

Monthly Market Commentary

June 2026



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A fragile calm

The dominant force in markets during May was the slow, uneven progress of ceasefire negotiations between the United States and Iran. Oil held above \$100 a barrel for much of the month, pushing US consumer inflation to 3.8% year-on-year, its highest reading since 2023. The Federal Reserve, now under Kevin Warsh, held rates at 3.75% and offered no forward guidance. A cut by June, which many had expected earlier in the year, is no longer on the table.

The tone shifted in the second half of the month. President Trump called off an imminent military strike against Iran to allow more time for talks. Oil fell more than 10% from its peak, and a draft framework for reopening the Strait of Hormuz emerged from negotiations involving Oman. By month-end, Brent crude had retreated toward \$93 a barrel. The move is encouraging, but the physical infrastructure across Gulf refineries and pipelines remains impaired, and analysts were cautious about how quickly energy flows could normalise even if a political agreement is reached.

The broader economy is holding up better than the energy shock might suggest, but unevenly. US corporate earnings grew 28% in the first quarter and are expected to sustain growth above 20% through year-end. Outside the United States, the picture is more fragile. The eurozone economic surveys continued to point toward contraction. UK household budgets remain squeezed, the labour market is softening, and the European Central Bank is considering a rate rise in June. Central banks are not yet able to offer relief.

In markets, global equities gained 5.4% for the month and are up 10.4% this year, but the shape of returns was mixed. Asia led all regions, rising 12.2% in May and 27.7% year to date. South Korea and Taiwan, central to the global supply chain for AI chips, have been the clearest beneficiaries of hyper-scaler investment. Japan rose 5.4%, supported by a weak yen, positive domestic data, and corporate governance reform. US equities rose 6.1% in May. Technology-led, but the AI story is broadening. The chip shortage has spread from graphics processors into memory, optical electronics, and specialised packaging. This evolution should allow more companies to participate in the cycle as it matures.

US small caps rose 5.2% for the month and are up 18.0% this year, though their recovery is closely tied to the late-May oil price decline and warrants caution if the ceasefire proves fragile. Europe gained 4.4%, a figure that masks an economy still contracting in manufacturing and underexposed to the AI investment cycle. The United Kingdom lagged most, with large caps rising just 0.7% and falling 2.2% over three months, weighed by domestic political uncertainty.

Bond markets recovered somewhat after a difficult start to the year. UK gilts rose 1.9% in May, as inflation surprised to the downside and rate expectations shifted. Gilts remain down 0.5% for the year; however, global government bonds rose 0.6% but remain fragile given the policy backdrop. Corporate bonds were steadier, with investment grade up 0.9% and high yield 0.8%.

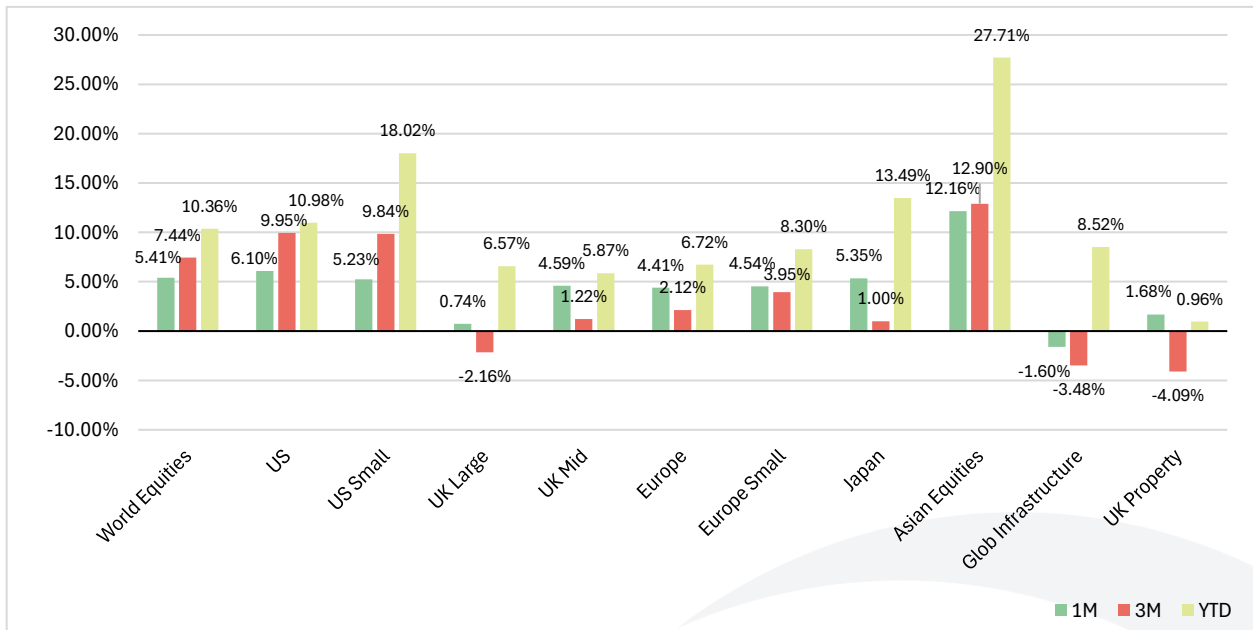
Fixed income this year has reinforced our structural concern. Government bonds have again failed to diversify equity risk in a meaningful way, while high yield, the riskiest segment of the asset class, has been its most resilient. This apparent paradox reflects how far the disinflationary conditions that sustained the conventional bond-equity model have changed. The case for broader diversification encompassing commodities, gold, trend-following strategies, and alternative risk premia is stronger than it has been at any point in the past decade.

Looking forward, the central question for the months ahead is whether the ceasefire translates into a lasting reduction in oil prices and, with it, a gradual normalisation of inflation. If it does, the path toward rate cuts in 2027 becomes clearer, consumer purchasing power recovers, and the equity rally has a

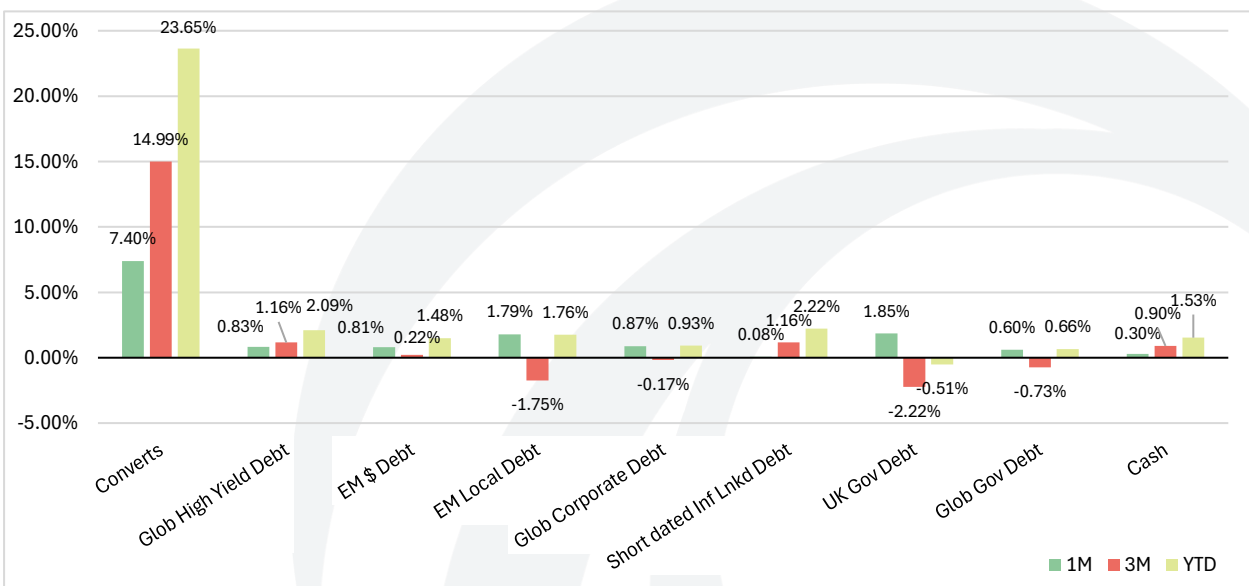
basis for broadening. If the ceasefire proves fragile, persistent inflation and slowing activity create a more difficult environment across asset classes simultaneously.

The market's resilience in May rested on a narrow set of companies. The earnings story is real, and the AI cycle has further to run, but outside technology, the picture is more mixed. We remain cautious about reading too much into a rally that is both narrow in its composition and dependent on events that have not yet been resolved.

Asset Class Performance: Equities & Alternatives



Asset Class Performance: Bonds & Cash



Source: Bloomberg, data to 31/05/2026 in GBP

Past performance is not a guide to future performance

Digesting the data - Asset Class Performance

Equities

Global equities advanced +5.41% on the month, bringing YTD returns to +10.36%, with Asia again the standout, surging +12.16% and extending its strong lead to +27.71% YTD on continued strength in AI-linked supply chains. The US also delivered solid gains, up +6.10% on the month and +10.98% YTD, while US small caps rose +5.23% and are now +18.02% YTD, supported by improving risk appetite. Japan gained +5.35%, and Europe rose +4.41%, though both continue to lag Asia's momentum, with the UK remaining the weakest major region at just +0.74% for the month and +6.57% YTD, reflecting a more subdued domestic backdrop and limited participation in the AI-driven growth cycle.

Fixed Income

Fixed income was led decisively by convertibles, which rallied +7.40% on the month and +23.65% YTD, benefiting from equity strength and embedded convexity. Credit was modestly positive, with global high yield up +0.83% and EM dollar debt +0.81% on the month, while government bonds were mixed: UK gilts rose +1.85% but remain slightly negative YTD at -0.51%, and global government bonds gained +0.60% monthly. Short-dated inflation-linked debt was broadly flat at +0.08%.

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