

MARKETS UNWRAPPED

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Market review: May and the outlook ahead

May was a positive month for markets overall, although the journey was far from smooth. As we approach the midpoint of the year, it's a good opportunity not only to reflect on recent performance but also to look ahead and consider what the rest of 2026 might bring for investors.

A tale of two markets

One of the clearest takeaways from May is the contrast between equities and bonds. Equity markets performed strongly, supported by resilient company earnings, improving economic data, and continued enthusiasm around artificial intelligence (AI). In contrast, bond markets experienced notable volatility, driven largely by inflation concerns and geopolitical developments.

What happened in bond markets?

Bond yields rose at the start of May as investors grew more concerned about inflation. Tensions around the Strait of Hormuz led to higher oil prices, which typically feeds through to broader inflation. Higher inflation expectations tend to push bond yields higher, as investors demand greater return to compensate.

As the month progressed, sentiment improved. Signs of potential diplomatic progress and the possibility of increased oil supply helped ease inflation fears. As a result, bond yields fell back towards the end of the month, although they still finished slightly higher overall.

In the UK specifically, bond markets were also influenced by political uncertainty. Early concerns around leadership stability and future fiscal policy led to increased volatility in government bonds (gilts). However, as the month went on and policy signals became more reassuring, markets stabilised somewhat.

Why equities stayed strong

While bonds were focused on inflation risks, equity markets largely looked through the short-term uncertainty. Instead, investors focused on company fundamentals - particularly earnings growth.

Corporate earnings in May were generally stronger than expected, which helped drive markets higher. At the same time, central banks maintained a cautious tone, and economic data came in more resilient than many feared. Together, these factors supported investor confidence. A major driver of returns was continued excitement around AI. This theme extended beyond the large technology companies and spread across the entire supply chain - from chipmakers in Asia to major US technology firms. Growing confidence in the long-term commercial potential of AI supported strong gains across these sectors.

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The role of geopolitics

Geopolitical tensions, particularly in the Middle East, remained an important backdrop throughout May and into early June. While a ceasefire and ongoing diplomatic discussions have supported market stability, the situation remains uncertain and could lead to further volatility.

Markets have shown resilience in the face of these developments, but they are still sensitive to changes, particularly when it comes to oil prices and their potential impact on inflation.

Why inflation matters so much

Inflation continues to be one of the most important themes for investors. It influences central bank decisions, including whether interest rates stay high, rise further, or begin to fall. In turn, interest rates affect everything from bond valuations to equity pricing and borrowing costs for governments, companies, and households.

If inflation remains persistent, interest rates may stay higher for longer, which could put pressure on both economic growth and markets. Equally, if inflation begins to ease, this could provide support for both bonds and equities.

At present, the outlook is uncertain. Factors such as energy prices, global demand, and geopolitical developments all play a role, making it difficult to predict a clear path forward.

Key themes for the rest of 2026

Looking ahead, several important themes seem likely to shape markets:

- ◆ Corporate earnings resilience: Investors will be watching closely to see whether companies can maintain strong earnings growth, particularly in a higher interest rate environment.
- ◆ Inflation and interest rates: The direction of inflation will be critical in determining central bank policy and overall market conditions.
- ◆ AI and innovation: Continued development and monetisation of AI technologies will remain a major driver of market performance.
- ◆ Market activity and IPOs: A revival in the Initial Public Offering (IPO) market, including several high-profile listings, could provide insight into investor appetite for risk.
- ◆ Geopolitical developments: Ongoing global tensions will continue to influence sentiment and market volatility.

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A balanced perspective

Despite the range of uncertainties, markets have demonstrated a notable degree of resilience. While headlines may focus on risks, underlying fundamentals, particularly in equity markets, have remained relatively strong.

For now, the environment can best be described as one of cautious observation. Rather than making significant changes, the focus remains on monitoring developments closely, assessing different scenarios, and ensuring portfolios are well-positioned for a range of possible outcomes.

In summary

May highlighted the complexity of today's investment environment. While equity markets continued to perform well, bond markets reflected ongoing concerns around inflation and uncertainty. As we move through the rest of the year, the key will be navigating this balance between resilience and risk, opportunity and uncertainty. By staying focused on long-term fundamentals and adapting to new information as it emerges, investors can remain well-positioned in an ever-changing landscape.

[Watch the full video here](#)

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