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Market Pulse

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GLOBAL STOCK MARKETS RALLY TO NEW ALL-TIME HIGHS

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In May, global stock markets rallied to new all-time highs, supported by tech stocks and softer US inflation data. European bond prices declined slightly as expectations of rate cuts were pushed back and reduced amid sticky inflation, and central-bank speakers played down the extent of future monetary easing. Global economic data showed signs of improving activity, although US growth showed some signs of moderating as inflation in the country slowed, leaving the potential for the Federal Reserve (Fed) to cut rates in the coming months. In Europe, while the European Central Bank (ECB) was set to ease policy in June, the rise in Eurozone inflation led to a slight reduction in the scale of expected rate cuts for 2024.

Macro

Global economic data in May showed signs of improving activity. This was illustrated by purchasing managers' index (PMI) readings in May, which were broadly strong. The US composite PMI rose to a 25-month high amid strength in both the manufacturing and services sectors. The equivalent for the Eurozone increased to a 12-month high, aided by strong new orders.

US

Economic data in the US was somewhat mixed, although there were some more signs of decelerating consumer activity. The control group for retail sales, which is used to calculate GDP, fell by 0.3% month-on-month (MoM) in April. This was below market expectations and indicated slowing growth in the second quarter. The labour market also slowed, with employment data for April weaker than expected. Fewer non-farm jobs were added (175k) than projected (240k), and average hourly earnings rose by less than forecast (3.9% YoY versus consensus expectations of 4.0%). Finally, unemployment unexpectedly rose slightly to 3.9%, which was tied at the highest level since January 2022. Elsewhere, the Senior Loan Officer Survey (SLOOS) showed that credit conditions continued to worsen in Q1. Lending standards were tightened and loan demand fell, suggesting that financial conditions were increasingly restrictive.

Consumer price inflation decelerated in April, with headline prices up by 3.4% YoY from 3.5% in March, and core prices also fell to 3.6% YoY, the lowest since April 2021. Prior to the CPI release, Fed Chair Jay Powell suggested that rates could remain 'higher for longer' but that further increases in the Fed's policy rate were not expected. However, minutes from the Fed's last meeting also showed that "various" members of the rate-setting committee were willing to increase interest rates if upside inflation risks rose sufficiently. This suggested that, with inflation still comfortably above the 2% target, any easing from the Fed in 2024 would likely be moderate.

Europe

Data from the Eurozone continued to suggest an economic recovery, with March industrial production rebounding from a fall in February. Investors' assessment of current and future conditions in Germany also improved amid positive domestic data, with the ZEW economic sentiment index rising to a two-year high in May. Finally, Eurozone retail sales recovered in March, aided by a rebound in Germany. Taken together, the readings supported the idea that growth momentum in the region has picked up in recent months.

Meanwhile, consumer prices for the region rose by 2.6% YoY in May, while core prices were up by 2.9%. Both were up by 20 basis points (bps) from April levels. The acceleration was due to service price inflation, which rose to 4.1% YoY, the highest in seven months. However, inflation is expected to ease in 2024 as a whole. In May, the European Commission revised down its 2024 inflation forecast to 2.5% and expects a further decline to the ECB's 2% target in 2025.

MARKET ROUND-UP

Equities

Global stock markets rallied to new all-time highs in May, aided by strong earnings from the technology sector, especially companies related to artificial intelligence (AI) like Nvidia. Softer inflation and activity data in the US also supported the case for some monetary easing and supported equity-market sentiment.

The MSCI All Country World index rose by 3.8% (2.6% in euros) over the month, with the MSCI USA rallying by 4.8% (3.2% in euros) and European ex-UK equities up by 3.6% (3.9% in euros).

Nvidia's earnings announcement for the latest quarter once again exceeded market expectations – revenue rose by 262% YoY amid strong demand for its chips and graphics processing units that are used to power AI applications. This helped to propel the stock and other tech names higher, pushing the S&P 500 and NASDAQ up to new historical highs during the month.

Small-cap equities rallied by 4.1% (3.0% in euros) in May, supported by softer inflation data in the US; slowing inflation raises the likelihood of rate cuts, which would benefit small caps given their higher leverage levels and larger share of variable-rate borrowings.

Emerging-market (EM) equities were up by 0.5% (-0.9% in euros). The gain was supported by Taiwanese equities (+4.8%) as Taiwan Semiconductor Manufacturing Company (TSMC), which makes chips for Nvidia and is the largest stock in the MSCI EM index, rose by 6.1% over the month. This was countered by falls in markets like Brazil (-3.7%) amid declines in commodity prices.

Bonds

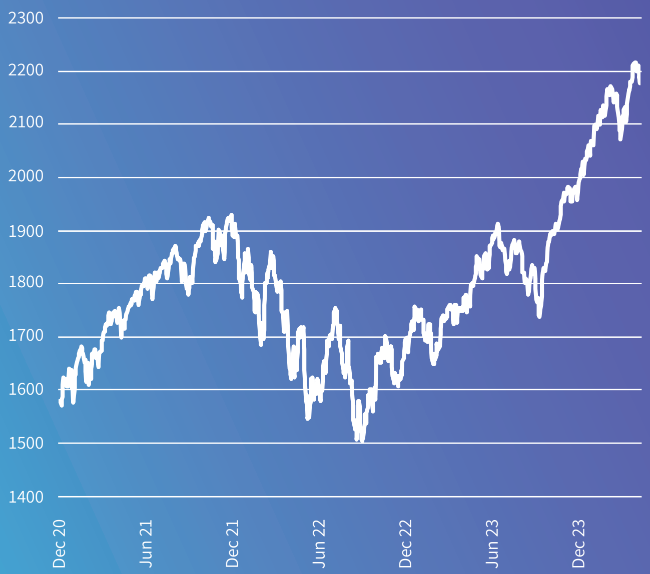
Eurozone government bond prices were slightly lower in May as expectations for ECB rate cuts in 2024 were pared back from 66bps to 55bps amid sticky inflation. The ICE BofA 5+ Year Euro Government bond index returned -0.3% over the month as price falls due to higher yields offset gains from interest-rate carry.

Corporate bonds performed better than European sovereign bonds in May. European investment-grade (IG) corporate bonds returned +0.2% as yields rose marginally – by 1bp to 3.99% – with the income stream offsetting the rise in yield. Spreads also narrowed by 5bps to 106bps. Global high-yield bonds returned +1.1% as yields declined by 15bps to 7.02%, supported by lower US Treasury yields, while spreads narrowed by 7bps to 246bps over the month.

EM local debt returned +0.2% in May as yields fell by 6bps to 6.61%. EM hard debt returned +1.7% as yields declined by 20bps to 7.55%, with the asset class supported by weakness in the US dollar, which makes debt repayments for EM countries less costly in local currency terms.

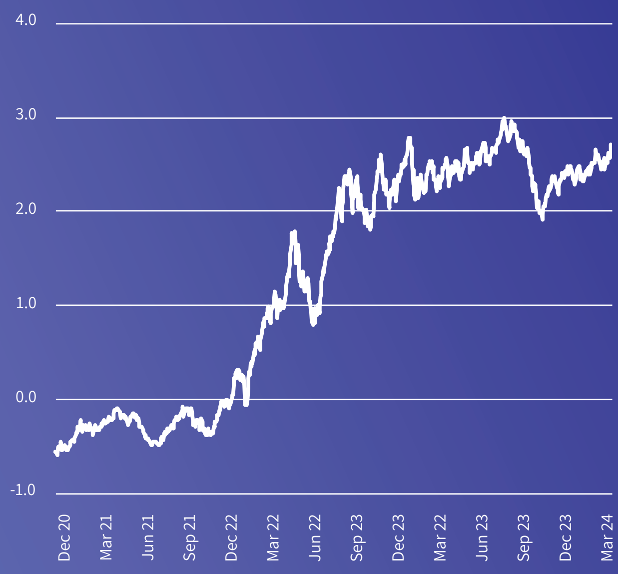
CHARTS OF THE MONTH

Global Equities



Source: ILIM, Bloomberg. Data is accurate as at 31 May 2024.

Bonds – German 10-year yield



Source: ILIM, Bloomberg. Data is accurate as at 31 May 2024.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	MTD Return (%)	YTD Return (%)	2023 Return (%)
MSCI Ireland	5.4	27.2	20.6
MSCI United Kingdom	2.0	10.7	10.3
MSCI Europe ex UK	3.9	10.7	18.5
MSCI North America	3.1	12.6	22.3
MSCI Japan	-0.2	9.1	16.7
MSCI EM (Emerging Markets)	-0.9	5.3	6.5
MSCI AC World	2.6	11.0	18.6

10-Year Yields	Yield last month (%)	2023 Yield (%)	2022 Yield (%)
US	4.50	3.88	3.87
Germany	2.66	2.02	2.57
UK	4.32	3.54	3.67
Japan	1.07	0.61	0.42
Ireland	3.04	2.38	3.13
Italy	3.98	3.69	4.70
Greece	3.69	3.06	4.62
Portugal	3.26	2.66	3.59
Spain	3.39	2.99	3.66

FX Rates	End last month	2023 Rates	2022 Rates
U.S. Dollar per Euro	1.08	1.10	1.07
British Pounds per Euro	0.85	0.87	0.89
U.S. Dollar per British Pounds	1.27	1.27	1.21

Commodities (USD)	MTD Return (%)	YTD Return (%)	2023 Return (%)
Oil (Brent)	-7.1	5.9	-10.3
Gold (Oz)	1.4	12.8	13.1
S&P Goldman Sachs Commodity Index	-1.9	9.5	4.3

Source: ILIM, Bloomberg. Data is accurate as at 1 June 2024.

THE ILIM VIEW – LOOKING AHEAD

Sovereign bond yields have fallen back since the peak in October 2023 as concerns around inflation have abated. Although yields have risen in recent months, both German and US 10-year yields remain below their October highs. With inflation having fallen significantly and central banks now suggesting rates will be cut in 2024, bond yields are expected to decline over the next 12 months. On a 12-month view, our base case is that German and US 10-year government bond yields fall from current levels of 2.66% and 4.50% to 1.75% and 3.75% respectively. We believe fixed income offers a strong risk-reward profile at this stage in the cycle, with the potential to offer protection if the economy slows, and is attractive from an income perspective while also providing potential for capital gains via falling yields. We believe that the risks of materially higher bond yields have reduced and, if the economy falters, major central banks will be able to cut rates to support growth. In that scenario we would expect bonds to outperform to a greater extent.

Global equities valuations are above long-term averages, trading on a 12-month forward price-to-earnings (P/E) multiple of 17.5x against a long-term average of 16.0x. Equities remain expensive against both bonds and cash given the high yields currently available on these assets. Despite equities appearing expensive on a relative valuation basis, however, the outlook on a 12-month view is positive. While global earnings fell by 0.3% in 2023, they are expected to grow by 11.2% in 2024 as growth remains firm and margins improve. Central banks are likely to pivot towards looser policy in 2024 as inflation falls. An increasing probability of growth remaining firm with a recession being avoided, contributing to a rebound in earnings in 2024, is supportive. Over the medium term, the rollout of AI should boost efficiencies and earnings across the whole market and allow equities to trade at higher valuation levels. The ongoing green-related capex cycle could also boost earnings over the medium term. Any short-term volatility in markets is likely to be offset by the above factors, resulting in positive returns on a 12-month time frame.

THE MONTH AHEAD

JUNE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
				7 US Non Farm Payrolls US Unemployment Rate EA ECB President Lagarde Speech
	11 GB Unemployment Rate	12 GB GDP MoM US Inflation Rate US Fed Interest Rate Decision US Fed Press Conference	13 US PPI MoM	14 JP BoJ Interest Rate Decision US Michigan Consumer Sentiment Prel
17 CN Industrial Production / Retail Sales	18 US Retail Sales MoM	19 JP Balance of Trade GB Inflation Rate	20 GB BoE Interest Rate Decision	21 JP Inflation Rate GB Retail Sales
24 DE Ifo Business Climate		26 DE GfK Consumer Confidence	27 US Durable Goods Orders MoM US GDP Growth Rate QoQ Final	

Source: tradingeconomics.com

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Figures referenced herein have been sourced from ILIM and Bloomberg. Forecast figures have been prepared by ILIM based on reasonable assumptions, internal data and data sourced from Bloomberg.

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