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Weekly Macro and Markets View

26 May 2026

Highlights and View

30yr gilt yields briefly touched the highest level since 1998 before falling back markedly

The fiscal situation remains fragile, but modest inflation, a weakening labour market and Andy Burnham's supporting comments have helped to put a lid on gilt yields last week.

Eurozone economic activity indicators slow sharply, with the composite PMI at its lowest level since 2023

Weak economic activity data, combined with rising inflation, creates a difficult balancing act for policymakers.

China's activity data soften notably in April but some early signs of stabilisation of home sales in top-tier cities have emerged

While losing economic momentum reinforces a fragile domestic growth backdrop and increases heavy reliance on exports, early signs of stabilisation in property are encouraging.

UK gilts on a rollercoaster

Source: Bloomberg

UK government bonds went through a volatile week with 30yr gilts spiking to the highest level since 1998 before falling back by more than 30bp in a matter of days. The fiscal situation remains fragile. With PM Starmer's future increasingly uncertain, investors are anxiously watching for clues about the viability of the government's fiscal rules. Gilts outperformed their European counterparts after Andy Burnham, one of Starmer's potential successors, ruled out changing the fiscal rules if he gained power. The gilt rally was further fuelled by a set of benign inflation numbers and soft labour market data. Headline inflation slowed markedly to 2.8% YoY in April, from 3.3% YoY in March. The slowdown was caused by base effects and weaker services inflation. Meanwhile, the unemployment rate ticked up to 5% in March with wage growth slowing to 3.4% YoY from 3.6% YoY the month before, the lowest since October 2020. Jobless claims and employment numbers for April are pointing at further weakness in the labour market which will give the BoE more leeway in its policy settings in the coming months. Finally, the latest set of PMIs shows that business activity is facing increasing headwinds. While manufacturing was expanding at a similar pace in May compared to April, services activity is under pressure with the respective PMI falling to 47.9 from 52.7.

Eurozone

The energy shock reverberates

Another week, another dip lower in the Eurozone's economic surprise index. This indicator drops when important data releases come in worse than consensus expectations; a consistent European theme since the Iranian conflict began. The composite PMI fell to 47.5, the lowest since 2023. The employment subcomponent fell to 48.4, the lowest since 2020. Overall, France was the single largest negative contributor with a composite reading of 43.5. This reading is an outlier, and likely overstates the downturn, but is nevertheless indicative of a large confidence shock.

Inflation will continue to pick up throughout the year, and the specific impact of energy prices are at the mercy of international events. Input prices are clearly rising in both services and manufacturing. However, a slowing labour market reduces the risk of second-round price rises like in 2022 and 2023. Despite a weakening economy, the ECB appears committed to a June rate hike. We think any tightening cycle will be short lived, with risks skewed towards a sharp reversal.

China

Mixed prospects

April data point to a further loss of momentum. Retail sales rose just 0.2% YoY, the weakest print outside the pandemic, while fixed-asset investment contracted 1.6% YoY YTD, reversing Q1 gains and suggesting the rebound in investment lacks firm roots. Meanwhile, house prices continue to fall on a MoM basis, with prices remaining in double-digit contraction YoY. That said, home sales are showing early signs of stabilisation, with transaction volumes rising notably in Tier-1 cities such as Shanghai, Beijing and Guangzhou. The recovery remains two-speed: top tier cities are stabilising on stronger resale demand and policy support, while lower-tier markets remain weighed down by excess inventory and cautious buyers. Nationwide, property sales are still expected to decline in 2026, with ongoing contractions in new starts and completions. All told, while China's macro momentum softened notably in April, reinforcing a fragile domestic growth backdrop and making the economy highly reliant on exports, early signs of stabilisation in property are encouraging.

LatAm

Weak start to the year

Mexico's Q1 26 GDP came in slightly above expectations at 0.2% YoY but contracted sequentially, with weakness concentrated in primary sectors and business-oriented services, pointing to subdued private investment. This takes place amid a challenging and uncertain USMCA negotiation, alongside Moody's recent downgrade of Mexico's sovereign rating to Baa3, the lowest investment-grade notch, reflecting fiscal concerns. While no major capital outflows are expected given the stable outlook, the downgrade may force stricter fiscal consolidation, creating headwinds for the recovery. In Chile, GDP contracted 0.5% YoY in Q1 26, undershooting expectations, driven by weaker net exports and lower copper and agricultural shipments alongside rising imports. However, domestic demand remained resilient, supported by household consumption at 2.5% YoY and investment at 3.2%. On policy, the Kast administration's flagship pro-investment bill cleared the lower chamber with centrist support, but still faces complex Senate negotiations ahead.

Equities

A few bumps in the road, but the glass remains half full

Stocks initially fell last week as government bond yields surged and stalemate in the Middle East led to higher pricing of future policy rates, before hopes of a 'deal' resurfaced. Nvidia, the world's largest company, produced another set of staggering earnings. Revenues were up 85% YoY, to USD 81.6bn, with gross margins at 75%, well ahead of expectations. Guidance, however, was only modestly ahead of analyst forecasts for Q2, and the stock was down 4.5% on the week, though still 15.5% higher YTD. Asian tech was also volatile. Although Samsung closed the week 7% higher, managing to avoid a strike, it gyrated hugely. Despite a rocky start, stocks recovered later in the week as better news emanated from the Middle East. The MSCI World Index closed up 1.3%, while European bourses played catch-up, with the Euro Stoxx 600 up 3%. Given the passing of time and some market consolidation, we are constructive on stocks once again and see further gains ahead. While risks are substantial, liquidity and flow data are supportive, fundamentals robust, and momentum is building.

CMBS

Recovery challenged but not derailed

US non-agency Commercial Mortgage-Backed Securities (CMBS) spreads are now below February levels and at their tightest since early 2022. Primary issuance remains active, with higher all-in yields supporting demand. While the market has held up well despite concerns over higher government bond yields and persistent inflation, the path of rates and inflation remains a key risk for CMBS and the broader Commercial Real Estate (CRE) market. Higher rates could make refinancing more difficult, particularly as loans from the 2022 vintage approach maturity. Elevated inflation may also put further pressure on CRE fundamentals, as expense growth has outpaced revenue growth across most property sectors in recent years. Encouragingly, the latest Senior Loan Officer Opinion Survey by the Federal Reserve pointed to further easing of lending standards during Q1 2026, with domestic banks reporting greater willingness to extend CRE credit and stronger loan demand. Overall, the CRE recovery may come under pressure in H2 2026 if rates stay elevated, but it is unlikely to be derailed.

What to Watch

- In the US, investors will focus on consumer sentiment, personal spending and the latest PCE inflation numbers.
- In the Eurozone we receive May inflation data for the largest four countries. We also receive consumer confidence data.
- China's industrial profits, Australia's CPI as well as Japan's retail sales, industrial production and Tokyo CPI are key to watch.
- In LatAm, Brazil's Q1 GDP release will be in the spotlight this week.

Disclaimer and cautionary statement

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