

A look back at markets in May 2024.

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The path to lower rates

- **ECB cuts interest rates as inflation cools down**
- **Inflation cools in the US**
- **Silence from the Bank of England (until after the General Election)**

The Balanced portfolio benchmark returned 0.60% in May as equity propelled higher and Bonds made modest gains in anticipation of interest rate cuts.

Inflation and Interest rates

Bank of England

The Bank continues to hold interest rates at 5.25% and has now ceased to hold press conferences or to release statements to the press until after the General Election in the UK, set for 4th July.

This is to avoid any form of political influence by the central bank.

US Federal Reserve

In June, US Inflation unexpectedly slowed to 3.3% in May 2024, the lowest in three months, compared to 3.4% in April. The news bolstered markets and gave participants further hope around the likelihood of interest rate cuts although the US Federal Reserve remains coy.

Officials voted unanimously to keep the benchmark federal funds rate in a range of 5.25% to 5.5% — a two-decade high first reached in July. Policymakers signalled they now expect to cut rates only once this year, compared to the three reductions forecast in March, according to the median projection. They now see four interest rate cuts in 2025, more than the three previously outlined.




“The most recent inflation readings have been more favourable than earlier in the year, however, and there has been modest further progress toward our inflation objective,” Chair Jerome Powell said following the conclusion of a two-day meeting in Washington. *“We’ll need to see more good data to bolster our confidence that inflation is moving sustainably toward 2%.”*

European Central Bank (ECB)

The European Central Bank cut interest rates for the first time in five years on Thursday 6th June but kept investors in the dark about its next move given increasing uncertainty over inflation despite a sharp slowdown in the past year.

The ECB lowered its record-high deposit rate by 25 basis points to 3.75%, and its main refinancing operations rate was lowered to 4.25%, joining the central banks of Canada, Sweden, and Switzerland in starting to unwind some of the steepest rate hikes used to tame a post-pandemic inflation surge. *“The Governing Council will continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate level and duration of restriction,”* the ECB said in a statement.

Economic indicators

Country/ region	Manufacturing PMI	Services PMI
 US	51.3	54.8
 UK	51.2	52.9
 Eurozone	47.3	53.3

Note: Less than 50 PMI = contraction and more than 50 PMI = growth.

Manufacturing

The US Manufacturing PMI was revised higher to 51.3 in May 2024, compared to 50 in April. The reading signalled a modest improvement in the health of the manufacturing sector, the fourth in the past five months. New orders returned to growth, supporting a faster expansion in production. Firms reported signs of improving demand in Europe, alongside growth in new orders from Asia, Canada, and Mexico.

The UK Manufacturing PMI rose to 51.2 in May from 49.1 in April, marking its highest reading since July 2022. Manufacturing production expanded at the fastest pace since April 2022, driven by increased new work, stronger market conditions, and efforts to complete existing contracts.

The Eurozone Manufacturing PMI rose to 47.3 in May from 45.7 in April. This marks the highest reading since March 2023, indicating the slowest decline in the Eurozone manufacturing sector in over a year.

Services

The US Services PMI was confirmed at 54.8 in May 2024, pointing to the strongest growth in the services sector in a year. The increase in business activity reflected a renewed expansion of new orders, which rose modestly following a first reduction in six months during April, prompted by marketing activity and improvements in economic conditions.

The UK Services PMI fell to 52.9 in May of 2024 from the one-year high of 55 in the earlier month, firmly below market expectations of 54.7. Despite the sharp slowdown, the result reflected the seventh consecutive expansion in the British services sector. Firms cited greater client confidence, new marketing campaigns, and new client wins as the base of new order growth.

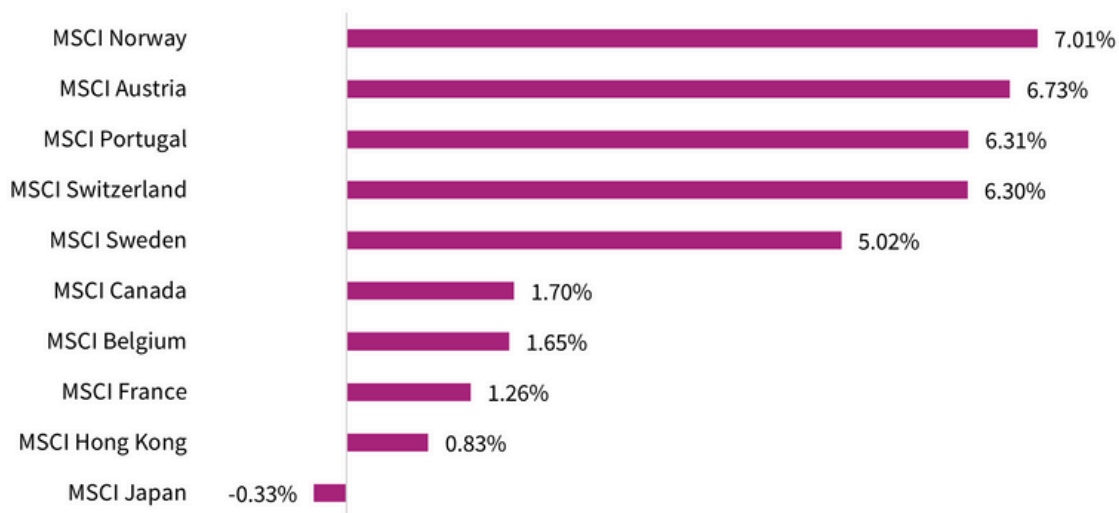
The Eurozone Services PMI was at 53.2 in May 2024, pointing to another solid increase in activity across the services sector. There was a stronger increase in new business inflows, as demand for eurozone services rose at a solid pace that was the fastest in a year. Also, job creation was the fastest since June 2023 and service sector companies were able to manage their workloads efficiently, as indicated by broadly unchanged backlogs of work.

Market performance

In developed markets, Norway this month with a gain of 8.53% owing to strong performance by the likes of Kongsberg Gruppen, the Norwegian international technology group that gained over 12% in May.

The only negative for the month was Japan, which produced a -0.33% return. The sector peaked towards the end of March and has given up much of its Year to Date returns thanks to currency weakness starting to weigh on consumer sentiment at the prospect of higher inflation

Top and Bottom 5 Developed Markets



In Emerging Markets, Brazil produced a spark for Latin America, gaining almost 10%, whilst Chile followed suit with a 6.73% gain.

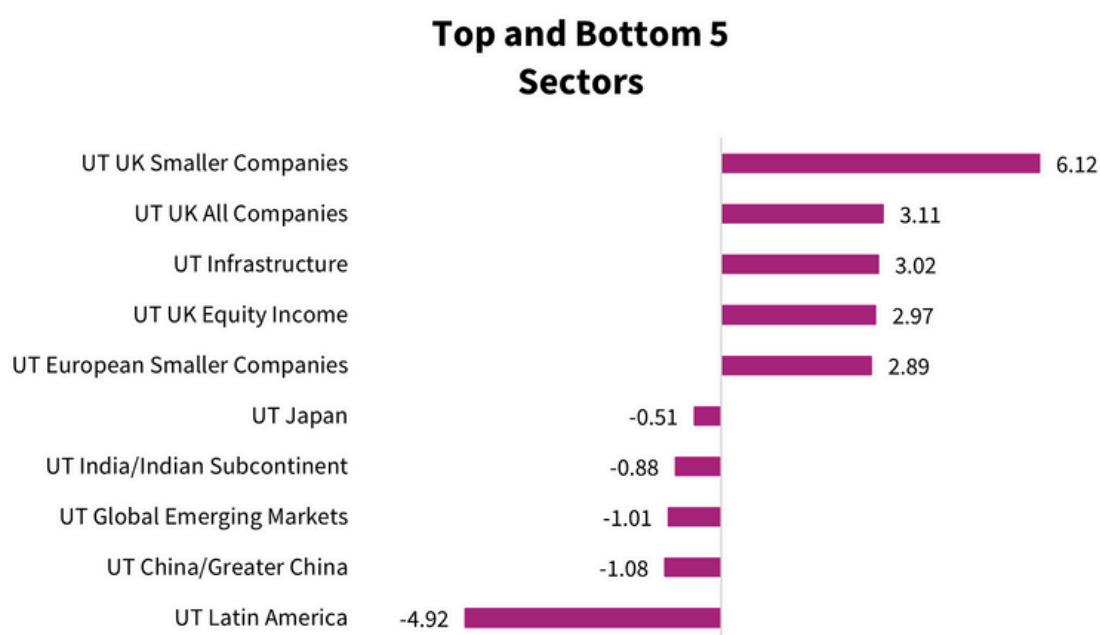
Turkey and the UAE propped up the table with a -7.95% and -9.08% respective return. As Turkey contends with 50% interest rates, the central bank has been taking a series of measures to rebuild market confidence leading credit rating agency S&P to upgrade Turkey's rating to "B+" from "B", citing improvements in monetary, fiscal and income policy coordination.

Top and Bottom 5 Emerging Markets



Sector performance

UK Smaller Companies are back in favour, gaining over 6% in May as markets anticipate Bank of England rate cuts, a friend to smaller companies who leverage their balance sheets and are often 'priced for the future'. Despite the strong performance in Brazil as a market, the Latin American sector as a whole fell by 4.92%, highlighting the differences in fund manager positioning, with movement exasperated by the fact that there are only 3 funds in the sector.



Source: FE FundInfo, 04/06/24

Summary

Market moving news is starting to come from central banks, giving hope to further interest rate cuts and optimism around economic growth.

The European Central Bank are the first major movers of the three widely reported world markets covered in this update. They opted to cut interest rates by 0.25% which economists see as the start of a sustained reduction as inflation moves lower. It remains to be seen as to whether a higher version of the 'new normal' for interest rates is established in this decade, as opposed to the last, which saw near zero rates that younger consumers presumed to be the standard.

Importantly, the US saw the resumption of a decline in inflation, which bolstered markets and saw rallies from other areas of the market like small caps.

The things to watch in the coming months, aside from the general election in the UK which many see as a forgone conclusion, is what the European, British and US central banks do next. Should inflation fall further, interest cuts are likely to support market growth further and, most importantly for a balanced investor, see a Fixed Income rally. As always, the question is when.

Sources:

Economic indicators information from PMI by S&P Global, IHS Markit and Trading Economics

The 'Balanced portfolio benchmark' is the UT Mixed Investment 20-60% Shares Sector.

Market and Sector performance data sourced from FE FundInfo, 04/06/2024

Fed Chair Powell says inflation has been higher than thought, expects rates to hold steady, CNBC, 14/05/2024

Fed Officials Dial Back Rate Forecasts, Signal Just One '24 Cut, by Yahoo/Bloomberg, 12/06/24

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