Monthly Market Commentary
With Portfolio Manager, Andrea Ciaccio
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Market Review

Markets have a long history of reacting violently to the outbreak of a conflict before recovering far sooner than investors expect. Since World War II, US equities have typically sold off sharply in the immediate aftermath of major geopolitical events. Studies of past military interventions show the S&P 500 falls roughly 6% on average from the onset of a crisis as investors rapidly price in worst-case scenarios, finds a low within three to four weeks and then, in many instances, recovers all losses within about a month. Markets declined during various episodes ranging from the Cuban Missile Crisis to the 9/11 attacks, yet those drawdowns proved temporary once investors concluded that economic growth and corporate earnings were unlikely to suffer lasting damage. Deutsche Bank describes it as the "usual geopolitical playbook". The emergence of international flare-ups trigger de-risking across equities and a flight into safe-haven assets as oil risk, supply chains, inflation expectations and recession fears are repriced. However, once investors gain visibility on the likely scale and duration of the hostilities, volatility tends to fade quickly. In short, markets bottom when uncertainty peaks and not when wars end. History also shows that geopolitical shocks are not all equal. The lasting market impact depends less on the conflict itself and more on the economic conditions associated with it. The clearest exceptions are periods when the escalations triggered sustained energy shocks. The 1973 Yom Kippur War and subsequent Arab oil embargo, which lasted five months and struck at a time when the US economy was far more dependent on oil imports than it is today, caused a dramatic surge in crude prices, and helped tip the global economy into stagflation. The S&P 500 fell more than 16% and took six years to recover to its pre-blockade level as persistent inflation, weaker growth and policy mistakes by central banks and governments weighed on markets for almost a decade. Russia's invasion of Ukraine in 2022 initially prompted a spike in oil prices and revived fears of another prolonged inflationary cycle. The US economy contracted for two consecutive quarters in the first half of that year and an abrupt bear market ensued as real yields rose and earnings expectations were revised lower. Eventually, global energy supplies adapted and equities first stabilised, then went on to make new highs despite the conflict persisting to this day.

More recently, the S&P 500 briefly broke above the 7,000 level on January 28th, and, after a month of sideways trading, fell 9.78% from its peak, bottoming on March 30th. From there, it embarked in one of its most powerful rallies on record, regaining its pre-conflict levels in just 11 trading sessions. Not only the V-shape recovery was faster than usual, but the index notched three consecutive weekly gains of more than +3% in the process (+3.36%, +3.55% and +4.53%), a feat rarely seen in market history. To put the recent "bullish thrust" into perspective, it has happened only seven times previously, twice in both 1932 and 1933, and once each in 1940, 1982 and in 2020. However, what distinguishes the current episode from prior instances is the macroeconomic backdrop. In the past, such explosive rebounds occurred as the country and the stock market were emerging from a recession or even a depression, with earnings at rock-bottom levels and poised to increase quickly alongside economic expansion. This time, rather than recovering from an earnings collapse, US corporates entered the year with profit expectations already relatively robust. Yet, during April, analysts aggressively revised their forecasts higher as Q1 results broadly exceeded expectations, producing one of the strongest mid-cycle earnings accelerations on record. The upward revisions were heavily concentrated in technology, especially among AI infrastructure and semiconductor companies, helping reignite momentum in the sector. Privately held Anthropic stood at the centre of the renewed enthusiasm surrounding AI. On April 7th, the company announced that demand for its Claude models had accelerated sharply in 2026, with annualised revenues surpassing US$30 billion, up from roughly US$9 billion at the end of 2025. On the same day, Anthropic unveiled Claude Mythos Preview under its "Project Glasswing" cybersecurity initiative. The model, designed to identify software vulnerabilities at scale using advanced coding and reasoning capabilities, was not broadly commercialised because of concerns over potential misuse. Instead, access was restricted to a select group of partners, including twelve foundational industry titans, among which are Amazon, Google, Microsoft and JP Morgan, as well as more than 40 organisations that build, maintain or secure critical digital infrastructure. The launch of Mythos reinforced the perception that frontier AI capabilities continue to advance at a rapid pace and are expanding into high-value enterprise applications, providing a foundational layer across the global economy.

International Equities

US equities exploded higher in April, with the S&P 500 (+10.42% in USD terms) surging the most since May 2020 while the VIX index, the measure of expected market volatility, tumbled 33.11%, its 9th worst month in history. Technology was the clear standout, propelling all major benchmarks except the Dow Jones Industrial (+7.14%) to new all-time highs. The Nasdaq 100 (+15.64%) posted its strongest gains since October 2002, as the “Magnificent Seven” trounced the rest of US large caps. The Nasdaq Next Generation 100 and the Nasdaq 100 Equal Weight logged their 7th and 8th best month in history respectively, signalling improving breadth. Software stocks caught a bid as well, while non-profitable technology names and highly speculative and momentum stocks jumped by just under +20%. The Russell 2000 (+12.16%) outperformed the Russell 1000 for the third time in four months in 2026. All sectors ended April in positive territory except for energy and healthcare, while defensives lagged. Despite solid showings from consumer discretionary, real estate and industrials, no group other than technology managed to outperform the S&P 500. The outsized returns generated by semiconductors and memory chips were simply overwhelming. The Philadelphia Stock Exchange Semiconductor Index rocketed up 38.42%, its 2nd best month in history, driven higher by Advanced Micro Devices (+74.26%), Marvell Technology (+66.73%), Qualcomm (+39.45%) and Broadcom (+34.87%). The AI-driven advance broadened to a subset of stocks tied to the so-called “RAMageddon” trade, fuelled by acute shortages of high-bandwidth memory (HBM), a critical component used to train advanced AI models on Nvidia accelerators. As hyperscalers ramped up capex spending, investors viewed memory manufacturers such as Micron Technology (+53.08%) less as cyclical semiconductor producers and more as strategic providers of AI infrastructure. Buying also extended to storage companies including SanDisk (+72.59%), as markets increasingly priced in sustained growth in enterprise data storage demand linked to AI workloads.

US equities outperformed the rest of the world despite the MSCI AC World Index ex USA TR Index recording its 8th best month ever. Emerging markets were the best performing region, driven, once again, by the powerful rally in semiconductor and related stocks that increasingly dominate index dynamics. The MSCI Net Emerging Markets TR recorded its 4th best month ever as North Asia shone. In South Korea, SK Hynix surged +64.76% in USD terms, overtaking Alibaba Group and Tencent in index weight to become the third-largest constituent at 4.05%, behind Samsung Electronics (+36.97%) at 6.02%. In Taiwan, Taiwan Semiconductor Manufacturing (TSMC) rose +17.19%, lifting its weight to a record 14.20% and further cementing its dominance, while MediaTek (+77.30%) and Delta Electronics (+58.80%) climbed to the sixth and seventh-largest holdings respectively. As a result, Taiwan overtook China as the largest country exposure in the index at 24.83% versus 23.04%, while South Korea’s weight doubled to 18.68% over the past year. Finally, the weight of technology rose to 36.73%. In Japan, the Nikkei 225 broke above the 60,000 threshold for the first time in history, while returns in Europe were more muted. Both regions trailed the general index. All in all, the MSCI AC World Daily TR was up +10.17% in USD terms, its 5th best month on record, and +5.62% in AUD terms.

Australian Equities

Australian equities could not keep up with their international peers in April, with the S&P/ASX 300 TR adding a more modest +2.25%. The MSCI Australia Net TR lagged the MSCI AC World Daily TR for the second month in a row, although it retained its leadership since the beginning of the year. After a robust start to the month, gains moderated in the second half amid concerns over sticky inflation, reinforced by higher energy prices and expectations of further monetary tightening by the RBA. While the ceasefire held, the Strait of Hormuz remained effectively shut, exacerbating disruptions to oil, LNG and other commodity supply flows. Technology was the best performing sector, as the so-called “WAAAX” cohort enjoyed some relief after eight consecutive months of unrelenting and indiscriminate selling pressure. Resources were mixed but still outperformed the general index. Miners advanced while energy declined, broadly tracking moves across commodity markets as precious metals retreated, industrial metals soared and energy prices diverged. The West Texas Intermediate (WTI) rose for a fourth consecutive month, up +3.64%, and the Brent crude shed 3.67% amid contrasting supply dynamics between the US and international oil markets. Financials were another winner in relative terms, supported by continued strength in insurers. Index heavyweights Goodman Group and Scentre Group boosted returns for A-REITs, while banks lagged. Consumer staples ended the month in negative territory, giving back part of the substantial relative gains generated against consumer discretionary since the beginning of the year. Healthcare was the weakest performing sector, weighed down by Cochlear, which plunged 44.41% after cutting its FY26 underlying net profit guidance to $290-330 million AUD from the $435-460 milion AUD range reaffirmed at February's interim result announcement. Finally, mid-caps and smaller companies staged a modest comeback vis-à-vis the Top 20.

International Fixed Income

All the major global central banks that met during the month kept interest rates steady. On April 8th, the Reserve Bank of New Zealand (RBNZ) held its Official Cash Rate (OCR) at 2.25%, in line with expectations. The decision was reached by consensus, with no formal vote held. On April 28th, the meeting of the Bank of Japan (BOJ) concluded with a hawkish split decision. The institution left its benchmark unchanged at 0.75%, but three board members dissented in favour of a rate hike. One day later, the Bank of Canada (BOC) kept its benchmark overnight rate unchanged at 2.25%, projecting that inflation will ease back to the 2% target in 2027. Separately, the FED paused for the third meeting in a row, leaving its target rate at 3.50%-3.75%. The decision exposed the deepest divisions inside the FOMC in more than three decades, with four dissenters breaking from the majority in an 8-4 vote. Stephen Miran continued to dissent arguing in favour of an immediate rate cut. Conversely, Cleveland Fed President Beth Hammack, Minneapolis Fed President Neel Kashkari and Dallas Fed President Lorie Logan supported the decision but opposed what they viewed as an implicit “easing bias” in the accompanying statement. Powell, whose term as chair expires in May 2026 but who is eligible to remain on the central bank’s board as a Governor until January 2028, presided over what was widely expected to be his final policy meeting before Kevin Warsh assumes stewardship. He indicated that he intends to remain in his seat to ensure continuity during a politically sensitive transition and to help safeguard the institution’s independence. The move would be highly unusual, as the last chair who did not step down after his time at the helm ended was Marriner Eccles, who ceased to be the leader in January 1948 but continued on the board until July 1951. Finally, on April 30th, the European Central Bank (ECB) and the Bank of England (BOE) opted to maintain their policy rates at 2% and 3.75% respectively but opened the door to a potential hike in June without pre-committing.

Yields around the world continued to move higher, as initial optimism around the ceasefire was ultimately outweighed by concerns that central banks may need to tighten policy in response to inflation pressures. In Japan, the 10- and 30- year climbed to fresh multi-year highs, while in other major markets the upward impetus eased. Credit and emerging markets rebounded, led by higher-yielding sectors. All in all, the Bloomberg Barclays Global Aggregate Index hedged back to AUD was up +0.34% for the month.

Australian Fixed Income

According to the Australian Bureau of Statistics (ABS), the monthly indicator of consumer prices (CPI) accelerated to +4.6% YoY in March (from +3.8% in February), its highest level since September 2023, although it missed expectations of +4.8%. The CPI Trimmed Mean, the measure preferred by the central bank, remained sticky at +3.3%. Energy-driven inflation pressures were evident across the economy, highlighting the country's heavy reliance on imported fuel and fertiliser. Automotive fuel prices rose by +32.8%, their largest monthly increase since the ABS began tracking the series in 2017. These cost shocks continued to influence inflation expectations and, by month end, the cash futures were pricing in close to three additional hikes in 2026, with the probability of a third consecutive hawkish decision coming at the May meeting approaching 80%. The Bloomberg AusBond Composite 0+ Yr returned +0.05% in April, resuming its underperformance relative to global fixed income. The yield curve transposed higher, with the 2-, 5- and 10- year yields adding 11, 9 and 9 basis points to 4.77%, 4.79% and 5.06% respectively. The pick-up in interest rates offered by domestic government bonds vis-à-vis US Treasuries across the curve reached its highest level in a decade. Credit spreads tightened amid improving sentiment, while the Australian Dollar strengthened across the board, ending the month just below 72 cents vis-à-vis the greenback.

Real Assets

Global property rebounded +7.84% in USD terms and +3.38% in AUD terms for the month. Australia topped the list as the 10- year real yield declined to 2.53%, signalling an increase in implied inflation, and data centre-linked REITs rallied on the back of solid operating results. Japan was the worst performing region, weighed down by mounting stagflationary concerns stemming from weaker growth prospects and higher import costs.

Global infrastructure was up +2.05% in USD terms but down 2.17% in AUD terms in April. Communication infrastructure and transportation stocks were the best performing segments, while utilities were mixed, with UK-listed water utilities rallying and US electric utilities lagging. The S&P Global Infrastructure TR interrupted its 11- month winning streak of outperformance vis-à-vis the FTSE EPRA Nareit Developed TR, recording its 2nd worst month ever in terms of relative strength.

Alternatives

Alternatives (+2.77%) posted their largest gains in more than 5 years, fully reversing the record drawdown suffered in the previous month. Long/Short equities and event driven were the best performing strategies, while trend following mandates increased their exposure to equities during the month, capturing part of the upside.

Market Outlook

Our expectation heading into 2026 was that the global economy would re-accelerate after a soft patch in late 2025, particularly in the US, and incoming data increasingly suggest that this view is playing out despite the geopolitical shock caused by the escalation in Iran and the closure of the Strait of Hormuz. We also argued that if growth strengthened as anticipated, inflation would likely re-emerge as a problem in the second half of 2026 because economic conditions would eventually become “too good”. The war has brought that dynamic forward, turning inflation into a more immediate macroeconomic issue. The original thesis rested on three primary drivers. First, US fiscal policy was going to turn materially more supportive through the so-called “One Big Beautiful Bill” (OBBBA) which effectively injected cash back into household balance sheets through tax rebates and transfers. April tax receipts reflected the scale of the redistribution, with government collections coming in weaker than historical norms as tens of billions of dollars flowed back into consumers’ hands. In the US economy, where consumption remains the dominant growth engine, the effect has been visible in retail sales and activity data. Second, monetary conditions eased meaningfully following the 75 basis points of rate cuts delivered by the FED in the back end of 2025. The year began with a lower yield curve and easier financial conditions, supporting credit creation and risk assets reflation. Third, projected Big Tech AI-related capital expenditure for 2026 has ballooned from roughly US$515 billion to approximately US$725 billion within months, underscoring the scale of the ongoing buildout. At nearly 2.4% of US GDP, the spending wave represents one of the largest technology investment cycles in decades. While a meaningful portion of that capital is flowing abroad through semiconductor supply chains, the macroeconomic impact remains substantial. Large-scale investment spending in one part of the economy becomes demand, revenues and ultimately profits elsewhere. North Asia has emerged as a primary beneficiary of the AI-driven capex boom. Taiwanese and Korean chipmakers and their supplier ecosystems have become central to global AI infrastructure expansion, creating significant wealth effects across the region. Japan is also moving toward a more aggressive fiscal stance aimed at stimulating domestic demand. Finally, Europe has begun to show signs of recovery as Germany abandons years of austerity in favour of more expansionary spending policies.

The war in the Middle East raised questions about whether the expected re-acceleration could be derailed by an energy shock. So far, the evidence suggests otherwise. Growth momentum has persisted despite geopolitical tensions, although the impact has been uneven across regions. Europe and parts of North Asia remain more exposed because of their dependence on imported energy, while the US not only has proven relatively insulated in the short term, but has established itself as the exporter and supplier of oil of last resort, deploying both commercial production and strategic reserves to calm markets rattled by the sudden disappearance of Gulf crude. According to the International Energy Agency (IEA), the peak supply loss from the current crisis stands at more than 12 million barrels of crude per day, equivalent to approximately 11.5% of global oil demand. In this context, the Trump administration has begun a large-scale release from the Strategic Petroleum Reserve (SPR), authorising more than 53.3 million barrels in emergency loans to nine companies including Exxon Mobil, Marathon Petroleum and Trafigura. The advances were announced as part of a coordinated effort to soothe oil markets and represent the first major tranche of a broader emergency program. Reuters reported that the administration had earlier proposed releasing up to 92.5 million barrels from the SPR, with the broader program potentially expanding total US releases to as much as 172 million barrels. Data released by the US Department of Energy showed that a record 9.9 million barrels of oil were withdrawn from the SPR just in the week of May 11, reducing total holdings in the government’s emergency reserve to approximately 374 million barrels. That is the lowest level since July 2024. As a result, American crude exports have climbed to near-record levels, with Gulf Coast terminals operating at full capacity as refiners in Europe and Asia scramble for barrels immune from Middle Eastern transit risk. The intervention represents a substantial reorientation of US energy policy. A reserve once designed primarily for domestic emergencies is now functioning as an instrument of global market stabilisation, helping prevent a full-scale supply panic. China, for its part, appears to be reducing dependence on Hormuz-linked imports rather than materially cutting total crude demand. State refiners have expanded purchases from Russia and other non-Gulf suppliers while relying more heavily on long-term bilateral agreements and strategic inventories.

These concerted actions appear to have prevented oil prices from spiralling further out of control. While the cost of a barrel of WTI remains more than +50% higher than before the beginning of the hostilities, it is still US$20 lower than its early-March peak. However, government bond yields, especially at the long end, are much higher today than they were two months ago, suggesting that "transitory" energy inflation may not be the sole force at work. In the US, the 10- year and the 30-year yields have climbed 40 and 30 basis points respectively over the same period, with the pace of adjustment having become more impulsive lately. We see three elements exerting upward pressure on the yield curve. The first is structural, as markets may start to price the likelihood that governments across the globe will need to sustain massive investments into energy security in the future, drawing from a finite pool of capital and thus increasing its cost. Rising yields in Japan and Australia may be a harbinger of this upcoming change. The second is idiosyncratic, with the Gilt markets, which ranks among one of the largest sovereign bond markets in the world, resurfacing once again as the collateral damage of political turmoil. Following the poor showing of Labour in the May 7th local and devolved elections, senior party figures and backbench MPs have called for Keith Starmer to step aside, heightening fears that a successor could abandon the government's cautious borrowing stance. Since then, every leadership rumour has been moving the Gilt market almost in real time. Markets had largely viewed Starmer and Chancellor Rachel Reeves as pro-growth but committed to fiscal restraint, positioning Labour as a credible, predictable and market-friendly administration after the chaos associated with Liz Truss' 2022 mini-budget. Conversely, Andy Burnham, the mayor of Greater Manchester and a grassroots favourite, is seen as more responsive to the party's left wing and therefore more inclined to boost public spending. The third is cyclical and centres on economic growth. With real GDP growth set to quicken to +4.0% QoQ in Q2 2026, according to the latest estimates for the GDPNow model produced by the Federal Reserve Bank of Atlanta, and headline CPI trending above +3%, nominal growth in the US is running at an annualised +6/+7%, a level that is too hot and requires a repricing of interest rates.

We leave it to Warsh to determine whether the FED's balance sheet is too large, or the target rate is too low, but the gist is, in our opinion, that the monetary stance has become too accommodative and the central bank has fallen behind in its mandate. Against this backdrop, we think that policymakers will have to respond, whether the energy-driven inflation eventually dissipates or not. Several institutions have already acted or signalled action. The RBA has delivered three hikes, having moved earlier than its developed-market peers. The Norges Bank, Norway's central bank, has also surprised markets with a 25 basis points rate increase on May 7th, reinforcing its reputation as a relatively proactive monetary authority despite the country's smaller economic footprint. In the UK, the Euro area and Japan hikes may come as soon as June. In short, it seems that global central banks are embarking on a synchronized tightening cycle. For all the debate around causality, they ultimately retain the ability to shape the reaction function and are moving it in a more hawkish direction. As a result, the move in yields may be closer to its beginning than its end and has the potential to continue surprising investors in the near term. Loading up on duration seems to be unwise at the current juncture as cuts are taken out from the US yield curve and replaced by hikes. Despite this, we maintain a constructive baseline case for growth assets. Equities remain the preferred asset class and an internationally diversified portfolio appears to be the most appropriate choice. Our positioning continues to favour a more cyclical tilt, with an emphasis on markets outside the US, including emerging markets, and an allocation to global small cap equities. Rising yields may place a cap on the broad index-level appreciation of equities, particularly given signs of increasing overcrowding in segments of the market most exposed to AI-driven optimism and speculative positioning. However, we remain invested and, while periodic bouts of volatility are likely, we would view such episodes as opportunities to add exposure to selected areas where valuations and fundamentals remain supportive.