

Monthly Market Review

May 2023

Author



Kerry Craig
Global Market Strategist

Tale of two markets

Global equities were weak in May as the MSCI AC World index fell by 1.3% on the month. Developed markets (-0.1%) did slightly better than emerging ones (-1.0%), which were weighed down by China. But even within developed economies the divergence was clear as the narrow rally in technology related names helped keep the S&P 500 aloft and Japan's TOPIX surged to a 33 year high by gaining another 3.6% in May. Meanwhile, European markets suffered given their reliance on Chinese growth.

The performance of equities continues to mask the growth risks reflected in bond markets. The Global Aggregate Index fell 2.0% on the month as bond yields surge in response to risks around the debt ceiling and potential for further rate hikes from the U.S. Federal Reserve. Commodities were also weaker on growth concerns and rising U.S. dollar.

There were several themes that drove the market in May:

- The U.S. debt ceiling debate moved a step closer to resolution at the end of the month, but the path was not easy. The proposed deal that went to the House at month-end saw the limit deferred until 2025 and avoided the disastrous possibility of a default.
- The persistence of core rate of inflation across the developed world continues to haunt markets. The UK was a front runner as core inflation rose to 6.8%, a 31 year high.
- China's growth recovery fades as many economic data points missed expectations and further policy measures to steady growth remain absent. Full year growth will likely be above the policy target of 5%, but much lower than hoped just a couple of months ago.
- Japan starts to fire on all cylinders as inflation lifts, along with growth prospects, which adding to the optimism. A string of policy measures to improve corporate governance and higher levels of stock buybacks also supported valuations of Japanese equities.
- Artificial intelligence turbocharges the returns for a few companies propelling U.S. equities higher on narrow leadership. Excluding the big AI related names, the U.S. S&P 500 would be in negative territory for the year.

The cautious positioning in equities and preference for high quality fixed income was challenged in May as equities moved higher as did bond yields. However, with many large cap U.S. companies at elevated valuations the risk-return still favours bonds given the risks to the economic outlook.

Economy:

- The Australian Government Budget posted the first surplus since 2007/08, with a material improvement in the fiscal position over the forecast horizon of \$125.9bn. The upgrades to the outlook come from higher tax income and higher commodity prices. However, the fiscal thrust to the economy is anticipated to be fairly small, leaving economic forecasts unchanged.
- A higher-than-expected monthly inflation print (6.8%) for Australia raised alarm bells that the Reserve Bank of Australia (RBA) would need to do more. The inflation pressure from the housing market as well as higher wages is expected to keep core rates of inflation above the RBA target for some time.
- Consumer confidence fell in May by 7.9% to 79.0 and is well down from the peak of 118.8 in April 2021. Meanwhile, business confidence ticked up by a marginal 1.3pts to 0.3. (GTM AUS page 7)
- April's labour market data showed employment contracted by 4,000 jobs and the unemployment rate rose to 3.7% as the fall in jobs offset the decline in the labour supply. (GTM AUS page 8)
- Housing market stabilization continued as house prices rose by 1.4% month-over-month (m/m) nationally in May. Having gained 2.8% since February, prices are now 6.8% below their level a year ago. The robust auction clearance rates suggest that prices may be supported in the coming months. (GTM AUS page 10)
- Contrasting the moves in prices, other housing data has been less supportive. Building approvals fell 8.0% m/m in April to their lowest level since 2012. The conflicting price and volume signals make for a tricky monetary policy stance.

Equities:

- Australian equities fell through May on a combination of global growth factors (China and the U.S. debt ceiling) as well as a hawkish turn by the RBA. The ASX 200 was down 2.5% for the month.
- Developed market equities were flat over the month (-0.1%) while the Japanese market was up 3.6%, the S&P 500 gained 0.4% but the European equity market fell 2.8%. Emerging markets were down 1.0%. (GTM AUS page 35)
- At the sector level there was daylight between the best sector and the rest. The strongest gainer in the ASX 200 was IT (11.6%) followed by utilities (1.1%). At the other end of

the table were consumer discretionary (-6.1%), consumer staples (-4.6%), materials (-4.4%) and financials (-3.2%). Small cap Australian stocks also underperformed the large cap as the Small Ordinaries index fell 3.3%.

- Equity valuations out of the U.S. continue to sit around average levels. The ASX 200 at 14.3x forward price to earnings (P/E) is in line with its long run average. Out of the major markets, the U.S. is trading above average at 18.5x P/E but well below the lofty highs prior to the pandemic. (GTM AUS page 36)

Fixed income:

- The yield on the Australian 10-year government bond was 26bps higher on the month to 3.60% on the resumption of rate hikes, as the cash rate rose to 3.85%. U.S. 10-year yields were also higher at 3.64% as the market increased the likelihood of more to come from the Fed. (GTM AUS page 51)
- Credit markets recorded declines over the month as spreads widened with rising government bond yields. In investment grade bonds, the Australian index fell by 0.5% and the global investment grade index was down 1.9%. Meanwhile the global high yield bond market fell by 0.6%. (GTM AUS page 49)

Other assets:

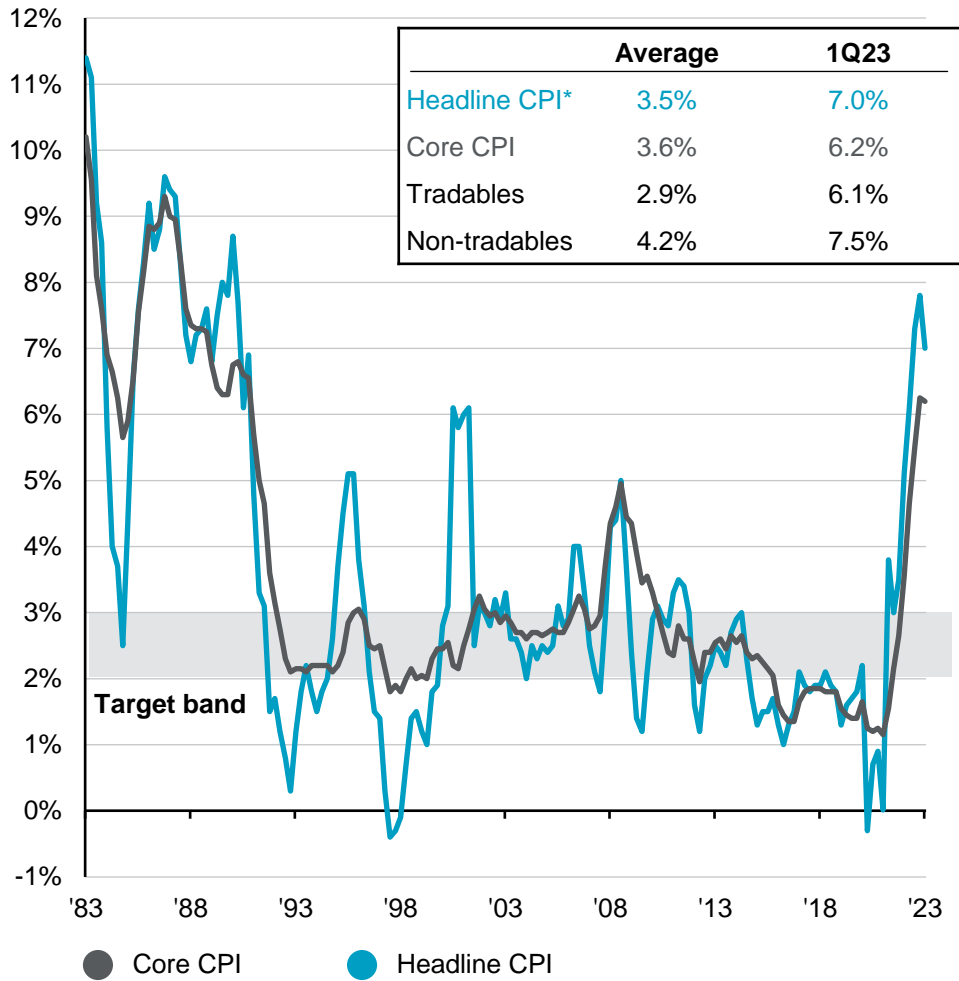
- Commodity prices fell across the board in May as the Bloomberg Commodity Index fell 6.1%, largely driven by declining oil prices. The price of Brent oil fell to US\$73 per barrel, a nearly 11% decline on the month, given the weakness in Chinese growth and anticipated fall in demand. (GTM AUS page 63)
- Iron ore prices fell to US\$100/Mt on both seasonally weaker demand and Chinese growth narrative. The PMI for manufacturing in China fell to 48.8 in May, indicating a contraction in the manufacturing sector.
- Even the gold price was not immune to selling pressure as it fell to US\$1,962. Investors are holding gold to increase diversification but even the yellow metal is susceptible to a rising U.S. dollar and potentially higher cash rates. (GTM AUS page 66)
- The US dollar index gained 2.6% in May and was up against most major currencies. The Aussie dollar fell by 2.1% but the euro fell by 3.4% against the Greenback. The Chinese RMB was 2.5% higher. (GTM AUS page 68)



Inflation

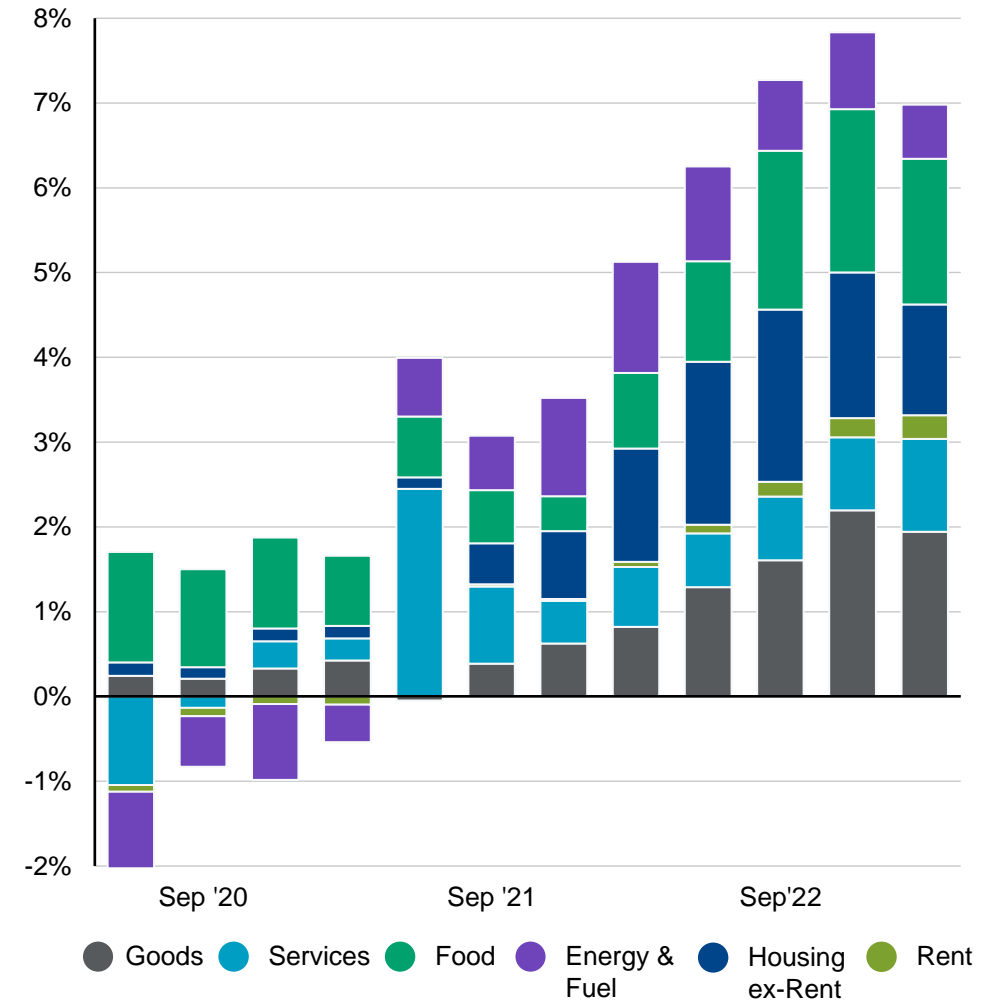
CPI and core CPI inflation

Year-over-year



Inflation components contribution

Year-over-year



Source: Australian Bureau of Statistics, FactSet, J.P. Morgan Asset Management. *CPI is the Consumer Price Index, core CPI is the average of the trimmed mean and weighted median measures of inflation. Tradables represent approximately 35% of the CPI basket and non-tradables 65%. Core goods CPI is goods CPI excluding volatile items.
 Guide to the Markets – Australia. Data as of 31 May 2023.



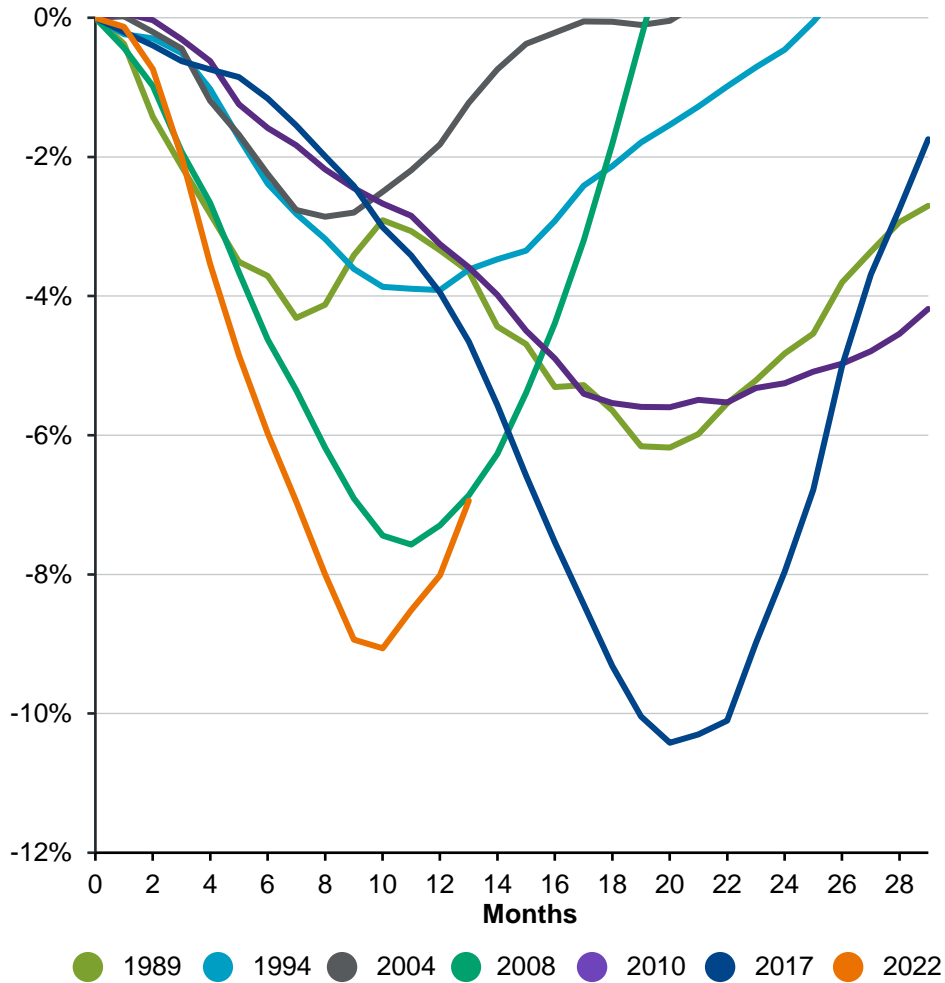
Residential real estate prices

GTM AUS 10

Local economy

House price cycles

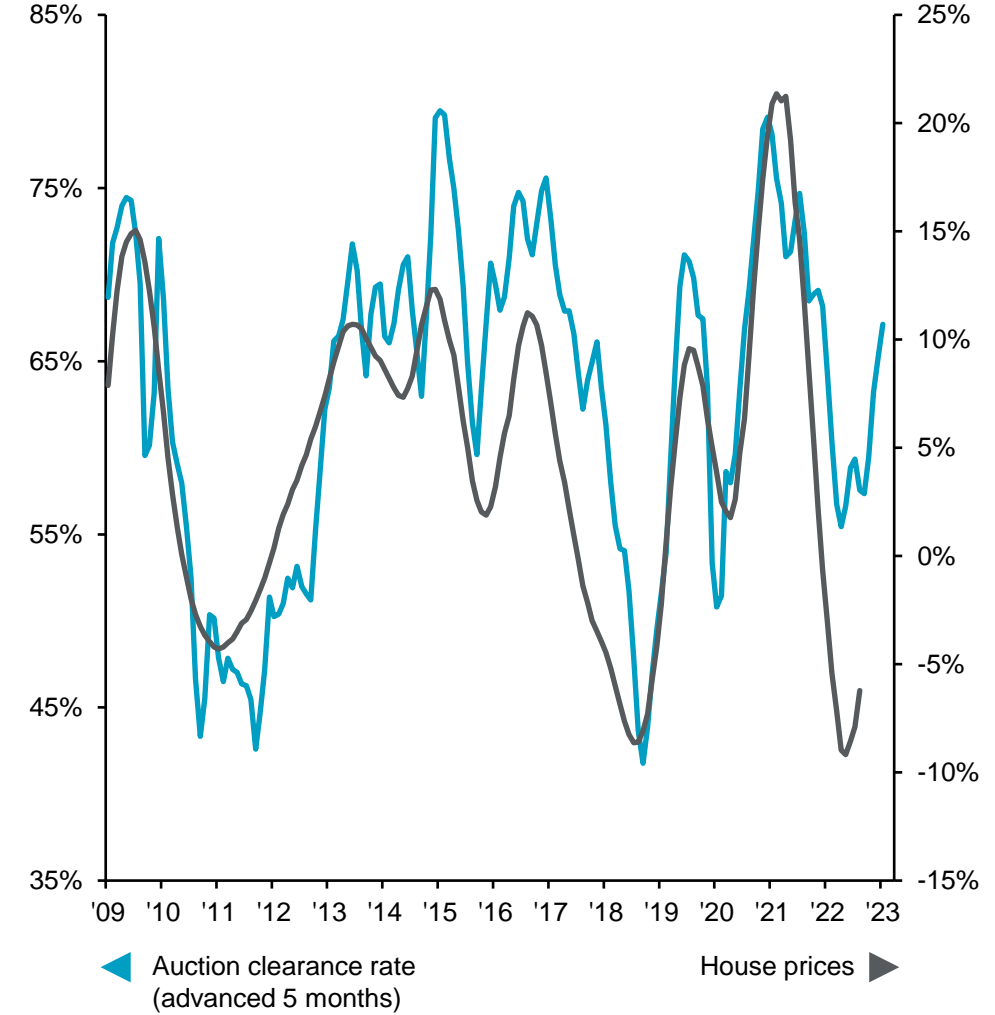
Drawdown from prior peak



Auction clearance rate and house prices

3-month moving average

Year-over-year



Source: RPD CoreLogic, J.P. Morgan Asset Management. Guide to the Markets – Australia. Data as of 31 May 2023.

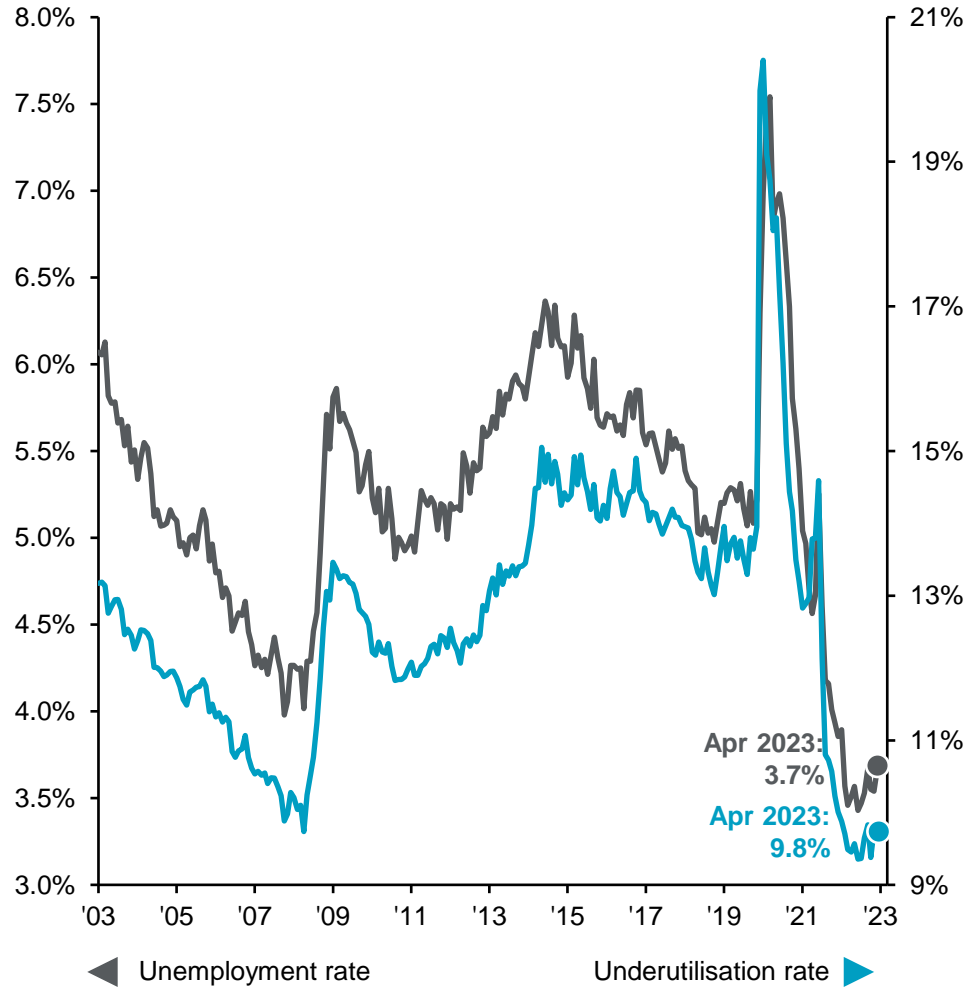


Unemployment and wages

Local economy

Unemployment and underutilisation rates

Seasonally adjusted



Wage growth and labour availability

Year-over-year



Source: Australian Bureau of Statistics, FactSet, J.P. Morgan Asset Management; (Right) NAB. Guide to the Markets – Australia. Data as of 31 May 2023.

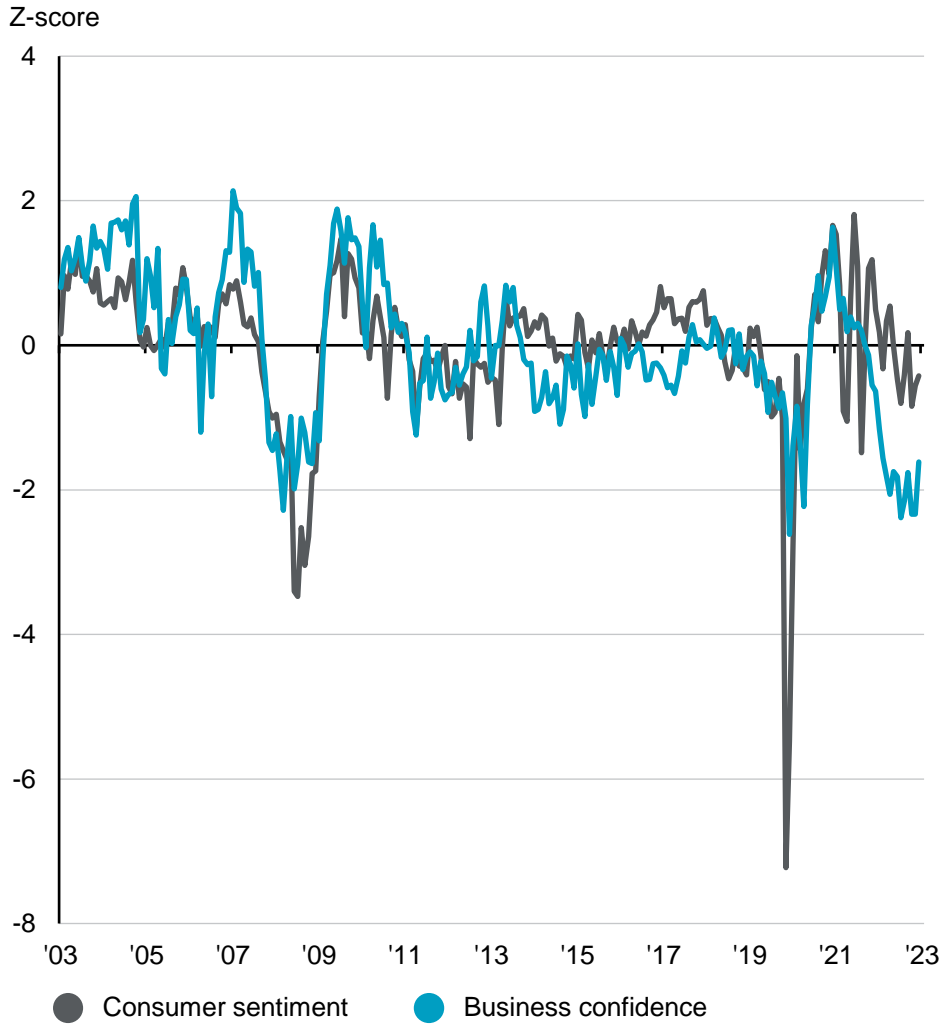


Consumer and business confidence

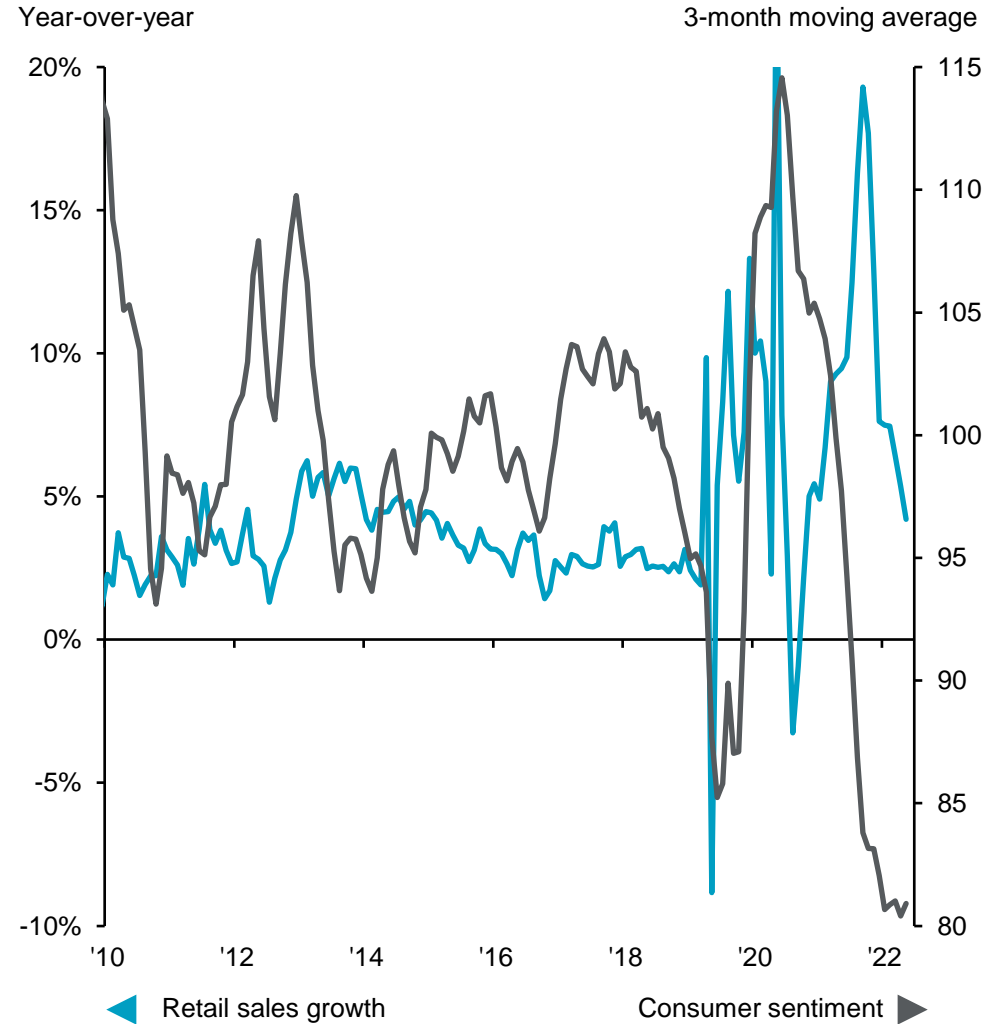
GTM AUS 5

Local economy

Consumer sentiment and business confidence



Consumer sentiment and retail sales



Source: FactSet, Westpac, J.P. Morgan Asset Management; (Left) National Australia Bank; (Right) Australian Bureau of Statistics.
 Retail sales growth figures have been truncated, April 2021 retail sales growth was 25%.
 Guide to the Markets – Australia. Data as of 31 May 2023.



World equity market returns

Equities

		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD	May '23	10-years '13 - '22	
														Ann.	Vol.
AUD	Local	53.6% U.S.	24.3% U.S.	25.6% Japan	13.2% Small Cap	31.5% Asia ex JP	6.2% U.S.	31.7% U.S.	14.2% Asia ex JP	36.6% U.S.	-1.1% Australia	14.9% U.S.	3.1% Japan	14.1% U.S.	Small Cap 17.3%
	Local	47.4% Japan	14.9% Asia ex JP	14.0% U.S.	12.5% U.S.	27.5% EM	-2.3% Portfolio	24.8% Europe	9.2% Small Cap	24.1% Europe	-8.4% Europe	14.2% Europe	2.6% U.S.	8.3% Portfolio	Japan 15.6%
Local	Local	54.4% Europe	7.7% Portfolio	1.4% Small Cap	12.0% EM	31.0% Small Cap	-7.3% Australia	24.6% Portfolio	9.2% EM	23.3% Portfolio	-8.0% Japan	8.5% Japan	0.4% EM	7.3% Japan	U.S. 14.8%
	Local	46.2% Portfolio	8.7% EM	10.2% Europe	12.1% EM	20.0% Small Cap	-2.8% Australia	24.0% Portfolio	8.1% EM	19.0% Portfolio	-8.7% Japan	12.9% Japan	-1.0% EM	7.7% Japan	U.S. 14.8%
Local	Local	22.3% Portfolio	6.8% EM	10.2% Europe	10.1% EM	20.0% Small Cap	-2.8% Australia	23.7% Portfolio	19.5% EM	17.2% Portfolio	-2.5% Japan	14.1% Japan	-1.0% EM	7.3% Japan	U.S. 14.8%
	Local	30.7% Portfolio	7.3% EM	9.8% Europe	11.8% Australia	17.2% Japan	-4.2% Japan	23.4% Australia	7.9% U.S.	17.2% Australia	-8.8% Portfolio	8.2% Portfolio	0.3% Asia ex JP	7.1% Europe	Portfolio 14.4%
Local	Local	21.9% Portfolio	5.6% EM	5.4% Europe	11.8% Australia	22.2% Japan	-16.0% Japan	23.4% Australia	18.4% U.S.	17.2% Australia	-9.5% Portfolio	5.8% Portfolio	-1.5% Asia ex JP	6.3% Europe	Portfolio 14.4%
	Local	20.2% Australia	5.7% Japan	8.4% Portfolio	9.4% Portfolio	16.9% Europe	-4.6% Asia ex JP	21.4% Small Cap	4.2% Portfolio	16.9% Small Cap	-12.2% U.S.	6.0% EM	-0.8% Portfolio	7.0% Asia ex JP	Asia ex JP 14.2%
Local	Local	20.2% Australia	10.3% Japan	3.3% Portfolio	9.8% Portfolio	13.7% Europe	-12.0% Asia ex JP	21.4% Small Cap	8.6% Portfolio	16.9% Small Cap	-18.1% U.S.	2.1% EM	-1.2% Portfolio	4.7% Asia ex JP	Asia ex JP 14.2%
	Local	19.9% Asia ex JP	5.6% Australia	2.6% Australia	6.3% Asia ex JP	16.7% Portfolio	-4.7% EM	19.4% Japan	3.0% Japan	7.3% Japan	-13.5% Asia ex JP	5.2% Asia ex JP	-2.5% Australia	7.0% Australia	Australia 14.0%
Local	Local	6.2% Asia ex JP	5.6% Australia	2.6% Australia	6.4% Asia ex JP	19.1% Portfolio	-9.7% EM	18.1% Japan	7.4% Japan	12.7% Japan	-15.1% Asia ex JP	1.4% Asia ex JP	-2.5% Australia	7.0% Australia	Australia 14.0%
	Local	13.4% EM	3.1% Europe	2.5% Asia ex JP	4.0% Japan	12.8% U.S.	-4.8% Europe	19.1% EM	1.4% Australia	3.8% EM	-13.9% EM	2.7% Australia	-3.3% Small Cap	5.5% EM	Europe 13.1%
Local	Local	3.8% EM	5.2% Europe	-5.3% Asia ex JP	0.3% Japan	21.8% U.S.	-10.0% Europe	18.5% EM	0.1% Australia	0.1% EM	-15.2% EM	2.7% Australia	-3.3% Small Cap	4.8% EM	Europe 13.1%
	Local	-0.8% Small Cap	-3.8% Small Cap	-3.9% EM	0.7% Europe	11.8% Australia	-8.7% Small Cap	18.7% Asia ex JP	-3.5% Europe	1.4% Asia ex JP	-18.4% Small Cap	1.3% Small Cap	-3.7% Europe	5.3% Small Cap	EM 13.1%
Local	Local	-0.8% Small Cap	-3.8% Small Cap	-5.4% EM	7.9% Europe	11.8% Australia	-8.7% Small Cap	18.2% Asia ex JP	-1.7% Europe	-2.8% Asia ex JP	-18.4% Small Cap	1.3% Small Cap	-2.8% Europe	5.3% Small Cap	EM 13.1%
	Local	-0.8% Small Cap	-3.8% Small Cap	-5.4% EM	7.9% Europe	11.8% Australia	-8.7% Small Cap	18.2% Asia ex JP	-1.7% Europe	-2.8% Asia ex JP	-18.4% Small Cap	1.3% Small Cap	-2.8% Europe	5.3% Small Cap	EM 13.1%

Source: FactSet, MSCI, Standard & Poor's, TOPIX, J.P. Morgan Asset Management. Annualised return (Ann.) and volatility (Vol.) covers the period 2012 to 2021. Volatility is based on local currency returns. Small Cap: S&P ASX Small Ordinaries; Asia ex JP: MSCI AC Asia ex Japan; EM: MSCI EM Index; Europe: MSCI Europe Index; Japan: TOPIX first section; Australia: ASX 200 Index; U.S.: S&P 500 Index. Hypothetical portfolio (for illustrative purposes only and should not be taken as a recommendation): 20% U.S.; 30% Australia; 15% EM; 15% Europe; 10% Japan; 10% small cap. All indices are total returns. Past performance is not a reliable indicator of current and future results.

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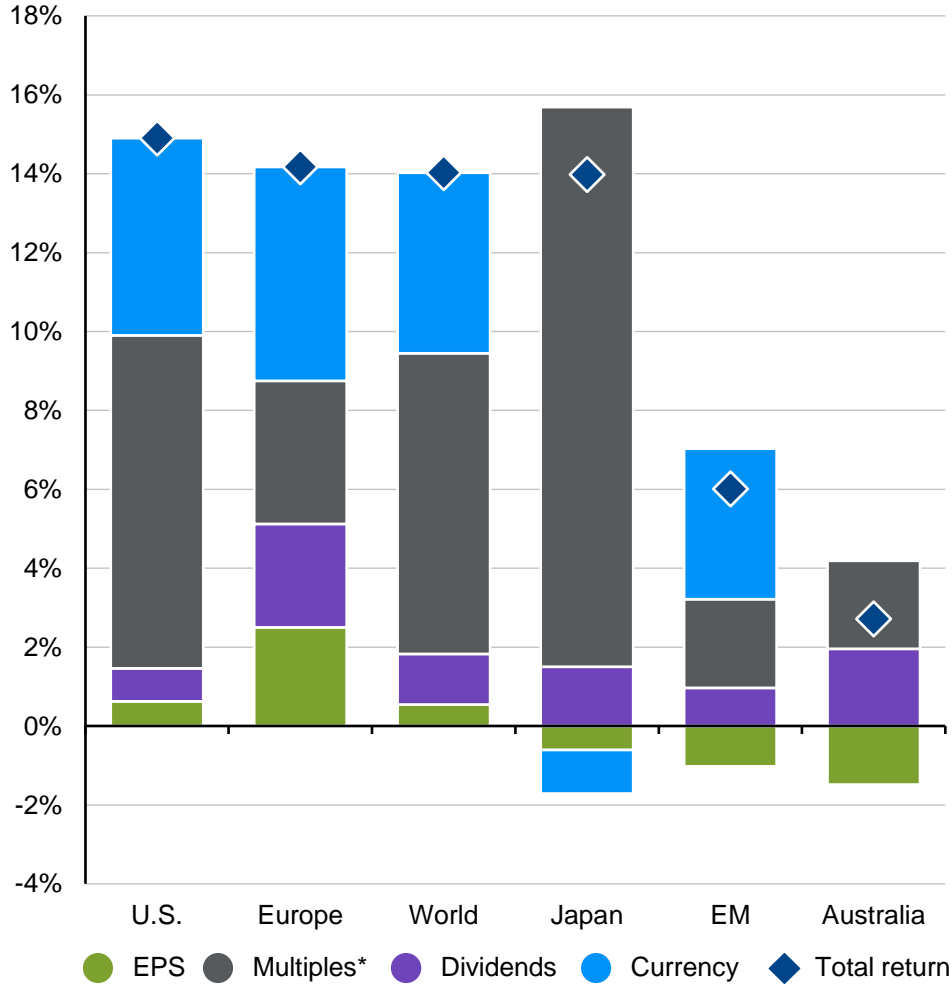


Global equities: Source of return and valuations

Equities

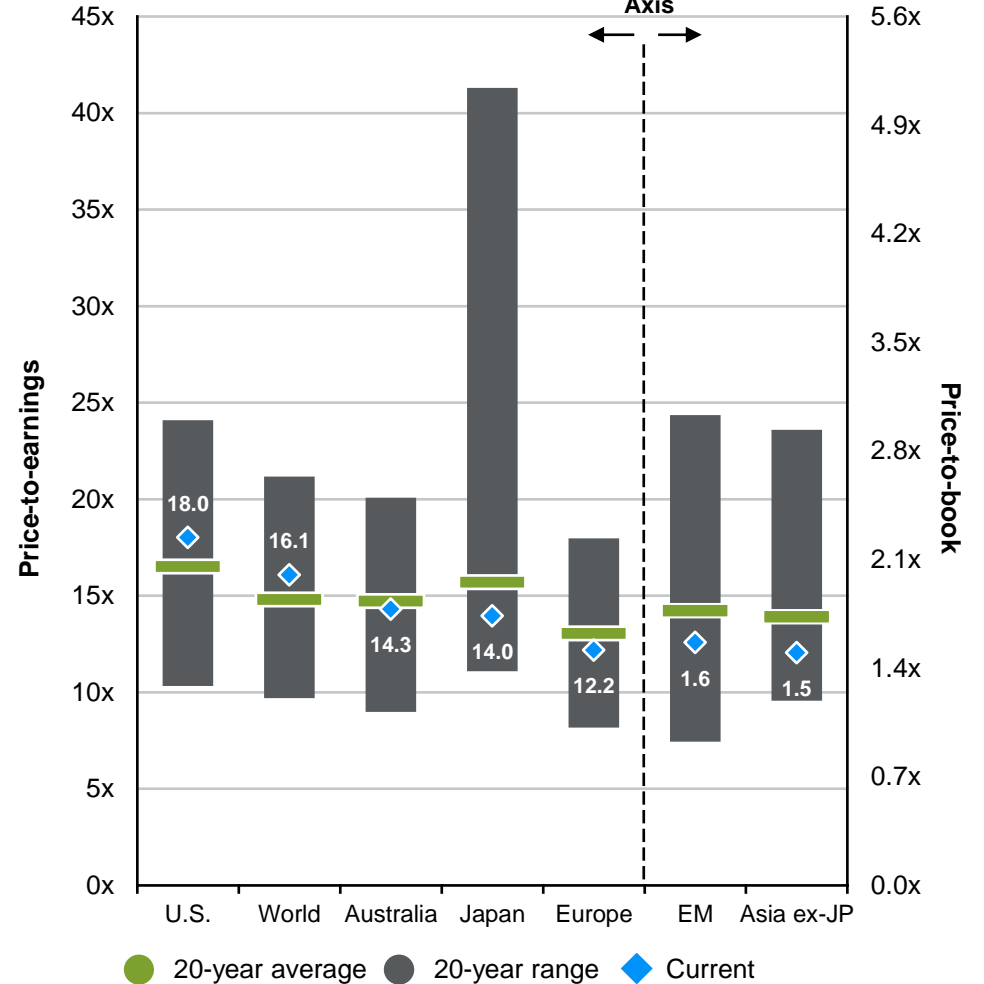
Source of return

YTD, AUD



Global valuations

Current and 20-year historical valuations*



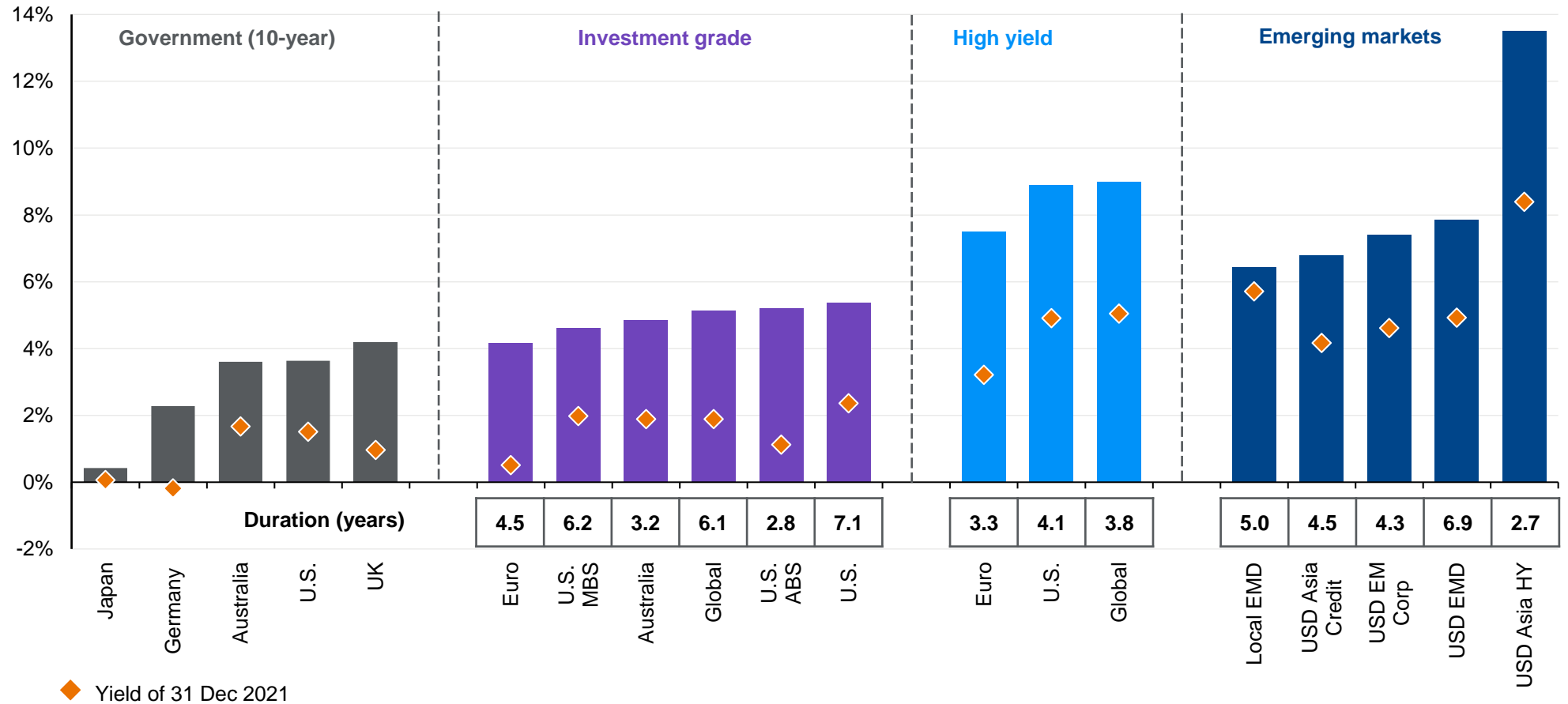
Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
 All return values are MSCI indices except the U.S. and Australia, which are the S&P 500 and ASX 200, respectively. *Multiple expansion is based on the forward P/E ratio and EPS growth outlook is based on NTMA earnings estimates. Chart is for illustrative purposes only. Past performance is not indicative of future results.
 Guide to the Markets – Australia. Data as of 31 May 2023.



Fixed income yields

Fixed income

Nominal yields



Source: Barclays, Bloomberg Finance L.P., FactSet, ICE BofA, J.P. Morgan Asset Management. Euro IG: Bloomberg Barclays Euro-Aggregate – Corporate; Global IG: Bloomberg Barclays Global Aggregate – Corporate; Aus IG: Bloomberg AusBond Credit (0+Y); U.S. IG: Bloomberg Barclays U.S. Aggregate Corporate. Euro HY: ICE BofA Euro Developed Markets Non-Financial High Yield Constrained Index; Global HY: ICE BofA Global High Yield; U.S. HY: ICE BofA U.S. High Yield Constrained Index; USD EM Corp: CEMBI Broad Diversified; Local EMD: GBI-EM Global Diversified; USD EMD EMBI Global; USD Asia Credit: JPM Asia Credit; Local Asia EMD: JPM JADE; USD Asia HY: JPM Asia HY. Past performance is not a reliable indicator of current and future results.
 Guide to the Markets – Australia. Data as of 31 May 2023.

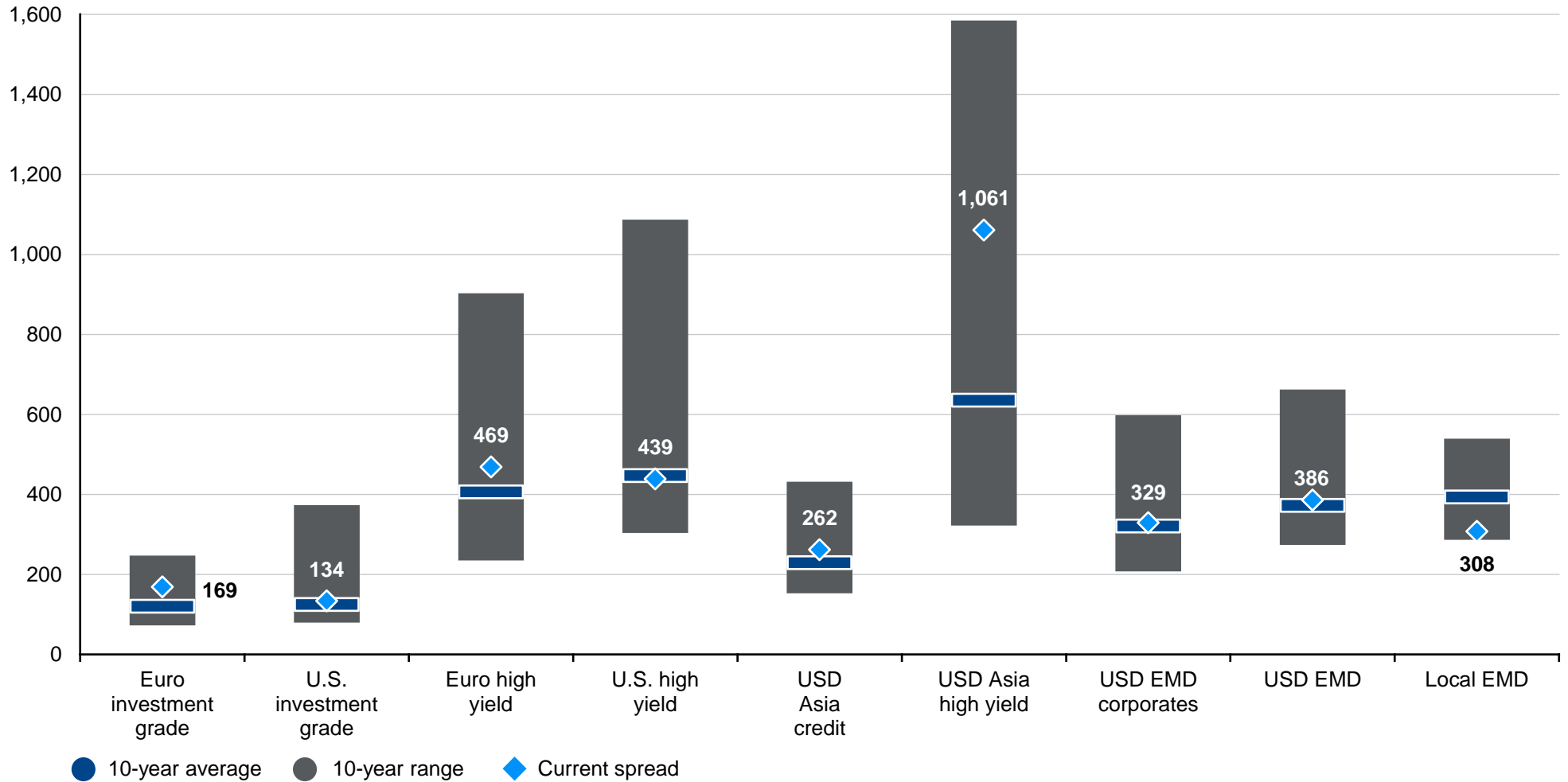


Fixed income valuations

Fixed income

Spreads across fixed income sub-sectors

Basis points



Source: Bloomberg L.P., FactSet, ICE BofA, J.P. Morgan Securities, J.P. Morgan Asset Management. Positive yield does not imply positive return. Past performance is not a reliable indicator of current and future results.
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Fixed income sector returns

Fixed income

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD	May '23	Ten-yr Ann
AUD	17.8%	25.3%	16.0%	14.2%	15.3%	5.1%	12.2%	14.6%	5.3%	12.5%	-5.5%	8.2%	1.4%	6.1%
Local	Global HY 18.8%	Global HY 7.1%	U.S. MBS 6.1%	U.S. MBS 1.5%	Global HY 15.9%	Aus IG 5.1%	U.S. MBS 1.0%	EM Debt 14.4%	Aus IG 5.3%	U.S. TIPS 6.0%	U.S. MBS -11.8%	Global HY 3.2%	U.S. MBS -0.7%	Global HY 3.3%
	17.1%	16.4%	15.4%	13.9%	10.7%	3.5%	12.1%	13.9%	4.1%	7.6%	-6.2%	7.6%	1.2%	5.6%
	EM Debt 18.5%	Global IG 0.3%	EM Debt 5.5%	EM Debt 1.2%	EM Debt 10.2%	Aus Gov 3.5%	U.S. Treas. 0.9%	Global HY 14.0%	Aus Gov 4.1%	Global HY 2.9%	U.S. Treas. -12.5%	Global IG 2.7%	EM Debt -0.9%	EM Debt 2.2%
	9.9%	14.4%	14.8%	13.4%	5.6%	2.0%	9.7%	11.7%	1.1%	5.0%	-6.7%	7.3%	0.9%	4.4%
	Aus IG 9.9%	U.S. MBS -1.4%	U.S. Treas. 5.1%	U.S. Treas. 0.8%	Portfolio 5.4%	Global HY 7.6%	U.S. TIPS -1.3%	Global IG 11.5%	U.S. TIPS 11.0%	U.S. MBS -1.0%	Aus IG -6.7%	U.S. Treas. 2.4%	U.S. Treas. -1.2%	U.S. MBS 1.1%
	9.8%	12.9%	13.3%	10.9%	5.2%	1.2%	7.4%	9.5%	0.8%	4.5%	-7.0%	7.2%	0.9%	4.4%
	Global IG 11.2%	U.S. Treas. -2.7%	U.S. TIPS 3.6%	U.S. TIPS -1.4%	U.S. TIPS 4.7%	EM Debt 9.3%	Global HY -2.4%	Portfolio 9.2%	Portfolio 6.1%	EM Debt -1.5%	Global HY -11.8%	U.S. MBS 2.3%	U.S. TIPS -1.2%	U.S. Treas. 1.1%
	8.7%	9.9%	12.8%	8.5%	4.8%	1.0%	7.2%	8.6%	0.5%	3.7%	-10.2%	7.1%	0.8%	4.4%
	Portfolio 9.3%	Portfolio 0.3%	Global IG 3.1%	Global IG -3.6%	Global IG 4.3%	Global IG 9.1%	Portfolio 0.7%	U.S. TIPS 8.4%	Global IG 10.4%	U.S. Treas. -2.3%	Aus Gov -10.2%	U.S. TIPS 2.2%	Global HY -0.6%	Global IG 1.1%
	5.6%	8.4%	11.7%	7.8%	3.8%	0.9%	7.1%	7.8%	-1.6%	3.1%	-10.4%	6.7%	0.2%	3.8%
	U.S. TIPS 7.0%	EM Debt -6.6%	Portfolio 6.0%	Global HY -2.1%	Aus IG 3.8%	Portfolio 5.1%	Global IG -3.6%	Aus Gov 7.8%	Global HY 6.3%	Global IG -2.9%	EM Debt -16.5%	EM Debt 1.8%	Global IG -1.9%	Portfolio 2.2%
	5.5%	6.1%	10.3%	7.7%	2.5%	-4.6%	6.0%	7.1%	-1.6%	2.3%	-10.7%	5.8%	0.1%	3.0%
	Aus Gov 5.5%	U.S. TIPS -8.6%	Aus Gov 10.3%	Portfolio 0.5%	Aus Gov 2.5%	U.S. TIPS 3.0%	EM Debt -4.6%	Aus IG 7.1%	U.S. Treas. 8.0%	Portfolio -1.1%	Global IG -16.7%	Portfolio 2.8%	Portfolio -1.0%	Aus IG 3.0%
	1.3%	4.3%	9.2%	3.0%	2.2%	-5.1%	5.1%	7.0%	-3.5%	-1.6%	-11.7%	3.4%	-0.5%	2.4%
	U.S. MBS 2.6%	Aus IG 4.3%	Global HY 2.5%	Aus IG 3.0%	U.S. MBS 1.7%	U.S. MBS 2.5%	Aus Gov 5.1%	U.S. Treas. 6.9%	EM Debt 5.9%	Aus IG -1.6%	Portfolio -11.1%	Aus Gov 3.4%	Aus IG -0.5%	Aus Gov 2.4%
	0.7%	0.3%	8.1%	2.3%	1.5%	-5.3%	3.9%	6.5%	-5.4%	-3.1%	-76.2%	3.4%	-1.4%	-8.0%
	U.S. Treas. 2.0%	Aus Gov 0.3%	Aus IG 8.1%	Aus Gov 2.3%	U.S. Treas. 1.0%	U.S. Treas. 2.3%	Aus IG 3.9%	U.S. MBS 6.4%	U.S. MBS 3.9%	Aus Gov -3.1%	U.S. TIPS -11.8%	Aus IG 3.4%	Aus Gov -1.4%	U.S. TIPS 2.3%

Source: Barclays, Bloomberg Finance L.P., FactSet, ICE BofA, J.P. Morgan Asset Management. Aus Gov: AusBond Treasury (0+Y); U.S. Treas.: Barclays U.S. Aggregate Government – Treasury; Global IG: Barclays Global Aggregate – Corporate – Investment Grade; Aus IG: Bloomberg AusBond Credit (0+Y); Global HY: BoA/ML Global High Yield; EM Debt: J.P. Morgan EMBI Global; U.S. TIPS: Bloomberg Barclays U.S. Treasury Inflation-Protected Securities (TIPS); U.S. MBS: Bloomberg Barclays U.S. Aggregate Securitised – MBS. Hypothetical portfolio (for illustrative purposes only and should not be taken as a recommendation): 25% Aus Gov, 15% Aus IG, 10% Global IG, 15% Global HY, 10% EM Debt, 15% U.S. Treas., 5% U.S. TIPS, 5% U.S. MBS. Past performance is not a reliable indicator of current and future results. Guide to the Markets – Australia. Data as of 31 May 2023.



Energy prices

Other asset classes

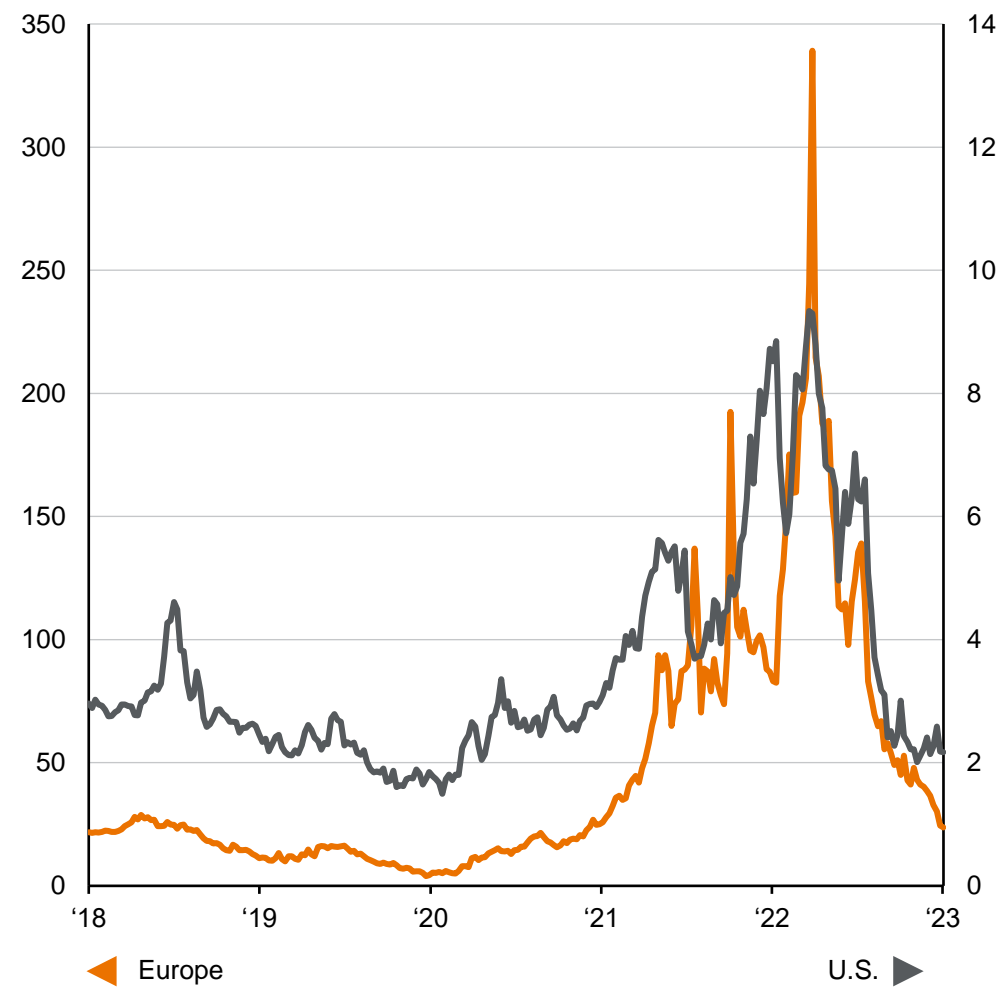
Price of oil

Brent crude, USD/barrel



Natural gas prices

EUR per MWh / USD per Mmbtu



Source: FactSet, ICE, Nymex, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Guide to the Markets – Australia. Data as of 31 May 2023.

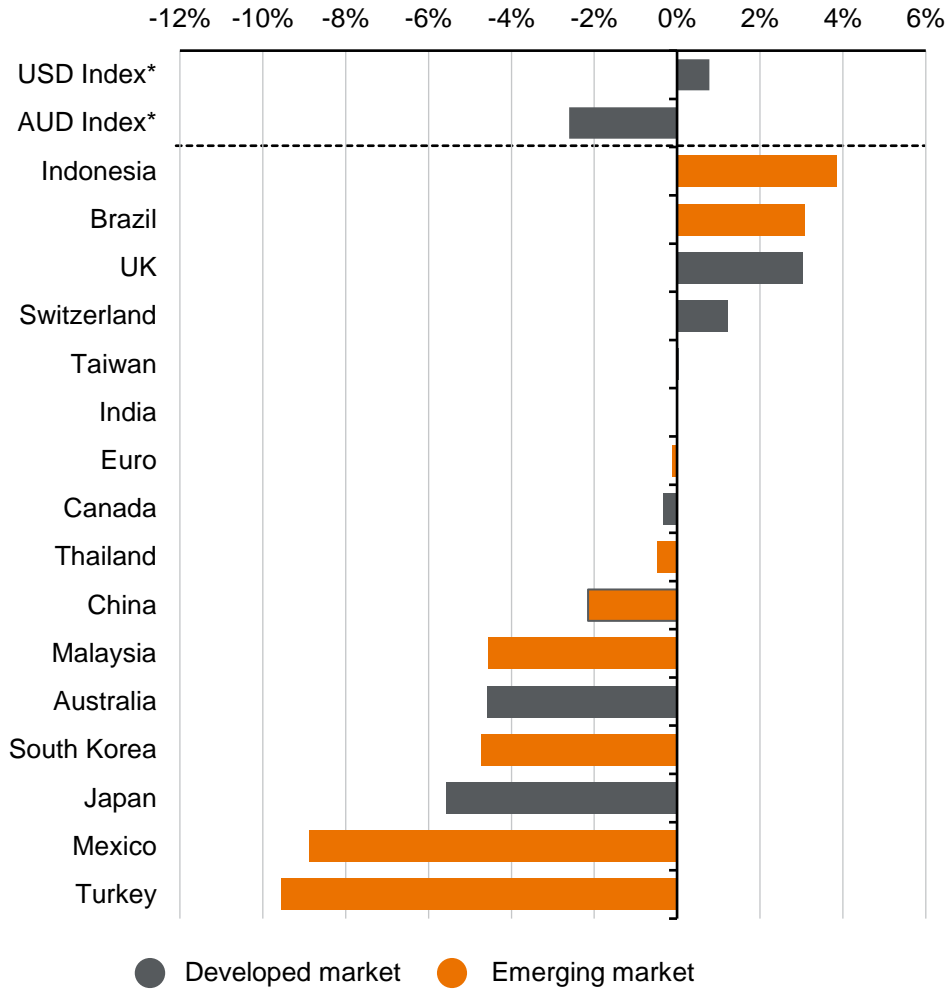


Global currencies

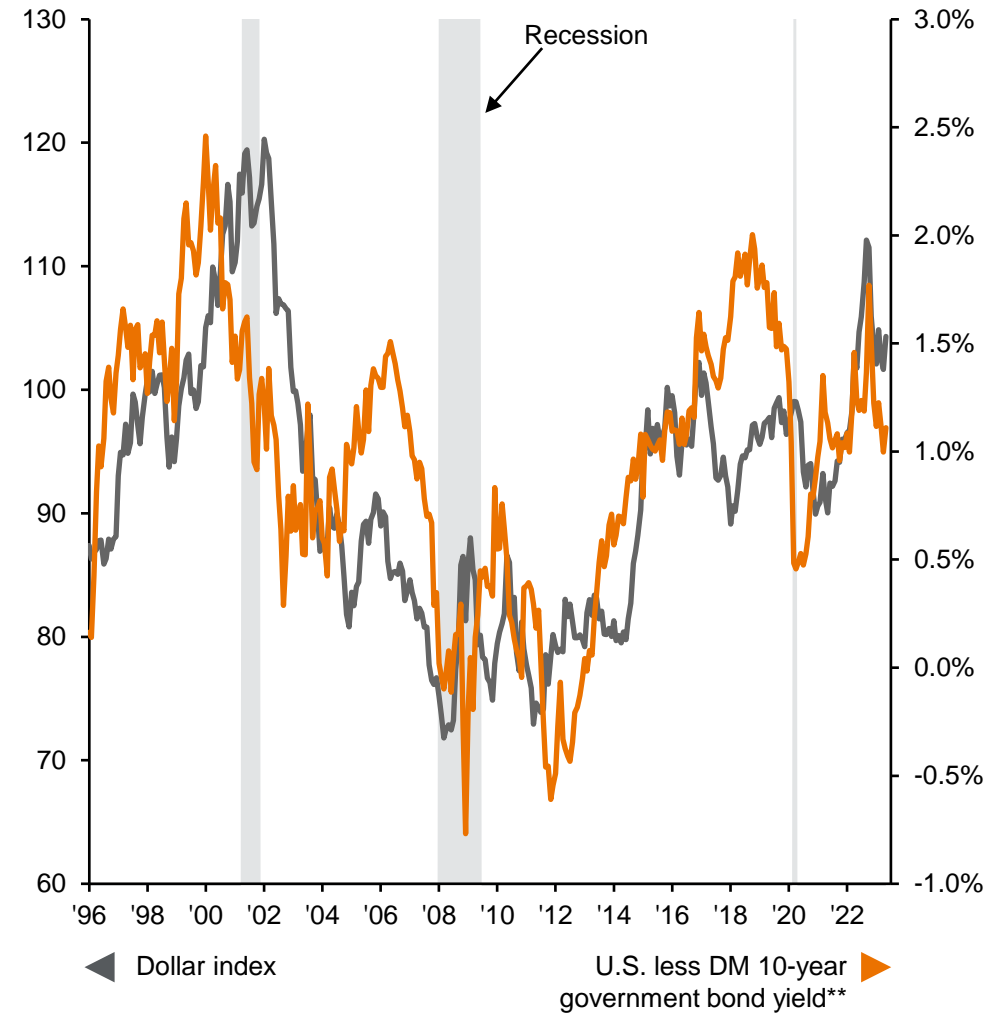
Other asset classes

Currency movements

YTD, vs USD



U.S. dollar index and interest rates differential



Source: FactSet, WM/Reuters, J.P. Morgan Asset Management; (Left) Reserve Bank of Australia; (Right) OECD.

*USD and AUD Index shows performance vs a basket of trading partners. **DM is developed markets and the yield is a GDP-weighted average of the 10-year government bond yields of Australia, Canada, France, Germany, Italy, Japan, Switzerland and the UK. Past performance is not a reliable indicator of current and future results.

Guide to the Markets – Australia. Data as of 31 May 2023.



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Material ID: 0903c02a82674e7f