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AIP

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Policy, politics and earnings

Defensive near-term amid policy, political and Big Tech earnings uncertainty.

Big-3 central banks are holding rates next week and the Fed/ECB hiking is less than the market estimates over 12 months. There could be value in 3-7-year Developed Market bonds. US political, Big Tech earnings risks warrant a near-term defensive equity stance.

Big three to hold monetary policy

The next two weeks will be busy for major central banks. The Fed, European Central Bank (ECB) and Bank of Japan (BoJ) to hold policy rates next week, after raising them in September, as they assess whether the recent surge in fuel prices is filtering through to the broader economy. All the Big Three could hike next in December as fuel prices are likely to stay elevated well into early next year due to refining capacity constraints. Nevertheless, the Fed and ECB are likely to deliver less than the c. 80bps of rate hikes priced in by money markets over the next 12 months on the back of an easing oil and fuel price-led disinflation by H2 2027. Given this outlook, lock in attractive income from 3-7-year Developed Market investment grade bonds.

Opportunity in Australian bonds

Other major central banks, such as the Bank of England, Bank of Canada and Reserve Bank of New Zealand are likely to hike rates by 25bps in the next two weeks as their focus remains on taming near-term inflation. However, the Reserve Bank of Australia (RBA) is close to the end of its rate hiking cycle, even if it hikes one last time over the coming months (money markets give a 60% chance of a hike on 3 November). Australia's domestic labour and housing markets and business confidence are softening after the RBA hiked its policy rate four times this year to a 15-year high. Meanwhile, Australia's cash rate is 60bps higher than the US policy rate, supporting the AUD. There are attractive income and FX gain opportunities from AUD corporate bonds.

A 'Blue Wave' in the US?

Prediction markets strongly favor Democrats taking the House of Representatives and possibly the Senate in the US mid-terms. While an opposition sweep in the mid-terms has historically delivered the best 12-month returns for equities, partly due to the resulting policy gridlock, a decisive Democratic "blue wave" could increase longer-term risks of higher taxes and uncertainty over policy towards AI investment and data centers. With the Senate race still close and prediction markets fallible, cautious outlook on risk assets in the near term.

Watching Big Tech earnings

Upcoming Big Tech earnings create significant uncertainty, as market leadership remains concentrated and share-price reactions have become more mixed. With valuations less likely to drive returns, earnings delivery and guidance will be critical, increasing the risk of volatility and sector divergence. Therefore, remaining invested but defensively positioned, favoring diversification across sectors and regions rather than relying on a narrow group of technology leaders. Defensive and diversified stance should preserve participation in further equity upside while reducing exposure to earnings disappointments and supporting resilience through the reporting season.

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