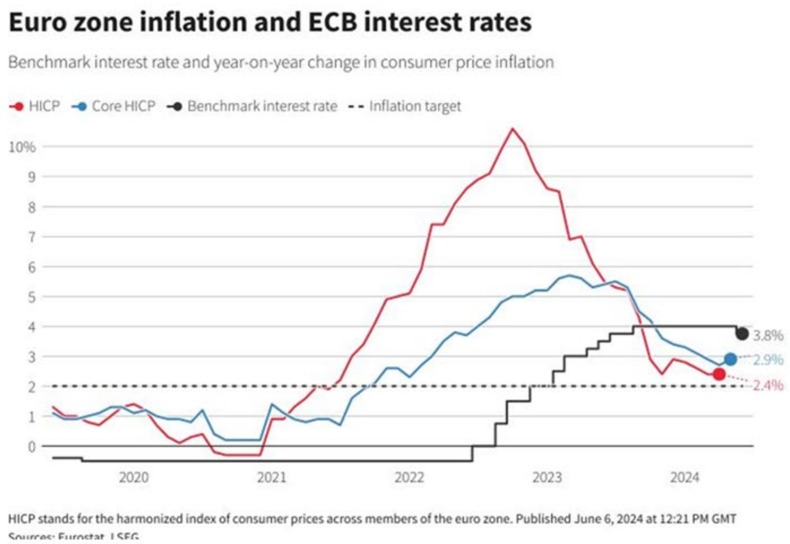
FINANCIAL MARKET CONDITIONS
May 2024

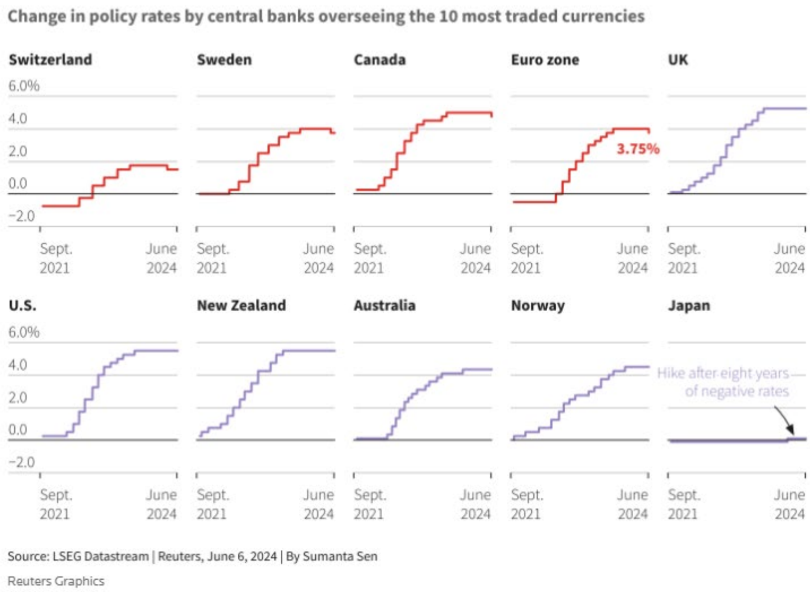
Local Government Finance Authority

Global equities rebounded strongly in May, retracing the prior months' losses, and in some markets briefly rising to all-time highs. Global equities rose by 4% over the month, supported by robust corporate earnings. Investors continued to anticipate interest rate cuts, albeit for cuts to come later than previously forecast and further expectations that central bank rates will stay higher for longer. The geopolitical landscape remained tense, with continued conflict in the Middle East, and US President Joe Biden announcing further tariffs on China in critical areas such as semiconductors and electric vehicles, worsening their relationship further.

Data in the US was mixed over the month, but broadly speaking pointed to a generally softer economic environment. The US federal reserve rate remained unchanged at 5.5%, as expected. The US housing market continues to slow with new home and existing home sales falling. Industrial production and manufacturing data were generally slower over the month, with the US manufacturing remaining under 50, in contraction territory as seen in 18 of the past 19 months. Job openings data was the weakest in three years and the labour market showed some weakness, with the unemployment rate creeping up to 4% from 3.9%. The USD weakened, influenced by underwhelming GDP figures that showed a lower than expected 1.3% Q1 growth, mainly due to a reduction in consumer spending, and pointing to the lowest growth since the first half of 2022. Markets do not expect the US Federal Reserve (FOMC) to start cutting rates until November 2024.

In Europe, growth indicators broadly showed strength over the month, putting the highly expected rate cut decision at risk. The Eurozone employment rate hit a fresh record low of 6.4% in April 2024, and labour costs increased more than expected, with the potential to drive inflation higher. Manufacturing data witnessed a rebound and inflation data printed at 2.9% (vs expected 2.7%), a rise for the first time in five months. Despite this, the European Central Bank (ECB) cut its main policy rate in June by 0.25%, as expected. The ECB noted progress in bringing down inflation, but also noted 'domestic price pressures remain strong as wage growth is elevated, and inflation is likely to stay above target well into next year', highlighting that future decisions will be data dependent, and not 'pre-committing to a particular path'. Markets are now pricing in just one further cut in rates this year, in September.





In the United Kingdom, data was generally steady. The UK GDP confirmed the exit of its brief technical recession at the turn of the year, with GDP expanding modestly by 0.6% in Q1, with the rebound in activity flagged by the recovery in the manufacturing sector. UK headline inflation fell sharply to 2.3% (from 3.2%) following the lowering of the energy price cap in April, however services inflation (and wage growth) remained stubbornly high. The Bank of England (BoE) held rates steady in May, with BoE Governor Andrew Bailey commenting that the next move in rates would ‘be a cut’, but he did not specify when.

China continues to witness further weakness in the economy, with little inflationary pressure. Financing data in China witnessed the first monthly decline in 20 years. China continued to stabilise the housing market, with the Peoples Bank of China further easing property lending requirements and allowing more flexibility for minimum mortgages. Monthly manufacturing activity data illustrated that the economy is not rebounding quickly, and recent news on tariffs from the US further placing pressure on the economy, and international relations.

Locally, the Reserve Bank of Australia held rates steady as expected and maintained its neutral stance. Near-term inflation forecasts were revised higher, indicating the RBA will tolerate a slower-than-expected return to the inflation target. Economic data was mixed over the month. The unemployment rate rose to 4.1% while consumer confidence measures remained 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). Given the mixed economic data, major banks have continued to delay cut expectations, with a number of major banks further delaying expected cuts from November 2024, to February 2025.