

Market Monthly

May 2024

Highlights

- **Economics** In May, optimism about economic activity continue to rise, with USA Composite PMI reaching 54.5, highest level in last 2 years. The unemployment rate of 3.8% and weekly initial jobless claims below 250k suggest that US economy is still on peak. With the latest job readings, USA managed to keep unemployment rate below 4% for the third consecutive year, first time since the 1950s. While this diminish recession fears, it is posting a threat for inflationary pressure, which is main concern for investors nowadays. While not that impressive, the Eurozone also managed to reduce the unemployment rate in April to 6.5%. Leading indicators of economic activity, Composite PMI and ZEW Germany expectation of growth increased to 52.4 and 47.1 respectively, suggesting a continuation of uptrend trajectory in the following months. After good start of the year, May Manufacturing PMI in China is now back to contraction territory, 49.5.
- **Inflation:** April CPI in USA encouraged investors, with a decrease to 3.4%, reviving the hope for more hawkish FED policy in 2H 2024. In same period, Eurozone inflation is untouched, 2.4%. Values in other economies were as follows: China 0.3%, India 5.0%, Brazil 3.7%, Russia 7.8%
- **Central bank interest rates:** On its May meeting, FED kept interest rates in corridor 5.25%–5.5%, stating that conditions are not yet met for start of key policy rate cuts. For a scheduled June meeting, the ECB is widely expected to reduce rates by 25bps to 3.75%, investors will be more focused on possible additional cut in July.
- **Capital market rates:** In May, there was some relief on bond market, 10Y Treasuries posted a 20bps decrease, from starting 4.7% to 4.5%. Same duration Bund yields actually rose by 10bps to 2.7%, reflecting decreasing expectation of investors for consecutive ECB cuts.

Tactical Asset Allocation

- **Forex:** Good month on equity market caused EUR to become stronger, reaching almost 1.09 spot rate to USD in mid of May prior to giving up some gains to a final value EUR/USD 1.085 end of month.
- **Bonds incl. High Yields (O¹):** As anticipated in previous report, US Treasuries yields reached peak, with 20bps in May. However, even after this mild correction, long term bonds return remains rewarding.

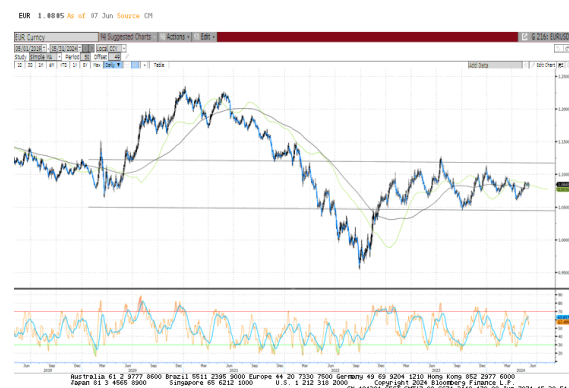
- **Equities (N):** April correction was followed by strong market performance in May, particularly in second half of the month after USA CPI data. S&P 500 gained +4.8%, DAX +3.1%, while the SMI surprised with +6.7%, catching up the other developed market indices, which are now in double digit increase YTD.
- **Commodities (U):** With further geopolitical stabilization, barrel volatility decreased, trading in tight range around \$80 until the final days of month when it fell to \$78/barrel. Gold briefly exceeded \$2400/oz after publication of USA CPI before retreating to start of the month value of \$2350/oz.

Investment Ideasⁱⁱ

- Yields on long term bonds are still elevated, with inflation going down and announced rate cuts, investment in this asset class remains attractive. Potential winner of 2H 2024 could be found in emerging markets and small-mid cap stocks in developed markets.



Performance Equity Markets MSCI World 5Yⁱⁱⁱ



EURUSD Technical Chart 5y, Bloomberg

¹ How to read: (U) underweight; (N) neutral; (O) overweight

ⁱⁱ See rationales on our web page www.aspermontcapital.ch

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