NATIXIS INVESTMENT MANAGERS

Marketing Communication

MARKET REVIEW

Global Market Strategy, NIM Solutions

May 2024

Macroeconomic developments

The US economy showed some signs of moderation in Q1 2024, with GDP growth slowing to a 1.3% annualized rate – revised by -0.3 percentage points from its 1st estimate – from 3.4% in Q4 2023. The quarter-on-quarter slowdown was primarily driven by a decline in inventories and a widening trade deficit, although robust consumer spending on services helped offset declines in goods purchases. The downward revision shown in the 2nd estimate is largely explained by a 0.5 percentage points decline on household consumption, itself driven by durable goods which fell the most -4.1% (vs -1.2% in the 1st estimate). Moreover, inflationary worries continued in May, especially after several months of relatively no progress in the disinflationary trend. April's core PCE index, Fed's preferred measure of inflation, came in at 2.8%, down by just 0.2 percentage points since January. Consequently, markets pushed out rate cut expectations to only 1 or2 cuts in 2024. For its part, the FOMC maintained the federal funds rate at 5.25-5.5%, signalling a "higher-for-longer" stance, as it continued to play a "wait-and-see" game with respect to interest rate cuts but also hinted that renewed rate hikes were unlikely.

The Eurozone's GDP grew by 0.3% quarter-over-quarter in Q1, following the upwardly revised 0.1% advance in Q4 23. PMI data indicated resilience in services and stabilization in manufacturing. Energy and core services prices have pushed up the year-on-year headline inflation rate from 2.4% to 2.6% in May, while the core increased from 2.7% to 2.9%. Moreover, while the much-awaited Eurozone negotiated wage growth came in high in Q1, one-off payments in Germany played a large role, and as such did not refrain ECB members from hinting a first rate cut in June. Having said that, the stickiness of core services inflation, even if it is partly due to some unfavourable base effects and some one-off factors – again in Germany, seems likely to lead the central bank to also maintain its "wait-and-see" stance after June's cut.

Economic data in Japan was mixed, with PMIs showing ongoing expansion despite declines in output and new orders. The Tokyo Core CPI rate slowed again in May, coming it at 1.7% year-on-year, its lowest level since September 2022. Moreover, the high number of inbound tourists is likely to gradually support consumption in the coming months. For their part, the BOJ and MOF remained caught between a rock and a hard place with rate hikes looking necessary to support the currency, but also risking undermining the return of reflation.

Chinese data released in May surprised generally to the upside, with consensus 2024 GDP estimates tracking close to 5%. Noteworthy is however that just after two months above the 50-threshold, the NBS manufacturing PMI fell again to contractionary territory. Moreover, Chinese government officials pledged more proactive fiscal stimulus, including USD 138 billion in extra funding and easing mortgage rules amid ongoing issues in the property sector. For its part, the PBoC delivered its first key lending rate cut since mid-2023.

Market reaction

Global equities and bonds both delivered positive returns in May, buoyed by an overall lift in investor optimism. Developed markets outperformed emerging markets, with both US and European stocks posting significant gains. Global bonds also saw positive performance, although diverging interest rate expectations between the US and Europe introduced some volatility in bond markets.

The MSCI World Index was up 4.5%, with US small caps regained momentum advancing 5.0%. US equities rebounded with a 5.0% gain in May, supported by better-than-expected Q1 earnings across various sectors, with Growth stocks rebounded 6.9%, outperforming Value ones by 3.8 percentage points. On a sectoral level, information technology (+10.8%) and utilities (+7.3%) led in the US, while real estate (+6.6%) and utilities (+6.1%) in the Eurozone. On the other hand, consumer discretionary and energy were the worst performing sectors in both regions. Moreover, despite yen's depreciation to a 34-year low against the dollar, the TOPIX returned 1.2% in May supported by a pick-up in share buyback announcements.

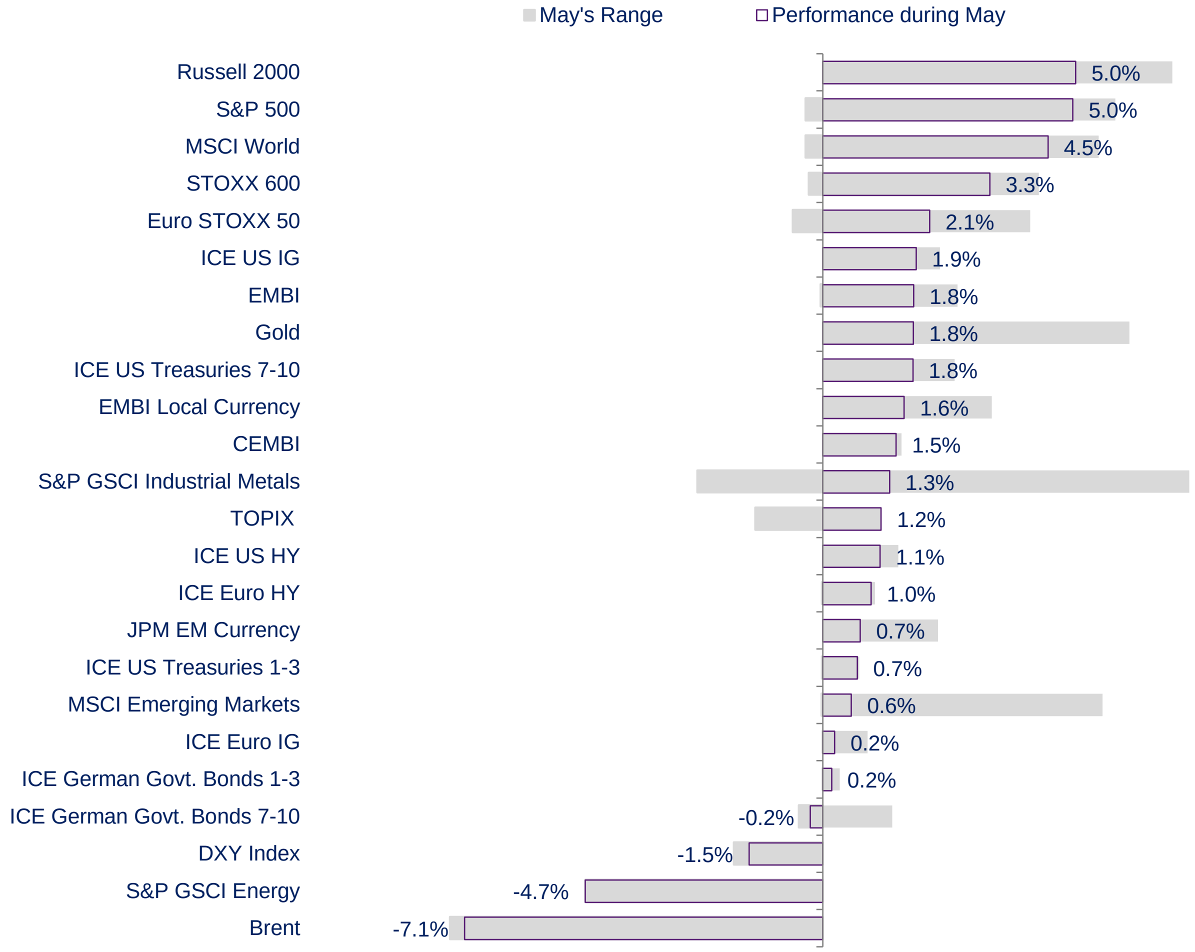
Global government bonds returned 1.0% as markets anticipated incoming rate cuts amid the overall growth slowdown. In the US, Treasury yields fell by 16 and 18bp for 2-year and 10-year notes, respectively, on the back of positive inflation data and signs of weaker growth via a softer job report. European rates remained relatively stable, with the 10-year yield on the Bund increasing by 8bp to 2.66%, and the 10-year yield on BTPs increasing by 6bp to 3.98%. Credit markets also performed well with spreads tightening across markets. On a total return basis, US IG and HY outperformed their European counterparts.

Even though OPEC promised to preserve production cuts into 2025, brent oil prices retreated in May by 7.1%. Precious metals like gold gained 1.8%, while silver rose by 15.7%. Industrial metals were positive on the month, with aluminium and nickel achieving the biggest price gains. Lastly, the US dollar weakened against all G10 currencies, with the DXY index falling by 1.5% to 104.6, and weakening by 2.0% vs GBP, 1.8% vs CHF ad 1.7% vs Euro.

Sources: Bloomberg & NIM Solutions. Data as of May 31, 2024.

Cross Asset Total Performance in Local Currency

Past performance information presented is not indicative of future performance.



Sector Total Performance in Local Currency

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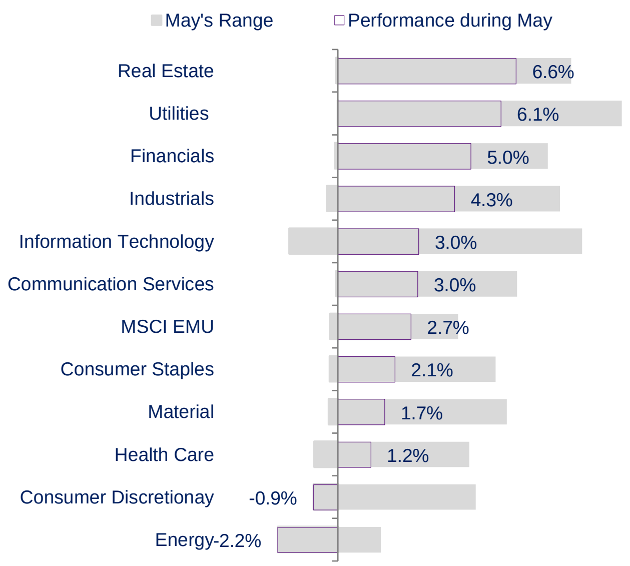
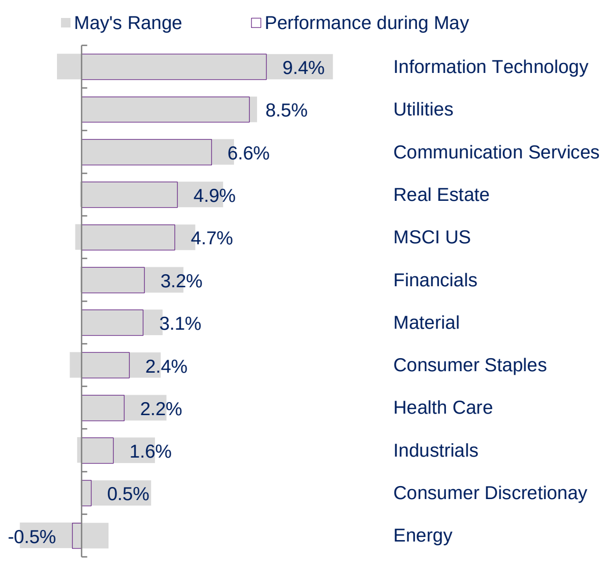
MSCI EMU



MSCI US



Sources: Bloomberg & NIM Solutions. Data as of May 31, 2024.

Style Total Performance in Local Currency

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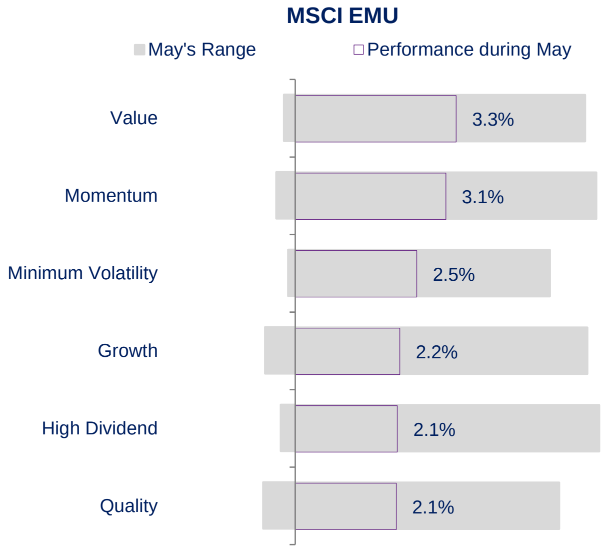
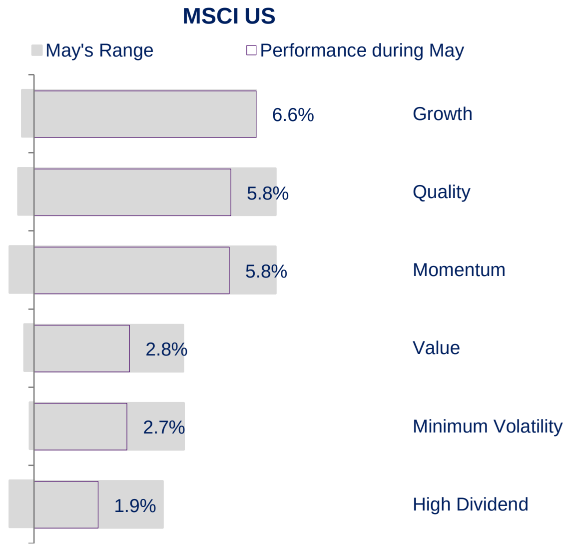
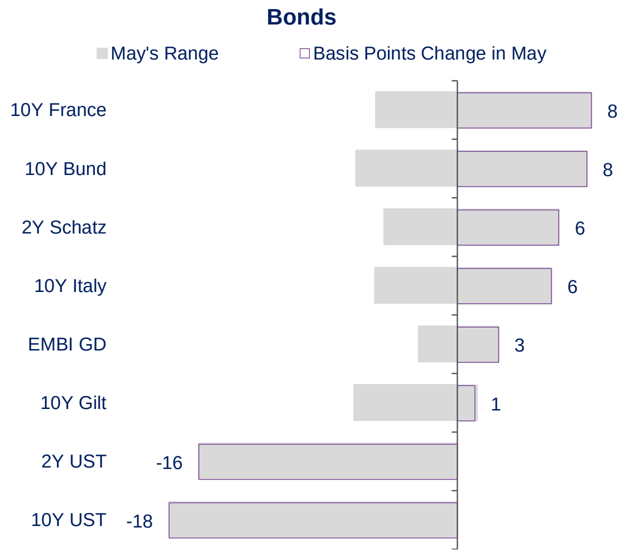
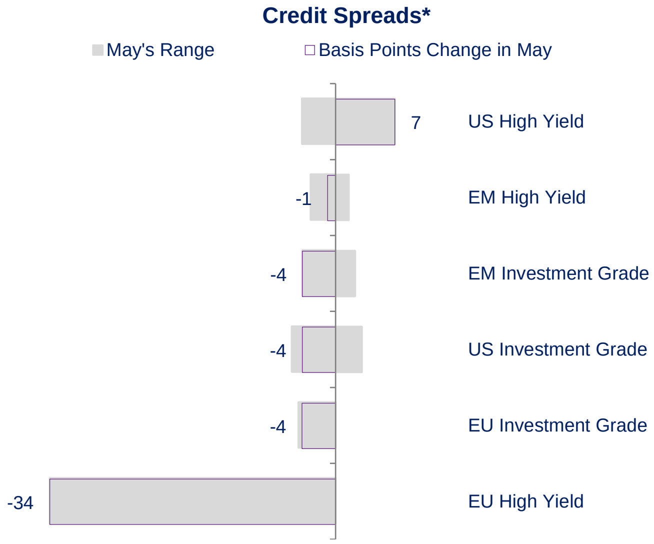




Net Yield Change

Past performance information presented is not indicative of future performance.





**Credit spreads are OAS and correspond to Bloomberg indices*

Source: Bloomberg & NIM Solutions. Data as of May 31, 2024.

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