

Monthly Global Market Watch



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Global Market Watch



U.S.

Building on the strong recovery in April, U.S. stocks rose across the board in May, driven by better-than-expected first-quarter earnings reports and a surge in AI infrastructure orders. The month was characterized by structural strength and a concentration of gains in blue-chip stocks. Catalysed by significant tariff cuts between China and the U.S. in Geneva, the semiconductor hardware supply chain—centered on AI servers and high-performance storage—performed particularly strongly, directly driving the Nasdaq to an 8.4% gain. Even after mid-month inflation data showed inflation still hovering near 4%, triggering a resurgence in expectations of renewed interest rate hikes in the second half of the year, the broader market did not experience a comprehensive reversal, indicating that investors placed greater emphasis on the continued resilience of fundamentals rather than the short-term policy disruptions themselves.

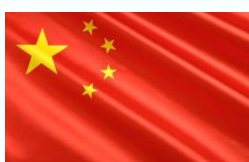
Looking ahead, investors need to focus on the “repricing of tightening expectations.” With inflation concerns unresolved and May’s nonfarm payrolls data exceeding expectations, the CME has now withdrawn its forecast for rate cuts this year. Should the Fed shift its policy toward rate hikes, the marginal tightening of macro liquidity will cap the valuation ceiling for risk assets. Focusing on the U.S. stock market, capital has concentrated on a handful of leading tech stocks; given their excessive short-term gains and highly concentrated ownership, this may trigger phased profit-taking and price corrections in the future. However, this is more likely to be a short-term correction that does not undermine the long-term fundamentals of strong corporate earnings. In terms of portfolio strategy, we recommend maintaining exposure to AI computing power and chip leaders, while moderately increasing allocations to healthcare and bioenergy—which trade at valuation discounts and benefit from green fiscal support—to diversify risk.



Europe & Japan

In May, the pan-European STOXX 600 Index rose 2.4% on expectations of geopolitical easing in the Middle East, but overall it remained trapped in a stagflationary dilemma of “economic slowdown and policy tightening.” Driven by rising energy and transportation costs, inflation rebounded across France, Italy, and Spain, while Germany’s core inflation remained stubbornly high, forcing central banks to shift toward tightening. The market widely expects a 25-basis-point rate hike in June, followed by further policy tightening. Given that Europe’s composite PMI has fallen to a two-year low and consumer confidence remains subdued, risk aversion in the market is intensifying. In Japan, first-quarter GDP grew by 2.1% quarter-on-quarter, exceeding expectations, driven by strong domestic consumption, public investment spurred by expansionary policies, and robust exports. The Nikkei 225 Index rose 11.9% in May. This has driven a shift in domestic retail capital toward domestic equities. As real wages turned positive and the benefits of the new NISA program materialized, household funds accelerated their shift from savings to equity allocations, and retail investors’ risk appetite rebounded.

Looking ahead, if energy and transportation costs continue to rise, Europe’s stubborn inflation will force the central bank to maintain a tight monetary policy. Against the backdrop of a lack of endogenous momentum and a declining composite PMI, the index’s upside potential remains limited. In Japan, attention should be paid to the sustainability of domestic consumption and the boost to purchasing power from wage increases. Meanwhile, as the central bank advances monetary policy normalization, the market is pricing in the pace of interest rate hikes. In terms of portfolio strategy, maintain a defensive stance on European allocations. For Japan, we recommend favoring growth stocks.



China

Over the past month, mainland and Hong Kong markets have exhibited “structural divergence and regional disparity.” Early in the month, driven by policy expectations, the Shanghai Composite Index rose. Subsequently, however, as the PMI fell to 50.0 and the CPI remained flat at 1.2%, with narrowing data volatility and limited marginal flexibility, traditional blue-chip stocks failed to gain momentum, causing the market to lose its short-term upward trend. Driven by strong growth in computing power orders and policy support, the market has favored “hard tech,” with the STAR 50 Index bucking the trend to rise by 11.4%. The Hang Seng Index has shown valuation resilience amid geopolitical tensions and rising expectations of U.S. interest rate hikes. Currently, the pace of IPO supply in Hong Kong is relatively fast, raising concerns it may exceed capital absorption capacity. Combined with capital flowing to high-growth markets such as South Korea, Chinese blue chips faced profit-taking at elevated levels, pressuring the Hang Seng Index to fluctuate and retreat.

Looking ahead, capital is seeking “value anchors” with long-term growth and counter-cyclical resilience. China’s trade surplus in May exceeded expectations, with exports growing 19.4% year-over-year. If the surplus continues widening, it will act as a buffer for the renminbi and valuations of China’s core assets. Although a pullback occurred in late May due to crowded trades, institutions such as Goldman Sachs and UBS raised their A-share earnings growth forecasts to 11%. QFII holdings have increased, with capital focusing on long-term value rather than short-term arbitrage. In terms of portfolio strategy, investors should be cautious of high leverage and overcrowding in A-shares, while in Hong Kong, focus should remain on scarce “hard tech” and high-dividend stocks.



Emerging Markets

Emerging markets continued to perform strongly in May, with the MSCI Emerging Markets Index rising 9.5% for the month, significantly outperforming global markets. The core driver of this rally has been pronounced internal divergence fueled by the global “AI resonance” trend. During this period, Taiwan and South Korea saw strong capital inflows, particularly into AI hardware, HBM (high-bandwidth memory), and computing infrastructure, enabling the tech hardware supply chain to emerge as a new type of high-conviction risk asset. Supported by sharp gains in foundry and memory chip sectors, the index underwent a historic structural shift, with the IT sector’s weighting exceeding 40% for the first time. However, the U.S. Federal Reserve’s high interest rate environment has constrained rate-cutting room in Latin America, while rising energy costs driven by Middle East tensions have worsened inflation pressures in India and Indonesia, leading to continued foreign capital outflows.

Looking ahead, the key question for the market is whether AI-driven growth momentum can be sustained. This depends on whether downstream demand can absorb rising component costs and on the pace of commercialization of data center investments. Although elevated energy costs caused by geopolitical risks in the Middle East, combined with a prolonged high-rate environment in the U.S., will continue to pressure currencies and foreign equity flows in sensitive markets such as India and Indonesia in the short term, emerging market central banks are demonstrating capital discipline and proactive defense. Along with deepening trade among developing economies, this structural divergence should not be viewed as a crisis. Portfolio strategy should favor markets with structural growth momentum, particularly in the technology hardware sector.



Crypto Assets & Commodities

In May, Bitcoin pulled back 3.48% from its highs. Rising tensions in the Middle East fueled inflation, while stronger-than-expected U.S. nonfarm payroll data triggered concerns that the Federal Reserve might resume rate hikes. The U.S. dollar index and Treasury yields climbed, directly compressing the risk premium of crypto assets. Under tightening liquidity conditions, speculative capital accelerated its outflow, leading to profit-taking and a technical correction in Bitcoin at elevated levels. After a sharp safe-haven rally earlier this year, gold entered a phase of range-bound fluctuations and consolidation in May, remaining within the USD 4,500–4,700 range. This was mainly due to rebounding inflation and geopolitical risks creating downside pressure on gold, while rising rate hike expectations significantly increased the holding cost of non-yielding assets.

Looking ahead, persistently high interest rates will continue to compress Bitcoin’s risk premium and restrain speculative inflows, making it difficult for the market to replicate liquidity-driven rallies in the near term. High rates also raise the opportunity cost of holding gold, creating downside risks for prices. However, global de-dollarization, central bank accumulation, and macroeconomic uncertainty will continue to provide strong long-term support for gold’s value. From a portfolio strategy perspective, gold may be accumulated on dips within its range, while Bitcoin requires caution against premium compression, with a more prudent, gradual positioning approach.



Fixed Income

The Bloomberg Global Aggregate Bond Index edged up 0.6% in May, but experienced significant volatility during the month, reflecting uncertainty surrounding the impact of Middle East conflicts on economic growth and inflation. Global inflationary pressures continued to rise, while the Federal Reserve adopted an increasingly hawkish stance. Yields on 2-year and 10-year U.S. Treasuries rebounded by 13 and 6 basis points, respectively, during the month, with markets even beginning to price in the possibility of further rate hikes. However, geopolitical tensions eased somewhat mid-month due to progress in U.S.–Iran negotiations. Among major markets, UK gilts outperformed due to lower-than-expected inflation, while credit markets demonstrated strong resilience supported by solid corporate fundamentals. Spreads for global investment-grade and high-yield bonds continued to narrow, with the Bloomberg Global High Yield Bond Index gaining 1.46%.

Looking ahead, global bond markets are entering a “policy observation phase.” Although oil prices have declined in the short term, central banks are likely to remain cautious until geopolitical conditions stabilize fully. Investors in bond markets should remain vigilant against volatility triggered by fiscal and geopolitical risks. With spreads at historically low levels, while corporate fundamentals still provide downside support for credit bonds, their valuation attractiveness has diminished. In contrast, some non-U.S. sovereign bonds, where inflation has begun to ease, along with high-yield and emerging market bonds that offer spread cushions, still present allocation opportunities in a volatile environment.

Performance of major market indices (in Local Currency)

Market Indices	1m (%)	3m (%)	6m (%)	1yr (%)	3yr (%)	5yr (%)
MSCI World Index	4.6	7.0	10.3	25.8	71.7	69.2
MSCI Emerging Markets Index	9.5	10.5	29.0	54.7	89.1	44.3
US S&P 500 Index	5.2	10.2	10.7	28.2	81.4	80.3
Europe STOXX 600 Index	2.4	-1.2	8.6	14.1	38.6	40.1
Japan NIKKEI 225 Index	11.9	12.7	32.0	74.7	114.7	129.8
Hong Kong Hang Seng Index	-2.3	-5.4	-2.6	8.1	38.1	-13.6
MSCI China Index	-3.5	-7.8	-10.4	3.0	29.0	-30.3
LBMA Gold Price PM Index	-1.4	-13.0	8.5	38.7	131.4	139.3
S&P GSCI Crude Oil Index	-16.9	30.4	49.2	43.7	28.3	31.7
iShare Bitcoin ETF	-4.0	11.9	-19.6	-30.1	-	-

Source : FE Analytics, Data as of 31-5-2026

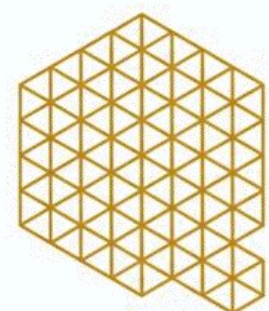
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