DRUMMOND

CAPITAL PARTNERS

INVESTMENT PERSPECTIVES

May 2026

Month In Review

Global Equities
5.4%

Aus Equities
1.2%

Aus REITs
2.7%

AUD/USD
0.7%

US Bonds
0.1%

Commodities
-7.6%

Global equity markets extended their strong gains from April as the US and Iran edged closer to a peace deal, with energy prices declining sharply from recent highs, though remaining elevated amid lingering uncertainty. Markets have largely looked through still high oil prices, with the rally driven overwhelmingly by technology, particularly chip manufacturers benefitting from AI-driven demand. Despite market strength, US consumer confidence eased during May as higher energy prices, inflation concerns and an evolving rate outlook weighed on household sentiment.

Through early May, gains remained concentrated in technology on the back of strong earnings, before broadening regionally and across sectors as the month progressed. In the US, the S&P 500 rallied 5.4%, with semiconductor and AI infrastructure stocks propelling the Nasdaq to an 8.4% gain. The US$1 trillion market capitalisation bracket widened, with South Korea's SK Hynix and US-based Micron Technology joining the ranks.

The ASX 200 gained 1.2%, underperforming global peers as a confluence of domestic headwinds weighed on consumer and business confidence. The RBA raised the cash rate flagging upside inflation risks from energy price pass-through. The federal budget introduced significant tax changes spanning capital gains, negative gearing and trusts, all impacting local markets, including the financial sector amid expectations of subdued credit growth. Australian REITs rose 2.7%, buoyed by Goodman Group's material expansion of its data centre project pipeline, reflecting structural demand from the AI thematic. Emerging markets surged 9.7% on strength from Asian technology companies, while European equities advanced 4.2%, supported by easing crude prices and a moderation in inflation expectations.

US bonds were flat, while Australian bonds firmed as the April headline CPI print of 4.2% came in below expectations, albeit with trimmed mean inflation holding at 3.4%. Credit continued to generate positive returns, with high-yield and investment-grade credit returning 0.4% and 0.9% respectively. Oil fell 16.1% on growing optimism around a US-Iran peace agreement, gold edged 0.6% lower, and the Australian dollar appreciated a further 0.7%.

Things That Matter

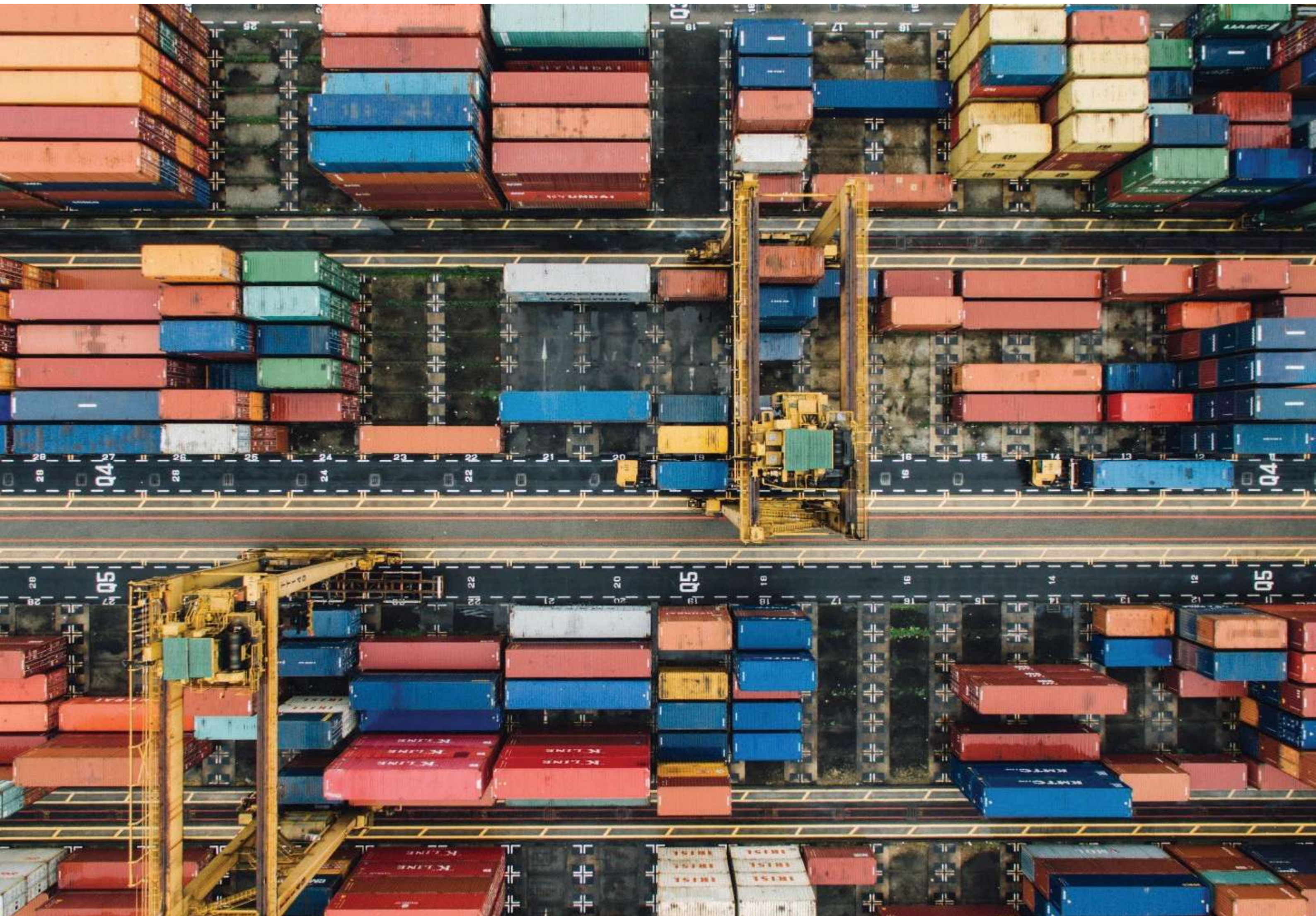
1.	Central banks vigilant on inflation, as Middle East conflict stokes price pressures
2.	An era of geopolitical fragmentation is rewiring global trade, with the world organising into regional blocs
3.	AI adoption is in its infancy and is set to transform the competitive landscape across businesses, industries, and geographies
4.	Global demographic shift is underway: ageing populations, shrinking workforces, and developing economies driving future growth
5.	Fiscal stimulus is currently boosting liquidity with mounting government debt presenting longer-term risks

Asset Class Positioning

	Change MoM	Strong Underweight	Underweight	Neutral	Overweight	Strong Overweight
Australian Equities	↓	○	●	○	○	○
Global Equities	↓	○	○	○	●	○
Property	▬	○	○	●	○	○
Infrastructure	↑	○	○	○	●	○
Global Alpha	▬	●	○	○	○	○
Government Bonds	▬	●	○	○	○	○
Corporate Debt	▬	○	○	○	●	○
Cash	↑	○	○	○	●	○
Total Growth vs Defensive	↓	○	○	●	○	○

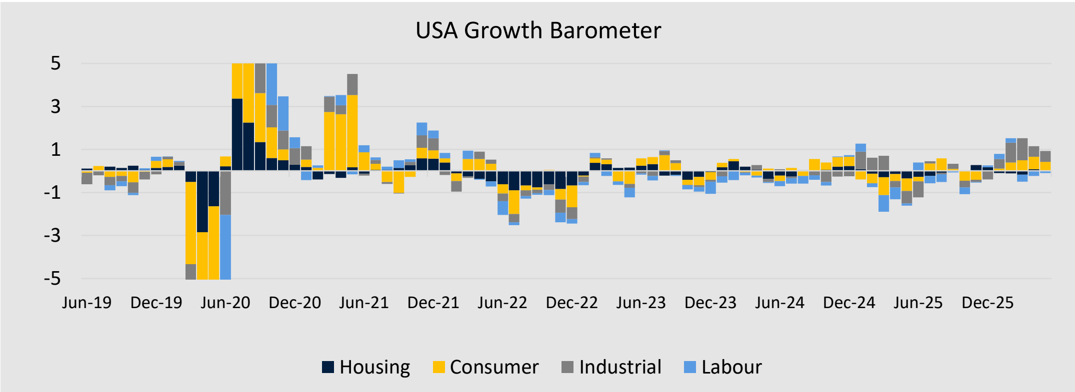
Macroeconomic Overview

North America	●
Asia	▼
Europe	▼
Australia	▼



North America

The Federal Reserve left policy rates unchanged, maintaining a cautious stance as it balances moderating growth against inflation pressures. Economic activity remains resilient, supported by ongoing AI-related investment and a stable labour market. Non-farm payrolls increased by 115,000 in April, while unemployment remained stable at 4.3%, reinforcing a low-hire, low-fire labour market. However, consumer confidence eased modestly in May as higher energy prices and inflation concerns weighed on household sentiment. Inflation remains a challenge as high energy prices from the Iran conflict, coupled with signs that disinflation in core goods and services has slowed, have increased concerns that price pressures could remain high for longer. While consumer spending has been supported by tax refunds and solid employment conditions, higher bond yields and elevated inflation expectations are likely to keep the Federal Reserve on hold as it assesses the evolving outlook.

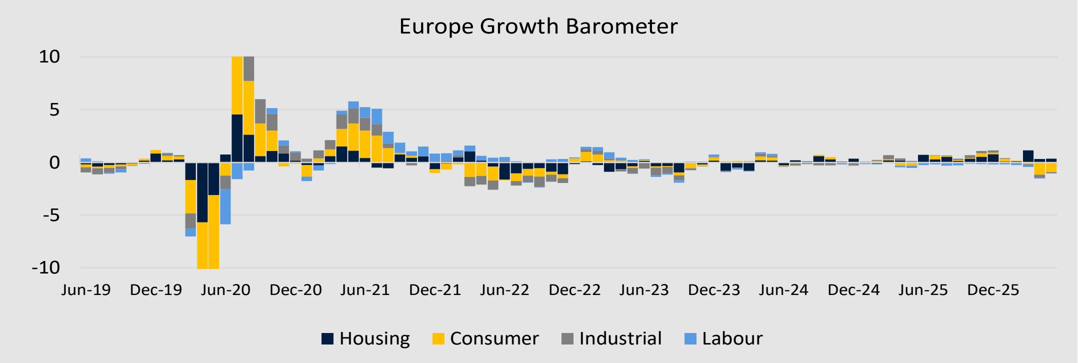


Asia

China's factory activity stalled in May. Its official manufacturing PMI slipped to 50.0 from 50.3 in April, as new export orders contracted and input costs remained elevated, albeit easing slightly. High-tech and equipment manufacturing outperformed, benefitting from persistent global demand from AI-related goods, while energy intensive industries contracted. Weakness in property, employment and consumer spending weighed on domestic demand, leaving China increasingly reliant on external demand. In Japan, the yen came under pressure as soaring energy prices delivered a terms-of-trade shock to an economy that imports most of its oil. Authorities intervened to the tune of ¥11.7 trillion (~US$74 billion) in foreign exchange markets, with limited effect as the currency resumed its decline.

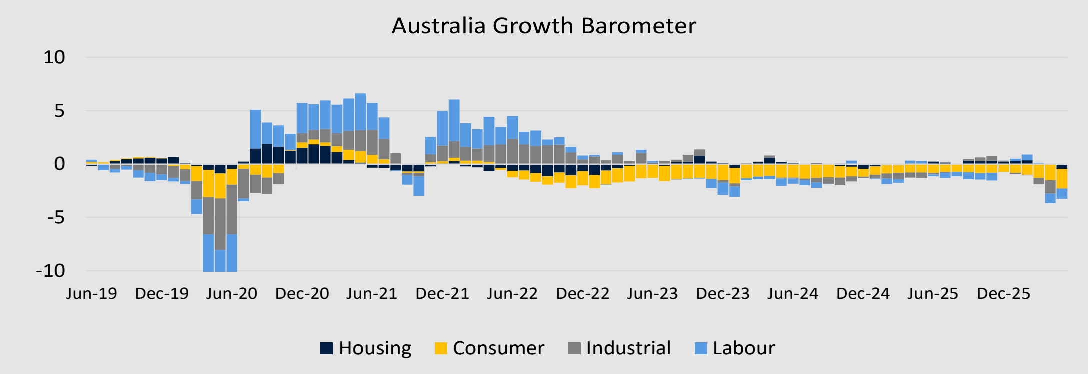
Europe

The Eurozone economy weakened further in May as the Iran war's inflationary fallout broadened across the region. The composite PMI fell to 48.5, its lowest level in 18 months, as waning demand for goods and services dragged output lower for a second month. Germany and France both recorded contractions in private sector activity, while Italy and Spain posted only marginal expansions. Headline inflation rose to 3.2%, above the ECB's 2% target, driven by energy cost pass-through broadening into transport and services across the four largest economies. The ECB faces a difficult balancing act, with a 25-basis point hike anticipated at its June meeting despite growth slowing. Financial stability vulnerabilities remain elevated, with asset valuations stretched and non-bank financial institutions flagged as potential amplifiers of market stress should conditions deteriorate further.



Australia

Australia's economy continued to navigate a challenging inflationary, low growth environment in May. The RBA raised the cash rate a third time this year to 4.35%, citing persistent above-target inflation and tight labour market conditions. Consumer sentiment remained deeply pessimistic, recovering only marginally following April's collapse, while employment fell in April with the unemployment rate rising to 4.5%, its highest level since 2021. Private capital expenditure surged 6.5% in the March quarter, driven by data centre and AI investment. Housing markets weakened following the May budget, with proposed negative gearing and capital gains tax reforms dampening investor sentiment, reflected in auction clearance rates tracking year-to-date lows. Structurally, Australia is still in need of major reforms to boost productivity, including deregulation and tax measures if it is to expand the economy's supply capacity and sustainable growth prospects.



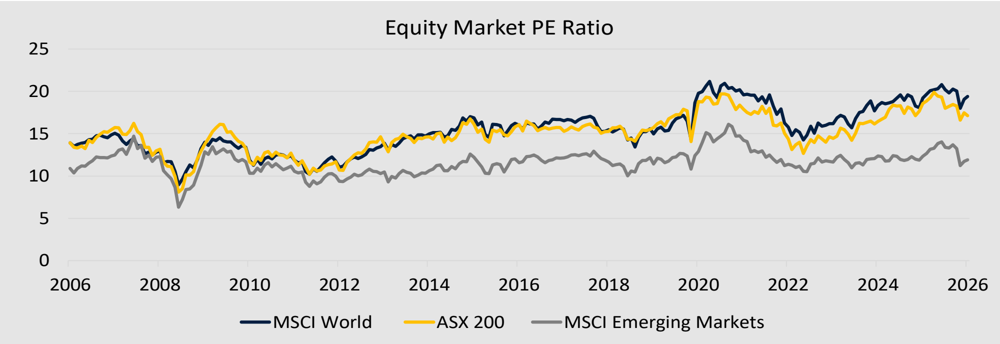
Asset Class Overview

Equities	Overweight
Bonds	Underweight
Credit	Overweight
Infrastructure	Overweight
Property	Neutral
Global Alpha	Underweight

Equities

US equities extended their rally in May, with the S&P 500 rising 5.3% to record highs and registering its ninth consecutive weekly gain. Gains were concentrated in technology, with the Nasdaq rising 8.4% as AI optimism and strong earnings drove sentiment. The PHLX Semiconductor Index surged over 20% for the month, reflecting continued investor conviction in the structural AI theme. The technology sector gained 15% for the month, while energy retreated 4.9% as oil prices eased on Iran deal optimism, though energy remains one of the highest performing sectors over 12 months. Growth materially outperformed value, consistent with the market's ongoing preference for quality earnings and AI-exposed names. Despite inflation reaching a three-year high and geopolitical uncertainty persisting, corporate earnings resilience and AI momentum continued to underpin equity markets. Portfolios are now neutral growth assets.

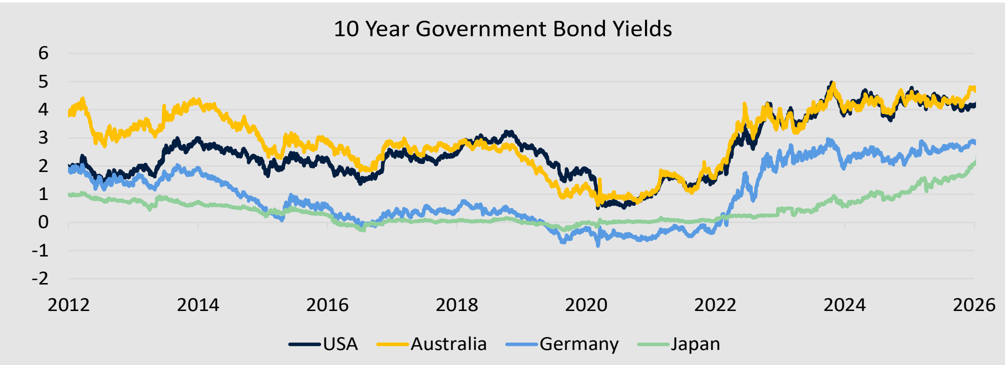
Overweight



Bonds

Bond markets whipsawed through May as geopolitical uncertainty drove yields to levels not seen in decades, before easing back to close the month near flat. The Iran war sent the 30-year US Treasury yield to 5.2%, the highest since 2007, before progress in peace talks brought yields lower. Rising yields signalled the sell-off was driven by more than inflation, with fiscal concerns and questions over Fed independence also weighing on longer-dated Treasuries. Markets briefly priced in a 25bps Fed hike by December, as the Fed's preferred inflation measure reached 3.8% year-on-year in April. Domestically, the RBA raised the cash rate 25bps to 4.35%, citing persistent above-target inflation and tight labour market conditions. Australian bond yields have risen more sharply than peers, reflecting the progressive repricing of the RBA's tightening path. Portfolios remain underweight bonds.

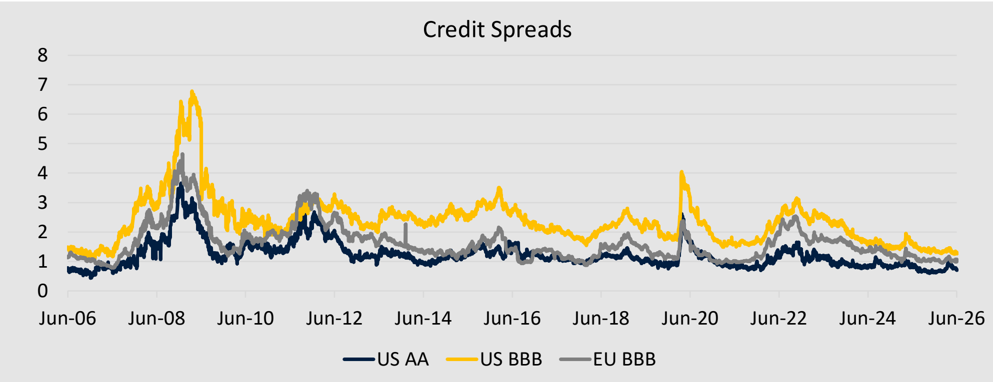
Underweight



Credit

Overweight

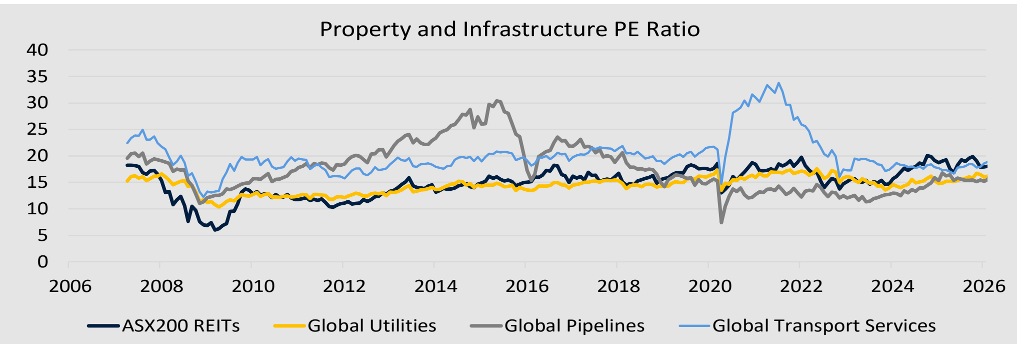
In May, corporate debt delivered positive returns across investment grade and high yield, despite volatility in rates and geopolitics. Strong corporate fundamentals underpin our preference for floating rate Australian credit. The asset class has absorbed recent shocks with minimal disruption, with spreads remaining orderly. The Australian market offers compelling relative value, providing a yield premium to offshore markets. Portfolio positioning reflects this view, maintaining a cautious tilt toward quality and liquidity.



Property / Infrastructure

Overweight

These asset classes typically have robust inflation hedging characteristics over the long-term. In the REIT universe, income typically grows annually through fixed or inflation-linked mechanisms providing multi-year structural growth tailwinds. Australian REITs posted solid gains in May, supported by sector heavyweight Goodman Group's continued momentum in expanding its data centre pipeline. Infrastructure delivers essential services with earnings visibility spanning multi-year periods through contracts and regulatory frameworks. Current valuations remain compelling relative to global equities as ongoing infrastructure expansion drives demand for power and digital connectivity. The portfolios are overweight infrastructure and neutral on property.



Global Alpha

Underweight

We are underweight global alpha which is offset by overweights to other asset classes including global equities, infrastructure, and corporate debt.

Asset Class Returns

	Latest Value 31/05/26	Monthly Performance	Quarterly Performance	Half Year Performance	Yearly Performance
MSCI World All Countries	1,354	5.4%	8.1%	13.3%	31.0%
S&P/ASX 200	8,732	1.2%	-4.0%	3.0%	6.9%
MSCI Emerging Markets	1,752	9.7%	9.5%	29.5%	55.1%
Nasdaq Composite	26,973	8.4%	19.2%	15.8%	42.0%
Euro Stoxx	649	4.2%	1.7%	11.0%	18.2%
Australian Property	92	2.7%	-1.3%	-4.9%	-1.7%
Global Infrastructure	75	0.5%	-1.1%	0.9%	6.2%
Australian Bonds	4.84%	1.9%	0.0%	0.2%	0.3%
US Bonds	4.44%	0.1%	-1.8%	-0.4%	3.8%
High Yield Credit (spread/return)	1.3%	0.4%	1.0%	2.1%	7.0%
Investment Grade Credit (spread/return)	0.7%	0.9%	-1.0%	0.0%	6.2%
US $ / Australian $	0.72	0.7%	0.5%	9.7%	11.3%
Crude Oil-WTI	91.2	-16.1%	36.1%	55.6%	48.3%
Gold Bullion $/T Oz	4,591	-0.6%	-12.6%	9.3%	39.8%