

Market Commentary

May 2026

GLOBAL MARKET THEMES

- Global equities extended April's rally, with the MSCI World up 4.6% (USD) and emerging markets gaining 9.7% (USD), driven by the artificial-intelligence capital-expenditure cycle, strong first-quarter earnings and growing hopes of a US-Iran deal.
- US inflation accelerated to 3.8% from 3.3%, the highest level since May 2023, leaving markets with limited scope to price in near-term Federal Reserve rate cuts, while the S&P 500 and Nasdaq reached record highs on robust earnings.
- Euro-area inflation rose to 3.0% from 2.6% making an ECB rate hike in June more likely, while UK inflation eased to 2.8% from 3.3% and the Bank of England maintained a restrictive policy stance.
- Japan's Nikkei 225 gained 11.9% (JPY) to reach a record high above 66 000, making it the strongest-performing major index, supported by the AI investment cycle and a structural rerating of Japanese equities.
- Emerging markets outperformed, led by South Korea and Taiwan on AI supply-chain demand, while China's inflation rose to 1.2% from 1.0% and its manufacturing PMI slipped to the neutral 50 mark.
- Brent crude fell below \$100 per barrel, ending the month at \$91.12, as peace hopes eased the oil shock, while gold eased 1.7% and the US dollar firmed modestly.

SOUTH AFRICAN MARKET THEMES

- The JSE All Share Index eased 0.3% (ZAR) as a pullback in precious metals weighed on resources, the weakest segment, while financials firmed and listed property edged higher.

- Altron led the market with a 32.1% gain, followed by Montauk Renewables (+19.1%) and Bytes Technology (+18.8%), while SPAR (-24.6%), Sappi (-23.0%) and The Foschini Group (-18.7%) were the heaviest laggards.
- Bonds rallied, with the ALBI returning 2.9% (ZAR) and listed property up 0.7% (ZAR), while the rand strengthened 3.0% to R16.20 per US dollar.
- SA headline inflation accelerated to 4.0% from 3.1% and producer inflation rose to 4.8% from 2.3% as the oil shock began to feed through to domestic prices.

Global market themes

Global equity markets extended April's gains in May, with the MSCI World returning 4.6% (USD) and the MSCI Emerging Markets Index outperforming with 9.7% (USD). Markets were driven by three key themes: the artificial-intelligence capital-expenditure supercycle, an exceptionally strong first-quarter earnings season, and growing optimism around a possible US-Iran deal that could ease the oil shock. US and Japanese equities led developed markets to record levels. Bond markets were more volatile than equities, as yields reacted quickly to shifts in the geopolitical narrative.

The US economy expanded at an annualised 1.6% in the first quarter, revised down from the 2.0% advance estimate, but higher than the 0.5% recorded in the fourth quarter. Headline inflation accelerated to 3.8% year-on-year in April, the fastest pace since May 2023, up from 3.3% in March, as energy costs rose 17.9%. Core inflation increased to 2.8% from 2.6%, while the unemployment rate held at 4.3%. The Federal Reserve did not hold a policy meeting in May, and with inflation re-accelerating, markets pushed expectations for the next rate cut into late 2026 or 2027. US equities advanced to record highs, with the S&P 500 up 5.3% (USD), the Nasdaq Composite up 8.4% (USD) and the Dow Jones up 2.8% (USD). The first-quarter earnings season was exceptionally strong, with about 83% of S&P 500 companies beating estimates and earnings growing roughly 30% year-on-year. NVIDIA was the primary catalyst as hyperscaler capital expenditure ran at about \$725 billion for 2026.

European equities advanced but lagged the US and Japan, with the Euro Stoxx 50 up 2.9% (EUR) and the broader market up 3.1% (EUR). Euro-area inflation rose to 3.0% in April from 2.6% in March, the highest level since September 2023, driven by a 10.8% increase in energy prices, while core inflation eased to 2.2% from 2.3%. A European Central Bank rate hike in June looks likely to anchor inflation expectations. The composite PMI fell to its lowest level since late 2023, pointing to sluggish growth.

UK inflation eased to 2.8% in April from 3.3%, the lowest reading since March last year, helped by an energy price cap and softer housing services inflation. The Bank of England maintained a restrictive stance amid sticky services inflation. The FTSE 100 rose 0.7% (GBP) during a volatile month. UK manufacturing slipped into a slight contraction, although gilts outperformed the global government bond market as yields fell late in the month.

Japan's Nikkei 225 gained 11.9% (JPY), the strongest performance among major global indices, surpassing the 66 000 level for the first time, while the broader market rose 6.2% (JPY). First-quarter GDP beat expectations at 2.1% quarter-on-quarter, led by consumption. Headline inflation edged down to 1.4% in

April from 1.5%, with core inflation also at 1.4%, remaining below the Bank of Japan's 2% target for a third consecutive month. The Bank of Japan has shown greater tolerance for higher headline inflation.

China's CSI 300 rose 1.9% (CNY), led by A-shares, while the MSCI China Index declined 3.0% (USD) as investors took profit in technology and semiconductor shares. The official manufacturing PMI slipped to the neutral 50 mark from 50.3, while the non-manufacturing PMI improved to 50.1. Inflation rose to 1.2% year-on-year in April from 1.0%, driven by higher energy and transport costs despite falling food prices. The People's Bank of China continued to ease policy, although property weakness and cautious household spending limited the recovery.

Emerging markets outperformed all other asset classes, with the MSCI Emerging Markets index returning 9.7% (USD). The gains were led by strong returns from South Korea, up about 33%, and Taiwan, up about 14%, as both benefited from their positioning in the AI supply chain and hyperscaler-led investment demand. India's SENSEX fell 2.6% (INR) and Brazil's Bovespa declined 7.2% (BRL).

Brent crude had another volatile month, falling 17.5% to end near \$91.12 per barrel as peace hopes eased the oil shock, after trading above \$110 for much of May. Outside oil, commodity performance was mixed. Gold declined 1.7% to \$4 540.26 and platinum fell 3.4% to \$1 920.19, while palladium dropped 11.3% to \$1 360.64 as precious metals corrected. Silver gained 2.1% to \$75.30 and copper rose 5.3% to \$13 599.71. Iron ore slipped 1.5% to \$105.37, while coal advanced 3.3% to \$116.75.

The US dollar Index rose modestly by 0.3%, supported by relatively higher US yields and safe-haven demand. The rand strengthened 3.0% against the US dollar to close at R16.20, helped by the domestic rate hike, softer US economic data and a weaker dollar. The rand has now strengthened roughly 2.3% against the dollar for the year to date.

South African market themes

The JSE consolidated in May, with the All Share Index easing 0.3% and the Capped All Share Index down 0.3%. In terms of market capitalisation, Mid Caps fell the most, losing 3.6%, and Large Caps, as measured by the Top 40, slipped 0.2%. Small Caps gained 0.4%. By sector, Financials firmed 0.9%, while Industrials eased 0.7%, and Resources were the weakest segment, down 1.0%. Mining shares remained under pressure as precious metals prices pulled back. Unlike many global peers, the local market has limited exposure to large technology companies and therefore benefited less from the global AI-driven rally.

In terms of individual stock performances, the top performers were Altron, up 32.1% after a strong dividend announcement, Montauk Renewables, up 19.1%, and Bytes Technology, up 18.8%. The heaviest laggards were The SPAR Group, down 24.6% on a profit warning, Sappi, down 23.0% after a quarterly loss, and The Foschini Group, down 18.7% on weak domestic trading.

Bonds were the standout local asset class in May. The ALBI returned 2.9%, comfortably outpacing both inflation-linked bonds and cash. This was due to nominal yields that drifted lower late in the month on improving global risk sentiment and the pullback in oil from its conflict-driven peaks.[AH1.1] The rally was notable given the SARB's 25 basis point hike, suggesting the market viewed the move as credibly anchoring the inflation outlook rather than signalling a prolonged tightening cycle. Inflation-linked bonds, as measured by the CILI, gained 0.6%, lagging nominal bonds as the real-yield segment drew less benefit

from the move in the curve. However, they remain the stronger performer year to date at 3.8% compared with the ALBI's 2.7%. STeFI cash returned 0.5%, reflecting the higher repo rate. Listed property, as measured by the ALPI, advanced 0.7%, supported by firmer financial and property counters even as the broader equity market stayed rangebound.

SA headline consumer inflation accelerated to 4.0% year-on-year in April from 3.1% in March, the highest reading since August 2024, and rose 1.1% month-on-month. Core inflation, which excludes food and fuel, climbed to 3.6% from 3.2%, its highest since November 2024. The main contributors were housing and utilities, up 5.2% and adding 1.2 percentage points, and transport, up 4.9% and adding 0.7 of a point. Insurance and financial services, up 5.7%, added a further 0.6 of a point. The surge was driven by fuel, where prices swung to 11.4% year-on-year from -8.7% in March as the Strait of Hormuz closure lifted Brent crude. The acceleration in core inflation suggests firms are beginning to pass higher operating costs through to consumers, an early sign of second-round effects.

Producer price inflation for final manufactured goods accelerated sharply to 4.8% year-on-year in April from 2.3% in March and rose 3.0% month-on-month. The largest contributor was coke, petroleum, chemical, rubber and plastic products, up 11.8% and adding 2.5 percentage points, as diesel prices surged 33.8% and petrol increased 8.6%. Food, beverages and tobacco products added 0.6 of a point, while paper and printed products added 0.5 of a point. The sharp rise raises the risk of further pass-through to consumer prices in the months ahead.

At its meeting on 28 May, the SARB raised the repo rate by 25 basis points to 7% from 6.75%, effective 29 May, in a split decision with four members favouring the hike and two preferring no change. The committee cited a marked deterioration in its inflation outlook, raising its headline forecast to 4.4% for 2026 and 3.7% for 2027, before a return to the 3% target in 2028. Governor Lesetja Kganyago pointed to the risk of second-round effects as the oil and fertiliser shock feeds into wages and inflation expectations. With risks skewed to the upside, the SARB signalled that a further hike at the July meeting was increasingly likely.

On the broader economy, the unemployment rate rose to 32.7% in the first quarter of 2026 from 31.4% in the prior quarter, as the number of employed people fell by 345 000. The Absa Purchasing Managers' Index remained above the neutral 50 mark for a second month at 50.8 in May, down from 52.6 in April, pointing to a softer but still expanding manufacturing sector.

The rand strengthened 3.0% against the US dollar to close at R16.20. The move was supported by the SARB's rate hike, softer US economic data and broad US dollar weakness. The rand has strengthened roughly 2.3% against the dollar for the year to date.