Monthly Market Wrap

BlackRock.

May 2024

It was a case of ‘bad news is good news’ for markets in May, as rising Australian unemployment and cooling US CPI drove increased optimism around interest rate cuts.

With developed market equities facing into a potentially more supportive economic backdrop, we see a number of opportunities for investors to consider.

“Our view is that rates will remain higher for longer – all in all the RBA would be happy with the direction things are heading, absent a higher level of inflation than they would prefer.”
Craig Vardy, Head of Australia Fixed Income

“As the AI ‘megaforce’ continues to play out, global equities exposures offering access to big tech names could be a valuable portfolio building block in the months ahead.”
Tamara Haban-Beer Stats, iShares Specialist Australasia

Equities

Equity markets rebounded in May on resurging rate cut hopes, as US CPI increased just 0.3% in April, down from 0.4% in March, while unemployment jumped to 4.1% in Australia.

The S&P 500 raced through another record high, driven chiefly by the relentless rise of chipmaker and Magnificent 7 member NVIDIA which also hit another record stock price. As at the end of May, NVIDIA was poised to dethrone Apple on a market cap basis. With expectations that the Federal Reserve’s next rate move will be a cut, rate-sensitive and growth-focused tech stocks continue to drive the lion’s share of market growth.

In Australia, the ASX200 reversed much of its positive price movement in late May following the release of hotter than expected domestic CPI, but recovered to end the month around 130 points up. The local market continues to be highly dependent on individual data releases giving clues to the future path of interest rates.

Fixed Income

Australian yields dropped over the month on news of rising unemployment and a Federal Budget that was largely neutral towards inflation, with 2-year Treasury yields touching 3.91% in mid-May. But above-consensus CPI data released late in the month saw 2- and 10-yearTreasury yields largely back where they started by the end of May.

Despite faltering economic growth, it’s likely the Reserve Bank will hold the cash rate in the short term. Our base case remains at one rate cut by the end of 2024, although the likelihood of this is shrinking as inflation remains sticky.

In the US, yields on 2-year Treasuries rose to 4.95% in late May as Federal Reserve minutes showed the central bank was not confident the current cash rate would be enough to keep inflation in check. However 2-year yields dropped back below 4.9% to end the month as US Q1 GDP was revised down, showing a cooling economy.

0.3%
US CPI growth in April vs 0.4% in March

US$2.7tn
NVIDIA market cap as at end May*
***Source: Reuters 3 June 2024**

0.25%
RBA rate cut expected by end 2024

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iShares ETF Flows

Strategic ETFs received the most flows across all iShares product segments in May, with US$15.7 billion globally, as investors sought to take advantage of select opportunities amid a more uncertain macro backdrop. In Australia, **global listed infrastructure** was the most popular sector-specific iShares ETF.

Fixed income ETFs also gathered significant global inflows of US$15.6 billion during the month. In Australia, two of the top five iShares ETFs by inflows in May were in the fixed income category, specifically **Australian investment grade and inflation linked bond exposures**.

Core equity products also generated around US$8.6 billion of global flows during May as the US share market continued to rally. In Australia, iShares' **core US equities exposures** (both hedged and unhedged) took in almost $100 million over the month.

Monthly Outlook

While we see upcoming rate cut cycles both at home and overseas as being shallow and slow, we still think developed market equities are facing into a potentially more supportive economic backdrop.

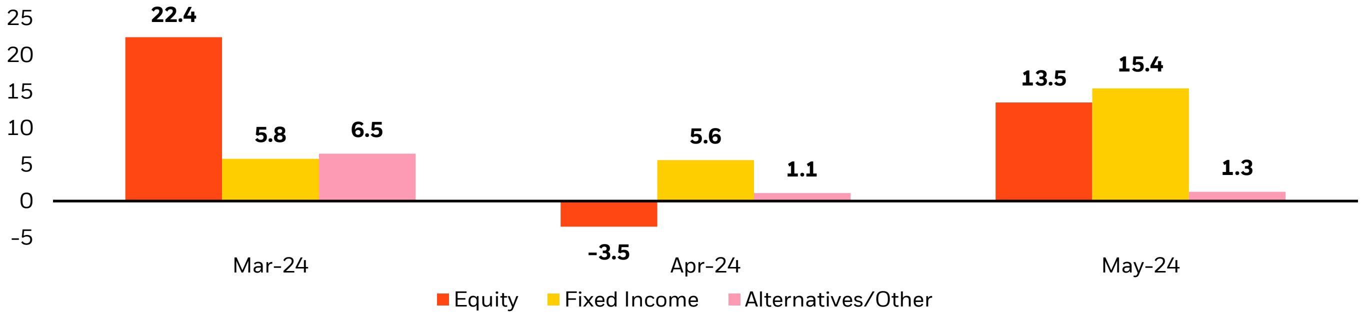
We remain overweight **US equities** with at least one rate cut from the Fed likely to be on the cards for this year, and the earnings power of mega tech stocks continuing to drive market optimism.

We see key **emerging markets** such as India and Mexico as set to benefit from global reshoring of supply chains, while emerging market equities also look cheap on a long-term basis.

Given the potential for the Australian dollar to appreciate from current levels, investors may also want to consider **hedged international equites** exposures**.**

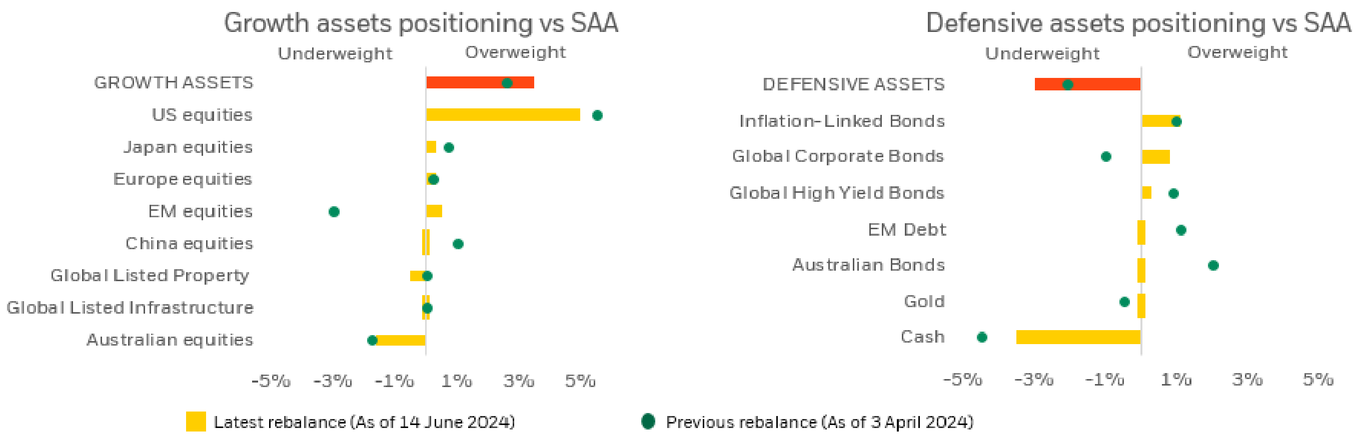
Where investor money is flowing

Global iShares ETF flows by asset class (US $billion)



Model moves

Latest tactical positions of our Enhanced Strategic Model Portfolios



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