

QUARTERLY MARKET COMMENTARY



Burley Fox Limited 20 Cathedral Road, Cardiff CF11 9LJ
Tel: 029 2167 9770 Email: info@burleyfox.com

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Quarterly Market Commentary June 2026

Middle East conflict and higher oil prices weighed on sentiment

Welcome to the June 2026 issue of *Quarterly Market Commentary* from Burley Fox.

Spring 2026 was marked by volatility, cautious optimism and persistent inflation concerns across global markets. In the UK, inflation eased modestly, with CPI falling from 3.3% in March to 2.8% in April, while the Bank of England kept rates at 3.75%. The FTSE 100 recovered from March's weakness, supported by defensive sectors and exporters, and later by a rebound in cyclical stocks. Bond markets remained sensitive to energy prices, inflation and fiscal policy, while sentiment improved slightly as consumer confidence and retail-related shares recovered.

In the Eurozone, markets opened with a turbulent start as the Middle East conflict and higher oil prices weighed on sentiment, particularly in consumer and software stocks. Inflation rose from 2.5% in March to 3.2% in May, while business activity weakened, keeping the ECB cautious. A strong May rebound lifted cyclical sectors such as industrials and banks, though underlying growth remained fragile. Investors in the US experienced

sharp swings between optimism and concern. Geopolitical tensions, particularly around Iran and the Strait of Hormuz, pushed oil prices higher and unsettled markets. Despite a weak first quarter, US equities rebounded strongly in April and May, led by large-cap technology and AI-related stocks. Inflation remained sticky, the Fed kept rates at 3.5% to 3.75%, and consumer confidence stayed weak even as equity markets hit record highs.

Japanese equities rebounded after a March correction, led by AI-related technology shares and banks. The Bank of Japan kept rates unchanged at 0.75% but adopted a more hawkish tone amid persistent inflation concerns.

Across Asia, excluding Japan, and in emerging markets, March sell-offs gave way to strong April recoveries, driven by easing oil prices and continued AI demand, particularly in Korea and Taiwan. Finally, global bond markets struggled with rising yields as inflation, fiscal worries and geopolitical risks led investors to demand higher compensation for uncertainty.

NAVIGATING MARKET SHIFTS WITH CONFIDENCE

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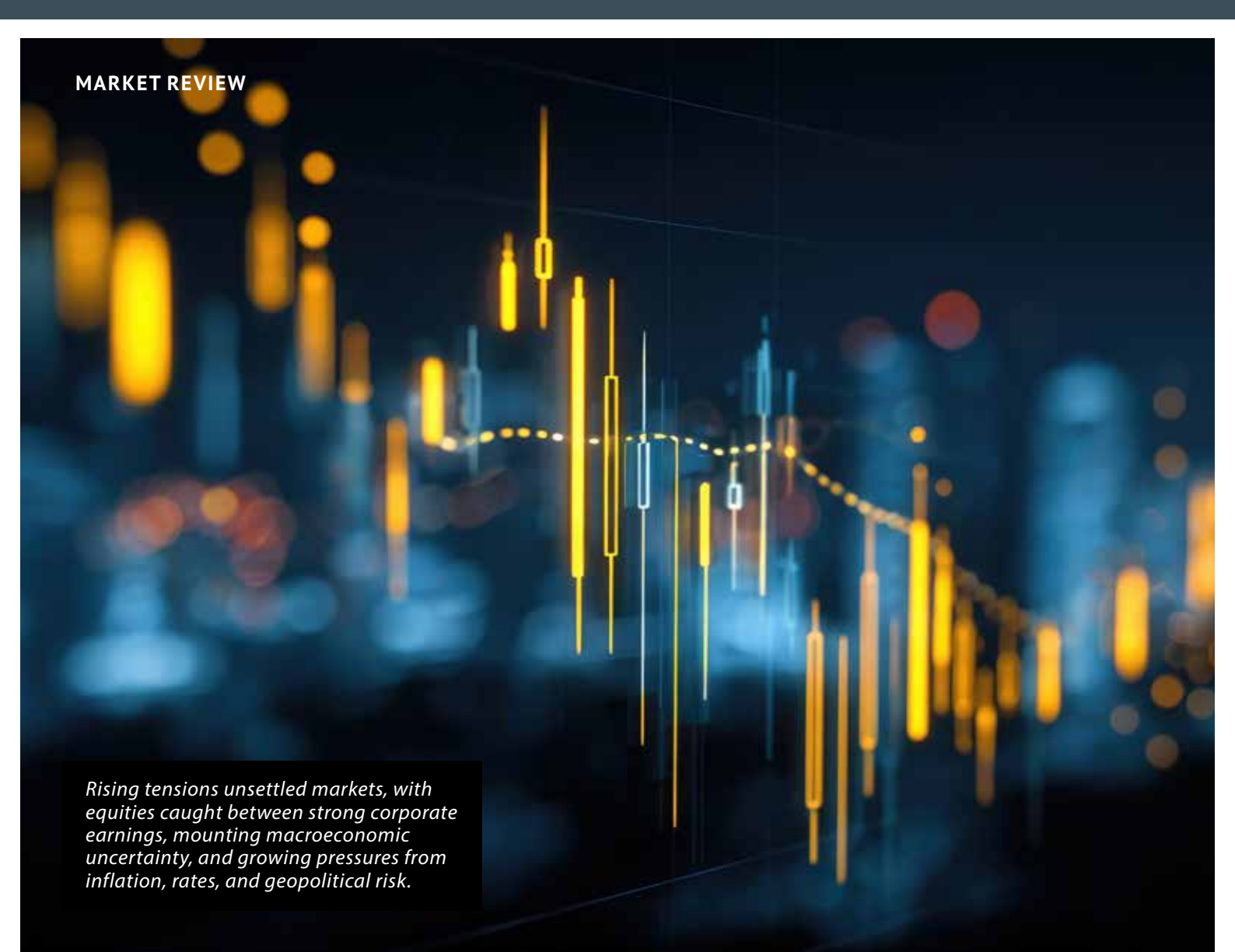
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Spring 2026 was marked by volatility, cautious optimism, and persistent inflation concerns across global markets, as investors weighed mixed economic signals, shifting central bank expectations, and ongoing geopolitical uncertainty.





Rising tensions unsettled markets, with equities caught between strong corporate earnings, mounting macroeconomic uncertainty, and growing pressures from inflation, rates, and geopolitical risk.

Quarterly Market Review

Navigating the delicate balance between geopolitical risk and economic recovery

The spring months tested investors' resolve as geopolitical uncertainty cast a long shadow over global markets. Escalating tensions reshaped risk sentiment, prompting equities to swing between cautious optimism and sharp pullbacks as traders weighed resilient corporate earnings against mounting headwinds.

Bond markets told their own story, with yields shifting as expectations of central bank policy evolved and safe-haven demand ebbed and flowed. Meanwhile, inflation proved persistent

yet gradually moderating, offering tentative relief without fully easing pressure on policymakers. As we look ahead, navigating the delicate balance between geopolitical risk and economic recovery will remain central to investment decisions.

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UK

The spring months of 2026 brought a familiar mix of resilience and caution across UK markets. The UK's Consumer Prices Index (CPI) annual inflation rate stood at 3.3% in March, easing to 2.8% in April. The Consumer Prices Index including owner-occupiers' housing costs (CPIH) annual rate fell from 3.4% in March to 3.0% in April.

The period closed on a more confident note than it began. Risks had not disappeared, but the balance of evidence offered grounds for measured optimism, even as persistent growth concerns and political headlines kept sentiment on edge.

Equities found pockets of strength, with the FTSE 100 recovering from its March weakness to finish May above 10,400. The Bank of England's base rate remained at 3.75% throughout March, April and May, following the previous cut in December 2025. Policymakers kept it there as inflation and energy-price risks remained in focus.

Equity market performance

UK equities entered spring on a steadier footing than many had feared, even though March itself proved volatile. The FTSE 100 benefited from its weighting towards energy, banking and consumer staples, sectors that tend to hold firm when economic signals are mixed. The index started March at 10,780 points,

closed at 10,176 by the end of March, recovered to 10,378 by the end of April and edged up to 10,409 by the end of May. Large-cap exporters also gained support from a softer pound in March, when sterling slipped to around \$1.26, boosting overseas earnings when translated back into sterling. The more domestically focused FTSE 250 told a slightly different story. Mid-cap companies remained sensitive to consumer spending and borrowing costs, so gains came in fits and starts. By late May, however, improving inflation data and the prospect of a more stable rates backdrop had encouraged a modest recovery in this part of the market, with retailers and housebuilders among the brighter spots, several posting double-digit share-price gains from their spring lows.

What drove sector rotation

Beneath the headline indices, money shifted between sectors as the quarter progressed. Investors leaned towards defensive holdings early on, favouring healthcare, utilities and established dividend payers, with the FTSE 100 offering an average dividend yield of around 3.8%. These businesses offered a degree of shelter while the path of interest rates remained unclear.

As confidence improved in May, appetite for more cyclical names began to return.

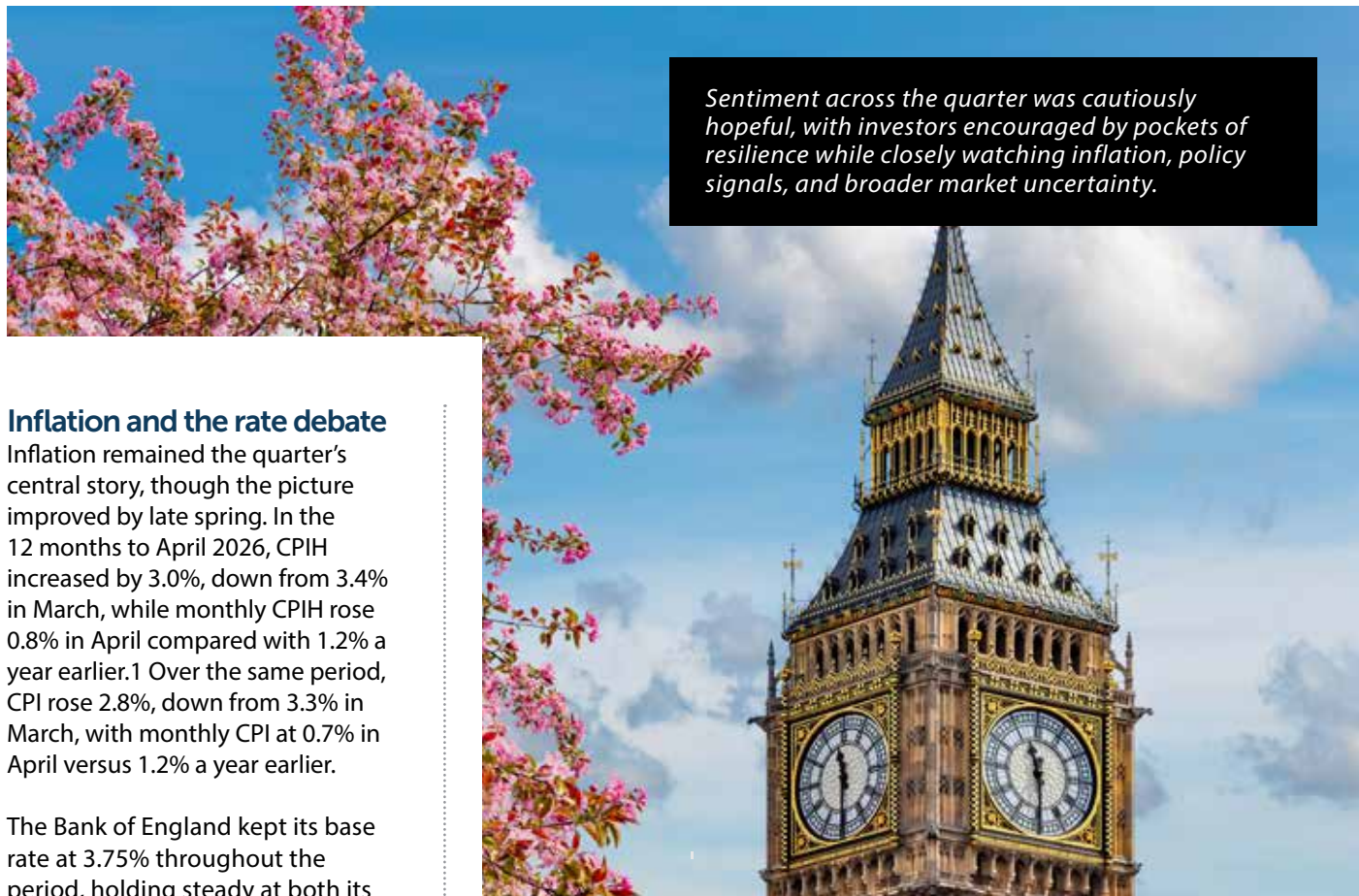
Financials drew interest on the expectation that a stable rate environment would support lending margins, while selected industrial and technology names also attracted buyers betting on a firmer second half. The takeaway for consumers is simple: diversification across sectors helped smooth out the bumps that single-stock investors felt.

Picture for gilts and bonds

The bond market remained highly sensitive to inflation expectations and geopolitical risk. UK 10-year gilt yields moved higher during the period as investors weighed the risk that higher energy prices could complicate the inflation outlook. With conflict in the Middle East pushing up oil and gas costs, markets became more cautious about how quickly the Bank of England might be able to ease policy.

Corporate bonds followed a similar path. Demand for investment-grade debt remained relatively solid, with higher yields continuing to attract income-focused investors despite ongoing uncertainty over the rate outlook.





Sentiment across the quarter was cautiously hopeful, with investors encouraged by pockets of resilience while closely watching inflation, policy signals, and broader market uncertainty.

Inflation and the rate debate

Inflation remained the quarter's central story, though the picture improved by late spring. In the 12 months to April 2026, CPIH increased by 3.0%, down from 3.4% in March, while monthly CPIH rose 0.8% in April compared with 1.2% a year earlier.¹ Over the same period, CPI rose 2.8%, down from 3.3% in March, with monthly CPI at 0.7% in April versus 1.2% a year earlier.

The Bank of England kept its base rate at 3.75% throughout the period, holding steady at both its March and April decisions, and that rate remained unchanged through May.³ That stability offered some reassurance to borrowers and businesses, even as policymakers warned that energy-driven inflation pressures could still intensify later in the year.

Fiscal policy in focus

Government spending and taxation attracted significant attention during the period. The Chancellor's spring statement set the tone, balancing the need to support growth with ongoing pressure to keep public finances on a sustainable footing. Markets responded relatively calmly, reassured that fiscal discipline remained a priority.

Commitments to infrastructure and targeted investment, including support for construction and clean energy, helped underpin sentiment in related sectors. At the same time,

questions lingered over how the government would fund longer-term spending without reigniting borrowing concerns. This delicate balance kept gilt investors alert to every official announcement.

Reading the market mood

Sentiment across the quarter was best described as cautiously hopeful. Improving inflation data and a steadier interest-rate backdrop encouraged some renewed risk-taking, yet investors remained mindful that growth was fragile. Trading volumes reflected this, with steady activity rather than the euphoria seen in stronger bull markets.

Consumer confidence also showed tentative signs of recovery as easing price pressures gave households a little more breathing room, feeding through to retail and leisure stocks. The mood was one of patience, with

many waiting for firmer evidence that the economy had turned a corner.

Political uncertainty and outside pressures

Politics remained a constant undercurrent. Domestic policy debates and speculation about future elections kept investors attentive, though markets largely took the noise in their stride. Consistent government messaging helped prevent sharper swings in sentiment.

External risks carried more weight. Global trade tensions and fluctuating commodity prices kept energy markets volatile, while sterling moved in response to shifting interest-rate expectations at home and abroad. These developments underscored that the UK does not operate in isolation and that a globally aware approach to investing remains essential.

EUROZONE

The period began with markets swinging from sharp declines in March, driven by conflict in the Middle East and rising oil prices, to a strong recovery in May. Inflation continued to edge higher into May, central banks remained cautious, and political developments added fresh uncertainty.

Turbulent start to spring

Eurozone shares fell over the first quarter, with the steepest declines in March following the outbreak of hostilities in the Middle East. The energy sector soared as higher oil prices rewarded producers, despite the conflict disrupting oil production and shipping routes. Some of the sharpest losses came in the economically sensitive consumer discretionary sector, where shoppers tend to pull back when uncertainty bites.

There was notable divergence within the information technology sector. Software stocks came under significant pressure amid concerns about disruption from artificial intelligence (AI) and weaker corporate tech spending. Hardware and semiconductor companies, however, fared better, supported by resilient demand and stronger manufacturing activity. The split highlighted how investors were becoming increasingly selective, rewarding firms with visible earnings support while punishing those facing structural or demand-related challenges.

Inflation and the rate puzzle

The inflationary threat from higher oil prices clouded the outlook for Eurozone interest rates throughout the spring. In February, European Central Bank (ECB) President Christine Lagarde said inflation was “in a good place”. Rates were left unchanged at the March meeting, yet policymakers remained wary as the energy shock threatened to feed through into broader prices.



The inflationary threat from higher oil prices clouded the outlook for Eurozone interest rates, complicating policymakers' expectations and keeping markets on alert for potential delays in rate cuts.

That caution looked increasingly justified as inflation rose. Annual inflation in the euro area rose from 2.5% in March to 3.0% in April and was then estimated at 3.2% in May. At the same time, business activity weakened. The Eurozone composite PMI slipped from 50.5 in March to 48.8 in April and 48.5 in May, signalling two consecutive months of contraction in private-sector activity. While manufacturing showed some resilience, services weakened sharply, suggesting that higher prices were starting to weigh more heavily on demand.

Fiscal policy takes centre stage

Government spending decisions added another layer to the picture. In February, France adopted a 2026 budget, ending months of political deadlock. The plan aims to increase defence spending while reducing the

deficit to 5% of gross domestic product (GDP) by the end of 2026, down from 5.4% at the end of 2025. Such fiscal balancing acts matter because they affect borrowing costs and investor confidence across the bloc.

Bond investors watched closely, aware that rising defence budgets, elevated energy costs and sticky inflation could keep borrowing costs higher for longer than many had hoped.

Sharp rebound in May

Sentiment shifted dramatically as spring progressed. Eurozone equities rebounded strongly in May, supported by hopes of de-escalation in the Middle East and a surge in manufacturing activity linked to stockpiling and inventory rebuilding rather than a genuine improvement in end demand. In other words, factories appeared



Renewed tension in the Middle East, fresh trade frictions, or a wobble in fiscal discipline could all reverse recent Eurozone optimism, undermining confidence and raising fresh doubts about the region's economic resilience.

to be refilling supply chains and front-loading purchases ahead of further price increases, rather than responding to a broad-based surge in consumption.

Sector performance revealed investors' renewed appetite for cyclical stocks, which tend

to outperform when growth expectations improve. Industrials and capital goods posted strong returns, supported by stronger factory output and trade optimism. Banks also advanced, buoyed by the prospect that rising inflation could keep policy rates tighter for longer, supporting net interest margins.

Winners, losers and shifting demand

Within information technology, the divide grew even sharper. Hardware and equipment names benefited from supply-chain restocking and stronger factory output, while software remained under pressure as businesses became more cautious about discretionary IT spending. Communication services weakened overall, dragged down by softer telecoms demand and margin pressure. Media and entertainment, however, proved more resilient, supported by pockets of steadier consumer spending.

More broadly, the market tone in May reflected tactical relief rather than a clear improvement in fundamentals. Investors rotated back into cyclicals, yet the underlying macro data still pointed to a fragile environment.

Macro backdrop and the months ahead

The May rally took place against a weak economic backdrop. Euro area GDP contracted by 0.2% in the first quarter of 2026, while inflation rose to 3.2% in May. Meanwhile, the Eurozone composite PMI fell to 48.5 in May from 48.8 in April, indicating that private-sector activity remained in contraction. Manufacturing held up relatively well, but services activity deteriorated further, highlighting the drag from higher energy prices and weaker demand.

These conditions are likely to keep the ECB cautious about interest rates, as it balances the risk of reigniting inflation against the danger of choking off an already fragile economy. Political uncertainty and external risks remain the wildcards. Renewed tension in the Middle East, fresh trade frictions, or a wobble in fiscal discipline could all reverse recent Eurozone optimism.

US

This period tested investors in the US like few in recent memory. Geopolitical shocks rattled markets without warning, while stubborn inflation refused to loosen its grip. A watchful Federal Reserve set the tone throughout, weighing every signal before acting. For anyone following American markets, it was a spring of contrasts.

Confidence and concern traded places repeatedly, often within a single session. One moment brought optimism; the next, fresh doubt. Few periods have demanded such patience, discipline, and steady nerves.

A turbulent start to the year

US shares were highly volatile, with the S&P 500 down 4.3% in the first quarter. That was the weakest quarter for large-cap stocks since 2022. The period began on a confident note, supported by solid fundamentals, a strong labour market, easing price pressures and steady consumer spending. The index had reached a record high in mid-January, as investors looked ahead to broad earnings growth.

That optimism faded as some investors began to worry that strong growth might delay further interest-rate cuts by the Federal Reserve. The market wobbled, though the real shock was still to come.

When geopolitics took centre stage

There were far graver concerns. US and Israeli strikes on Iran disrupted oil flows through the Strait of Hormuz, creating considerable uncertainty across the global economy. Oil prices surged, risk aversion rose, and equities fell. Throughout March, sentiment swung between hopes for de-escalation and fears of a protracted conflict.

The market split sharply by sector. Energy stocks were the standout performers, with producers, refiners and infrastructure firms benefiting from higher oil prices. Basic materials companies, including miners and chemical producers, also fared well as supply disruptions lifted the prices they could charge.

Technology divides the market

Information technology stocks fell during the quarter for reasons largely unrelated to the conflict. The decline occurred even though many firms reported solid revenue growth, with the software sector hit hardest. The evolving artificial intelligence story created a clear divide within the sector.

Investors rotated towards AI infrastructure, including semiconductors, cloud computing and data-centre providers. At the same time, they moved away from traditional software names,

concerned that generative AI might undermine the subscription model the industry has long relied on.

April's remarkable rebound

April was one of the strongest months in years. The S&P 500 rose 10.5%, led by large-cap growth shares in technology and communications services. Enthusiasm for AI continued to shape market leadership, with semiconductor and platform companies among the biggest winners, supported by expectations of sustained demand linked to data-centre investment.

Earnings season reinforced the rally, with a high share of companies beating forecasts. More than 60% had reported by month-end, and earnings growth was tracked at around 28% year on year. Financials and industrials also posted solid returns, supported by stable economic data and resilient consumer demand.

May extends the rally

Momentum carried into May. The S&P 500 rose a further 5.3%, while the Nasdaq gained 8.4%, both reaching fresh record highs as investors continued to favour large-cap technology and AI-linked names.

Geopolitical shocks rattled markets without warning, while stubborn inflation refused to loosen its grip, leaving investors wary and reinforcing uncertainty across global financial markets.

Semiconductor stocks remained a major driver of performance, and the rally began to broaden modestly in the second half of the month, even though leadership still rested heavily with a narrow group of market giants.

The market tone also shifted as investors grew more hopeful that Gulf tensions might ease. Oil prices, though still elevated by historical standards, fell in May as optimism about a possible reopening of the Strait of Hormuz improved risk appetite and helped equities look through the geopolitical backdrop. Even so, the market's resilience sat uneasily alongside a more fragile consumer picture.

Confidence returns, but narrowly

An improving economic backdrop lifted the mood and encouraged investors to take on risk again after a fraught March. A ceasefire in the Persian Gulf eased the worst fears, and although energy prices remained elevated, they showed signs of stabilising. This enabled investors to refocus on company fundamentals.

Even so, a small group of megacap names still accounted for a disproportionate share of the gains. The market had broadened somewhat by May, but leadership remained concentrated, leaving it exposed if those few giants stumbled.

Treasuries and corporate bonds in focus

Turning to fixed income, US Treasury yields moved modestly higher in April as markets digested resilient data, elevated inflation and higher energy costs. The two-year yield rose by about 8 basis points, while longer maturities edged up by comparable amounts

. That pressure persisted into May. The 10-year Treasury yield ended the month near 4.44% to 4.45%, having risen sharply mid-month before easing as oil prices retreated. Longer-

dated yields remained elevated by recent standards, reflecting sticky inflation and growing doubts that policy easing would arrive soon. Many analysts still expect the 10-year Treasury to trade in a relatively elevated range while inflation risks remain unresolved.

Corporate bonds told a more upbeat story. Investment-grade spreads tightened by roughly 5 to 6 basis points in May, supported by resilient risk sentiment, strong earnings and steady demand. US investment-grade corporates posted positive monthly returns, while high-yield credit also advanced, though gains were more muted than in equities.

Inflation and the Federal Reserve

Inflation remained the central challenge into May. Headline CPI rose 3.8% year on year in April, while core CPI increased 2.8% and core PCE remained elevated at around 3.3%, underscoring that price pressures were proving more persistent than many had hoped. Energy costs played a major role, but inflation concerns broadened beyond petrol alone, reinforcing the sense that the Federal Reserve could not yet relax.

The Federal Open Market Committee held the federal funds rate at 3.5% to 3.75% at its April meeting, adopting a clear wait-and-see stance. By May, markets had shifted further, with expectations of near-term cuts fading and some investors beginning to contemplate tighter policy rather than easier policy if inflation failed to cool. The arrival of a new Fed chair in May added another layer of uncertainty to the policy outlook.

Fiscal policy and sentiment

On the fiscal front, the federal deficit hovered near 6% of GDP, supported by strong defence spending and rising debt-service costs. With a divided Congress likely, large-scale reform appears improbable in

the near term, making the deficit a longer-term concern rather than an immediate market driver.

Sentiment, meanwhile, painted an even weaker picture in May. Consumer confidence remained under pressure, and the University of Michigan's consumer sentiment index fell to 44.8, its lowest level on record. The strain fell hardest on lower-income and younger households, as higher fuel and living costs continued to squeeze real incomes, even as wealthier consumers benefited from rising equity markets.

Political uncertainty and external risks

The conflict in Iran remained the dominant external risk. Much depends on whether shipping through the Strait of Hormuz normalises, as prolonged disruption could keep energy prices and inflation elevated for longer. Yet by late May, hopes of a possible agreement had helped push oil prices down from their highs, offering some relief even though the broader situation remained unstable.

Trade policy added further uncertainty, with tariffs easing from earlier peaks yet remaining subject to legal challenges and fresh investigations. Together with questions about the Fed's future direction under new leadership, these risks suggest the road ahead will remain bumpy, even if the underlying economy remains resilient.

“CORPORATE BONDS TOLD A MORE UPBEAT STORY. INVESTMENT-GRADE SPREADS TIGHTENED BY ROUGHLY 5 TO 6 BASIS POINTS IN MAY, SUPPORTED BY RESILIENT RISK SENTIMENT, STRONG EARNINGS AND STEADY DEMAND.”

JAPAN

Japanese markets navigated a turbulent yet constructive spring. Across March, April and May 2026, investors weighed domestic political stability against sharp swings in global risk appetite, driven largely by tensions in the Middle East and shifting expectations for interest rates.

Japanese equities staged a notable recovery after an early correction, government bonds reacted to evolving Bank of Japan signals, and inflation remained firmly in focus.

Equities find their footing after a bumpy start

The quarter opened on solid ground. Japanese equities had

been buoyed earlier in the year by a decisive Liberal Democratic Party win in the House of Representatives election, which lifted hopes for political stability and pro-growth “high-pressure economy” policies. That optimism carried into the new period, but it did not go unchecked.

March brought a sharp reversal. As in many other markets, Japanese shares pulled back, largely due to external pressures. Conflict in the Middle East pushed energy prices higher and heightened supply concerns, while a secondary worry centred on private credit and lending to business development companies. Fears of stagflation, with stubborn inflation paired

with slowing growth, weighed heavily on sentiment.

Spring rebound led by technology

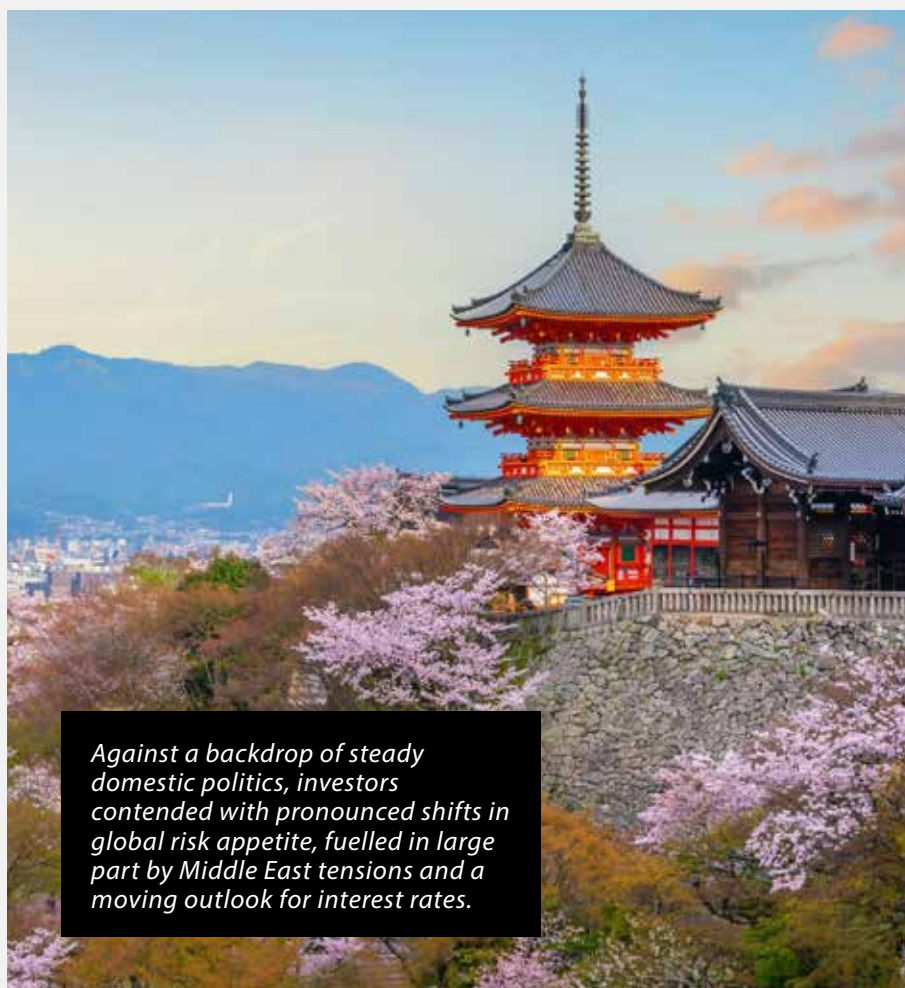
April told a far more encouraging story. Japanese equities bounced back from the March correction with real conviction. The TOPIX Total Return rose 6.6%, while the Nikkei 225 climbed an impressive 16.1% in yen terms. The improvement closely tracked headlines from the Middle East, particularly ceasefire negotiations between the US and Iran. Although progress came in fits and starts, the prospect of an earlier resolution lifted risk appetite and fuelled the recovery.

Sector leadership came largely from artificial intelligence-related names. These stocks reflected solid near-term fundamentals and durable medium- to long-term growth expectations. Bank shares also found support late in the month, helped by firmer domestic interest-rate expectations. By May, the rebound had broadly held its ground, with investors rotating between technology leaders and financials as rate signals firmed and global conditions steadied.

Government bonds respond to policy signals

Japanese government bonds had plenty to digest. With the Bank of Japan keeping policy in focus, yields moved in step with shifting expectations about the path of interest rates. Through March, the central bank’s cautious tone, combined with energy-driven inflation concerns, kept the bond market on alert. Higher yields generally reflected a market bracing for the possibility that policymakers might need to act more firmly down the line.

As April progressed and the Bank adopted a more hawkish tone than many had anticipated, bond



Against a backdrop of steady domestic politics, investors contended with pronounced shifts in global risk appetite, fuelled in large part by Middle East tensions and a moving outlook for interest rates.



Headlines held considerable sway over market sentiment, which shifted from unease in March to a sense of relief in April, before settling into a more tempered confidence by the end of the period in May.

markets adjusted accordingly, and that repricing continued into May as investors reassessed how long policy would remain supportive.

Inflation and interest rates stay in the spotlight

Inflation sat at the heart of the spring narrative. In March, the Bank of Japan left interest rates unchanged at 0.75%, exactly as markets expected, but issued a clear warning: higher energy prices risked stoking underlying inflation. That message came at an uneasy moment, as fears of a prolonged conflict and rising energy costs fuelled broader stagflation concerns across global equities, including in Japan.

The picture strengthened by month-end in April. The Bank again held rates steady, yet its tone turned more hawkish than anticipated. That subtle shift mattered. It signalled growing confidence that the economy could withstand tighter

conditions and gave bank shares a welcome lift. By May, the debate had moved on from whether inflation pressures were real to how persistent they might prove, leaving rate expectations delicately balanced.

Fiscal policy and the mood of the market

Fiscal policy provided an important backdrop throughout the period. The earlier electoral mandate had raised expectations for a growth-oriented agenda, and that sense of policy direction helped sustain sentiment even when external shocks rattled markets. Investors broadly welcomed the prospect of measures to support demand and keep the recovery on track.

Market sentiment proved highly sensitive to headlines, swinging from anxiety in March to relief in April and to a more measured confidence by May. This pattern is a useful reminder that mood can shift quickly. If geopolitical

tensions ease and domestic policy remains supportive, sentiment may continue to improve; if energy prices spike again, caution could return just as quickly.

Political uncertainty and external risks

Despite all the spring optimism, risks remained firmly on the table. Domestically, the political landscape looked more settled than it had in some time, yet markets rarely take stability for granted. Any wobble in the policy agenda could test investor patience.

Externally, the Middle East remained the dominant factor. Energy prices and supply concerns showed how quickly an overseas event can ripple through Japanese markets. Add lingering questions about private credit, and the case for vigilance was clear. The base case heading into the summer was constructive, but the balance of upside and downside risks could shift with little warning.

ASIA (EX JAPAN)

The spring months tested investors across Asia ex-Japan, delivering a striking mix of fear and optimism. A Middle East conflict and a spike in oil prices triggered a steep sell-off in March across the region, before a powerful April rebound saw the MSCI AC Asia ex Japan Index recover 16.3% in US dollars, led by semiconductors and AI demand.

Taiwan and South Korea benefited most from the AI investment cycle, while Indonesia struggled following an MSCI index freeze. By May, calmer oil prices and patient central banks helped markets stabilise, even as external risks persisted, including oil price volatility, the path of global interest rates and geopolitical tensions.

For consumers watching their savings and investments, the period served as a useful reminder that regional markets can move quickly. Here, we walk you through what happened, why it mattered, and what it could mean for the months ahead.

A volatile start to the quarter

Asia-Pacific ex-Japan equities recorded negative returns in the first quarter of 2026. After a strong run in January and February, many countries and sectors saw a sharp reversal in March as conflict in the Middle East unsettled investors. Brent crude prices climbed above \$100 a barrel, and that rise quickly triggered a risk-off mood among energy-importing nations across the region.

South Korea managed to finish the quarter in positive territory, but only because robust demand for AI-related semiconductors had driven substantial gains earlier in the year. The Middle East conflict then triggered a dramatic March sell-off, as investors fretted about the impact of higher oil prices on the country's energy-dependent economy. Thailand also finished higher, with early optimism fuelled by a surge in exports and hopes that the pro-business Bhumjaithai Party's election victory might finally end years of political instability.

Diverging fortunes across markets

Indonesian stocks fell after MSCI signalled an interim freeze on adding Indonesian companies to its indexes, citing concerns over limited corporate transparency and opaque ownership structures. India underperformed as well, weighed down by a weaker rupee and rising energy costs. Onshore Chinese equities also declined in the first quarter, reflecting slowing domestic growth and softer export demand.

At the sector level, information technology recorded a double-digit gain, driven by strong demand for semiconductors and AI-related hardware. Software firms lagged, particularly cloud and enterprise service providers, as investors grew cautious amid geopolitical tensions and higher interest rates. Industrials posted modest gains, while communication services and consumer staples were among the weakest performers.



Powerful April rebound

April brought a dramatic shift in fortune. The MSCI AC Asia ex Japan Index rose 16.3% in US dollars, recovering much of the ground lost during the March turmoil. The Taiwan region and South Korea led the way, supported by their dominant positions in semiconductor manufacturing and advanced memory. Both continued to benefit from strong global demand for AI infrastructure and the rapid expansion of data centres.

India also recorded solid gains, supported by resilient domestic growth and continued investor inflows. Indonesia, by contrast, declined again, held back by its sensitivity to higher energy prices and a more fragile external balance. Mainland China and the Hong Kong SAR posted more muted returns, as concerns about domestic growth and the property sector lingered.

Sector leaders and laggards

Information technology was the clear standout in April. Returns were driven by sustained momentum in AI-related investment and strong earnings expectations across semiconductor and hardware-linked companies. Industrials also performed well, benefiting from exposure to capital expenditure and infrastructure build-out linked to the AI cycle. Materials added to the gains as improving global manufacturing sentiment supported demand.

Communication services was the weakest sector. It recorded more subdued earnings and had limited direct exposure to the AI catalysts driving the broader market. As May arrived, the rally broadened slightly, with investors encouraged by steadier oil prices and signs that the worst of the Middle East disruption had passed.

Steadier ground in May

By May, the mood had eased



The spring months tested investors across Asia ex-Japan, delivering a striking mix of fear and optimism, as markets reacted to shifting economic signals, geopolitical tension, and uneven regional growth.

noticeably. Brent crude eased from its March peak as fears of a wider regional conflict faded, offering welcome relief to energy importers such as India, South Korea and Thailand. Equity markets held on to much of their April gains, and trading volumes settled into a more orderly rhythm. Taiwan and South Korea remained firm favourites, with the AI investment cycle showing few signs of slowing.

China and Hong Kong, however, remained relatively subdued. Investors continued to seek firmer evidence that domestic demand was reviving and that the property sector was stabilising. Indonesia struggled to regain confidence in the wake of the MSCI freeze, underscoring how governance concerns can weigh on a market long after the initial headlines fade.

Bonds, inflation and interest rates

Asia ex Japan bond markets mirrored the same shifting tides. In March, the spike in oil prices stoked inflation worries and pushed yields higher, as investors demanded greater compensation for holding longer-dated debt. As crude prices retreated through April and May, inflation expectations cooled and bond

markets steadied, allowing yields to drift lower in several markets.

Central banks across the region largely held their nerve. Several adopted a patient, data-led stance, reluctant to cut interest rates while energy-driven price pressures remained uncertain. By May, with inflation appearing more contained, expectations grew that policymakers in markets such as India and Indonesia might eventually have room to ease, which in turn supported local bonds.

Fiscal support and the outlook

On the fiscal front, several governments signalled a willingness to support growth. Targeted spending on infrastructure, technology and energy security helped underpin investor confidence, particularly in markets linked to the AI build-out. Political developments also mattered. Thailand's election outcome raised hopes of greater stability, while Indonesia's transparency concerns served as a cautionary note for cautious investors.

For now, resilient AI demand, easing inflation and supportive fiscal policy have left the region on a more confident footing heading into the summer. That said, much could still hinge on whether the AI investment cycle maintains its pace and whether China can offer firmer signs of a domestic recovery.

EMERGING MARKETS

The period proved eventful for emerging markets, with sharp swings in sentiment. A flare-up in the Middle East unsettled investors in March, only for a swift recovery to take hold through April, when the MSCI EM Index recorded its strongest absolute monthly performance since 2009.

Technology-driven markets in Asia led much of the movement, with Korea and the Taiwan region delivering double-digit gains, while Latin America showed steady strength. As May arrived, the recovery's

momentum carried forward, yet investors weighed the durability of the rebound against lingering risks, watching closely to see whether the April ceasefire would hold.

The themes that shaped March and April—oil prices, AI demand and geopolitical tension—remained front of mind through May. This commentary looks back at how emerging market equities and bonds performed, what shaped inflation and policy decisions, and the political and external factors that kept markets on their toes.

A quarter of two halves

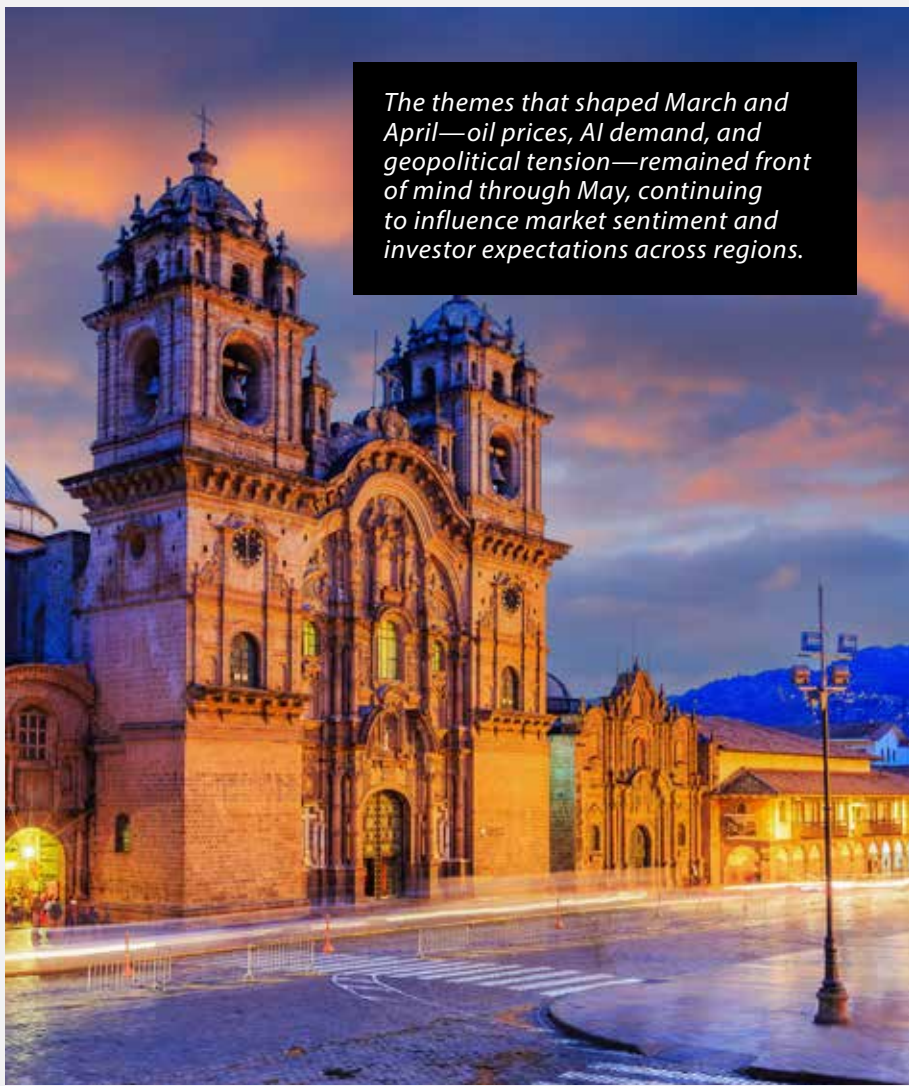
Emerging markets (EM) finished the first quarter of 2026 with marginally negative returns, yet still outperformed the MSCI World Index. Early gains came from the large technology-focused markets of Korea and the Taiwan region, supported by a softer US dollar, which fell by around 3% in January and February, and by continued enthusiasm for artificial intelligence. Latin America added further support, while India weighed on the broader picture.

The mood shifted dramatically in March. Conflict in the Middle East triggered a sharp reversal, with rising energy costs. Brent crude jumped more than 20% during the month, disrupting supply chains and broad uncertainty weighing on risk appetite. Energy-importing economies such as Korea, the Taiwan region and India felt the strain most acutely, erasing much of the optimism built up over January and February.

Regional winners and laggards

Latin America stood out as the strongest performer over the quarter, with Colombia, Brazil and Peru leading the way, each recording solid gains in US dollars. Korea also delivered double-digit returns in dollars, driven by ongoing demand in the technology sector, particularly for memory-related stocks, which rallied amid tight supply and firm pricing.

Saudi Arabia surprised on the upside despite its proximity to Iran, benefiting from higher oil prices and its ability to continue exporting via the Red Sea facility at Yanbu. The Taiwan region gained too, although a March correction of close to 10% reflected its sensitivity to energy prices, especially among power-hungry semiconductor names.



The themes that shaped March and April—oil prices, AI demand, and geopolitical tension—remained front of mind through May, continuing to influence market sentiment and investor expectations across regions.

MARKET REVIEW

Elsewhere, the picture was tougher. South Africa fell behind its peers as higher oil prices, a weaker currency and inflation worries took hold, though firmer precious metals prices, with gold and platinum both climbing during the quarter, softened the blow. Egypt, Kuwait, Qatar and the UAE all trailed the index, largely owing to their proximity to the conflict.

Onshore China struggled as AI developments pressured internet stocks, even though its large oil reserves and diverse energy mix left it better placed to absorb the shock. India was among the weakest, held back by growth concerns, heavy reliance on oil imports (roughly 85% of its needs) and stretched valuations, with valuations trading well above their long-term averages.

A powerful April recovery

April brought a striking turnaround. Emerging markets rebounded sharply, more than recouping March's losses, and the MSCI EM Index recorded its strongest absolute monthly gain since 2009, rising more than 10% in US dollar terms. As investors judged the economic fallout from the conflict to be contained, confidence returned quickly. A two-week ceasefire announced between the US and Iran further supported risk appetite, helping Brent crude retreat from its March highs.

Korea was the standout, rallying to fresh all-time highs as sentiment reversed after the heavy March sell-off. Hopes of a lasting US–Iran agreement eased fears of rising input costs and supply disruption, which matter greatly to such an import-dependent economy. Upbeat earnings across the AI supply chain added momentum. The Taiwan region followed a similar path, lifted by strong first-quarter results from AI-related companies and increased spending guidance from large US technology firms, several of which raised capital expenditure forecasts for the year ahead.



Emerging-market bonds reflected equity market tensions, particularly in oil-importing nations, as investors demanded higher compensation for inflation, currency weakness, and local-currency debt risk.

Mixed fortunes across the board

Not every market shared in the rebound. India lagged its regional peers despite positive dollar returns, as its IT services sector remained exposed to the rise of AI. Resilient growth, with GDP still expanding at a healthy clip, could not fully offset inflation risks from higher oil prices and concerns about already rich valuations. Smaller markets, including Poland, the UAE, Thailand and Malaysia, also trailed, though they still managed positive returns.

Brazil underperformed even as its economy showed broad momentum. Mainland China, South Africa and Saudi Arabia likewise finished behind the index. China recorded muted returns, given limited exposure to the AI hardware boom, while onshore investors fretted over elevated oil prices.

South Africa faced similar inflation pressures, while Saudi equities slipped amid softer oil output, reflecting the kingdom's continued production restraint and regional risk. Indonesia was the weakest market, falling in US dollar terms after MSCI extended its reforms review to June 2026, thereby delaying any possible reclassification.

Bonds, gilts and the fixed income view

Emerging market bonds mirrored the same push-and-pull seen in equities. The March risk-off mood pushed yields

higher in oil-importing nations, with some local benchmark yields rising by 30 to 50 basis points as investors demanded greater compensation for currency and inflation risks. Local-currency debt in countries facing weaker exchange rates came under particular pressure during this period.

April's calmer tone helped stabilise this corner of the market. As energy fears faded and the ceasefire held, spreads on hard-currency debt narrowed by around 20 to 30 basis points, and demand for higher-yielding issues improved. Heading into May, fixed-income investors grew more constructive, gradually returning to local-currency debt as currency pressures eased and inflation fears began to settle.

Through May, the steadier backdrop encouraged a cautious search for yield, though many remained selective given the risk that renewed geopolitical tension could quickly reverse the improvement. Investors with an eye on UK gilts and developed-market government bonds noted that movements in those safe-haven assets continued to shape flows into and out of emerging-market debt, with relative yields remaining a key consideration throughout May.

Inflation, interest rates and policy

Inflation remained firmly in focus throughout the period. The spike in oil prices in March, when Brent climbed above \$90 a barrel, heightened the risk of imported inflation across energy-dependent economies, complicating the task facing central banks. Several policymakers signalled caution, wary of cutting rates too quickly while price pressures lingered.

By May, the picture looked a little more reassuring, as April's calmer energy markets fed through into steadier inflation expectations. Even so, central banks across emerging markets remained measured throughout May, with many holding policy rates steady, keeping a close watch on oil prices and reluctant to commit to a firm path

for interest rates while the durability of the recovery was still being tested.

Fiscal policy and market sentiment moved in tandem. Hungary offered a clear example in April, when the Tisza party's landslide election victory ended Orban's 16-year tenure and raised hopes of EU funds being unlocked and constitutional reform. That result lifted Hungarian assets sharply, with the market delivering double-digit returns in US dollars, showing how political change can swiftly reshape investor confidence.

Political uncertainty and the road into May

Political and external risks defined much of the quarter. The Middle East conflict was the dominant theme, shaping energy prices, supply chains and broader sentiment. As markets moved through May, investors remained cautious, closely watching whether the US–Iran ceasefire would hold and how durable the April recovery might prove.

Attention in May centred on signs of renewed escalation, the stability of oil supply through key export routes such as the Red Sea and the Strait of Hormuz, and the risk that fresh flare-ups could quickly undo the gains made in April. Political developments also remained in focus, with investors mindful that the kind of swift change seen in Hungary could reshape sentiment elsewhere as May progressed.

The themes carried into May were clear. Continued strength in AI demand supported the technology-heavy Asian markets throughout the month, with Korea and the Taiwan region together accounting for a sizeable share of the EM index, while oil prices remained the key swing factor for importers and exporters alike.

As May unfolded, investors remained alert to inflation data, central bank signals and any renewed geopolitical tension that could quickly unsettle the improved mood, keeping a close watch on whether the April recovery would continue or stall as the month wore on.

GLOBAL BONDS



Global government bond markets faced a rare mix of pressures, with conflict in the Middle East, rising energy prices, and stubborn inflation all pulling in the same destabilising direction over the period.

The spring of 2026 was a testing time for bond investors. Between March and May, global government bond markets faced a rare mix of pressures, with conflict in the Middle East, rising energy prices and stubborn inflation all pulling in the same direction.

Gilts, US Treasuries and eurozone bonds each told their own story, yet a common thread ran through them all: uncertainty. For anyone holding bonds, or considering them, understanding what drove these moves can help make sense of where things may head next.

Here is a clear, jargon-light guide to a remarkable three months.

Turbulent start across global markets

March set the tone, and it was a difficult one. The conflict in Iran dominated headlines and quickly spilled into financial markets, triggering volatility and a notable sell-off in government bonds. Because bond yields move inversely to prices, that sell-off pushed yields higher across the board. There was some regional variation, but the overall direction was clear.

US Treasuries proved the most resilient, partly because the American economy is less exposed to imported energy shocks. Elsewhere, the energy price shock and its potential to feed inflation led markets to price in interest rate rises, even in countries where rate cuts had recently been expected. This marked a striking reversal of sentiment in a matter of weeks.

When borrowing costs refused to fall

Interest rates and inflation were at the heart of the story. In the US, rates remained on hold throughout the period, at 3.5% to 3.75%. At the

Federal Reserve's March meeting, the then Chair Jerome Powell said the Fed would need to see further "progress on inflation" before cutting rates, given its dual focus on prices and employment. Markets had earlier expected cuts later in the year, supported by signs of labour market weakness and anxiety about AI-driven business disruption.

European government bonds underperformed US counterparts as the region's reliance on energy imports fuelled fears of more persistent inflation. The European Central Bank left its deposit rate unchanged at 2%, with President Lagarde stating the bank was "well positioned and well equipped to deal with a major shock". The message was steady, but the caution was unmistakable.

How the gilt market felt the strain

The reaction in UK gilts was even sharper. In February, the Bank of England had held rates at 3.75% with a split vote, with four members backing a cut. Investors expected a reduction as soon as March. Instead, the rapid rise in energy prices prompted a hawkish turn, with all nine committee members voting to hold the base rate at 3.75%.

In credit markets, US corporate bonds outperformed their European counterparts across both investment-grade and high-yield segments. Investment-grade bonds are issued by borrowers with higher credit ratings and lower perceived default risk, while high-yield bonds are issued by lower-rated borrowers and pay higher yields to compensate for that extra risk. This distinction matters when markets turn nervous.

Oil, ceasefires and the return of stagflation fears

April brought no respite. Oil prices

stayed elevated as disruption in the Middle East continued, with Brent crude briefly topping \$120 a barrel for the first time since 2022. Yields initially fell on news of a temporary US-Iran ceasefire, reflecting hopes of broader de-escalation. By mid-April, however, talks had stalled, and the Strait of Hormuz remained effectively closed.

With that key shipping route blocked, the market's attention swung back towards stagflation, the uncomfortable mix of weak growth and rising prices. Yields climbed again. Yet corporate bond markets held up relatively well and delivered positive returns, with interest-rate swings, rather than any weakening in company fundamentals, weighing on performance. High yield outperformed investment grade, and euro-denominated issuers generally fared better than their US peers.

Fiscal worries meet a watchful market

Fiscal policy and market sentiment grew increasingly intertwined. In the US, Treasury yields rose across the curve in April. Rates were held at 3.50% to 3.75%, with one policymaker pushing for a cut and three resisting any easing bias. Powell said the "policy stance is in a good place for us to hold" amid Middle East uncertainty. Meanwhile, the Senate Banking Committee approved Kevin Warsh's nomination to succeed Powell as Chair, with Warsh seen as a relatively market-friendly choice.

In the eurozone, Germany's 10-year Bund yield reached a post-2011 high, though peripheral markets outperformed the core, reversing March's trend. Hungary stood out after April's election delivered a decisive opposition win, raising hopes that frozen EU funds might be unlocked. The ECB held its rate, but its messaging remained cautious throughout.

Politics, elections and the price of uncertainty

Political uncertainty added a distinctly British flavour to the sell-off. The UK 10-year gilt yield reached its highest level since 2008. Sustained higher energy prices were largely to blame, but fiscal and political vulnerabilities ahead of May's local elections also weighed heavily. The Bank of England's committee voted 8 to 1 to hold the base rate at 3.75%, with the minutes underlining the unusually high degree of uncertainty.

May then brought those political risks to the fore. After Labour suffered significant losses in the local elections, questions about the government's direction and its commitment to fiscal rules pushed 10- and 30-year gilt yields to their highest levels in decades, with 30-year gilts within touching distance of 6%. Investors had treated the government's deficit-reduction plans as an anchor, so any hint of a more expansionary, higher-borrowing approach unsettled the market.

What the wider picture told investors

By late May, this was no longer simply a UK or US story. Across developed markets, long-term yields continued to climb as investors demanded higher compensation for inflation uncertainty, fiscal deterioration and geopolitical risk. What began as a "higher-for-longer" adjustment had broadened into a wider repricing of risk.

There were, encouragingly, pockets of resilience. UK banks continued to buy shorter-dated gilts, and insurers remained active at the long end, suggesting neither group faced pressure to sell. With energy supply still fragile, markets even priced in the possibility of UK rate hikes as insurance against further inflation, a notable shift from the cuts expected only months earlier.

Summary

The path ahead hinges on a few moving parts

The spring months tested investors' resolve as geopolitical uncertainty cast a long shadow over global markets. Escalating tensions reshaped risk sentiment, prompting equities to swing between cautious optimism and sharp pullbacks as traders weighed resilient corporate earnings against mounting headwinds. Bond markets told their own story, with yields shifting as expectations of central bank policy evolved and safe-haven demand ebbed and flowed. Meanwhile, inflation proved persistent yet gradually moderating, offering tentative relief without fully easing pressure on policymakers. As we look ahead, navigating the delicate balance between geopolitical risk and economic recovery will remain central to investment decisions.


Markets proved more resilient than the March turmoil suggested, yet leadership remained narrow and the recovery felt tactical rather than broad-based. A spike in Middle East tensions and oil prices triggered a sharp sell-off, before a powerful April and May rebound recovered much of the lost ground. Technology and artificial intelligence did much of the heavy

lifting, pushing US equities to fresh highs and driving double-digit gains in Japan, the Taiwan region, South Korea and the wider emerging-market complex.

Inflation eased, but unevenly. UK CPI slipped to 2.8% by April, while euro-area and US inflation edged higher on energy costs, leaving central banks firmly in wait-and-see mode. The Bank of England, Federal Reserve and ECB all held rates steady, prioritising patience over action. Bonds bore the brunt of the strain: gilts, Treasuries and Bunds repriced higher as inflation worries, fiscal concerns and political noise pushed long-dated yields to multi-decade highs. UK 30-year gilts approached 6% after May's local-election losses. For investors, the period reinforced a simple lesson: diversification across regions, sectors and asset classes helped smooth bumps that concentrated positions could not.

The path ahead hinges on a few moving parts. If energy prices stabilise and ceasefire hopes hold, easing inflation could give central banks room to consider rate cuts, supporting both equities and bonds.

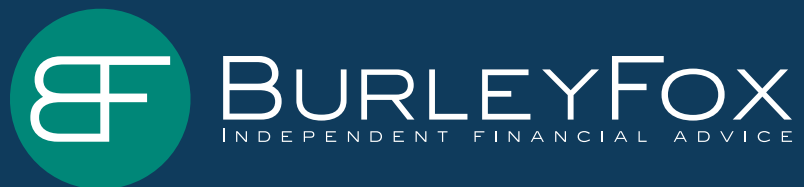




Escalating tensions reshaped risk sentiment, prompting equities to swing between cautious optimism and sharp pullbacks as traders weighed resilient corporate earnings against mounting headwinds.

However, a renewed flare-up in the Middle East would likely revive stagflation fears and keep yields elevated. Watch whether earnings strength broadens beyond a handful of mega-cap technology names, and expect continued regional divergence; Asia's AI cycle remains a tailwind, while China and parts of Europe still seek firmer footing. Fiscal discipline, particularly in the UK, will remain under close scrutiny.

Please note: Any past performance mentioned is not a guide to future performance and may not be repeated. The sectors, securities, regions, and countries shown are for illustrative purposes only and are not to be considered a recommendation to buy or sell.



Burley Fox Limited

t: 029 2167 9770

e: info@burleyfox.com

w: www.burleyfox.com