Market Commentary

May 2024

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Global markets saw positive, solid gains in stocks and bonds worldwide

$26.04 BILLION

In the US, the tech sector flourished, led by Nvidia's remarkable performance with revenue reaching $26.04 billion

Central banks displayed diverse approaches to managing inflation and interest rates in their respective economies

Global market themes

In May, major stock markets performed well, finishing higher. Both stocks and bonds saw positive returns, driven by investor optimism about the future economic outlook. Developed market stocks, measured by the MSCI World, experienced a solid 4.4% gain, while global bonds, measured by the Barclays Global Aggregate Bond Index, delivered a 1.2% return. US markets outperformed European markets, with the S&P 500 yielding a positive return of 5.3% and the STOXX All Europe returning a positive return of 3.8%.

Asian markets showed mixed performance. Japanese stocks, represented by the Nikkei 225, made a small return of 0.6% with the yen remaining under pressure. China's equity market, represented by the CSI 300, experienced a loss of 0.5%, while Hong Kong-listed shares, as measured by the Hang Seng Index, climbed 2.5%. The Indian market, measured by the Sensex, was down by 0.5% as the market contended with the national election outcome. The MSCI EM index, representing emerging markets, had mixed dynamics, yielding a return of 0.5%. Taiwan and Korea performed well due to tech stocks, while Brazil faced challenges due to the current high interest rate environment.

In the US stock market, the tech sector gained 10%, driven by the AI trade and strong earnings results. Utilities added a robust 9%, energy declined by 0.4% due to falling oil prices, while consumer discretionary saw a modest 0.3% gain amid concerns about consumer spending highlighted in corporate earnings calls. Growth outperformed value, with the Russell 1000 Growth Index gaining 6%, whereas the Russell 1000 Value Index gained 3.6%. The Nasdaq 100 Index, heavily weighted in the tech space, gained 7% in May and nearly 30% since October 2023. Over half of the S&P 500's gains in May can be attributed to four mega tech stocks: Nvidia, Apple, Microsoft, and Alphabet.

During May, Nvidia's share price exceeded $1,000 for the first time, with fiscal first-quarter results surpassing expectations and revenue reaching $26.04 billion. The chipmaker reported a 262% jump in sales and announced a 10-for-1 stock split, accounting for a quarter of the S&P 500's gains this year, while the "Magnificent Seven" tech stocks are up 24% for the year.

The credit markets have maintained low spreads against government bonds, with no significant rise in default stress. As trade tensions between the US and China remains elevated, China reduced its holdings of US bonds, choosing to diversify away from American assets and increase its reserves in gold.

The US Federal Reserve is uneasy about the slow progress in reducing inflation towards its 2% target despite current elevated interest rates. While some policymakers are open to further rate hikes if necessary, Chair Jerome Powell has recently suggested a wait-and-see approach. A possible rate cut in September is on the table if data improves. In contrast, the European Central Bank (ECB) plans to cut rates in June. The ECB is more confident about the eurozone's disinflationary trajectory, supported by moderating wage growth. However, the Bank of England faces a different challenge. Sticky inflation, particularly in the services sector, renders a June rate cut unlikely. This situation highlights central banks' diverse approaches to managing inflation and interest rates in their respective economies.

In May, economic data showed mixed signals in different regions. The US economy, which initially displayed strong growth, is now slowing down due to weaker consumer spending and inflation. However, corporate earnings remain positive and are spread across various sectors. On the other hand, Europe is experiencing robust growth, with business activity expanding at a faster pace.

Mixed signals across regions prompted cautious investor sentiment

This growth is driven by a strong services sector and signs of recovery in manufacturing. This reacceleration, along with attractive valuations, may appeal to international investors.

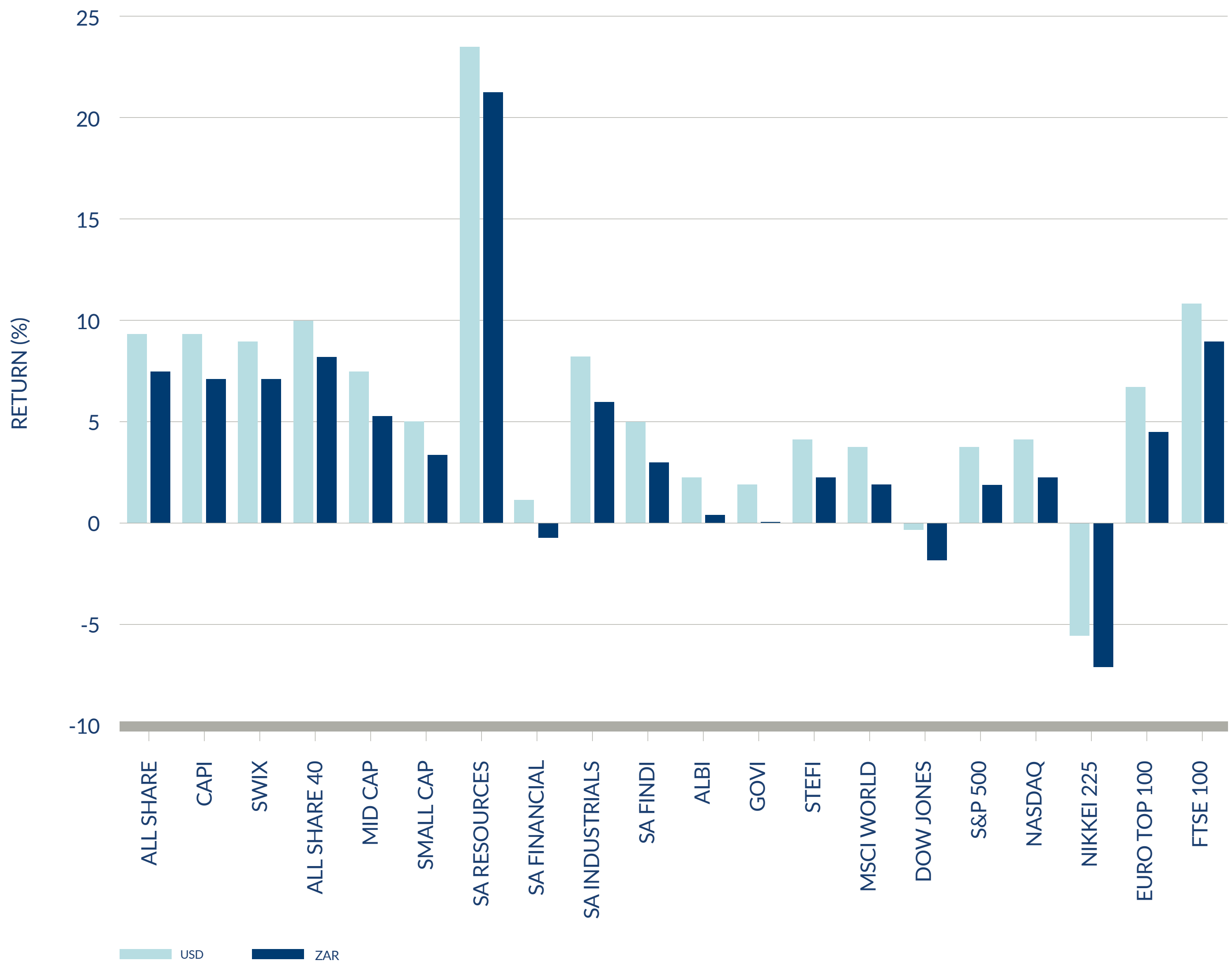
The situation in China is mixed. While some indicators, such as industrial production, show positive signs, retail sales continue to disappoint, indicating potential weakness in domestic demand. The Chinese market rally heavily depends on export growth, which raises concerns about its sustainability. China's recent economic data releases have been disappointing, with the economy appearing to stall despite signs of improvement following recent stimulus measures aimed at the property market. Economists are now anticipating major government policy meetings in July to provide another wave of support for the economy. The main challenge appears to be household confidence, with retail sales growth dropping from 10% year-on-year in November 2023 to just 2.3% in April.

In Japan, despite currency weakness typically being received positively by the export-heavy equity market, the exceptionally low levels of the Japanese yen are beginning to negatively impact consumer sentiment.

The decline in the value of the US dollar has helped increase the value of precious metals. Gold has maintained its recent gains at 0.3%, while silver has surged by 14.1% in the past month, adding further momentum to the rally. After reaching a peak in April, oil prices declined in May from $83.44 to $81.10 per barrel. However, broader commodity indices still recorded positive returns of 1.8%, supported by solid global demand and ongoing conflicts in the Middle East and Ukraine.

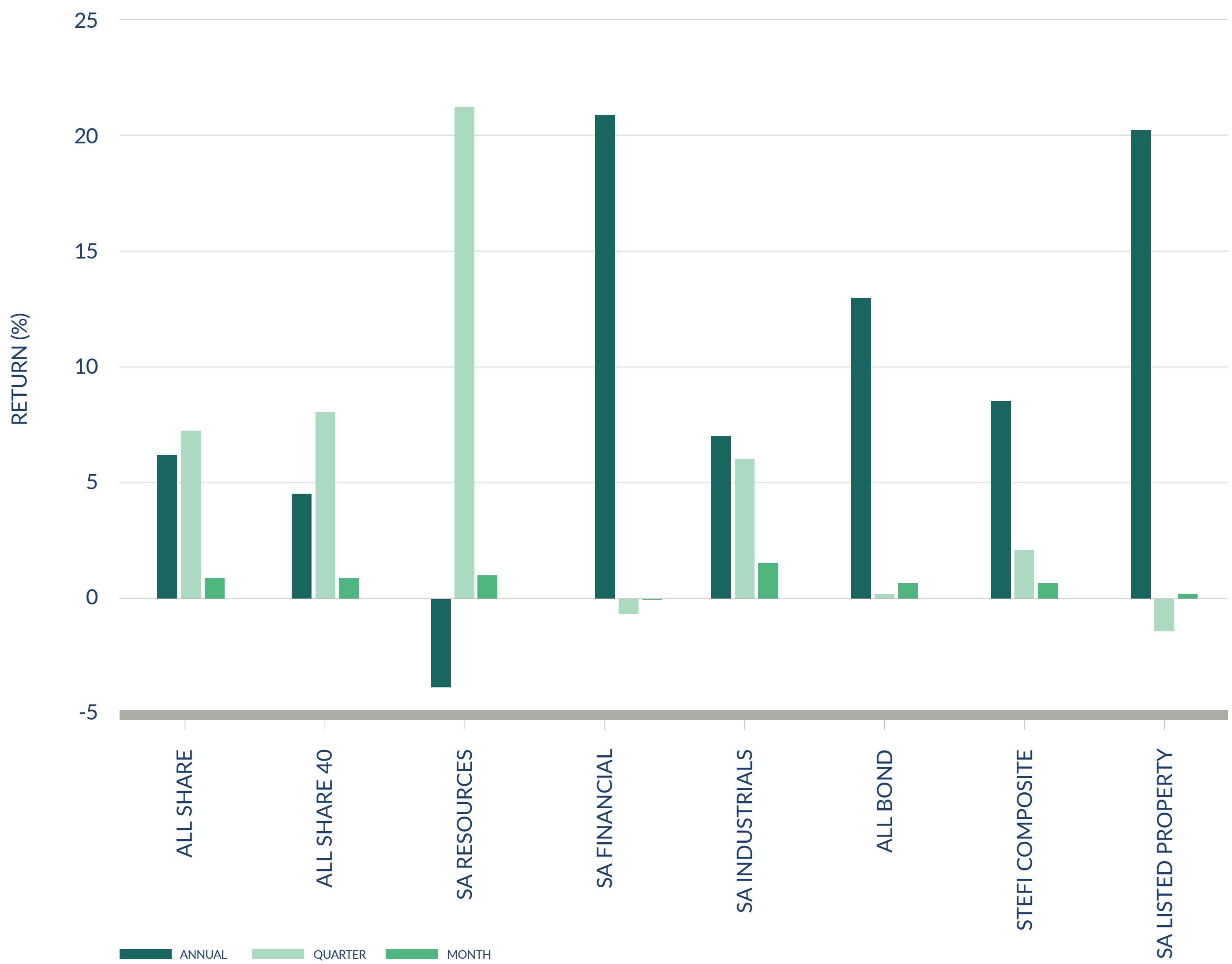
World Market Indices Performance

QUARTERLY RETURN OF MAJOR INDICES



South African Market Indices Performance

RETURNS OF THE FTSE/JSE SECTORS AND INDICES



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