

Monthly Economic Wrap

May 2024

Summary

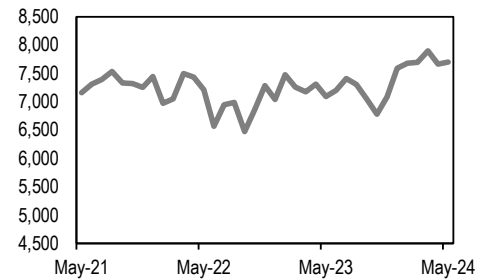
Economic

- According to the Conference Board's projections, Mature Economies will grow by 1.4% in 2024, down 0.1% from their April forecast update. Projections for these economies suggest that they may expand by 1.6% in 2025, unchanged from last month's projections.
- The European Commission in its Spring's Forecast projects GDP growth in 2024 at 1.0% in the E.U. and 0.8% in the euro area. This is a slight uptick from the Winter 2024 interim Forecast for the E.U., but unchanged for the euro area. E.U. GDP growth is forecast to improve to 1.6% in 2025, a downward revision of 0.1% from winter. In the euro area, GDP growth in 2025 is projected to be slightly lower, at 1.4%, also marginally revised down.

Markets

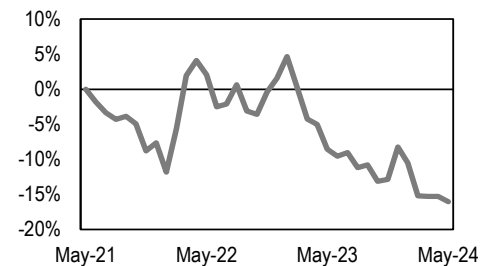
- Share market performance was good for the month of May. The S&P 500 rose by a solid 4.8%, while the Australian S&P/ASX 200 rose by around 0.5% on a price basis.
- Global shares ex-Australia performed well for the month of May, producing a return of 2.0% on an unhedged basis. The result for hedged global shares, was even better at 3.7%.
- In Australia, Growth and Value-Weighted were the best performing styles for the month, while globally, the best performing styles were Quality and Momentum. It should be noted that globally all styles produced positive returns.
- Within Fixed income markets, both Australian government bonds and credit gained ground over the month. The main Australian fixed interest index, the Bloomberg AusBond Composite 0+ Years Index was up 0.4%.
- Global High Yield bonds, as measured by the Bloomberg Barclays Global High Yield Total Return Index Hedged into AUD gained 1.1% during May.

1. S&P/ASX 200 Price Index



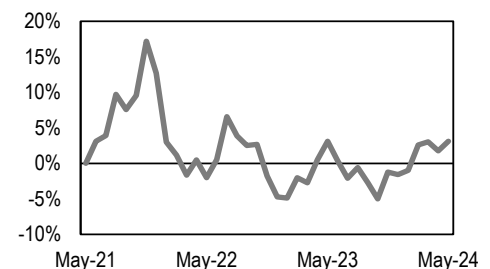
Source: FactSet, Insignia Financial

2. ASX200 vs All-World, US\$ terms



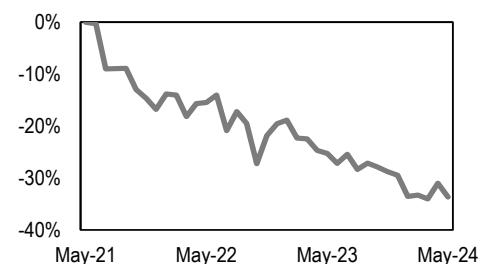
Source: FactSet, Insignia Financial

3. Australia – Growth vs Value stocks



Source: FactSet, Insignia Financial

4. Emerging markets vs Developed Markets, (In USD)



Source: FactSet, Insignia Financial

Sector and stock returns – May 2024

ASX/S&P 200 Sectors (GICS)				
	Monthly	% Δ	Quarterly	% Δ
▼	Consumer Discretionary	-0.73	Consumer Discretionary	-5.11
▼	Consumer Staples	-0.98	Consumer Staples	-2.72
▼	Energy	-0.69	Energy	-2.19
▲	Financials ex Property	0.39	Financials ex Property	-0.15
▲	Financials	1.28	Financials	0.54
▲	Health Care	0.12	Health Care	-1.24
▼	Industrials	-0.35	Industrials	-2.19
▲	IT	5.43	IT	4.14
▲	Materials	0.04	Materials	2.83
▲	Property Trusts	1.94	Property Trusts	3.01
▼	Telecommunications	-2.63	Telecommunications	-8.34
▲	Utilities	3.38	Utilities	11.77

Source: FactSet, Insignia Financial

Best and Worst S&P/ASX 200 Performers			
Top five stocks (%)		Bottom five stocks (%)	
Monthly			
Telex Pharmaceuticals Ltd.	+20.6	Bapcor Ltd	-26.5
PEXA Group Limited	+19.3	Eagers Automotive Limited	-19.9
Alumina Limited	+16.6	Fletcher Building Limited	-18.2
Pinnacle Inv. Mgmt. Group Ltd.	+16.3	Audinate Group Ltd.	-16.6
a2 Milk Company Limited	+16.1	Tabcorp Holdings Limited	-16.3
Quarterly			
Life360, Inc. Shs CDIs	+87.5	Audinate Group Ltd.	-32.6
Alumina Limited	+79.6	Eagers Automotive Limited	-31.7
West African Resources Ltd	+73.9	Bapcor Ltd	-28.6
Telex Pharmaceuticals Ltd.	+45.9	Fletcher Building Limited	-26.6
Silver Lake Resources Limited	+42.1	Smartgroup Corporation Ltd	-25.4

Source: FactSet, Insignia Financial

Share Markets, Returns

	31 May 2024 Price	1M return (%)	29 Feb 2024 Price	3M return (%)
Australian Indices				
▲ S&P/ASX 200	7702	0.49	7699	0.04
▲ All Ordinaries	7971	0.49	7960	0.14
▼ Small Ords	3023	-0.08	2999	0.81
US Indices				
▲ S&P 500	5278	4.80	5096	3.56
▲ Dow Jones	38686	2.30	38996	-0.80
▲ Nasdaq	16735	6.88	16092	4.00
Asia Pacific Indices				
▲ Hang Seng	18080	1.78	16511	9.50
▲ Nikkei 225	38488	0.21	39166	-1.73
UK & Europe Indices				
▲ FTSE 100	8275	1.61	7630	8.46
▲ CAC40	1540	2.50	1499	2.74
▲ DAX Index	18498	3.16	17678	4.64

Sources: FactSet, MSCI, FTSE, S&P, Insignia Financial

Note: return is reported on a price basis and in local currency terms e.g., S&P500 performance is in US dollars and excluding dividends.

After global equity markets took a step back in April, May saw a mix of returns. The U.S. stock market and its exposures to AI and Technology provided the foundations for the Nasdaq and S&P 500 to lead the rest of the world in May.

The German stock market began the month strongly, as the economic data rebounded from recent weakness and the certainty of an early June Eurozone interest rate cut increased helping the DAX Index deliver a strong 3.16%.

After an exceptional rebound in April (7.4%), the Hang Seng consolidated its strong gains (1.8%), as the Chinese government began its massive 1 trillion yuan (AU\$209 billion) sale of ultra long bonds aimed to buttress the world's second biggest economy.

Hang Seng Index: 6 months to 31 May 2024



Source: tradingview.com. Accessed 11/06/2024

Returns to 31 May 2024	1-mth	3-mth	6-mth	1-yr
MSCI World Index	4.1%	4.3%	15.8%	25.9%
Value	2.9%	4.9%	13.9%	23.1%
Value-Weighted	3.4%	6.0%	15.6%	26.5%
Momentum	5.3%	6.7%	28.8%	42.6%
Growth	5.3%	3.7%	17.5%	28.6%
Quality	5.7%	4.9%	20.1%	31.7%
Low volatility	2.0%	1.9%	8.3%	13.0%
Equal weight	2.5%	4.0%	12.8%	19.7%
Small caps	3.2%	3.4%	14.1%	20.5%

Source: FactSet, Insignia Financial, MSCI

May 2024 saw Quality, Growth and Momentum outperform, as AI and Technology rebounded after they felt the brunt of April's broad equity market retreat.

Last month's winners, Low Volatility and Value underperformed, as investors remain focused on the future of AI. Equal Weight underperformed the broader market, as well as the MSCI Small Cap Index, suggesting the mid-market was the least loved section of the global market.

Australian equity markets

The Australian market, as measured by the S&P/ASX 200 Index edged 0.5% higher in May, while the larger cap MSCI Australia Index (58 stocks) rose a robust 1.1%.

Returns to 30 Apr 2024	1-mth	3-mth	6-mth	1-yr
MSCI Australia Index	1.1%	0.5%	10.8%	14.5%
Value	1.0%	0.9%	9.1%	16.0%
Value-Weighted	1.0%	1.1%	10.6%	16.6%
Momentum	-0.4%	1.1%	13.4%	19.5%
Growth	1.2%	0.1%	12.4%	13.0%
Quality	-0.3%	-1.8%	8.7%	14.0%
Low volatility	0.0%	-0.4%	9.8%	12.0%
Equal weight	-0.7%	-0.9%	10.3%	10.1%
Small caps	0.3%	2.5%	12.0%	10.2%

Source: FactSet, Insignia Financial, MSCI

Unlike our overseas peers, the MSCI Australia Quality Index underperformed the broader market, but Australia lacks the depth of AI and Technology exposures when compared with the global equity markets.

Interestingly, the MSCI Australia Value and Growth delivered a similar performance to the MSCI Australia Index, with Value only slightly underperforming.

Fixed Income

Fixed Income	31 May 2024 Yield	1M mvt (bps)	29 Feb 2024 Yield	3M mvt (bps)
Australian Cash rate	4.35	--	4.35	--
▼ 10-year Bond Yield	4.41	-0.01	4.14	0.27
▲ 3-year Bond Yield	4.05	0.01	3.71	0.34
▼ 90 Day Bank Accepted Bills SFE-Day	4.55	-0.07	4.53	0.02
▼ US 10-year Bond Yield	4.49	-0.19	4.24	0.24
▼ US 3-year Bond Yield	4.67	-0.20	4.42	0.25
▼ US Investment Grade spread	1.10	-0.03	1.25	-0.15
▲ US High Yield spread	3.08	0.07	3.12	-0.04

Source: FactSet, Insignia Financial

Australian bond market

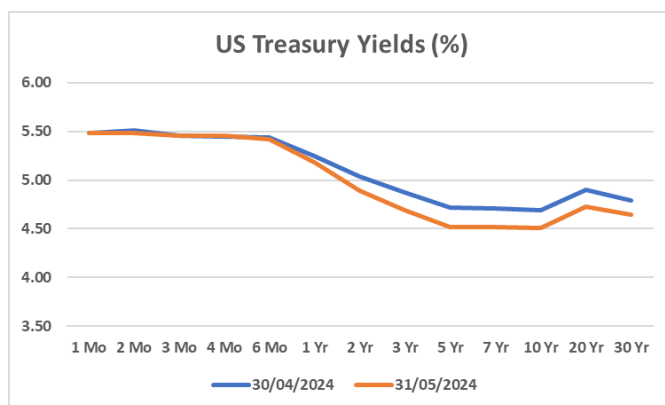
After April saw some sizeable moves in bond yields, May was rather uneventful. This resulted in the main Australian Fixed Interest index, the Bloomberg AusBond Composite 0+ Years Index gaining 0.4%. Australian yields barely moved, with the short end (3-year) of the curve rising by 1 basis point. At the long end of the curve, the 10-year yield fell by 1 basis point.

Australian corporate bonds also produced positive returns over the month, with the Bloomberg AusBond Credit 0+ Years Index gaining 0.7%.

The yield to maturity for the Bloomberg AusBond Composite 0+ Years Index at the end of the May was 4.57%, with the index having 4.95 years duration.

Global bond markets

During May, U.S. Government bond yields fell materially for maturities of one year and longer. The short end of the curve was relatively unchanged. As can be seen in the following chart, the U.S. yield curve fell by a reasonable margin over the month of May. The greatest decrease in yields was experienced across the 3 to 20 year part of the curve, down between 17 and 20 basis points.



Source: U.S. Department of the Treasury, accessed 04/06/2024

Government bond markets diverged in May. U.S. Treasury yields fell from their year-to-date highs, outperforming European markets where yields crept higher. Positive inflation data, signs of weaker growth, and softer labour market indicators supported U.S. bonds. U.S. Federal Reserve 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. U.S. investment grade 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 U.S. and European high yield fared well.

Currencies

Currency	31 May 2024 Price	1M return (%)	29 Feb 2024 Price	3M return (%)
▲ \$A vs \$US	0.67	2.74	0.65	2.34
▲ \$A vs GBP	0.52	0.73	0.51	1.37
▲ \$A vs YEN	104.60	2.40	97.46	7.32
▲ \$A vs EUR	0.61	1.04	0.60	1.97
▼ \$A vs \$NZ	1.08	-1.42	1.07	1.46
▼ \$US vs EUR	0.92	-1.60	0.93	-0.34
▼ \$US vs CNY	7.20	-0.51	7.19	0.23
▼ \$US vs GBP	0.79	-1.97	0.79	-0.88
▼ \$US vs JPY	157.27	-0.33	149.98	4.86
▼ \$US vs CHF	0.90	-1.85	0.88	2.04
▼ US Dollar Index	104.67	-1.46	104.16	0.49

Source: Bloomberg, Insignia Financial

The strength of the U.S. took a step back in May, after Federal Reserve Chairman Powell announced that U.S. rates would remain higher for longer than initially expected, but that there was no expectation to increase them.

Despite resilient domestic economic data and stubborn inflation data, the Australian interest rate forecasts did not factor in the potential for a hike as strongly as the U.S. bond and currency markets did. The AUD benefited from the relative stable Australian interest rate expectations combined with China's 1 trillion yuan bond issue to fund its economic recovery.

AUD/USD: 30 April 2024 – 31 May 2024



Source: tradingview.com. Accessed 11/06/2024

Commodities

Commodity	31 May 2024 Price	1M return (%)	29 Feb 2024 Price	3M return (%)
▲ Aluminium	2677	5.19	2163	23.76
▲ Copper	9985	0.12	8389	19.02
▲ Nickel	19830	4.51	17435	13.74
▲ Zinc	2995	2.39	2382	25.71
▼ Crude Oil - Brent	81.11	-8.07	84.57	-4.09
▲ Natural Gas	2.59	29.93	1.86	39.09
▲ Metallurgical Coal	147	1.42	131	11.83
▲ Thermal Coal	135	2.65	125	8.06
▲ Iron Ore	117.52	5.96	124.86	-5.88
▲ Gold	2328	1.82	2044	13.88
▲ Silver	30	15.63	23	34.09

Source: Bloomberg, Insignia Financial

May was generally a positive month for commodities. However, as their prices are measured in USD, several commodities above were negative in AUD terms (Copper, Metallurgical Coal, and Gold).

Price movements in Copper and Gold were subdued in May, after both have enjoyed strong price rises since October 2023.

The Natural Gas price was the standout in May, as it rebounded from multi-year lows hit in late April when it hit US\$1.59 per British Thermal units (MMBtu). Supply-side dynamics played a crucial role as temporary disruptions due to pipeline maintenance and production issues contributed to price fluctuations. Lower than usual storage levels raise concerns about potential supply shortages, especially if the expected summer heat levels and electricity demand from air conditioners eventuate.

Natural Gas: 29 Feb 2024 – 31 May 2024



Source: tradingview.com. Accessed 11/06/2024

Australia

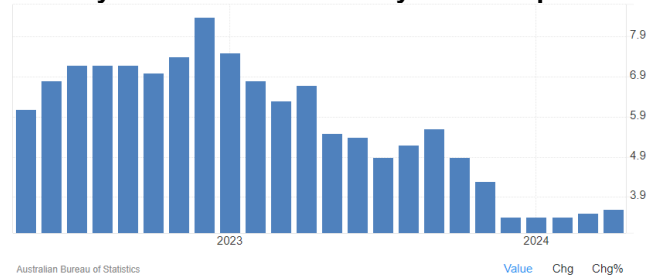
Australia continues to show resilience with Retail Sales edging up and Imports of consumption and intermediate goods jumping to a record high. Expectations for interest rate cuts were helped by a small increase in Unemployment, but inflation remains a headwind to these expectations as the Monthly CPI Indicator data (YoY) surprised forecasters coming in higher for the second month in a row.

Monetary Policy

As expected, the Reserve Bank of Australia kept its cash rate unchanged at 4.35% during its May meeting.

Inflation

Monthly CPI Indicator YoY: May 2022 to April 2024

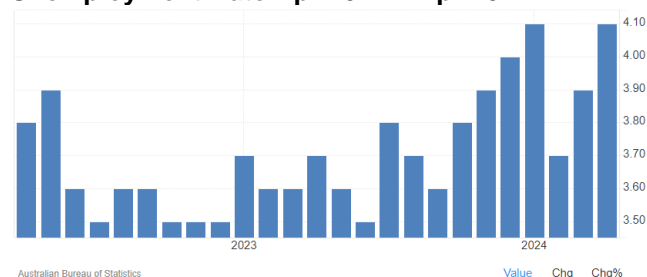


Source: tradingeconomics.com, ABS, Accessed 30/05/2024

The Monthly CPI Indicator in Australia increased 3.6% in the year to April, up from 3.5% in March and above forecasts of 3.4%. A faster rise in food & non-alcoholic beverage prices (3.8% vs 3.5% in March) lifted the reading. Prices also climbed faster for health (6.1% vs 4.1%) and clothing & footwear (2.4% vs 0.3%). The Monthly Indicator excluding volatile items and travel advanced by 4.1% in April, unchanged from March.

Labour Market

Unemployment Rate Apr 2022 – Apr 2024



Source: tradingeconomics.com, ABS, Accessed 30/05/2024

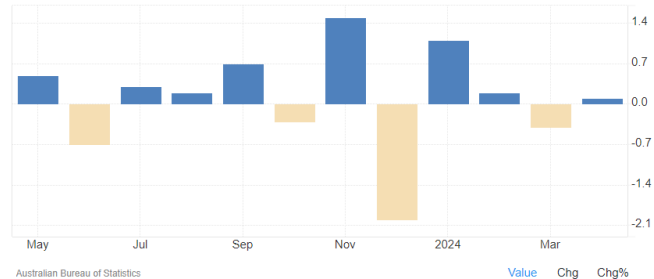
Australia's seasonally adjusted unemployment rate was at 4.1% in April, compared with market forecasts and last month's figure of 3.9%. People seeking full-time jobs increased by 13.7k and those looking for part-

time jobs increased by 16.6k. Part-time employment increased by 44.6k to 4.45m, but full-time employment decreased by 6.1k to 9.84m. The participation rate rose slightly to 66.7%, from March and forecasts of 66.6%.

Retail Sales

Retail sales edged up 0.1% MoM in April, compared with consensus of 0.2%. It also partially reversed a 0.4% fall in March. Turnover in most non-food industries rose; other retailing (1.6% vs -0.1% in March), household goods retail (0.7% vs -1.4%), cafes, restaurants & takeaway food (0.3% vs -0.2%), and department stores (0.1% vs -1.7%). Key Regions were mixed with NSW up (0.7%), but Victoria down (-0.4%).

Retail Sales MoM: 12 months to March 2024



Source: tradingeconomics.com, ABS, Accessed 30/05/2024

Balance of Trade

Australia's trade surplus on goods declined to \$5.02bn in March from a downwardly revised \$6.59bn in the previous month, below market forecasts of \$7.30bn. It was the smallest trade surplus since November 2020, as exports grew much softer than imports. Imports increased by 4.2% to a record high of \$39.89bn due to rises in consumption, capital, and intermediate goods. Exports edged up 0.1% from a month earlier to \$44.91bn, mainly boosted by other mineral fuels. Outbound shipments to China, surged by 11%, rebounding sharply from a 10.4% plunge in February.

Growth Expectations

The Judo Bank Flash Australia Services PMI Business Activity Index stood at 53.1 in May down slightly from April's reading of 53.6. It marked the fourth successive month of expansion. Services new business growth remained robust, driven by rising client interests and an expansion of customer bases for Australian service providers, including new business from abroad. However, rising input costs, including materials, transport, and labour, led to increased costs and output price inflation.

United States

The number of job openings declined by 296,000 from the previous month to 8.059 million in April 2024, the lowest level since February 2021. Headline inflation in the U.S. eased to 3.4% in April 2024 from 3.5% in March, which had been the highest reading since September.

Growth / Economic Activity

The Conference Board Leading Economic Index (LEI) for the U.S. decreased by 0.6% in April 2024 to 101.8 (2016=100), after decreasing by 0.3% in March. Over the six-month period between October 2023 and April 2024, the LEI contracted by 1.9%, a smaller decrease than its 3.5% decline over the previous six months.

“Another decline in the U.S. LEI confirms that softer economic conditions lay ahead,” said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. “Deterioration in consumers’ outlook on business conditions, weaker new orders, a negative yield spread, and a drop in new building permits fuelled April’s decline. In addition, stock prices contributed negatively for the first time since October of last year. While the LEI’s six-month and annual growth rates no longer signal a forthcoming recession, they still point to serious headwinds to growth ahead. Indeed, elevated inflation, high interest rates, rising household debt, and depleted pandemic savings are all expected to continue weighing on the U.S. economy in 2024. As a result, the Conference Board projects that real GDP growth will slow to under 1% over the Q2 to Q3 2024 period.”

Labour Market

The number of job openings declined by 296,000 from the previous month to 8.059 million in April 2024, the lowest level since February 2021 and missing the market consensus of 8.34 million. During the month, job openings decreased in health care and social assistance (-204,000), and in state and local government education (-59,000), but increased in private educational services (+50,000). Regarding regional distribution, job openings were sharply down in the Midwest (-224,000), the Northeast (-97,000) and the West (-67,000), while they rose in the South (+93,000).

The number of people claiming unemployment benefits in the U.S. jumped by 8,000 to 229,000 on the week

ending June 1st, well above market expectations of 220,000, to record the highest reading since the eight-month high of 232,000 from early May. In the meantime, outstanding claims unexpectedly rose to 1,792,000 in the earlier week, the highest in seven weeks. The results were further evidence of a softening U.S. labour market, strengthening the case for the Federal Reserve to deliver multiple rate cuts this year should inflation progress in converging to its target.

Inflation

According to the U.S. Bureau of Labor Statistics, the annual inflation rate in the U.S. eased to 3.4% in April 2024 from 3.5% in March, which was the highest reading since September, in line with market forecasts. Inflation steadied for food (2.2%), and slowed for shelter (5.5% vs 5.7%), while prices continued to decline for new vehicles (-0.4% vs -0.1%) and used cars and trucks (-6.9% vs -2.2%). On the other hand, energy costs rose slightly more (2.6% vs 2.1%), with gasoline increasing 1.1% (vs 1.3%), while a decline was seen for utility gas service (-1.9% vs -3.2%) and fuel oil (-0.8% vs -3.7%). Also, cost rose faster for transportation (11.2% vs 10.7%) and apparel (1.3% vs 0.4%). Compared to the previous month, the CPI increased by 0.3%, below 0.4% in each of the previous two months and forecasts of 0.4%.

Interest Rates / Fed Policy

The Federal Open Market Committee is unlikely to adjust rates at its upcoming meeting in June. However, fixed income markets will be watching closely for clues regarding interest rate cuts in 2024. Currently, one or two cuts are viewed as the most likely scenarios, but policymakers will be updating their Summary of Economic Projections to estimate where they see rates at the end of this year.

It’s now been almost a year since the FOMC last raised the Federal Funds rate to its current target range of 5.25% to 5.5% in July 2023. But some relatively elevated inflation reports in the first quarter of 2024 “threw cold water” on possible rate cuts at the time, according to Fed Governor Christopher Waller’s May 21 speech at the Peterson Institute. However, later in that same speech Waller sounded some mild optimism, stating: “The latest CPI data was a reassuring signal that inflation is not accelerating.”

China

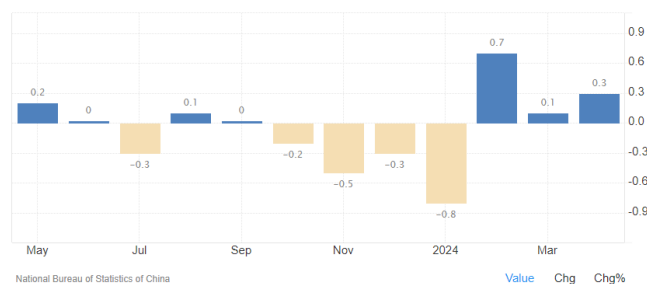
China's economy remains fragile, as house prices continue to decline despite stimulus steps by Beijing. Retail sales remain softer than expectations, while inflation remains muted. Industrial Production was a bright spot expanding above expectations on a YoY basis.

Monetary Policy

The 5-year loan prime rate was held at 3.95% (reference for mortgages) and the 1-year rate was held at 3.45% (reference for non-mortgage lending).

Inflation

Inflation (YoY) May 2023 – Apr 2024



Source: Tradingeconomics.com, NBS China, Accessed 05/06/2024

China's annual inflation rate rose to 0.3% YoY in April, compared with market estimates and March's figure of 0.1%. It was the third straight month of positive annual consumer inflation reflecting a recovery in domestic demand. Non-food inflation rose (0.9% vs 0.7% in March), supported by stable increases in clothing (1.6% vs 1.6%), health (1.6% vs 1.5%), and education (1.8% vs 1.8%). On the food side, prices experienced their 10th consecutive month of decrease (-2.7% vs -2.7%). Monthly, the CPI increased by 0.1%, in contrast to the steep -1.0% fall in March.

Unemployment

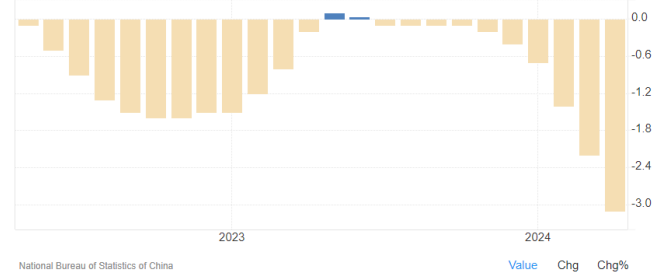
China's surveyed unemployment rate dropped to 5.0% in April compared to the previous month and market estimate of 5.2%. In 31 major cities, the urban unemployment rate was 5.0%.

Housing

China's new home prices declined by 3.1% YoY in April, steeper than the 2.2% p.a. fall in March. It was the 10th straight month of decrease with prices declining at stronger rates in Shenzhen (-6.7% vs -5.5% in March) and Guangzhou (-6.9% v -5.5%). The declining prices are being felt in the tier one cities:

Beijing (-0.5% v 0.8%) and Chongqing (-1.4% v 0.5%). Only Shanghai (4.2% v 4.3%) was positive. Monthly, new home prices fell by 0.6% in April, deteriorating from a 0.3% fall in the previous two months.

New House Prices (MoM) Apr 2022 – Mar 2024



Source: Tradingeconomics.com, NBS China, Accessed 05/06/2024

Retail Sales

China's retail sales rose by 2.3% YoY in April, missing market forecasts of 3.8% and moderating from a 3.1% growth in the prior period. It was the 15th straight month of increase in retail trade, but the softest gain in the sequence. Sales growth eased for grain & food oil (8.5% vs 11.0% in March) and home appliances (4.5% vs 5.8%). In addition, turnover fell for clothing (-2.0% vs 3.8%) and building materials (-4.5% vs 2.8%). By contrast, sales quickened for personal care (4.4% vs 3.5%), and communications equipment (13.3% vs 7.2%). On a monthly basis, retail trade was almost flat, edging up by 0.03%, after the prior gain of 0.26%.

Industrial Production

China's industrial production expanded by 6.7% YoY in April, above market forecasts of 5.5% and much faster than the 4.5% in the prior month. Activities in manufacturing (7.5% vs 5.1% in March), utilities (5.8% vs 4.9%), and mining (2.0% vs 0.2%) all accelerated amid continued support measures from the government. Within industries, highlights included computer & communications (15.6% vs 10.6%), textiles (6.6% vs 2.5%), chemicals (12.3% vs 9.1%) and cars (16.3% vs 0.9%). Monthly, the industrial output rose by 0.97%.

Balance of trade

China's trade surplus decreased to US\$72.35 billion in April from US\$86.46 billion in the same period a year earlier, below market forecasts of US\$76.7 billion. Exports rose by 1.5%, compared to expectations of +1.0%, while imports surged by 8.4%, beating expectations of a 5.4% gain.

Europe

According to Eurostat, the unemployment rate in the Euro Area hit a fresh record low of 6.4% in April 2024, down from 6.5% in each of the prior five months. The ECB has now started their rate cutting cycle. All three key rates were reduced by 0.25%.

Growth / Economic Activity

The Eurozone economy expanded 0.3% on quarter in the first three months of 2024, recovering from a 0.1% contraction in each of the previous two quarters, and in line with the first estimate. It also marks the strongest GDP growth since the third quarter of 2022, with German GDP rebounding (0.2% vs -0.5%), France (0.2% vs 0.1%) and Italy (0.3% vs 0.1%) expanding at a faster pace. Also, the Spanish economy grew at a robust 0.7% (vs 0.7% in the previous quarter). After a year of stagnation in 2023, the Eurozone is now on the path to recovery, particularly in Germany. Inflation is nearing the 2% target, and the European Commission now forecasts 0.8% growth for 2024, little changed from previous predictions, driven by a steady rise in consumer spending and improved trade, although investment growth appears to be softening.

Inflation

Annual inflation rate in the Euro Area rose for the first time in five months to 2.6% in May 2024 from 2.4% in each of the previous two months, and above forecasts of 2.5%, preliminary estimates showed. Prices rebounded for energy (0.3% vs -0.6%), and rose faster for services (4.1% vs 3.7%), but slowed for food, alcohol and tobacco (2.6% vs 2.8%) and non-energy industrial goods (0.8% vs 0.9%). The core rate that excludes prices for energy, food, alcohol and tobacco also increased to 2.9% from 2.7%, higher than expectations of 2.8%. Among the major economies, inflation accelerated more than anticipated in Germany (2.8%), France (2.7%), Spain (3.8%) and Italy (0.8%).

Labour Market

According to Eurostat, the unemployment rate in the Euro Area hit a fresh record low of 6.4% in April 2024, down from 6.5% in each of the prior five months and slightly below market forecasts of 6.5%. The number of unemployed individuals decreased by 100,000 from the prior month to 10.998 million. Meanwhile, the youth unemployment rate, reflecting those under 25 seeking employment, fell to 14.1% in April from a revised 14.3%

in March. Across the major Euro Area economies, Spain continues to grapple with the highest unemployment rate, standing at 11.7%, followed by France at 7.3% and Italy at 6.9%. In contrast, Germany recorded the lowest rate at 3.2%. A year earlier, the Euro Area's jobless rate was slightly higher at 6.5%.

Industrial Production

Industrial production in the Euro Area rose by 0.6% month-on-month in March 2024, following an upwardly revised 1.0% increase in the prior month and almost in line with market forecasts of a 0.5% advance. This marks the second consecutive month of growth in the bloc's industrial activity, albeit slower than in the previous month, as output increased for capital goods (1.0% vs 1.7% in February). On the other hand, production declined for non-durable consumer goods (-2.7% vs -0.3%); durable consumer goods (-1.1% vs 1.5%); energy (-0.9% vs -3.4%) and intermediate goods (-0.5% vs 0.8%). On a yearly basis, industrial production shrank by 1.0% in March, after a revised 6.3% slump in the previous month and compared with market estimates of a 1.2% decrease.

Policy

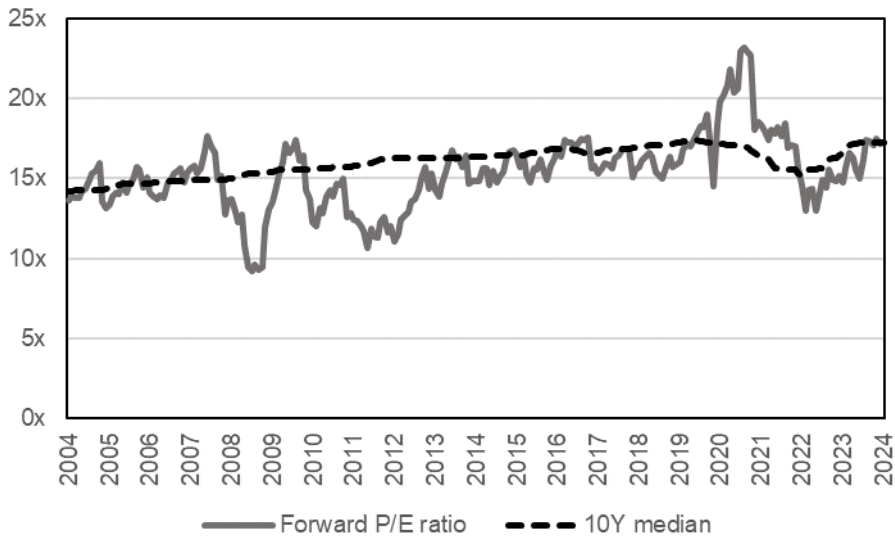
The ECB lowered the three key interest rates by 25 basis points in June, in line with expectations, marking a shift from nine months of stable rates after inflation declined by more than 2.5 percentage points since September 2023.

The main refinancing operations rate was lowered to 4.25%, the deposit facility rate to 3.75%, and the marginal lending rate to 4.50%. However, domestic price pressures remain elevated, indicating continued inflationary challenges. To address this, the Council aims to keep policy rates sufficiently restrictive, maintaining a data-dependent approach.

The Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. It will keep policy rates sufficiently restrictive for as long as necessary to achieve this aim. The Governing Council will continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate level and duration of restriction.

Market valuations (Forward P/E vs 10Y median Forward P/E)

Australian Shares Forward P/E – spot vs trailing 10Y median (May-14 to May-24)



Sources: FactSet, MSCI, S&P (May 2024)

Australian Shares based on the S&P/ASX 200 Index.

Performance as of 31 May 2024

		Annualised									
		1-mth	3-mth	6-mth	1-yr	3-yr	5-yr	7-yr	10-yr	15-yr	20-yr
Shares	Australia	0.9%	1.2%	10.7%	12.9%	6.8%	7.8%	8.5%	7.8%	9.3%	8.6%
	Australia - mid cap	0.5%	1.8%	12.1%	9.2%	6.5%	10.2%	9.7%	11.1%	10.8%	9.7%
	Australia - small cap	0.0%	1.5%	11.7%	10.9%	-0.1%	4.2%	6.7%	6.5%	5.7%	5.6%
	Australia - micro cap	0.6%	10.0%	16.7%	12.2%	2.2%	11.1%	11.0%	9.6%	6.4%	6.4%
	World ex Australia	2.0%	1.7%	14.6%	21.7%	12.1%	13.8%	12.5%	13.0%	12.3%	8.6%
	World ex Australia (Hedged)	3.7%	4.1%	14.5%	22.8%	5.6%	10.8%	9.2%	9.3%	11.6%	9.0%
	World - small cap	2.1%	0.9%	13.1%	15.1%	4.5%	9.4%	8.8%	10.6%	12.0%	8.6%
	Emerging Markets	-1.8%	1.4%	7.1%	9.4%	-1.1%	4.4%	4.8%	6.2%	5.8%	7.4%
Property & Infrastructure	A-REITS	1.9%	3.1%	22.4%	24.1%	7.5%	5.2%	6.8%	9.2%	11.0%	5.6%
	Global REITs	1.0%	-1.5%	4.7%	4.4%	0.3%	0.4%	3.1%	5.6%	8.0%	-
	Global REITs (hedged)	2.8%	0.9%	5.3%	6.8%	-3.8%	-1.1%	1.1%	3.1%	8.0%	-
	Global infrastructure	2.4%	4.8%	9.4%	7.3%	7.9%	5.3%	6.7%	9.1%	-	-
	Global infrastructure (Hedged)	4.3%	7.0%	9.6%	8.6%	2.8%	3.6%	4.5%	6.5%	10.3%	-
Fixed income	Australia Total Market	0.4%	-0.5%	2.1%	0.9%	-2.1%	-0.5%	1.1%	2.2%	3.6%	4.3%
	Australia government bonds	0.3%	-0.8%	1.9%	0.2%	-2.5%	-0.9%	0.9%	2.1%	3.5%	4.2%
	Australia corporate bonds	0.7%	0.7%	3.3%	4.5%	-0.1%	1.3%	2.4%	3.2%	4.6%	5.0%
	Australia floating rate bonds	0.5%	1.5%	3.0%	5.6%	3.0%	2.4%	2.6%	2.8%	3.8%	4.1%
	Global Total Market (Hedged)	0.8%	-0.1%	1.7%	1.7%	-2.8%	-0.6%	0.6%	2.0%	4.2%	4.9%
	Global government bonds (Hedged)	0.4%	-0.5%	1.2%	0.9%	-2.8%	-0.8%	0.5%	2.0%	3.9%	-
	Global corporate bonds (Hedged)	1.3%	0.5%	2.6%	3.8%	-3.2%	0.0%	1.0%	2.4%	5.4%	-
	Global high yield bonds (Hedged)	1.1%	1.9%	6.4%	12.3%	0.2%	2.2%	2.5%	3.9%	8.5%	7.8%
Cash	Bloomberg AusBond Bank Bill Index	0.4%	1.1%	2.2%	4.3%	2.3%	1.6%	1.7%	1.8%	2.5%	3.4%

Sources: FactSet, Lonsec

Appendix – Index sources

Asset class	Index
Australian equities (S&P/ASX 200)	S&P/ASX 200 Accumulation Index
Australian equities - Mid caps	S&P/ASX Accumulation Midcap 50 Index
Australian equities - Small caps	S&P/ASX Accumulation Small Cap Ordinaries Index
Australian equities - Micro caps	S&P/ASX Emerging Companies Total Return Index
International equities	MSCI World ex Australia Net Total Return (in AUD)
International equities (Hedged)	MSCI World ex Australia Hedged AUD Net Total Return Index
International equities - Small caps	MSCI World Small Cap Net Total Return USD Index (in AUD)
Emerging Markets equities	MSCI Emerging Markets EM Net Total Return AUD Index
Australian REITs	S&P/ASX 200 A-REIT Accumulation Index
Global REITs	FTSE EPRA/NAREIT Developed Index Net Total Return (in AUD)
Global REITs (Hedged)	FTSE EPRA/NAREIT Developed Index Net Total Return (Hedged to AUD)
Global Infrastructure	FTSE Global Core Infrastructure 50/50 Net Total Return in AUD
Global Infrastructure (Hedged)	FTSE Global Core Infrastructure 50/50 100% Hedged to AUD Net Tax Index
Australian bonds	Bloomberg AusBond Composite 0+ Yr Index
Australian bonds – government	Bloomberg AusBond Govt 0+ Yr Index
Australian bonds – corporate	Bloomberg AusBond Credit 0+ Yr Index
Australian bonds - floating rate	Bloomberg AusBond Credit FRN 0+ Yr Index
Global bonds (Hedged)	Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD
Global bonds - government (Hedged)	Bloomberg Barclays Global Aggregate Treasuries Total Return Index Hedged AUD
Global bonds - corporate (Hedged)	Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged AUD
Global bonds - High Yield (Hedged)	Bloomberg Barclays Global High Yield Total Return Index Hedged AUD
Cash (AUD)	Bloomberg AusBond Bank Bill Index

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