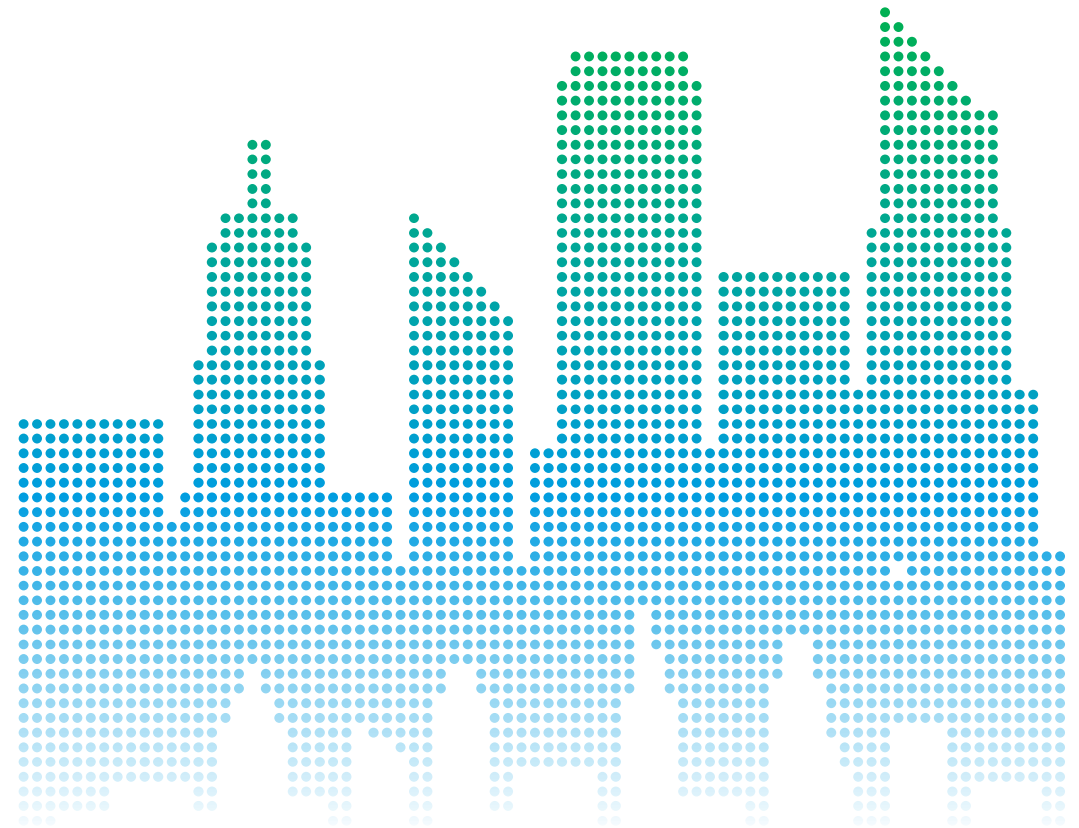


Market Review Monthly

May 2024



Key takeaways

- **Reserve Bank of Australia (RBA) kept interest rates unchanged** and at elevated levels due to continued poor inflation data.
- **US Federal Reserve (Fed) kept interest rates unchanged** and core US inflation eases.
- Looking ahead, we expect **US inflation** to continue to ease, driven by services inflation, and **international economic growth to remain resilient**, supported by China and other emerging economies.
- **Domestically, we expect growth to remain weak** driven by high interest rates and cost-of-living pressures.
- We favour **emerging markets over developed markets** due to their more appealing valuations and promising economic prospects.
- We also favour **Australian government bonds** with the view that cash rates have likely peaked this cycle.

Mercer view: Australian Federal Budget 2024-25

Australian Federal Budget
2024-25: Economic
overview



[Economic Overview](#)

Australian Federal Budget
2024-25: Investments



[Investments](#)

Australian Federal Budget
2024-25: Business risk and
resilience



[Business Risk](#)

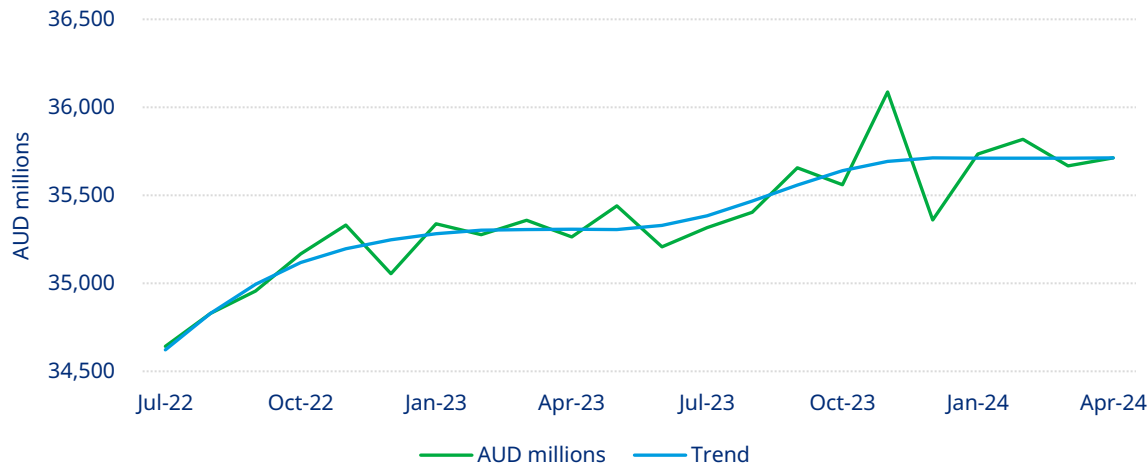


Economic review

Australia: Signs of consumer caution

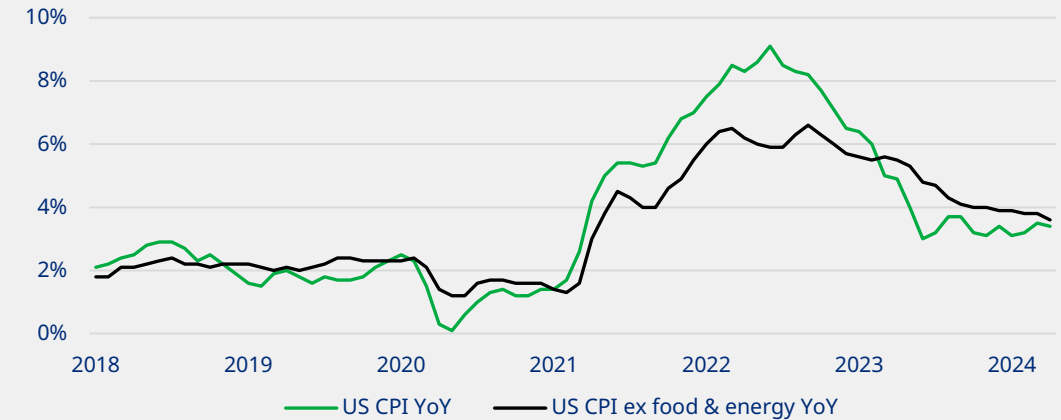
- Retail sales grew at a weak +0.1% month-on-month (MoM) pace in April, following a -0.4% decline in March.
- According to Westpac's consumer survey, of those expecting to receive a tax cut from the federal budget, 30% will save it all while 50% will save at least half.
- April inflation has remained stubborn with the CPI Monthly Indicator rising slightly to 3.6% Year-on-Year (YoY).
- The RBA kept interest rates unchanged at 4.35% p.a., "not ruling anything in or out" while remaining "vigilant to upside risks" for inflation.

Australian retail sales
AUD millions per month, seasonally adjusted



Source: Bloomberg, Mercer

US CPI (YoY)



Source: Bloomberg, Mercer

International: US core inflation eases

- US Consumer Price Index (CPI) (excluding food and energy) declined to 3.6% YoY in April from 3.8% in March.
- The Fed kept interest rates unchanged in May, with its chair noting that the next change is unlikely to be a hike.
- US growth eased over the past month, with softening in retail sales and some business survey indicators. Meanwhile growth conditions appear to be improving in the Eurozone.
- China's property sector has remained a drag on consumer sentiment and economic activity. In response, The Peoples' Bank of China (PBOC) announced measures to support the property sector including a CNY300 billion lending program for unsold apartments.

Market review

Share markets rebounded

- **International shares** rebounded in May as concerns around the outlook for inflation eased. Information Technology was the strongest performer among the sectors, further benefiting from stronger earnings results.
- **Australian shares** also rose as international investor sentiment recovered. Although underperformed international markets due to a smaller exposure to the Information Technology sector.

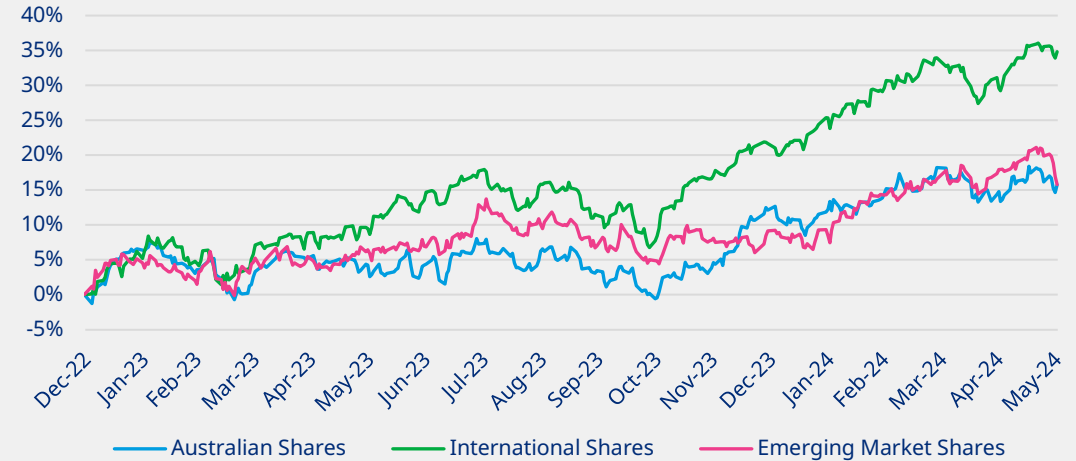
Fixed income markets recovered

- **International government bonds** produced a positive return, aided by a decline in US yields that followed an easing in inflationary concerns.
- **International credit** performed better than government bonds, as credit spreads narrowed on the rising risk appetite.
- **Australian government bonds** also had positive returns, with yields unchanged for the month as inflation failed to show signs of slowing.

Commodity markets experienced mixed performance

- **Gold prices** rose as markets became more optimistic that US interest rates would decline this year.
- **Oil prices** ended the month lower, weighed down by weaker-than-expected US and Chinese economic data.

Cumulative equity market returns



Source: Bloomberg, Mercer

Australian and US 10 year government bond yields



Source: Refinitiv Datastream, Mercer

Market Insights

Australia: Growth expected to remain weak

- We expect growth to remain weak with higher interest rates and cost-of-living pressures likely to keep consumption suppressed.
- We expect core measures of inflation to ease, albeit at a slower pace than other developed economies, with cost pressures from the residential rental markets continuing in the near term.
- We believe that risks of a slowdown in activity are more likely than anticipated by markets, with markets expecting the first rate cut in October 2025.
- We also favour **Australian government bonds** with cash rates likely to have peaked this cycle.

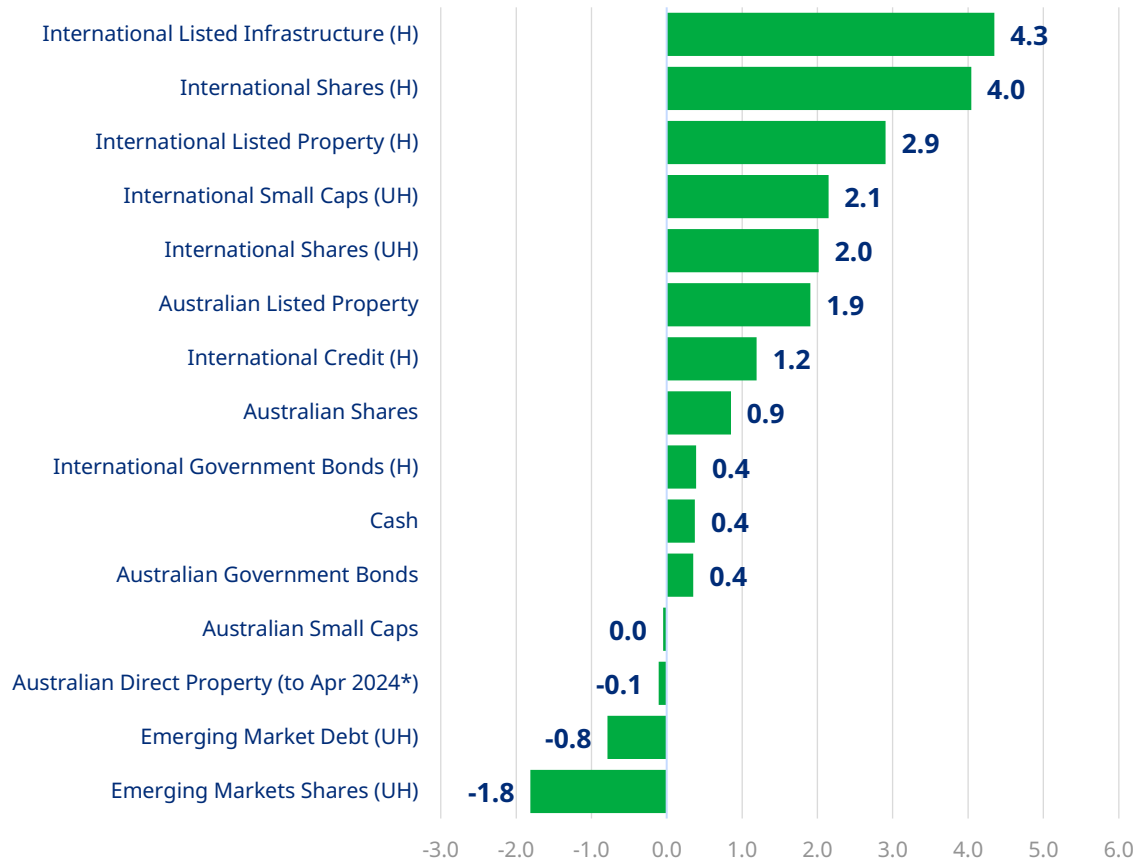


International: Resilient but regional divergence

- We expect international economic growth to remain resilient but regionally divergent.
- We expect growth to gradually ease in the US, with strong labour markets posing upside risks to growth.
- China is anticipated to strengthen, driven by policy support announced to date, and other emerging economies are expected to benefit from their central banks easing monetary policy.
- We favour **emerging markets over developed markets** due to their more promising economic prospects and attractive valuations.

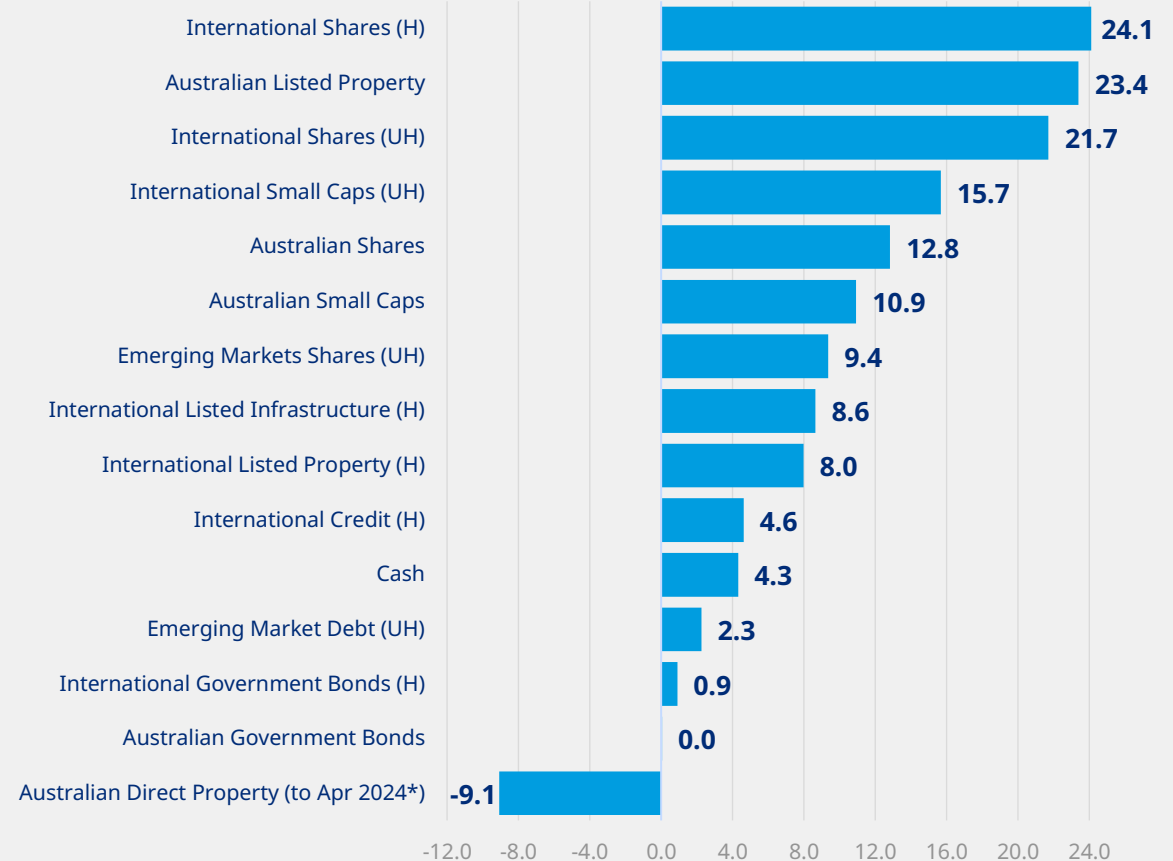
Performance

Market performance May 2024



Data source: Refinitiv Datastream. Data provided 'as is'. Details on chart constituents can be found on back page

Market performance 12 Months to May 2024



Data source: Refinitiv Datastream. Data provided 'as is'. Details on chart constituents can be found on back page

Asset class

▲ Australian shares

- Australian Shares rose in May aided by easing concerns around inflation and a recovery in investor sentiment internationally.
- Financials performed well, supported by better-than-expected quarterly results from Commonwealth Bank of Australia (CBA), whilst Communication Services declined after Telstra announced a change to price increases.

▲ International shares

- International Shares rebounded with US economic data helping to ease inflation concerns and their implications for interest rates.
- Information Technology was the best performing sector, boosted by better-than-expected earnings from Nvidia and Apple, whilst Energy was the worst performing sector driven by the decline in oil prices.
- Emerging markets modestly underperformed developed markets in May, with Chinese equity markets weakening due to softer economic data and negative news around its property sector.



▲ Fixed interest

- International Government Bonds produced a positive return, aided by a decline in US yields due to inflation concerns easing.
- Australian government bonds also produced a positive return, with yields ending the month broadly unchanged as concerns remained that interest rates would stay higher for longer.

▲ ▼ Real assets

- Easing inflation concerns and reduction in yields provided a boost for listed real assets.
- Australian Direct Property was down -0.1% in April, following negative revaluations in the Office sector.

▲ Currency

- Australian dollar appreciated against major currencies in May. Gains were notable against the US dollar, with higher inflation concerns in Australia and their implications for interest rates modestly easing in May.

Chart Constituents

Asset class	Benchmark	Data type
Australian Shares	S&P/ASX 300	Total Return
Australian Small Caps	S&P/ASX Small Ordinaries	Total Return
International Shares (UH)	MSCI World ex Australia	Net Index
International Shares (H)	MSCI World ex Australia 100% Hedged	Net Index
International Small Caps (UH)	MSCI World Small Cap	Net Return
Emerging Markets Shares (UH)	MSCI Emerging Markets	Net Index
Australian Direct Property (one month lag)	MSCI/Mercer Australia Core Wholesale Monthly PFI	NAV Post Fee
Australian Listed Property	S&P/ASX 300 A-REIT	Total Return
International Listed Property (H)	FTSE EPRA/NAREIT Developed Hedged	Net Return
International Listed Infrastructure (H)	FTSE Global Core Infrastructure 50/50 Hedged	Net Return
International Credit (H)	Bloomberg Global Credit	Hedged Return
Emerging Market Debt (UH)	JP Morgan GBI EM Global Diversified Composite	Total Return
Australian Government Bonds	Bloomberg AusBond Treasury 0+ year	Total Return
International Government Bonds (H)	Bloomberg Global Treasury Hedged	Hedged Return
Cash	Bloomberg AusBond Bank Bill	Total Return

Notes

- *Currency: AUD.*
- *UH: Unhedged.*
- *H: Hedged.*
- *Where a lag exists, the performance start and end dates shift accordingly.*
- *Total Return: Total Return Index with Gross Dividends.*
- *Net Index: Total Return (Net Dividends Reinvested).*

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