MONTHLY REVIEW – MAY 2026

Dear Clients, Colleagues and Partners

OUR PERSPECTIVE

"The market is the most efficient mechanism anywhere in the world for transferring wealth from impatient people to patient people." ~ Warren Buffett

Markets entered May with no shortage of reasons to worry. Valuations remain elevated, geopolitical risks are obvious, tariffs have complicated the inflation outlook, and the AI rally continues to attract comparisons with previous episodes of speculative excess. Yet the most important market signal is often the simplest one: price.

Despite the noise, equity markets continued to make new all-time highs. That does not mean risk has disappeared. It does, however, suggest that momentum, liquidity and earnings expectations remain stronger than the prevailing narrative implies. When markets absorb bad news and continue to rise, investors should at least consider the possibility that the underlying fundamentals are better than the headlines. Investors also need to remember that risk is not limited to being invested. There is an opportunity cost to remaining on the sidelines while markets compound higher, particularly when cash returns are increasingly vulnerable to inflation and policy-driven nominal growth.

Indeed, the economic data supports a more constructive interpretation. The May ISM Manufacturing survey showed continued expansion, with New Orders strengthening further. New orders matter because they are a forward-looking indicator of corporate demand, production and future revenue growth. At the same time, U.S. business formation remains elevated, suggesting that entrepreneurial activity, risk appetite and private-sector dynamism remain intact. These are not the usual characteristics of an economy rolling over into recession.

This matters because today's market optimism is not built solely on lower interest-rate expectations. It is also being supported by nominal growth. In a world of fiscal dominance, larger deficits, industrial policy, energy investment and AI infrastructure spending, inflation may remain higher and more volatile than investors became accustomed to during the monetary era. That is a central argument of our Fiscal Age thesis, which readers can download from the Shard Capital website here.

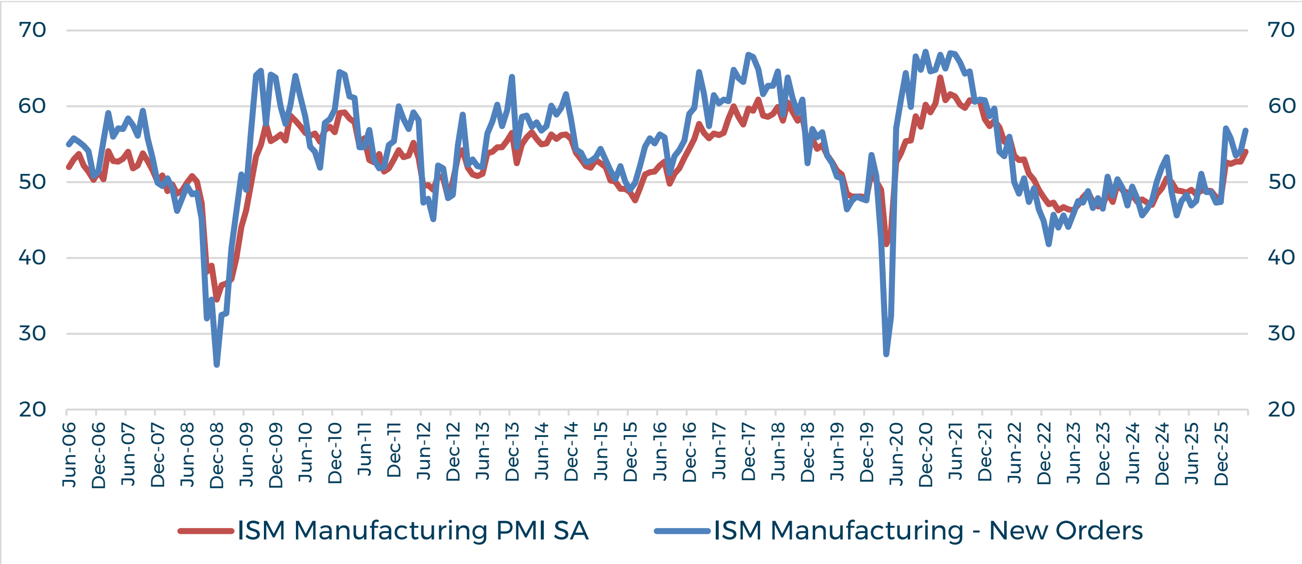
> **Opportunity cost** is the value of the next best alternative forgone when making a decision. In investing, it is the return sacrificed by holding one asset, such as cash, instead of another that may rise in value.

Moderately higher inflation can be uncomfortable for central banks, but it can also inflate nominal revenues, support corporate pricing power, drive new investment and sustain earnings growth. The danger comes when inflation becomes disorderly, compressing margins and forcing bond yields higher. For now, markets appear to be discounting the more benign version: resilient demand, rising nominal GDP and continued AI-led capital investment.

The coming wave of private-market AI and space-related IPOs, including companies such as Anthropic and SpaceX, may further reinforce retail enthusiasm. Meanwhile, many valuation-sensitive and non-U.S. institutional investors remain reluctant participants in the AI rally. If those investors are ultimately forced back into the market by improving fundamentals and rising prices, their current caution may become tomorrow's source of demand.

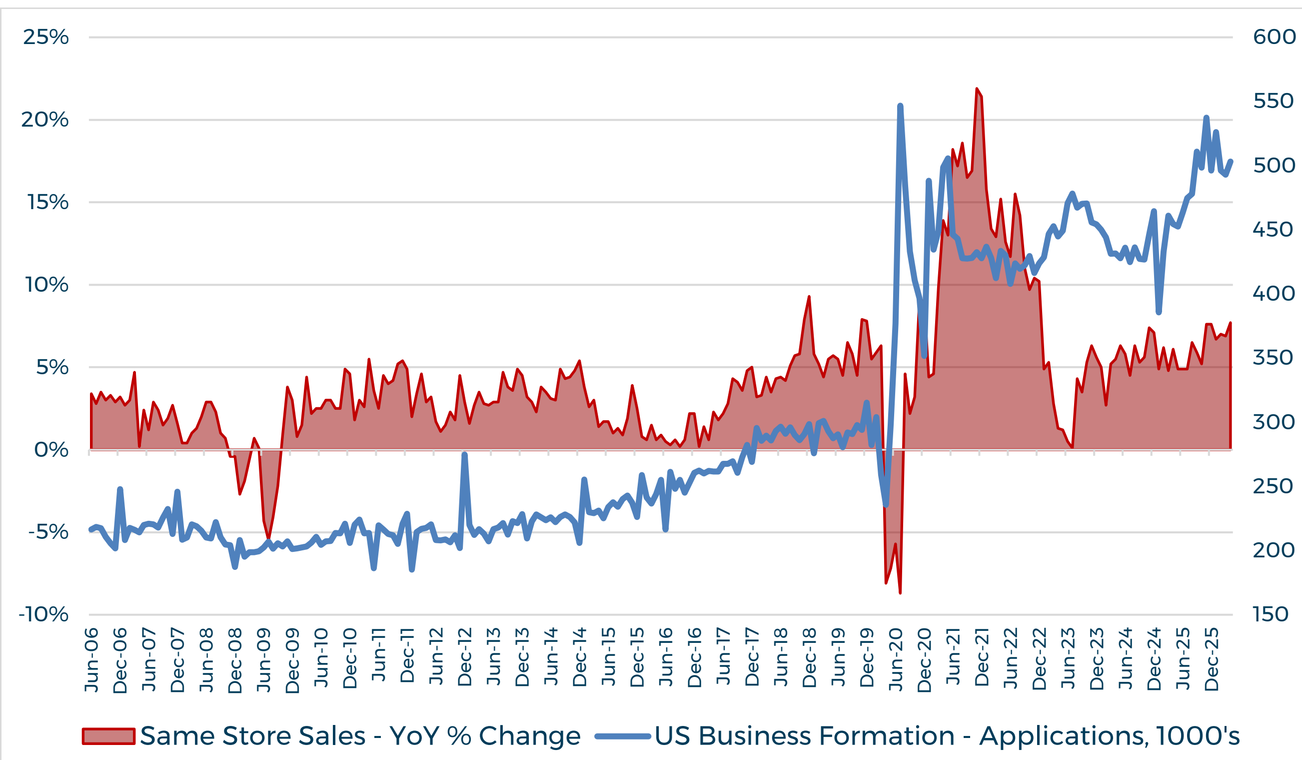
The market might seem expensive. But expensive is not the same as fragile. For now, price, liquidity and growth continue to argue that the cycle is not yet exhausted.

***Exhibit 1:** New Orders is a key component of the ISM manufacturing series, and has been exceptionally strong in 2026, indicating a robust manufacturing demand – perhaps AI capex making its way through the economy.*



Source: Institute for Supply Managers, Bloomberg L.P., Shard Capital, 31/05/2026.

***Exhibit 2:** Same store sales and business formation applications remain exceptionally strong.*



Source: Redbook Research Inc., US Census Bureau, Federal Reserve, Bloomberg L.P., Shard Capital, 31/05/2026.

MARKET REVIEW

Deflationary Boom Assets

Risk assets rallied strongly in May, led by equities, credit and emerging market debt. The Bloomberg World Equity Index returned 5.19% (USD), with growth materially outperforming value, rising 6.81% (USD) versus 1.85% (USD). The strongest leadership came from technology and AI-linked markets, with the Nasdaq Composite up 8.43%, the Magnificent 7 up 6.64% and Asia ex-Japan equities up 9.69% (USD), driven mainly tech-leadership in Taiwan and South Korea. Emerging markets also performed well, rising 8.52% (USD), supported by a weaker U.S. dollar, improved risk appetite and continued enthusiasm around AI supply chains. China and India lagged, falling -0.94% (USD) and -0.17% (USD) respectively. Corporate bonds and EMD also delivered positive returns, helped by resilient growth, tight credit spreads and strong liquidity conditions.

Deflationary Bust Assets

Government bonds produced modest positive returns, although performance remained constrained by sticky inflation, elevated fiscal supply and continued uncertainty around central bank policy. U.S. Treasuries rose 0.11%, while the broader U.S. Aggregate Bond Index gained 0.34%. UK Gilts performed better, returning 1.97%, and Euro government bonds returned 1.12%. Falling oil prices helped ease near-term inflation fears, but the broader bond market remained cautious, particularly as U.S. economic data continued to point towards underlying resilience rather than recession.

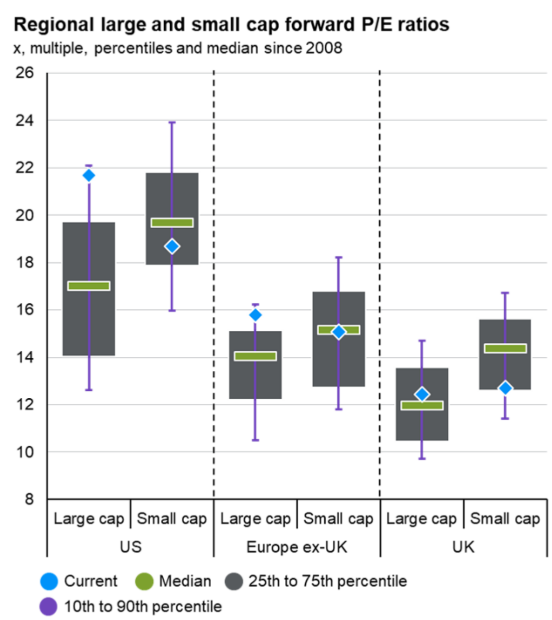
Inflationary Boom Assets

Inflationary boom assets were mixed. Industrial commodities performed well, with copper rising 5.34% and industrial metals up 4.81%, supported by stronger manufacturing demand, AI infrastructure spending and improving global growth expectations. However, energy was weak: Brent crude fell 19.26% and the Bloomberg Energy Spot Index declined 11.10%, as markets reassessed the geopolitical risk premium following the March shock. Managed futures were broadly flat, with the SG CTA Index up 0.28% and SG Trend up 0.25%, reflecting less persistent cross-asset trends during the month.

Inflationary Bust Assets

Precious metals consolidated after a strong prior run. Gold declined 1.68%, although it remains up 38.03% over one year, highlighting its continued role as a hedge against fiscal dominance, geopolitical risk and currency debasement. Inflation-linked bonds were positive, with U.S. TIPS up 0.21%, UK linkers up 1.30% and Euro inflation-linked bonds up 0.56%. Inflation expectations remain supported by tariffs, energy-security concerns and fiscal policy, but May's decline in oil prices reduced immediate pressure.

Exhibit 3: *The swift recovery and passive flows into US equity markets have pushed large cap valuations back to all-time high levels.*



Source: [JP Morgan Guide to the Markets – UK](), 31/05/2026

ASSET ALLOCATION

The below tables set out our current tactical asset allocation views and the investment thesis behind these.

	Positioning	Investment Thesis
FIXED INCOME		
DM – Government Bonds	**NEUTRAL**	Whilst yields in the U.S. Treasury markets are attractive, we note the risks from supply-demand mismatch, inflation and term-premia for longer duration U.S. Treasuries. We find short-dated TIPS especially attractive with high real rates relative to history. Duration in Europe and U.K. Gilt markets look more attractive as we believe long-term growth and inflation expectations remain too high.
DM – Corporate Bonds	**UNDERWEIGHT**	The risk-reward profile remains unattractive given tight credit spreads and macroeconomic risks.
EMD – Government Bonds	**OVERWEIGHT**	A strong US Dollar has negatively impacted EM Govt bonds. However, the tide has turned, and we believe the current administration will ensure a weaker US Dollar prevail, whilst current yields reflect most of the negative sentiment.
EMD – Corporate Bonds	**NEUTRAL**	Risks include negative economic shock, FX-mismatch. Attractive security specific / RV opportunities, where we prefer high quality, short-duration and hard-currency credit, which offers attractive yields with lower relative risk.
ALTERNATIVES		
Property & Infrastructure	**NEUTRAL**	We retain conviction behind infrastructure, especially in digital infrastructure and electrification where attractive and sustainable tailwinds persist. We believe infrastructure that provides long-term CF's and inflation protection offer attractive opportunities at current levels. Property markets remain uncertain and less attractive. Whilst there are perhaps niche / specific property assets with attractive characteristics, cap rates and valuations broadly do not reflect a higher interest rate regime we entered post-pandemic.
Commodities	**OVERWEIGHT**	We remain positive on precious metals, in particular gold, as geopolitical and economic uncertainty remains high, with optionality driven by policy missteps. Whilst sustainability of near-term demand remains uncertain, energy security, climate change, Asian growth, and the long-term demand characteristics, could provide attractive opportunities to increase exposure to the energy complex, Natural Gas in particular.
Private Equity	**UNDERWEIGHT**	Listed PE is always vulnerable to liquidity risks during periods of increased market dislocations. Furthermore, the risks from rising cost-of-capital and difficulties in refinancing is a risk we believe not fully reflected in private markets. We remain Underweight. On a selective basis, attractive discounts have opened up, which warrants attention.
Alternative Strategies	**OVERWEIGHT**	Uncertainty behind inflation and economic growth drive the opportunity for uncorrelated investment propositions, e.g. Hedge Funds. However, investors should consider the absolute opportunity relative to T-Bills. Attractive strategy specific opportunities exist with i) lower volatility, ii) uncorrelated profiles, iii) attractive risk-adjusted return expectations, and iv) long-volatility pay-off profile. We are especially bullish on CTA's and trend-following Managed Futures.

	Positioning	Investment Thesis
DEVELOPED MARKET EQUITY		
North America	**UNDERWEIGHT**	US equity market outperformance over the last 15 years have been significantly supported by multiple expansion, and valuations remain elevated on both absolute and relative levels. Despite the longer-term benefits from the AI revolution, we believe risks to profit margins remains significant. Whilst valuations in small and midcaps looks marginally more attractive, policy uncertainty and weakening sentiment we believe are major headwinds to U.S. small and midcaps.
UK	**NEUTRAL**	Whilst equity valuations, especially in the small and midcap market are attractive, political uncertainty, deteriorating economic outlook and inflation risks remain material. We retain a preference for high quality and stability and note the opportunity in small and midcap companies.
Europe ex-UK	**NEUTRAL**	Whilst FX and Stagflation risks remain material, we belief the changing European fiscal regime represents a major macroeconomic and policy shift in European policy. Valuations remain relatively attractive; however, we note a preference for quality and pricing power.
Japan	**OVERWEIGHT**	Attractive valuation, macroeconomic tailwinds and ongoing market reform all underpin the opportunity in Japan. Corporate Japan's strong balance sheet and low valuations make for attractive risk-reward profile. We believe the Japanese Yen is significantly undervalued, and exposure to Japan should not be hedged.
EMERGING MARKET EQUITY		
Asia ex-Japan & China	**OVERWEIGHT**	We retain a preference for Asian emerging economies over non-Asian EM, driven by better fundamentals and lower reliance on externalities. However, we note the risks of contagion as China embark on a local deleveraging cycle and economic growth slows. India remains one of our highest conviction opportunities in the region, but valuations are stretched.
China	**OVERWEIGHT**	Overly pessimistic outlook and sentiment towards China are reflected in valuations. Whilst question marks with regards to demographics, real estate, debt, policy and alignment remain, sentiment are showing signs of turning less negative. The risk-reward remain skewed to the upside, and selectively attractive long-term opportunities have emerged.
Latin America	**OVERWEIGHT**	The changing political and macroeconomic environment, specifically the benefits from the 'near-shoring' of supply chains and the consequences of deteriorating China-US relations, creates attractive opportunities in Central and South America. Some uncertainty remains in the near term from US-policy and the outlook for global growth.
EMEA	**UNDERWEIGHT**	Preference for Asia & Latin America.

“Qui Curat Vincit”

CONTACT US

For further information on any of our services, or if you would like to arrange a meeting with an investment manager to see how we can work with you, please get in touch.

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