Hatch Financial Planning

Markets Rebound as Inflation Pressures Remain Elevated

Information contained in this report current as at 15 June 2026.

paragem GPS Wealth Count

Global markets delivered a stronger performance in May as investors became more optimistic that disruption in the Middle East would not intensify further, even though the Strait of Hormuz remained effectively closed and energy markets stayed highly sensitive to geopolitical headlines. International share markets continued to rally recording an increase of 4.53% over the month in Australian dollar terms. International shares were supported by resilient corporate earnings and ongoing enthusiasm for artificial intelligence-related investment, while oil prices fell sharply during the month on hopes of a potential U.S.-Iran agreement.

The improvement in risk sentiment in the US helped equities advance globally, despite inflation remaining above central bank targets in several major economies. Australia was one of those economies. Australian shares increased by a modest 1.15%, as our market also faced the headwind of higher interest rates. Emerging market shares increased almost 10% over the month driven predominantly by Tiawan and Korea's AI related companies including Tiawan Semiconductor Manufacturing Company (TSMC) and Samsung Group. Australian bond prices increased by 1.6% in May as the oil price declined, whilst global bond prices increased by 0.67%.

In Australia, inflation remained a central concern. The Reserve Bank of Australia's May Statement on Monetary Policy noted that inflation was already materially above target before the Middle East conflict and that higher fuel prices had pushed headline inflation higher, with trimmed mean inflation also remaining elevated. The RBA increased the cash rate by 0.25% to 4.35% and indicated that risks to inflation remain tilted to the upside. Consumer sentiment stayed weak, although the Westpac-Melbourne Institute index improved modestly to 83 in May from 80.1 in April, while business conditions remained positive but subdued and business confidence, although less negative, remained deeply pessimistic.

In the United States, the inflation backdrop became more challenging in May. Consumer prices increased by 4.2% over the year, up from 3.8% in April, with energy accounting for much of the monthly rise and petrol prices up sharply over the year. Core inflation was more contained at 2.9%, suggesting that while the energy shock was driving headline inflation higher, second-round effects across the broader economy were still relatively limited. Severe drought conditions, concentrated most heavily in the South and Midwest combined with rising pressures on the availability of fertilizer, could put future harvest yields of several key agricultural commodities at risk and lead to higher food inflation. It adds to some of the existing food price pressures, such as

Emmanuel Calligeris
Chief Investment Officer

record cattle and beef prices. It contributes to the already "bad mix" of inflationary pressures from lingering tariff effects, transportation costs, and rising supply chain pressures that stand close to their highest levels since 2022. Importantly, food prices can have an outsized effect on consumers' perception of inflation and price expectations since purchases are frequent, prices are highly visible, and food is a non-discretionary item.

On the US employment front, the non-farm payrolls report reinforced an improving labour market. Non-farm payrolls increased by 172 thousand, well-above expectations of 88 thousand, while the prior two months were revised sharply higher by 93 thousand. The unemployment rate remained at 4.3%. This was a strong report which caused financial markets to revise away any expectation of an easing in interest rates in 2026. Investment markets now expect the Federal Reserve to remain on the sidelines as officials weigh the tension between elevated headline inflation and softer underlying price momentum.

In a symbolic move, the European Central Bank tightened monetary policy by 0.25% to 2.25% as inflation accelerated above target. The increase in inflation was driven by a 10.9% rise in energy costs and an unexpectedly sharp acceleration in services inflation to 3.5% from 3.0%. While price pressures have increased, there is still no sign of second-round effects from the energy shock. Wage growth is muted, and market-based inflation expectations remain anchored suggesting that further rate rises are unwarranted as growth is slowing.

In China, the picture remained uneven. Consumer price inflation held at 1.2% in May, indicating that domestic demand was still relatively subdued, while producer prices accelerated to 3.9% over the year, the fastest pace in almost four years, driven by higher energy and raw material costs as well as ongoing strength in technology and artificial intelligence-related investment. China's economy had earlier recorded 5.0% growth in the first quarter of 2026, leaving the country on track to meet its official target range, although the split between subdued consumer demand and rising factory-gate prices continues to suggest an unbalanced recovery.

China's Politburo meeting in April ended without major policy announcements. Policymakers acknowledged a good start to the year however also saw a need to consolidate the economic recovery. On the fiscal side, the focus appears to be on accelerating the rollout of existing policy announcements rather than pushing out new measures. The monetary policy tone suggests that rate cuts are conditional on the price of oil. A potential easing won't take place until the second half of the year. Without new stimulus, we could return to last year's trajectory, where a solid start is followed by slower momentum as the months progress. This could be particularly true this year, as the economic impact of the Iran war begins to manifest in the data.

For the Australian share market, the price of iron ore held above US$100 per tonne, copper gained on AI-linked infrastructure demand, and lithium prices recovered sharply. The AI theme was a stood out yet again, with capital goods and select small-cap technology companies outperforming as investors sought domestic proxies for global datacentre and infrastructure capital expenditure. Materials (+10.3%) was the best-performing sector over the month while Health Care (-8.8%) which was dragged down by CSL (-22.3%) and Telix Pharmaceutical (-13.1%), underperformed the broader market. Also weighing on the market were Brambles (-26.7%), The A2 Milk Company (-24.1%) and ASX (-23.9%).

The key message from May is that markets have become more comfortable looking through geopolitical uncertainty for now, however the global outlook remains fragile. The easing in oil prices and hopes for de-escalation in the Middle East improved sentiment materially over the month, yet inflation pressures remain too high for central banks to declare victory. For investors, the combination of resilient equity markets, elevated inflation and ongoing geopolitical risk suggests that volatility is likely to remain a feature of markets through the remainder of 2026.

Returns 31st May 2026

ASSET CLASS RETURNS ARE BASED ON

Australian Cash
RBA Bank accepted Bills 90 Days

Australian Bonds
Bloomberg AusBond Composite 0+ Y TR AUD

International Bonds Hedged
Bloomberg Global Aggregate TR Hdg AUD

Australian Listed Property
S&P/ASX 200 A-REIT TR

International Property Hedged
FTSE EPRA/NAREIT Dv REITS TR Hdg AUD

Australian Shares
S&P/ASX 200 TR AUD

International Shares
MSCI World Ex Australia NR AUD

Emerging Market Shares
MSCI EM NR AUD

RETURNS TO THE 31ST MAY 2026

	1 month	3 months	6 months	1 year	3 years	5 years	7 years	10 years
Australian Cash	0.37	1.07	2.00	3.84	4.14	3.10	2.45	2.18
Australian Bonds	1.62	0.23	0.69	1.31	2.97	0.32	0.55	1.81
International Bonds Hedged	0.67	-0.85	0.53	3.42	3.47	-0.01	0.43	1.57
Australian Listed Property	2.97	-0.73	-4.96	-2.15	10.92	6.45	4.88	5.92
International Property Hedged	0.14	0.52	7.47	13.11	9.65	2.75	2.16	4.03
Australian Shares	1.15	-4.03	3.01	6.89	11.02	8.10	8.14	9.10
Emerging Market Shares	9.60	8.35	17.92	38.02	20.81	9.12	9.43	10.74
International Shares	4.53	6.44	1.46	14.18	17.79	13.72	13.33	13.25

Hatch Financial Planning
is a Corporate Authorised Representative CAR No. 301272
of GPS Wealth Ltd | AFSL 254 544 | ABN 17 005 482 726

PO Box 3030, Loganholme, Qld 4129

Phone: 07 3229 9662

Email: info@hatchfinplan.com.au

Website: https://hatchfinplan.com.au