

OCTOBER: TECH RALLY CONTINUES GLOBAL ECONOMIC PERSPECTIVE: GDP

Figure 1: 10/31/2025 Returns (source: FactSet)
Conditional formatting: green (high) to red (low) for each time period

Bonds	ETF	Month	YTD	1YR	vs. 52-wk High	vs. 52-wk Low
US Aggregate Fixed Income	AGG	0.6%	6.8%	6.2%	-0.8%	5.0%
Investment Grade Corp Bonds	LQD	0.1%	7.7%	6.7%	-1.5%	7.5%
U.S. 20+ YR Treasuries	TLT	1.4%	6.8%	2.0%	-4.8%	8.4%
Muni Bonds	MUB	1.2%	3.3%	3.6%	-1.0%	7.2%
US High Yield	HYG	0.0%	7.3%	8.2%	-0.7%	7.6%
Non-US Corp Bonds	IBND	-1.3%	14.2%	9.9%	-3.3%	14.8%
Emerging Markets Bond LC	EMLC	0.4%	15.5%	12.4%	-1.2%	11.1%
Global Equity						
ACWI Global Equity	ACWI	2.3%	21.3%	22.8%	-1.1%	39.7%
ACWI Global Equity ex US	ACWX	2.1%	29.0%	25.1%	-1.6%	35.4%
International Developed	EFA	1.2%	27.1%	23.0%	-1.5%	31.0%
Emerging Markets	IEMG	3.6%	32.3%	26.9%	-1.7%	44.4%
Global Equity by Region						
United States	VTI	2.2%	16.8%	20.9%	-1.1%	41.9%
Europe	IEUR	0.6%	29.4%	23.5%	-1.7%	28.9%
Asia ex-Japan	AAXJ	3.9%	32.2%	27.5%	-1.9%	47.3%
China	MCHI	-3.5%	37.0%	32.8%	-5.6%	45.5%
Japan	BBJP	3.8%	25.4%	25.6%	-0.8%	40.3%
Latin America	ILF	1.8%	44.0%	27.4%	-0.8%	41.2%
US Equity						
US S&P 500	IVV	2.4%	17.5%	21.5%	-1.1%	41.6%
NASDAQ 100 QQQ	QQQ	4.8%	23.5%	30.7%	-1.2%	56.3%
US Large Growth	IWF	3.7%	21.3%	30.4%	-1.5%	57.3%
US Large Value	IWD	0.5%	12.0%	11.0%	-1.5%	25.4%
US Eqwt S&P 500	RSP	-0.9%	8.7%	8.4%	-2.3%	25.0%
US Mid Cap	IJH	-0.5%	5.2%	6.3%	-5.0%	29.5%
US Small Cap	IJR	-0.9%	3.3%	5.5%	-8.4%	32.0%

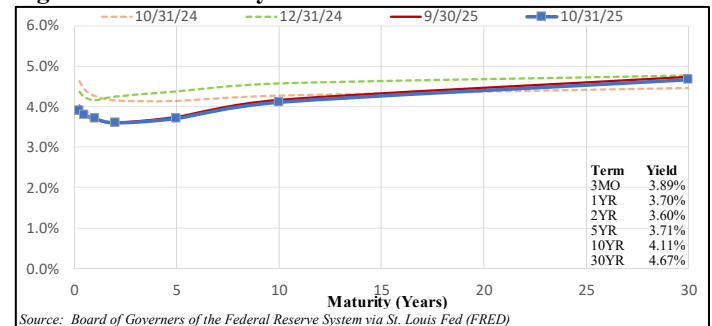
Stock markets continued to rise in October, fueled by strong earnings and huge AI investment in the US and global tech sector. Bonds generated positive returns as interest rates inched lower in anticipation of further Fed interest rate cuts. Performance highlights for October and year-to-date (YTD) include:

- **Bonds:** The US Aggregate index (AGG) rose 0.6% this month (+6.8% YTD). Long-term Treasuries (TLT), which are very sensitive to interest rates, rose 1.4% (+6.8% YTD). Corporate bonds (LQD) and high yield (HYG) lagged this month. Non-US bonds have outperformed in 2025 on US dollar weakness.
- **Global equity:** ACWI gained 2.3% this month (+21.3% YTD).
- **US Equity:** The broad market (VTI) rose 2.2% (+16.8% YTD); the S&P 500 (IVV) gained 2.4% (+17.5% YTD). The strong returns are heavily concentrated in the Technology sector (XLK, +6.7% this month, +29.9% YTD) on strong earnings and aggressive AI investment. Returns for other segments of the equity market pale by comparison: The average stock in the S&P 500 (measured by RSP, the equal-weighted S&P 500) was down this month and are up “only” 8.7% year-to-date; small and midcap stocks have underperformed by a wide margin.
- **Non-US Equity:** Stocks outside of the US continue to perform well. Developed market stocks (EFA) gained 1.2% in October (+27.1% YTD); stocks in Europe (IEUR) and Japan (BBJP) have risen 25-30% YTD. Emerging market stocks (IEMG) gained 3.6% (+32.3% YTD), led by gains in South Korea (EWY), up over 90% this year on huge gains in heavily-weighted tech stocks (Samsung and SK are 35% of EWY) as AI spending spreads (benefitting China and Taiwan as well).

Interest Rates and the Economy

Last week, the Federal Reserve (the Fed) again cut short-term interest rates by 0.25% to a target range of 3.75-4.00%; however, longer-term yields inched higher as Fed Chair Powell stated that a December rate cut (the next FOMC meeting) “is not a foregone conclusion”. The Fed is “flying blind” as the government shutdown delays collection and reporting of mission critical employment and inflation data. Investors do expect further cuts over the next year as the Fed moves toward a terminal rate around 3.00%. The yield curve (Figure 2) plots the interest rates for various US Treasury maturities. US 10-year Treasuries now yield 4.11%.

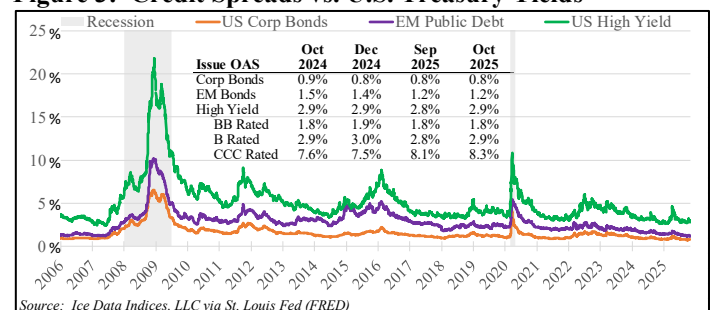
Figure 2: US Treasury Yield Curve



For bonds other than US Treasuries, we track the option-adjusted spread (OAS) between their yields and Treasuries of comparable maturities (Figure 3). Low or narrowing spreads signal optimism; high or widening spreads signal fear. Spreads were relatively stable this month and remain historically tight (“risk on”).

- Investment grade corporate bond spreads were steady at +0.8% and have been relatively stable over the past year.
- High yield (non-investment grade) spreads widened to +2.9% but have stabilized after the “Liberation Day” spike in April. Spreads of the riskiest bonds (rated CCC & below) widened to +8.3% and are well above the +7.6% spreads one year ago.
- Emerging market spreads were stable at +1.2% but are down from +1.5% a year ago; investors see low risk in EM debt.

Figure 3: Credit Spreads vs. U.S. Treasury Yields



Global Perspective: GDP

Periodically, we take a step back from the financial markets and view the global economy through a different lens: Gross Domestic Product (GDP), the value of all final goods and services produced in each country. Figure 4 presents a list of every country with an annual GDP over \$1 trillion, sorted largest to smallest. In total the 19 countries account for 80% of global economic activity. We also include global stock market weights for comparison.

Figure 4: Share of Global GDP by Country

Rank	Country	Annual GDP (\$Trillions)	% Global GDP	Equity Weight (ACWI)	Equity Wt. - GDP Diff.
1	United States	\$ 29.3	26.4%	63.1%	36.8%
2	China	\$ 18.7	16.9%	2.9%	-14.0%
3	Germany	\$ 4.7	4.2%	2.1%	-2.1%
4	Japan	\$ 4.0	3.6%	4.8%	1.2%
5	India	\$ 3.9	3.5%	1.7%	-1.9%
6	United Kingdom	\$ 3.6	3.3%	3.4%	0.1%
7	France	\$ 3.2	2.8%	2.2%	-0.7%
8	Italy	\$ 2.4	2.1%	0.7%	-1.5%
9	Canada	\$ 2.2	2.0%	2.9%	0.9%
10	Brazil	\$ 2.2	2.0%	0.4%	-1.6%
11	Russia	\$ 2.2	2.0%	0.0%	-2.0%
12	South Korea	\$ 1.9	1.7%	1.3%	-0.3%
13	Mexico	\$ 1.9	1.7%	0.2%	-1.5%
14	Australia	\$ 1.8	1.6%	1.4%	-0.2%
15	Spain	\$ 1.7	1.6%	0.7%	-0.8%
16	Indonesia	\$ 1.4	1.3%	0.1%	-1.1%
17	Turkey	\$ 1.4	1.2%	0.0%	-1.2%
18	Saudi Arabia	\$ 1.2	1.1%	0.3%	-0.8%
19	Netherlands	\$ 1.2	1.1%	1.3%	0.2%
Total		\$ 89	80%	90%	

Source: International Monetary Fund (IMF) - "World Economic Outlook", FactSet

It is clear in the table above that two economies are far larger than all others: the US (26.4% of global GDP) and China (16.9% of global GDP). Interestingly, their representation in the global stock market (MSCI All Country World Index, the ACWI ETF) are very different. It should not be surprising that US equities represent the largest share of the global equity market, but the magnitude is stunning (63%). The U.S. has the deepest financial markets in the world and enjoys a valuation premium relative to the rest of the world. (We also note that the S&P 500 companies generate 30-40% of annual revenues outside of the US.) By contrast, China is dramatically underweighted in global equity indices due to the lack of transparency and depth in their financial markets.

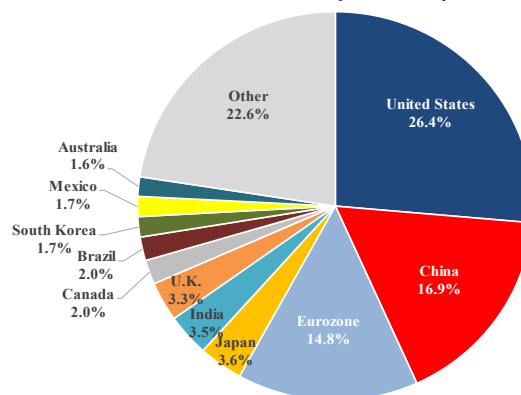
While the global economy seems to be a two-horse race, it must be acknowledged that 57% of global economic activity occurs outside of these two behemoths. Other highlights include:

- Germany is still a manufacturing and exporting powerhouse and is the third largest economy in the world, with an annual GDP of \$4.7 trillion (4.7% of global GDP).
- Japan's export-driven economy is the world's fourth largest, with an annual GDP of \$4 trillion (3.6% of global GDP). Japan's share of the global economy has shrunk over the years as growth has been muted, and the Japanese yen has declined in value. (Note: The data in Figure 4 is expressed in US\$ terms.)
- India has now passed the UK to become the fifth largest economy in the world at \$3.9 trillion (3.5% of global GDP). This is the fastest growing major economy in the world with real GDP growth of 6-7% annually, so it is only a matter of time before India surpasses Japan and Germany to become number three.
- The United Kingdom is now the sixth largest economy in the world, with an annual GDP of \$3.6 trillion (3.3% global GDP).

- Rounding out the top 10 are France, Italy, Canada and Brazil, each with an annual GDP of \$2.2 trillion or more.
- Russia's GDP is \$2.2 trillion (2.0% of global GDP), but its financial markets are considered uninvestable (Ukraine war); Russian equities are excluded from global indices and ETFs.
- Beyond the 19 listed in Figure 4, no other country has a GDP over \$1 trillion or represents more than 1% of global GDP.

Parsing the global economy at the country level illustrates the dominance of the US and China relative to the rest of the world, but it understates the importance of another trading bloc. The Eurozone (or European Monetary Union) includes 20 countries, the largest of which are Germany, France, Italy and Spain. The 20 countries share a common currency (the euro), a single central bank (the ECB), free travel and trade among the member countries. In aggregate, these economies represent 14.8% of global economic activity annually (GDP) and present a legitimate rival to the US and China (Figure 5). It is actually a three-horse race.

Figure 5: Share of Global GDP by Country or Trading Bloc



Source: International Monetary Fund (IMF) - "World Economic Outlook"

Bottom Line

Strong tech stock earnings and aggressive AI investment continue to power US and global equities higher, despite lackluster returns outside of the AI space. For example, the S&P 500 is up 17.5% this year, but the average return for the 500 stocks in the index is less than 9%. This is because the S&P 500 index is weighted by the size of each company (market capitalization). The ten largest stocks (including the "Magnificent 7") now comprise about 40% of the index. This is a global phenomenon, as tech stocks in South Korea, China and Taiwan are driving those markets as well.

The global economy now exceeds \$111 trillion in annual GDP (Gross Domestic Product). The US is still the world's largest economy, representing over 26% of global GDP. Our closest rivals are China (about 17% of global GDP) and the Eurozone (about 15%). Together, these three entities comprise 58% of global economic activity annually. In this era of tariffs and trade wars, cooperation and deals between these three are important, but 42% of the global economy remains outside of the big three, with India rising quickly. Every trade relationship is important.

US economic growth seems to be rebounding from the trade-related upheaval earlier in the year. Meanwhile, the Fed is cutting interest rates due to labor market weakness, and the underperformance of smaller, more economically-sensitive stocks suggest that the US economy is slowing. Political dysfunction and global geopolitics (trade wars and shooting wars) threaten growth and stability. Diversification remains critical, as always.



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