CHARLOTTE SQUARE
INVESTMENT MANAGERS

A VIEW FROM THE SQUARE

MAY 2026

Strait to the point

Equity markets across the globe have, broadly speaking, recouped the losses from March and trade today as if the conflict in the Middle East never happened. This is against a backdrop of oil prices above $100 a barrel and the Strait of Hormuz remaining closed. The ceasefire in the Middle East is officially still holding but it is certainly being tested, with the recent missiles being described by President Trump as “love taps”.

Iran’s interest suggests they are keen to join talks but keep a floor on the oil price, causing pain to the approval rating of Donald Trump ahead of the midterms later this year. However, this will only last for a short period. If the Iranians push too far, causing a deep economic problem then they may find even their closet allies turn on them. The good news is that both parties do want to find a close to the conflict, but given that discussions on the nuclear programme have been taking place for years, it is optimistic to think that a resolution will be swift. A realistic outcome to hope for at this point is to negotiate on a moratorium on uranium enrichment, resembling the Joint Comprehensive Plan of Action signed in 2015.

The talks between President Trump and Xi of China are important. China wants shipping restored but may resist openly pressuring Iran without receiving gains of their own. Trump’s preferred outcome will be for the Chinese to place some pressure on Iran to reopen Hormuz and curb its nuclear program with China looking for delays to Taiwan arms deliveries and relaxation of Technology restrictions.

For now, reserves and floating storage are cushioning the effect of the closure, but this will only last so long. So why have equity markets largely looked through this? To answer this, we need to look underneath the bonnet.

Simply, technology related stocks, after lagging behind other sectors towards the end of 2025 and start of 2026, have led the recovery since 31st March, supported by a blend of strong artificial intelligence driven earnings growth, rising infrastructure demand (e.g. data centres), and growing confidence that we are not in a 2000s style bubble. Given their weighting within global indices, this has helped meaningfully. While enthusiasm around artificial intelligence remains a key theme, the rally has been underpinned by recent technology companies’ earnings announcement which have generally exceeded expectations. Demand for AI data centres has fuelled a surge in semiconductor and hardware stocks, particularly amid ongoing memory shortages.

Fixed income markets, by contrast, have faced a more challenging environment. Government bond yields have remained elevated, reflecting persistent inflation concerns and reduced expectations for rate cuts. Domestically, bond markets are also contending with the aftermath of a bruising set of results for the incumbent Labour party in the recent local elections, with Labour (and the Conservatives) losing a significant portion of their seats to the right-wing Reform party.

Recent days have prompted intense scrutiny on Prime Minister Starmer, with senior minster resignations and a push for Manchester Mayor, Andy Burnham, to re-take an MP seat, building the likelihood of a leadership challenge.

Overall, on asset allocation, we take the view that protecting the relative gains that we have built over the last couple of years seems prudent, given there are several variables that can dictate the outcome of the conflict.

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