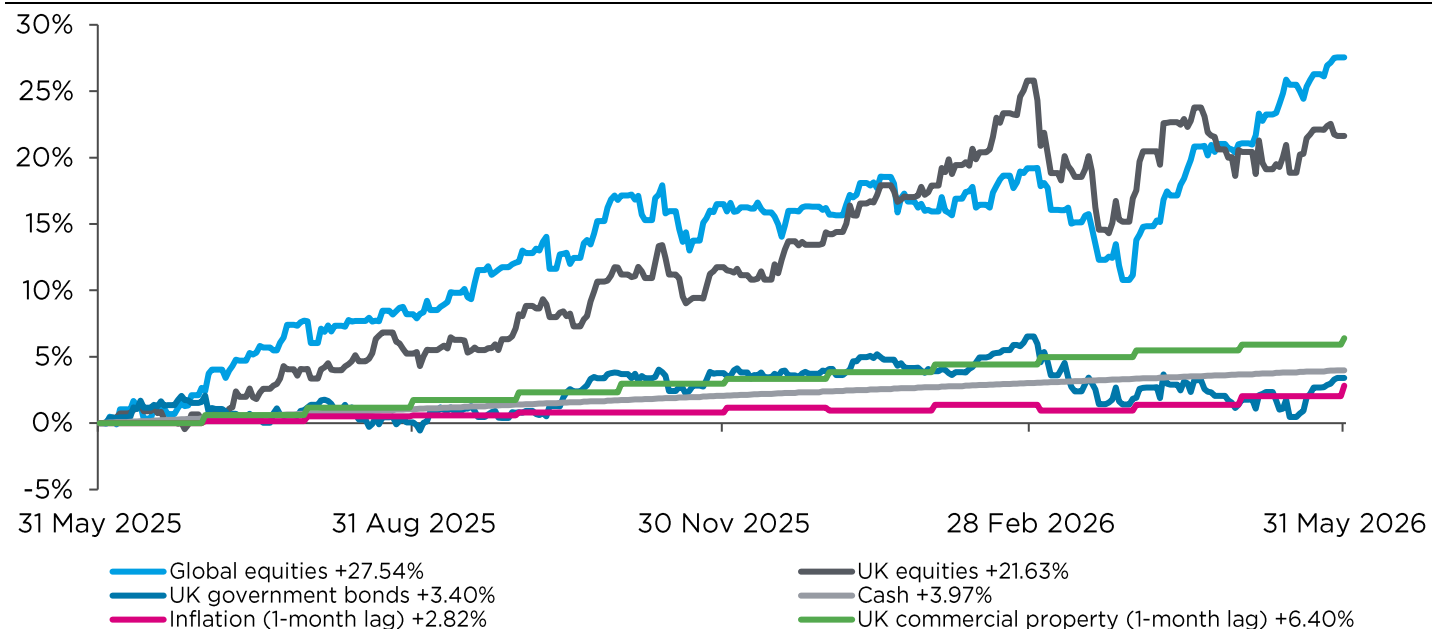


# Market review

## The headlines

- ▶ **The US-Iran standoff continued during May, but oil prices fell. Artificial intelligence (AI) and other technology shares led financial markets higher during the month.**
- ▶ **Investors' focus on AI is likely to increase with the upcoming initial public offerings (IPOs) of SpaceX, Anthropic and OpenAI. We maintain a balanced approach in our portfolios by including significant AI exposure as well as attractively valued non-AI firms.**

### Market returns: AI and other technology shares led the stock market rally in May.



Sources: Bloomberg, returns in pound sterling as of 31 May 2026 (31 May 2025=0%). Daily data, except for inflation and UK commercial property, shown monthly. UK government bond returns as per Markit iBoxx £ Gilts Index. Inflation as per the Office of National Statistics' UK Consumer Prices Index, with a one-month lag. UK commercial property as per MSCI UK Monthly Property Index, estimated for the most recent month. Cash returns as per Sterling Overnight Index Average (SONIA). Global and UK equity returns as per MSCI World Index and MSCI UK IMI Index, respectively. **Past performance is not a reliable indicator of future results.**

## Economics and markets news

The US-Iran standoff continued during May, but its effect on share prices was limited. Instead, artificial intelligence (AI) and other technology shares were the main drivers of financial markets during the month.

World share prices advanced 4.6%, in local currency. US share prices advanced 5.2%, eurozone shares 4.1% and UK shares 0.9%.<sup>(1)</sup>

Both the euro and the US dollar strengthened, relative to the pound sterling. This boosted returns on foreign assets, in pound terms.

None of the main central banks' rate-setting committees (Federal Reserve, Bank of England, European Central Bank) met during May. In the UK and in the eurozone, bond yields rose slightly, but US bond yields fell during the month.

The price of Brent Crude oil fell from \$111 at the end of April to \$91 at the end of May, as the US and Iran appeared to make progress in their negotiations and several ships transited the Strait of Hormuz.

## United States

US share prices advanced 5.2% in May, in US dollars, led almost exclusively by information technology firms.

The share price of hardware producer Dell more than doubled after the company reported record first-quarter revenue from and record orders for its AI-optimised servers. The share prices of microchip manufacturer Micron and server producer Super Micro Computer rocketed, on the same AI wave. The shares of monitoring and cybersecurity software firms Datadog and CrowdStrike also soared, as AI boosted demand for these companies' services.

In most other industries, share prices fell. Energy stocks were the main victims, as oil prices dropped below \$100 per barrel. US-Iran negotiations are said to have progressed during the month, with sporadic breaches of the tenuous ceasefire between the parties.

Overall, the fear of catastrophic shortfalls in energy supplies receded during May. Significant numbers of ships managed to sail through the Strait of Hormuz, including Chinese, Indian and EU-flagged vessels. Alternative transport routes, e.g. over land via Saudi Arabia or Turkey, saw increased use as well.

Outside of the technology sector, higher bond yields weighed on share prices during May. (Bond yields rise as bond prices fall, and vice versa). Yields on two-year US government bonds (Treasuries) have risen from 3.38% at the end of February to 3.98% at the end of May, and 10-year US Treasury yields rose from 3.97% to 4.45% over that time.<sup>(2)</sup>

Before the war in Iran started, investors' consensus opinion was that America's Federal Reserve (Fed) would cut interest rates in the remainder of 2026. Now, most investors expect a 0.25% interest rate hike by the end of this year, and some even expect the Fed to hike rates by 0.50% or 0.75%.

During May, President Trump's appointee Kevin Warsh took over as Fed Chairman, replacing Jay Powell. On 17 June, Mr Warsh will chair the Fed's next monetary policy meeting. Chairman Warsh used to be in favour of lowering interest rates, and he has argued that the innovation brought about by AI would allow the US economy to grow faster without undue inflation. But the Middle East war may have changed his stance.

What the Fed decides will, first, depend on inflation. Growth in its favoured inflation gauge, the core personal consumption expenditure (PCE) price index, rose from 3.0% year on year (yoy) in February to 3.3% in April. And the inflation rate that Americans expect to face two years from now, for the two years ahead from then, rose from 2.3% in March to 3.0% in May.

Economic activity is a second factor that could sway Fed policy. In May, a second estimate showed that US gross domestic product (GDP) grew at an annualised rate of 1.6% in the first quarter of 2026, and was 2.7% larger than in the first quarter of 2025. This solid growth may convince Chairman Warsh and his Fed

colleagues that they do not need to cut interest rates soon.

## United Kingdom

The UK stock market, which includes many energy-related shares, advanced just 0.9% during May.

Among the poorest performers were gas-reliant energy firms SSE and Centrica and, to a lesser degree, National Grid. Shares of retail firms also performed poorly, as the cost-of-living crisis took front stage because of the Middle East war. Concerns over retail sales triggered share price losses for Tesco and Sainsbury, and for investment firm 3i, whose main asset is Action, a European non-food discount retailer.

On the brighter side, JD Sports Fashion's share price rose as the company increased its dividend 20%. Easyjet's share price rebounded after news that US private equity firm Castlelake wants to acquire the airline. The share price of mining firm Antofagasta also rose, as copper prices breached €14,000 per metric tonne for the first time.

Despite concerns over inflation, yields on UK government bonds (gilts) fell during May. Two-year gilt yields from 4.45% at the end of April to 4.24% at the end of May, and 10-year gilt yields from 5.01% to 4.81%, mainly for reasons to do with politics. Yields had risen in advance of local elections on 7 May, for fear that a defeat by the ruling Labour party might see Prime Minister Keir Starmer replaced by a left-wing, less fiscally disciplined politician.

But during May, it became clear that Prime Minister Starmer was unlikely to be replaced soon. And Manchester mayor Andy Burnham, who is pundits' prime candidate to succeed Starmer, calmed financial markets by committing to the current government's fiscal rules.

In addition, UK consumer price (CPI) inflation fell from 3.3% yoy in March to 2.8% in April. The new level of the UK's energy price cap came into force on 1 April, which contributed to lower-than-expected inflation. Financial analysts expect the Bank of England to continue to hold its Official Bank Rate at 3.75% when it meets on 18 June, in line with its wait-and-see approach on inflation.

## Other markets

Share prices in the **Eurozone** rose 4.1% during May, led by semiconductor stocks Infineon and ASML and software producer SAP. As in other regions, oil stocks such as TotalEnergies and Eni were laggards during the month.

Eurozone inflation rose from 2.6% yoy in March to 3.0% in April, due to price rises for services and energy. The European Central Bank (ECB)'s rate setters did not meet in May, but investors expect them to raise interest rates at their next meeting, on 10-11 June.

The **Japanese** stock market is heavily weighted towards technology shares, which helped share prices there rise an average 6.6% during May. Japan's central bank kept

interest rates on hold during May, but it continued to sell billions of US dollars to defend the yen from depreciating. Counter to its reputation for fiscal hawkishness, Prime Minister Takaichi's government approved energy subsidies and froze food taxes during May, to help alleviate cost-of-living inflation.

**Chinese** share prices fell 3.2% during May. The country's property slump continued, with knock-on effects on consumption. In addition, the Middle East war raised energy prices for Chinese consumers and companies, which weighed on industrial activity.

On top of that, the Chinese government cracked down on cross-border trading by Chinese retail investors, and many of those retail investors sold Chinese technology shares to lock in profits from recent share price rises.

<sup>(1)</sup> Source: MSCI (total return, net of withholding tax, in local currency), except where stated

<sup>(2)</sup> Sources: US Fed, Bank of England, European Central Bank

## Looking ahead

Artificial intelligence (AI)-related shares, in hardware and software, continued to be the main drivers of stock market gains in May. This kept *momentum*, i.e. buying shares whose prices have risen in preceding months, in place as the winning investment strategy this year.

Investors' focus on AI is likely to continue in the second half of 2026. That's because several large, currently private companies aim to become public companies by listing their shares on the stock market. The largest candidates include Elon Musk's SpaceX (expected market value \$1.75 trillion), Claude inventor Anthropic (\$1 trillion), ChatGPT operator OpenAI (\$800 billion) and data platform Databricks (\$180 billion).

We expect the AI industry to continue to be the most important growth segment of the world economy for the foreseeable future. As a result, we have invested significant parts of our portfolios in AI-exposed shares.

At the same time, investors' singular focus on AI has, in our analysis, thrown up opportunities outside of AI. We're capturing those opportunities by continuing to invest in companies whose valuations are falling even though their earnings are rising. Companies whose price-earnings ratios have recently touched 10-year

lows include, for example, IT firm Microsoft, payments provider VISA and insurance broker AJ Gallagher, even though the earnings of each of these continue to grow significantly.

In addition to this balanced positioning, between AI shares and non-AI shares, we remain mindful of significant risks in financial markets:

- If the three largest AI companies come to market in the second half of 2026 (SpaceX, OpenAI and Anthropic) they will become three of the four largest listed companies in the world, by market value. Each of these companies is likely to find sufficient buyers for the 5%-10% of its shares that it will sell at the time of listing. But their need for ongoing financing means that a stream of additional share or bond sales may follow, which could weigh on their share prices.
- Bond yields have been rising since before the Middle East war, and the inflation that the war has caused is adding to that dynamic. In addition, many governments face higher structural deficits. Rising bond yields are a headwind to interest rate-sensitive investments such as gold, health care and utilities.
- Bond prices and share prices have increasingly moved in tandem in recent years, which has made them less appropriate diversifiers from each other in multi-asset portfolios. For that reason, we continue to add to the market-neutral strategies that have stood our portfolios in good stead since the beginning of 2026. Those strategies favour companies with strong free cash flow generation and those whose earnings have been improving consistently.

## Glossary

Please refer to the glossary on our website ([www.ccla.co.uk/glossary](http://www.ccla.co.uk/glossary)) for explanations of terms used in this communication. If you would like the information in an alternative format or have any queries, please call us on **0800 022 3505** or email us at [clientservices@ccla.co.uk](mailto:clientservices@ccla.co.uk)

CCLA  
One Angel Lane  
London EC4R 3AB

**CCLA**  
BECAUSE GOOD IS BETTER

Freephone **0800 022 3505**  
[clientservices@ccla.co.uk](mailto:clientservices@ccla.co.uk)  
[www.ccla.co.uk](http://www.ccla.co.uk)

### Important information

This document is issued for information only. It does not provide financial, investment or other professional advice. We strongly recommend you get independent professional advice before investing. The market review, analysis, and any projections in this document represent CCLA's house view and you should not rely on them when making any investment decisions. Actual results could be significantly different than expected. We do not have to update or amend these. Past performance is not a reliable indicator of future results. The value of investments and the income from them may fall as well as rise. You may not get back the amount you originally invested and may lose money. For information about how we obtain and use your personal data please see our privacy notice at [www.ccla.co.uk/privacy-notice](http://www.ccla.co.uk/privacy-notice). We, CCLA Investment Management Limited (registered in England & Wales, No. 2183088 at One Angel Lane, London EC4R 3AB), are part of the Jupiter Group, and are authorised and regulated by the Financial Conduct Authority.