

Market Watch

May 2026

Resilient Markets Amid Inflation and Geopolitical Shifts

Global equity markets reached new highs in May, driven by optimism surrounding artificial intelligence (AI), strong corporate earnings in the United States, and expectations that the Iran conflict may ease. US share markets performed particularly strongly, supported by robust profit growth and continued enthusiasm for AI. US companies are experiencing their strongest annual profit increase since 2021, at an average of 29% increase. Major technology firms such as Alphabet, Amazon, Microsoft, and Nvidia continue to increase their significant AI-related capital expenditure, further supporting economic growth. In Asia, equity market performance was mixed. Japanese and Korean markets posted solid gains, benefiting from positive sentiment around AI and the broader technology sector. In contrast, Chinese equities lagged, as weaker industrial production and softer retail spending dampened investor confidence.

Australian equities recorded modest gains in May, with overall performance tempered by concerns surrounding the central bank's decision to raise interest rates. Weakness in several major companies, including CSL, also weighed on the market. The Health Care sector was particularly impacted, delivering a sharp decline of -8.9%. Similarly, the Utilities sector fell -7.6%, as rising energy prices put pressure on profit expectations. In contrast, the Resources sector provided a highlight, gaining 7.8% as higher commodity prices supported improved earnings outlooks.

Global REITs and infrastructure underperformed during the month as investors rotated toward higher-growth and technology sectors amid a more risk-on environment and rising bond yields. Global REITs declined -0.6% for the month but remain up 7.8% year-to-date, while domestic REITs performed better up 3% in May, supported by Goodman's data centre exposure and softer bond yields, however, still down -6.8% year to date due to the impact of higher domestic interest rates. Meanwhile, global infrastructure fell 2% during the month due to higher global real bond yields, though it continues to deliver solid returns of 8.8% year-to-date.

Global bond markets recorded a positive month overall, though volatility remained high. The Middle East conflict stayed front of mind, with bond yields closely following energy market movements. In the UK, markets expect the Bank of England to hold rates at its June meeting, which supported gilt bond outperformance. Political uncertainty also contributed to volatility following Labour's losses in local elections.

Australian bonds market exhibited volatility over May, as concerns around inflation, oil price strength, and hawkish central bank expectations drove an initial rise in yields, before a late month change in sentiment on the back of softer economic data and easing oil prices.

The AUD traded around \$0.71 range supported by the RBA's May rate hike, resilient bulk commodity prices, and improved market sentiment as concerns over a prolonged oil shock eased. However, it surrendered some intra-month gains as worries about slowing Chinese growth and softer domestic economic conditions dampened momentum and tempered expectations for further rate hikes.

Economics:

U.S.

- The U.S. unemployment rate remained at 4.3% in May. Job gains occurred in leisure and hospitality, local government, and health care. Employment in financial activities declined.
- The U.S. Fed is currently holding the interest rate at 3.75% although majority of Fed officials highlighted that some

policy firming would likely become appropriate if inflation were to continue to run above 2%.

Locally

- Australia's economic data points to moderating momentum, as employment growth and household consumption weaken, while inflation persists at elevated levels. Headline CPI reached 4.2% in the 12- months to April. Markets expect the Reserve Bank of Australia (RBA) could raise interest rates again this year to contain inflationary pressures.
- In April, Australia's seasonally adjusted unemployment rate increased to 4.5%, with number of employed people falling by 18,600, while the number of unemployed people rose by 33,000.

Major Asset Class Performance

| Asset classes | 1 Mth % | 1 Yr % | 3 Yrs (p.a.) % | 5 Yrs (p.a.) % |
|------------------------------------|---------|--------|----------------|----------------|
| Australian Shares | 1.2% | 6.9% | 11.0% | 8.1% |
| Australian Small Companies | 2.0% | 11.3% | 10.6% | 4.0% |
| Global Shares (unhedged) | 5.1% | 16.7% | 18.2% | 13.2% |
| Global Shares (hedged) | 5.5% | 30.3% | 21.4% | 11.4% |
| Global Small Companies (unhedged) | 3.7% | 20.2% | 15.7% | 9.4% |
| Global Emerging Markets (unhedged) | 9.6% | 38.0% | 20.8% | 9.1% |
| Global Listed Property (hedged) | -0.6% | 12.7 | 9.4 | 1.8% |
| Listed Infrastructure (hedged) | -2.0% | 14.4% | 11.6% | 6.9% |
| Australian Fixed Income | 1.6% | 1.3% | 3.0% | 0.3% |
| International Fixed Income | 0.7% | 3.4% | 3.5% | 0.1% |
| Cash | 0.3% | 3.8% | 4.2% | 3.0% |

Source: Lonsec iRate, Rhombus Advisory, 31 May 2026.

Indices used: Australian Shares: S&P/ASX 200 Accumulation Index, Australian small companies: S&P/ASX Small Ordinaries Accumulation Index, Global shares (unhedged): MSCI World ex Australia Net Total Return (in AUD), Global shares (hedged): MSCI World ex Australia Hedged AUD Net Total Return Index; Global small companies (unhedged): MSCI World Small Cap Net Total Return USD Index (in AUD); Global emerging markets (unhedged): MSCI Emerging Markets EM Net Total Return AUD Index; Global listed property (hedged): FTSE EPRA/NAREIT Developed Index Hedged in AUD Net Total Return; Listed Infrastructure (hedged): FTSE Global Core Infrastructure 50/50 NR Index (AUD Hedged) Cash: Bloomberg AusBond Bank Bill Index; Australian fixed income: Bloomberg AusBond Composite 0+ Yr Index; International fixed income: Bloomberg Barclays Global Aggregate Total Return Index Hedged AUD

Please note: Past performance is not indicative of future performance.

Currency markets

| Exchange rates | At close on 31/5 | 1 Mth change % | 1 Yr change % | 3 Yrs change % |
|----------------|------------------|----------------|---------------|----------------|
| AUD/USD | 0.7164 | 0.72% | 11.31% | 10.30% |
| AUD/GBP | 0.5331 | 0.87% | 11.64% | 1.76% |
| AUD/Euro | 0.6154 | 0.89% | 8.54% | 1.35% |
| AUD/Yen | 114.14 | -0.12% | 23.30% | 26.04% |

Source: Reserve Bank of Australia, Lonsec iRate, Rhombus Advisory, 31 May 2026.
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