
Market Review

Throughout May, Trump repeatedly suggested that a peace deal with Iran was within reach. He first pointed to progress in negotiations, then said there was a “very good chance” of an agreement that would prevent Tehran from obtaining a nuclear weapon. Days later, he described a proposed Memorandum of Understanding as “largely negotiated” before circulating draft terms to regional allies, including Israel. Each successive signal reinforced a narrative that the Strait of Hormuz would eventually reopen and that stranded Gulf exports would return to global consumers. Investors largely took these signals at face value, helping cap oil prices despite one of the most severe disruptions to physical energy flows in decades. As a result, the West Texas Intermediate (WTI) dropped 16.86% for the month, its steepest decline since April 2025. Even more remarkable was the collapse of the Cboe Crude Oil ETF Volatility Index, which measures the market's expectation of 30-day volatility through options on the United States Oil Fund (USO). The so-called “OVX” crashed to 57.84, still elevated by historical standards, but its lowest reading since the end of January. In short, the President’s repeated messaging appears to have discouraged traders from building or maintaining aggressive bullish exposure to oil, contributing to a concurrent decline in both the price and the volatility of the vital commodity. Whatever the cause, the expectations of an imminent diplomatic breakthrough managed to shift the perceived tail risk from a bullish spike driven by a sustained supply shortage to a sudden bearish repricing event, even as the physical output continued to fall.

And yet, at the end of May, the Strait of Hormuz was still effectively closed. According to Polymarket, the probability of a reopening by the end of June had fallen to 26% from a peak of 87% in mid-April. The physical oil market remained tight, with millions of barrels of crude and petroleum products that would have normally flown from the Persian Gulf trapped by the US-led naval blockade. Bypass pipelines in Saudi Arabia and the UAE were rerouting roughly 5-6 million barrels per day from the chokepoint, partially mitigating the disruption, but leaving more than 10 million barrels per day vulnerable to logistical bottlenecks and interruptions. Production across parts of the region had been curtailed owing to the inability of storage facilities to absorb unlimited unsold output, with the shutdowns representing an actual loss of supply to the world economy. Governments and commercial operators were drawing down strategic and commercial stockpiles accumulated over previous years. The US had emerged as the principal balancing force in the market, increasing exports while releasing barrels from its Strategic Petroleum Reserve (SPR). Additional supply from North America, particularly from the Permian basin, coupled with robust volumes from Canada was helping bridge part of the gap left by the Middle East. In the Atlantic, Brazil was expanding offshore production, while Venezuela’s recovering output was making only a modest contribution. On the demand side, Chinese refiners and policymakers were absorbing the shock by slashing imports and relying more heavily on existing supplies rather than aggressively competing for replacement barrels.

In this context, the reduced consumption typically associated with higher prices had failed to materialise. Although several countries in South and Southeast Asia had implemented conservation measures and, in some cases, fuel rationing, there was little evidence of significant behavioural change at the global level. Road transport demand persisted, with people continuing to drive and mileage expected to rise as the Northern Hemisphere entered its peak summer travel season. Aviation activity also held up well, supported by solid travel demand and airlines’ ability to pass through a portion of higher fuel expenses to passengers. Industrial consumption was broadly unchanged, with factories continuing to operate at normal capacity levels in most regions. In

summary, the energy market found itself in an unusual equilibrium in which oil prices had not risen sufficiently to trigger a meaningful supply response from non-Gulf producers or significant demand destruction among consumers. Expectations of an eventual reopening of the Strait and a normalisation of energy flows muted the price signals that would ordinarily rebalance the market. The underlying assumption was that none of the principal actors benefited from a prolonged standoff. The Iranian regime depends heavily on oil revenues to finance the state and maintain political stability. For the US, lasting high energy prices risk feeding broader inflationary pressures, creating political challenges for the current administration ahead of the 2026 midterm elections. China ended 2025 with a record merchandise-trade surplus of 1.19 trillion USD. A sustained rise in oil prices would effectively reduce the purchasing power of many of China's customers.

Despite the incentives for all parties to seek a resolution, the month closed with events moving in the opposite direction, as tensions escalated into a broader multi-theatre regional conflict. The US conducted airstrikes against Iranian military infrastructure and tanker assets, prompting Iranian retaliation through missile and drone attacks on US bases across the region, including in Kuwait, Bahrain and Jordan. Accordingly, Wall Street's confidence in the TACO ("Trump Always Chickens Out") trade gave way to the NACHO ("Not A Chance Hormuz Opens") trade. Once again, markets appeared to be more concerned about the lack of compute than about oil and gas availability. The result was an extraordinary rally in US equities driven almost entirely by AI, the one investment theme in which consensus conviction held intact. The S&P 500 (+5.15% in USD terms) extended its strong run, building on April's record rally, and the Nasdaq 100 jumped +10.49%, recording back-to-back months of double-digit gains for the first time since March-April 2009. The Dow Jones Industrial (+2.78%) and the Russell 2000 (+4.27%) broke to new all-time highs but could not keep up with the other technology-heavy benchmarks. The speculative frenzy came back in full force, with the Nasdaq Next Generation 100, the GS Non-Profitable Tech and the GS Liquid Most Short recording their 5th, 2nd and 10th best month ever respectively. Software stocks came back to life on the back of aggressive bottom-fishing, driving the S&P North American Expanded Technology Software Index, which includes behemoths the likes of Microsoft, Palantir, Oracle and Salesforce to its best month on record. The same feat was achieved by the Nasdaq CTA Cybersecurity Net TR Index, which was up more than 30% for the month. The Philadelphia Stock Exchange Semiconductor Index rocketed up 22.14%, its 9th best month in history, driven higher by Advanced Micro Devices (+45.59%), Marvell Technology (+24.13%), Qualcomm (+39.78%) and Intel (+21.38%). At the end of May, the most popular benchmark for the chip sector was up +169.63% YoY, its strongest showing since the 12-month period ending March 1999. Most sectors ended May in negative territory except for technology, the clear standout, which managed to erase a gap of over 45% with the energy sector in just two months. Consumer discretionary and healthcare also gained but lagged the S&P 500 as the outsized returns generated by semiconductors and memory chips were simply overwhelming. Micron Technology (+87.76%), a major producer of High Bandwidth Memory (HBM), and Sandisk (+54.58%), one of the largest suppliers of flash memories and data storage, continued to ride high on the wave of the so-called "RAMageddon" trade.

International Equities

US equities eked out a modest outperformance versus the rest of the world (as exemplified by the MSCI AC World Index ex USA TR Index), extending their winning streak to three months. 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 Emerging Markets Korea Net TR Index and the MSCI Emerging Markets Taiwan Net TR Index logged their 2nd and 7th best

month in history. SK Hynix (+78.38% in USD terms) became the second South Korean and the third North Asian company to join the 1 trillion USD market-cap club, alongside Samsung Electronics and TSMC. In the MSCI Net Emerging Markets TR Index, South Korea overtook China as the second-largest country exposure at 23.06% versus 20.25%, while the weight of technology rose to 43.80%. In Japan, the Nikkei 225 broke above the 65,000 threshold for the first time in history as the Japanese Yen (JPY) weakened toward the 160 level against the US Dollar (USD), a zone that prompted an intervention by the Minister of Finance (MoF) starting from April 28th. Returns in Europe were more muted as survey data pointed to further signs of a slowdown in the Old Continent's economy. Both regions trailed the general index. All in all, the MSCI AC World Daily TR Index was up +5.16% in USD terms and +5.07% in AUD terms.

Australian Equities

Australian equities could not keep up with their international peers in May, with the S&P/ASX 300 TR Index adding a more modest +1.25%. The MSCI Australia Net TR Index lagged the MSCI AC World Daily TR Index for the third month in a row, surrendering its earlier year-to-date leadership. The domestic market exhibited significant stock dispersion and a narrow leadership concentrated in companies deemed to benefit from the global buildout in AI infrastructure, with only five sectors ending the month in the black. Materials topped the list as mining giants were buoyed by expectations of sustained demand for industrial metals, with iron ore, copper and aluminium posting gains, while gold and lithium weakened. The sector also attracted flows from banks, which faced concerns around slower credit growth and margin compression. Positive momentum persisted in insurance, although financials overall finished in negative territory. Consumer discretionary rallied on moderating inflation and well received results. Healthcare was the worst performing sector following a third earnings downgrade from CSL due to short-term competitive pressures. Energy and utilities tracked the price of oil lower. Finally, mid-caps and smaller companies outperformed the Top 20 and value stocks outperformed growth stocks for the fourth time in 2026.

International Fixed Income

Two of the three major global central banks that met during the month left interest rates unchanged: the Riksbank, Sweden's central bank, and the Reserve Bank of New Zealand (RBNZ). The former kept its key policy rate at 1.75% on May 7th, extending its pause to five consecutive meetings and guiding for no adjustments through 2027. The latter held the Official Cash Rate (OCR) at 2.25% on May 27th, with three members voting for a 25 basis points hike and three voting to keep rates steady. Governor Anna Breman cast the deciding vote, the first such tiebreaker since the Monetary Policy Committee (MPC) was established in 2019. The central bank indicated that hikes are likely to come sooner and in greater magnitude than previously anticipated. While the RBNZ struck a hawkish tone, the Norges Bank, Norway's central bank, had already gone one step further three weeks earlier. On May 6th, it surprised markets by raising the policy rate by 25 basis points, from 4% to 4.25%, stating that "inflation is too high and has remained above target for several years."

On May 13th, Kevin Warsh was confirmed as the 17th Chair of the Federal Reserve following a 54-45 Senate vote, the narrowest confirmation margin on record for the role. Later in the month, on May 22nd, Christopher Waller, considered to be one of the most influential voting members of the FOMC and a Trump nominee, gave a speech entitled "Policy Risks Have Changed" at the Frankfurt School of Finance and Management. In his remarks he expressed support for removing the "easing bias" from prospective policy statements, to make clear "that a rate cut is no more likely in the future than a rate increase".

Yields around rose to multi-year highs during the first half of the month before retracing most of the move as stagflation concerns eased. US Treasuries underperformed other markets as investors brought forward expectations for interest rate hikes amid resilient economic growth, pricing in one increase in 2026 with a nearly 60% probability. Despite the US 2-, 5- and 10- year yields adding 13, 13 and 6 basis points to 4%, 4.14% and 4.44% respectively, the Bloomberg Barclays Global Aggregate Index hedged back to AUD rose by 0.67% in May. Within credit, emerging markets continued to lead.

Australian Fixed Income

On May 5th, the RBA delivered its third consecutive 25 basis points hike, raising the cash rate from 4.10% to 4.35% and fully reversing the three cuts administered last year. The nine-member policy committee voted 8-1 in favour of the increase. In the accompanying statement, the central bank stated that it “assessed that inflation is likely to remain above target for some time and that the risks remain tilted to the upside, including to inflation expectations”. It also flagged the risk of cost pass-through, noting that “there are early signs that many firms experiencing cost pressures are looking to increase prices of their goods and services”. During her press conference, Governor Bullock explained that one rationale for the hawkish decision was to provide the RBA with greater flexibility to pause and assess incoming economic developments. Ahead of the meeting, cash rate futures were pricing in nearly three additional hikes in 2026, including the May one. Following the announcement, traders pared back their expectations and were anticipating only one further hike for the remainder of the year, with an implied probability of around 70%. The Bloomberg AusBond Composite 0+ Yr Index returned +1.62% for the month, outperforming global fixed income by the most since December 2024. The yield curve transposed lower, with the 2-, 5- and 10- year yields shedding 25, 28 and 23 basis points to 4.52%, 4.52% and 4.83% respectively. Credit spreads widened modestly, with income offsetting most of the adverse price movement. The Australian Dollar continued to hover around 72 cents vis-à-vis the greenback but strengthened against most European and Asian currencies.

Real Assets

Global property performance cooled in May following the strong rebound in April, with the sector declining 0.83% in USD terms and 0.93% in AUD. Australia topped the list for the second consecutive month as the 10- year real yield declined to 2.45%, signalling a relatively stable implied inflation. Data centre-linked Goodman Group and NEXTEC benefited from the renewed enthusiasm surrounding AI. Japan was the worst-performing region, weighed down by developers after management teams provided conservative FY26 guidance and forecast a slowdown in profit growth.

Global listed infrastructure declined 2.46% in USD terms and 2.56% in AUD, bucking the broader market trend as investors rotated toward more cyclical assets. Transportation stocks performed best on the perception that the Middle East conflict would turn out to be a temporary shock. Utilities underperformed amid political uncertainty in the UK and concerns in the US over rising consumer costs. The S&P Global Infrastructure TR Index trailed the FTSE EPRA NAREIT Developed TR Index for the second month in a row.

Alternatives

Alternatives (+0.82%) built on their April’s gains, led by Long/Short equities, event driven and trend following strategies. Mandates booked profits in semiconductors and added macro shorts but largely abandoned their defensive posture in the final week of the month.

Market Outlook

At the start of the year, we identified the re-emergence of inflation in the second half of 2026 and the prospect of a policy response from central banks as the principal risk facing investors. We were expecting price pressures to arise as a consequence of an overheating US economy, that is, a “good” problem to have, rooted in economic strength rather than supply-side disruption. The outbreak of the war with Iran and the subsequent closure of the Strait of Hormuz brought inflationary headwinds forward, transforming what had been a medium-term concern into an immediate macroeconomic challenge. US consumer price inflation accelerated from +2.4% in February to +4.2% in May, reflecting broader cost pressures. While the FED has so far resisted raising interest rates, several major central banks have already moved. The RBA has delivered three rate increases, while the European Central Bank (ECB), the Norges Bank, Norway’s central bank and the Bank of Japan (BOJ) have each hiked once. Taken together, these actions may represent the early stages of a coordinated global tightening cycle as policymakers respond to a less benign inflation backdrop. Over the past three months, fixed income markets have progressively adjusted and repriced to reflect this new reality. As a result, in April our focus shifted to energy prices, with the possibility of them spiralling out of control taking over as the primary threat to the global economy and financial assets. Such a scenario could materialise if US crude exports to the Rest of the World (RoW), currently near record levels, began to decline or if China returned to global markets at scale to rebuild strategic inventories at a time of continued stalemate in the Middle East. Fast forward to June 17th, Trump and the Iranian President Masoud Pezeshkian signed a memorandum of understanding to end the conflict and Kevin Warsh presided over his first FOMC meeting as Chair, presenting us with the opportunity to reassess the magnitude and implications of the two key risks flagged earlier this year.

The 14-point “framework agreement” provides for a halt to military strikes, the reopening of the Strait of Hormuz to commercial shipping toll-free for 60 days, an end to the US naval blockade of Iranian ports and a parallel extension of the ceasefire for another two months. With the long-telegraphed accord now in place and oil prices having eased to the mid-70s, the tail risk of a disorderly energy shock has become less likely, even if not entirely eliminated. Scepticism about the sustainability of the peace deal remains, but what matters from an investment perspective is the reduction in probability-weighted risk. On that basis, irrespective of the ultimate political outcome, the development is unambiguously supportive for markets. However, in our opinion and somewhat counterintuitively, this may not translate into significantly higher equity benchmarks. To understand why, it is useful to take a step back. Following the onset of the conflict, the S&P 500 declined around 5% top to bottom, and the Nasdaq 100 fell approximately 10%. However, from early April onwards, markets staged a torrid rebound, which has been notably narrow rather than broad-based. The strongest performance has been observed in AI-related segments, including semiconductors, memory and data storage, effectively the full ecosystem tied to AI infrastructure and compute demand. To understand the scale of concentration, a single data point is worth more than a thousand words. On April 2nd, Roundhill Investments debuted the “first-ever Memory ETF (DRAM)”, offering exposure to “manufacturers of DRAM, High-Bandwidth Memory (HBM), NAND flash and solid-state storage devices (SSD)”. Just shy of 75% of the vehicle is evenly allocated across Samsung Electronics, SK Hynix and Micron Technology. At the time of writing of this note (June 19th), the ETF had surpassed 20 billion USD in AUM and had nearly tripled in value over a roughly two-and-a-half-month period. Its performance is emblematic of a broader market phenomenon: equities have rallied in the face of elevated geopolitical risk, prompting questions among investors.

On the surface, the resilience of risk assets appears difficult to reconcile with the volatile news cycle, particularly given the sensitivity of markets to oil prices. The apparent contradiction is further highlighted by the energy intensity of AI-related infrastructure itself. In our view, several factors help

explain this dynamic. Firstly, markets have consistently operated on the assumption that the conflict would be relatively short-lived, a view reinforced by repeated political signalling that the situation would be resolved swiftly. Secondly, our broader macro framework for the year has remained intact. We continue to expect a re-acceleration in US growth, supported by expansionary fiscal policy alongside a significant increase in AI-related capital expenditure. The build-out of data centres and associated infrastructure is generating robust domestic demand, while corporate profitability remains strong, with S&P 500 earnings growing at approximately +20% YoY. In this context, investors have been faced with a binary trade-off: reduce their positions to account for the elevated geopolitical and energy uncertainty or remain fully long in light of the strong earnings momentum and structural growth themes. In practice, the logical answer has been to tilt portfolios towards the areas offering the greatest visibility in the short term, namely technology and AI. As a result, capital has increasingly gravitated into a narrow set of AI-related equities, driving a highly uneven market advance, with the remainder of the index lagging. Looking ahead, a reduction in geopolitical premium and improved energy stability should allow for a broader sector rotation. If the probability of an adverse energy shock continues to decline, investors may feel less compelled to pile into a single structural theme and instead re-engage with cyclicals and other neglected areas, including financials, industrials and consumer sectors. As technology and AI remain central to benchmark performance, a broadening of participation would likely result in smaller index-level gains but wider opportunities across sectors and a more balanced market.

Shifting gears, Kevin Warsh's first public remarks were broadly interpreted as hawkish in tone, with an emphasis on price stability and an obvious preference for abandoning the so-called "forward guidance". The latter is often mischaracterised in financial commentary as a form of conditional forecasting or signalling about the likely monetary policy trajectory. However, in its original post-GFC formulation, it functioned more as a "pre-commitment" tool designed to credibly bind future policy. In essence, the FED was signalling that it would not raise rates even in scenarios where growth and inflation began to recover. This was required to escape the constraints of the so-called "zero lower bound" and to support demand in a liquidity-trap environment. Whether the framework was ever fully effective remains open to debate, but it is clearly less relevant in the current macro regime. In that sense, a gradual withdrawal of explicit forward guidance restores a degree of policy optionality that had, over time, become constrained by earlier assurances. We think that Warsh's speech was deliberate and calculated. In our opinion, he played his hand effectively as there was limited incentive to adopt a dovish tone at this juncture. In substance, his comments contained little that was new, with no material shift in the policy direction. We anticipate this to remain the case until later in the Northern Hemisphere summer, with the annual economic policy symposium in Jackson Hole in late August shaping up as the next important communication event. Until then, Warsh is effectively buying time, allowing market expectations to stabilise around a more realistic policy path. Just a few months ago, the prospect of the FED hiking in 2026 would have been largely unthinkable. But with the repricing having taken place, we think Warsh's first meeting as chair may ultimately prove to have been the most hawkish one of the year, at least in terms of rhetoric.

In the end, the FED appears stuck, with limited scope to adjust policy in either direction in the near term. The FOMC comprises 12 voting members. To cut rates, six votes are required in favour, including the chair, Kevin Warsh, who holds the casting vote. Conversely, if Warsh does not support a hike, a minimum of seven votes would be needed on the other side to carry it through. This configuration leaves policy likely on hold in the near term unless inflation climbs further or labour market conditions weaken sharply enough to raise growth concerns. It is plausible that neither scenario will materialise. The original narrative around AI was that massive investments would boost productivity, displace parts of the workforce and ultimately support profits. In that setup, equities would benefit from stronger earnings, while bonds would also rally as the central bank was forced to

lower rates. Recent data has pointed the other way, with employment still holding up and, in some places, even accelerating. That has removed the implicit expectation of imminent easing without yet creating the conditions for tightening. With investors now left to infer the reaction function rather than being explicitly guided, rate expectations should remain somewhat elevated. The market is still digesting the ramifications of a chair who is intentionally making it harder to anchor a clear path, whether for cuts or hikes. Hence, despite improved valuations in fixed income, it is difficult to see an imminent decline in yields, while more choppiness may lie ahead. Conversely, we remain constructive on growth assets, particularly equities, and do not view recent turbulence as indicative of a cyclical peak in risk assets.

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