DHWM Market Monthly | May 2026
Dual Pricing Reassessment & Global Asset Repricing

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Executive Summary

In the first half of May 2026, global capital markets experienced a dual repricing driven by expectation gaps: early in the period (May 4-8), risk assets rose on expectations of a US-China thaw; later (May 12-15), with the summit yielding no substantive breakthroughs and US Treasury yields surging, assets retreated systematically. A turning point emerged in late May: on May 19, the 10-year US Treasury yield hit a one-year high of 4.606%, with the 30-year breaking 5.197%; on May 20, oil prices plunged below $100 on Iran negotiation hopes, pulling Treasury yields down from 4.66% to 4.574%, triggering a broad rally across US equities. This adjustment was essentially a rational correction of sentiment premia, not a deterioration of fundamentals. Markets have now entered a May-September policy vacuum, with the sole trend inflection point for the year locked in on September 24 — the Chinese leader's visit to the US.

I. Market Core: The Global Dual Pricing Cycle

The core market tension this month was the mismatch between geopolitical expectations and reality, combined with a systemic rise in risk-free rates. Round one (May 4-8, sentiment-driven): markets priced in a US-China breakthrough, with HK night futures, Korean indices, US equity futures, and crypto assets broadly rising — HSI ADR futures surged over 500 points in a single day, nearing the sentiment intensity of November 2022. Round two (May 12-15, reality adjustment): the summit confirmed no policy surprises; the 10-year Treasury yield climbed from 4.2% to above 4.52%, briefly touching 4.60%, while the 30-year yield broke 5.0% (first time since 2007), triggering a global unwind of long positions. Phase three (May 18-21): on May 19, Treasury yields hit a one-year high of 4.606%; on May 20, oil prices plunged, yields fell back to 4.574%, and US equities rallied. Historically, this resembles the "expectation reversal" after the March 2023 Silicon Valley Bank event — but this time, with the 30-year breaking 5%, the impact on high-valuation assets is more lasting. This is an extreme correction of expectation gaps, a rational return to fundamental pricing.

II. Event Recap: No Breakthroughs, Cooperation as the Only Path Out of Stagnation

Market Expectations vs. Reality

Area	Market Optimistic Expectations	Reality
Tariffs	Partial tariff exemptions or reduction timelines	"Maintain regular communication" on tariffs, no commitments
Trade	Large-scale new procurement agreements	Boeing aircraft, soybeans as inventory replenishment, below expectations

Area	Market Optimistic Expectations	Reality
Technology	Relaxation of high-end chip controls	Only H200 downgraded chips allowed; A100/H100 bans remain

Deep Dive: The Thucydides Trap is Obsolete; Cooperation is the Only Path Out of Stagnation
The long-held "rising power inevitably challenges the incumbent, leading to zero-sum confrontation" framework no longer fits the 2026 US-China reality. The two economies are deeply intertwined across trade, technology, finance, education, culture, and infrastructure: US-China trade reached RMB 1.25 trillion in the first four months of 2026, with China as the US's third-largest trading partner; NVIDIA derives ~20% of revenue from China, Apple's supply chain ~50% located there; China holds ~$770bn in US Treasuries, the second-largest foreign creditor; China remains the top source of international students to the US, contributing over $15bn annually. Global economic growth is structurally weak; the marginal benefit of US-China cooperation far outweighs confrontation. The core paradigm has shifted toward "strategic competition as the norm, tactical cooperation in fragments, long-term mutual interest lock-in." Cooperation is the only viable path to reverse global economic stagnation.

III. Anchor of Pricing: US Treasury Yields Reshape Global Valuation

3.1 Core Driver of the Yield Surge: Middle East → Oil → Rate Expectations

In the first half of May, the 10-year Treasury yield rose rapidly from 4.2% to above 4.52%, hitting a one-year high of 4.606% intraday on May 19; the 30-year yield broke 5.197%, the highest since July 2007. On May 20, hopes of Iran negotiations drove oil below $100, pulling Treasury yields down from 4.66% to 4.574%.

The transmission chain is clear: persistent Middle East tensions → higher oil prices → renewed inflation fears → repricing of rate hikes → Treasury yields re-anchoring higher. Brent crude rose from ~$100/bbl in early May to $106-110/bbl by mid-month. According to the ACM term premium model, the 10-year yield rose ~54bp from late February to May 14, of which ~43bp came from higher rate-hike expectations. The 10-year TIPS yield rose to ~2.05%, signaling a genuine tightening of financial conditions.

US Treasury Yield Movements (May 2026)

Date	10-Year Yield	30-Year Yield	Key Event
May 14	4.52%+	Broke 5.0%	First time since 2007
May 19	Intraday 4.606%	Intraday 5.197%	One-year high / highest since July 2007
May 20	Fell to 4.574%	5.12%	Oil drop triggered pullback

3.2 Outlook: Range-bound in Near Term, Attractive for Long-term Allocation

Near term, market pricing of rate hikes appears full — a hike by March 2027 is fully priced in, with limited room for further hawkish repricing. Long term, current 10-year yields are more than three standard deviations above historical rolling averages, offering attractive entry points. Under the Fed's dual mandate, supply-side shocks like oil spikes are more likely to extend the "observation period" than trigger immediate hikes. If real incomes continue to soften, the case for 2027 rate cuts becomes clearer. The core risk is a simultaneous flare-up of wage negotiations, labor tightness, and long-term inflation expectations — so far, only the cost side is hot, suggesting secondary inflation can be avoided. Morgan Stanley marks 4.5% as the critical threshold for equity valuation pressure; if oil rebounds above $110, the 10-year yield could test 4.7%.

IV. Full Asset Class Review

4.1 US Equities

US equities closely tracked the macro rhythm: elevated early on geopolitical hopes, then pulled back on "expectation disappointment + rate surge." High-valuation tech led the decline, with the Nasdaq down 4.2% (S&P -2.8%) during May 12-15. Morgan Stanley's 4.5% threshold implies S&P fair forward P/E should fall from 22x to 19-20x. Industrials and agriculture held up relatively well, supported by existing trade orders.

Key Turning Point (May 20): Iran Negotiations Reshape the Pricing Chain: On May 20, Trump said Iran talks were in the "final stage." The rapid transmission was clear: oil plunged (WTI below $100, -5.38%) → inflation expectations cooled → 10-year Treasury yield dropped from 4.66% to 4.574% (-9.5bp) → US equities rallied (Dow +1.31%, Nasdaq +1.55%). This demonstrates the core logic: Middle East tensions drive oil, oil drives inflation expectations, inflation expectations drive yields, and yields drive equity valuations. The May 20 rally was a temporary reversal of the "oil-yield" link, not a fundamental improvement.

NVDA Post-Earnings: "Sell the News" After Extreme Expectations: NVIDIA's Q1 beat and dividend hike were not enough; shares fell 1.4% after hours. The lesson: when expectations are at extreme highs, "meeting expectations" is a negative. BofA's five key focus areas — cash returns, Vera Rubin ramp, 75% gross margin sustainability, $1tn guidance upside, and competition from Google TPUs/custom chips — will determine the next direction. If Q2 guidance doesn't materially exceed expectations, the AI complex could face a valuation recalibration.

Takeaways: Three signals from May: First, Treasury yields — not fundamentals — are the short-term pricing anchor, with 4.5% as the critical threshold; second, AI expectations are dangerously crowded, leaving little room for error; third, the oil-yield transmission chain, centered on Iran, dictates short-term swings. Before September, US equities lack trend catalysts, with range-bound, structural divergence likely.

4.2 European Equities

The Stoxx 600 gave up all its early-May gains, exposing the region's structural weakness: lack of a high-tech/AI hardware ecosystem leaves Europe as a passive follower in global tech upcycles but unable to hedge systemic risk during downturns. On May 20, the FTSE 100 fell 0.08%, DAX -0.35%, CAC -1.02%, and FTSE MIB -2.02%, with declines proportional to bond sensitivity.

Takeaways: Europe's weakness is "fails to follow on the way up, but falls hard on the way down." Reasons: no homegrown tech giants (AI/semiconductor weight far below Asia); European bank sensitivity to US rates is underappreciated; valuations already price in earnings that may not materialize. Notably, the UK 30-year yield hit a 28-year high, yet the IMF suggests the BoE "may even need to cut." The market believes price signals over official projections — the core European contradiction. For global investors, Europe offers limited value; it remains a "reduce first" candidate.

4.3 Hong Kong / China Equities (incl. HK Property)

The HSI was the signature case of expectation gaps: on May 14 (US night session), ADR futures surged over 500 points on summit hopes; on May 15 (Asia day session), the HSI plunged 500+ points as reality set in, a ~1,000-point round trip over two days, trapping overnight leveraged longs. During May 18-20, the HSI traded in a 25,650-25,800 range, with the 250-day MA (~25,600) providing support. Northbound flows totaled ~RMB 7bn over three days, offsetting ongoing foreign outflows. Technical support has shifted down to 25,800, from 26,500 previously.

Bright Spots in Divergence: Semiconductor stocks rallied (SMIC +9.7%, Hua Hong +13.9%), reflecting a domestic substitution trade under US chip restrictions. Tencent's AI model goes commercial on May 27 on a usage-based pricing model, seen as a key revenue inflection point. Banks diverged: Standard Chartered (+2.3%) on a new medium-term target (2028 ROTE>15%), while HSBC (-1.1%) underperformed.

Technical View: Coiling for a Breakout: The HSI has been range-bound (25,000-26,800) with volatility steadily compressing — a classic coiling pattern. Historically, when volatility compresses to a critical level, an extreme event triggers a rapid directional move: either sharply up or sharply down. Key variables to watch: Can Treasury yields fall from current highs? Will geopolitical tensions escalate? Will China announce stimulus? A drop in 10-year yields below 4.3% or surprise stimulus would set up an upside breakout; conversely, a breach of 25,000 would signal sharp downside risk. Until direction is clear, avoid heavy directional bets.

Takeaways: Hong Kong faces three pressures (rates, foreign outflows, policy vacuum) and three supports (northbound inflows, low valuations, structural AI/semiconductor themes). Until September, the HSI likely remains range-bound, but beware the coiling risk. Focus on structural themes (AI, semis, residential property) with disciplined position sizing, and wait for a catalyst.

Residential Property: In Jan-Apr 2026, HK residential prices rose 2.3% cumulatively (YoY -1.8%), ending 18 months of YoY declines; primary transactions +45% YoY, secondary +28% YoY. The Centa-City Leading Index (CCL) stood at 155.58 on May 8, up 1.24% over three weeks, a 2.5-year high; prices are up 7.96% YTD, over 15% above last year's low. UBS (May 11) sees full-year price gains of 5-10%, supported by mainland talent demand and potential 2027 UK returnees; mortgage rates are expected to fall to 3.125%, with rental yields stable at 3.4-3.5%.

New Stamp Duty: The Legislative Council passed a bill on May 20 raising stamp duty on homes above HK$100mn from 4.25% to 6.5%, gazetted May 29, affecting only ~0.3% of transactions. The psychological impact outweighs the real effect.

Commercial Leasing: According to JLL's May 2026 report, HK office market recovery is confirmed: 2025 new leasing totaled 4.8mn sq ft (strongest since Covid), with net absorption of ~1.6mn sq ft (highest since 2018). Grade A office rents in Central rebounded 5.5% QoQ in Q1 2026, driving overall rents up 2.4% QoQ. Central Grade A office rents are falling less sharply (Q1 -0.8% vs. -2.1% in Q4 2025), but vacancy remains high at 18.2%. Retail rents rose 1.2% QoQ, driven by mainland tourists. In non-core areas (Kwun Tong, Tsuen Wan, Sha Tin), office rents fell just 0.5% QoQ, with vacancy at 12.5%; industrial rents stabilized. New supply of ~3.2mn sq ft is concentrated in non-core areas (2026-2028), keeping supply-demand balanced.

Secondary Market Deep Dive: Sector P/B is at ~0.4-0.6x, the lower end of historical ranges. Residential names offer dividend yields of 5.5-7.0%, a 150-250bp spread over HKD time deposits (~3.8-4.0%); office REITs' spread has narrowed to 50-100bp. The current 10-year Treasury yield of

4.59% creates substitution pressure on office REITs' dividend appeal. The sector is near valuation lows, but recovery requires either lower rates or faster rental growth.

4.4 Northeast Asia

The KOSPI was an extreme case of macro sentiment pricing: on May 15, it broke 8,000 for the first time ever, hitting an all-time high of 8,046.78 intraday, before triggering a circuit breaker at 1:28 pm local time (KOSPI 200 futures -5%) and closing at 7,493.18. On May 19, it closed at 7,271 (-1.2%). Foreign investors net sold KRW 41.8tn (~$31.4bn) from May 7-19. Samsung and SK Hynix account for 80% of this year's gains — an extremely fragile structure. With foreign outflows persisting, near-term stabilization is unlikely. A KOSPI crash could trigger contagion across Asia; the HSI's tech weight is similarly high, and comparable risks cannot be ignored.

4.5 Commodities

Oil: Brent rose 5.7% from May 1 to May 16, closing at $106.722/bbl on May 14. A key turning point came on May 20: Trump said Iran talks were in the "final stage." WTI broke below $100/bbl (-5.38%), the first time since April; Brent fell to ~$105 (-5.66%). However, "final stage" does not equal a deal; if talks fail, oil could rebound quickly. The geopolitical premium remains.

Gold: Gold plunged 2.47% to $4,537 on May 16, with silver down 9.14%, as rising Treasury yields (carrying costs) and long liquidation overwhelmed the safe-haven bid. Gold stabilized around $4,500 on May 20. The PBoC's 18 consecutive months of gold purchases provide long-term support.

4.6 Crypto Assets

Crypto assets are now fully correlated with macro liquidity, ending their independent narrative. In early May, bitcoin breached $80,000, peaking at $80,500; ether started May at $2,366. A systemic long squeeze on May 15-16, driven by higher risk-free rates and falling risk appetite, pushed bitcoin down to $79,200 and ether to $2,270. As of May 20, bitcoin was ~$76,935 and ether ~$2,128, with over $800mn in longs liquidated over the weekend, leaving sentiment cautious. Correlation with US tech stocks remains high; without a clear turn in Treasury yields, crypto is unlikely to rally independently. Funding rates remain negative, but the depth is shallower than at the start of the year, compressing carry trade alpha.

V. Cross-Border Regulatory Developments

Hong Kong (HKMA): The stablecoin issuer regime went into effect in May 2026. The crypto asset reporting framework will be gazetted on May 22, with its first reading in the Legislative Council on June 3; automatic exchange of crypto tax information with partner jurisdictions will begin in 2028. Singapore (MAS): MAS amended the Payment Services Act to tighten retail leverage and trading limits. The two paths are diverging: Hong Kong is "market-grabbing," Singapore is "risk-controlling."

VI. Outlook and Strategy

Key Inflection Point: The Chinese leader's September 24 visit to the US is the only directional catalyst for the year. During the May-September window, all rallies are sentiment-driven range rebounds.**Macro View**: Near term, global growth remains weak with yields range-bound; medium term, a September breakthrough could trigger a recovery, while a continued stalemate would accelerate corporate de-risking.**Strategy**: Control position sizes, avoid directional bets, and favor range-bound trading. Prioritize defensive plays and wait patiently for the September window. HK residential property names offer attractive dividend yields.

Key Upcoming Events

- **May 22**: Hong Kong crypto reporting framework gazetted
- **May 27**: Tencent AI commercial launch
- **May 29**: Hong Kong stamp duty changes gazetted
- **June 10-11**: FOMC meeting
- **June 12**: US May CPI data

Data Sources
Treasuries: MarketScreener/Bloomberg/CNBC/Tradeweb/FRED | Equities/HK/Korea: CNBC/HKEX/Korea Exchange | Property: Centaline/RVD/JLL/UBS | Crypto: Gate.com/Coinglass