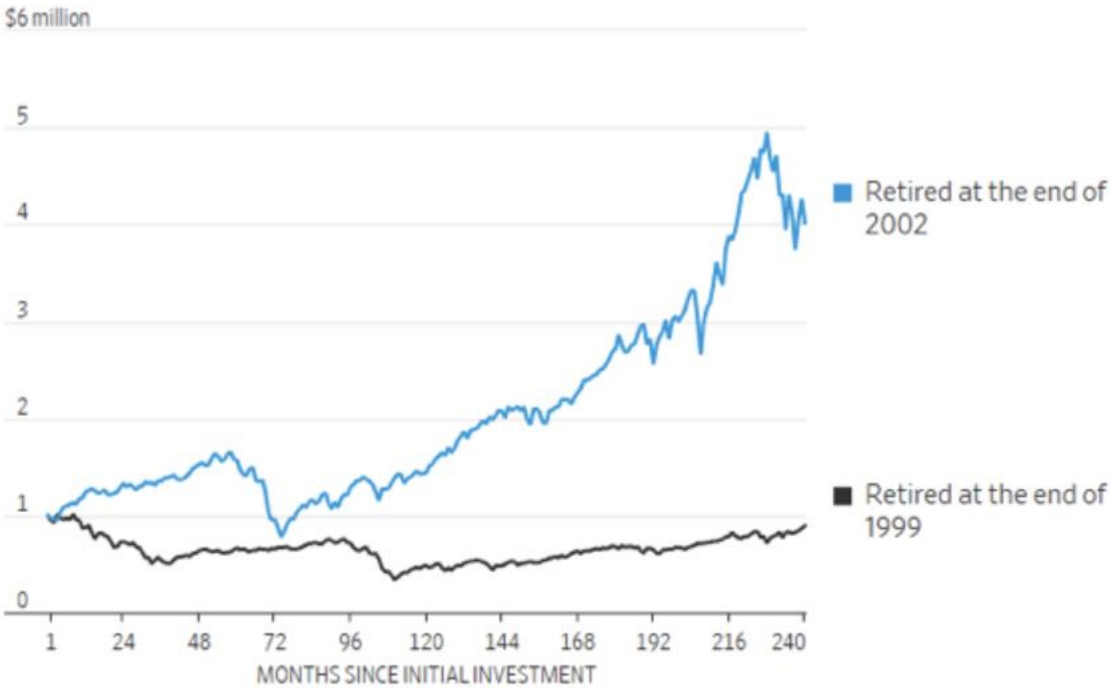
Source : Finaeon, Bloomberg Finance LP, Deutsche Bank. Note: through 2024, discounted by US CPI.

Source: Deutsche Bank via Off The Charts

Avoiding equities altogether can be costly. Hartford Funds notes that half of the market's best days occur during bear markets or in the first two months after they end. At the same time, there are periods when prudence is warranted. The Wall Street Journal highlighted how an investor retiring on December 31, 1999, just before the 2000–2002 bear market, experienced much weaker outcomes over the next 20 years than an investor retiring two years later, even with identical starting balances and withdrawal rates.

The Luck of the Draw

Two investors each had $1 million in the S&P 500 when they retired, one at year-end 1999, the other at year-end 2002. After 20 years, although they started with the same sum and made the same withdrawals, their results diverged drastically.



Sources: S&P Dow Jones Indices; Wealth Logic

With AI leadership echoing aspects of the dot-com era and concerns in credit beginning to resemble early stages of the financial crisis, today's environment can feel familiar. Yet with the Fed still cutting rates and the economy stable, this market could continue to advance.
We do not believe investors need to choose between being fully invested or entirely on the sidelines. Diversification remains a powerful tool, and it is particularly valuable in uncertain periods like today. A disciplined, diversified portfolio can participate in continued market strength while maintaining resilience should conditions change.

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