CARTESIAN CAPITAL

Monthly Market Report

May 2026

Index	Open	Close	% Change
JSE FTSE ALSI Top 40	107229.40	106822.80	-0.38
S&P 500	7209.01	7580.06	5.15
Nasdaq Composite	24892.31	26972.62	8.36
Dow Jones Industrial	49652.14	51032.46	2.78
FTSE 100	10378.82	10409.28	0.29
Nikkei	59284.92	66329.50	11.88
Hang Seng	25776.53	25182.39	-2.30
DAX	24292.38	25104.70	3.34
CAC 40	8114.84	8183.34	0.84

Commodity	Open	Close	% Change
Gold	4617.85	4540.26	-1.68
Platinum	1987.75	1920.19	-3.40
Iron Ore	107.02	105.37	-1.54
Brent Crude Oil	114.01	92.05	-19.26

Currency	Open	Close	% Change
USD-ZAR	16.67	16.23	-2.67
EUR-ZAR	19.56	18.92	-3.26
GBP-ZAR	22.68	21.83	-3.73

Source: Bloomberg

Local and Global Macro Economic Perspectives

South Africa

26.1029°S, 28.0576°E

South African data in May confirmed that the energy shock anticipated last month had begun to bite, prompting the SARB to act. At its 28 May meeting the Monetary Policy Committee raised the repo rate by 25 basis points to 7.0%—the first hike since May 2023—lifting the prime lending rate to 10.5%. The vote was split, with four members favouring the increase and two preferring to hold, reflecting differing views on how aggressively to respond. Governor Kganyago noted that hopes for a swift end to the Middle East crisis had faded, leaving oil fluctuating around $100 a barrel, and acknowledged that the economy faced a difficult combination of weaker disposable income and heightened global uncertainty that would weigh on both investment and household consumption.

Inflation moved as forecast. Headline CPI rose to 4.0% in April, driven largely by an 11% increase in fuel prices that continued to filter through the broader economy. The SARB now expects inflation to average 4.4% in 2026 and 3.7% in 2027 before returning towards the 3% target in 2028, a notable upward revision from the disinflationary path projected at the start of the year. The Committee modelled three risk scenarios—a prolonged Middle East conflict lifting oil and food prices and weakening the rand, the threat of El Niño conditions affecting agriculture, and broader non-linear pass-through effects—all of which implied higher inflation and lower growth. Core inflation remained more contained, suggesting the impulse was still predominantly energy-driven, though the Bank emphasised that the persistence of the shock had raised the risk of second-round effects. With the quarterly projection model now pointing to the possibility of up to three further hikes in the more adverse scenario, the policy stance has shifted decisively away from the easing bias that prevailed only months earlier.

United States

40° 42' 24.7572" N, 74° 0' 40.554" W

May delivered a striking divergence between financial markets and economic fundamentals. Despite a renewed inflation impulse, elevated geopolitical tensions and a change in Federal Reserve leadership, risk assets continued to rally. The Iran conflict and the continued closure of the Strait of Hormuz kept energy markets under pressure, yet investors largely looked through the disruption. The S&P 500 gained approximately 5% during the month, while the Nasdaq surged around 8%—its strongest monthly performance of the year. The Dow Jones Industrial Average also crossed the 51,000 mark for the first time, supported by another round of exceptionally strong AI-related earnings.

Fixed income markets were notably less sanguine. While the Federal Reserve left rates unchanged, the April FOMC minutes revealed four dissents—the highest number since 1992—and highlighted growing disagreement around the appropriate policy path. The leadership transition added another layer of uncertainty, with Kevin Warsh assuming the role of Fed Chair following Jerome Powell's departure. Although Warsh has not advocated for a higher-rate regime, he has consistently emphasised tighter monetary conditions through balance-sheet reduction and liquidity withdrawal. Nevertheless, by month-end, market-implied probabilities of a rate hike during 2026 had risen materially, while Treasury yields moved higher across the curve, with the 10-year yield increasing to roughly 4.47% from 4.28% at the end of April.

Inflation remained the dominant macroeconomic theme. Headline CPI accelerated to 3.8% year-on-year in April from 3.3% previously, marking its highest reading since 2023. Energy inflation rose to nearly 18% from 12.5% the month before. Producer prices delivered the largest surprise, increasing 1.4% month-on-month compared with 0.7% in March, pushing annual PPI inflation to 6.0% from 4.9%. Importantly, the strength was increasingly evident in services rather than being confined to energy. Core PCE inflation also edged higher to 3.3% from 3.2%, suggesting broader underlying price pressures were becoming more entrenched.

The labour market continued to cool, albeit gradually. Nonfarm payrolls increased by 115,000 in April, down from 185,000 in March but comfortably above expectations of around 65,000. The unemployment rate remained unchanged at 4.3%, while labour-force participation slipped to 61.8% from 61.9% and the broader U6 unemployment measure rose to 8.2% from 8.0%.

United Kingdom

51°30'32.39" N, 0°05'33.90" E

UK data in May pointed to a more mixed outlook than the prior month, as the inflation impulse from the Iran war proved less acute than feared, while signs of weaker growth became more pronounced. With no scheduled MPC meeting during the month, policy remained anchored by the Bank of England's 30 April hawkish hold at 3.75% and by Governor Bailey's subsequent guidance. Speaking towards month-end, Bailey indicated the Bank was in no rush to raise rates while the outcome of the conflict remained uncertain and domestic growth stayed soft, suggesting policymakers were willing to tolerate above-target inflation through the crisis unless price pressures became more persistent. The IMF struck a similar tone mid-month, modestly upgrading its 2026 UK growth forecast while suggesting the Bank retained scope to cut if conditions warranted. Gilt markets were less settled, however, with the 10-year yield drifting up towards 5% by month-end, around levels last seen in 2008, as global energy-driven inflation fears and intermittent hike pricing weighed on the curve.

Inflation surprised to the downside. Headline CPI eased to 2.8% year on year in April from 3.3% in March, below the 3.0% consensus and reversing the renewed pressure that had been expected to build as fuel costs fed through. The softer print offered a notable contrast to the reacceleration seen across the US and Eurozone, though the relief may prove temporary, as input producer prices remained elevated and the Bank continues to expect higher energy costs to push CPI back towards 3.0–3.5% over the coming quarters.

Growth data painted a split picture, with backward-looking strength masking a deterioration in more timely indicators. First-quarter GDP confirmed the economy entered the year on a solid footing, expanding 0.6% quarter on quarter and 1.1% year on year, comfortably ahead of expectations and supported by a rebound in March manufacturing output. However, the forward-looking data weakened notably: the May flash composite PMI fell to 48.5 from 52.6, slipping into contraction as services dropped to 47.9, while retail sales declined 1.3% month on month in April. The labour market also continued to soften at the margin, with unemployment edging up to 5.0% and the claimant count rising by 26.5k, although average earnings growth of 4.1% indicated wage pressures had yet to fully dissipate.

Eurozone

50.1109° N, 8.6821° E

Data out of the Eurozone showed an economy still grinding out modest growth at the start of the year, but with momentum increasingly questioned as the month progressed. First-quarter GDP indicated a small expansion of 0.1% quarter on quarter in the euro area, suggesting a resilient but subdued baseline. However, that stability was gradually overshadowed by weaker incoming survey data and shifting market pricing, as investors reassessed the outlook against firmer energy prices and lingering geopolitical risks. The focus increasingly shifted to whether these external pressures would keep the European Central Bank biased toward tighter policy for longer, even as signs of softer underlying activity began to emerge.

Inflation was the dominant macro theme. April headline CPI rose to 3.0% YoY from 2.6% in March, with the increase driven primarily by a sharp acceleration in energy prices. That reinforced concerns that the earlier disinflation trend had stalled and that higher oil and gas prices were beginning to spill into broader price-setting behaviour. As a result, ECB expectations turned more hawkish through the month, with markets increasingly leaning toward tighter policy.

Activity indicators suggested that the growth pulse was weakening materially. The composite PMI fell to 48.8 from 50.7, signalling the first contraction in private-sector output in over a year, while the services PMI dropped to 47.6 from 50.2 in the previous month slipping into contractionary territory as higher living costs and weak confidence weighed on demand. Manufacturing remained more resilient, with manufacturing PMI edging up to 52.2 in April as new orders grew and export demand accelerated with front-loaded purchases due to uncertainty surrounding potential war-related shocks. Input costs rose while business sentiment declined.

China

31° 14′ 12.3″ N, 121° 30′ 31.5″ E

China's May data flow pointed to a still-fragile recovery, with domestic demand remaining soft even as policymakers maintained a supportive stance and external trade continued to provide a degree of cushioning. Incoming data suggested that growth momentum had eased into April, reinforcing concerns that household consumption and property-related activity were still too weak to drive a sustained, broad-based reacceleration.

Inflation data for April showed CPI rising 1.2% year on year and PPI up 2.8%, indicating some firming in price pressures, but still far from a demand-led reflation story. Industrial production rose 4.1% year on year, while year-to-date fixed asset investment and retail sales continued to expand, albeit with domestic demand lagging the stronger performance in manufacturing and exports. Trade remained a key support pillar, with April exports rising solidly and the trade surplus widening to around US$84.8bn, underpinned by firm regional demand and some continued front-loading amid trade uncertainty.

PMI data painted a similarly mixed picture. The manufacturing PMI rose to 52.2 in April from 50.8, marking its strongest expansion since late 2020 and signalling firmer output and new orders, while the services PMI edged up to 52.6 from 52.1, remaining comfortably in expansionary territory.

From a market perspective, May was shaped by growing expectations of additional policy support. The PBoC had already signalled a dovish bias into 2026, and commentary through the month reinforced expectations that rate cuts and reserve requirement reductions remained on the table should momentum fade further. Even so, sentiment toward Chinese risk assets remained cautious, with trade uncertainty, geopolitical tensions and lingering property-sector fragility continuing to cap conviction.

Japan

35° 40' 34.55" N, 139° 46' 26.21" E

With no policy meeting scheduled in May, Japan's monetary backdrop remained anchored by the Bank of Japan's late-April hold. At that meeting the BoJ kept its policy rate at 0.75% in a split 6–3 vote, with the three dissenters arguing for an immediate hike to 1.0% on the view that the Iran war had skewed price risks to the upside. The Bank trimmed its FY2026 growth forecast to 0.5% from 1.0% while raising its core inflation projection to 2.8%, underscoring how the energy shock was reshaping the outlook. Through May, officials reinforced a gradual tightening bias: Deputy Governor Himino reiterated late in the month that the Bank remained committed to further rate increases, stressing that real interest rates were still extremely low, though he declined to signal the timing.

The inflation data sent mixed signals. A closely watched BoJ underlying-inflation gauge picked up to 2.8% in April, adding to the debate over how quickly policy may need to tighten and pointing to more persistent pressure than the headline figures implied. The national core CPI reading was softer at 1.4%, held down by government fuel subsidies and crude-stockpile releases, and the more recent Tokyo core print eased to 1.3%, suggesting the headline picture remained below the 2% target even as cost pressures built. Activity, by contrast, was firmer: first-quarter GDP expanded 0.5% quarter on quarter and 2.1% year on year, comfortably ahead of expectations, while April exports rose 14.8% year on year and industrial production returned to growth. The combination of resilient activity, and a still-soft headline inflation rate left markets leaning towards a possible hike at one of the BoJ's coming meetings.

India

20° 35' 16" N, 78° 57' 46" E

India’s May data highlighted a growing divergence between contained consumer inflation and sharply rising upstream price pressures. Headline CPI edged up to 3.48% year on year in April from 3.40% in March, the fastest pace in a year but still below expectations of around 3.8%, marking a sixth consecutive monthly increase. The softer reading largely reflected administered fuel prices being held steady to shield consumers from higher global oil costs, while food inflation firmed to 4.2%.

Beneath that stability, however, wholesale inflation told a very different story. WPI surged to 8.3% year on year in April from 3.9% in March—a multi-year high—driven by a sharp jump in fuel and power prices. Fuel inflation spiked to around 25%, with petrol, diesel and LPG all rising materially, raising concerns that cost pressures would filter through into transport, logistics and food products with a lag if crude prices stayed elevated.

This split picture kept the Reserve Bank of India on a cautious footing. The RBI continued to flag the risk that geopolitical tensions could simultaneously weigh on growth and re-ignite inflation pressures, while the rupee remained under pressure near record lows as higher energy costs threatened the external balance. With inflation forecasts anchored around 4.4% and upstream pressures clearly building, markets continued to price a patient, data-dependent stance, with limited scope for easing until energy volatility subsides.