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Global Matters | Monthly

Market review & outlook

May 2024

BLUESTAR AMG

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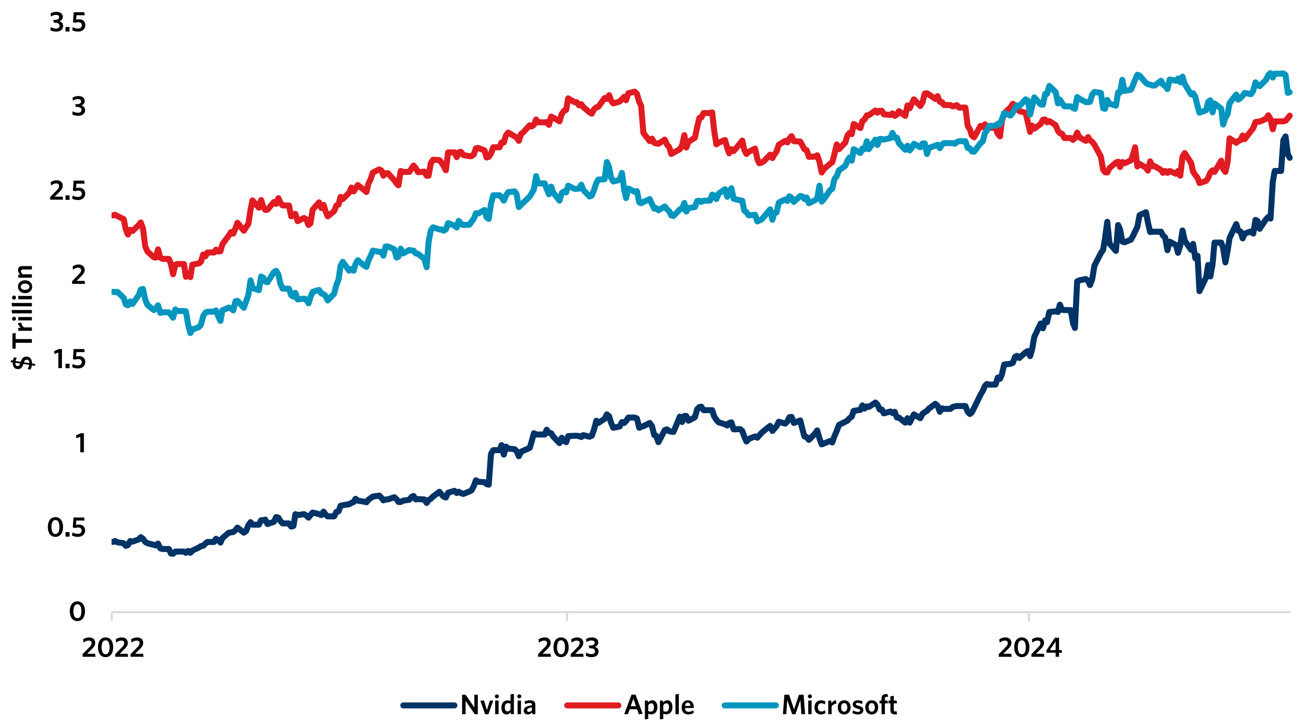
Contents

Global market review & outlook

In a reversal of the April sell-off, equity and bond markets generally performed well in May. The MSCI World index of developed markets gained 4.5% while US Treasuries returned 1.5% and Global Government bonds 1.0%. The US equity market led the way, +4.9%, with tech dominant. The Nasdaq index returned +6.9% and the Magnificent 7 megacap tech stocks +10.3% (taking the YTD return to 21.5%). Within this it was Nvidia again forging ahead, +27% in May on the back of yet another extraordinary set of quarterly results, with the company expecting demand for its products to outstrip supply into 2025. The stock has risen by 121% YTD, and since the ChatGPT launch in November 2022 Nvidia's market capitalisation has risen by over $2tn, taking it to $2.7tn at 31 May, within a whisker of the world's two largest companies, Microsoft at $3.1tn and Apple at $2.9tn. To put this into perspective, the market capitalisation of the whole UK stock market is around $3tn.

Nvidia catching up rapidly with Microsoft & Apple market caps

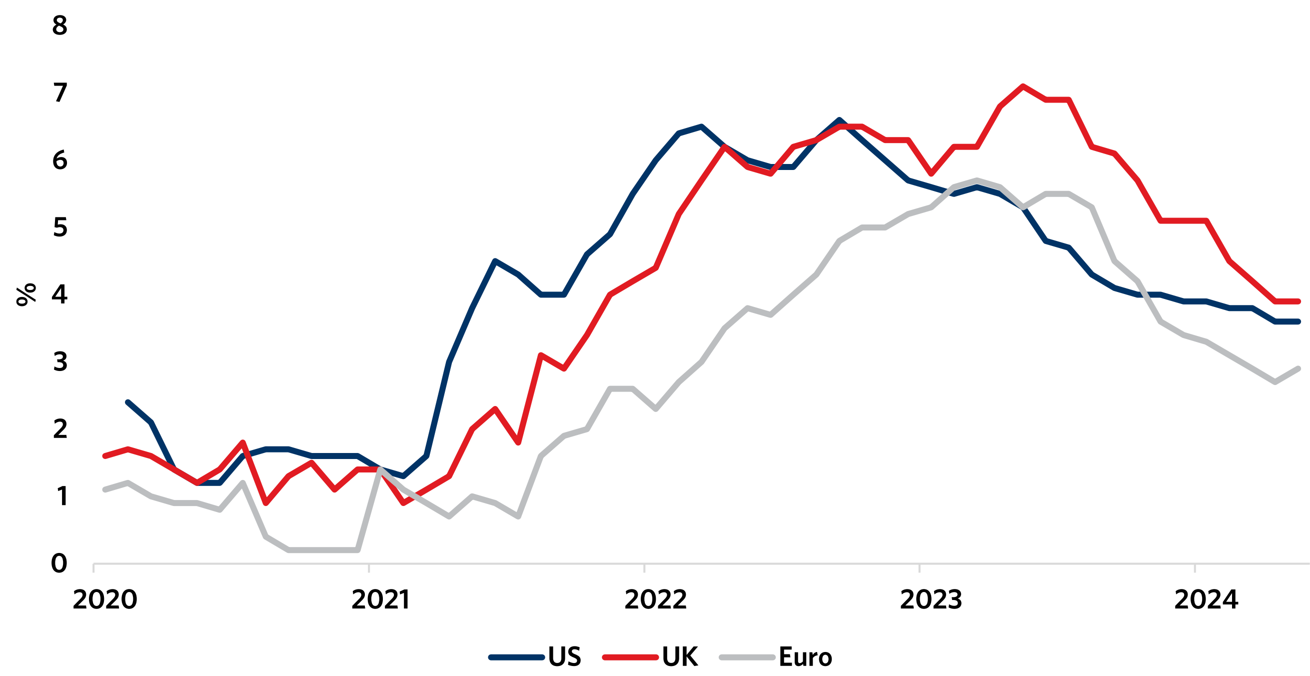


Source: Bloomberg Finance L.P. as at 31 May 2024.

Although US bonds had a better month than in April, Euro and Japanese government bonds fared less well, with returns of -0.2% and -1.7% respectively. The uncertainty around the pace at which inflation can be brought back to central bank targets, and the resultant timing and extent of interest rate cuts, continued to generate considerable volatility in bond markets. By the end of April, the yield on the 10Y US Treasury had risen by 80bps this year to 4.68%; it then fell sharply in early May following the FOMC meeting at the beginning of the month which avoided any hawkish surprises, before rising again to reach 4.5% by month end as data showed core inflation stuck significantly above target at 3.6% yoy in April, and core services inflation, which is largely domestically generated, at 4.9%. Although Jerome Powell, Chairman of the Federal Reserve (Fed), has come very close to ruling out any rate rises, a fear which had been growing among investors, he and other Fed governors continued to push back on early expectations of rate cuts.

The European and UK economies have been considerably weaker than the US, but a similar pattern of growth above expectations and inflation remaining sticky, with tight labour markets and rising real wages, has seen their central banks also pushing back on expectations of rate cuts. The UK economy bounced back strongly from its technical recession in the second half of 2023 to produce Q1 growth of 0.6% qoq, wages are rising at 6%, and inflation, although falling sharply at headline CPI level to 2.3% in April, was more concerning at core level, up 3.9% yoy, with the key service sector inflation at 5.9%, much too high for comfort for the Bank of England Monetary Policy Committee. The European Central Bank (ECB) is widely expected to be the first major central bank to cut rates at its June meeting, but the timing and size of subsequent cuts has been put into question by forward indicators of activity levels pointing to improving growth while the labour market is tight, wage growth at 4.7% in Q1 (ECB data) and inflation slow to fall: in May headline (2.6%), core (2.9%) and services (4.1%) inflation all rose from April levels.

Inflation in US, UK and EuroArea remains too high for central banks



Source: Bloomberg Finance L.P. as at 31 May 2024. Core CPI.

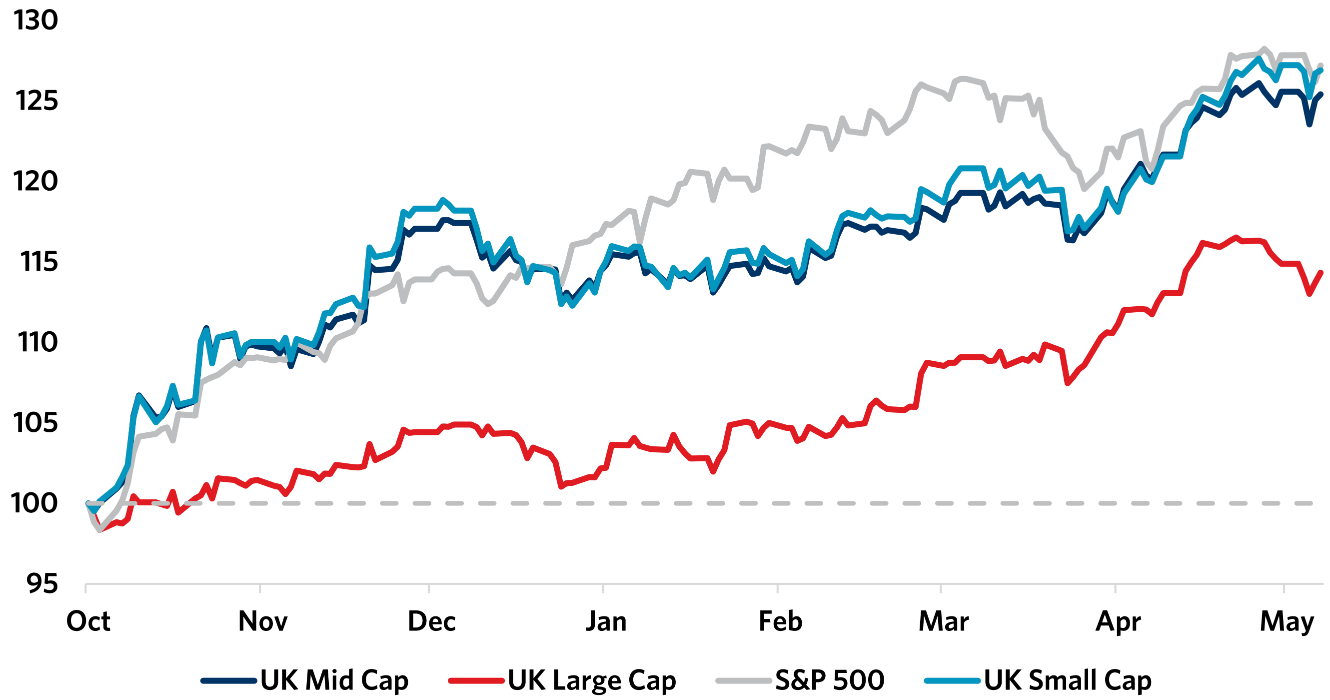
Resilient growth, tight labour markets, and the fall in inflation seemingly stalled in the US, Europe and UK, has led to the 'tighter for longer' narrative of the central banks this year, and has pushed expectations for interest rate cuts down substantially. At the beginning of the year markets expected interest rates to be cut by all three of these central banks by at least 1.5% by year end; this is now down to 0.25-0.5%, with longer run expectations for cuts also reined in.

In recent weeks there have been some early signs of a weaker labour market and softening of consumer spending in the US, with job vacancies falling, weekly jobless claims rising, and retail sales stalling. Q1 GDP growth has been revised down to 1.3% annualised from the first estimate of 1.6%, driven largely by slower growth in personal consumption expenditure. With growth in Europe and the UK picking up modestly the US 'exceptionalism' of the past couple of years is possibly waning. But the Fed will need to see much more substantive evidence that inflation is falling sustainably to its 2% target before easing policy, and this remains the key to market direction in the months ahead.

Elsewhere, China, facing well-versed structural problems, and hit in May with additional US tariffs on semiconductors and EVs, has taken further steps to stimulate its sluggish economy. It is raising RMB 1tn ($138bn) of funds over the next 6 months through ultra long dated bond sales (20-50 years), to be used to invest in 'major national strategies', and at the same time has eased constraints on house purchases to support the beleaguered housing industry. The Chinese equity market continued its recovery, with a gain of 2.4% in May, making it one of the best performing markets over the past 3 months, with a return of 10.2%.

The UK is another market which has underperformed for a lengthy period but is now regaining ground. The MSCI UK index returned 1.8% in May, taking its gain over 3 months to 9.3%, but the bigger action in recent weeks has been in small and mid-cap stocks, where valuations have become particularly attractive, leading to a wave of takeovers from private equity and overseas companies. Since the recent market low in late October 2023, small and mid-cap indices in the UK have returned 26-27%, broadly matching returns from US equities over that period. Prime Minister Rishi Sunak's surprise call of a general election for 4 July has had little or no impact on markets. While details of the opposition Labour Party's policies are yet to be spelled out, voters have seemingly made up their minds on the basis that a) it is no longer the hard left party of Jeremy Corbyn, and b) it is not the Tories, who have a dismal record in recent years of infighting and inability to 'get things done'. A landslide victory for Labour seems inevitable and is fully priced in by markets.

UK mid & small stocks match Wall Street since October market low



Source: Bloomberg Finance L.P. as at 31 May 2024.

One of the few notable falls in markets in May came in oil, down 7%, taking it back to close to its level at the beginning of the year. The weak Chinese economy is weighing on demand while US oil output remains strong, running for much of the past 12 months at around 1m bpd ahead of the previous year. The OPEC+ group of oil producers extended their production cuts to 2025 but at the same time set out plans for phasing out voluntary cuts of 2.2m bpd later this year, which the market interpreted as a loss of control over a significant part of output.

Credit markets are generally a good barometer of financial conditions and risk appetite. With credit spreads close to historic lows, there seems to be a conviction that when rate cuts come, they will be because of inflation falling to target rather than from the economy falling into recession, which would increase default risks. Although a sharp slowdown cannot be ruled out, a soft landing is now the consensus view, increasing the possibility of the rate cutting cycle ahead being relatively shallow. At the same time, the huge fiscal deficits in the US are very unlikely to improve any time soon; neither of the Presidential candidates have policies which will bear down on the deficit. This gives rise to concerns about funding the deficit in a higher yield world, and argues for caution in adding to duration, especially with cash rates offering high real yields.

However, it remains the case that the next big move in monetary policy will be for loosening, with cuts in rates delayed, not cancelled. We are therefore looking for opportunities at higher yield levels to add to duration. In equities, we are encouraged by a broadening out of the market in recent months, and by generally healthy corporate profits. There is a risk of complacency, around inflation, a soft landing, high fiscal spending and debt sustainability, geopolitics and election risks, and diversification remains vital, but we are seeking opportunities to add to risk assets on weakness.

"One of the few notable falls in markets in May came in oil, down 7%, taking it back to close to its level at the beginning of the year"

Market performance - Global (local returns) as at 31 May 2024

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	4.9%	3.8%	11.1%	27.6%
United Kingdom	MSCI UK NR	GBP	1.8%	9.3%	9.1%	15.7%
Continental Europe	MSCI Europe ex UK NR	EUR	3.6%	5.4%	10.0%	17.8%
Japan	Topix TR	JPY	1.2%	4.7%	18.4%	33.1%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	1.9%	5.0%	4.4%	12.2%
Global	MSCI World NR	USD	4.5%	3.8%	9.5%	24.9%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	3.4%	8.5%	15.1%	41.6%
Emerging Asia	MSCI EM Asia NR	USD	1.4%	5.4%	5.8%	12.6%
Emerging Latin America	MSCI EM Latin America NR	USD	-3.1%	-5.6%	-10.2%	12.6%
China	MSCI EM China NR	USD	1.1%	5.6%	5.0%	13.2%
BRICs	MSCI BRIC NR	USD	2.4%	10.2%	6.8%	4.3%
Global emerging markets	MSCI Emerging Markets NR	USD	0.6%	3.5%	3.4%	12.4%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	1.5%	-0.2%	-1.7%	0.0%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	1.8%	0.8%	-0.1%	1.4%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	1.9%	0.6%	-1.1%	4.4%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	1.1%	1.3%	1.6%	11.2%
UK Gilts	JP Morgan UK Government Bond TR	GBP	0.8%	-0.5%	-3.9%	3.0%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	0.9%	0.6%	-0.9%	7.4%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-0.2%	-0.5%	-2.2%	1.9%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.3%	0.6%	-0.1%	5.3%
Euro High Yield	BBgBarc European HY 3% Constrained TR	EUR	1.0%	1.4%	2.5%	10.6%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-1.7%	-3.0%	-3.5%	-5.5%
Australian Government	JP Morgan Australia GBI TR	AUD	0.4%	-0.5%	-0.8%	0.2%
Global Government Bonds	JP Morgan Global GBI	USD	1.0%	-1.4%	-4.5%	-1.7%
Global Bonds	ICE BofAML Global Broad Market	USD	1.4%	-0.7%	-3.5%	0.3%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	2.5%	1.7%	1.7%	9.7%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	1.5%	1.7%	1.8%	11.2%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	4.6%	-1.1%	-3.4%	8.5%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	1.9%	3.0%	9.1%	19.0%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-3.1%	-2.0%	-7.8%	-3.5%
Global Property Securities	S&P Global Property USD TR	USD	2.9%	0.9%	-2.8%	9.9%
Currencies						
Euro		USD	1.7%	0.4%	-1.7%	1.5%
UK Pound Sterling		USD	2.0%	0.9%	0.1%	2.4%
Japanese Yen		USD	0.3%	-4.7%	-10.3%	-11.4%
Australian Dollar		USD	2.8%	2.4%	-2.3%	2.3%
South African Rand		USD	-0.1%	2.2%	-2.3%	5.0%
Commodities & Alternatives						
Commodities	RICI TR	USD	1.3%	7.3%	8.7%	16.5%
Agricultural Commodities	RICI Agriculture TR	USD	3.6%	5.7%	7.0%	13.1%
Oil	Brent Crude Oil	USD	-7.1%	-2.4%	5.9%	12.3%
Gold	Gold Spot	USD	1.8%	13.8%	12.8%	18.6%

Interest Rates	Current Rate
United States	5.50%
United Kingdom	5.25%
Eurozone	4.50%
Japan	-0.10%
Australia	4.35%
South Africa	8.25%

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.

Market performance - UK (all returns GBP) as at 31 May 2024

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	1.8%	9.3%	9.1%	15.7%
UK - Large Cap	MSCI UK Large Cap NR	GBP	1.7%	10.9%	10.4%	16.4%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	2.5%	1.3%	0.4%	8.4%
UK - Small Cap	MSCI Small Cap NR	GBP	5.7%	10.8%	7.4%	16.1%
United States	S&P 500 NR	USD	3.1%	2.9%	11.4%	24.2%
Continental Europe	MSCI Europe ex UK NR	EUR	3.4%	4.9%	8.1%	16.9%
Japan	Topix TR	JPY	-0.4%	-1.0%	6.4%	15.2%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	0.1%	4.0%	4.7%	9.2%
Global developed markets	MSCI World NR	USD	2.6%	2.9%	9.8%	21.6%
Global emerging markets	MSCI Emerging Markets NR	USD	-1.2%	2.6%	3.7%	9.4%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	0.8%	-0.6%	-4.2%	2.8%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	0.5%	0.7%	-0.1%	4.2%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	0.8%	-0.4%	-3.8%	3.5%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	1.2%	-1.9%	-8.0%	0.7%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	1.5%	0.1%	-4.6%	2.2%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	1.0%	0.9%	-2.1%	5.0%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	2.1%	-1.2%	-7.7%	-0.7%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	0.9%	0.6%	-0.9%	7.4%
US Treasuries	JP Morgan US Government Bond TR	USD	-0.2%	-0.8%	-1.6%	-2.7%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	0.2%	-0.1%	-1.0%	1.6%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	1.1%	1.3%	1.6%	11.2%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-0.2%	-0.5%	-2.2%	1.9%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.3%	0.6%	-0.1%	5.3%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	1.0%	1.4%	2.5%	10.6%
Global Government Bonds	JP Morgan Global GBI	GBP	-0.7%	-2.3%	-4.3%	-4.4%
Global Bonds	ICE BofAML Global Broad Market	GBP	1.4%	-0.7%	-3.5%	0.3%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	2.5%	1.7%	1.7%	9.7%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	-0.3%	0.8%	2.1%	8.2%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	1.1%	0.0%	-2.5%	6.9%
Currencies						
Euro		GBP	-0.3%	-0.5%	-1.8%	-0.9%
US Dollar		GBP	-2.0%	-0.9%	-0.1%	-2.4%
Japanese Yen		GBP	-1.7%	-5.5%	-10.4%	-13.5%
Commodities & Alternatives						
Commodities	Rogers International Commodity (RICI) TR	GBP	-0.5%	6.4%	9.0%	13.3%
Agricultural Commodities	Rogers International Commodity (RICI) Agriculture TR	GBP	1.8%	4.7%	7.3%	10.0%
Oil	Brent Crude Oil	GBP	-8.7%	-3.3%	6.2%	9.3%
Gold	Gold Spot	GBP	0.0%	12.8%	13.1%	15.4%
Interest Rates				**Current Rate**		
United Kingdom				5.25%		

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.

March 2024

Asset allocation views

Score	---	--	-	/	+	++	+++

Score	Change	---	--	-	/	+	++	+++
MAIN ASSET CLASSES	▲/▼/—							
Equities	—			X				
Fixed Income	—				X			
Alternatives	—					X		
Cash	—				X			

Overall View

The continued move higher for risk assets year to date, on the back an improving 'soft landing' growth outlook, is welcome, but leaves less room for upside surprise. Our fixed income view is largely constructive, more so in sovereigns today which offer attractive nominal and real yields, but we recognize risk premia on corporate credit are thin today. Alternative assets remain a good diversifier of returns, especially favourable should market volatility increase. Cash provides optionality on any pullback as well as a decent yield, but increasingly we prefer to lock in rates further out by extending duration.

Score	Change	---	--	-	/	+	++	+++
EQUITIES	▲/▼/—							
Developed Equities	—			X				
UK Equities	—						X	
European Equities	—				X			
US Equities	—			X				
Japanese Equities	—					X		
Emerging Market Equities	—					X		

UK equities remain the conviction valuation call with the UK remaining the cheapest developed market. There is little obvious catalyst to rerate, but the attractive earnings yields continue to draw in private and overseas buyers. Japan remains attractive both in valuation terms and on improving fundamentals. US equities continue to show a worrying lack of breadth in the continuing rally, but the opportunity set for active managers grows. European equities look reasonably attractive, but the most compelling markets remain the UK and Japan which trade at a discount to global peers and offer healthy dividends.

Score	Change	---	--	-	/	+	++	+++
FIXED INCOME	▲/▼/—							
Government	—					X		
Index-Linked	—				X			
Investment Grade Corporate	—				X			
High Yield Corporate	—			X				
Emerging Market Debt	—				X			
Convertible Bonds	—			X				

After a late year end rally and subsequent modest reset, global treasury yields offer reasonable value today, and we maintain our overweight government view. Inflation linked bonds offer attractive real yields but are not cheap today. Despite offering alluring all in yields, we think the spreads offered today on investment grade and riskier high yield corporate bonds do not compensate investors adequately for the underlying fundamental credit risk. Although defaults remain low and the growth outlook has moderated, financial conditions remain somewhat tight today. We prefer shorter duration bonds in both developed and emerging markets, particularly high-grade credit.

Score	Change	---	--	-	/	+	++	+++
SPECIALIST ASSETS/ALTERNATIVES	▲/▼/—							
Commodities	—				X			
Property	—				X			
Infrastructure	—					X		
Liquid Alternatives	—			X				
Private Equity	▲							X
Specialist Financial	—						X	

Commodity prices are likely to remain idiosyncratic supply and demand driven stories with price moves exacerbated by geopolitical risk which has taken gold to new highs. Alternatives continue to offer diversification benefits but compete today with higher yielding cash and bonds. Increasing discounts in NAVs in private equity appear overly pessimistic, and we upgrade our view. Infrastructure and specialist financials remain attractive. Our liquid alternatives continue to offer attractive diversification benefits during periods of market uncertainty, but the bar has been raised for the performance after the great rate reset.

Score	Change	---	--	-	/	+	++	+++
CURRENCIES vs. USD	▲/▼/—							
GBP	—					X		
EUR	—				X			
JPY	—					X		
Gold	—			X				

Against long term valuation metrics, Sterling and Yen remain cheap relative to the Dollar. The Bank of Japan's continuing policy of yield curve control, in the face of other central bank policy hikes, has crushed the Yen in recent years. The higher for longer narrative in the US has buoyed the dollar which looks somewhat expensive as rates look set to fall later this year, but its safe haven status at a time of heightened geopolitical risk assures a diversification premium. Gold's status as a haven asset means it remains a useful diversifier, but its recent run higher makes it look somewhat expensive versus real rates today.

The asset allocation views are updated at the end of each quarter unless otherwise stated.

"the most compelling markets remain the UK and Japan which trade at a discount to global peers and offer healthy dividends"

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Important Notes

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