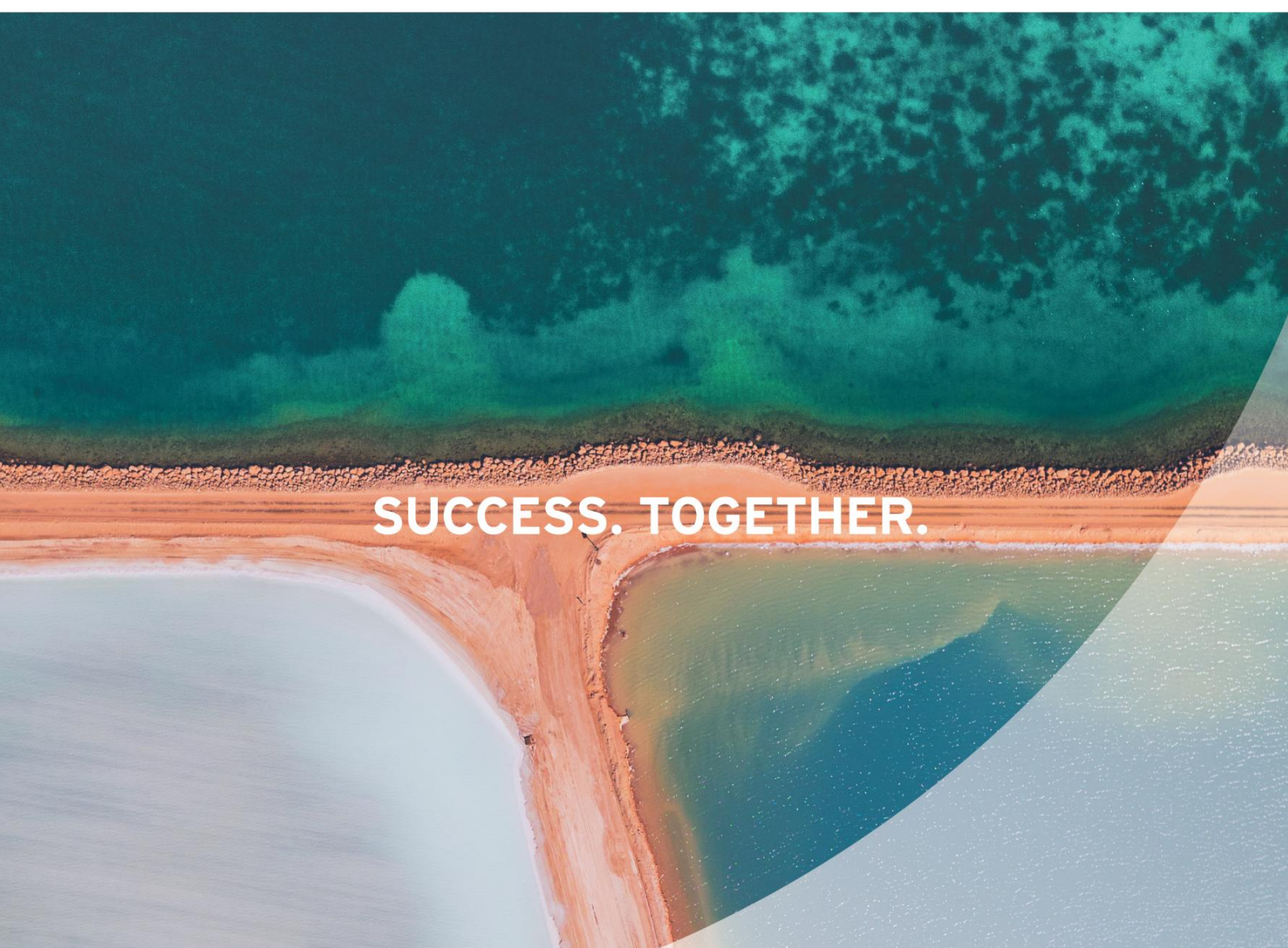


STRATEGY OUTLOOK

MAY 2026



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Complacency or confidence?

Market rebounds

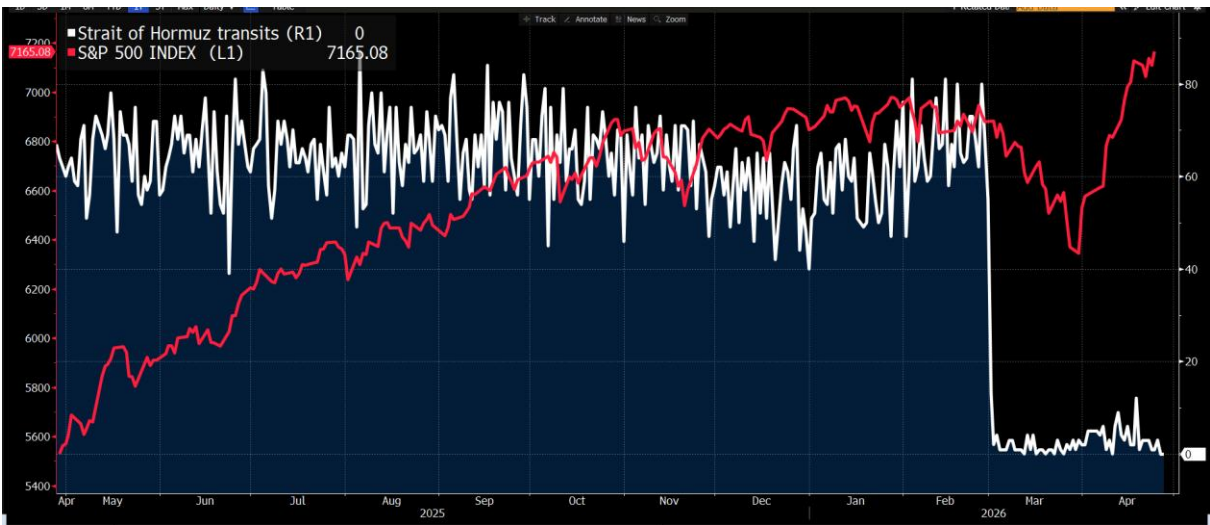
Six weeks into the ongoing closure of the Straits and, despite a barrage of vitriolic social media messages proclaiming either victory or negotiation, the Strait remains blocked. The market however has rallied to new highs. This raises the question: is this complacency or confidence?

The speed of the rally has taken us by surprise. The first graph highlights the number of transits through the Straits alongside the S&P 500's performance. Despite extensions in ceasefires and ongoing negotiations, the repeated assurances that the conflict would be resolved quickly are not encouraging. The longer vessels remain unable to transit, the greater the stagflationary headwind facing the global economy as 20% of global oil supply is offline.

	April	YTD
S&P	10%	5.3%
Rest of the World	5.4%	5.4%
US Treasury	0.0%	0%
Gold	-1%	6.9%
Bitcoin	12%	-12%
WTI Crude	3.6%	83%
USD Index	-1.9%	-0.2%

Two critical questions remain unanswered: to what extent can the global economy withstand this disruption (the market thinks it can), and what would be the impact if China were to intervene more proactively? In the meantime, airlines are cutting flights, commodity shortages are intensifying, and force majeure clauses are being invoked on contracts.

Perhaps this is not complacency. Oil supply dynamics have changed in the last 30 years with shale and efficiency drives. Away from oil company earnings have been exceptionally strong, running approximately 12% above expectations, largely driven by the technology sector. Indeed, emerging markets are seeing the greatest earnings momentum. However, this US strength is concentrated, raising concerns about when momentum might fade—especially given that this economic cycle is already five years old and valuations remain rich.

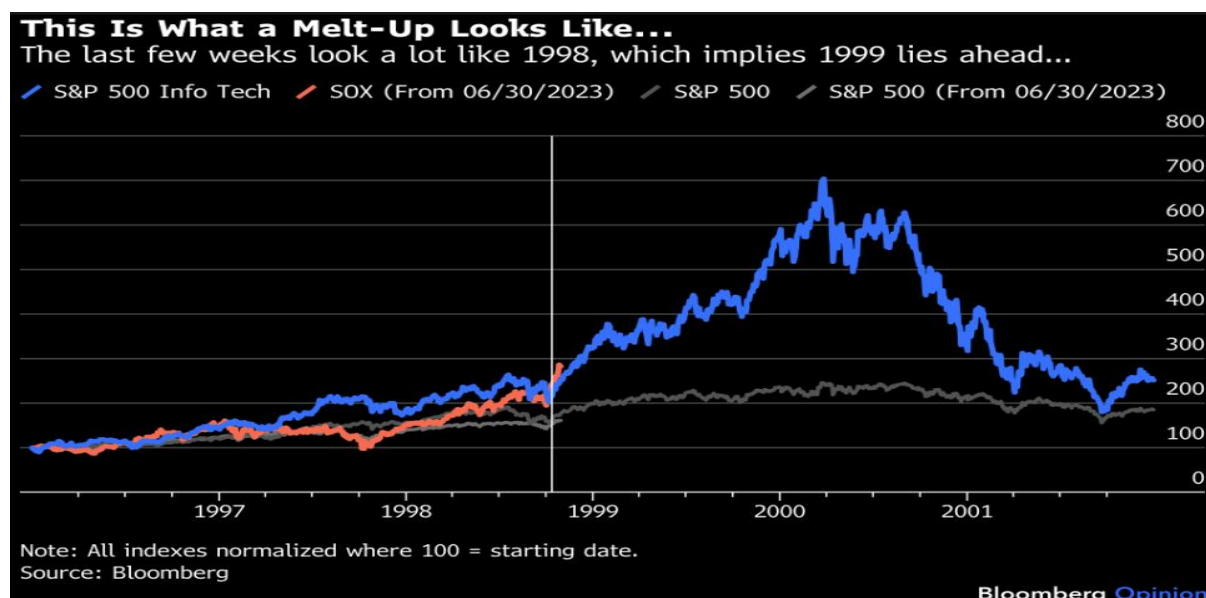


Comparisons to 1999, prior to the dot-com bubble burst in March 2000, are increasingly being discussed. The second graph from Bloomberg tries to make the case that we are in the early innings. While the value of historical comparisons is open to debate, repeating episodes of

human fear and greed are very relevant. The likely IPOs of SpaceX and OpenAI add to the parallels. The market has shrugged off private credit concerns and, so far, an oil shock—perhaps aided by QE-style stimulus from Treasury via buybacks and bill issuance.

Investor sentiment around this rally feels somewhat “hated.” Prior to the April rally, we were cautious—invested yet with some extra cash in T bills. We had expected markets to struggle into the Midterms in November before likely accelerating thereafter. We did over the month increase exposure to technology via a China-focused tech ETF, anticipating another DeepSeek announcement and benefiting from more attractive valuations compared to the US. While the Straits may have been forgotten by the market, the risk remains a significant tail risk given its broad impact on the manufacturing supply chain.

Economic indicators however remain strong. Manufacturing PMIs are robust and rising globally—from the US to Europe to China. Banks are expanding loan books, with even Japanese banks showing renewed activity. US freight data point to ongoing strength, though the sector has been hollowed out structurally. Hermes, the luxury apparel producer, released interesting results: overall sales growth was +5.6%, below expectations. However, regional data showed the Americas with revenue growth of +17.2%, compared to just +2.2% in Asia Pacific. This represents the K-shaped economy, with discretionary spending clearly strong in the US.



On the geopolitical and defence front, the Centre for Strategic and International Studies released estimates on missile system usage and lead times. For example, the Patriot missile costs \$3.9 million each, with a prewar inventory of approximately 2,330 units. They estimate that half have already been used, and replenishment lead time is around 42 months (3.5 years). Similar constraints apply to Tomahawk, THAAD, and JASSM systems. This assumes China does not cut off supplies of US military-grade rare earth magnets—a potential risk. It is also an argument that the likelihood of US intensification is weakening. Another notable development was Portugal's issuance of bonds denominated in offshore Yuan—the first such issuance in the Euro area—signalling a gradual increase in Chinese currency influence.

We continue to monitor the potential for inflation pass-through to become widespread. Corn, wheat, rice and soyabean prices are up 7.2%, 22%, 13% and 14% ytd respectively. Historically, whenever US government bond yields hit 4.4%, there has been an almost automatic reaction from Washington, often coinciding with ceasefire news. Indeed, former US Treasury Secretary Paulson made a rare interview warning of a severe buyer strike of US Treasuries, perhaps a

signal of a policy change. Long dated UK Gilts are at levels last seen in the late 1990s near 6%.

Authorities appear to prefer a weaker dollar over higher bond yields to manage economic conditions. Our positioning remains globally diversified and long commodities. Over the month, we added exposure to China tech and Latin America, and we are considering further allocations to robotics-related sectors or indirect exposure through infrastructure and chemicals. Precious metals may pause in the near term, but given our longer-term bullish outlook, we remain holders. We do not view gold as an asset to trade.

As we enter May, the market feels bifurcated: arguably a little complacent about the Straits and its broader impact, yet confident in the continued growth of specific sectors. If the 1999/2000 playbook holds, the rally could well continue. Across all risk profiles, we remain invested, holding approximately 5-7% in T-bills to maintain dry powder for potential opportunities or market weakness.

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