

ECONOMIC AND MARKET UPDATE

With Bob Cunneen, Senior Economist



ASSET MANAGEMENT

Key events in May 2026

- Global shares made new highs in May. Optimism over Artificial Intelligence (AI) prospects, strong US corporate profits and hopes for the end of the Iran War have been the key drivers of rising share markets.
- US share prices have skyrocketed given robust corporate earnings and AI enthusiasm. US companies are recording their highest annual profit rise of nearly 29% since 2021 according to Factset. The largest US technology companies such as Alphabet, Amazon, Microsoft and Nvidia are rapidly increasing their AI capital investment which is also supporting economic activity. However, US inflation pressures are building given the Iran War's impact in raising key commodity prices such as oil and fertiliser.
- Asian share markets delivered a mixed performance. Japanese and Korean shares delivered strong gains as optimism on AI and broader technology proved to be beneficial. However Chinese shares disappointed with weaker industrial production and retail spending weighing on investor sentiment.
- Australian shares made modest gains in May. Concerns that the Australian central bank raised interest rates in May restrained share gains. There were some weak performances from market heavyweights such as CSL. The Health Care sector posted a painful -8.9% return given CSL's sharp fall. The Utilities sector (-7.6%) also disappointed with higher energy prices squeezing profit expectations. A more encouraging performance was seen in the Resource sector (7.8%) where higher commodity prices boosted profit estimates.
- Australia's economic data is subdued with employment and household spending slowing but inflation remaining stubbornly high. Headline consumer inflation came in at 4.2% in the year to April. Accordingly, markets are still expecting that the Reserve Bank of Australia (RBA) may again raise interest rates this year to restrain price pressures

Asset class summary

Asset class returns in Australian dollars – periods to 31 May 2026

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	1.4	1.2	-4.0	7.0	11.0	7.9	9.1
Global shares (hedged)	11.8	5.4	7.6	29.9	21.2	11.4	12.3
Global shares (unhedged)	3.9	5.1	6.5	16.5	18.1	13.1	12.9
Emerging markets (unhedged)	16.4	9.6	8.3	38.0	20.8	9.1	10.7
Australian property securities	-6.7	2.9	-0.8	-1.8	10.7	6.5	6.2
Global property securities (hedged)	7.8	-0.6	-2.1	12.7	9.4	1.7	3.3
Global listed infrastructure (hedged)	8.8	-2.0	-2.7	14.4	11.6	6.9	7.4
Australian bonds	1.3	1.6	0.2	1.3	3.0	0.3	1.8
Global bonds (hedged)	0.8	0.7	-0.8	3.4	3.5	0.0	1.6
Global high yield bonds (hedged)	1.8	0.6	0.9	7.3	7.7	3.0	4.8
Australian inflation-linked bonds	2.5	0.8	1.2	3.5	3.6	2.5	2.8
Cash	1.6	0.3	1.0	3.8	4.2	3.0	2.2
AUD/USD	7.9	0.1	1.0	11.8	3.6	-1.5	-0.1

Past performance is not a reliable indicator of future performance.

Sources: Australian shares – S&P/ASX 300 Total Return Index; Global shares (hedged) – MSCI All Countries World (A\$ hedged, Net); Global shares (unhedged) – MSCI All Countries World in A\$ (Net); Emerging markets – MSCI Emerging Markets in A\$ (Net); Australian property securities – S&P/ASX 300 A-REIT Accumulation Index; Global property securities – FTSE EPRA/NAREIT Developed (A\$ hedged, Net); Global listed infrastructure – FTSE Global Core Infrastructure 50/50 (Hedged \$A); Australian bonds – Bloomberg AusBond Composite 0+ Yr Index; Global bonds (A\$ hedged) – Barclays Global Aggregate (A\$ hedged, Gross); Global high yield bonds (A\$ hedged) – Barclays US High Yield Ba/B Cash Pay x Financials (\$A Hedged); Australian inflation-linked bonds – Bloomberg AusBond Inflation Government 0+ Yr Index; Cash – Bloomberg AusBond Bank Bill Index; AUD/USD – WM/Reuters Daily (4 pm GMT).

Key events in global markets over the last three months to May 2026

Global shares (hedged) made a very strong quarterly return of 7.6%. Yet this was a rollercoaster ride. The Iran War proved to be a dramatic setback in March, but global shares have since made a sharp recovery. For global shares (unhedged), the rise in the Australian dollar has served to restrain the quarterly return to 6.5%.

Optimism on AI prospects is the key driver of US share prices continuing to make historic highs. This optimism was challenged by the surprise attack by the US and Israel on Iran on 28th February. Soaring prices for crude oil and fertiliser as well as rising bond yields initially pushed US share prices lower in March. The ceasefire between the US and Iran on 7th April has allowed US share prices to begin a sharp recovery to new historic highs.

While Asian share markets also suffered sharp reversals in March, they ended the quarter in positive territory. Korea (46.0%) and Taiwan (28.5%) recorded astonishing quarterly gains in local currency terms as investors viewed that AI would lead to robust demand for Asian computer chips. However Chinese shares disappointed with a -7.3% quarterly return in local currency as weak consumer spending and a struggling property sector weighed on sentiment.

Global bonds (hedged) posted a weak -0.8% quarterly return. Concerns over the inflation risk from rising commodity prices with the Iran War has generated sharp rises in global bond yields. Australian bonds posted a modest 0.2% quarterly return given higher inflation and the RBA raising interest rates.

Key events in Australia over the last three months to May 2026

Australian shares delivered a disappointing -4.0% quarterly return. There were only a few sectors that delivered a positive performance with the Energy sector being a clear standout with a 9.1% quarterly gain. The Resources sector made a solid 2.1% quarterly return given rising commodity prices. However, the 'sea of red ink' overwhelmed most of the other sectors. The largest underperformance was in Health Care (-21.7%) with weak profit guidance from Cochlear and CSL. Also disappointing was the Financial sector (-6.6%), which includes the major banks. The mix of RBA raising interest rates and Federal Budget announcements of major changes to capital gains tax and negative gearing cast a shadow over prospects for the residential property market and thereby bank lending growth.

Australia's economy has soured with slower employment growth and rising inflation in recent months. The sharp rise in inflation has seen the central bank respond by raising interest rates in February, March and May. While there has been recent relief with the Federal Government cutting the fuel excise tax until 30th June, the "cost of living" squeeze has intensified this year for many consumers.

Global prospects

Global financial markets are being challenged by extreme political risks that are chaotic and dangerous. While there is a precarious ceasefire between Iran and the US, commodity prices remain vulnerable if the Strait of Hormuz remains closed. Whether political leaders in the US, Israel and Iran can compromise and end the war is debatable. Regrettably, there is still a chasm in trust between the warring parties.

For the global economy, the spectre of both rising inflation and unemployment still looms. This 'stagflation' combination has echoes of the 1970s experience. For central banks around the world this creates a major policy dilemma – should central banks raise interest rates to restrain inflation pressures or lower interest rates to assist economic activity and mitigate rising unemployment. Regrettably, Australia's central bank has been a pioneer in raising interest rates this year. If major central banks across the Americas, Asia and Europe follow suit with interest rate rises, this could challenge the recent strong performance of global share prices.

Australian consumers were already challenged by persistent inflation before the Middle East conflict began. Price pressures in food, health and housing were squeezing household budgets. This continuing "cost of living" squeeze is likely to weigh heavily on consumer spending over coming months. A convincing resolution of the Middle East conflict is needed soon to alleviate this significant downside risk to Australia's economic growth.

Given these complex and significant risks, investors should maintain a disciplined and diversified strategy.

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