

Market Commentary & Outlook May 2026

Summary

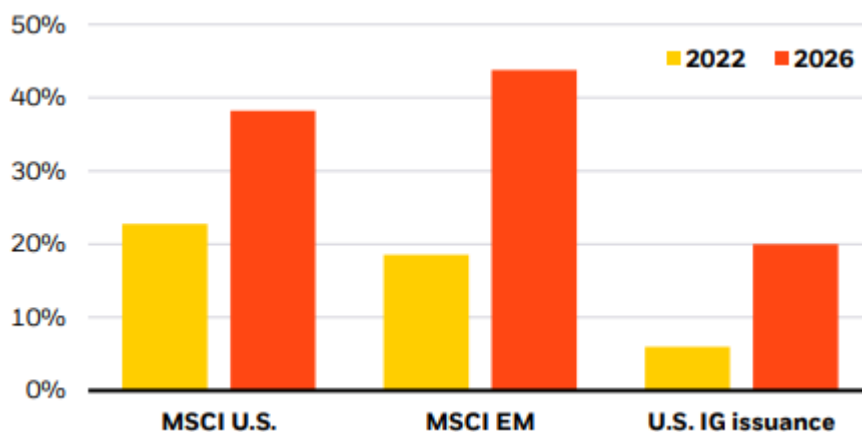
- Markets in May **consolidated** from the strong rebound in April, with increased volatility.
- RBA rate hike reinforced **'higher for longer'** policy expectations.
- Australian equities **lagged** global peers, reflecting domestic headwinds.
- Global equities remained **resilient** driven by AI and semi-conductor stocks.
- Emerging markets **outperformed**, led by technology-exposed Asia.
- Fixed income had a **positive** month.
- Oil prices declined sharply but remained **elevated and remain volatile**.

Market Overview

May was characterised by a more mixed and volatile market environment, as the strong rebound in April gave way to consolidation with most assets delivering positive returns despite geopolitical uncertainty and persistent inflation concerns. Equity markets continued the April rally, supported by robust corporate earnings, particularly within technology and artificial intelligence-related sectors. Emerging markets outperformed many developed markets supported by technology stocks in Asia, while Australian equities generated more modest gains. Bond markets experienced some volatility during the month but ultimately delivered generally positive returns as yields eased towards month-end. The RBA's decision to raise rates again, alongside elevated global bond yields, reinforced the 'higher-for-longer' narrative for policy settings.

IT dominance

The chart below highlights the Information Technology sector share of selected equity and bond indices. Of note is the IT dominance of the emerging market index driven by semiconductor companies such as TSMC in Taiwan and Samsung and SK Hynix in Korea.



Source: BlackRock Investment Institute, with data from Bloomberg and Dealogic (ION Analytics). June 2026.

Australian Equities

Australian equities were positive but relatively subdued, **lagging stronger global markets**.

- **S&P/ASX 200, up 1.1%**, benefited from strong performance in the materials sector, as major mining companies responded positively to improved sentiment towards resources and AI-related infrastructure demand. However, weakness across healthcare, energy and defensive sectors limited broader market gains. Market leadership remained narrow, with resources and selected growth exposures driving the majority of returns.
- Australian **small-cap** equities delivered positive returns during May, benefiting from the broader improvement in investor risk appetite and strengthening sentiment towards cyclical sectors. The asset class generally outperformed the broader Australian market, with gains led by technology, resources and selected industrial companies.

Global Equities

Global equities delivered strong returns during May, extending the recovery that began in April. **Technology stocks remained the primary driver** of performance, supported by ongoing enthusiasm surrounding artificial intelligence investment and resilient corporate earnings.

- **Major US indices** reached new record highs. Investors became increasingly comfortable looking through geopolitical risks as earnings growth and AI-related capital expenditure continued to underpin market sentiment.
- **Emerging market** equities were among the **strongest-performing** asset classes during the month. Performance was led by technology-oriented markets in Asia, supported by improving global growth expectations, AI-related investment themes and a stabilising US dollar environment.

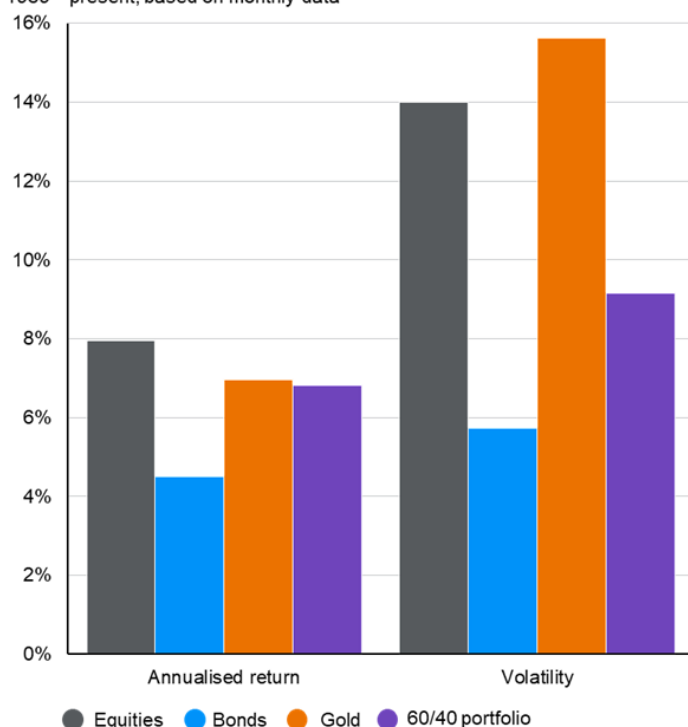
Fixed Income & Commodities

May was a positive month for fixed income:

- **Australia:** Australian fixed income markets generated modest positive returns. While inflation concerns and changing interest rate expectations created periods of volatility, bond yields generally eased towards month-end, supporting bond prices. Investors continued to monitor domestic inflation data and Reserve Bank policy expectations, with markets increasingly focused on the timing and extent of future policy changes.
- **Global:** Global fixed income markets also recorded positive returns, although performance was uneven throughout the month. Sovereign bond markets experienced a mid-month sell-off as investors reacted to inflation concerns and geopolitical developments before recovering as oil prices declined and expectations for policy easing improved. Corporate credit markets remained resilient, with tightening spreads contributing positively to returns.
- **Oil prices** declined sharply during the month as optimism increased regarding potential de-escalation of tensions in the Middle East, reducing fears of supply disruptions.
- **Gold** traded in a relatively narrow range after strong gains earlier in the year, as reduced geopolitical concerns tempered safe-haven demand. The chart below shows the return and volatility of equities, bonds, gold and a traditional 60/40 portfolio using MSCI World for equities and Bloomberg Barclays Global Aggregate for bonds. Gold is traditionally viewed as a diversifier, but it is worth noting that its historical volatility is higher than equities.

Gold and 60/40 portfolio performance

1989 – present, based on monthly data



Source: JP Morgan Guide to the Markets – Australia (using data from Bloomberg, FactSet, JPMAM). Data as of 31 March 2026.

Property and Infrastructure

- **Global listed infrastructure** delivered negative returns, underperforming broader global equity markets. Despite generally supportive fundamentals, including ongoing investment in digital infrastructure, utilities and energy networks, the sector faced headwinds from rising long-term bond yields during parts of the month and investor preference for higher-growth areas of the market, particularly technology-related sectors.
- **Global listed real estate** had a weak month. Modest gains in US REITs offset by weaker outcomes in Europe and Asia. The sector remained highly sensitive to interest-rate movements and refinancing concerns. While valuations appear more attractive following earlier declines, a sustained recovery remains dependent on clearer evidence of peak rates.
- **Australian listed property trusts** continued to recover, benefitting from easing bond yields towards month-end and growing investor confidence that the interest rate cycle may have peaked.

Outlook and Positioning

Looking forward, markets are likely to remain finely balanced between growth resilience and inflation risks. While corporate earnings, particularly in the US and parts of Asia, continue to support equity markets, higher interest rates are increasingly acting as a constraint on valuations and liquidity. The key uncertainty remains the persistence of inflation, particularly in the context of elevated energy prices and tight labour markets. Central banks, including the RBA, have signalled a willingness to maintain restrictive policy settings for longer, reducing the likelihood of a near-term easing cycle. We retain our key areas of focus: ensuring equity allocations are globally diversified and active management for fixed income exposure given an uncertain rates and inflation outlook.

Benchmark Returns

Period Ended: 31 May 2026	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
	%	%	%	%	% (pa)	% (pa)	% (pa)
Australian Shares							
S&P/ASX 100	1.15	-3.77	3.79	6.51	11.00	8.44	9.33
S&P/ASX 200	1.15	-4.03	3.01	6.89	11.02	8.10	9.10
S&P/ASX Small Ordinaries	2.03	-6.13	-4.70	11.25	10.64	4.03	7.10
International Shares							
MSCI ACWI ex-Australia AUD	5.14	6.67	3.26	16.69	18.17	13.17	12.95
MSCI ACWI ex-Australia AUD (Hedged)	5.47	7.75	12.74	30.29	21.40	11.39	
MSCI Emerging Markets AUD	9.60	8.35	17.92	38.02	20.81	9.12	10.74
Australian Cash and Bonds							
Bloomberg AusBond Bank	0.34	1.00	1.91	3.78	4.18	3.03	2.17
Bloomberg AusBond Composite Index	1.64	0.23	0.69	1.31	2.97	0.32	1.81
International Bonds							
Bloomberg Global Aggregate AUD (Hedged)	0.67	-0.85	0.53	3.42	3.47	-0.01	1.57
Global Listed Infrastructure							
FTSE Developed Core Listed Infrastructure 50/50 AUD (Hedged)	-1.43	-2.65	6.79	14.71	11.57	7.36	7.43
Property							
S&P/ASX 200 A-REIT	2.97	-0.73	-4.96	-2.15	10.92	6.45	5.92
FTSE EPRA Nareit Developed AUD (Hedged)	-0.56	-2.10	6.28	12.69	9.38	1.75	3.33

Source: Morningstar Direct

Important Information

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