Monthly Market Commentary

MAY 2026

NOTE SUMMARY

May closed with the U.S.-Iran conflict moving into a new chapter, as a ceasefire began to take shape near month-end. AI-related sectors remained a key area of market leadership, with continued strength across memory, advanced packaging, and power infrastructure. While inflation remains the primary macro risk and is likely to normalize more gradually than the administration has suggested, the broader fundamental backdrop remains intact. With geopolitical tensions easing and economic conditions remaining supportive, the outlook for equities continues to be constructive.

OPTIMISM PREVAILS

May was a month in which optimism and uncertainty contended. For two weeks mid-month, a peace deal looked out of reach, equities tumbled, and the 10-year Treasury punched above 4.6%[1], a warning level. Today, a ceasefire is taking shape. With the conflict fading, fundamentals will come back into focus, and quietly, they've been strong all along, with one inflationary asterisk. Inflation reaccelerated to 3.8% in April on the energy shock, and while peace will pull it back down, the path will be slower than the Trump administration is signaling. Tariffs and wartime supply disruptions don't unwind on the same timeline as a barrel of crude. Against that backdrop, this note works through three major themes driving markets today: the AI bottleneck cycle, the fundamentals driving oil and gas, and the tension underway in precious metals.

THE AI CYCLE MATURES

The AI trade has moved through three distinct phases. In 2023 it was the Magnificent Seven: the hyperscalers building the platforms. In 2024 and 2025 attention shifted to the chip enablers: NVIDIA's GPUs and Broadcom's networking silicon. Now, in 2026, it has moved again. The hyperscalers have the budgets and the chip designs they need. But as the workload shifts from training to inference (from short, GPU-heavy bursts to models running persistently for millions of users) the binding constraint moves further up the supply chain. Deploying inference at that scale takes more memory, advanced packaging, optical interconnects, and power than the supply chain can currently provide. That shortage is what our portfolio has been positioned for all year, and it's what drove this month's outperformance for clients.

Artificial Intelligence Value Chain Stack – Bottleneck Edition

01	**Hyperscalers** Cloud platforms that build and operate AI data centres and train frontier models. The original Magnificent Seven trade. PLAYERS Microsoft · Alphabet · Amazon · Meta · Google · Oracle	PAST KEY DRIVER *2023*
02	**Semiconductors** GPUs, networking silicon, and the foundries that fabricate them. Pricing power softening as ASICs enter the field. PLAYERS NVIDIA · Broadcom · AMD · TSMC	PAST KEY DRIVER *2024–2025*
03	**Memory / HBM** High-bandwidth memory, DRAM, and NAND that feed the accelerators. All 2026 HBM supply committed; pricing power is real. PLAYERS Micron · Western Digital · Seagate	WE ARE HERE *2026*
04	**Testing & Packaging** Advanced packaging and test capacity that stack HBM next to compute. Capacity is exhausted; lead times stretch 18–24 months. PLAYERS ASML · Applied Materials · Lam Research · ASE · Teradyne	EMERGING/CURRENT *2026*
05	**Optical Interconnects** Photonics and networking gear moving data between GPUs and across data centres at the speeds AI workloads demand. PLAYERS Fabrinet · Amphenol · TE Connectivity · Arista	EMERGING *2026*
06	**Power / Cooling** Electrical capacity, transformers, and liquid cooling that keep GPU clusters online. The binding physical constraint. PLAYERS Vertiv · Eaton · Monolithic Power	EMERGING *2026–2027*

Source: Watson Investment Partners

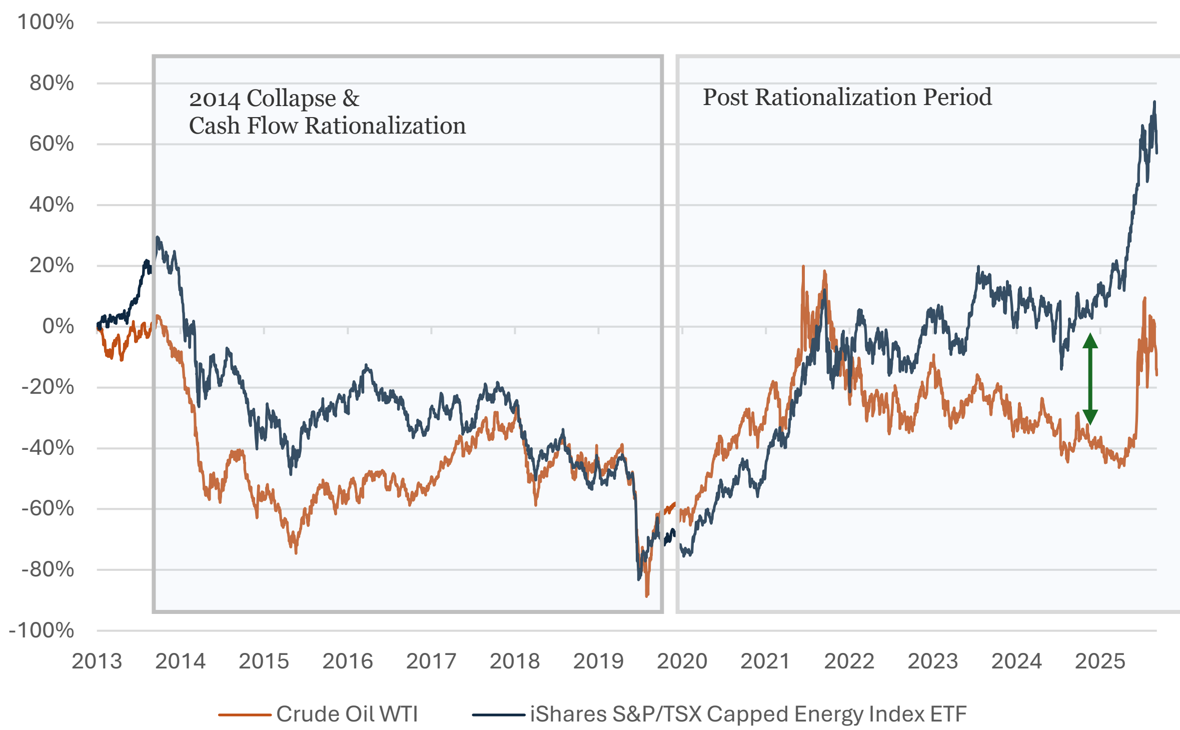
Memory and storage are where the bottleneck has bound hardest so far in 2026. High-Bandwidth Memory (HBM), the high-speed memory AI accelerators depend on, is sold out for the year, and prices for the standard DRAM chips made in the same factories jumped 90%[2] in Q1. Manufacturers are permanently shifting capacity from consumer electronics to AI-grade memory, where margins run three to five times higher.[3] Memory and storage will stay tight until new manufacturing capacity comes online in mid-2027.

On May 26, UBS raised its Micron target from $535 to $1,625[4] (a 204% increase) after Micron sold out its 2026 HBM4 capacity and reported Q2 FY2026 revenue of $23.9 billion[5], up 196% year-over-year. Western Digital grew revenue 27% at 43.5% gross margins[6], and Seagate's stock returned 219% in 2025 as enterprises shifted spending from training to inference (which requires persistent storage at scale). All three have been holdings in the WIP Equity Strategy since Q4 2025. This dynamic is a supply constraint that resolves in 2027, not a geopolitical bet – evidence that the constructive case stands on its own.

OIL & GAS: BUILT BEFORE THE WAR

The energy sector's 2026 outperformance reflects a structural reset that predates the Iran conflict. In recent years oil companies shifted to disciplined capital allocation, returning cash to shareholders instead of chasing production growth and concentrating investment in low-cost output. It was a response to the post-2014 price collapse and the capital destruction that reckless spending left behind. Refiners, meanwhile, have benefited from a multi-year tightening in global capacity: margins have expanded sharply, decoupling operator share prices from the oil price (see chart below), which has been falling since its 2021 peak.

Crude Prices vs Operator Bust and Boom



Source: FactSet

The Iran conflict adds a genuine overlay. The Strait of Hormuz faces supply uncertainty and shipping costs have risen dramatically. Higher oil prices feed through to refiners in two ways. The price of the fuel they sell rises faster than the crude they buy, so their margins widen. At the same time, producers respond to stronger prices by stepping up drilling and production, which means more work for oilfield services. But the war premium will fade, however, the structural reset behind the sector will not.

If the conflict de-escalates and oil settles at $80-$90, the energy sector does not collapse. The refining squeeze persists. Production ramps without requiring massive new capex. Low-cost producers still generate strong cashflow. The sector's momentum is not a geopolitical bet. It is built on a multi-year transformation in the industry itself. This is the second piece of evidence that the fundamentals survive both the ceasefire and the inflation scare.

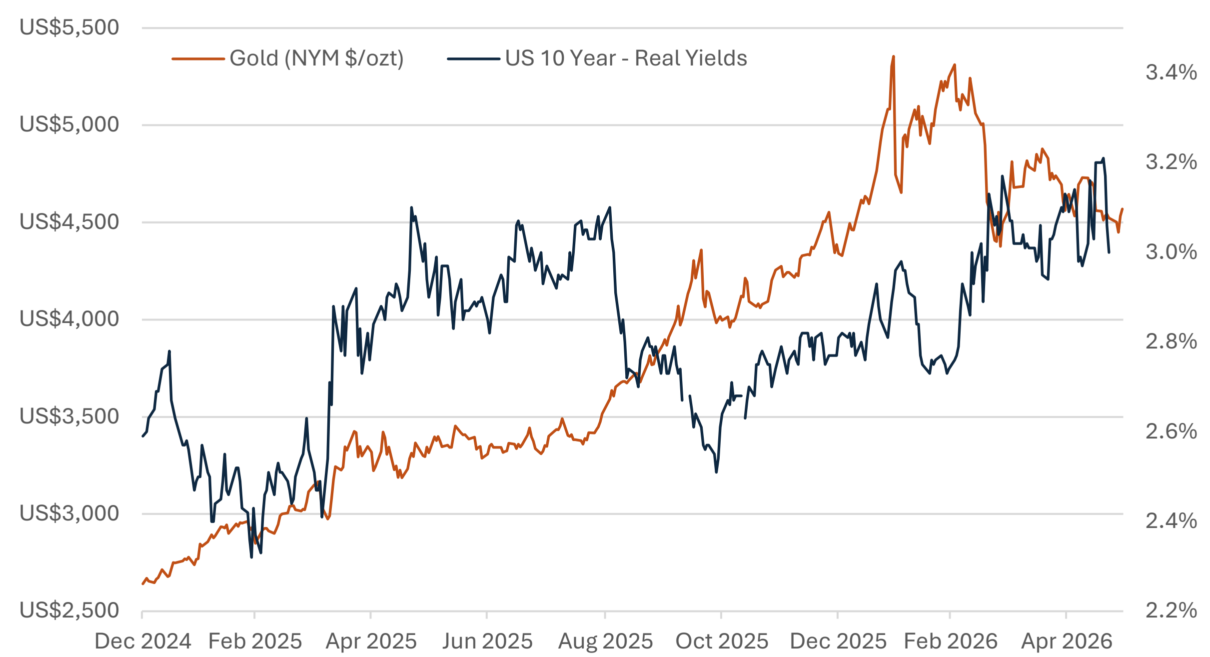
PRECIOUS METALS: FADING AGAINST THE RATE

Precious metals had a commanding year before the Iran conflict upended it. Gold ran from roughly $3,335 a year ago to an all-time high of $5,589[7] on January 28, a 65% climb. The miners did even better: the VanEck Gold Miners ETF (GDX) returned 155% in 2025 as fixed-cost producers levered the spot move. Then came the conflict in the Middle East. Oil spiked, inflation reaccelerated to 3.8%, and the Fed pivoted from "two cuts coming" to "higher for longer."

Gold's climb was not, at its core, a bet on falling yields. It was structural. Central banks have been net buyers at better than 200 tonnes a quarter, adding 244 tonnes in the first quarter of this year alone. That demand is strategic and largely price-insensitive, rooted in the reserve diversification that accelerated after the 2022 freezing of Russian assets and a steady move away from the dollar. Falling real yields were a tailwind on top of that base, not the base itself. The tell is that gold set records through 2025 even as real yields stayed elevated, breaking the inverse relationship that once governed the metal. The war did not break the thesis. It spiked real yields and triggered a tactical correction while the structural bid kept buying straight through it. The foundation held the whole time. The rate move simply masked it.

Gold doesn't offer a yield, so when real yields rise it has to compete with bonds that now pay more, and it often loses. That is why the metal that should have rallied on a geopolitical shock has instead fallen: roughly 12%[8] since the conflict began, with silver down about 20%[9] over the same period. A negotiated end to the war would start to rebuild the conditions the position was built on. Oil would normalize, headline inflation would cool, the Fed would regain room to cut, and real yields would fall. That is the exact backdrop that drove the multi-year run in metals in the first place.

Gold vs 10 Year US Treasury Yield



Source: FactSet

PROCESS OVER PREDICTION

The instinct, in a market this loud, is to move with the headlines: the war, the ceasefire, the next inflation print. We argue the opposite. The headlines are inputs, important to watch and important to research, but they are not how we make decisions. Right now, underneath them sit two structural shifts, the AI bottleneck and the energy reset, that owe nothing to the news cycle and resolve on their own clock. We hold those as the core, and we hold metals as the deliberate hedge against the one macro risk that could bite. We carry the constructive case and that single risk side by side, and we let the data, not the narrative, decide when to move.

At Watson Investment Partners, our process is built to identify the themes driving the market and rotate out of those losing steam. It is systematic, designed to capture the strongest areas of momentum wherever they emerge, and disciplined by a risk management program that prioritizes capital preservation: measured position sizing, diversification across themes, and a willingness to exit the moment a position's momentum breaks.

SOURCES

[1] Factset, May 29, 2026

[2] Reuters, "TrendForce sees chip prices surging 90–95% in Q1 from previous quarter," February 2, 2026.

[3] Tech Insider, "Memory Chip Shortage 2026: HBM Takes 23% of DRAM Wafers," April 2026.

[4] UBS Securities LLC (Timothy Arcuri), "Micron Technology Inc — LTAs Gain Traction; PT to $1,625 with EPS Remaining Well >$100," Global Research, May 26, 2026.

[5] UBS Securities LLC (Timothy Arcuri), "Micron Technology Inc — LTAs Gain Traction; PT to $1,625 with EPS Remaining Well >$100," Global Research, May 26, 2026.

[6] Western Digital Corporation, Form 8-K, "WD Reports Fiscal First Quarter 2026 Financial Results," October 2025 (revenue $2,818M, +27% Y/Y; GAAP gross margin 43.5%).

7 CBS News, "What is the highest gold price in history? Here's how it's changed over the past year," February 24, 2026.

8 Factset May 29, 2026

9 Factset May 29, 2026

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