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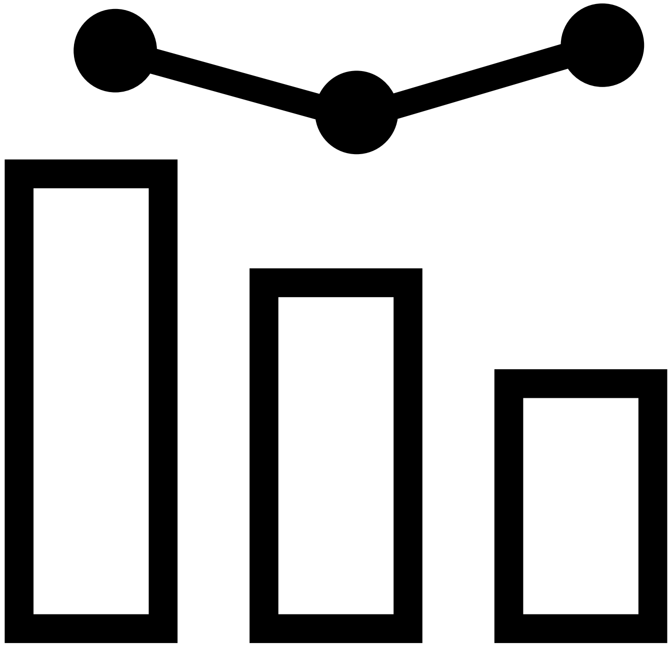


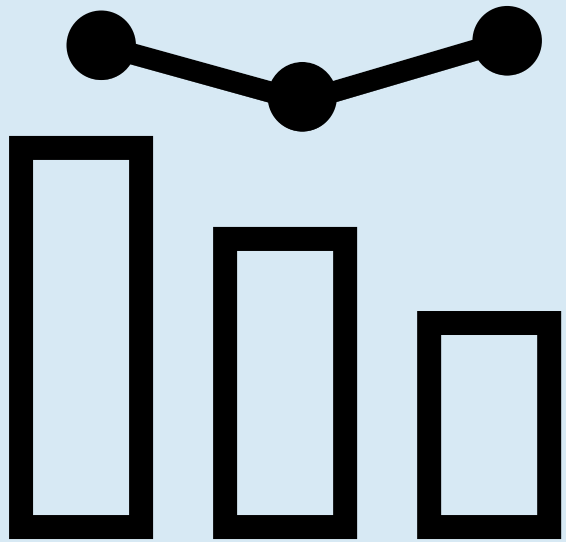
Marketupdate

May 2026

May 2026: a strong month for equity investors

May 2026 added a strong month for equity investors to what has already been a notable investment year. Japanese equities and emerging markets led the way with returns of over 10%, while investors in European and US equities also recorded solid gains in May.

Een A combination of higher-than-expected corporate earnings, elevated expectations around AI and optimism about a potential end to hostilities between the US and Iran drove global equity markets higher in May. The most notable development was not so much the increase in US equity prices, with a monthly return of 5.5% for the MSCI North America Index, but rather the strong performance of Asian equities (led by Japan) and emerging markets (led by South Korea and Taiwan). Monthly returns reached 9% for the MSCI Asia Pacific Index and over 10% for the MSCI Emerging Markets Index. In relative terms, European equities lagged, but with a return of 3.2% in May for the MSCI Europe Index, they still delivered an above-average monthly performance.



Measured over the past twelve months, Asian equities and emerging markets have also delivered higher investment returns of over 40% and over 50% respectively. US and European equities lag behind, but with returns over the past twelve months of over 25% and over 15% respectively, these regions have also performed strongly.

Bond markets have been considerably less buoyant than equity markets, both over the past month and over the past twelve months. European government bonds delivered a return of 1.2% in May, while European corporate bonds returned around 1% on a monthly basis. Over the past twelve months, corporate bonds have increased in value by 2.4% (investment grade) to 4.2% (high yield), which remains modest compared with equity market returns. European corporate bonds have nevertheless outperformed government bonds over the past year. Government bonds achieved a return of 0.7% over the same period.

The worst-performing asset class, both in May and over the past twelve months, was European listed real estate. In May, real estate declined by 0.2%, and over the past twelve months the asset class delivered a negative return of 4.3%.

The returns of the various asset classes were as follows:

Rendementen (total return, in euro's)	May	Q2	2026	12 mths
Bloomberg Barclays Eurozone Staatsobligaties	1.2%	1.5%	0.8%	0.7%
Bloomberg Barclays Euro Bedrijfsobligaties	0.9%	1.9%	0.9%	2.4%
Bloomberg Barclays Euro High Yield Bedrijfsobligaties	1.0%	2.9%	1.3%	4.2%
FTSE/EPRA Europe Onroerend Goed	-0.2%	4.8%	-0.7%	-4.3%
MSCI Europe Aandelen	3.2%	8.5%	7.5%	16.7%
MSCI North America Aandelen	5.5%	13.9%	11.6%	25.6%
MSCI Asia Pacific Aandelen	9.0%	20.8%	23.7%	41.0%
MSCI World Developed Markets Aandelen	4.9%	12.3%	10.6%	22.5%
MSCI Emerging Markets Aandelen	10.2%	23.7%	26.5%	50.2%
EUR/USD	-0.5%	1.7%	-0.7%	2.7%

Source: Bloomberg

Rally in equity markets not driven by economic or geopolitical developments

Equity markets staged a strong global recovery in April and May from the temporary downturn in March, which followed the outbreak of hostilities between the US and Iran as part of operation 'Epic Fury'. This recovery cannot be attributed to particularly strong macroeconomic data over the past two months. This is especially true for Europe, where the economy was already in a weak position prior to the recent escalation of hostilities in the Middle East. In the first quarter of this year, the eurozone economy barely grew, posting quarterly growth of 0.1%, and data released since then does not suggest that the second quarter will be much stronger. European producer confidence has now fallen below the neutral 50-point threshold. Notably, sentiment among service-sector businesses is weaker than in industry. Consumer confidence in Europe has also declined over the past two months and is now at its lowest level since the end of 2022, which is not surprising given the sharp rise in energy prices.

Recent macroeconomic data from the US remains stronger than in Europe, but that is largely where the positive narrative ends. First-quarter GDP growth was initially reported at 2% (quarter-on-quarter annualised), but this has since been revised down to 1.6%. By US standards, this is not a strong growth rate, particularly as a rebound had been expected following the fourth quarter of 2025, when the US economy was affected by a prolonged government shutdown. The ISM index, the main indicator of US producer confidence, points to stronger growth in the second quarter compared with the first. However, consumer sentiment presents a more mixed picture. The Conference Board's consumer confidence indicator has remained at a slightly below-average level in recent months, whereas a comparable indicator from the University of Michigan has declined sharply to its lowest level since the series began in 1978.

US consumers continue to spend for now, but doubts are increasing

Muted consumer confidence in the US has, at least so far, not translated into materially lower consumer spending. This is partly attributable to the US labour market, which remains tight, with an unemployment rate of 4.3%. In addition, the previously announced tax cuts under President Trump's 'One Big Beautiful Bill Act' (OBBBA) have largely been disbursed, further supporting consumer spending. It should be noted, however, that these tax cuts have primarily benefited higher-income households, which have also gained the most from the recent rise in equity markets. By contrast, higher energy prices have disproportionately affected lower-income households, further exacerbating the already uneven distribution of wealth in the US.

As the positive effects of the OBBBA tax measures begin to fade and there is, for the time being, no clear end to elevated energy prices, the question is whether US consumer spending will remain resilient in the period ahead. An additional risk factor is that wealthier households have become heavily invested in equities while holding relatively limited cash. A reversal in equity market sentiment could therefore have a pronounced impact on their spending patterns and potentially trigger a downward spiral.

Inflationary pressures are clearly increasing, creating a dilemma for central banks

Rising energy prices are also the main driver behind increasing inflationary pressures in both the US and the eurozone. In the eurozone, inflation has risen from 1.9% year-on-year in February to 3.2% in May, while in the US it has increased from 2.4% to 3.8% over the same period. Core inflation (excluding food and energy) remains lower, at 2.5% in the eurozone and 2.8% in the US, but the upward trend in recent months is evident here as well. Given the absence of a deal between the US and Iran and the ongoing closure of the Strait of Hormuz, which is expected to keep food and energy prices elevated, it appears increasingly unlikely that inflationary pressures will ease significantly in the near term.

Elevated inflation, combined with uncertain growth prospects, places central banks in a difficult position. While higher interest rates would be appropriate to contain inflation, they would also put further pressure on economic growth. On balance, interest rate markets now expect the ECB to raise its policy rate two or possibly even three times this year to address rising inflation. A first rate hike is already expected in the near term (June or July). Prior to the US-Israeli attack on Iran at the end of February, the expectation had been that the ECB would keep its policy rate unchanged at 2% throughout 2026. Expectations for the US have shifted even more significantly.

At the end of February, markets still anticipated that the Fed would lower its policy rate from 3.75% to 3% over the course of 2026. That expectation has now reversed, with markets no longer pricing in rate cuts and instead expecting a potential increase to 4% by the end of 2026. Rate expectations for the US are further clouded by the appointment of Kevin Warsh as Chair of the Fed, succeeding Jerome Powell. While he is expected to implement changes to monetary policy, the timing and nature of these changes remain uncertain.

Outlook for financial markets remains mixed

The future direction of monetary policy, particularly by the Fed and the ECB, is only one of several uncertainties affecting the outlook for financial markets. Developments in the Middle East will remain a key factor, given their impact on growth and inflation expectations. For equity markets, the planned "mega-IPOs" of SpaceX, OpenAI and Anthropic may also test the sustainability of the current technology and AI-driven rally. Equity market sentiment has so far remained resilient despite geopolitical uncertainty, likely supported in part by expansionary fiscal policy, particularly in the US. Five years after the COVID-19 shock, when the US budget deficit temporarily rose to 18% of GDP, it still stands at around 6%, which is high by historical standards.

Rising public debt leaves US government bonds vulnerable to higher capital market yields, particularly if bond market participants become more active. Higher interest rates could also expose vulnerabilities in other parts of the financial system, especially in segments of the private equity and private credit markets that are highly leveraged. Equity markets may also prove less resilient in such an environment. Overall, we remain cautious on the outlook for both equities and bonds in the coming months.

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