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Market Update - May 2026

Global markets entered May amid considerable uncertainty. The war premium from oil prices eased in the latter weeks as optimism grew over a US-Iran ceasefire. Brent crude fell sharply as diplomatic progress suggested a potential normalisation of shipping flows through the Strait of Hormuz. The Bank of England held rates steady once more, but the inflation picture improved as April CPI inflation eased to 2.8%. The FTSE 100 made modest net gains through the month. For UK investors, the data offered glimmers of genuine encouragement - though the path ahead remains conditional on events thousands of miles away.

UK policy

The Bank of England (BoE) last met on 30 April 2026 about interest rates, deciding to hold the 3.75% base rate for now. The next meeting is expected on 18 June 2026, and predictions vary widely about the interest rate outlook for the rest of the year.

We still face an uncertain global energy outlook, and higher inflation could be on the horizon. UK policymakers are still waiting for a material restoration of shipping flows through the Strait of Hormuz. Crude prices, despite falling sharply through May, remain above \$90 per barrel.

Governor Bailey, in remarks made during a visit to Reykjavik on 29 May, indicated that the BoE can "Temporarily tolerate above-target inflation to support the weak UK economy". The BoE's position is that, if it reacts too quickly to inflation, it could "generate undesirable volatility".

If the US-Iran ceasefire holds and energy markets normalise, the MPC could be well-placed to resume cutting rates in the summer – potentially as early as June. However, it's important to also acknowledge the UK's underlying domestic position:

- **Real wages are barely growing.** ONS data confirmed real regular pay growth of just 0.1% (CPIH-adjusted) in January-March 2026.
- **Unemployment has drifted higher.** The rate rose to 5.0% in the three months to March, up from 4.9% previously and above the level it stood at a year ago.
- **Businesses are reporting softening demand.** Strong manufacturing PMI in April (53.7), partly driven by pre-buying and stock-building ahead of expected price rises.

UK Economy

Real GDP data for the first quarter of 2026, published in May, showed the UK economy expanded by 0.6% between January and March - largely in line with predictions.

Services output rose 1.4% in the quarter compared with the same period a year earlier. On the labour market, the May release confirmed some unwelcome news.

Payrolled employment fell by approximately 104,000 over the year to March (0.3%). Youth unemployment also reached 16.2%, its highest level in over 10 years. Real wage growth, at just 0.1% for the first quarter, has effectively stalled and risks turning negative as the residual effects of the energy shock continue to feed through to consumer prices.

For financial planning purposes, the April CPI figure (2.8%) has significant implications. The combination of a personal allowance frozen at £12,570 and even modest wage growth means that fiscal drag continues to pull more earners into higher-rate tax bands.

UK Market

The FTSE 100 delivered a modest positive return in May, closing the month at 10,409 and gaining around 0.44% - building on the small recovery seen in April.

The month was characterised by two distinct phases. In the first half, ongoing uncertainty over the ceasefire weighed on sentiment – including Iranian missile strikes against Kuwait and the UAE and Trump describing the truce as on "life support".

Consumer-facing stocks, airlines and domestically exposed names remained under pressure, and the index struggled to build on April's recovery.

The second half of May told a different story. As diplomatic momentum gathered pace and reports of a 60-day extension to the ceasefire became more credible, oil prices fell sharply.

This provided significant relief for transport and consumer stocks, while the prospect of lower energy costs revived cautious optimism about the domestic growth outlook.

Energy and defence names, which had underpinned the index throughout the conflict, gave back some of their gains as oil fell. BP and Shell retreated from their recent highs, though both remained considerably ahead of their pre-conflict levels.

The FTSE 100's small gain masks a broader story: the index has shown meaningful resilience relative to its pre-war level. This is partly due to its heavy weighting in energy and commodities, and partly to the natural hedge that sterling weakness and elevated commodity revenues have provided its multinational constituents.

Global Outlook

In May, oil markets underwent their most dramatic monthly move since the pandemic, with Brent crude futures falling approximately 19% to close near \$92 a barrel.

The month had begun with prices high as ceasefire negotiations appeared to stall and Iranian forces continued strikes on Gulf infrastructure. The turning point came as reports of a "mostly agreed" 60-day memorandum of understanding between the US and Iran began circulating in mid-to-late May.

However, any normalisation of supply would take months, even if a deal were fully implemented, possibly extending into 2027. Oil's dramatic May decline, while welcome, should not be mistaken for a return to pre-war normality.

In the United States, the Federal Reserve held its federal funds rate at 3.5%-3.75% at its latest April meeting. Chair Jerome Powell signalled continued patience, noting that the energy price shock had complicated an already finely balanced inflation picture.

The European Central Bank likewise held its deposit rate at 2.0% at its April meeting. Eurozone inflation had jumped to 3.0% in that month, driven by energy costs. Markets are pricing in a potential 25-basis-point increase at the June meeting.

Japan's Nikkei 225 staged a remarkable recovery in May, closing near 66,400 – a substantial advance that pushed the index to fresh record highs by month's end. The yen's continued weakness also provided support for Japanese exporters. The Bank of Japan held its policy rate steady at 0.75% in a 6-3 April vote, though hawkish dissent and deputy governor Himino's public remarks signalled that further tightening remains on the agenda, once the geopolitical picture clears.

In China, the Hang Seng experienced a volatile month, with sharp moves in both directions as investors tracked developments in the US-Iran conflict and assessed the implications of the high-profile Trump-Xi summit in Beijing.

Beijing has positioned itself as a potential diplomatic intermediary, and its role in facilitating a lasting ceasefire could yield significant economic benefits, given China's dependence on Gulf energy flows. Domestic stimulus measures in the property and consumer sectors continued, though the underlying growth outlook remained uncertain and sentiment fragile.

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