Monthly Macro

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What were the biggest drivers of markets in May?

- May was another eventful month for bond markets, with fresh concerns about regional banks, more rate hikes from major central banks, and anxiety around the lifting of the US debt ceiling.
- Inflation continued its downward trend, except in the UK where the headline rate came in at 8.7%, rather than the expected 8.2%. This increased expectations of further rate rises by the Bank of England.
- Economic data was mixed: robust jobs figures suggested that the US economy was proving more resilient than many had expected. However, Germany's economy slipped into recession. At the end of the month, the agreement to avoid a US debt default lifted sentiment.
- Against this background, most fixed income asset classes declined, although German bunds were a notable exception, gaining 0.3%. US Treasuries fell 1.2% amid uncertainty about the US debt ceiling. UK gilts were once again one of the worst performers (-3.4%), following the surprise inflation figure.
- Global corporate bonds declined 0.9%, as a result of the increase in both bond yields and spreads. High yield and emerging market debt also fell.
- There was divergent performance across global equity markets in May. On the back of excitement over the possible uses of artificial intelligence (AI), technology and related sectors were strong, which supported the US, Japanese, Taiwanese and Korean stockmarkets.
- In contrast, worries about slowing manufacturing and related commodity declines weighed on other parts of the world. There was some notable weakness in China and linked markets on fears of slowing recovery.
- Fixed income assets in the developed world continued to weaken from the levels they had reached in the aftermath of the US and Credit Suisse banking collapses. Rising yields in the US helped the US dollar strengthen versus most major currencies, albeit modestly. The Mexican peso, Peruvian sol and South Korean won bucked this trend.
- In emerging markets, South African bonds experienced weakness surrounding both accusations of arms supply to Russia and intensifying domestic energy blackouts. The Turkish lira also weakened following the re-election of the president.
- Resolution of the 'debt ceiling' negotiations in the US removed one source of market anxiety.

What will you be looking out for in June?

- Central bank decisions are back in focus in June. Given the uncertain macroeconomic picture in the US – inflation is still proving stubborn, the labour market appears resilient but growth appears to be cooling – the Fed may opt to 'skip' a rate hike this month to assess the latest economic data.
- Provided we don't get another inflation shock, it feels like we could be near the top of the current rate hiking cycle.
- Excitement in AI-related stocks and independent weakness in China and South Africa are notable developments in the last month. It remains to be seen whether such moves become more pronounced and widespread, or like banking sector moves in March, remain largely contained and short lived.
- Elsewhere, weakness in developed market government bonds could also prove to be an attractive opportunity, as yields become more compelling against a backdrop of deteriorating manufacturing data and an ease in inflationary pressure from commodities.

Key dates for the month ahead:

13 June: US inflation data **14 June:** Fed interest rate decision **15 June:** ECB interest rate decisions **22 June:** BoE interest rate decision

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