Monthly Market Commentary

May was another good month for global equities albeit with a notable deterioration in breadth. Indices were supported by the perception of easing geopolitical tensions, good economic updates and an exceptional earnings season. Robust AI spending contributed to strength in technology related areas of the market. It was these that dominated performance.

On reporting, as at month end, 97% of companies in the S&P500 had reported with Q1 earnings growing by an average of 28.6%, the fastest pace since Q4 21 and more than double the 13.1% expected at the end of March. Technology related sectors delivered even more impressive growth thanks to both strong sales and margin expansion, with Q1 earnings across Information Technology and Communications growing by an average of over 50%.

In terms of regional performance, Japan's Nikkei225 was again the standout, rising 11.9%, driven by strength in AI-proxy SoftBank Group, up 43%, and strong performance from local semiconductor stocks. Semiconductor strength also helped US markets with the US-semiconductor index, the SOX, recording its best 2-month performance since 1996, up 69% from the end of March. The NASDAQ finished up 8.4%, while the S&P500 also delivered good absolute performance, up 5.15%, ahead of both its equal-weighted equivalent, +2.51%, and the S&P600 Small Cap Index, +0.9%. European bourses lagged in local currency terms with Germany's DAX rising 3.3%, followed by the French CAC40 and UK FTSE, both up less than 1%. China's Shanghai Composite Index closed lower by 1.1%.

Narrow breadth was most obvious at a sector level with Information Technology up 15.9%, miles ahead of the next best performers, Consumer Discretionary and Materials, both up around 3%. Noticeable laggards included Energy, which fell 6.2% as energy prices retreated, along with defensive sectors Utilities and Staples, down 5.4% and 2.3% respectively.

The AUD fell 0.2% against the USD as the US dollar basket, DXY, rose 0.9%. Commodities were weaker with the Bloomberg Commodity Index falling 3.8%, thanks partly to lower oil prices as WTI fell 17%. VIX also fell 1.57 points to close at 15.32 while yields on 10-year US Treasuries rose 6bps to 4.44% by month end.

The Fund's holding in Japan-based security firm, Secom was a meaningful contributor in May. Its shares surged on a solid FY26 result in which management flagged high-single digit price rises in coming months, alongside a new ~¥100bn buyback (approx. 3% of market-cap) and a 20% step-up in the dividend. Given signs the company is actively beginning to lean on its significant cash reserves to support shareholder returns (net cash approx.18% of market-cap), we think there is scope for more upside to shareholder returns.

In terms of new positions, the Fund gained exposure to US private hospital operator, Tenet Healthcare. With balance sheet issues now largely resolved, we think Tenet can continue recycling capital into its higher returning day-surgery business (one-third of EBITDA) while also funding more capital management in the form of buybacks. Given shares continue to trade on a low double-digit free cash flow yield, we think there is good upside for shareholders.

Talaria Asset Management
330 Collins Street
Melbourne, VIC, Australia 3000
info@talariacapital.com.au
talariacapital.com.au