

# Where you want to be.



## Economic Snapshot

**May 2024**

Ashley Honeyman, Director

Authorised Representative No. 1003351

Bentleys (Qld) Wealth & Financial Services Pty Ltd

Telephone +61 7 3222 9702 | Mobile+ 61 455 440 577



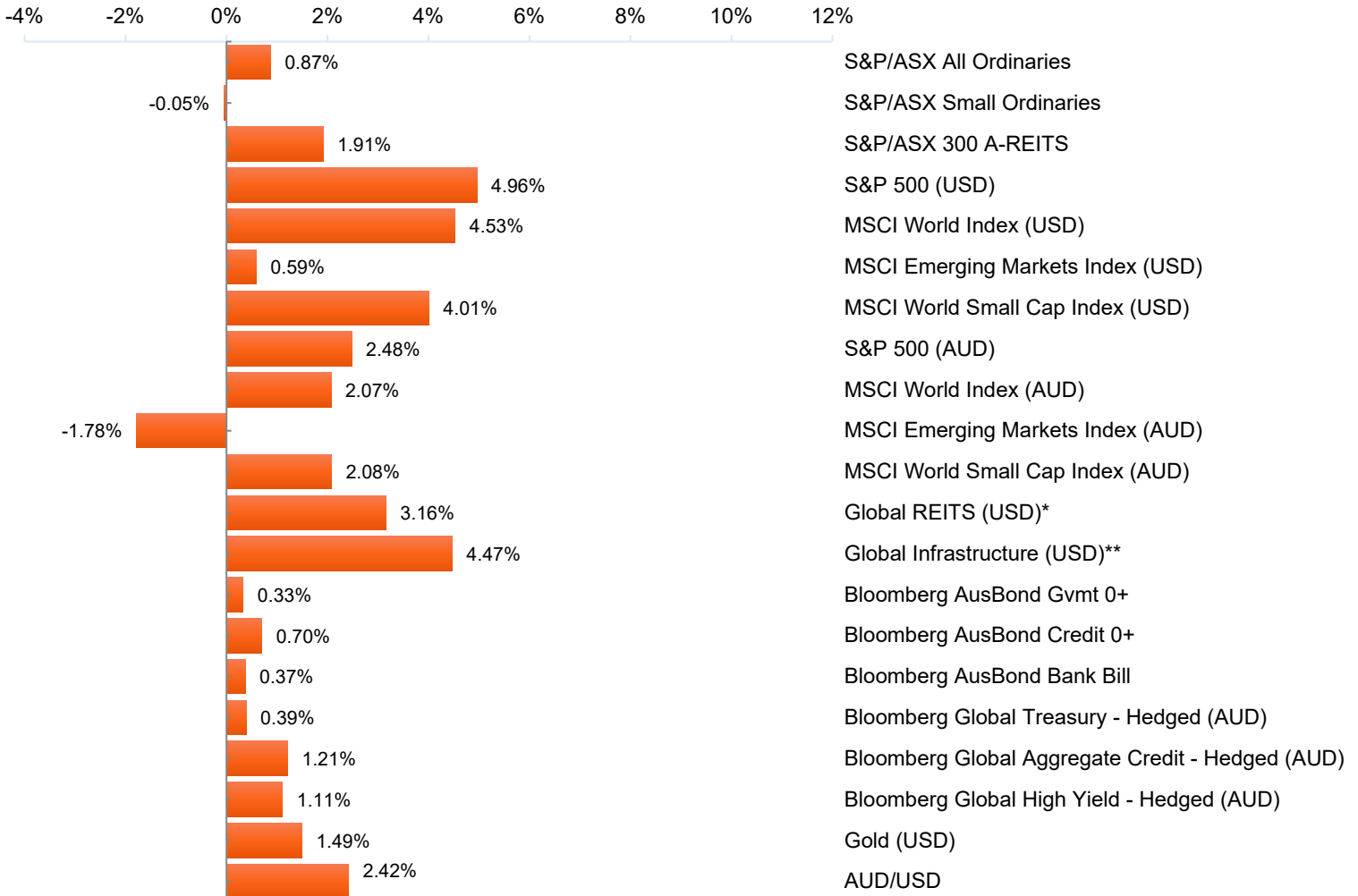
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## May 2024

### Monthly Highlights

- Australian inflation surprises to the upside, rising 3.6% in April.
- US shares gain 5% posting the best May returns since 2003.
- Nvidia rallies 25.5% in May following strong earnings.
- The Chinese government launches a new property market rescue package.

### Selected Market Returns, May 2024



Sources: \*Refinitiv G-7 Diversified REIT Index, \*\*FTSE Global Core Infrastructure 50/50 Index

## Key Economic Developments in May 2024

### Financial markets

#### Global share market rebound

Global markets rebounded strongly in May following a sharp pullback in April with the MSCI World Index (USD) closing the month higher by 4.53%, more than recovering the April drawdown.

The rally was supported by softer growth and labour market data, which lifted market expectations for interest rate cuts in the US. Inflation prints matching expectations and less hawkish commentary from the US Federal Reserve (Fed) regarding the timing and trajectory of interest rate cuts also contributed to a shift in sentiment towards risk assets.

In the local market, the S&P/ASX All Ordinaries ended the month 0.87% higher, while the S&P/ASX Small Ordinaries remained flat closing down 0.05%. Information technology led the local market higher gaining over 5% in May followed by utilities. Banking stocks also continued their trend higher. Communications services was the weakest sector dragged lower by Telstra after announcing a decline in its enterprise division's revenues and a 9% reduction in its workforce.

The US, markets recouped their April losses and reached all-time highs in May. The technology-heavy Nasdaq (USD) led the way, gaining 6.3%, lifted further by Nvidia which gained 25.5% in the month after releasing another set of record quarterly results. The S&P500 (USD) gained 4.96%, with a similar move from the small cap Russell 2000 (USD) which rose by 4.87%. The US equity markets were supported by a robust earnings season, showing aggregate earnings growth of 8% for S&P 500 companies, with 78% beating earnings expectations and 61% beating revenue expectations.

European markets also produced strong gains as the Euro 100 Index (EUR) ended the month 3.2% higher despite investors remaining cautious about the potential for the first interest rate cut from the European Central Bank (ECB), anticipated in the first week of June. The UK's FTSE100 (GBP) reached new all-time highs once again during May gaining 2.1%, as the economy exited recession, but pulled back moderately as UK inflation data came in higher than expected, throwing doubt on the Bank of England's (BOE) ability to cut interest rates this year.

Asian equity market performance varied. Taiwanese shares gained 3.81% led higher by the technology sector, with large-cap chip maker Taiwan Semiconductor Manufacturing Company rising by over 8%. The Nikkei 225 remained flat on the month rising only by 0.20% but has held onto its strong year-to-date gains. The Hang Seng Index rose 1.78% but mainland Chinese shares dipped 0.5% despite the Chinese authorities announcing a new property market rescue package.

On the commodity front, demand for precious metals pushed gold higher by 1.22% to \$2327 per ounce while silver also had a strong month, rising by nearly 15%. Positively for the inflation outlook, oil markets moved lower with Brent dropping 7.6% to \$81.62 per barrel. Copper continued to build on a strong performance this year gaining a further 1.4% in May despite anaemic short-term copper demand.

The positive sentiment towards equities, as a result of an improved inflation and interest rate outlook in the US, lifted US government bonds. The yield on the benchmark US 10-year bond moved lower by 19 basis points, ending the month at 4.49%, recovering from its worst level of over 4.6%. The Australian 10-year bond yield, however, ended the month at 4.5%, higher by 23 basis points, after experiencing significant swings during the month in response to higher than expected inflation data and concerns that interest rates will remain higher for longer.

### Economic developments

#### The Reserve Bank of Australia leaves rates unchanged as the labour market softens

The Reserve Bank of Australia (RBA) held the cash rate unchanged at 4.35% as expected in early May. While the RBA retained their neutral bias, the tone of the announcement tilted more hawkish with a more cautious outlook following the higher than expected inflation data released in April and the slower overall disinflationary trend. The RBA also suggested that they were not ruling anything in or out, in reference to the direction of the next interest rate move which would be highly data dependent.

The RBA revised its GDP growth forecast lower, while inflation forecasts were revised higher, indicating an increasing probability that interest rates will remain higher for longer, with market projections for inflation reaching the RBA target delayed until December 2025. Weak growth and higher inflation could prove a very difficult environment for the RBA to navigate.



## Economic Snapshot

The tightness in the Australian labour market showed some signs of easing with the April unemployment rate lifting from 3.9% to 4.1%, coming in higher than expectations, indicating that the economy is slowing in line with the RBA's forecasts. The wage price index also showed less than expected upward pressure on wages with a year-on-year increase of 4.1%.

The monthly inflation rate, as measured by CPI, showed price rises accelerated to 3.6% year on year in April, up from 3.5% in March, and higher than the 3.4% expected by economists. This data point will once again be a point of consternation for the RBA in their inflation fight.

April also saw the release of the Federal budget. Broadly the budget took aim at the cost of living, with a number of measures being implemented that would dampen headline inflation in the short term. However, there was a lift in fiscal stimulus for the year ahead which does have the potential to increased demand and place upward pressure on inflation in the medium term.

### The Fed downplays rate hikes as US inflation eases

Following higher than expected inflation prints released in April, the Fed eased market concerns in early May. During an unchanged interest rate announcement, Fed Chair Jerome Powell indicated that the next interest rate move would not be a hike, stressing repeatedly that the committee's focus remains on the timing of the first cut rather than the possibility of a rate hike.

Subsequently, two key inflation measures for the US economy, CPI and the PCE Deflator, came out in line with market expectations, providing a measure of relief for markets and the Fed. April CPI rose by 3.4% year-on-year, as expected, declining from 3.5% in March. The Fed's preferred measure of inflation, the PCE Deflator, showed that inflation remained steady, rising by 2.7%, year on year, matching market expectations.

The growth outlook for the US economy has shown signs of softening. US GDP for the March quarter was revised lower to 1.3% from 1.6% in the previous month. This is a marked slowdown from the 3.4% growth seen in the fourth quarter of last year. This slowdown in growth may prove to be a positive for the US economy as it means that higher rates are having an impact and that moderating economic demand coupled with slowing inflation may prompt the Fed to cut rates later this year as markets currently expect.

### Eurozone economy improves with rate cuts imminent

Purchasing Managers Index (PMI) data for the Eurozone showed a recovery from lower levels last year. Similarly, economic sentiment has slowly improved. The labour market data indicated that the Eurozone economy is improving as the unemployment rate fell to 6.4% from 6.5%. Eurozone inflation, however, increased to 2.6% year on year rising from 2.4% previously. The broader trend for inflation is still lower and despite this uptick, market expectations remain that the ECB will cut interest rates by 25 basis points in their June meeting.

## Outlook

Global economic growth has remained resilient, but there are signs of softening, particularly in the US. Labor market data in both the US and Australia are also showing signs that the tightness in the jobs market is easing. At the same time, the broader disinflationary trend is intact, albeit inflation measures continue to show stickiness, especially in services inflation.

This combination of economic factors currently indicates a soft landing remains most likely, where economic growth continues to weaken but remains positive while inflation moderates at a slower pace than expected. This environment supports the expectation that major central banks will be cautious in their approach but be confident enough to cut interest rates moderately over the next 12 months.

The current economic environment presents a dynamic landscape, requiring constant vigilance to mitigate risks and position for both uncertainties and optimal returns. In this investing climate, an active and balanced approach to portfolio positioning is optimal.



## Major market indicators

	31-May-24	30-Apr-24	31-Mar-24	Qtr change	1 year change
<b>Interest Rates</b>					
<b>(at close of period)</b>					
Aus 90 day Bank Bills	4.36%	4.37%	4.35%	+2.0	+46.0
Aus 10yr Bond	4.50%	4.27%	4.05%	+36.2	+100.3
US 90 day T Bill	5.25%	5.25%	5.23%	+0.0	-1.0
US 10 yr Bond	4.49%	4.68%	4.21%	+24.3	+85.4
<b>Currency (against the AUD)</b>					
US Dollar	0.665	0.649	0.652	2.13%	2.77%
British Pound	0.522	0.521	0.517	1.40%	-0.40%
Euro	0.613	0.610	0.604	1.94%	1.02%
Japanese Yen	104.63	102.10	98.68	7.29%	15.51%
Trade-Weighted Index	63.10	62.20	61.50	3.27%	5.52%
<b>Equity Markets</b>					
Australian All Ordinaries	0.9%	-2.7%	3.1%	1.2%	13.9%
MSCI Australia Value (AUD)	1.0%	-2.9%	3.0%	1.1%	16.6%
MSCI Australia Growth (AUD)	1.2%	-3.9%	2.9%	0.1%	13.0%
S&P 500 (USD)	5.0%	-4.1%	3.2%	3.9%	28.2%
MSCI US Value (USD)	2.9%	-4.2%	4.9%	3.3%	22.1%
MSCI US Growth (USD)	6.6%	-4.0%	1.6%	3.9%	34.3%
MSCI World (USD)	4.5%	-3.7%	3.3%	4.0%	25.5%
Nikkei (YEN)	0.2%	-4.9%	3.8%	-1.1%	26.9%
CSI 300 (CNY)	-0.5%	2.0%	0.6%	2.2%	-3.3%
FTSE 100 (GBP)	2.1%	2.7%	4.8%	9.9%	15.6%
DAX (EUR)	3.2%	-3.0%	4.6%	4.6%	18.1%
Euro 100 (EUR)	3.2%	-0.8%	4.7%	7.2%	20.1%
MSCI Emerging Markets (USD)	0.6%	0.5%	2.5%	3.6%	12.8%
<b>Commodities</b>					
Iron Ore (USD)	-0.9%	15.8%	-13.2%	-0.4%	15.9%
Crude Oil WTI U\$/BBL	-6.6%	-0.6%	6.0%	-1.6%	14.5%
Gold Bullion \$/t oz	1.5%	3.7%	8.3%	13.9%	18.2%

Source: Quilla, Refinitiv

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Level 9, 123 Albert Street, Brisbane Qld 4000 Australia  
Telephone +61 7 3222 9777  
[bentleys@bris.bentleys.com.au](mailto:bentleys@bris.bentleys.com.au) | [bentleys.com.au](http://bentleys.com.au)

28 Brookes Street, Bowen Hills Qld 4006 Australia  
Telephone +61 7 3088 2040  
[bentleys@bris.bentleys.com.au](mailto:bentleys@bris.bentleys.com.au) | [bentleys.com.au](http://bentleys.com.au)

62 Egerton Street, Emerald Qld 4720 Australia  
Telephone +61 418 738 755  
[bentleys@bris.bentleys.com.au](mailto:bentleys@bris.bentleys.com.au) | [bentleys.com.au](http://bentleys.com.au)

Bentleys (Qld) Pty Ltd (ABN: 23 009 965 379)

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