

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 Enhanced Passive range, the portfolio returned 4.2% during May, with gains broadly reflecting the dominant market themes of the month. Emerging markets were among the stronger contributors, with the portfolio's Asian equity exposure capturing the exceptional returns delivered by semiconductor-heavy markets such as Taiwan and South Korea. Growth and AI-linked equity positions added further value as investor enthusiasm for the sector showed little sign of abating. The Robeco US

equity allocation also performed well, tracking the broader strength of the S&P 500 through the period.

Corporate bonds contributed positively, benefiting from the constructive risk environment and resilient earnings backdrop that supported spread compression across credit markets.

Value-oriented equity exposure lagged as capital continued to flow towards growth and AI-adjacent opportunities, leaving more defensively priced areas of the market behind. Gold was broadly flat, with easing rhetoric around Middle Eastern tensions reducing its safe-haven appeal through much of the month.

Outlook

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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