Monthly Macro

May 2024

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What were the biggest drivers of markets in April?

- In April, expectations for interest rate cuts by the Federal Reserve (Fed) were scaled back as US inflation data came in stronger than expected. Now, market participants anticipate only one rate cut this year.
- The core Consumer Price Index (CPI) increased 3.8% year-on-year. Meanwhile, the Fed's preferred inflation metric, the core Personal Consumption Expenditures (PCE) deflator, came in at 3.7%, which was 0.3% higher than the market anticipated. There was also strength in the super-core services element, which strips out housing, and that was running at over 5% on a three-month annualised basis. This led to a rise in Treasury yields, with US 10-year Treasuries closing the month yielding 4.7% (note that bond yields and prices move in opposite directions). However, the US also saw weaker GDP growth for Q1 at an annualised rate of 1.6%, almost 1% below expectations.
- There was speculation during the month that Japan's Ministry of Finance intervened in its currency market as the yen exhibited significant weakness versus the US dollar. The yen weakened on the back of a downside surprise in its CPI numbers.

- In April there were developments in three of the key macroeconomic stories of recent times.
- First, consensus in the Federal Reserve policy guessing game saw a further move away from the belief that there would be interest rate cuts in the summer, to a view that they would come later in year, if at all. This prompted losses in US and other developed market government bonds.
- Second, shifting rate expectations prompted US dollar strength versus most currencies, and notably the Japanese yen, which prompted Japanese central bank intervention. That this weakness came after policy had been tightened by the Bank of Japan in March further confounded consensus expectations for appreciation in that currency.
- Finally, earnings in the US AI space grabbed some headlines: Tesla stocks rose though earnings declined, Microsoft, Alphabet and Amazon were strong, while Meta declined sharply. The 'magnificent seven' set of stocks was down as a whole over the month.
- Intensification in geopolitical risks in the Middle East did not prompt anticipated market volatility and the oil price declined in US dollar terms over the month.

What will you be looking out for in May?

- While Fed Chair Jerome Powell's remarks after the Federal Open Market Committee meeting on 1 May could not be characterised as outright dovish, he downplayed the chances of imminent rate cuts.
- In addition, he ruled out the prospects of further rate hikes that had been worrying some investors and made no attempt to dial back market pricing of one interest rate cut by the end of the year. As a result, 2-year US Treasury yields fell.

- The concurrent weakness in bonds and equities (outside of China) could be suggestive that rising rates are becoming a worry for growth and/or discount rates once again.
- However, sentiment remains relaxed in aggregate. Rate pressure is being interpreted as a cyclical rather than structural issue, with language like 'stickiness' revealing the widespread faith that inflation will fall eventually.
- Positive manufacturing data and improvements in China and Europe have also been supportive for already sanguine market beliefs about global growth.

Key dates for the month ahead:

15 May: US CPI | **17 May:** European CPI | **22 May**: UK CPI | **30 May**: US GDP

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