Equity Trustees

May 2024

MONTHLY SUMMARY

MARKET SUMMARY

- **The US market drove equities higher** – Despite a volatile month, global equities rebounded from the falls in April supported by robust US corporate results and lower US bond yields. In local currency terms, the ASX200 Accumulation index (+0.9%) underperformed the US S&P500 (+4.8%), the MSCI World ex Australia Index (+4.3%) and the MSCI Asia Pacific ex Japan Index (+1.6%). However, in AUD terms, the MSCI World ex Australia Net Total Return Index only rallied 2.06%. Stronger than expected inflation and weak consumer company updates weighed on the ASX200. Emerging markets underperformed Developed Markets. The US Nasdaq surged 7% and the 'Magnificent 7' rose 9.1%. Investors remain very optimistic on the future runway for data and Artificial intelligence.
- **ASX contributors** – In Australia, the best performing sectors were Information Technology (+5.4%), Utilities (+3.4%) and Financials ex property (+2.6%). The property (AREIT) sector also gained 1.94%. Strong results locally and offshore, demonstrations of pricing power and the AI thematic supported earnings forecasts in the IT sector. Utility sector returns are being assisted by the expectation of greater data centre power demand from AI. The worst performers were Communication Services (-2.6%), Consumer Staples (-1.0%) and Energy (-0.7%). Taking market capitalisation (size) into account, the top five contributors to the ASX200 were Commonwealth Bank of Australia (+28.1bps), BHP Group (+25.2bps), Aristocrat Leisure (+10.7bps), Goodman Group (+10.6bps) and Xero (+6.1bps). BHP walked away from their offer for Anglo-American after multiple rejections unable to agree on a proposed structure.
- **US 1Q Results** – US corporates continued to surpass expectations reporting another solid set of quarterly numbers. Q1 earnings grew by 7.8% year-on-year. ~80% of companies beat expectations – a little above normal. Technology was again the key driver of the earnings beats (and positive earnings revisions) supported by Healthcare and Consumer Staple companies. Nvidia continued its strong run adding $500bn of market cap in the four sessions post its Q1 earnings and 27% over the month. Their Q1 earnings release beat on every measure. During the month Nvidia's value grew to be larger than the German stock market.
- **ASX Corporate updates** – Three of the major banks reported in Australia. The results were solid relative to expectations with the banks benefiting from the resilient economic environment. Strong capital positions led to capital management announcements. We also attended the Macquarie Conference where the presentations were, on balance, more upbeat than many expected. AI, Insurance, and Energy themes were broadly positive, while discussions around the retail sector and the consumer were more downbeat.
- **US Bonds rallied** – US 10-year bond yields fell 18bp to 4.50%. US bonds initially rallied but sold off later in the month as US Federal Reserve governors indicated they need to see more evidence of falling inflation before considering rate cuts. Australian 10-year bond yields were broadly unchanged.
- **Australian Economic data** – The RBA kept rates steady at 4.35%. The unemployment rate rose to 4.1% while consumer confidence measures remain subdued. The April inflation rate of 3.6% year-on-year was slightly above expectations. A second consecutive budget surplus delivered cost of living relief to households, but arguably could be seen as inflationary. Construction activity, retail sales and building approvals recorded soft results. Tight supply saw national house prices rise again in May (+0.8% vs April). The AUD/USD appreciated by 2.8% to 66.53c.
- **Global economy** – US rates were unchanged at 5.5% while the unemployment rate rose marginally to 3.9%. The US housing market continues to slow with new home and existing home sales falling. The Chinese economy is still being impacted by the weak property sector. Steel production weakened in April, while May manufacturing and non-manufacturing data also disappointed. The Chinese credit impulse remains weak, although policy makers have initiated processes to soak up the oversupply in the property market.

The US announced they will increase tariffs on a broad range of Chinese goods including electric vehicles which may have ramifications on inflation and demand for lithium. The pressure on Bank of Japan Governor is increasing to normalise monetary policy as inflation data rose above expectations. The market is still expecting the European Central Bank will cut rates in June.

- Commodities broadly rose – Alumina rallied 20% after Rio Tinto declared force majeure on its Queensland refineries. Wheat soared 16%, precious metals rallied 4.1% and base metals (LME Index) rose by 1.3%. Conversely, Coking coal sank 24%, oil fell by 6% and iron ore dropped 1.3%. Several brokers upgraded their base metal forecasts. Copper has been in focus as higher forecast demand (from electrification, the global energy transition and expected uplift in manufacturing activity) and tightening supply issues compound, leading to potential deficits in 2024 and 2025.
- Earnings and valuations – In aggregate, ASX200 12-month-forward earnings were broadly unchanged. The ASX200 remains mildly expensive with the price to earnings (PE) multiple of 16.7x above long-term average levels (15x). Globally, earnings expectations rose (+1.6%) driven by positive revisions to the tehc-laden Nasdaq (+2.9%). International equity markets also remain expensive versus history. Despite strong earnings results from a small segment of the market, investors are still wary of the inflationary backdrop where good news in the economy is seen as bad news for markets as central banks may be forced to hold interest rates at higher levels for longer. Consumer cracks continue to emerge tilting us slightly defensively.