Monthly market review – May highlights

To 31 May 2024

May highlights

- Stocks rebounded in May due to renewed optimism for interest-rate cuts in the near future
- Good corporate results provided a tailwind, particularly in the technology sector
- Bond market performance was mixed, with positivity in the US but selling in Europe, due to divergent inflation data

Equities

Global equities rose in May, rebounding after falls in April. Investors were optimistic that central banks might cut rates in the near future, and the earnings season has been generally positive. Equity indices rose in the US, Europe, the UK, Japan and emerging markets. The MSCI World Index returned 4.53% in May (total return in US dollars).

Stock markets rebounded in May, as investors again interpreted central bank statements and economic data as indications that interest rates might fall in coming months. In the US, investors took comfort in a positive results season, with 78% of companies reporting earnings above estimates. In particular, Apple’s shares rose as the company’s revenue figures were better than analysts’ predictions, albeit lower than last year’s figures. Chipmaker NVIDIA, which makes semiconductors for artificial intelligence applications, saw its earnings and revenue outstrip estimates. The major US indices rose, with the technology-orientated NASDAQ Composite Index outperforming the broad S&P 500 Index. Europe gained, with strong performance from Switzerland and Mediterranean markets, although France lagged. European stocks were buoyed by encouraging data from the manufacturing sector, as purchasing managers’ index data showed sentiment rising to its highest level in over a year. UK shares finished higher in May but weakened in the second half of the month as Prime Minister Sunak announced a snap general election for July. The mid and small-cap FTSE 250 Index outperformed the blue-chip FTSE 100 Index. Japanese equities also rose, as annual inflation declined to 2.5% in April. Emerging markets rose in aggregate but were weaker than developed markets. The Chinese government outlined a plan to support the property market. Emerging Asian indices were mixed during the month. India rose slightly, but Latin America, including Brazil, declined.

The broad commodity index fell in May. Oil prices declined ahead of an OPEC+ meeting in early June, but natural gas prices rose as demand from Asia was elevated due to heatwaves in the region. Dovish central bank sentiment helped push gold and silver prices to fresh highs.

Bonds and economics

Investors bought US and UK government bonds in May, as economic and inflation data suggested dovish conditions for central bank policy. However, rising annual inflation in the eurozone prompted selling in European, including German, debt.

At the start of the month, the US Federal Reserve (Fed) kept interest rates unchanged. A statement from the bank said that rates would be cut when it is more confident that annual inflation will remain close to its 2% target. The Fed’s favoured measure, the core Personal Consumption Expenditures Index, showed prices rose by 2.8% in the year to April, in line with expectations. However, a revision to first-quarter GDP data showed economic activity was weaker than initially predicted, as the US grew by an annualised 1.3% in the period, down from the advance estimate of 1.6%. US Treasury prices rose as yields fell, and corporate bonds performed slightly better than government bonds.

The Bank of England also kept rates unchanged in May. The UK’s Consumer Price Index showed prices rose by 2.3% year on year in April, the lowest level in almost three years. Gilt yields rose after the announcement of the general election but fell back to close the month slightly lower. Conversely, in Europe, yields rose as annual inflation increased to 2.6% in May, according to a preliminary estimate. While the European Central Bank is expected to cut rates in early June, the spike in inflation pushed the German Bund yield to a six-month high. Corporate bonds performed slightly better than sovereign issues.

Real Estate

According to the MSCI Monthly Index, total returns for April (the latest data available) were 0.5%, up from 0.3% in March. The hotel and residential sectors were the strongest over the month, returning 1.5 and 0.9%, respectively. Meanwhile, the office and industrial sectors lagged, with returns of 0.0% and 0.6%, respectively.

The office sector has remained a laggard among UK real estate, with three-month total returns firmly negative. However, rental value growth continues within the upper echelons of the market, particularly in London’s West End and City. A combination of rising active demand and falling construction starts will see a dearth of new space delivered across the UK from 2025 onwards. This, combined with supportive economic policy expected to feed through in the second half of 2024, could see a return of investor interest in the sector. However, the year to date has seen subdued levels of investment, particularly due to a lack of overseas capital.

The retail sector is pausing after a strong run out of the pandemic, as rental value growth normalises. As economic conditions slowly improve, consumer confidence is rising steadily with increasing real wages. Retail warehousing and retail parks continue to be favoured among investors, given their trading resilience and low capex requirements. Overseas capital stepped back into the central London scene, with Blackstone acquiring 130-134 New Bond Street for £230 million, representing a sub-4% yield. Although this represents a notable discount on historic Bond Street values, the size of the acquisition suggests Blackstone's confidence in bottoming values.