

# MONTHLY SUMMARY

## MARKET SUMMARY

May was characterised by a narrow, thematic rally centred on resources and AI-enabler exposures, alongside falling bond yields. Earnings revisions weakened locally but strengthened globally. **Key themes included:**

- US-Iran tensions continued to slowly thaw as both sides worked towards a resolution.
- The 1Q US corporate results season was very strong delivering better than expected results and earnings upgrades supporting the equity market outlook.
- AI-enabler / resources-led rally dominated markets: AI tailwinds on the back of insatiable compute demand and expansive capex plans are driving markets. Australian equities rose modestly, driven primarily by mining, capital goods and AI-linked “infrastructure” trades, rather than broad-based strength.
- Inflation remains an issue and consumer sentiment remains soft.

### Equity market performance – Markets rose but the ASX200 relatively underperformed.

- The ASX200 rose 1.1% supported by strong performance in large-cap miners.
- In local currency terms, Australia underperformed global markets (+4.61%), with the US (+5.3%), Japan (+12%) and Emerging Markets (+9–10%) materially stronger. In \$A terms, global equities rose 4.53%.
- In the US, the technology sector (+15.9%) drive gains. Software recovered, while ‘memory’ names rallied strongly. The Tech-laden Nasdaq gained 8.4%. Both the S&P500 and Nasdaq ended the month at fresh all-time highs.

### ASX200 Sector performance - Barbelled market with high dispersion

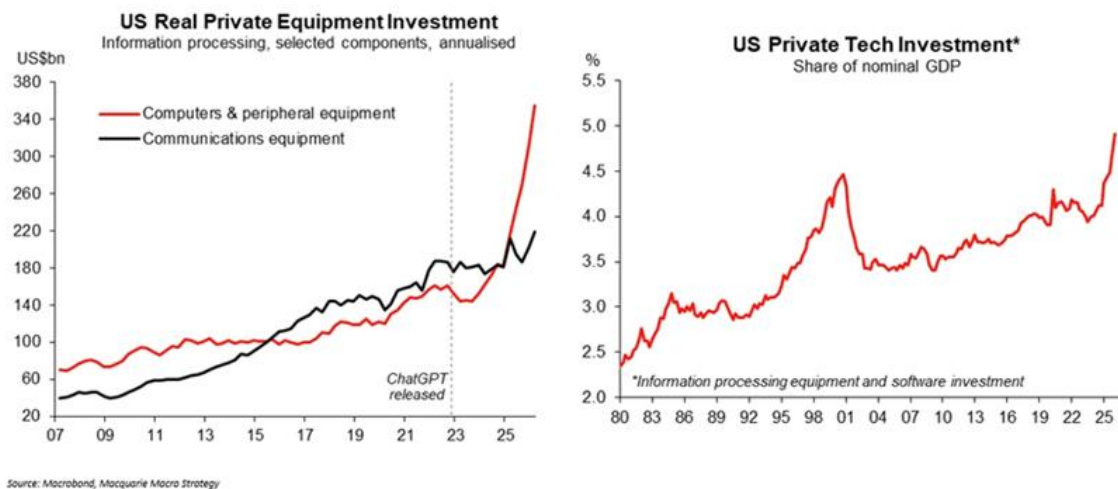
- Strong Materials (+10%) contribution offset weakness in Financials, Healthcare and defensives, highlighting narrow leadership and significant stock dispersion
  - Materials (+10.5%), Consumer Discretionary (+4.6%), and Industrials/Capital Goods (~+2–9%) led gains. AREITs also rose 3%.
  - Healthcare (~-9%), Utilities (~-7.6%) and Energy (~-6%) were the weakest sectors.
- Returns were theme-driven, with AI-enabler exposures (mining, infrastructure, data-centre proxies) outperforming, while earnings downgrades (e.g. CSL, ASX, Brambles) weighed on defensives.

### Bond markets – Bond yields mostly fell

- Australian bonds gained 1.62%. Australian 10-year bond yields ended the month down 23bp to 4.83%. In the US 10-year bond yields rose 7bps to 4.44%.
- Lower yields in Australia reflected softer economic data and moderating inflation signals, reducing near-term tightening expectations.
- Globally, bond markets were more mixed, reinforcing regional divergence in growth and policy outlooks.

### Global economic news – the global economy has remained resilient

- Global Manufacturing PMI's have increased as AI related demand increases. Manufacturers have also rushed to stockpile inputs to buffer against Middle East related disruptions. Increasing fiscal spend in certain jurisdictions is also helping. The Global Services PMI softened as consumers ration their discretionary spend.
- The US Federal Reserve held rates steady at 3.75%. The incoming Fed chair Kevin Warsh was sworn in taking over from Jerome Powell. Headline inflation (CPI) rose 0.6% month-on-month and 3.8% year-on-year. The unemployment rate remained flat at 4.3%. US business spend remains strong driven by tech related spend (see charts below). The USD rose 0.9%.
- China manufacturing and non-manufacturing indicators were solid at ~50 (> 50 is expansionary and < 50 is contractionary). Exports remain strong while domestic demand remains soft.



### Australian economic news – data started to soften

- For the third time in a row the RBA hiked rates 25bps to 4.35%.
- The macro backdrop remained mixed, with softer data seen in employment, housing and inflation. Headline monthly inflation (CPI) moderated to 4.2% (year-on-year). The unemployment rate rose to 4.5%. Consumer and business confidence remains soft.
- The Federal Budget launched the largest tax agenda in 25 years introducing housing-related policy changes (CGT/negative gearing). If passed, these changes are likely to weigh on short term house prices and credit growth. The tax changes are expected to have an impact on new investor demand for housing.
- House prices were flat in May with prices in Sydney and Melbourne falling. Auction clearance rates softened over the month.
- Capex remains strong, however, supported by investment in data centres, housing, resources and the energy transition. Government spending is expected to slow but remains robust.

### Commodity performance mixed

- Industrial commodities drove gains supported by copper, aluminium, lithium and bulk commodities tied to AI/data-centre demand.
- Gold declined (~-2-3%), underperforming amid stronger risk sentiment while iron ore fell ~3%.
- Oil fell ~17% as talks between the US and Iran continued moving toward a resolution. Crude inventories have been falling, however.

### Earnings revisions softened locally

- Consensus is forecasting EPS growth of 12.5% for FY26 followed by 11% for FY27 for the ASX200. Corporate earnings are strong, but revisions have recently turned negative:
  - Earnings revisions were negative across the market (~-1.0% month-on-month and -2.5% over 3 months), indicating deteriorating profit expectations.
  - Healthcare, Staples and Utilities saw the largest downgrades, while IT saw modest upgrades.
- ASX200 dividends are forecast to grow 5.6% in FY26 and 7.5% in FY27.
- Globally, earnings revisions rose 2.5% (for the MSCI ACWI) driven by Japan, US and Emerging markets. Global equities are forecast to grow earnings ~24% in 2026 driven by the IT, Materials and Energy sectors. Strong corporate earnings momentum has underpinned global equities rise to new highs.

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