

May Market Overview

Global markets delivered strong gains in May, with global equities rising almost 4%, driven by a powerful yet highly concentrated rally in a small number of US technology stocks. The S&P 500 and Nasdaq returned 5% and 8% respectively, while Emerging Markets enjoyed an exceptional month, advancing 10%.

The strength in equities continued to be underpinned by robust corporate earnings. The average company within the S&P 500 delivered earnings growth of approximately 14% year on year, a level achieved only a handful of times over the past decade. This earnings backdrop was complemented by continued investor enthusiasm for artificial intelligence related sectors, particularly semiconductors and chip manufacturers. Similarly, much of the strength within Emerging Markets was concentrated in Asian economies such as Taiwan and South Korea, home to major semiconductor producers. Companies such as Samsung Electronics and SK Hynix returned 58% and 83% respectively during May alone.

Bond markets delivered a comparatively subdued performance. Government bonds came under pressure as prospects for a peace agreement between the United States and Iran broadly deteriorated. The continued closure of the Strait of Hormuz, through which approximately 20% of global oil supply typically passes, has sustained concerns around inflation and weighed on the outlook for global economic growth. However, bonds recovered some ground towards month end as economic data softened and oil prices retreated below \$100 per barrel. Corporate bonds fared well, supported by positive investor sentiment and resilient corporate earnings. At a macro level, markets remained notably bifurcated throughout May. Equity investors continued to focus on the powerful combination of AI related growth opportunities and strong earnings momentum, largely looking through geopolitical tensions in the Middle East. In contrast, government bond markets continued to signal concerns around the potential implications for inflation, interest rates and, ultimately, the sustainability of the earnings growth currently supporting equity valuations.

Portfolio Positioning

Within the Active MPS range, performance attribution once again reflected exposure to artificial intelligence and related growth themes. Holdings linked to the US equity market, particularly S&P 500 allocations, generated the largest absolute contributions to returns. Active global equity managers with the flexibility to increase exposure to areas benefiting from the AI driven rally also added significant value. Interestingly, value oriented managers across both US and global markets also delivered stronger than expected performance. This suggests investors were

not solely concentrating on the largest AI beneficiaries but were increasingly seeking attractively valued opportunities within different sectors. Such broadening participation has not been evident since the early stages of 2026 and bodes well for the remainder of the year.

Performance detractors were relatively modest. The portfolio's allocation to Latin America detracted as investors rotated capital away from the region and back into Asian markets to participate in the AI led rally. Commodity related holdings also weakened as oil and gold prices eased amid more constructive rhetoric surrounding peace negotiations. Alternative hedge fund strategies experienced a softer month, with certain high frequency trading approaches struggling to keep pace with the strength and directionality of equity markets. Despite these headwinds, the Balanced Active portfolio delivered a return of just over 3% during May, representing a strong absolute outcome for clients.

Outlook

Looking ahead, markets appear likely to remain caught between two dominant forces: the continued flow of capital into AI related investments and developments surrounding geopolitical tensions in the Middle East.

The AI driven rally appears well supported by earnings and investor demand however, equity markets have risen sharply and remain highly concentrated in a relatively small number of companies. Given the scale of recent gains, some near term volatility would not be surprising as investors look to crystallise profits heading into quarter end. At the same time, with market leadership remaining exceptionally narrow, despite broad based earnings growth across US companies, there is scope for other areas of the market to begin closing the performance gap with the current AI leaders which performance attribution from May indicates we were seeing signs of.

While investors appear comfortable looking through Middle Eastern tensions for now, the ongoing disruption to global energy supply remains a meaningful risk. Prolonged restrictions in the Strait of Hormuz would act as a persistent drag on economic growth while adding inflationary pressure, factors that may become increasingly difficult for markets to ignore if the situation remains unresolved through the summer.

Against this backdrop, we expect periods of heightened volatility around key economic releases in the coming weeks, particularly consumer sentiment, inflation and labour market data, as investors assess the balance between strong corporate fundamentals and growing macroeconomic risks.



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