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Market developments during May 2024 included:

Australian Equities
The ASX 200 Index recorded a modest 0.9% gain in May. There was a broad dispersion of returns at the sector level. Information Technology (I.T.) led all sectors (+5.5%), while Utilities (+3.4%), Financials ex-Property (2.6%) and Property (+1.9%) also saw solid returns. Communications (-2.6%) had the most significant downturn. Consumer Staples (-1.0%), Energy (-0.7%) and Consumer Discretionary (-0.6%) were other laggards.

A further rise in the consumer price index has, seemingly, raised the chances of the Reserve Bank of Australia (RBA) keeping interest rates steady and has blunted the market's risk sentiment. Despite this, I.T. has maintained its impressive performance in 2024, mirroring the surge in the tech-dominated U.S. Nasdaq Index. Meanwhile, investors are still showing interest in Utilities. A strong result in May consolidated 13.5% returns over three months for the sector.

As consumer pressures persist, the outlook weakens for sectors with higher exposure, particularly Consumer Discretionary. This was evident in weak profit guidance from the nation's largest car dealership group, Eagers Automotive (ASX: APE), resulting in a 20% drop in its share price.

Overall, May was a mixed month for the ASX 200, despite a slight upward movement.

Global Equities
Emerging markets underperformed developed markets in May returning -1.81% (MSCI Emerging Markets Index (AUD)) versus a 2.02% return (MSCI World Ex-Australia Index (AUD)) as large and mid-cap markets continue to outperform small cap markets.

US indices rallied into the end of the month as further evidence of a disinflationary environment boosted markets. The Nasdaq, Dow Jones and S&P500 all hit new all-time highs during the month as the Tech sector continued to gain on AI trades and strong earnings. More than half of the S&P 500s gains for the month attributed to Nvidia, Apple, Microsoft and Alphabet. The S&P500 gained 4.96% (in local currency terms) while the Nasdaq Composite gained 7.0% (in local currency terms).

European markets mostly higher despite higher than anticipated inflation, while UK inflation continued to ease with a drop in headline inflation. The FTSE 100 Index and DAX 30 Index gained 2.08% and 3.16% respectively (in local currency terms).

Japan continuing to gain, with corporate profits and corporate governance improvements helping drive markets. Japanese markets have been one of the best performing markets year-to-date, with the Nikkei 225 Index gaining 26.92% over a 1 year period and 0.21% for May (in local currency terms).

Fixed Interest
In its May meeting, the RBA decided to leave the cash rate target unchanged at 4.35%, with the board expecting that it will be some time before inflation is sustainably low, with the RBA's updated economic projections showing inflation slowly returning to target over the next few years. Australian bond yields were relatively stable over the course of the month, with 2-Year Bond yields rising 3 basis points and 10-Year Bond yields falling 1 basis point. The Australian fixed income market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, returned 0.39% month-end to month-end. CPI numbers in April came back higher than expected at 3.6% and the unemployment rate rose to 4.1% in May.

In the U.S, the Federal Reserve had a similar view and unanimously voted to hold policy rates steady, maintaining the federal funds target rate at 5.25-5.5%. Unlike the Australian market, the U.S bond market gained strength in May with U.S 2-Year and 10-Year Treasury Note yields dropping 17 and 18 basis points respectively. Softer inflation numbers and a cooling job market resulted in a drop in the Treasury yield curve, with the market pricing in at least one rate cut in 2024.

REITs (listed property securities)
The S&P/ASX 200 A-REIT Accumulation index progressed during May, with the index finishing the month 1.9% higher. Global real estate equities (represented by the FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)) also performed well, advancing 3% for the month. Australian infrastructure performed strongly during May, with the S&P/ASX Infrastructure Index TR returning 2.9% for the month and up 2.9% YTD.

May saw some activity on the M&A front across the A-REIT sector. BWP Trust (ASX: BWP) announced the compulsory acquisition on Newmark Property REIT. BWP held 93% of NPR securities and moved to acquire the remainder with NPR being delisted on the 23rd of May. Cromwell Property Group (ASX: CMW) announced the sale of its European fund management platform and interests to a Geneva based investment company, Stoneweg, for $457m. The transaction is consistent with the Group's commitment to simplify the business model. Centuria Capital Group (ASX: CNI) acquired a $70m subregional shopping centre for a new wholesale fund.

The Australian residential property market experienced an increase of +0.8% Month on Month (as represented by CoreLogic's five capital city aggregate). Perth was the biggest riser (+2%), followed by Adelaide (+1.8%) and Brisbane (+1.5%). In contrast, Melbourne (+0.1%)

was the worst performer during May.

Alternatives
Preliminary estimates for May indicate that the index increased by 1.2 per cent (on a monthly average basis) in SDR terms, after decreasing by 1.0 per cent in April (revised). The non-rural, rural and base metals subindices all increased in the month. In Australian dollar terms, the index decreased by 0.2 per cent in May.

Over the past year, the index has decreased by 4.2 per cent in SDR terms, led by lower thermal coal and coking coal prices. The index has decreased by 5.1 per cent in Australian dollar terms.

Currencies

The Australian dollar (AUD) appreciated over the month of May, closing 1.5% higher in trade weighted terms to 63.1, appreciating against all four referenced currencies in this update.

The AUD experienced its largest monthly gain against the USD since December. The exchange rate rose as the USD weakened following a lacklustre US employment report, which increased market expectations for Fed rate cuts this year. Mid-month, news of slowing April inflation further supported these expectations after three months of weak CPI data. The AUD was among the strongest in the G10 currency basket, finishing the month at an 11-year high against the Japanese Yen (JPY).

Relative to the AUD, the Pound Sterling (GBP) depreciated the least during the month, closing 0.7% lower. The laggard of the month was the USD, depreciating in relative terms against the AUD by 2.6%. Year-on-year, the AUD is ahead of the USD, GBP, Euro (EUR) and JPY by 2.9%, 0.1%, 0.9% and 15.9%, respectively.