

05/2026

Market Snapshot

Equity Snapshot

United States

US equities ended the month higher. The S&P 500 and Nasdaq Composite indices touched fresh highs as the so-called peace dividend drove stocks higher amid reports that Washington and Tehran could be closing in on a peace deal. However, stocks gave back some early gains as talks stalled, with spiking oil prices reigniting inflation fears and pushing bond yields higher. Chip stocks also sold off on profit-taking amid mounting concerns that a higher interest rate environment will prove volatile for richly valued tech stocks. Trans-Atlantic tensions flared when US President Donald Trump threatened to slap a 25% tariff on all car exports from the European Union, and again when he threatened to withdraw 5,000 US troops from Germany and a pullback from NATO. On the domestic front, redistricting chaos ahead of the US mid-term elections in November led to accusations of partisan gerrymandering and dampened investor confidence. More positively, the run-up to the long-awaited meeting between President Trump and Chinese President Xi Jinping in Beijing stoked optimism around a potential thaw in Sino-American relations. Solid first-quarter corporate earnings were an additional tailwind, while renewed optimism around a peace deal supported stocks into month end.

US economic data releases were mixed. US exports increased by 2.0% in March, hitting a new record of USD 321 billion. Crude oil and refined product exports from the US Gulf Coast continued to soar amid surging global demand from Europe, Asia and Africa. Labour market releases remained resilient, with non-farm payrolls data showing that the US economy added 115,000 jobs in April, beating consensus estimates and marking the second consecutive monthly rise, while the US unemployment rate held steady at 4.3%. Elsewhere, the annualised first-quarter GDP print was revised down to 1.6% from an initial estimate of 2.0%, while the Federal Reserve Bank of Atlanta's GDPNow running estimate of annualised economic growth ticked up to 4.3% for the second quarter. US retail sales eased to 0.5% in April following March's downwardly revised increase of 1.6%, although the war-related inflationary uptick is partly responsible for the monthly gain. Meanwhile, the University of Michigan Consumer Sentiment Index fell from April's final reading of 49.8 to a record low of 44.8 in May as domestic petrol prices remained elevated.

Annual headline inflation rose from 3.3% in March to a hotter-than-expected 3.8% in April – the highest level since March 2023 – as surging petrol and diesel costs pushed consumer prices higher. Meanwhile, the Federal Reserve's (Fed) preferred inflation gauge, the core personal consumption expenditures prices index (PCE) – which strips out volatile food and energy costs – rose by a softer-than-expected 0.2% in April on a sequential monthly basis, equivalent to an annualised reading of 3.3%, dimming the prospect of near-term monetary policy tightening. In other US central bank news, Kevin Warsh was sworn in as the 17th Fed

chair, succeeding Jerome Powell. However, Powell will continue to sit on the board as a governor – an extraordinary step last taken by former Fed Chair Marriner Eccles in 1948 – until the Department of Justice investigation into the cost of renovations at Fed headquarters is formally closed.

Europe

European equities rose in May but finished slightly behind the global index. The Stoxx 600 Index tracked Wall Street higher early as optimism around a breakthrough in US-Iran peace talks helped to ease oil supply and inflationary concerns. However, reports of clashes near the Strait of Hormuz intermittently roiled markets. Elsewhere, Russia intensified attacks on Ukraine, including a hypersonic ballistic missile strike on multiple targets in Kyiv. A number of suspected Russian drone incursions were also reported in Romania, Finland and the Baltic states. Renewed trans-Atlantic tensions also rattled sentiment, with US President Donald Trump threatening to withdraw 5,000 troops from Germany after Chancellor Friedrich Merz criticised the US war with Iran. German carmakers plunged after President Trump threatened to impose a 25% tariff on all auto exports from the European Union to the US, with Brussels calling on Washington to honour last year's US-EU bilateral trade agreement capping levies at 15%. Meanwhile, in an attempt to calm relations, EU lawmakers agreed provisional wording to remove EU levies in accordance with the so-called Turnberry Agreement, after President Trump set a 4 July deadline for the bloc to either comply or face higher tariffs.

Economic fundamentals for the euro zone underwhelmed. Annual inflation in the bloc rose from 2.6% in March to 3.0% in April – the highest level since September 2023 – as soaring energy costs pushed the headline figure well above the European Central Bank's (ECB) 2% target. After leaving rates on hold at 2.0% in April for the seventh consecutive meeting, speculation mounted around the likelihood of monetary policy tightening from the ECB as early as its next meeting in June. In addition, the European Commission cut the European Union GDP forecast from 1.6% to 1.1% and lowered the euro-zone estimate to 0.9%. Euro-zone exports fell 5.5% in March compared with the same time last year, while industrial production rose by 0.2% on a sequential monthly basis in March, although this was equivalent to an annualised decline of 2.1%.

Asia

Asia ex Japan equities extended their gains in May. South Korea was the strongest performer, followed by Taiwan, as the accelerating global AI and semiconductor upcycle lifted chip leaders and their wider supply chains. China stocks saw some pullback overall with macro data remaining subdued, but tech stocks continued their rally. Onshore A shares outperformed offshore markets, with large internet platforms funding rotation into companies offering more direct exposure to AI related themes.

India equities moved modestly lower in May and closed the month behind the broader EM index. Stocks rose initially after Prime Minister Narendra Modi's Bharatiya Janata Party (BJP) consolidated gains in state elections, reinforcing expectations of political stability and policy continuity. However, foreign investor outflows subsequently dragged Indian indices lower as the US and Iran traded fire in the Strait of Hormuz and oil prices continued their ascent above USD 100 a barrel. Domestic equity buying continued demonstrate resilience throughout the period.

Bond

Global bonds closed modestly higher, rallying towards the end of May as growing Middle East truce hopes and a fall in oil prices eased concerns about the inflation outlook. There was nevertheless some volatility, with US 30-year yields hitting 5.18% in mid-May, highest level

since 2007 before reversing sharply. Moves in major 10-year government bond yields were mixed as the UK and Germany saw declines for 20 bps and 10 bps respectively, while those of the US and Japan increased by 6 bps and 14 bps. Global corporate bonds delivered positive returns, with both the investment-grade and high-yield segments outperforming government debt.

Outlook

Markets continue to navigate a complex and uncertain environment as structural innovation intersects with a more challenging macroeconomic backdrop. Global growth has moderated, inflation risks have re-emerged in parts of the economy, and geopolitical tensions continue to influence energy prices, trade flows and fiscal priorities. While financial conditions have improved from the most restrictive phases of the cycle, policy uncertainty, elevated public debt, trade friction and the risk of higher-for-longer interest rates continue to shape investor sentiment.

Despite these challenges, we consider the long-term structural growth drivers linked to artificial intelligence, automation and digital infrastructure firmly intact. AI-related investment remains an important source of capital expenditure and productivity potential, supporting demand for semiconductors, cloud capacity, data centres, power infrastructure and advanced automation. These themes continue to expand addressable markets and, in many cases, reinforce the competitive positioning of well-managed, industry-leading businesses with scalable technology platforms and strong execution capabilities.

Over the near term, reduced macroeconomic visibility and elevated volatility are likely to favour agile companies with pricing power, resilient balance sheets and durable cash-flow generation. We continue to see robust underlying demand across key structural themes, including data infrastructure, electrification, automation and energy efficiency. At the same time, defence remains an area with strong medium-term visibility, underpinned by rising geopolitical risk, higher spending commitments and long-duration procurement pipelines.

In Europe, fiscal expansion and industrial policy remain important catalysts, particularly in areas linked to defence readiness, energy security, infrastructure, electrification and strategic industrial autonomy. The region continues to face cyclical headwinds, including uneven industrial momentum, higher energy sensitivity and a more uncertain inflation outlook. However, policy support, defence-related procurement and backlog visibility remain supportive across selected industries. We continue to maintain exposure to semiconductor equipment, automation, electrification and AI enablers, where structural demand should remain supportive of long-term earnings growth.

Against this backdrop, we retain a constructive medium-term view on quality growth. The current environment is likely to reward companies that can compound earnings through innovation, scale, pricing power and disciplined capital allocation, rather than relying solely on cyclical recovery or multiple expansion. Valuations appear more balanced relative to the durability of earnings in selected areas, and we expect market leadership to be increasingly driven by businesses with sustainable competitive advantages, resilient margins and strong free-cash-flow generation. For strategies anchored in quality and fundamental strength, we believe the current environment provides an attractive foundation for sustained, earnings-driven outperformance.

Source: Allianz Global Investors, as of 31 May 2026 unless otherwise stated.

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