

Atchison

An underwater scene with a jellyfish swimming in the background. The water is a deep blue color, and the jellyfish has a dark bell and long, thin tentacles.

May 2026



Monthly Market Update

A scene inside an ice cave, showing a person standing in the distance, illuminated by a bright light source. The cave walls are covered in snow and ice, and there are large, smooth rocks in the foreground.

Illuminating
the way forward



Key Events in May 2026

May – AI-led rally that defies geopolitics!

- The overriding driver all month was the US-Iran war and the closure of the Strait of Hormuz. Prospects for a speedy resolution to the US-Iran war appeared increasingly remote at key points during May, hammering risk sentiment and pushing oil prices higher. Ceasefire hopes and diplomatic news caused wild day-to-day swings across markets.
- Transatlantic trade tensions returned as President Trump threatened to raise tariffs on the EU, saying the bloc had promised to cut tariffs on American goods to zero as part of a prior trade deal, and warning tariffs would "immediately jump to much higher levels" if not delivered by America's 250th birthday.
- Markets made positive progress amid some strong corporate earnings and hopes of de-escalation in the Middle East. In equities, emerging markets outperformed developed markets. In fixed income, corporate bonds outperformed government bonds.
- The Reserve Bank of Australia (RBA) raised the cash rate 25bp in May, marking a return to its previous cycle high of 4.35%. This makes the Bank a clear outlier among major developed-market central banks, all of which elected to hold rates steady.
- Good news though was that Australian headline CPI inflation slowed more than expected to 4.2%yoy from 4.6%yoy with a bigger than expected fall in fuel prices (helped by the fuel tax cut) and free public transport in some states.
- The S&P/ASX 200 Accumulation Index returned approximately +1% for the month, +4.3% over the preceding 3 months, and +10.9% over the 12-month period ending May 31, 2026. Materials & critical minerals (lithium standout) were the standout sectors whilst financials was the weakest sector.
- US economic data was mixed. Personal spending growth was soft but okay in April, the trend remains up in underlying capital goods orders and shipments and jobless claims remain low. But consumer confidence fell slightly, the falling savings rate is removing a source of support for US households, new home sales remain weak, and home prices fell slightly again.
- Meanwhile the US share market has surged to new record highs helped by strong profit growth and still solid economic activity.
- The S&P 500 Index rose +5.3%, reaching a new all-time high and recording a streak of nine consecutive weekly gains. The Nasdaq Composite jumped +8.4%, following April's +15% gain. Information technology was the best performing sector up +20% whilst energy was the worst -5.4% for the month.
- May was a turbulent, broadly flat to slightly negative month for European equities overall. The pan-European STOXX 600 came under pressure, with the disruption to energy supplies through the Strait of Hormuz acting as an ongoing overhang as worries lingered over the economic impact of elevated crude prices.
- According to final data from Eurostat, the euro area economy shrank by 0.2% in the first quarter, a downward revision from initial estimates that had pegged GDP growth at 0.1%. Retail sales volumes in the Eurozone fell 0.4% sequentially in April.
- Emerging markets (EM) continued their strong momentum, rising +9.2% and outperforming all other asset classes, led by extraordinary returns for Korea (+33%) and Taiwan (+14%). That put EM well ahead of the S&P 500's +5.3% and developed market equities' +4.5% for the month.
- 2026 was a story of sharp intra-month volatility in bond markets, with a mixed but marginally positive outcome for global fixed income up +0.8%, while credit markets held up surprisingly well against that backdrop. Despite all the macro turbulence, corporate fundamentals remained strong and spreads either held firm or tightened further.
- The US Dollar Index strengthened by 0.9% against major currencies, most notably against the yen and sterling. Gold posted a modest monthly decline.
- Commodities had a weaker month, with the S&P GSCI down -7.6%. The energy component was the weakest performer. The agriculture component declined, as did precious metals. However, industrial metals advanced.

Asset Class Summary

Table 1: Asset Class Returns – Periods to 31 May 2026

	1 Month	3 Months	1 Year	3 Years	5 Years	10 Years
	%	%	%	% pa	% pa	% pa
Australian Shares	1.0	-4.3	6.7	10.9	8.0	9.0
Australian Small Companies	1.7	-5.9	12.0	9.9	3.5	6.6
International Shares (unhedged)	4.5	6.5	14.2	17.8	13.6	13.3
International Shares (Hedged)	6.2	7.0	27.3	20.8	11.8	12.7
Emerging Markets (Unhedged)	9.2	9.0	37.9	20.4	8.4	9.7
Australian Property Securities	0.2	-5.9	-1.8	8.3	5.1	6.0
Global Property Securities (Hedged)	-0.2	-0.5	12.5	9.1	1.2	
Global Listed Infrastructure (Hedged)	1.9	-0.8	16.6	12.2		
Australian Bonds	1.5	0.1	1.3	2.8	0.2	1.6
Global Bonds (hedged)	0.8	-1.3	3.0	3.0	-0.7	
Cash	0.3	1.0	3.8	4.3	3.1	
Change over the month						
AUD/USD	0.72%	0.7164				

Past performance is not a reliable indicator of future performance.

Source: iShares Core S&P/ASX 200 ETF, iShares S&P/ASX Small Ordinaries ETF, Vanguard International Shares Index, Vanguard MSCI Index Intl Shrs (H) ETF, iShares MSCI Emerging Markets ETF, VanEck Australian Property ETF, VanEck FTSE Intl Prop Hdg ETF, iShares Core FTSE Global Infrastructure (AUD Hedged), iShares Core Composite Bond ETF, Vanguard Global Aggregate Bd Hdg ETF, iShares Core Cash ETF

Australian Market

The S&P/ASX 200 returned +1.0% for the month. May is typically a solid month on the ASX. For the 12 months the Australian share market returned +6.7%.

Australian small-caps provided a slightly improved return of +1.7% for the month and +12% for the year, out-performing large caps, based on continued performance from mining and IT sectors.

Five out of 11 ASX 200 sectors rose, with materials gaining +10.5% amid strength in industrial metals. Consumer discretionary, real estate, industrials and tech also closed in positive territory.

The ASX health care sector continued to fall losing -9.2% and remains the biggest laggard YTD down -31.1%. utilities, energy, communication services, financials and consumer staples also underperformed.

Megaport was the best performer on the ASX 200, with a stunning +70% gain. Investors were scrambling to buy the shares after a series of major contract announcements for its Latitude.sh business, securing three major GPU, CPU, network, and storage contracts with a combined total contract value of approximately US\$182.9 million (A\$254 million).

Capstone Copper rose +30% over the month, boosted by strong copper prices and a UBS buy rating with an improved price target of \$18.00. Sims also rose +30%, driven by positive management.

Tuas was the worst performer on the ASX 200 by some distance with a decline of -65%. Investors sold the Singapore-based telco's shares after it terminated its proposed S\$1.4 billion acquisition of M1 Limited. Tuas had undertaken a A\$416 million capital raising at \$5.51 per share, leaving serious uncertainty about what the company would do with those funds.

Tabcorp was also a poor performer, losing -32% of its value after it became the subject of an AUSTRAC enforcement investigation.

The escalation of the Iran conflict has materially altered the global and Australian macroeconomic outlook through its impact on energy prices, inflation expectations, and interest rate settings.

While it remains very unclear how long the conflict and oil price shock will last, the risk of tipping into recession is as high as it has been since COVID-19.

Global Market

Markets made positive progress in May amid some strong corporate earnings and hopes of de-escalation in the Middle East. In equities, emerging markets outperformed developed markets. In fixed income, corporate bonds outperformed government bonds.

Global equities moved higher in May, with the major world index (unhedged) gaining around +4.5% for the month, as resilient earnings and continued strength in technology-related sectors supported investor sentiment. The dominant driver remained the global buildout of AI infrastructure. That sustained strong demand for semiconductors and reinforced expectations for ongoing corporate profit growth.

May 2026 delivered a +5.3% gain for the S&P 500, though the month's returns were far from evenly distributed. Out of the 500 index constituents, 215 ended May in positive territory while 286 closed the month in the red, meaning most stocks declined even as the index advanced. This was a classically narrow, mega-cap-tech-driven rally.

A new Fed Chair also added uncertainty: on May 15, Jerome Powell's tenure ended after eight years, as Kevin Warsh was sworn in as the 17th Chair, with markets forecasting more than a 50% chance the US Fed Rate would remain unchanged through end of 2026, reflecting uncertainty around Warsh's policy direction and the highest level of internal FOMC dissent since 1992.

Eurozone equities rose +4.1% in May in euro terms. Information technology was the top performing sector amid some strong corporate earnings and optimism over the outlook for AI and related technologies. Eurozone annual inflation rate was 3.0% for April, up from 2.6% in March, due to higher energy prices. Several European Central Bank (ECB) policymakers warned that higher energy prices are starting to fuel broader inflation and may mean the ECB will need to raise interest rates at its meeting in June.

UK equities posted a modest gain in May, underperforming other regions. The FTSE All-Share Index rose +1.2% in sterling terms. The consumer discretionary and basic materials sectors were the top positive performers.

Japanese equities extended the rally and exceeded historical highs during the month. The TOPIX Total Return index was up +6.2% and the Nikkei 225 index rose by +11.9%.

EM equities delivered strong gains, up +9.2%. Performance was led by index heavyweights Korea and Taiwan amid strong gains in memory and semiconductor stocks benefitting from continued AI demand.

Interest Rates and Bonds

Overall, it was a positive month for global bond markets although volatility remained elevated. The Middle East conflict remained in full focus, with the direction of yields tracking energy markets extremely closely (reminder: yields move inversely to prices). As fears of escalation intensified mid-month, government bond yields rose to multi-year highs. However, by month-end bond yields had retraced this move following multiple reports suggesting that a US-Iran deal might be moving closer and stagflation fears receded.

Australian bonds outperformed their US equivalents as investors began repricing rate expectations in these markets, a tilt we have reflected in our positioning.

US Treasuries lagged other government bond markets given the robust economic backdrop as investors brought forward expectations for interest rate hikes. April's US labour market report surprised to the upside, including a 115,000 increase in payrolls and reinforcing the view that labour market conditions remain resilient. An above-consensus core inflation print contributed to the idea of more persistent inflation.

The European Central Bank (ECB) did not meet in May, but markets were looking ahead to the June meeting with bond pricing reflecting a high probability that the Governing Council will raise interest rates when they meet. April's inflation data (as measured by the harmonised index of consumer prices) showed a re-acceleration of headline inflation, to 3.0% from 2.6% in March, even though underlying price pressures remained more stable. Apart from in very short-dated maturities.

German government bond yields ended the month lower, with peripheral markets (including Spain, Italy, and Greece) outperforming.

Meanwhile, in the UK, the market expects the Bank of England base rate to be held when the committee next meets in June. This helped support an outperformance of gilts. That came as speculation mounted around Prime Minister Starmer's position after the governing Labour Party lost seats in the local elections.

Corporate bonds generated positive total returns and outperformed government bond markets. In the US, investment grade outperformed high yield where, on a sectorial basis, financials lagged a little. However, in the Eurozone, high yield markets on average outperformed investment grade names. (Investment grade bonds are higher-quality, lower-risk debts, as determined by a credit ratings agency, while high yield bonds are riskier and pay higher yields to compensate).

Currencies and Commodity Markets

The AUD was the big story for Australian investors in May. The AUD hit its best exchange rate for 2026 of US\$0.7259 on 13 May 2026, before giving back some gains into month end. AUD/USD closed May 31 at US\$0.717, compared to approximately US\$0.700–0.702 at the start of the month. That represents a gain of roughly +2% to +2.5% for the AUD against the US dollar over the month.

This was driven by:

- Strong commodity prices (iron ore, copper, gold) boosting Australia's terms of trade.
- RBA rate hikes keeping Australian yields attractive.
- A broad weakening of the US dollar amid ceasefire hopes reducing the "fear premium" in the USD.

The stronger AUD was a headwind for those holding unhedged international shares. For example, even though the S&P 500 surged over 5% in USD terms, Australian investors holding US equities without currency hedging saw a sizeable portion of those gains eroded by the AUD's appreciation.

Crude oil was the dominant commodity story of the month. The Brent crude oil spot price averaged \$107 per barrel, \$10/b lower than the April average, the first monthly average price decline since December 2025. In absolute terms, Brent was at \$116.10/barrel at the start of May 1, while it fell to around \$90.57 by month's end, a decline of approximately 18%–19% over the course of May.

The oil price fall was a negative for energy sector stocks (which sold off in May), but a positive for inflation and consumer sentiment. Australian petrol prices, which had spiked sharply, began to ease.

Copper was the standout commodity performer. The S&P GSCI Copper Index climbed 6% to a record high, driven by AI data centre buildout and energy transition demand. The IMF's benchmark copper price averaged US\$13,483/metric ton, near record territory. This directly powered the materials sector's stunning +10.5% gain on the ASX and stocks like Capstone Copper (+30%) and BHP's robust performance.

Gold pulled back from its extraordinary early-2026 highs. Gold in AUD terms was approximately A\$6,424/oz on 30 May 2026, down from the highs above A\$7,500–8,000/oz seen earlier in the year. Gold weakened as investor sentiment in the precious metal waned, partly because of ceasefire hopes.



Outlook for Investment Markets

Picking up on the soccer World Cup theme, financial markets in 2026 resemble a football game of two halves, with bulls dominating the first half from strong earnings, surging AI investment, and supportive policy. However, a crude oil supply squeeze, inflation pressures and bond market volatility threaten the outlook in the second half. Therefore it is important to remain disciplined and balanced in your assessment of market opportunities and risks. Even so, global equities look set to continue positive momentum into the rest of 2026.

Much like a team on the front foot, markets are driven by three powerful attacking forces: 1) resilient company earnings; 2) booming AI investment, and 3) a supportive policy backdrop.

Furthermore, President Donald Trump's choice of Kevin Warsh as Fed Chair, raises the prospect of increased political pressure from the White House for looser monetary policy.

The second half of the year brings a different set of challenges, with risks building around three factors: 1) a crude oil supply squeeze; 2) higher inflation, and 3) bond market volatility. These could test the market's resilience and give the bears an opportunity to mount a comeback.

Inflation has re-emerged as a source of market risk. While recent pressure has been tied in part to the energy shock from the Middle East, broader geopolitical tensions, protectionist policy shifts, and large fiscal deficits may also be contributing. The IMF projects global headline inflation at 4.4% for 2026, a sharp deviation from the global disinflation trend of recent years.

With a higher inflation outlook, there is a growing risk that central banks will be forced to raise interest rates further, increasing volatility in bond markets and putting downward pressure on fixed income prices.

The backdrop for global equities remains supportive, driven by strong earnings growth stemming from increased capital spending from the business sector.

However, equity investors need to be aware of the AI concentration risk. The AI investment cycle remains one of the primary growth drivers of global economic activity in 2026, but it is also now one of the market's most significant sources of dependency risk. In many ways, today's environment resembles prior periods of technological excitement where optimism about future innovation drove valuations well ahead of current fundamentals.

Global earnings growth has become increasingly dependent on a relatively small set of companies tied to AI capital spending (capex). AI capex could continue to grow in coming months, but market leadership has narrowed significantly, with a small subset of stocks driving a disproportionate share of performance in the indexes for both developed and emerging markets.

After posting strong returns in 2025, bond markets hit turbulence in the first months of 2026. Economic crosswinds related to Iran, inflation, and growth have buffeted interest rates pushing bond prices down and yields up as Treasury rates broke out of their established trading range. The silver lining, however, is that yields are now at a higher starting point, which boosts the outlook for return potential going forward. The 10-year Treasury yield has climbed from approximately 4.15% at the end of 2025 to nearly 4.5% today, the 2-year Treasury yield has risen from the mid-3% range to around 4.1%. More strikingly, the 30-year Treasury yield has topped 5.19%.

Investors are advised to favour below-benchmark average duration in bond holdings.

Investment grade corporate bonds are one of the more favourable areas of the fixed income market, supported by attractive yields and relatively strong corporate fundamentals.

Atchison



Atchison

Level 4, 125 Flinders Lane,
Melbourne VIC 3000
Level 3, 63 York Street,
Sydney, NSW 2000

P: +61 (0) 3 9642 3835
enquiries@atchison.com.au
www.atchison.com.au

ABN: 58 097 703 047
AFSL Number: 230846

To obtain further information,
please contact:

Jake Jodlowski

Principal

P: +61 3 9642 3835

E: jake@atchison.com.au

Mishan Dahia

Investment Analyst

P: +61 3 9642 3835

E: mishan@atchison.com.au