

Capital Markets Monthly **FIXED INCOME**

May 2026

CHARLES THOMSON
Head of Portfolio Management

charles.thomson@caiml.com



The Initial Recovery in Global Bonds Proved to be Short-lived

US Treasuries rallied at the start of April as markets moved to price in a more constructive geopolitical backdrop, with prospects for a peaceful resolution to the Iran crisis driving a sharp fall in oil prices from around \$120 to \$90 and easing near-term inflation concerns. This supported a bull steepening bias early in the month as front-end rate expectations softened. However, the move proved fragile, and sentiment reversed into month-end as oil retraced back towards its highs and the perceived stability of the situation in the Middle East deteriorated. Yields consequently backed up across the curve, leaving Treasuries modestly weaker on the month, with rates finishing a few basis points higher overall.

Regarding the Federal Reserve's FOMC meeting on 29th April, dissents were the defining feature with the vote splitting 8–4. Miran supported a 25 basis point rate cut, while three dissenters, Hammack, Kashkari and Logan, objected to the inclusion of any easing bias at this stage. The contested phrasing referred to considering the extent and timing of additional adjustments to the target range; while not explicitly dovish, it has historically been interpreted as signalling a tilt towards easing. On inflation, the Committee noted it remains elevated, in part reflecting the recent increase in global energy prices, and uncertainty was given greater prominence, with new language highlighting that developments in the Middle East are contributing to a high level of uncertainty.

UK gilts saw a more nuanced performance in April, with an initial bear steepening of the curve as inflation data surprised to the upside before a rally later in the month. Headline CPI accelerated sharply, rising 0.7% month on month to 3.3% year on year, while core CPI at 3.1% was marginally softer than expected but still indicative of persistent underlying pressure. Markets focused on the risk of second-round effects, particularly given firmer energy prices, raising concerns that core inflation could drift higher in coming months. However, despite an 8–1 vote to hold rates at the MPC, with Chief Economist Huw Pill dissenting in favour of a 25 basis point hike, the broader tone of the Committee was interpreted as relatively dovish, and gilts rallied in the aftermath, retracing some of the earlier sell-off.

On 30th April the European Central Bank (ECB) left its deposit rate unchanged at 2% but signalled that a rate hike in June remains

firmly under consideration, with President Christine Lagarde emphasising that policymakers debated such a move in depth before opting to wait for more complete data. The Governing Council judged that there is still insufficient evidence to justify immediate tightening, noting that higher energy prices have not yet generated clear second-round inflation effects, although risks are building. Lagarde acknowledged that the euro-area economy is moving away from the ECB's baseline scenario as the impact of elevated oil and gas prices intensifies, while growth is already showing signs of strain, with first-quarter GDP rising just 0.1%. The ECB highlighted a growing tension between upside risks to inflation and downside risks to activity, stopping short of describing conditions as stagflation but recognising increased uncertainty linked to developments in the Middle East and the potential duration of the conflict. Markets continue to price a tightening cycle, with expectations of multiple rate increases by year-end, and June is now seen as a key decision point when updated forecasts and greater clarity on the energy shock will inform policy direction.

Japanese government bonds saw a modest sell-off over April, with yields edging higher across the curve as markets increasingly priced a move towards policy normalisation, including the possibility of a rate hike at the June Bank of Japan meeting. The rise in yields remained relatively contained, but sentiment was shaped by persistent currency weakness, culminating in a decisive intervention by Japanese authorities on 30 April. The Ministry of Finance stepped into the market to buy yen after USD/JPY broke through the 160 level, widely viewed as a clear line in the sand, with further intervention suspected the following day. The move drove a 500-pip reversal in the currency, pushing USD/JPY from above 160.7 down towards the 155 to 156 range. While impactful in the short term, the intervention is largely seen as a time-buying exercise given the still-wide rate differential between the Federal Reserve and the Bank of Japan.

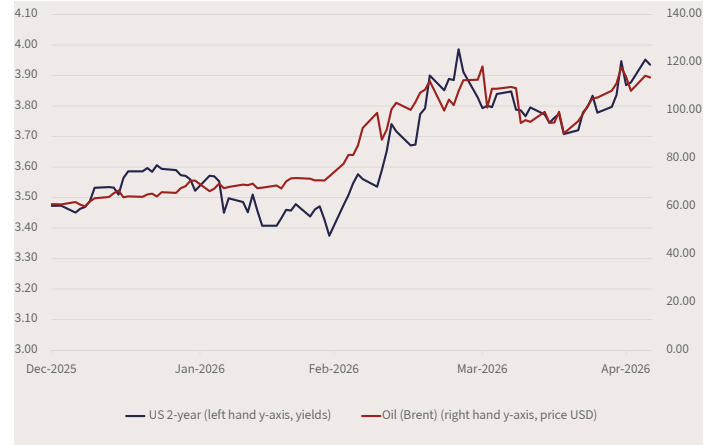
Chinese government bonds were effectively the only consistent safe haven during the April volatility, outperforming most global fixed income markets. While US Treasuries, UK gilts and European government bonds sold off, CGBs remained broadly stable, with the front end largely unchanged as policy expectations stayed anchored, and the long end rallying, particularly in 30-year maturities, leading to a flattening of the curve. Domestic liquidity

conditions remained accommodative, with the People’s Bank of China maintaining a measured stance that helped contain volatility. The renminbi strengthened over the month, with USD/CNY moving from around 6.89 to 6.83, reflecting relative stability in domestic conditions amid global stress. Overall, CGBs continued to offer meaningful diversification benefits, with low cross-market beta and a comparatively stable yield profile, particularly during periods of global stress.

Emerging market debt delivered a strong performance in April, with spreads tightening meaningfully as risk sentiment improved over the course of the month. The JPMorgan EMBI Global spread compressed from around 260 basis points to 220 basis points, reflecting robust demand for yield and a recovery in investor confidence following earlier volatility. The tightening was supported by a more constructive backdrop for global risk assets, a partial stabilisation in energy markets, and continued resilience across many EM fundamentals, allowing the asset class to outperform developed market fixed income on a spread basis.

The following chart shows the 2-year US Treasury yield and the oil price (Brent Crude) year-to-date.

2-year Treasury yields move closely in line with oil



Source: Bloomberg Finance L.P., 30 April 2026.

Capital Markets Monthly FOREIGN EXCHANGE

May 2026

SLAWOMIR SOROCZYNSKI
Head of Fixed Income

slawomir.soroczynski@caiml.com



The US dollar depreciated as diversification flows resumed

April saw a marked improvement in risk appetite, with US equities reaching new all-time highs. Credit spreads tightened to levels not seen since the onset of the Middle East conflict, while emerging market debt and equities experienced renewed inflows. The pro-risk sentiment was fully reflected in the foreign exchange market, where the US dollar was the worst-performing G10 currency. Meanwhile, gold prices retraced by 0.7%.

Commodity-linked currencies and other high-beta crosses delivered strong performance. The Norwegian krone gained over 4.5%, while the Australian dollar advanced by 4.3%, making the New Zealand dollar the third-best performing G10 currency.

The euro recovered nearly all of its March underperformance and closed above the key trend line, the 200-day moving average. The British pound also surprised, gaining almost 3% despite the upcoming local elections, which many view as a key risk factor.

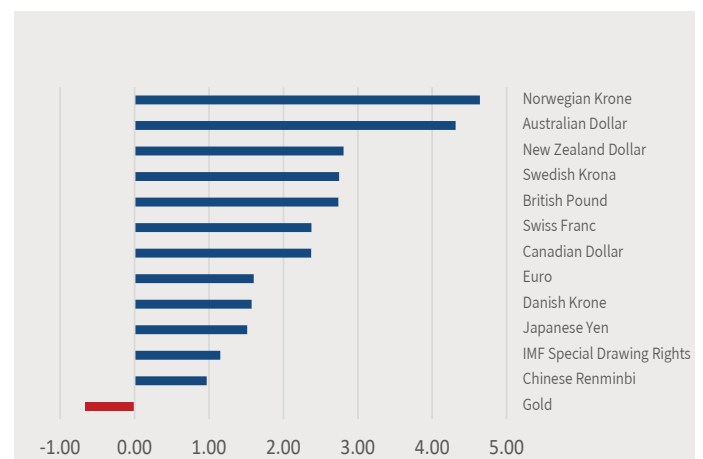
Elsewhere, investors closely monitored the USD/JPY pair as it attempted to break the 160.00 level on several occasions. It finally did so on 29 April, triggering a decisive response from the Japanese authorities, who intervened on the last day of the month. This confirmed intervention helped the yen close the month 1.5% stronger. (For detailed G10 currency performance, please refer to the table below).

As far as the Chinese Renminbi (CNH) is concerned it had another positive month with the USDCNH rate testing 6.8300, the level last seen in the 1st quarter 2023! The People's Bank of China (PBoC) found this move excessive and stepped in intervening through the fixing mechanism which helped the cross to close the month at 6.92.

Looking ahead, geopolitical developments will likely remain a key risk factor. Any potential peace agreement in the Middle East could lead to further diversification flows away from the US dollar.

Key technical levels to watch are: EUR/USD at 1.1850, GBP/USD at 1.3820, USD/JPY at 152.00, and AUD/USD at 0.7500.

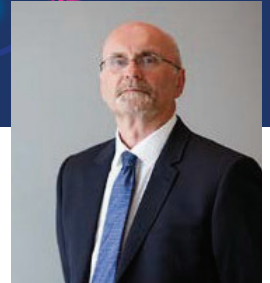
April performance vs. USD (%)



Source: CAIM, 30 April 2026.

Capital Markets Monthly EQUITIES

May 2026



SIMON PRICE
Senior Equity Fund Manager

simon.price@caiml.com



United States

Rebound on AI momentum and ceasefire hopes

U.S. equities rose in April as an Iranian ceasefire initially lifted markets, and investors largely looked through subsequent tensions. Economic data reflected a resilient macro backdrop, despite ongoing concerns around the war in Iran. Labour market data remained broadly stable, while softer than expected March CPI and PPI helped ease inflation concerns. Momentum centred on AI, with short covering and retail inflows driving technology and semiconductor stocks higher.

Communication Services, Technology and Consumer Discretionary led, while Energy and Healthcare lagged. Software rebounded from prior weakness, though sentiment remained cautious. The return of foreign investors to the U.S., while boosting the region's performance, further increased the concentration of its technology and semiconductor heavy indices.

As expected, the FOMC held rates at 3.50–3.75%, with notable dissent from four members. One member favoured a rate cut, while three opposed the inclusion of an easing bias in the statement. The Senate Banking Committee advanced Warsh's nomination as Federal Reserve Chair. The outgoing Chair Powell, whose Fed governorship term ends in January 2028, expressed his intent to remain on the Board for a period of time following the transition.

Macro data remained supportive despite rising Iran tensions. Labour market conditions were broadly stable, with solid payroll growth and unemployment around the mid 4% range. Q1 GDP was slightly softer than expectations but showed improvement versus the prior quarter, supported by government and AI related investment. Consumer confidence also improved. March CPI came in below expectations, remaining above target but easing modestly relative to recent prints.

Equities were supported by strong Q1 earnings, led by AI driven demand for compute and infrastructure, alongside resilient consumers and pricing power. Geopolitical risks, higher input costs and some travel softness were noted but had limited impact. Strong cloud and AI demand reported by Alphabet improved investor confidence in the investment case for large scale AI infrastructure spending.

Amazon similarly reported robust growth in its cloud unit. In contrast, Meta underperformed amid concerns over its rising AI investment and uncertain returns, while Microsoft saw mixed market reaction despite signalling accelerating cloud revenue and AI capex.



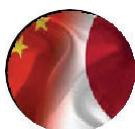
Europe

Markets advance but stagflation concerns remain

European equities rose, but underperformed their global developed market peers, as stagflation concerns (higher inflation, softer growth) persisted. Earnings were positive overall, supported by financials, energy and selective technology strength, while consumer discretionary and healthcare lagged.

Euro area CPI rose to around 3% year on year, keeping inflation in focus given energy driven pressures. As such, the ECB held rates, while maintaining a data dependent stance with markets increasingly focused on the possibility of a June rate hike.

European equities rose in April, led by banks, industrials and basic resources, with technology also performing well given strength in semiconductor related names. Cyclical outpaced defensives, though less than in the U.S., as the macro outlook softened post war developments. Healthcare was a relative laggard, and defence underperformed despite heightened geopolitical tensions.



Developed Asia

Japanese equities ride the AI wave

Asian equities rose in line with global peers, led by Japan, while Hong Kong lagged amid weaker local tech performance relative to the global rebound. In Japan, gains were driven by technology, with banks strengthening into month end on a more hawkish Bank of Japan (BoJ). Exporters also benefited from yen weakness early in the period before currency intervention supported the yen late in the month.



Emerging Markets

EM equity

Emerging markets rebounded from the March selloff, supported by improved global risk sentiment following the Iran-US ceasefire developments. Strong tech results and guidance also drove upgrades to EM earnings.

Regionally, EM Asia led, as strong earnings and guidance from the AI supply chain and increases in capex expectations drove gains in semiconductor heavy Korean and Taiwan markets. Central & Eastern Europe, the Middle East, and Africa (CEEMEA) and Latin America (LatAm) posted relatively more modest gains.

IMPORTANT NOTES

This document is for information purposes only and does not constitute an offer or invitation to anyone to invest in any Crown Agents Investment Management Limited ('CAIM') funds and has not been prepared in connection with any such offer.

This communication may only be used by a person in a jurisdiction where it is legally permitted to do so. The original recipient is responsible to ensure that no breach of local laws occurs in sharing its contents. This document should not be reproduced or distributed except via original recipients such as authorised financial advisers that are permitted to do so by local regulation and should not be made available to retail investors. This communication is not for distribution in the United States of America.

Any opinions expressed herein are those at the date of issue and cannot be depended on to predict future events. They do not necessarily reflect the views of CAIM. All data is sourced to CAIM unless otherwise stated. We believe that the information contained is from reliable sources, but do not guarantee the relevance, accuracy, validity or completeness thereof. Subject to UK law, CAIM does not accept liability for irrelevant, inaccurate, invalid or incomplete information contained, or for the correctness of any opinions expressed.

Past performance is not indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of the investments. The value of investments and any income from them may fluctuate and investors may incur losses. All investments involve risks including the risk of possible loss of principal. Liquidity risk may delay or prevent account withdrawals or redemptions. High volatility of fund prices can result from unstable market conditions.

The investment opportunities described herein do not take into account the specific investment objectives, specific needs, knowledge, experience or financial circumstances of any particular person and are not guaranteed.

This document is produced and issued by Crown Agents Investment Management Limited, with Company Registration No. 02169973, and its registered office at 3 More London Riverside, London, SE1 2AQ, which is authorised and regulated by the Financial Conduct Authority in the UK (No 119207). For complaints relating to CAIM's financial services, please contact CAIMLEnquiries@caiml.com



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

+44 (0)20 7489 7223

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

Crown Agents Investment Management is authorised and regulated by the Financial Conduct Authority in the UK (firm reference number 02169973)