

Market Digest

MAY 2026

This commentary provides a review of global markets in May 2026. It takes a closer look at the outlook and current topical themes, plus a market commentary covering the 12 months to 31 March 2026.

> May 2026 highlights


Equity markets rebounded strongly for a second consecutive month, led by Technology and Asian markets

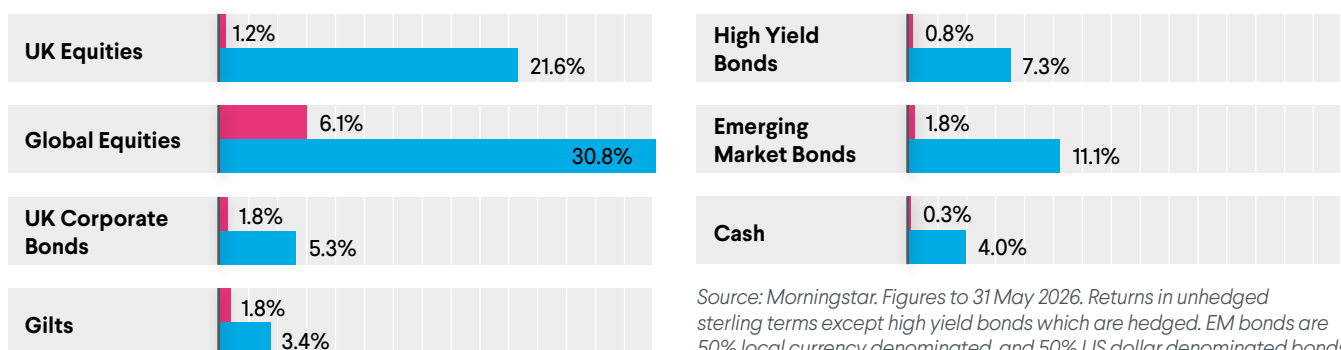
Bond markets were more volatile, with yields initially rising on inflation and political concerns before easing later in the month

Higher risk portfolios outperformed as stronger equity markets delivered better returns than bonds and cash

- Our model portfolios typically invest in a combination of the asset classes shown in the chart below.
- Equity markets continued to rebound strongly from the lows seen at the start of the Iran War in March, as investors focused on resilient corporate earnings, particularly in the Technology sector.
- Global equities gained more than 6% for a second consecutive month. All regions delivered positive performance, with Asian markets once again leading the way, rising 17.9%, driven by chipmakers such as Samsung and TSMC. The UK lagged other regions due to its relatively limited exposure to Technology stocks.
- Bond markets were volatile over the month as investors continued to assess the inflation implications of the Iran War.
- Political uncertainty in the UK initially pushed gilt yields higher (bond prices fall as yields rise). However, lower-than-expected inflation and encouraging signs of progress in US-Iran negotiations helped drive yields lower towards the end of May.
- With equities outperforming bonds and cash, higher risk portfolios delivered stronger returns than lower risk portfolios over the period.

Our model portfolios typically invest in a combination of the asset classes shown in this chart

This chart shows percentage asset class returns for May 2026  May 2026  12 months



Source: Morningstar. Figures to 31 May 2026. Returns in unhedged sterling terms except high yield bonds which are hedged. EM bonds are 50% local currency denominated, and 50% US dollar denominated bonds.

Outlook and topical market themes



UK political uncertainty contributed to gilt volatility, with yields rising sharply before easing later in the month

Semiconductor stocks led the rally, with a small number of companies driving a disproportionate share of gains

Diversification remains important as investors navigate political uncertainty and a narrow group of market leaders

Political uncertainty challenges investor confidence in gilts

Keir Starmer's position as Prime Minister remains under significant pressure following Labour's poor election results in early May. While no formal leadership challenge has yet been triggered, one looks increasingly likely if Andy Burnham wins the Makerfield by-election on 18 June.

Gilt yields rose sharply in early May, with 10-year yields briefly exceeding 5%, as investors priced in greater political and fiscal uncertainty. More recently, yields have eased back, reflecting improved sentiment around global factors and potentially a reduction in political risk premia as leadership contenders have adopted more market-friendly rhetoric.

For investors, the key issue remains fiscal credibility. Uncertainty around the policy stance of potential future leaders continues to contribute to market volatility, reinforcing the benefits of maintaining diversified government bond exposure rather than concentrating risk in the UK. You can read more about how the gilt market may react to certain candidates [here](#).

Semiconductors lead the recent market rally

Recent equity market strength has been driven largely by semiconductor companies, which have led gains across global markets. Strong earnings, robust demand linked to data centres and artificial intelligence (AI), and continued investment in chip manufacturing have supported performance in the sector.

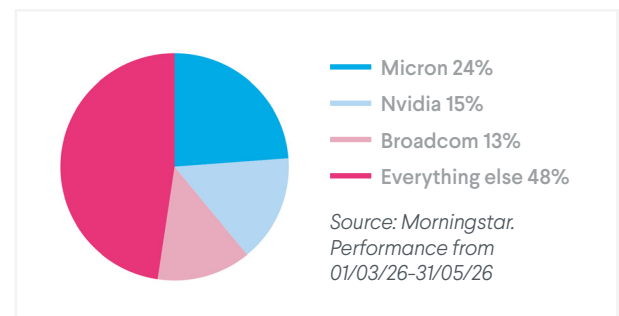
This has reinforced the dominance of a relatively small group of technology companies within global indices, particularly in the US and Asia. As a result, returns have become more concentrated in recent months, with semiconductor and related companies accounting for a significant share of overall market gains.

However, strong performance has also pushed valuations higher, leaving the sector more sensitive to changes in investor sentiment or any slowdown in earnings growth.

Chart of the month

Three semiconductor companies have recently contributed over half of US equity market returns

This chart shows the contribution to US equity market performance over the past three months.



Key takeaways

- Just three semiconductor companies contributed over half of total US equity market returns over the period
- The semiconductor sector has played an outsized role in recent market performance, helping to explain why equity returns have remained strong despite ongoing conflict in the Middle East.

While the long-term outlook for semiconductors remains supported by structural demand, recent market moves highlight the risks of relying too heavily on a small number of high-growth companies.

For investors, this reinforces the importance of maintaining diversified exposure across sectors and regions, as well as the benefits of holding multi-factor funds to help manage stock concentration risk.

**12m >
31 Mar**

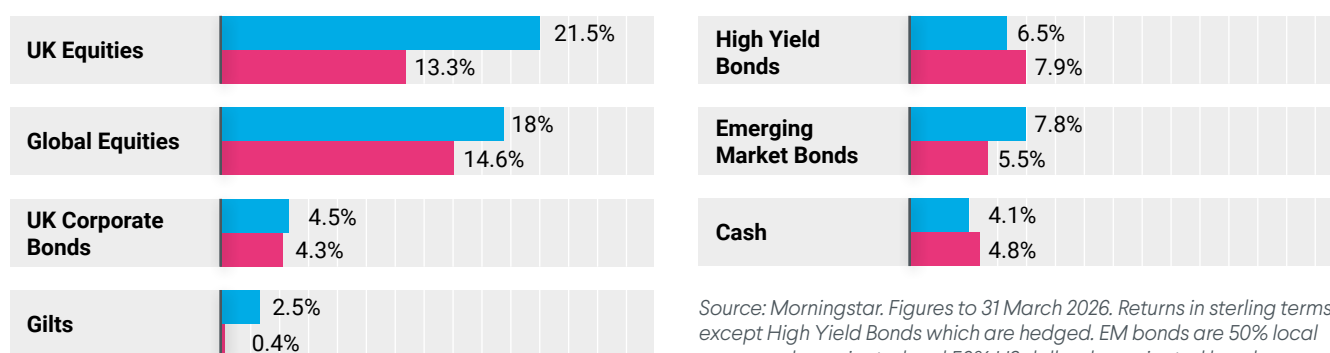
Equity markets remained resilient despite volatility driven by tariffs, geopolitical tensions and inflation concerns

Central banks took a more cautious approach as rate cuts slowed and markets priced in a prolonged pause

Bond markets delivered positive returns, with corporate and high-yield bonds outperforming government bonds

Our model portfolios invest in a combination of asset classes shown in this chart

This chart shows percentage asset class returns for the 12 months ending 31 March 2026 versus the three years ending 31 March 2026. ■ 1 year ■ 3 years (p.a.)



Source: Morningstar. Figures to 31 March 2026. Returns in sterling terms except High Yield Bonds which are hedged. EM bonds are 50% local currency denominated and 50% US dollar denominated bonds.

Market volatility and recovery

The period began with President Trump's 'Liberation Day' and subsequent market disruption and volatility. Markets recovered quickly, following a tariff postponement and indications of positive trade talks, but volatility persisted. This recovery continued over the third quarter of 2025 as better-than-expected corporate earnings, strong performance in the technology sector and the Federal Reserve resuming interest rate cuts, increased investor confidence. In the final quarter of 2025, overall equity performance remained strong despite concerns relating to the technology sector around the high valuations of these companies and the level of AI spending.

Geopolitical escalation and market impact

These trends continued into 2026, until the US and Israel's attacks on Iran at the end of February and subsequent escalations caused a sharp fall in global equities, which ended the quarter negative. The energy sector rallied, benefitting most from the surge in global oil prices.

Central bank policy developments

Over the period, the Bank of England cut interest rates by 0.75% to 3.75%, and the Federal Reserve resumed rate cutting in late 2025, also cutting rates by 0.75% to 3.75%. Most central banks took a cautious stance in the first quarter of 2026, pausing rate cuts in light of escalations in the Middle East and the potential inflationary impact. Markets have moved from pricing in further rate cuts to pricing in a prolonged pause, and in some cases, the risk of renewed rate hikes over the remainder of 2026.

Equity market performance

Overall, the 12 months to 31 March 2026 were positive for equity performance, despite market volatility following tariff introductions and geopolitical events. The Asia-Pacific ex Japan and Japanese markets ended the period as the top performing regions.

Fixed income and credit markets

Bond performance was positive across the different markets. Gilt returns were positive as a result of falling

Annual market summary continued

gilt yields over the period (bond prices rise as yields fall) as inflation receded in the final quarter of 2025, although yields rose considerably over the first quarter of 2026.

Corporate bonds outperformed government bonds over the period, supported by strong earnings growth. High-yield bonds delivered strong 12 month returns as credit spreads (the additional yield received on corporate over government bonds) fell over the period (bond prices rise as spreads fall). Emerging market bonds delivered strong 12 month returns, benefitting from a weakening of the US dollar.

HYMANS  **ROBERTSON**

INVESTMENT SERVICES



AUTHOR

Jack Richards / *Investment Manager*

jack.richards@hymans.co.uk

Risk warning

This document is for intermediaries to be used for information purposes only. It does not constitute an offer or solicitation to invest, it is not advice or a personal recommendation nor does it take into account the particular investment objectives, financial situation or needs of individual clients. Whilst HRIS uses reasonable efforts to obtain information from sources which it believes to be reliable, HRIS makes no representation that the information in this document is accurate, reliable or complete.

The value of your investments and the income from them may go down as well as up and neither is guaranteed. Investors could get back less than they invested. Past performance is not a reliable indicator of future results. Changes in exchange rates and/or tax rates may have an adverse effect on the value of an investment.

HYMANS
ROBERTSON
**INVESTMENT
SERVICES**

London | Birmingham | Glasgow | Edinburgh

www.hymansinvestmentservices.co.uk

Hymans Robertson Investment Services LLP (HRIS) - all rights reserved, disclosures, caveats and limitations. Hymans Robertson Investment Services LLP is authorised and regulated by the Financial Conduct Authority (reference number 927111). Registered in England and Wales OC431334.