Month in Review as at May 2024

Index returns at May 2024 (%)

Australian Equities	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
S&P/ASX 200 TR Index	0.92	1.16	10.66	12.93	6.80	7.83	7.78
S&P/ASX Small Ordinaries TR Index	-0.05	1.53	11.74	10.92	-0.08	4.18	6.48
Global Equities							
MSCI World NR Index (AUD)	2.00	1.65	14.55	21.56	12.20	13.68	12.86
S&P 500 PR Index (USD)	4.80	3.56	15.54	26.26	7.87	13.91	10.62
FTSE 100 PR Index (GBP)	1.61	8.46	11.02	11.14	5.62	2.93	1.92
MSCI Emerging Markets NR Index (AUD)	-1.81	1.35	7.13	9.36	-1.36	4.40	6.17
Real Estate Investment Trusts							
S&P/ASX 300 A-REIT TR Index	1.91	3.12	21.80	23.39	7.55	5.44	9.46
FTSE EPRA/NAREIT Dev. NR Index (AUD Hgd)	2.84	0.88	5.26	6.84	-3.80	-1.09	3.12
Fixed Interest							
Bloomberg Ausbond Composite 0+ Yr Index	0.39	-0.50	2.08	0.87	-2.09	-0.55	2.20
Bloomberg Ausbond Bank Bill Index	0.37	1.10	2.20	4.32	2.32	1.59	1.85
Bloomberg Global Aggregate TR Index (AUD Hgd)	0.77	-0.14	1.73	1.71	-2.83	-0.59	2.02

Data source: Bloomberg & Financial Express. Returns greater than one year are annualised.
Commentary regarding equity indices below references performance without including the effects of currency (unless specifically stated).

Key Market Points

- The Australian market gained 0.9% during May with Information Technology leading all sectors.
- Most overseas markets finished the month higher. US markets rallied strongly with the S&P 500 gaining 5.0%. European markets, represented by the FTSE Eurotop 100 Index, were also up 2.9%.

Australian equities

The ASX 200 Index recorded a modest 0.9% gain in May. There was a broad dispersion of returns at the sector level. Information Technology (I.T.) led all sectors (+5.5%), while Utilities (+3.4%), Financials ex-Property (2.6%) and Property (+1.9%) also saw solid returns. Communications (-2.6%) experienced the most significant downturn. Consumer Staples (-1.0%), Energy (-0.7%) and Consumer Discretionary (-0.6%) were other laggards.

A further rise in the consumer price index has, seemingly, raised the chances of the Reserve Bank of Australia (RBA) keeping interest rates steady and has blunted the market's risk sentiment. Despite this, I.T. has maintained its impressive performance in 2024, mirroring the surge in the tech-dominated U.S. Nasdaq Index. Meanwhile, investors are still showing interest in Utilities. A strong result in May consolidated 13.5% returns over three months for the sector.

As consumer pressures persist, the outlook weakens for sectors with higher exposure, particularly Consumer Discretionary. This was evident in weak profit guidance from the nation's largest car dealership group, Eagers Automotive (ASX: APE), resulting in a 20% drop in its share price.

Global Equities

Emerging markets underperformed developed markets in May returning -1.81% (MSCI Emerging Markets Index (AUD)) versus a 2.02% return (MSCI World Ex- Australia Index (AUD)) as large and mid-cap markets continue to outperform small cap markets.

US indices rallied into the end of the month as further evidence of a disinflationary environment boosted markets. The Nasdaq, Dow Jones and S&P500 all hit new all-time highs during the month as the Tech sector continued to gain on AI trades and strong earnings.

More than half of the S&P 500's gains for the month were attributed to Nvidia, Apple, Microsoft and Alphabet. The S&P500 gained 4.96% (in local currency terms) while the Nasdaq Composite gained 7.0% (in local currency terms).

European markets were mostly higher despite higher than anticipated inflation, while UK inflation continued to ease with a drop in headline inflation. The FTSE 100 Index and DAX 30 Index gained 2.08% and 3.16% respectively (in local currency terms).

Property

The S&P/ASX 200 A-REIT Accumulation index progressed during May, with the index finishing the month 1.9% higher. Global real estate equities also performed well, advancing 3% for the month. Australian infrastructure performed strongly during May, with the S&P/ASX Infrastructure Index TR returning 2.9% for the month and up 2.9% YTD.

The Australian residential property market experienced an increase of +0.8% Month on Month (as represented by CoreLogic's five capital city aggregate). Perth was the biggest riser (+2%), followed by Adelaide (+1.8%) and Brisbane (+1.5%). In contrast, Melbourne (+0.1%) was the worst performer during May.

Fixed Income

In its May meeting, the RBA decided to leave the cash rate target unchanged at 4.35%, with the board expecting that it will be some time before inflation is sustainably low, with the RBA's updated economic projections showing inflation slowly returning to target over the next few years.

Australian bond yields were relatively stable over the course of the month, with 2- Year Bond yields rising 3 basis points and 10-Year Bond yields falling 1 basis point. The Australian fixed income market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, returned 0.39% month-end to month-end. CPI numbers in April came back higher than expected at 3.6% and the unemployment rate rose to 4.1% in May.

In the U.S, the Federal Reserve had a similar view and unanimously voted to hold policy rates steady, maintaining the federal funds target rate at 5.25-5.5%. Unlike the Australian market, the U.S bond market gained strength in May with U.S 2-Year and 10-Year Treasury Note yields dropping 17 and 18 basis points respectively. Softer inflation numbers and a cooling job market resulted in a drop in the Treasury yield curve, with the market pricing in at least one rate cut in 2024.

Key Economic Points

- The RBA left the cash rate at 4.35% in its May meeting.
- Australian annual inflation came in above expectations at 3.6% in April.
- Australian GDP growth came in at 1.1% for the March quarter.

Australia

The RBA left interest rate unchanged at 4.35% in its May meeting, however worse than expected inflation figures have put back the prospect of a cut until late 2025. The annual inflation rate in April came in at 3.6%, above the expected 3.4%. RBA forecasts it will take until late 2025 for inflation to come back to the 2-3% target range. Financial markets are fully pricing in a first RBA rate cut only by the middle of 2025.

Retail sales figures for April rose 0.1% with spending remaining subdued as cautious consumers have reduced discretionary spending. Annual growth was 1.3%, indicating falling demand once price inflation is stripped out.

These results further complicate the RBA's role in steering inflation back towards a 2-3% target range without incrementally weakening the domestic economy.

GDP growth for the Q1 2024 was confirmed at only +0.1%, below market expectations. The annual growth rate of the economy has slowed to +1.1%, down from +1.5% during calendar year 2023, but upward revisions to Q4 2023 indicated surprising momentum and may have further reduced prospects for a local rate cut this year.

The unemployment rate rose to 4.1% in April, above the anticipated 3.9%. The Westpac-Melbourne Institute Index of Consumer Sentiment edged down to 82.2 in May, falling for a second consecutive month, as sticky inflation and higher interest rates continue to weigh on households. Composite PMI decreased to 52.1 in May, indicating a slower pace of growth than previous months. The NAB business confidence index remained at 1 in April, with sentiment weak in retail, wholesale and mining.

The trade surplus widened to $6.55 billion in April, well below the market forecast of $7.3 billion.

US

GDP growth rate for Q1 2023 came in line with forecasts at 1.3%, down from the 3.4% in the previous quarter. Performance was mostly driven by a downward revision in consumer spending.

The Federal Reserve kept the target range for the federal funds rate unchanged at 5.25-5.50% during its May meeting for the sixth consecutive time, as ongoing inflationary pressures and a tight labour market indicate a stall in progress toward bringing inflation back down to its 2%. Annual inflation eased to 3.4% in April, in line with market expectations as inflation steadied for food and shelter.

The economy added 272,000 jobs in May, well above forecasts of 185,000 and the most growth in five months. The unemployment rate rose to 4.0%, against expectations of a flat reading at 3.9%.

Retail sales were unchanged in April, below the anticipated 0.4%, suggesting consumer spending has eased slightly. Annual retail sales grew 3.0% for the year to April, below the expected 3.8% increase. Consumer sentiment dropped to 69.1 in May, well below April's 77.2, attributed to concerns over inflation and the labour market on consumers.

Composite PMI rose to 54.5 in May, as growth accelerated in both manufacturing and services. The trade deficit widened to US$74.6 billion in April, below forecasts of a US$76.1 billion gap.

Euro area

The inflation rate in the Euro area rose for the first time in five months to 2.6% in May, up on the 2.5% expected and the 2.4% reported in the prior period. Prices were higher for energy and services, with a slowdown in inflation for food, alcohol and tobacco, and non-energy industrial goods.

The unemployment rate declined to 6.4% in April, below the market forecast 6.5%. Retail sales declined 0.5% in April, below the anticipated 0.3%. Annual retail sales were flat, below the expected 0.1% rise. Consumer confidence rose to -14.3 in May, driven by slowing inflation and expectations of an imminent rate cut by the ECB. The Composite PMI rose to 52.2 in May, as stronger demand boosted output and hiring.

UK

Early estimates suggested that the British economy grew 0.6% on quarter in the first three months of 2024, above forecasts of 0.4%, and ending the recession it entered last year. It also marks the strongest expansion in over two years, with services rising 0.7% amid widespread growth across the sector.

The annual inflation rate eased to 2.3%, slightly above the market forecast of 2.1%. The largest downward pressure came from falling gas and electricity costs, due to the lowering of the energy price cap in April.

Consumer confidence rose to -17 in May, improving for the second month, however the cost-of-living crisis and high borrowing costs continue to weigh on sentiment. Retail sales fell 2.3% in April, compared to the expected 0.4% decline, while annual sales decreased by 2.7%, well down on the anticipated 0.4% drop.

The unemployment rate for the three months to April rose to 4.4% as manufacturing, retail and hospitality employers cut jobs. At the same time, wage growth remains strong at 6.4%, helped by April's 10% increase to the National Living Wage. The Bank of England is unlikely to cut interest rates until August at the earliest until wage rises moderately.

Composite PMI fell to 53.0 in May, driven by solid growth in services activity. Prime Minister Rishi Sunak unexpectedly called a general election for July 4, hoping to capitalise on improved economic conditions.

China

The Chinese economy grew by a seasonally adjusted 1.6% in Q1 2024, quickening from an upwardly revised 1.2% increase in the previous quarter. This brings annual growth in the same period to 5.3%, mainly driven by exports and manufacturing investment.

Challenges persist in real estate and local government investments, continuing to hinder economic growth.Inflation in China increased 0.1% in April, with the annual rate coming in at 0.3%, above the market forecast of 0.1%.

China's unemployment rate decreased to 5.0% on April, below the expected 5.2%. Composite PMI dropped to 51.0 in May as factory activity dropped for the first time since February and services growth was soft. Annual retail sales were weaker at + 2.3% in April, the softest gain in 15 months and missing the market forecast of 3.8%.

Japan

Japanese core CPI inflation slowed for the second month to an annual rate of +2.5% as food, healthcare and education rises moderated. In a public speech, the Bank of Japan's Governor Ueda declared that the bank will "proceed cautiously" with its monetary policy, suggesting that further interest rate hikes may be postponed into next calendar year.

Retail sales increased 1.2% in April, rebounding from March's 1-1.2%, with annual sales growing 2.4%, well above the 1.9% forecast. Consumer confidence dropped to 36.2 for May, well below market expectations of 38.9, and is at its lowest level since November 2023. Composite PMI rose marginally to 52.6 in May, as manufacturing output stabilised and the services economy remained robust.

Currencies

The Australian dollar (AUD) appreciated over the month of May, closing 1.5% higher in trade weighted terms to 63.1, appreciating against all four referenced currencies in this update.

The AUD experienced its largest monthly gain against the USD since December. The exchange rate rose as the USD weakened following a lacklustre US employment report, which increased market expectations for Fed rate cuts this year. Mid-month, news of slowing April inflation further supported these expectations after three months of weak CPI data. The AUD was among the strongest in the G10 currency basket, finishing the month at an 11-year high against the Japanese Yen (JPY).

Relative to the AUD, the Pound Sterling (GBP) depreciated the least during the month, closing 0.7% lower. The laggard of the month was the USD, depreciating in relative terms against the AUD by 2.6%. Year-on-year, the AUD is ahead of the USD, GBP, Euro (EUR) and JPY by 2.9%, 0.1%, 0.9% and 15.9%, respectively.