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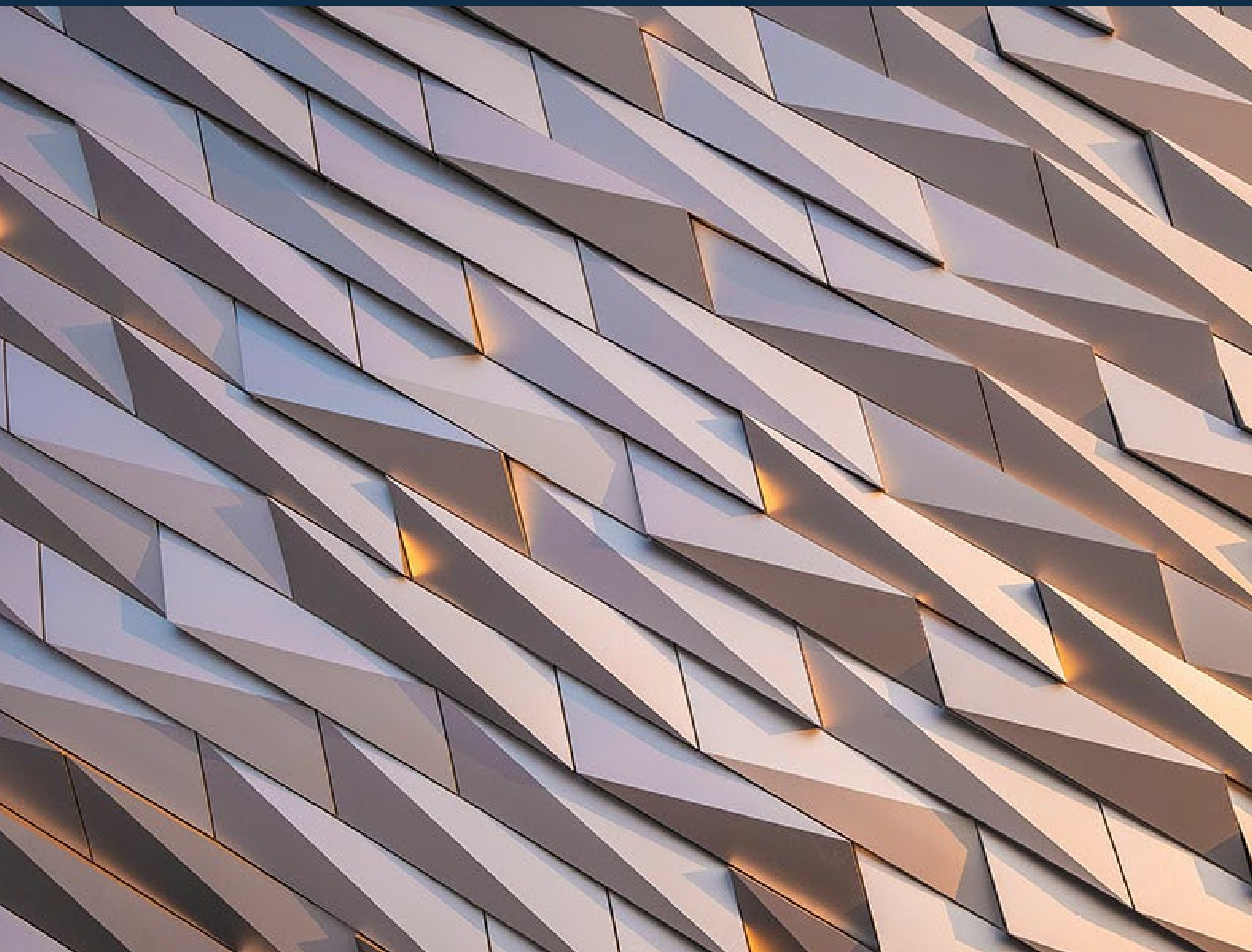
Atlas Monthly Equity Navigator

OCTOBER 2025



Narrow Rally Persists Amid Rising Risks

October delivered another month of gains for global equity markets, marking the sixth consecutive positive month for the S&P 500—a streak not seen since 2021. However, the rally continued to narrow, with performance increasingly concentrated in AI-related technology names. The US-China trade truce provided temporary relief and supported risk sentiment, though tensions resurfaced late in the month with threats of additional tariffs. Meanwhile, concerns around private credit and regional banking emerged as potential headwinds, creating volatility mid-month before markets recovered. Japan was the standout performer, with the Nikkei posting its strongest monthly gain in 35 years following the election of Prime Minister Sanae Takaichi and expectations for renewed fiscal stimulus. In contrast, European markets delivered modest gains as investors awaited clearer signals on the region's economic trajectory.

The concentration in US mega-cap technology stocks reached new extremes in October. Nvidia became the first company in history to breach a $5 trillion market capitalization, while Microsoft and Apple approached the $4 trillion mark. This concentration presents significant risks—the equal-weighted S&P 500 declined in October, highlighting that most constituents struggled while the AI-exposed group of winners drove headline indices higher. The parallel to the late 1990s dotcom bubble continues to grow more concerning.

1. Concentration Risk Reaches Critical Levels

   October's market action underscored the dangerous concentration of equity market returns, raising sustainability questions about the current rally's foundation.

   - **Magnificent 7 Divergence Intensifies:** The Magnificent 7 gained 4.9% in October while the equal-weighted S&P 500 declined 0.9%, marking the widest divergence since the April market turmoil. This concentration means that a handful of companies now represent an unprecedented share of market capitalization and year-to-date gains. While AI enthusiasm continues to fuel optimism, investors should recognize that the valuation levels of many of the AI infrastructure companies are already priced for perfection, hence overly positive earnings reports are needed to keep up this optimism.
   - **US Regional Banking and Credit Concerns Emerge:** Mid-month volatility stemming from US regional banking exposures and private credit concerns served as a reminder that risks beyond mega-cap technology remain present. Although markets recovered after initial alarm, the incident highlighted fragilities in the financial system that could resurface. The underperformance of US banks in October, with regional banks declining 5.2%, suggests investors are increasingly discriminating between winners and potential problem areas. However, large US banks are in good shape, underscored by the strong quarterly reports.

2. Japan's Historic Rally and European Patience

   - **Japan's Reform Momentum Accelerates:** The election of Prime Minister Sanae Takaichi catalyzed a remarkable 16.6% surge in the Nikkei, the strongest monthly performance since October 1990. Her pro-growth, pro-reform agenda with support for fiscal stimulus has reinvigorated investor enthusiasm for Japanese equities. This represents a genuine structural shift in Japan's policy approach and warrants continued attention from global investors seeking diversification beyond US technology.
   - **Europe's Steady Build Continues:** European markets advanced modestly in October, with fiscal stimulus measures in Germany beginning to gain traction. While the region faces near-term headwinds from currency appreciation and lingering tariff effects, the medium-term outlook remains constructive as domestic drivers strengthen. European equities continue to offer attractive valuations relative to US markets, presenting opportunities for patient investors willing to look through short-term volatility.

Global Equity Performance

October delivered mixed results across global equity markets, with Japan's exceptional performance contrasting sharply with struggles in Chinese technology stocks. The narrow nature of gains in US markets became increasingly evident. Global equities rallied 4.3% in euro terms.

United States

- The Magnificent 7 surged 7.7% in euros, led by Nvidia's historic gains and continued AI optimism, but the more speculative unprofitable tech stocks rallied even more. Among sectors, Technology and Communication Services led performance. Within styles, momentum outperformed.

Europe

- In Europe, commodity-related and the utilities sectors dominated in October, along with technology stocks. Small-cap, Value and Quality followed the similar underperformance pattern from the US.

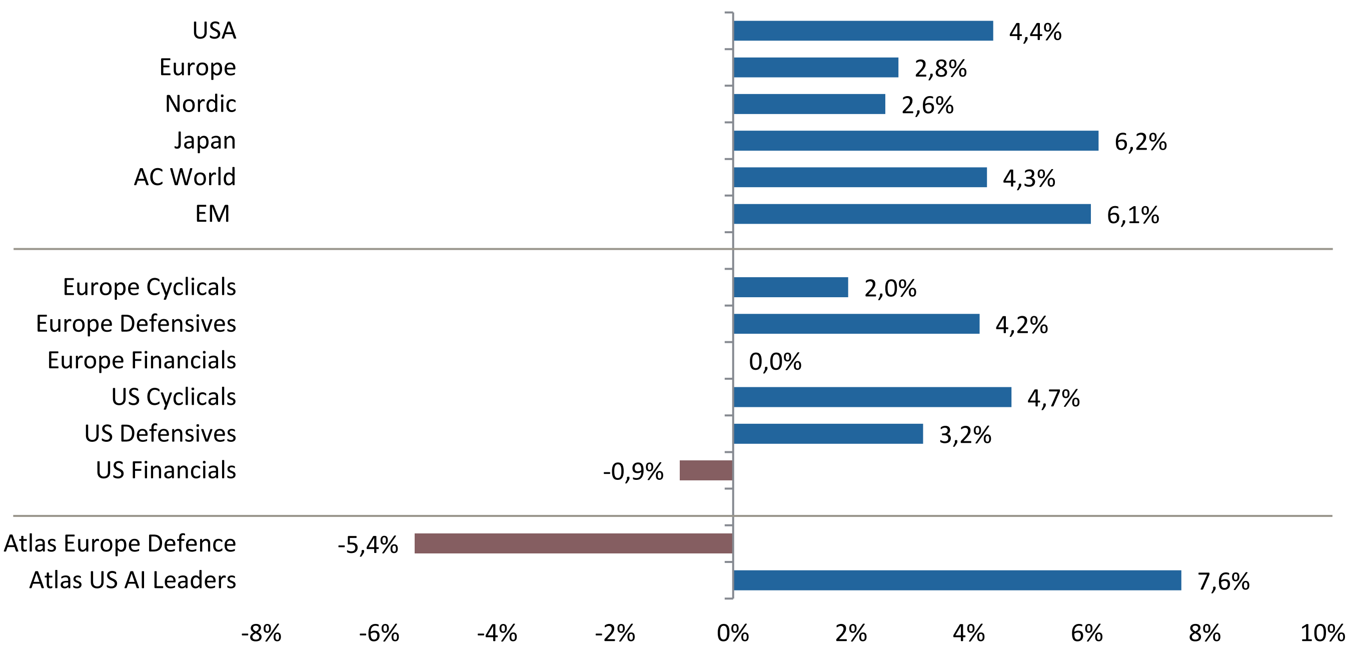
Emerging Markets

- Emerging markets advanced 6% in euro terms in October, led by South Korea and Taiwan. Chinese and Hong Kong technology stocks under pressure from renewed US tariff threats. The CSI 300 Tech fell 3.9% while the Hang Seng Tech declined 8.6%.

Themes & Styles

- European Themes Update:
  - **European Banks:** The sector underperformed in October mainly due to the weakness among US banks. Fundamentals remain solid with improving loan growth and healthy margins. European banks remain undervalued despite being the best-performing sector year-to-date.
  - **European Defence:** The defence theme lagged the overall market amid profit-taking and hopes of new peace talks promoted by US President Donald Trump, which however failed for now.
  - **Growth Dominance Intensifies:** Growth stocks massively outperformed value in October as technology stocks surged. This represents an extreme divergence that typically precedes mean reversion, though timing such reversals is challenging.
  - **The AI Theme Is Multifaceted:** The AI ecosystem—from foundational infrastructure (semiconductors, cloud platforms, physical enablers) through application layers (enterprise software, industry-specific solutions, developer tools) to operational transformation (efficiency gains across traditional industries)—provides an interesting array of sub-themes across the AI stack.

Atlas Equity Chart of the Month: Equity market returns, euro returns October 2025



Source: Evli Atlas Portfolio Technologies; Total returns in euros.

Navigating Opportunities Through Diversification as 2025 Draws to a Close

October's sixth consecutive monthly gain for the S&P 500 demonstrates powerful momentum, yet the divergence between market-cap-weighted and equal-weighted indices suggests investors should look beyond narrow leadership to build robust portfolios for 2026.

The AI opportunity extends far beyond a handful of mega-cap names. The AI ecosystem is multifaceted, spanning foundational infrastructure including semiconductors and cloud platforms, through application layers encompassing enterprise software and industry-specific solutions, to operational transformation delivering efficiency gains across traditional industries. This breadth provides an interesting array of sub-themes across the AI stack, offering investors opportunities to participate through multiple entry points rather than concentrated bets on the largest names.

Beyond AI, compelling opportunities exist across diverse market segments. Japan's reform story under Prime Minister Takaichi represents a fundamental policy shift with multi-year momentum potential. Europe's fiscal stimulus is gaining traction, with European Banks offering value despite recent underperformance, while European Defence's pullback on peace talk hopes may provide attractive entry points given intact long-term drivers.

The extreme growth-value divergence in October typically precedes mean reversion, though timing remains challenging. Rather than attempting precise timing, investors can position portfolios to benefit from multiple scenarios. Small-cap and value stocks offer compelling valuations and stand to benefit as economic growth broadens.

As we approach 2026, the path forward is clear: build resilient portfolios through intelligent diversification across regions benefiting from structural tailwinds, styles offering attractive valuations, and themes positioned for future quality growth. The AI revolution will continue, but so too will opportunities in Japan's reforms, Europe's recovery, and segments overshadowed during 2025's narrow rally. By spreading capital across these diverse opportunities, investors can participate in continued market strength while reducing concentration risk and positioning for the inevitable broadening of market leadership.

What is Atlas?

Atlas is an intelligent platform empowering investors to build and manage highly personalized equity portfolios. Leveraging data and AI, we craft strategies aligned with your precise investment style, objectives, and sustainability goals—from classic value to emerging themes like AI.

— **True Personalization:** Go beyond generic models. Our AI helps craft strategies that perfectly reflect your vision.

— **Unprecedented Flexibility:** Don't get locked in. Shift from value to growth, or adjust thematic tilts, as your outlook evolves.

— **Powered Customization:** If our expert-designed, ready-made portfolios don't fit, our Atlas team of seasoned portfolio managers with the help of our proprietary AI engine will build a unique strategy for you.

Invest intelligently. Adapt instantly. That's Atlas.

Find out more about Atlas on https://www.evli.com/en/atlas or contact us at Atlas@evli.com.

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