Markets Review - to end May 2026

Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	0.7%	-4.2%	6.9%	17.7%
Global Equities	6.5%	7.9%	12.2%	31.1%
UK Gilts	-0.6%	-4.8%	-2.5%	-1.2%
UK Property	0.4%	0.7%	2.3%	5.0%
Gold	0.2%	-12.8%	7.4%	39.8%
Commodities	-2.6%	22.5%	26.3%	36.2%
Sterling	-0.7%	0.9%	0.9%	-1.6%

Returns to 29th May 2026. Source: Refinitiv

Market Overview

Although talks, in some form, are taking place between the US and Iran, the gap between their respective positions still looks a long way from being closed. Financial markets still seem hopeful that some resolution and a reopening of the Strait of Hormuz will be reached sooner, rather than later. There is certainly plenty of political and economic pressure to make this happen and the price of oil had a notable decline in May.

Alternative supplies, substitution and most notably the drawdown of reserves has helped alleviate the worst impact from the throttling of supplies out of the Gulf region. Market fatigue with the mixed messaging on progress of talks, whilst the odd military exchange takes place, has seen attention focus on AI. Some very strong company results, and surging spend on physical AI infrastructure has generated investment excitement and driven the most exposed markets to new highs, most notably South Korea.

Inflation has begun to rise as the higher cost of energy impacts, but so too has core inflation that strips out energy costs. Central banks, by and large, made no change to interest rates in April or May, but stand ready to raise interest rates, with the ECB highly likely to raise rates this month. Bond markets continued to weaken over inflation and fiscal deficit concerns but settled as the price of oil eased. The UK Gilts market was one of the weakest as political uncertainty added to nervousness.

Some positive economic activity reports for May, from both AI investment and stock building, have helped sentiment and provided an earnings fillip to a range of companies. Further progress probably relies on the opening of the Strait of Hormuz. Strategic reserves are being drawn down at pace and can only last so long before impacting on real activity. Whilst markets remain hopeful of some US-Iran resolution, most portfolios are deliberately diversified to cover a range of outcomes.

Energy prices have settled, with oil in the $90-100 per barrel range, as a loose ceasefire operates between the US and Iran whilst talks on resolution take place. Other commodity prices have also risen from pre-conflict levels due to supply shortages created by the blockage of the Strait of Hormuz. Even if free passage is re-established, it is unlikely that prices will pull back to pre-conflict levels. Significant damage has been inflicted on broad Gulf infrastructure and will take time to repair after conflict ends. Furthermore, relationship damage with Gulf states will likely see alternative supply routes sought to avoid reliance on the Strait of Hormuz.

Asia, followed by Europe have proven to be most exposed to the supply disruption, with some Asian countries already rationing fuel. China with its rapid transition to renewables looks well-placed to keep competitive advantage in a range of manufacturing areas. Globalisation and free flowing supply, look to be in the past, replaced by supply disruption and resource nationalism.

A global interest rate cutting cycle is currently off the table, unless a significant recession takes hold, which nobody hopes for. Bond yield curves have risen substantially, as markets price in possible interest rate increases to combat inflation and long dated bonds factor in ever larger deficits over increased government spending commitments.

Politicians are having to tread a careful line on fiscal policy, with a range of measures to mitigate sharp energy cost increases adding to substantial budget deficits, testing bond markets' willingness to provide finance. Added to this is growing unease about the quality of private credit lending which, although nominally outside the banking system, is often highly geared and has increasingly been invested in by pension funds and insurance companies.

2025 saw a significant number of takeovers for property REITs with large discounts to underlying asset value attracting interest. Listed infrastructure trusts have also traded on wide discounts. UK renewable energy focused plays have been unsettled by proposed changes to government set pricing but may now benefit from the price jump in carbon-based energy sources.

In the UK and Europe economic activity and confidence remain fragile, but data has yet to report any significant downturn from the Middle East situation. Meanwhile the tricky issue of how to fund greater levels of defence spending only adds to the deficit problem. There is some softness beginning to emerge in the employment market, with particular concern about the availability of entry-level jobs. In aggregate, both household and business balance sheets are generally quite healthy, even if confidence isn't.

First quarter company results in 2026 have generally beaten expectations, especially for the dominant US tech companies and their suppliers, driving the push of AI, but more mixed elsewhere. Profit forecasts for 2026 have actually risen in the US, since the onset of the Iran conflict. Some consumers though have been showing greater price sensitivity, in what has been called a 'K' shaped economy, where those without investment savings, continue to struggle.

Obviously, the conflict with Iran dominates everything and it is perhaps sobering to reflect that the conflict between Russia and Ukraine, is in its fifth year. Wars are easier to start than finish. This has led to a substantial policy shift in Europe, with recognition that 'national security' needs a significant increase in defence spending. Some companies will be obvious beneficiaries of this, but this will need to be paid for, either with spending cuts elsewhere, tax increases or even more debt issuance.

Clearly peaceful settlement would be in everyone's interest, but there is no immediate sign of that currently. Financial markets are likely to be volatile as they scrabble around for certainty. Trying to stay calm in this atmosphere is a challenge but is likely to provide a better outcome than rash decisions on emotional judgement.

Market Outlook

Equities	Stock markets showed further resilience to uncertainty over the situation in the Gulf region and near total closure of the Strait of Hormuz. What drove some markets to new highs, however, was surging investment in AI, most notably in the US and Asia. Excitement is building ahead of the listing of some of the largest AI companies, whilst the scale of physical investment boosts economic activity. Swift resolution, though, is required to open the Strait of Hormuz before supply problems overwhelm drawdowns from reserves creating further inflation pressure and demand destruction.
Fixed Interest	Bond markets have not enjoyed the recovery seen in stock markets as the inflationary impact of higher energy prices and even more so refined products, bumps up inflation expectations. Further concern is raised by the cost of tackling both the short term and long-term impacts of the Gulf conflict, which are likely to raise, already large, government deficits. Central banks have held interest rates, but indicated willingness to raise them should inflation be problematic.
Commercial Property	The sharp rise in the cost of debt puts a cap on the gentle recovery that has been taking place in property. M&A activity will be put on hold to reassess return assumptions, but if markets calm down and the cost of financing eases it is likely to recover. Discounts on listed property are still significant, and with higher build costs and higher energy standards required, it is still cheaper to buy, than to build new.
Alternative Assets	UK Infrastructure investment funds have had a tricky period, with uncertainty over assumptions on the cost of debt, government reimbursement rates and reliability of private equity valuations. However, both insulation from AI disruption and a sharp rise in energy costs, helping renewables, are attractions. Commodities have risen notably because of Gulf supply constraints, but gold fell sharply as investors sought liquidity in stressed conditions. Given the current uncertainty, and desire to reduce dollar dependence by some, demand for gold is unlikely to disappear.
Cash	The investment return on cash and cash like instruments is ‘safe’ and provide ballast to portfolios in current markets.

Drumnor Investments

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