INVESTMENT OUTLOOK MAY 2026

At a Glance

- **Base case:** Markets remain resilient, but the macro regime is increasingly constrained by higher-for-longer rates, persistent inflation risks and the oil transmission channel.
- **Why:** The Iran conflict has shifted from a headline geopolitical shock into a rates-and-inflation constraint, with markets fully pricing out 2026 Fed cuts as labour conditions remain resilient.
- **Key risk:** Stagflation risk is not about the initial oil spike, but whether elevated oil prices persist long enough to propagate into broader input costs, margins and supply chains.

Key Themes

1 Higher-for-longer is the key macro implication

- Markets have fully priced out 2026 Fed cuts, reversing the easing expectations seen at the start of the year.
- Oil-driven inflation repricing, resilient labour data and core inflation closer to 3% than 2% keep the Fed in wait-and-see mode.

2 Stagflation risk depends on duration, not the first spike

- A short oil shock can be absorbed, but elevated oil prices beyond two quarters would increase the risk of non-linear growth damage.
- The inflection point occurs if the shock spreads beyond energy into petrochemicals, fertilisers, feedstocks, polymers, food and semiconductors.

3 Fed transition does not equal Fed pivot

- A new Fed Chair may create policy uncertainty, but the broader FOMC remains anchored by inflation concerns.
- Balance-sheet conservatism and limited appetite for QE-style support could keep long-end yields elevated.

4 Rates and equities have temporarily decoupled

- Oil-led inflation has pushed yields higher, but equities have continued to advance rather than weaken.
- This is not a full macro disconnect; it reflects the need to look beyond rates and assess what is supporting equity resilience.

Key Signposts

- **Oil duration:** whether elevated oil persists beyond two quarters and depletes inventory buffers.
- **Inflation transmission:** whether energy costs spread into broader inputs, margins and second-round supply constraints.
- **Fed reaction function:** whether no-cut pricing for 2026 remains intact and how the Fed transition affects policy communication.
- **Long-end yields:** whether balance-sheet tightening and higher-for-longer expectations keep upward pressure on rates.
- **Rates–equity correlation:** whether equities can keep absorbing higher yields, or whether valuation pressure reasserts itself.

INVESTMENT STRATEGY MAY 2026

At a Glance

- **Most likely outcome:** Equity markets remain supported by earnings rather than valuation expansion, with AI and energy doing much of the heavy lifting.
- **Implementation bias:** Stay selective and concentration-aware; favour earnings delivery and AI infrastructure beneficiaries, while avoiding reliance on broad beta in a narrow market.

Key Themes

5

Earnings are offsetting valuation compression
- Higher rates and geopolitical risk have tightened financial conditions through multiple compression.
- Equity gains remain positive because EPS revisions have offset valuation drag; a slowdown in earnings momentum would leave markets more exposed to higher yields.

6

Global equities are being powered by earnings, not multiples
- YTD equity gains are primarily earnings-driven, underscoring that fundamentals and execution matter more than sentiment.
- Further upside depends on the durability of EPS delivery rather than renewed multiple expansion.

7

AI leaders and energy are anchoring earnings strength
- EPS upgrades are concentrated in IT, semiconductors, the AI hardware ecosystem and energy.
- This supports market resilience, but also increases reliance on a narrow cohort of winners and raises payback risk around elevated capex.

8

Asia is a key beneficiary of AI infrastructure spending
- Asia remains structurally well positioned across semiconductors, memory, advanced packaging, substrates and processors.
- Taiwan, South Korea and Japan benefit from hyperscaler capex, while the memory upcycle supports earnings visibility and operating leverage.

9

Asia and EM concentration risk is rising
- Asian and EM outperformance is increasingly driven by a narrow group of semiconductor leaders.
- AI-driven earnings strength argues against premature de-risking, but concentration increases fragility if the semiconductor cycle slows.

10

US-China summit: stabilisation, not breakthrough
- The summit is more likely to manage tensions than deliver a fundamental reset
- Base case is continued status quo: an extended trade truce, lower near-term escalation risk and managed rivalry rather than convergence.

INVESTMENT STRATEGY MAY 2026

Global Tactical Asset Allocation

Sub-Asset Classes	UW	N	OW	Comments
Equities				
US/Canada	X			• Earnings resilience and AI momentum continue to support equities, but leadership remains narrow and increasingly rate-sensitive. • Stay constructive on Tech/AI, while tilting exposure from US hyperscalers toward Asia/EM infrastructure beneficiaries. • Maintain disciplined positioning, with US underweight and EM overweight.
Europe		X		
Japan		X		
Asia & EM			X	
Global Thematic Equities		X		
Fixed Income				
Developed Sovereign	X			• Higher-for-longer rates keep duration less reliable as a hedge; carry remains the main return driver. • Prioritise Investment Grade for quality and resilience, supported by strong balance sheets and low default risk. • Maintain selective HY and EM debt exposure for carry, but remain mindful of tight spreads.
Developed Corp IG			X	
Developed Corp High Yield		X		
Emerging Markets Bonds		X		
Alternatives				
Precious Metals		X		• Energy remains the key macro transmission channel, keeping inflation, rates and FX sensitive to supply risks. • Gold is trading more on real yields and rates than pure safe-haven demand in the near term. • Accumulate gold on weakness as a strategic hedge against longer-term monetary regime shifts.
Hedge / Alternative Funds	X			