

## Market Watch May 2024

### Key events in May 2024

- Global share prices made solid gains in May given continued optimism on the prospects for 'Artificial Intelligence' (AI) and renewed hopes for lower interest rates later this year.
- Wall Street again made strong returns given AI enthusiasm. The largest AI chipmaker in Nvidia led the charge with a 27% price gain given strong revenue and profit growth. This technology optimism overcame concerns over stubborn inflation and mixed economic activity data. US consumer inflation came in at 3.4% in the year to April. Milder jobs gains and retail spending have renewed hopes for lower interest rates.
- European share markets advanced solidly with hopes for falling interest rates in 2024. Chinese share markets made mild gains with more government support measures for the weak property sector.
- Australian shares made modest gains in May. The Information Technology sector surged given the technology optimism. The Utilities and Financial sectors also made strong gains given attractive dividend yields. By contrast, there was weakness in the Communication Services, Consumer Staples and Consumer Discretionary sectors with concerns over consumer spending.
- Australia's economy is struggling with weak retail spending and housing construction. Yet Australia's consumer inflation is proving more persistent at 3.6% in the year to April. This could caution the Reserve Bank of Australia (RBA) on lowering the current 4.35% cash interest rate.

### Asset class summary

#### Asset class returns in Australian dollars - periods to 31 May 2024

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	3.2	0.9	1.1	12.8	6.5	7.8	7.8
Global shares (hedged)	10.2	3.6	4.0	22.7	5.6	10.7	9.3
Global shares (unhedged)	11.7	1.6	1.6	20.2	10.6	12.6	12.1
Emerging markets (unhedged)	6.1	-1.8	1.4	9.4	-1.4	4.4	6.2
Australian property securities	9.3	1.9	3.1	23.4	7.6	5.4	9.5
Global property securities (hedged)	-2.8	2.8	0.9	6.8	-3.8	-1.1	3.1
Global listed infrastructure (hedged)	6.1	4.3	7.0	8.6	2.9	3.6	6.5
Australian bonds	-0.6	0.4	-0.5	0.9	-2.1	-0.5	2.2
Global bonds (hedged)	-1.3	0.8	-0.1	1.7	-2.8	-0.6	2.0
Global high yield bonds (hedged)	0.8	1.0	1.0	8.4	0.2	2.8	3.9
Australian inflation-linked bonds	-0.4	-0.1	-0.1	2.2	1.3	2.0	2.7
Cash	1.8	0.4	1.1	4.3	2.3	1.6	1.8
AUD/USD	-2.5	2.4	2.1	2.8	-4.9	-0.8	-3.3

Past performance is not a reliable indicator of future performance.

**Sources:** Australian shares - S&P/ASX 300 Total Return Index; Global shares (hedged) - MSCI All Countries World (A\$ hedged, Net); Global shares (unhedged) - MSCI All Countries World in A\$ (Net); Emerging markets - MSCI Emerging Markets in A\$ (Net); Australian property securities - S&P/ASX 300 A-REIT Accumulation Index; Global property securities - FTSE EPRA/NAREIT Developed (A\$ hedged, Net); Global listed infrastructure - FTSE Global Core Infrastructure 50/50 (Hedged \$A); Australian bonds - Bloomberg AusBond Composite 0+ Yr Index; Global bonds (A\$ hedged) - Barclays Global Aggregate (A\$ hedged, Gross); Global high yield bonds (A\$ hedged) - Barclays US High Yield Ba/B Cash Pay x Financials (\$A Hedged); Australian inflation-linked bonds - Bloomberg AusBond Inflation Government 0+ Yr Index; Cash - Bloomberg AusBond Bank Bill Index; AUD/USD - WM/Reuters Daily (4 pm GMT).

### Key events in global markets over the last three months to May

Global shares have achieved strong gains over recent months despite concerns over the conflicts in the Middle East and Ukraine. Optimism on 'Artificial Intelligence' (AI) and hopes that central banks would consider reducing interest rates have driven share prices higher.

Global shares (hedged) recorded a strong 4.0% return for the past three months. However, the revival in the Australian dollar has limited global shares (unhedged) returns to a more modest 1.6% for the quarter.

Wall Street's benchmark S&P 500 Index delivered a strong 3.8% quarterly return in local currency terms with the exuberant optimism on AI and technology shares.

European shares have also delivered strong gains in local currency terms. While the continuing Russia-Ukraine war is a major concern, investors have taken solace in milder inflation and the prospect for lower interest rates.

Asian share markets have delivered strong performances. Chinese share markets have made a welcome recovery (MSCI China 10.3%, in local currency) with hopes that increased government support can stabilise the weak property sector.

Global bonds (hedged) delivered a subdued -0.1% quarterly return. Bond investors have become more optimistic that interest rates have peaked but are still cautious in committing extra capital to this asset class.

Global high yield bonds (hedged) also delivered a flat return for the quarter.

### Key events in Australia over the last three months to May

Australian shares delivered a mild quarterly return of 1.1%. There were remarkable gains for the Utilities (13.5%) sector with investors attracted by their comparatively high dividend yields. The Information Technology (3.1%) sector also made strong gains on AI optimism. However, there was sharp weakness in the Communication Services (-8.1%) and Consumer Staples (-2.0%) sectors with concerns over consumer spending.

Australia's economy is displaying significant slowdown signs with weak consumer spending and housing construction. The impact of higher goods and services prices, rising mortgage interest rates and rents continue to squeeze household budgets. There is concern that inflation is now proving sticky and stubborn (April 3.6% annual increase) which could see the RBA maintain interest rates at current high levels.

### Global prospects

Global share prices have made strong gains this year despite some headwinds. The enthusiasm for AI and technology have been the key positive contributors. There is also confidence that the inflation threat is gradually fading which could lead to lower interest rates in 2024. However, these exuberant expectations may not be delivered if inflation proves more persistent and central bankers more stubborn in lowering interest rates. The continued tragic Russian-Ukraine War and Hamas-Israel conflict are also key threats to global economic stability and investor sentiment.

Accordingly, there are significant inflation, interest rate and political risks that investors should be cautious on. Assessing these complex risks is very challenging. As there are multiple positive and negative outcomes possible this year, investors should maintain a disciplined and diversified strategy.

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