Allianz Global Investors

10/2025

Market Snapshot

Equity Snapshot

United States

US equities ended October modestly higher. Wall Street's initial reaction to the US government shutdown was muted, although stocks slumped mid-month, recording their steepest losses since April amid renewed Sino-American trade tensions and concerns over the health of regional banks. However, upbeat third-quarter earnings, led by megacap tech names, subsequently helped markets recover. In late October, President Donald Trump and President Xi Jinping agreed to postpone export controls on rare earths and semiconductors as part of a one-year trade deal, but sentiment was knocked by cautious Federal Reserve (Fed) commentary about future rate cuts.

With no end to the US government shutdown in sight, the suspension of key economic data releases by statistical agencies posed a significant challenge for investors and policymakers alike. While non-farm payrolls data from the US Bureau of Labour Statistics was already sputtering before the government shutdown, the recent wave of federal layoffs is unlikely to have improved the overall health of the labour market. The Federal Reserve Bank of Atlanta's GDPNow running estimate signalled annualised economic growth of 3.9% for the third quarter. Less positively, the University of Michigan Index of Consumer Sentiment fell to 53.6 in October, down 2.7% from September and down a staggering 24.0% on this time last year.

Headline inflation in the US came in softer than expected, ticking up to 3.0% in the year to September from August's figure of 2.9%, while core inflation, which excludes volatile food and energy prices, slowed from 3.1% to 3.0% in September. While concerns mount over the lack of official economic data, the Fed cut rates by 25 basis points, bringing the fed funds rate to a range of 3.75%–4.0%, its lowest level since 2022. In his accompanying commentary, Fed Chair Jay Powell emphasised that further monetary loosening is "not to be seen as a foregone conclusion", dashing hopes of another cut in December.

Europe

European equities edged higher in October, overcoming fresh political turmoil in Paris. French Prime Minister Sébastien Lecornu resigned just 26 days after his appointment, having been unable to build an alliance to address the country's deteriorating public finances. President Emmanuel Macron subsequently reappointed Lecornu, who pledged to shelve a contentious pension reform bill and garnered sufficient support for the government to narrowly survive two further confidence votes. News that the Dutch government had seized control of Chinese chipmaker Nexperia on national security grounds weighed on shares and stoked fears of semiconductor supply-chain disruption among carmakers. Nevertheless, optimism ahead of Trump-Xi talks in Asia helped European equities to close the month modestly higher.

Euro-zone GDP expanded by a stronger-than-expected 0.2% in the third quarter, driven by a robust expansion in France and Spain. The flash estimate of the HCOB euro-zone composite purchasing managers' index (PMI) rose to a 17-month high of 52.2 in October, up from September's reading of 51.2, with both services and manufacturing activity scoring above the 50 mark which separates growth from contraction. Meanwhile, inflation in the euro zone edged slightly lower, increasing by

2.1% in the 12 months to October after September's 2.2% rise and heading closer to the European Central Bank's (ECB's) 2% target. The ECB held rates steady at 2.0% at its October meeting, as widely anticipated.

Asia

Asia ex Japan equities rose again in October buoyed by a rally in the regional tech sector. Taiwan and Korea led the way, helped by upbeat quarterly earnings from megacap tech names in the US. China equities saw some profit taking after the previous strong rally. Heightened US-China trade tensions were a catalyst for the sell down, although these concerns were subsequently alleviated by the latest trade truce agreed towards the end of the month. ASEAN markets delivered moderate gains. Thailand was the strongest performer, with equities continuing to rebound following recent political upheaval. Indonesia followed closely, supported by expectations of further monetary easing. Singaporean and Malaysian equities were pressured amid rising concerns over global lending conditions triggered by heightened U.S. credit risks. Indian equities recovered some of their previous lost ground, as optimism over bilateral negotiations with the US lifted sentiment.

Bond

Global bond yields eased modestly over October, with 10-year yields in the US declining less than 10bps, after the Fed's widely anticipated rate cut was accompanied by a more hawkish outlook. The Fed also called time on its quantitative tightening programme, easing fears of a supply glut. In contrast, 10-year UK government bond yields fell almost 30 bps, as weaker-than-expected economic, inflation and labour data boosted hopes that the Bank of England will have room to cut rates. European bonds rose over October, with the yield on the 10-year German Bund closing the month about 8bps lower at just above 2.6%. French government bonds were among the strongest performers, with yields on 10-year French OATs falling by 11bps after a month of political uncertainty.

Outlook

Global equity markets remain shaped by a more fragile and uneven macro backdrop. Slower growth momentum, persistent inflation pressures, and growing policy divergence across regions are reinforcing the need for flexibility and active positioning. In response, we have been much more active in adjusting portfolio exposures, reflecting both shifting style dynamics and selective opportunities emerging beneath the surface.

In October, performance trends diverged markedly across regions and styles. In Europe, Value has retained the upper hand, led by banks and other rate-sensitive sectors. Growth continued to outperform globally, particularly in the US, where returns remain narrowly concentrated in AI and sentiment is often driving popularity. Meanwhile, Quality as a factor lagged quite significantly globally, which has weighed on our style profile given our preference for high-Quality compounders.

Within Technology, the Software holdings have derated and struggled to recover, despite continued fundamental strength. In Europe, Nemetschek fell sharply despite reporting roughly 18% year-on-year revenue growth in Q3, illustrating how sentiment rather than delivery remains the dominant driver of near-term performance.

More recently however, we have seen a pullback across high-risk and AI-linked names, with some valuation excesses beginning to unwind. We view this as a constructive development, helping to restore focus on fundamentals and earnings durability. These are conditions that should, over time, reassert the appeal of Quality Growth.

The combination of global re-investment in digital and energy infrastructure, AI-driven productivity advances, and improving European fundamentals supports a constructive medium-term outlook, where our positioning has been adjusted to suit. Active management and a focus on fundamental Quality are our key differentiators as the cycle evolves.

Source: Allianz Global Investors, as of 30 October 2025 unless otherwise stated.

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