



FINURA

YOUR MARKET REVIEW MAY 2024



INFOGRAPHIC: THE GLOBAL ECONOMY

Middle East conflict: what might it mean for the global economy?



Oil price spike based on Schrodgers risk scenario of Middle East war



If localised fighting in Israel spreads across the region and drags Western nations into the conflict...

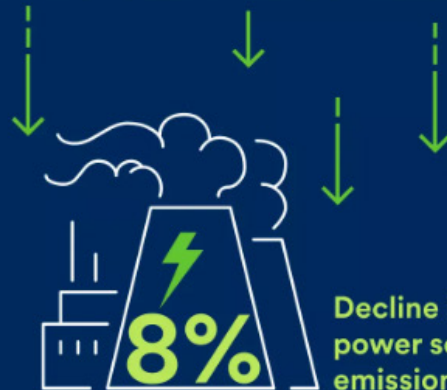
...we expect the price spike from any disruption in the oil supply to be "stagflationary" for the global economy...



...in other words, to reduce growth and increase inflationary pressures, which might also have the effect of further pushing out the timing of interest rate cuts

[Read more](#)

Can greenhouse gas emissions be achieved with minimal economic pain?



Decline in US power sector emissions in 2023

US greenhouse gas emissions fell 1.9% in 2023, in part as the power sector continued to transition away from coal



It was the largest decline in emissions since 2016 (barring a pandemic marred 2020) and occurred despite the US economy growing by more than 2%



Any decoupling between growth and emissions offers support to the idea that climate targets can be achieved with the minimal of economic disruption



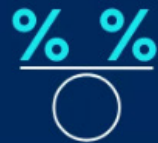
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Is the “neutral” rate of interest in the US higher than its pre-pandemic level?



Schroders' estimate of the neutral
US interest rate (nominal terms)

Expectations around the timing of US rate cuts have shifted out as inflation has proven stickier than forecast, while growth has also exceeded expectations...



...when interest rate cuts do begin, investors will likely ask what the “neutral” rate is, a theoretical guide used by central banks to judge at what level interest rates are neither too restrictive, nor too loose...

...and current US economic strength suggests this level may well be above the 2.5% where the Federal Reserve estimated it stood in the economic regime prior to the Covid-19 pandemic



Source: [Schroders as at May 2024.](#)

MULTI-ASSET INVESTMENT VIEWS

KEY

▲ Up from last month ▼ Down from last month

●
Long /
Positive

●
Neutral

●
Short /
Negative

	Category	View	Comments
Main Asset Classes	Equities	●	We have maintained our positive view on equities. This is supported by expectations of strong earnings growth and a favourable liquidity environment.
	Government Bonds	● ▲	We are selectively overweight in areas where we see valuations as more attractive but are maintaining a neutral stance overall.
	Commodities	● ▼	A continued uptick in manufacturing provides a supportive backdrop for base metals. We have moderated our view given how far markets have moved.
	Credit	●	Valuations remain rich, especially in US IG, where economic activity does not justify current spreads. Corporate fundamentals have also deteriorated.
Equities	US	●	We remain positive on US equities as the growth environment has stayed favourable.
	UK	● ▲	We have upgraded our view on UK equities to positive. We have seen earnings expectations trend upwards while valuations also remain cheap.
	Europe	●	We maintain our positive outlook as the rebound in the European economy should act as a significant driver.
	Japan	●	Our outlook remains positive due to robust fundamentals and a favourable macro environment.
	Global Emerging Markets ¹	●	Considering the fragility of the Chinese economy, specifically the challenges faced by its property sector, we remain neutral as China exerts a significant influence on the EM universe.
	Asia ex-Japan & China	●	With no sign of the People's Bank of China providing any meaningful stimulus to the economy, we retain our neutral view.
	EM Asia ex China	●	We remain neutral given the potential negative repercussions of delayed US rate cuts.
Government Bonds	US	●	We remain negative towards the US given the risk of inflation remaining higher for longer and medium-term concerns about fiscal credibility.
	UK	●	We see a valuation opportunity in gilts, which appear to have been unduly caught up in the sell-off in US Treasuries. UK inflation should soften and help support the case for interest rate cuts.
	Germany	●	We see further evidence of inflation softening in Europe. Markets also reflect an expectation of rate cuts, with the European Central Bank (ECB) indicating that these are likely from June.
	Japan	●	We remain neutral as although we have seen cash rates turn positive in Japan this year, this has not had a material impact on bond pricing.
	US Inflation Linked	●	US inflation-linked bonds continue to offer a useful hedge (a strategy to reduce the risk of a loss in an existing position) in a scenario where inflation has remained higher for longer than expected.
	Emerging Markets Local	●	A soft-landing environment would be positive for EM rates. However, concerns surrounding US inflation and its impact on the Federal Reserve's (Fed) policy keeps us on the sidelines.

¹ Global Emerging Markets includes Central and Eastern Europe, Latin America and Asia.



	Category	View	Comments
Investment Grade Credit	US	●	Valuations remain expensive and we believe US economic activity does not justify current spreads (the difference in yield between a treasury and corporate bond of the same maturity). Strong growth and an abundance in liquidity (the ease with which a bond can be converted into cash without affecting the market price) stops us from turning negative.
	Europe	●	We remain neutral as defaults are rising in Europe, highlighting the challenge of large levels of debt in the face of higher rates. However, with growth rebounding, we expect strong earnings to remain supportive.
	Emerging Markets USD	●	We remain neutral as although fundamentals are strong, valuations remain expensive.
High Yield Bonds (Non-IG)	US	●	We remain neutral as valuations have been buoyed by liquidity in the face of deteriorating fundamentals.
	Europe	●	We are positive as European HY offers better value than the US. We also expect the European Central Bank (ECB) would move to support the economy if growth weakened and inflation fell.
Commodities	Energy	●	Energy markets remain reasonably balanced. Geopolitical risk has been priced out and inventories are trending in line with historical norms.
	Gold	●	We remain positive as demand in the physical market remains strong.
	Industrial Metals	●	Markets have moved quickly as the scenario of a demand-driven uptick becomes consensus. We remain positive but cautious given the technical backdrop.
	Agriculture	●	We remain neutral due to uncertainty in individual markets.
Currencies	US \$	●	Interest rate differentials continue to drive the dollar. Higher-for-longer inflation in the US should benefit the currency should other central banks start to cut rates first.
	UK £	●	We remain neutral as although a global soft-landing scenario would benefit sterling, concerns around stagflation remain.
	EU €	●	Though the economic cycle is looking more favourable in Europe, widening interest rate differentials keep us neutral.
	CNH ¥	●	We remain neutral, reflecting the balance between weak economic growth and the impact of the uptick in the global goods cycle.
	JAP ¥	● ▼	We have moderated our view on the yen. The Bank of Japan's recent intervention in support of the currency has had limited impact and we see little threat to its continued weakness.
	Swiss F	●	The Swiss Central Bank was one of the first major central banks to cut rates. The subsequent increase in interest rate differentials leaves us negative.



Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Source: [Schroders, May 2024](#). The views for equities, government bonds and commodities are based on return relative to cash in local currency. The views for corporate bonds and high yield are based on credit spreads (i.e. duration-hedged). The views for currencies are relative to US dollar, apart from US dollar which is relative to a trade-weighted basket.



MARKETS REVIEW

A review of markets in May when equities made gains and developed markets outperformed.

THE MONTH IN SUMMARY

Global shares rose in May with developed markets outperforming emerging markets. Investors continued to anticipate interest rate cuts, albeit with US cuts likely to come later than in some other regions. Oil prices retreated in the month.

THE US

US shares posted strong gains in May, supported by some strong corporate earnings and hopes that interest rate cuts are still on the way later this year.

The equity market advance was led by the information technology, utilities, and communication services sectors. Energy was the main laggard amid weaker oil prices. Some of the “Magnificent-7” stocks performed strongly in the month amid strong earnings and high demand for AI-related technologies.

Data released in the month showed inflation remaining sticky at levels above the Federal Reserve’s (Fed) 2% target. Fed chair Jay Powell said that there had been a “lack of progress” on bringing inflation down, but that interest rate rises were unlikely.

The Fed’s preferred measure of inflation – the core personal consumption expenditures index – came in at 2.8% for April. This followed in the wake of data earlier in the month showing inflation as measured by the consumer price index had dipped to 3.4% in April from 3.5% in March.

Elsewhere, there were some signs of moderation in the US economy. Non-farm payrolls data showed that 175,000 jobs were added in April, below consensus expectations.

EUROZONE

Eurozone stocks advanced with the real estate and utilities sectors among the top gainers. These sectors drew support as investors looked ahead to the European Central Bank (ECB) meeting in June where a rate cut is widely anticipated. Financials were also strong. Energy and consumer discretionary were the weakest sectors. Lower oil prices weighed on the energy sector while within consumer discretionary there was some weakness among luxury goods and automotive stocks.

Data showed that eurozone annual inflation, as measured by the consumer price index, increased to 2.6% in May from 2.4% in April. Nevertheless, investors continued to expect a 25 basis point rate cut when the ECB meets on 6 June. However, the timing of further rate cuts remains uncertain.

Labour market data in Germany showed wages growing at the fastest pace in nearly a decade, with collectively agreed wages up 6.3% in Q1 2024. Forward-looking data also pointed towards economic recovery. The flash HCOB eurozone purchasing managers’ index (PMI) for May reached a 12-month high of 52.3. PMI data is based on surveys of companies in the manufacturing and service sectors. A reading above 50 indicates growth while below 50 indicates contraction.

UK

UK equities rose over the period and the FTSE 100 achieved fresh all-time highs. In line with recent trends, financials and industrials were the top contributors. Small and mid-sized

equities performed very strongly amid a flurry of new bids and on hopes of a possible turning point for the domestically focused areas of the UK market.

Read more: [Four indicators that demonstrate the contrarian UK stock market opportunity](#)

Having suffered a mild recession over the second half of 2023, it was confirmed the UK economy rebounded strongly in the first quarter of 2024, recording GDP growth of 0.6%. The positive surprise on the growth front was tempered by news of a lower-than-expected decline in annual consumer price index inflation in April to 2.3%. This pushed out the timing for the first expected rate cut by the Bank of England.

Prime Minister Rishi Sunak fired the starting pistol for the race to form the next government, by calling a general election to be held on 4 July.

Read more: [What might the UK election mean for the economy and markets?](#)

Meanwhile, it was reported that bid activity for UK-listed companies this year has hit its highest level since 2018, driven by overseas buyers. This helped to add to hopes that the UK equity market may be at a turning point in terms of how it is perceived by international investors following years of underperformance.

JAPAN

The Japanese equity market experienced a rebound in May, with the TOPIX generating a total return of 1.2%. However, the Nikkei 225 index continued to underperform compared to the broader market TOPIX, primarily due to the weakness of large-cap

technology stocks. Sectors such as automotive and domestic-oriented retailers also underperformed. The financial sector outperformed, driven by the rise in long-term interest rates in Japan. Despite some weakness in US economic indicators, the Japanese yen remained weaker against the US dollar.

The persistently weak Japanese yen and conservative earnings guidance from companies for this fiscal year weighed on market sentiment. However, full-year earnings results were stronger than expected, showcasing sales growth, pricing power, and cost control across various sectors.



An increasing number of companies announced their commitment to the Tokyo Stock Exchange's initiatives, focusing on the cost of capital and share price. This has led to a record-high amount of share buybacks in the new fiscal year. In just two months - April and May - the total amount of announced share buybacks by Japanese companies reached 6.5 trillion yen, which is already 67% of the total share buybacks during the whole previous fiscal year. Generally, companies that announced their renewed capital allocation plans received a positive stock price reaction.

Although there are no clear signs of a recovery in consumer sentiment or real wage growth, the labour market remains tight, and gradual wage increases are expected to support consumption in the coming months. Additionally, the record-high number of inbound tourists is anticipated to contribute to the economic recovery.

ASIA (EX JAPAN)

Asia ex Japan equities achieved modest gains in May. Taiwan, Singapore, and Malaysia were the best-performing markets,





while Indonesia, Philippines and South Korea were the worst-performing markets in the MSCI AC Asia ex Japan Index in May. China and Hong Kong also ended the month in positive territory as higher-than-expected first-quarter economic growth helped boost investor sentiment towards Chinese stocks.

Stocks in Taiwan achieved robust gains in May, driven by ongoing investor enthusiasm for artificial intelligence (AI) developments. Chip makers that provide the chips used in many AI technologies achieved strong gains as AI becomes the driving force of a new global industrial revolution.

Indian stocks also achieved modest growth in May as many overseas investors seeking exposure to emerging markets switch their attention to India's fast-growing economy and away from China. Stocks in South Korea were weaker in the month amid growing investor caution over the global economy and the timing of US interest rate cuts.

EMERGING MARKETS

Emerging market (EM) equities rose in US dollar terms although they lagged developed market peers. Softer US macroeconomic data helped ease concerns about the timing of US interest rate hikes while better performance from China also supported EM returns. Lower energy prices weighed on some of the Middle Eastern markets.

Egypt was the top-performing market in the month, followed by Czech Republic. Colombia was up as the central bank reduced interest rates to 11.75% while Turkey posted its first monthly gains in some time, aided by currency strength and strong earnings results from one of its larger index constituents. In Chile, which outperformed, currency strength was also beneficial,

as was a 50bps cut to interest rates, which brings them to 6%. Taiwan was also ahead of the index, supported by returns in the tech sector, as was Peru and Poland. The latter was boosted by some strong company results announced in the month.

China outperformed on optimism about authorities' support for the housing sector and President Xi's reform rhetoric. India was only just ahead of the index. National elections, which began mid-April, are due to finish in early June with the incumbent President Narendra Modi expected to win a third term in office although it seems possible he will lead a coalition government.

South Africa posted flat returns in US dollar terms, ending the month behind the index on investor concern ahead of national elections which took place on 29 May. The results saw the ruling African National Congress party losing its parliamentary majority having secured only 40% of the national vote. Greece, Thailand and Mexico all delivered negative returns with the Mexican market also influenced by the general election which was held in early June. Korea lagged the index on foreign equity selling while the 7.1% decline in the price of Brent crude oil impacted the likes of UAE, Qatar and Saudi Arabia, all of which underperformed broader EM peers. Brazil ended the month in negative territory following flooding in the southern state of Rio Grande do Sul.

GLOBAL BONDS

Government bond markets diverged in May. US Treasury yields fell from their year-to-date highs, outperforming European markets where yields crept higher (yields move inversely to prices). Positive inflation data, signs of weaker growth, and softer labour market indicators supported US bonds. US Federal Reserve (Fed) chair Jerome Powell maintained an easing bias, hinting that rate hikes remained unlikely.

Renewed confidence in the Fed lowering interest rates later this year supported credit markets. US investment grade (IG) corporates outperformed European markets on a total return basis, although positive excess returns over governments were similar across regions as spreads tightened.

On a sector basis, spreads between financials and non-financials compressed further during the month, driven by comparably lower supply amid a constructive economic backdrop. Both US and European high yield (HY) fared well. (High yield bonds are more speculative compared to their investment grade (IG) counterparts that are the highest quality bonds as determined by a credit rating agency. HY bonds carry a credit rating below IG.)

Concerns of the US labour market overheating eased as data revealed job openings falling to a three-year low and voluntary job departures falling to near four-year low. Softer-than-expected non-farm payrolls, a fall in oil prices and a modest miss on inflation caused the market to price in a higher possibility of rate cuts later in the year.

In the UK, Prime Minister Rishi Sunak unexpectedly announced that a general election would take place on 4 July. Meanwhile, the outcome of May's Bank of England Monetary Policy Committee meeting was interpreted as relatively dovish by the market, with Deputy Governor Ramsden joining one other in voting for a rate cut this time around. However, disappointing news on the progress of inflation drove a sell-off in gilts later in the month, with higher-than-expected prints in both the headline and core measures.

The news on eurozone inflation was equally as disappointing, adding upward pressure on yields. May's preliminary inflation

release showed higher-than-expected core inflation, driven by the service sector.

The US dollar weakened against all G10 currencies due to softer rate expectations.

The FTSE Global Focus convertible bond index rose by 1.4%, showing convertibles lacked some of their traditional participation in equity market upside. The primary market in convertibles was very active in May. A Chinese internet platform raised a record breaking \$4.5 billion in a seven-year convertible structure. The recent stock market rally has generated interest in convertibles. Momentum in convertible valuations in Europe and Japan, however, seems to be ebbing off.

COMMODITIES

The S&P GSCI Index fell in May. Energy and livestock were the weakest components of the index, while agriculture, industrial metals, and precious metals achieved modest gains. In energy, the price of unleaded gasoline recorded a significant decline, while crude oil, Brent crude, heating oil, and gasoil also fell in the month. Conversely, the price of natural gas rose sharply in the month.

In agriculture, wheat prices achieved robust gains, while rises for soybeans and coffee were more muted. Cotton and sugar prices both declined in the month. In industrial metals, all sub-components ended the month in positive territory, with aluminium and nickel achieving the biggest price gains. In precious metals, silver prices advanced strongly in May, while the price gain for gold was more modest.





DIGITAL ASSETS

In May, digital asset markets saw a number of positive developments surrounding US regulation, including the surprise approval of the Ethereum ETF by the SEC. This led to a strong recovery in asset prices after April's sell-off, with Ethereum (ETH) returning +24.6% in May compared with +11.1% for Bitcoin (BTC). This now means that year to date, the performance of ETH (+65.0%) has surpassed that of BTC (+59.9%) as of the end of May.

The events of May 2024 can be seen as a further positive development in the institutionalisation of the digital asset industry. Regulation, or lack thereof, is one of the main concerns holding back institutional investors. Although many jurisdictions such as Europe, UK, Switzerland and Singapore had already created a clear path to building a regulatory framework, the US has previously lagged behind. This has changed over the span of just a few weeks.


TOTAL RETURNS (NET) % – TO END MAY 2024

Equities	1 MONTH			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
MSCI World	4.5	2.9	2.7	24.9	22.7	21.6
MSCI World Value	3.2	1.6	1.5	21.7	19.6	18.5
MSCI World Growth	5.7	4.1	3.9	27.9	25.7	24.6
MSCI World Smaller Companies	4.6	3.0	2.8	18.3	16.2	15.2
MSCI Emerging Markets	0.6	-1.0	-1.1	12.4	10.4	9.4
MSCI AC Asia ex Japan	1.6	0.0	-0.1	11.2	9.2	8.3
S&P500	5.0	3.4	3.2	28.2	25.9	24.8
MSCI EMU	4.3	2.7	2.6	21.0	18.8	17.8
FTSE Europe ex UK	5.5	3.9	3.7	21.3	19.1	18.1
FTSE All-Share	4.1	2.6	2.4	18.6	16.5	15.4
TOPIX*	1.3	-0.2	-0.4	18.4	16.2	15.2

Government Bonds	1 MONTH			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
JPM GBI US All Mats	1.5	-0.1	-0.2	0.0	-1.8	-2.7
JPM GBI UK All Mats	2.5	1.0	0.8	5.8	3.9	3.0
JPM GBI Japan All Mats**	-1.6	-3.0	-3.2	-15.9	-17.5	-18.2
JPM GBI Germany All Traded	1.3	-0.2	-0.4	1.7	-0.1	-1.0
Corporate Bonds	1 MONTH			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
BofA ML Global Broad Market Corporate	1.8	0.3	0.2	5.4	3.5	2.6
BofA ML US Corporate Master	1.9	0.3	0.2	4.7	2.8	1.9
BofA ML EMU Corporate ex T1 (5-10Y)	1.7	0.2	0.0	7.7	5.8	4.9
BofA ML £ Non-Gilts	2.6	1.0	0.9	10.3	8.4	7.4
Non-investment Grade Bonds	1 MONTH			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
BofA ML Global High Yield	1.6	0.0	-0.1	12.1	10.1	9.2
BofA ML Euro High Yield	2.5	1.0	0.8	13.3	11.2	10.2

Source: LSEG DataStream. Local currency returns in May 2024: *1.2%, **-1.7%.
Past performance is not a guide to future performance and may not be repeated.





Source: [Schroders, May 2024](#): The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Past performance mentioned is not a guide to future performance and may not be repeated. The sectors, securities, regions and countries shown are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

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