

MARKETS UNWRAPPED

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Navigating volatility and opportunity

April proved to be a turbulent month, shaped by geopolitical uncertainty, shifting macroeconomic expectations, and strong corporate earnings. As we move into May, markets are balancing a complex mix of risks and opportunities driven both by global events and powerful long-term investment themes.

Geopolitics and the Strait of Hormuz

A central focus for markets has been the ongoing situation in the Middle East, particularly developments around the Strait of Hormuz. The month began with a fragile ceasefire, offering a period of relative calm. However, tensions escalated as the US initiated 'Project Freedom', introducing a naval presence and blockade in the region.

As of early May, negotiations are ongoing. A proposed memorandum of understanding, referred to as a 'one-pager', is being discussed, with Pakistan acting as an intermediary between the parties. While there is cautious optimism, little concrete progress has been made, and markets continue to react to each new development.

This prolonged uncertainty has been a key driver of volatility. Oil prices, for example, surged to around \$110 per barrel during April, reflecting concerns over supply disruption. Despite this, markets have not followed a uniform path, highlighting the complexity of the current environment.

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Equity markets powered by earnings and AI

Despite geopolitical tension, equity markets have remained resilient and in many cases, strongly positive. A key reason for this has been the shift in focus back to company fundamentals, particularly during earnings season.

Corporate results have been notably strong, with around 87% of US companies exceeding expectations. Financial institutions set a positive tone early on, with firms like Goldman Sachs reporting record trading revenues. This strength has continued across sectors, driving markets to new highs.

At the same time, the ongoing AI boom has played a major role in supporting equity performance. Major technology firms such as Amazon and Alphabet have delivered significant gains, up more than 25% in April alone, fueled by substantial investment in artificial intelligence and data infrastructure.

This trend extends beyond the US. Markets closely linked to the semiconductor industry, such as South Korea, have seen exceptional performance. The demand for chips and computing power is described as 'insatiable', reflecting the scale of investment and the long-term growth potential of the sector.

However, the picture is not uniform globally. The UK market, for example, has lagged, largely due to its limited exposure to high-growth AI companies.

Bond markets tell a different story

While equities have been buoyant, bond markets are signalling a more cautious outlook. This divergence between stocks and bonds highlights the uncertainty facing investors.

Bond markets are increasingly focused on inflation risks, particularly those stemming from sustained disruption in the Strait of Hormuz. Rising energy and commodity prices are already feeding through into inflation data, with US inflation at 3.3% in March and expected to rise further.

This has led to a notable shift in interest rate expectations. Earlier in the year, markets anticipated rate cuts. Now, there is growing discussion around potential rate hikes, particularly in the UK. Meanwhile, the US outlook remains more balanced, with cuts still considered the most likely scenario.

Central banks are currently in a 'wait and see' mode, closely monitoring how geopolitical developments translate into economic data. This has created uncertainty in fixed income markets, where returns appear less attractive on a risk-adjusted basis compared to earlier expectations.

Portfolio positioning and diversification

Against this complex backdrop, the Progeny Asset Management team has been actively adjusting portfolios. A key theme has been diversification, ensuring portfolios are resilient across a range of possible scenarios.

One notable shift has been an increased allocation to alternative assets, reflecting reduced confidence in bonds as a reliable source of returns. The team has also reduced duration exposure, making portfolios less sensitive to potential interest rate rises.

In fixed income, at the end of last year, there was a strategic move away from UK gilts towards US Treasuries. This decision, initially driven by a desire for cleaner exposure to the 'risk-free rate' has proven beneficial in recent months, as UK gilt markets have experienced significant volatility.

Overall, the approach is focused on managing risk dynamically, adapting to evolving conditions while maintaining a long-term investment perspective.

Looking Ahead: Managing uncertainty

As the discussion highlights, markets are currently navigating a delicate balance. On one hand, strong earnings and powerful structural trends like AI are driving optimism. On the other, geopolitical risks and inflation concerns continue to create uncertainty.

The investment team is closely monitoring multiple scenarios, from changes in inflation and interest rates to potential shifts in geopolitical dynamics. This forward-looking approach allows portfolios to evolve as conditions change, rather than reacting after the fact.

While the current environment remains fluid, the core objective is unchanged: to build robust portfolios that support financial planners in delivering long-term outcomes for their clients.

In the near term, volatility is likely to persist. However, by focusing on diversification, disciplined risk management, and a clear understanding of underlying trends, investors can remain well-positioned to navigate whatever comes next.

[Watch the full video here](#)

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