GRYPHON INVESTMENT ADVISORS BAHAMAS

CONFIDENTIAL

Thoughts for the Day

Monthly Overview

A Month That Refused to Resolve

Dear Fellow Investors,

May 2026 was the month the world's most important waterway became the world's most important economic variable. From the first trading day to the last, the Strait of Hormuz dominated every asset class that mattered: crude oil, sovereign bonds, inflation expectations, central-bank forward guidance, and the earnings multiple of every rate-sensitive equity on the planet. This was not a typical geopolitical scare. It was a sustained, month-long collision between military reality and financial-market optimism — and the result, for investors who were paying attention, was genuinely instructive.

I want to be direct about what May was and what it was not. It was not a clean crash, and it was not a clean rally. It was a month in which the S&P 500 ended at 7,563 after touching highs that would have been unimaginable three years ago, yet in which Brent crude oscillated between $92 and $114 as ceasefire talk advanced, stalled, and advanced again. It was a month in which U.S. CPI rose 3.8% and PPI surged 6.0%, and in which the 30-year Treasury yield briefly cleared 5% for the first time since 2007. It was, in short, a month that demanded intellectual honesty about which risks were real and which were being priced away by a market still intoxicated by artificial intelligence.

The investors who navigated May best were those who had separated the signal from the noise early: who understood that ceasefire headlines and physical-market normalisation are not the same thing, and that AI earnings concentration at index level is not the same thing as broad economic health. That distinction will matter again in the months ahead.

THE DOMINANT STORY

The Strait That Moved Markets

The month opened with the Iran war already in its third month and with the Strait of Hormuz carrying a significant geopolitical risk premium in crude. What changed in May was the character of that disruption. In April, the market had treated the blockade as a manageable shock, something to hedge around at the margins. By early May, it was becoming clear the premise was wrong. On May 1, oil sat just above $105 Brent. By May 5, it had climbed to $113 as tanker strikes near Fujairah demonstrated that the risk perimeter had expanded well beyond the Strait itself. By mid-month, with the UAE countering Iranian drone attacks and multiple Gulf infrastructure facilities under threat, Brent touched $111 and the IEA was warning that commercial inventory buffers were being exhausted at a pace not seen since the energy crisis of the 1970s.

The diplomatic choreography was exhausting to follow, and I suspect many investors simply stopped trying. Trump declared the ceasefire “on massive life support” after rejecting Iran’s proposal as a “piece of garbage.” Then came the Beijing summit with Xi, which turned into a clearinghouse for Iran, Taiwan, rare earths, and semiconductor controls simultaneously. Chinese super-tankers were making symbolic transits through the Strait. Saudi Aramco management warned the disruption could persist into 2027. And through it all, U.S. oil product exports hit a series of records as American refiners tried to plug global supply gaps, drawing down the domestic Strategic Petroleum Reserve at the fastest pace since records began — seventeen point eight million barrels in a single week.

The mathematics of the supply shock deserve stating plainly. The EIA reported that flows through the Strait of Hormuz fell nearly thirty percent during the first quarter. OPEC output dropped to its lowest level in thirty-six years. The IEA warned inventories were falling rapidly, removing the buffer that had previously prevented price spikes from becoming crises. The physical-market signal was unambiguous. What made May unusual was the degree to which financial markets alternated between reading that signal honestly and choosing to look past it whenever a diplomatic headline arrived.

The final act of May brought something resembling resolution. By the last trading week, the U.S. and Iran had reached a tentative ceasefire extension framework with limited relaxation of Hormuz restrictions. Markets took this as more than it was. The MSCI All Country World Index hit a fresh all-time high. Brent fell to $92 on the last day of the month. But I would caution firmly against treating a framework as a settlement. Physical supply normalisation, shipping insurance repricing, and the enforcement of any sanctions-relief mechanism will take months, not weeks. The market has priced the diplomatic headline. The delivery is still outstanding.

THE SECOND LAYER

The AI Cycle as a Macro Force

Underneath the Hormuz drama, a quieter but in some ways more consequential story continued to unfold. The artificial intelligence infrastructure cycle accelerated in May in ways that should concern anyone thinking about long-run capital allocation and inflation. We are no longer talking about software productivity gains. We are talking about a physical investment wave that is straining power grids, depleting specialist metals, tightening memory-chip supply, and drawing institutional capital at a rate that is reshaping sovereign-bond dynamics.

The numbers from earnings season told the story clearly. Cloud revenue at one major hyperscaler grew sixty-three percent. AWS posted twenty-eight percent growth. AI agent rollouts across financial services and enterprise customers began generating measurable revenue rather than demo-stage excitement. One frontier AI company’s CEO said the firm could grow eighty-fold this year. And yet the capex commitments attached to this cycle have become genuinely alarming in their scale: one hyperscaler lifted its full-year guidance to as much as $145 billion for a single calendar year. Another raised $17 billion in multicurrency debt for AI infrastructure in a single transaction. UBS projected $511 billion in global power-infrastructure spending by 2030 purely on AI data-centre demand. One research estimate put the decade-long capex requirement at $4 trillion and five hundred gigawatts of new compute capacity.

What makes this the second-layer story of May is that it is both reinforcing and complicating the geopolitical shock above it. AI demand is inflationary through semiconductors, copper, power, and rare earths. China's grip on rare-earth processing tightened throughout the month even as Trump and Xi signed an agricultural purchasing agreement. South Korea's Kospi lost more than $300 billion in value in ninety-seven minutes when a policymaker floated an AI "citizen dividend," demonstrating how politically charged the redistribution of AI profits has become. Meanwhile, AI-led equity concentration meant that sixty-five percent of S&P returns since 2022 came from just forty-two companies. When the market's breadth rests on that narrow a foundation, the word "stable" starts to require some qualification.

RATES, CURRENCIES & MARKET DIRECTION

What the Markets Are Telling Us

THE RATE NARRATIVE

The month-end fixed-income picture was unambiguous: this is a higher-for-longer world, and the market has largely accepted that. U.S. CPI came in at 3.8% in April with PPI at 6.0%. The 30-year Treasury briefly traded above 5% for the first time since 2007. Goldman Sachs and Bank of America both pushed their first Fed rate-cut forecast beyond year-end. Kevin Warsh was confirmed as Fed Chair in the closest Senate vote in the central bank's history, raising legitimate questions about institutional independence at precisely the moment those questions matter most. The ECB held but signalled a June hike was live as energy inflation threatened second-round effects. Norway actually hiked. Japan's 20-year yield hit its highest level since 1997. The coordinated global disinflation story that underpinned equity valuations for the past two years is, for now, paused.

CURRENCIES

The dollar was the month's most interesting currency story, precisely because it did not behave as textbooks would predict. The dollar was firm against energy importers and the yen — USD/JPY closed at 159.29, with multiple interventions managing but not reversing the trend — but showed surprising weakness at moments against the euro and sterling. The explanation lies partly in AI: one hyperscaler's decision to raise $17 billion in euro-denominated and Canadian-dollar bonds reflected deliberate diversification away from dollar issuance amid concerns about long-run U.S. fiscal sustainability. When the world's largest companies are structurally diversifying out of dollar borrowing, it tells you something about where patient money sees the terminal risk.

Sterling faced particular pressure from the UK's political turbulence: local elections delivered severe losses for Labour, 30-year gilt yields climbed above 5.80%, and Schroders publicly stated it was avoiding UK government bonds on concerns of fiscal populism. EUR/USD finished the month at 1.1637. The yen's persistent weakness, despite repeated intervention warnings, kept Japan in the most uncomfortable position in the G10 — importing inflation through oil, unable to tighten sharply into fragile domestic demand, watching the carry-trade unwind risk accumulate with every week USD/JPY held near 159.

EQUITIES

The headline equity story was one of resilience bordering on defiance. The S&P 500 closed May at 7,563 — a record. The Nikkei reached 66,364. The MSCI World hit an all-time high in the final days of the month. But I would push back on characterising this as broad market confidence. It was AI-concentration momentum, and the distinction matters. Semiconductor earnings — AMD up eleven percent in a single session, Samsung crossing a $1 trillion valuation, Super Micro surging on margin beats — pulled systematic and passive flows into growth indices, keeping headline numbers elevated while breadth deteriorated. HSBC missed badly on credit provisions. European luxury sold off on China demand fears. U.S. consumer confidence hit a record low of 48.2 in May. The rally was narrow, and narrowing. The market that closed May at record highs is not the same market as one in which everyone is winning.

GEOPOLITICS & THE INVESTMENT CYCLE

The World Beyond the Markets

May 2026 will be studied by future historians of geopolitics for one reason: the month demonstrated how a single maritime chokepoint, weaponised by a mid-sized power under sanctions pressure, can generate a supply shock large enough to reset global monetary policy, threaten sovereign credit ratings, create food-security crises across developing nations, and fundamentally alter the strategic calculus of the world's two largest economies. The Strait of Hormuz is three miles wide at its narrowest point. In May, those three miles moved more capital than any other variable on earth.

Beyond Hormuz, the structural shifts were also significant. The Trump-Xi Beijing summit was, in essence, a negotiation about the architecture of the next decade's trade and technology system. China used its rare-earth leverage openly and tactically. The outcome — an agricultural purchasing agreement, some tariff softening, and very limited movement on chips or Taiwan — reflected a managed rivalry rather than a return to genuine engagement. The most telling detail was that the world's most important chip company's CEO was excluded from the business delegation. When that exclusion is deliberate, the shape of the next supply-chain cycle is being drawn in real time.

In Europe, the month continued the structural story of rearmament. NATO governments moved from crisis spending to long-duration procurement cycles. Rare-earth supply chains, once an ESG footnote, became central to defence industrial planning. France introduced subsidy conditions requiring automakers to use European rare-earth suppliers. Germany's wholesale prices re-accelerated to 6.3% on an annual basis, the most concerning upstream signal of the month. Russia continued to escalate in Ukraine, and the ceasefire window around Victory Day closed with both sides more dug in than before. There is no peace dividend on the European continent, and the fiscal consequences of permanent rearmament are only beginning to appear in sovereign issuance calendars.

THE INVESTMENT CYCLE

Where Capital Is Moving — and Why

CAPITAL SPENDING & THE AI BUILD-OUT

The investment cycle story of May was, fundamentally, a story about debt. The AI infrastructure build-out has crossed the threshold where it is no longer funded from operating cash flow; it is now funded from bond markets, and the scale is beginning to matter to rates. One hyperscaler sold $25 billion of bonds in a single month. Another raised $17 billion in multicurrency debt. The combined tech-sector debt issuance since 2024 has now exceeded $300 billion, and analysts tracking hyperscaler free cash flow are starting to ask uncomfortable questions about the return profile. The positive case — that AI monetisation through cloud, enterprise software, and autonomous systems will justify the spending within three to five years — remains intact. The risk case — that capex runs ahead of revenue for long enough to create a refinancing problem in a 5% yield world — is not yet priced.

The specific bottleneck worth monitoring is memory. Apple guided to rising memory-chip costs and Mac shortages for several months ahead. The implication for AI infrastructure more broadly is that the memory shortage is the most actionable current constraint in the cycle, and guidance from suppliers on how long it runs will be more informative than any headline about new model releases.

CREDIT & PRIVATE MARKETS

Credit markets closed May in a state that JPMorgan described openly as underpricing risk. Spreads on B-rated bonds hit levels that do not compensate investors for the combination of AI business-model disruption, rising leverage, and the refinancing wall ahead in a higher-rate environment. Private credit attracted continued strong inflows from pension and insurance capital, but Apollo's pledge of daily pricing transparency for private credit was a telling sign that institutional pressure for mark-to-market discipline is growing. The Venetian Resort's $2.35 billion refinancing drew threefold demand, showing credit markets remain technically open for quality assets. The public credit markets held reasonably well, buoyed by hyperscaler balance-sheet quality. But the architecture beneath is showing strain that vigilant credit investors are beginning to price.

DEAL ACTIVITY & CAPITAL MARKETS

The IPO market spent most of May preparing for what would be the largest potential float in market history, with multiple companies advancing listings to get ahead of that capital-market event. S&P's proposed rule change to shorten the public trading period before index eligibility — from twelve months to six — was transparently designed to accelerate the passive-flow waterfall that would follow such a listing. Rare Earths Americas priced its IPO at the top of its range on strong strategic-mineral demand. Wall Street was packaging data-centre AI infrastructure entities for future listings. The message was the same as April: for quality assets with structural narratives, capital is available. For everything else, the question is cost.

> ***"The market that closed May at record highs is not the same market as one in which everyone is winning. Records and breadth are not the same thing, and the distinction will matter."*** — Leonard Watson, Thoughts for the Day, May 2026

CLOSING THOUGHTS

Where We Stand

May confirmed several things I suspected and complicated one or two I thought I understood.

What it confirmed: the Iran war is not a short-cycle shock that markets can absorb and move past. It has migrated into the structural inflation regime, the investment calculus of every energy-importing central bank, and the fiscal arithmetic of governments simultaneously being asked to rearm, subsidise households, and finance an AI revolution. Equities are at records, but the quality of those records is narrower than the headline suggests, and the environment that produced them — AI earnings concentration, geopolitical risk containment, and a market still betting on eventual Fed easing — depends on all three conditions remaining true simultaneously.

What it complicated: I had thought the AI earnings pillar was broad enough to sustain itself through a sustained energy shock. May showed it could — but only for index-level investors willing to ignore the growing divergence between AI-exposed mega-caps and everything else. That divergence is not sustainable indefinitely, and the longer it continues, the sharper the eventual correction in market breadth will be.

What I am watching specifically in June: oil's behaviour around the tentative ceasefire extension framework — if Brent fails to break sustainably below $90 despite diplomatic headlines, the market will be forced to accept that physical supply normalisation is lagging political language, and inflation expectations will reprice accordingly. Micron's next quarterly guidance, because the memory shortage is the single most actionable bottleneck in AI infrastructure, and their commentary on how long it persists will determine the capex execution path for every hyperscaler guiding to record spending. The ECB's June meeting, because a vote to hike into slowing growth crosses Europe into acknowledged stagflation territory, with material implications for duration, the euro, and European cyclicals. And whether the Warsh Fed begins to signal a change in reaction function — markets have priced in political proximity to the White House, but have not yet priced a genuine departure from the inflation-anchoring framework that has held since 2022.

I entered May with a healthy respect for the disruption potential of the Hormuz conflict, and I leave it with that respect deepened. The month showed that geopolitical risk can migrate from a tail scenario to the central scenario in weeks, not years. In that environment, I remain comfortable with our exposure to energy security themes, critical minerals, precious metals, uranium, and defence — not as a bet on chaos, but as the rational allocation of capital in a world that is no longer converging toward the frictionless globalisation narrative. The records equities set in May are genuine. So are the conditions that make me cautious about what comes next.

Thank you, as always, for your trust and your engagement.

Leonard Watson
Portfolio Manager
Gryphon Investment Advisors Bahamas (GIAB)
May 2026