

Capital Markets Monthly **FIXED INCOME**

June 2026

CHARLES THOMSON

Head of Portfolio Management

charles.thomson@caiml.com



Bond Volatility Remains Persistently High

The US Treasury market experienced significant volatility during May. Long-end yields initially moved sharply higher on concerns surrounding inflation, fiscal deficits and continued Treasury supply, with the 30-year yield briefly exceeding the psychologically important 5% threshold. However, sentiment improved later in the month, resulting in a rally in duration and a retracement of much of the earlier sell-off. The curve flattened over the month, with the 2s30s spread narrowing from 109bp to 96bp as long-dated Treasuries outperformed. Economic data presented a mixed picture. Labour market indicators continued to point towards a gradual cooling in activity, with non-farm payroll growth slowing to 115,000. While this represented a deceleration from previous months, the outcome was nevertheless modestly above market expectations.

Initial Jobless Claims also drifted higher during the month, reinforcing the view that labour market conditions are gradually easing. Inflation data provided some encouragement, with monthly CPI moderating to 0.6% from 0.9% previously. However, the annual inflation rate continued to edge higher, highlighting the ongoing challenge facing policymakers and suggesting that progress towards the Federal Reserve's inflation target remains uneven. Against this backdrop, markets also digested the appointment of Kevin Warsh as the new Chairman of the Federal Reserve. While investors are still assessing the implications of the leadership change, Mr Warsh is generally viewed as a credible inflation hawk, supporting confidence that the Federal Reserve will remain committed to price stability even as growth momentum shows signs of moderating.

UK government bonds came under significant pressure during May, with long-dated yields rising sharply and the 30-year Gilt yield briefly reaching 5.86%, its highest level since 1998. The move reflected concerns over the UK's fiscal outlook, elevated government borrowing requirements and the broader global repricing of long-duration government bonds. However, sentiment improved as the month progressed, supported by more encouraging inflation data. Headline CPI inflation decelerated from 3.3% to 2.8%, while the decline in core inflation was particularly welcome, suggesting that underlying price pressures may be moderating. Although some upward pressure on inflation is likely to persist in the near term as earlier energy price increases continue to feed through the annual data, the latest figures were consistent with a gradual easing in

domestic inflationary pressures. Against this backdrop, investors increasingly judged that the Bank of England's Monetary Policy Committee may have scope to remain on hold in the near term, reducing the likelihood of further policy tightening. As a result, Gilts recovered a significant portion of their earlier losses and ended the month on a firmer footing.

European government bond markets recovered during May after a challenging start to the month. Sovereign yields moved higher in early trading as investors responded to the inflationary implications of the Middle East conflict, rising energy prices and the prospect of further ECB policy tightening. However, sentiment improved during the second half of the month as hopes grew for a resolution to the Iran crisis and the reopening of the Strait of Hormuz, leading to lower oil prices and a retracement of some of the earlier sell-off. At the same time, incoming economic data continued to point to a weakening euro area growth backdrop, providing support for high-quality government bonds. Nevertheless, inflation remains well above the ECB's target and concerns over potential second-round effects persist. As a result, while European government bonds ended the month on a firmer footing, the outlook remains challenging as markets continue to balance weaker growth against the likelihood of further monetary policy tightening.

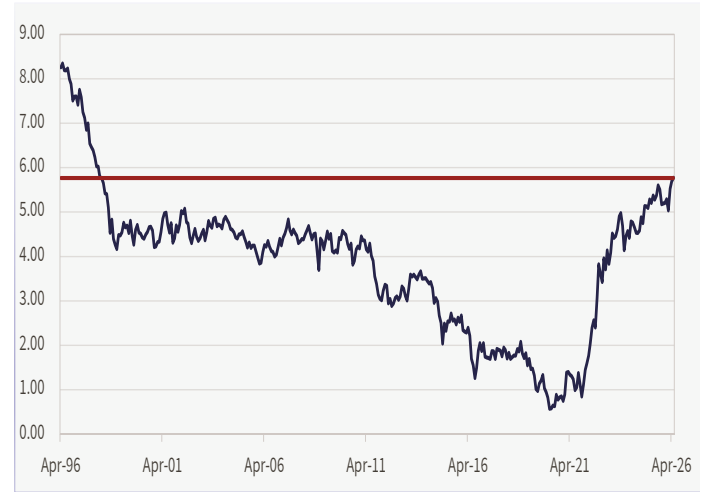
Japanese government bonds experienced a difficult month as yields moved sharply higher amid concerns over persistent inflation pressures, rising global bond yields and expectations that the Bank of Japan will continue its gradual policy normalisation. Long-dated JGBs were particularly weak, with investors demanding a greater term premium as the market adjusted to the prospect of reduced central bank support and higher policy rates over time. However, by month-end there were signs that the sell-off may have become overextended. Valuations have become increasingly attractive following the sharp rise in yields, while softer global risk sentiment and a moderation in energy prices provided some support for duration. Although the medium-term outlook remains challenging given the Bank of Japan's tightening bias and elevated inflation, the scale and speed of the recent move suggest that a period of consolidation or partial recovery in JGB prices would not be surprising in the near term.

Chinese government bonds delivered a relatively stable performance during May, supported by subdued domestic inflation, accommodative monetary policy and continued demand for high-quality fixed income assets. While yields remained range-bound, investor sentiment was aided by the resilience of the Chinese economy and increasingly positive momentum in the Renminbi, which continued to benefit from strong trade flows and growing international acceptance of the currency. Against a backdrop of heightened volatility in many developed market bond markets, Chinese government bonds continued to offer diversification benefits, supported by relatively attractive real yields and a stable policy environment.

Emerging market debt delivered another period of solid performance during May, supported by resilient global risk sentiment, a weaker US dollar and continued investor demand for higher-yielding assets. Spreads remained well contained despite ongoing geopolitical uncertainty and volatility in developed market rates, reflecting generally sound sovereign fundamentals across many emerging economies. However, valuations have become increasingly demanding following the strong rally of recent years. With the JPM EMBI Global spread trading at around 220bp over US Treasuries, spreads are now close to the tighter end of their historical range, suggesting that the scope for further spread compression and outperformance may be limited. While the asset class continues to offer an attractive carry profile, future returns are likely to depend increasingly on underlying income generation rather than further valuation gains.

The following chart shows the 30-Year UK Gilt yields back to levels last seen in 1998.

30-Year UK Gilt yields back to levels last seen in 1998



Source: Bloomberg Finance L.P., 31 May 2026.

Capital Markets Monthly FOREIGN EXCHANGE

June 2026

SLAWOMIR SOROCZYNSKI
Head of Fixed Income

slawomir.soroczynski@caiml.com



Waiting for the Truce

Financial markets navigated a complex macroeconomic backdrop in May, characterised by heightened geopolitical risks in the Middle East (supporting the US dollar and weighing on risk-sensitive currencies), evolving central bank expectations (with BOJ tightening anticipated, BOE pricing scaled back, and the ECB potentially turning more hawkish), and unresolved US trade policy uncertainty ahead of the July 4 EU tariff deadline and the June 30 copper tariff recommendation.

More broadly, these dynamics reverberated across global multi-asset markets, with geopolitical developments periodically driving safe-haven flows into the US dollar, government bonds, and defensive assets, while cross-asset volatility reflected changing expectations around global growth, persistent inflation, and policy divergence. Commodity markets remained particularly sensitive to trade and geopolitical headlines, with industrial metals, energy, and trade-exposed sectors acting as transmission channels into FX, rates, and equity markets.

Against this backdrop, investors increasingly focused on cross-regional relative value opportunities and portfolio diversification across asset classes as macro uncertainty remained elevated.

The FX market fully reflected these themes, with the US Dollar Index (DXY) recovering some of the underperformance recorded in the previous month. The April close below the key trend line — namely, the 200-day moving average — initially suggested further weakness. Several early attempts by the DXY to recover failed; however, uncertainty surrounding a peaceful resolution to the Hormuz crisis and rising US Treasury yields supported the dollar, pushing the DXY back above its key trend line near the 98.50 level.

Nevertheless, price momentum remained weak, with upward pressure fading around 99.00, where the index remained for the rest of the month.

Within the G10 currency bloc, performance was mixed, with valuations generally fluctuating within a $\pm 1.5\%$ range. The New Zealand dollar emerged as the best-performing currency, supported by a surprisingly hawkish central bank stance and previously bearish market positioning.

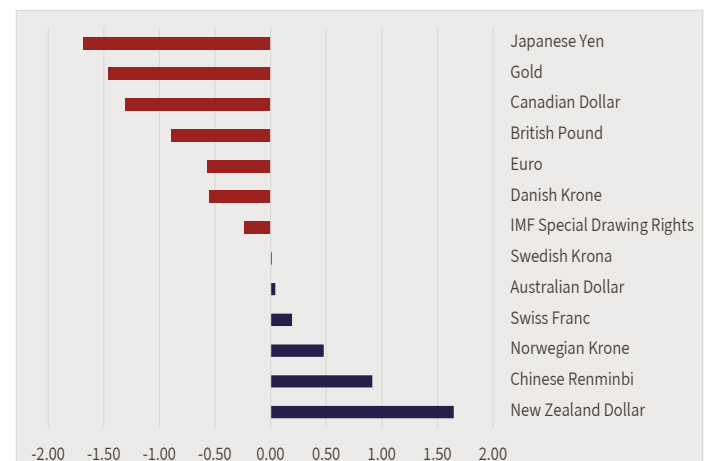
The Chinese renminbi again surprised to the upside and finished the month as the second-best-performing currency among G10 peers, supported by diversification flows and domestic investors reducing their bearish CNY positioning.

At the bottom of the G10 rankings, the Japanese yen (JPY) was the worst-performing currency in May. The JPY depreciated by more than 1.6% against the US dollar despite the largest quarterly currency intervention since 2004 and the first intervention campaign since 2024. Japan deployed a record $\yen11.735$ trillion (approximately \$73.7 billion) in currency intervention between April 28 and May 27. Nevertheless, the USD/JPY exchange rate finished the month not far below the key psychological 160.00 level.

The Canadian dollar was the second worst-performing currency, as weak economic data, a technical recession, a deteriorating labour market, trade tensions with the United States, and political risks in Alberta — including the possibility of a “Brexit-style” referendum — all contributed to the Loonie’s underperformance.

(Please see the table below for G10 currency performance in May).

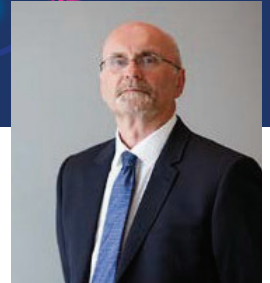
May performance vs. USD (%)



Source: CAIM, 31 May 2026.

Capital Markets Monthly EQUITIES

June 2026



SIMON PRICE
Senior Equity Fund Manager

simon.price@caiml.com



United States

US - AI momentum and geopolitics continue to support markets

The prospects of a US–Iran deal eased stagflation concerns and supported risk appetite. While macro data was broadly constructive, a firm core CPI print and higher oil prices revived inflation worries earlier in the month. Fixed income yields initially rose on stronger inflation data but declined later as geopolitical risks eased, providing valuation support to long-duration growth equities and reinforcing the AI-led rally.

The latest FOMC minutes pointed to a gradual shift in tone, with policymakers signalling increased willingness to tighten policy if inflation remains persistently above target. Fed Governor Chris Waller supported removing the easing bias, aligning with recent dissenters and marking a notable shift from his prior dovish stance. Meanwhile, Kevin Warsh’s confirmation as Fed Chair reinforces a more inflation-focused policy framework, raising the possibility of tighter financial conditions. Overall, Fed communication suggests a move toward a more explicitly data-dependent and potentially restrictive stance.

Macro data presented a mixed picture, with inflation remaining a key focal point. The April CPI release exceeded expectations on both headline and core measures, partly reflecting elevated energy prices linked to Middle Eastern tensions. Grocery prices recorded their largest monthly rise since 2022, while Producer Price Index (PPI) data showed the strongest monthly increase since March 2022, prompting markets to reprice the likelihood of further tightening. However, softer late-month PCE data broke the recent inflation trend and offered some reassurance. Labour market data was similarly mixed, with solid payroll growth offset by a modest easing in wage pressures.

Equities continued to draw support from strong earnings. The ‘Magnificent 7’ saw Q1 growth revised sharply higher, although part of this was driven by one-off factors at Amazon, Alphabet, and Meta. While hardware, healthcare, and consumer discretionary sectors also saw upward revisions, the quality of earnings growth remains uneven. The continued outperformance of semiconductors highlights persistent AI enthusiasm, but narrow leadership raises concerns around concentration risk and the sustainability of the rally should expectations moderate.

Health care and Consumer discretionary were the next biggest gainers, albeit with a smaller advance than information technology stocks, highlighting the lack of breadth on display this month. The Underperforming sectors were Energy, Utilities and Consumer Staples.



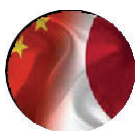
Europe

Gains amid tightening policy and weakening growth

European equities posted modest gains despite increasingly hawkish rhetoric from the European Central Bank. Isabel Schnabel signalled support for further tightening regardless of any resolution in geopolitical tensions, underscoring concerns that inflationary pressures remain entrenched.

At the same time, the region faces a worsening growth backdrop. Rising energy costs, exacerbated by risks to supply through the Strait of Hormuz, are increasing the likelihood of demand destruction and intensifying the growth-policy trade-off. This tension was evident in PMI data falling to 2.5-year lows, signalling a clear loss of economic momentum.

The combination of tightening financial conditions and slowing activity reinforces the region's vulnerability to stagflation. Sector performance has yet to reflect that with cyclicals such as travel and leisure, basic materials and consumer discretionary outperforming along with the AI themes, while some defensive areas including utilities underperforming. The key challenge for European markets remains the ECB's need to contain inflation without exacerbating the ongoing downturn.



Developed Asia

Divergence driven by AI and domestic conditions

Asian equity markets showed mixed performance, reflecting a divergence between global technology momentum and local macro conditions. Hong Kong equities declined amid uneven Q1 earnings, intensifying competition, and persistent policy uncertainty. Beyond the technology sector, weaker domestic demand and subdued earnings growth limited the scope for a broader cyclical recovery. Ongoing uncertainty around China's policy support and the stabilisation of the property sector continues to weigh on investor sentiment.

In contrast, Japanese equities advanced, supported by strong gains in AI-related semiconductors and better-than-expected corporate earnings from March year-end reporters. A relatively weak yen also continued to underpin exporter profitability and support equity inflows. Foreign investor demand remained robust, reflecting confidence in corporate reforms and improved shareholder returns. However, as in the US, the rally remains somewhat concentrated in technology-linked themes.



Emerging Markets

AI resurgence and macro tailwinds

Emerging markets posted another strong month, outperforming developed peers. Performance was driven in part by the recent continued surge in AI-related optimism, supported by improving hyperscaler capital expenditure outlooks and a fading of earlier monetisation concerns.

Regionally, EM Asia continued to lead, benefitting from its exposure to the semiconductor supply chain. CEEMEA posted marginal gains, reflecting a more balanced mix of commodity exposure and geopolitical risks, while Latin America lagged amid weaker commodity dynamics and domestic challenges.

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3 More London Riverside, London, SE1 2AQ, United Kingdom

+44 (0)20 7489 7223

www.caiml.co.uk | CAIMinsights@caiml.com

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