Monthly market update
June 2024

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5 drivers of markets in May 2024

1. Central banks dominate markets again
2. Company earnings continue to support markets
3. "NVIDIA day"
4. Commodity price rises stoke inflation worries
5. Investor confidence lifts the Dow Jones to 40,000

A Magnificent May

After April's downturn, markets regained a positive footing in May 2024. Having digested stickier inflation in the US, as well as a divergence between the eurozone and US on the timing of interest rate cuts, the market turned its attention to Q1 2024 company earnings. Performance of technology stocks was once again to the fore in May and we also saw ever greater certainty on the timing of interest rate cuts in the eurozone.

The world's equity markets reached another set of records during May, as a 4 week rally brought a number of market indices to record highs.

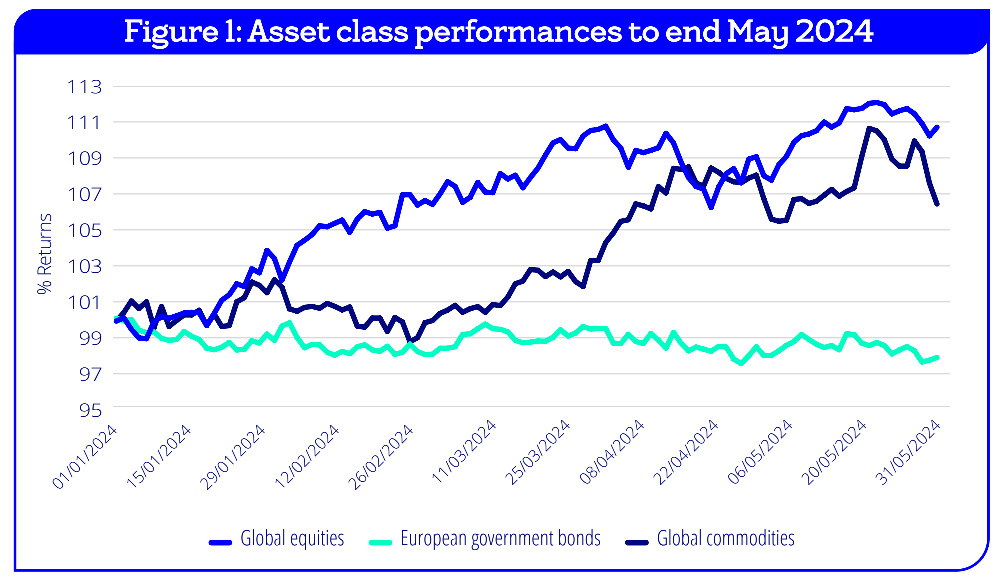
Drivers of markets in May included:

- The divergent paths of central banks;
- Quarter 1 earnings, which continue to support equities;
- "NVIDIA day" once again as expectations were surpassed;
- Commodity prices added to worries about sticky inflation, and
- Investor confidence saw the Dow Jones[1] reach the milestone 40,000 level, as multiple market indices hit record highs.

Many investors believe the market is now reaching a critical point and that the future path will depend on whether the US Federal Reserve (Fed) can steer the world's largest economy, the US, to a so-called soft-landing – meaning only modest increase in unemployment and a gentle slowdown in growth. If this can be achieved, the path that equity markets take may indeed be a more benign one.

[1] The Dow Jones is a long established index of prominent US companies

Figure 1: Asset class performances to end May 2024



Source: Bloomberg 04.06.2024

	May 2024	YTD 2024	2023
Global equities	2.5%	10.8%	18.1%
European government bonds	-0.1%	-2.1%	7.2%
Commodities	-0.3%	6.5%	-15.3%

Source: Bloomberg 04.06.2024

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5 drivers of markets in May

1 Central banks dominate markets again

May saw markets having to digest a very mixed set of messages and differing directions from global central bank policymakers.

US

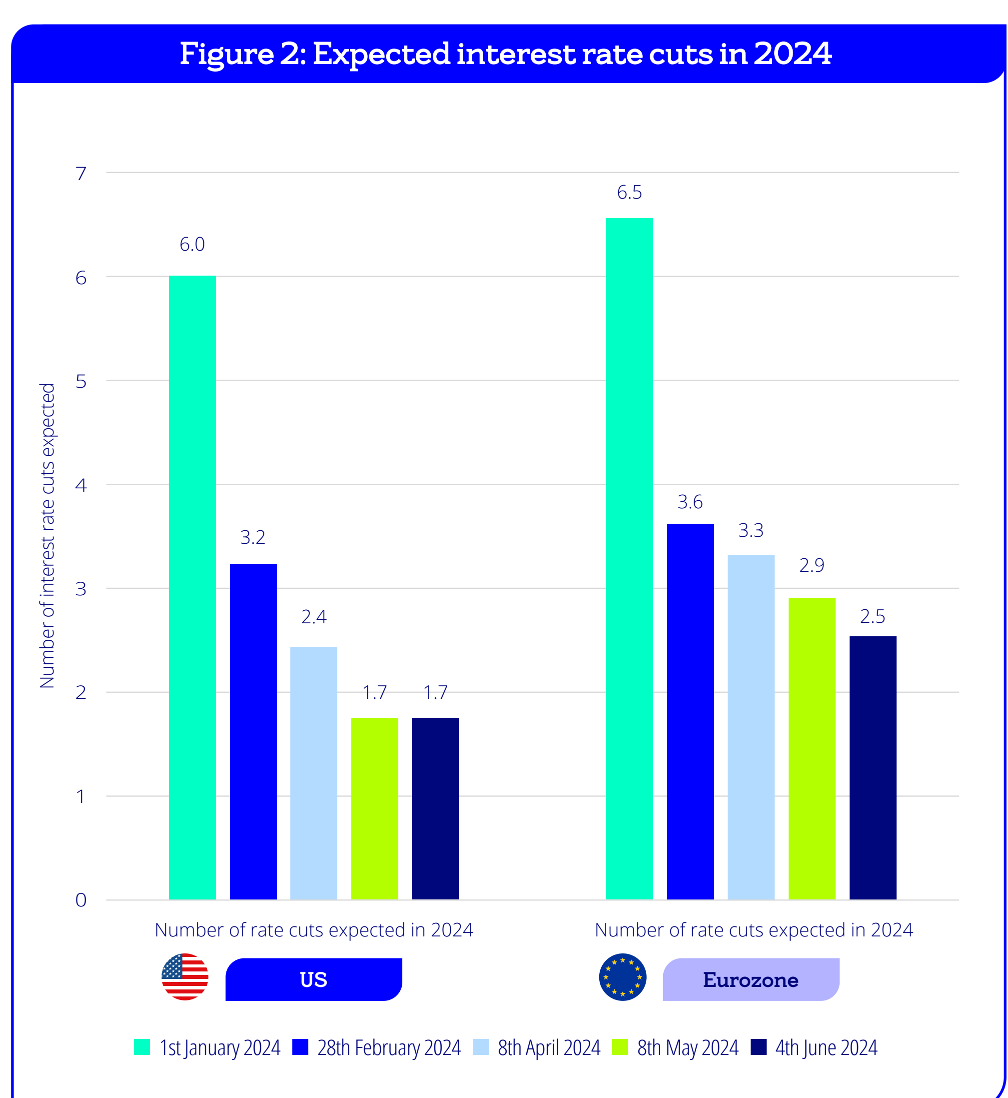
The Fed officials grew more concerned about inflation in May and there is little doubt that this is slowing the pace at which interest rate cuts may take place. The main point from May's Federal Open Market Committee (FOMC) was that "many" Fed officials expressed uncertainty over the extent to which interest rate policy is restraining the economy. In the words of Fed Governor Powell, it seems there's agreement that this year's stickier inflation data means "it's going to take longer for us to gain confidence that we are on a sustainable path down to the 2% inflation target"[2]. They also expressed concerns about the impact inflation continued to have on consumers, especially those on lower earnings.

In subsequent public comments, a number of decision makers in the Fed went on to further dampen expectations about the timing of interest rate cuts in 2024:

- Governor Waller said he needs to see "several more" months of good inflation figures to begin rate cuts, even if progress has resumed of late[3].
- The Fed Bank of Atlanta President Bostik indicated that there are active discussions on what level of interest rate neither slows nor stimulates the economy[4].
- Governor Powell in mid-May indicated that they "did not expect this to be a smooth road. But these (inflation readings) were higher than anybody expected. What that has told us is that we'll need to be patient and let restrictive policy do its work"[5].

As a consequence markets have fully discounted any possibility of a US interest rate cut in June and while September remains a possibility, the most likely outcome is December. However it remains more than a coin toss in probability terms as to whether that will happen (see Figure 2). A continuation of either sticky inflation and/or a persistently stronger than expected US economy could well see any cuts pushed out.

Figure 2: Expected interest rate cuts in 2024



Source: BOI Investment Markets/Bloomberg 04.06.24

[2] Source: Federal Reserve – Transcript of Chair Powell's Press conference 01.05.24
[3] Source: Speech to the Peterson Institute for International economics 21.05.24
[4] Source: Bloomberg 22.05.24
[5] Governor Powell speaking to the Foreign Bankers Associate Annual General meeting, Amsterdam, May 2024

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5 drivers of markets in May

1 Central banks dominate markets again (Cont'd)

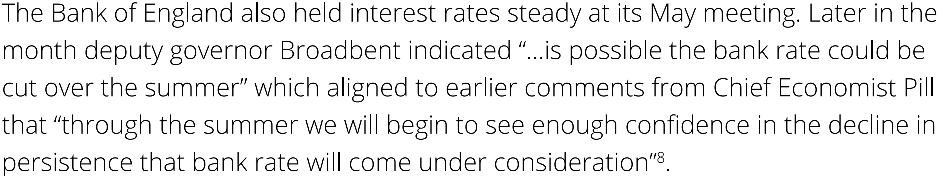
Eurozone

In stark contrast, the tone from the European Central Bank (ECB) policymakers has been noticeably different for some time. What's more, we now have the first interest rate cut with a 0.25% cut announced on 06.06.24.

The question for the eurozone is now at what pace subsequent interest rate cuts will arrive. Phillip Lane, the ECB's chief economist, gave somewhat of a "wait for the data" message saying "the subsequent pace of rate cuts will be slower if there are upward surprises to underlying inflation... and the level of demand ...will be faster if there are downward surprises"[6]. In late May, the ECB Governing Council member Knot indicated that "the precise timing, speed and scale of easing will depend on the data"[7] adding to the sense that while June is the start date, an immediate follow up is less likely.

Market expectations are that there will be a pattern of "pause-cut-pause-cut" from the ECB as they assess the impact of interest rate cuts. The expectation, at the time of writing, is that there will be no further rate cuts until September at the earliest.

UK



The Bank of England also held interest rates steady at its May meeting. Later in the month deputy governor Broadbent indicated "...is possible the bank rate could be cut over the summer" which aligned to earlier comments from Chief Economist Pill that "through the summer we will begin to see enough confidence in the decline in persistence that bank rate will come under consideration"[8].

China

In May, the People's Bank of China loosened mortgage rules including removing minimum mortgage rates and reducing the minimum deposit needed for a mortgage to try and stimulate the real estate sector.

They also issued a 1 trillion yuan worth of "special sovereign bonds" ($138 billion). These bond issuances are deemed "special" as they are unconstrained by any budgetary rules. The last three of these illustrate how they are used – in 1998 it was to re-capitalise four state-owned banks; in 2007 to seed the Chinese Sovereign wealth fund, and in 2020 for Covid-19 relief measures. While it's not yet clear how the funds will be used this time around, it is anticipated that the troubled Chinese real estate sector may be the target.

Japan

Japan, which historically raised interest rates earlier this year, saw its economy shrink by 0.5% in Q1 2024, slightly more than anticipated, while inflation reached 2.5% per annum (p.a.). At this level, it is increasingly anticipated the Bank of Japan will raise rates again this year.

Bottom line: Developed western economies are now headed for interest rate cuts at very different speeds. China continues to stimulate its post-Covid-19 economy and Japan may look to increase rates late this year. For investors in bonds, this has kept most bond markets in negative territory so far this year.

[6] Source: Reuters 27.05.24
[7] Source: Bloomberg 29.05.24
[8] Source: Bloomberg 27.05.24

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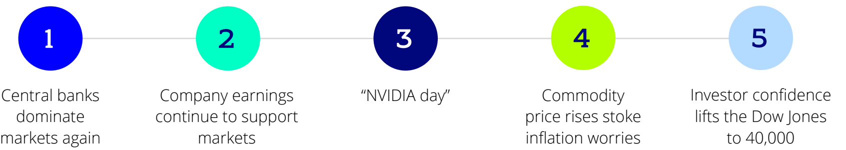
5 drivers of markets in May



2 Company earnings continue to support markets

While interest rate expectations may have moved negatively, in so far as equity markets were concerned, company earnings continued to provide a supportive backdrop:

- At the time of writing, 480 US companies that make up the S&P 500 market index have reported their earnings, 78% of these had beaten earnings expectations. That's against a long-term average of 66%.[9]
- In Europe, of the 282 companies in the largest European market index, Euro Stoxxx 600 (600 in total) that had reported Q1 2024 earnings, 60% beat expectations. That's against a long-term average of 54%.[10]

Figure 3: S&P 500 & Eurostoxxx 600 company earnings in 2023/24 and earnings estimates at end May 2024

	US	Eurozone
Q1 2023	0.1%	11.1%
Q2 2023	-2.8%	-5.9%
Q3 2023	7.5%	-11.1%
Q4 2023	10.1%	-6.5%
Q1 2024	8.0%	-2.3%
Q2 2024	10.9%	3.1%
Q3 2024	8.6%	11.3%
Q4 2024	14.9%	13.9%
Q1 2025	15.2%	8.5%
Q2 2025	14.0%	15.7%
Q3 2025	13.5%	0.0%

Source: LSEG I/B/E/S 27.05.24 for S&P 500, 28.05.24 for Eurostoxx 600

[9] Source: LSEG I/B/E/S 28.05.24
[10] Source: LSEG I/B/E/S 27.05.24

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5 drivers of markets in May

2 Company earnings continue to support markets (Cont'd)

In the US, earnings growth for Q1 2024 came in at about 8% year-on-year (y/y)[11]. To caveat this, when you exclude the Magnificent 7*, the estimated growth rate for the remaining companies in the S&P 500 was negative[12]. In Europe it is expected that earnings will decrease by 2.3% compared to Q1 2023. In both instances these are improvements on where expectations stood just a month ago. At the end of March, US expectations were for growth of 5.1% and in Europe a decrease of nearly 11% was feared.

That said, revenue growth on both sides of the Atlantic is somewhat lower. In the US, revenue growth is estimated to be at 3.8% y/y, while in Europe the comparable figure is a drop of -4.1%[13].

As we look forward to the rest of the year and into 2025, earnings are forecast to grow quite robustly. Facing into a potentially mixed economic outlook, with the US likely to slow slightly and Europe only beginning its recovery path, these estimates may prove challenging. The typical pattern in any year is that these estimates get pared back as we get close to actual reporting dates, but so far this year, the trend has been for mostly upward revisions.

Bottom line: Company earnings have continued to beat expectations and we are seeing an upturn ahead based on recent analyst estimates. If this plays out as expected it will be very supportive of the equity market. If not, we may see the more stretched expensive parts of the equity market experience a choppier end to the year.

*Apple, Alphabet, Amazon, Meta, Microsoft, NVIDIA, and Tesla

[11] The Q1 2024 year-on-year adjusted blended earnings growth estimate is 11.1%. The Q1 2024 year-on-year growth rate for Bristol Myers Squibb reflects an approximate $12 billion one-time charge related to its acquisition of Karuna Therapeutics. When including this one-time item, the S&P 500 Q1 2024 earnings growth rate declines to 8.0%

[12] Source: "Are the Magnificent 7 the top contributors to earnings growth for the S&P 500 for Q1?" John Butters, Factset 22.04.2024

[13] Source: LSEG I/B/E/S 24.05.24 for S&P 500, 28.05.24 for Stoxx 600

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3 "NVIDIA day"

With the so-called Magnificent 7 continuing to beat the performance of the wider market, there were some worries before the big technology companies began reporting about Q1 2024 results.

Concerns abounded that the artificial intelligence (AI) boom was over-reaching and parallels were being drawn to the tech boom (and subsequent bust) of 1999-'00. As we reached the end of the Q1 2024 reporting season, much of these worries have been put aside as the large tech firms mostly beat expectations – even if their outlooks were generally more cautious.

NVIDIA

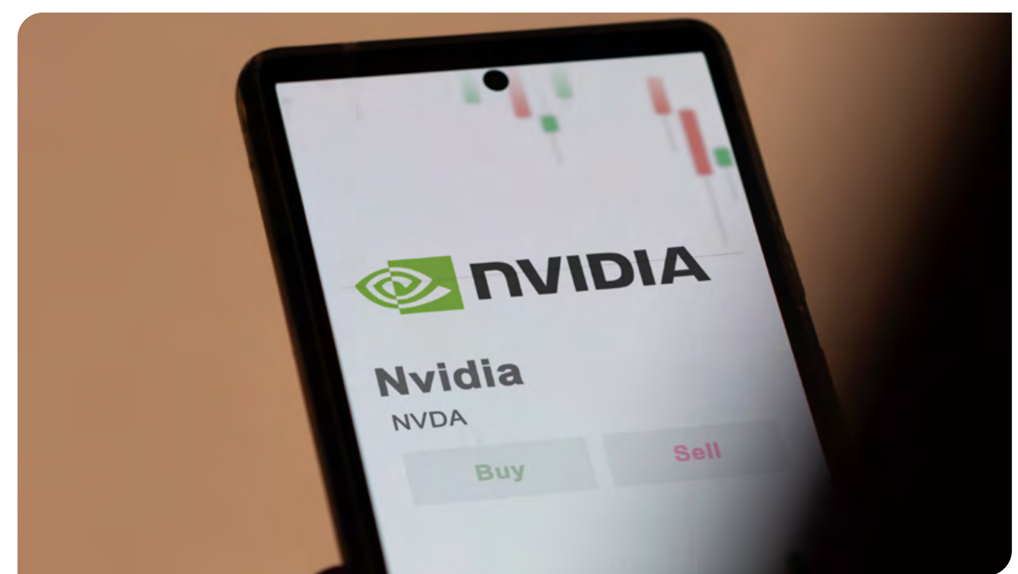
The most awaited of the giant tech stocks was NVIDIA, the last to report and now the bell-weather for all things AI.

- Since its blowout forecast of sales growth a year ago, its share price has gained 245% in euro terms[14], eclipsing all others amongst the major technology stocks, adding approximately $1.5 trillion to its market size in the last 12 months and delivering about a quarter of the growth in the S&P 500.
- Furthermore it has beaten consensus forecasts by an average 20% in the four quarters of 2023. Early in June its market capitalisation reached $3 trillion, making it the second largest company in the world.

So eagerly awaited were NVIDIA's Q1 results that one analyst quipped that "the anticipation of NVIDIA earnings is like that of a Taylor Swift concert...estimates are high and expectations to beat estimate are even higher[15]. Bloomberg's John Authers more soberly described it as "one company's results have come to have the kind of impact normally reserved for macro events like monetary policy shifts or financial crises"[16].

Q1 2024 results & impact

- The results showed record quarterly revenue of $26 billion, a 260% surge y/y, and an earnings per share of $6.12, both well above expectations.
- The share price traded to a new high of $1,139, as at the time of writing, adding over 40% to NVIDIA's market value from the start of May. That's $0.85 trillion in shareholder value created in May (an incremental gain larger than the value of Europe's largest company Novo Nordisk) bringing NVIDIA to a total market value of $2.8 trillion[17].



[14] Source: Bloomberg 31.05.24
[15] Source: Source: Bloomberg "As NVIDIA goes so do US stocks" 22.05.24
[16] Source: Bloomberg 22.05.04 ""Can NVIDIA live up to the hype?"
[17] Source: Bloomberg/BOI Investment Markets Calculated from 01.01.24 to 31.05.24

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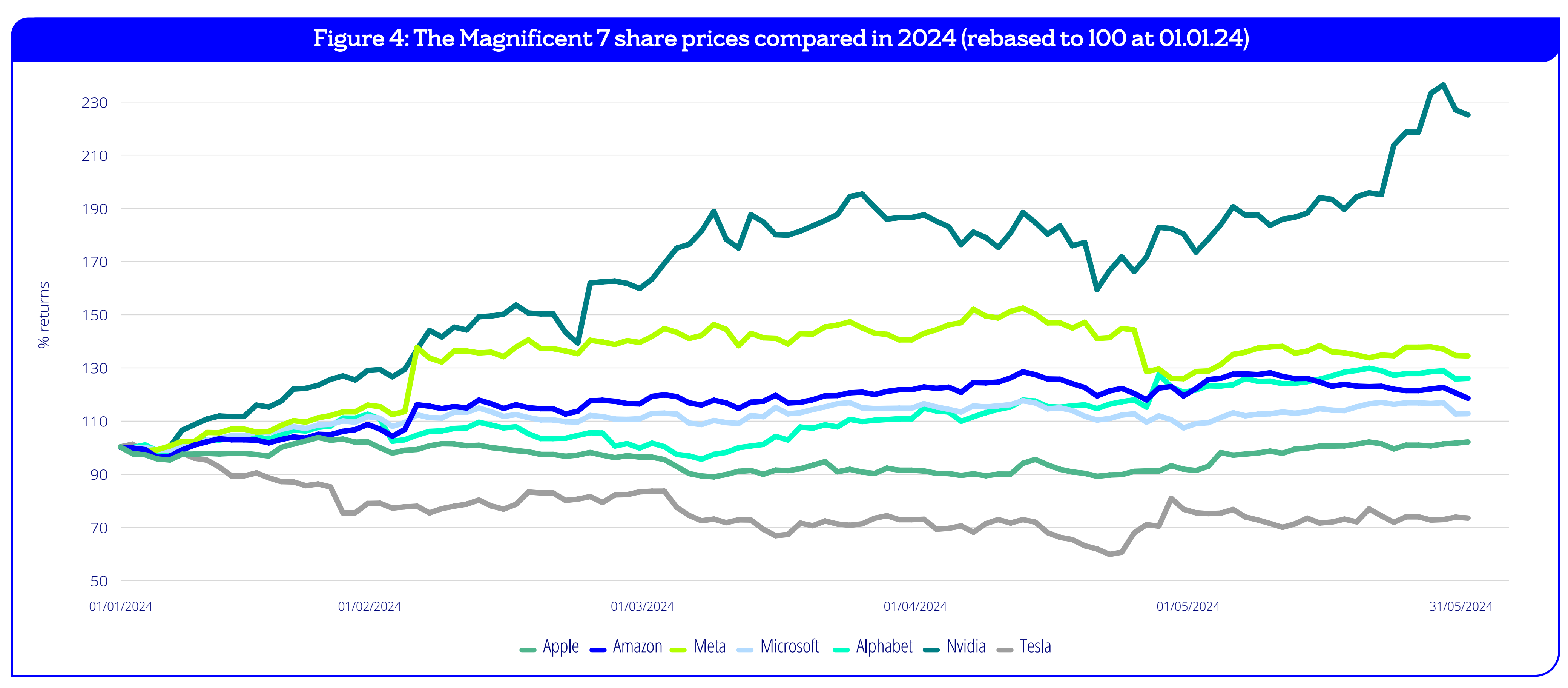
3 "NVIDIA day" (Cont'd)



Source: BOI Investment Markets & Bloomberg 04.06.2024.

Bottom line: Last year's dominant driver of equity returns was the so-called Magnificent 7 large US tech companies. This has continued into 2024, but performance has been more diverse amongst this group with NVIDIA continuing to stand out from the group (see Figure 4). Demand for the AI componentry it builds looks insatiable at present, yet few dominant players in any market can persist with this market share without a competitive backlash at some point.

Please note this is not a recommendation to buy any specific stock mentioned.

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5 drivers of markets in May

4 Commodity price rises stoke inflation worries

One of the features we saw in 2021-'22 that was a driver of inflation, was the rise in commodity prices. After retrenching last year, prices have once again risen in 2024 (see Figure 5) and while the causes may be quite different, it is another factor that may contribute to a stickier inflation backdrop.

According to the World Bank in their Commodity Outlook 2024, the drivers of commodity price inflation this year are:

- Geopolitical tensions;
- Supply conditions for many industrial commodities;
- Less than feared impact from slowing Chinese property investment, and
- Metal intensive investment in clean energy.

Worryingly, after two years of falling commodity prices, this recent trend may present a renewed source of inflation. Given that economic growth is slowing, yet commodity prices are rising, the World Bank is warning that inflation remains undefeated.

(Source: World Bank Commodity Markets Outlook 25.04.24.)

Energy

Amongst the major energy prices, natural gas and coal have both been falling and elevated inventory levels point to further falls in the year ahead. This had been offset by higher oil prices up until late April but those too began to fall in May despite OPEC+[18] oil production dropping.

Foodstuff

Foodstuff prices have generally risen and if you are fond of chocolate, beware what may be coming as cocoa prices are up 136% so far in 2024 (to 06.06.24).

Metal

Most metal prices are higher, reflecting a stronger economy for the most part as well as demand from clean energy transition. Copper prices reached a two year high during May reflecting supply concerns and strength in demand, but they fell back later in the month.

The rise in gold that we have seen is more complex as it has been driven both by central buying as well as some risk-averse investors seeking diversification.

[18] Organisation of the Petroleum Exporting Countries

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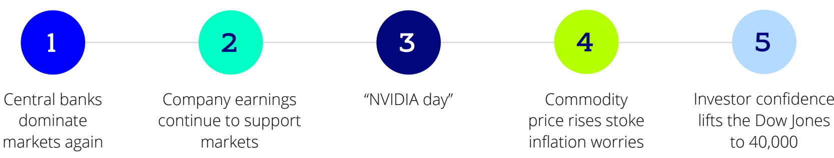
5 drivers of markets in May



4 Commodity price rises stoke inflation worries (Cont'd)

Figure 5: Selected commodity price movements YTD 2024

% change in price

40%
35%
30%
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%

Gold, Oil, Natural Gas, Copper, Corn, Silver, Aluminium, Coffee, Nickle, Wheat, Zinc, Sugar, Cotton, Coal, Lead

Source: BOI Investment Markets/Bloomberg 04.06.24

The World Bank believes that commodity markets will remain broadly in balance for the rest of 2024, and may fall back slightly. However, they warn that any geopolitical event could easily upset this balance and create a renewed source of inflation.

Bottom line: Inflation has reduced significantly but the final 1% reduction is proving stickier. Commodity inflation is just one source of where inflation can come from but it is a sufficiently influential one to cause difficulty for policymakers if it persists.

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5 drivers of markets in May

5 Investor confidence lifts the US Dow Jones to 40,000

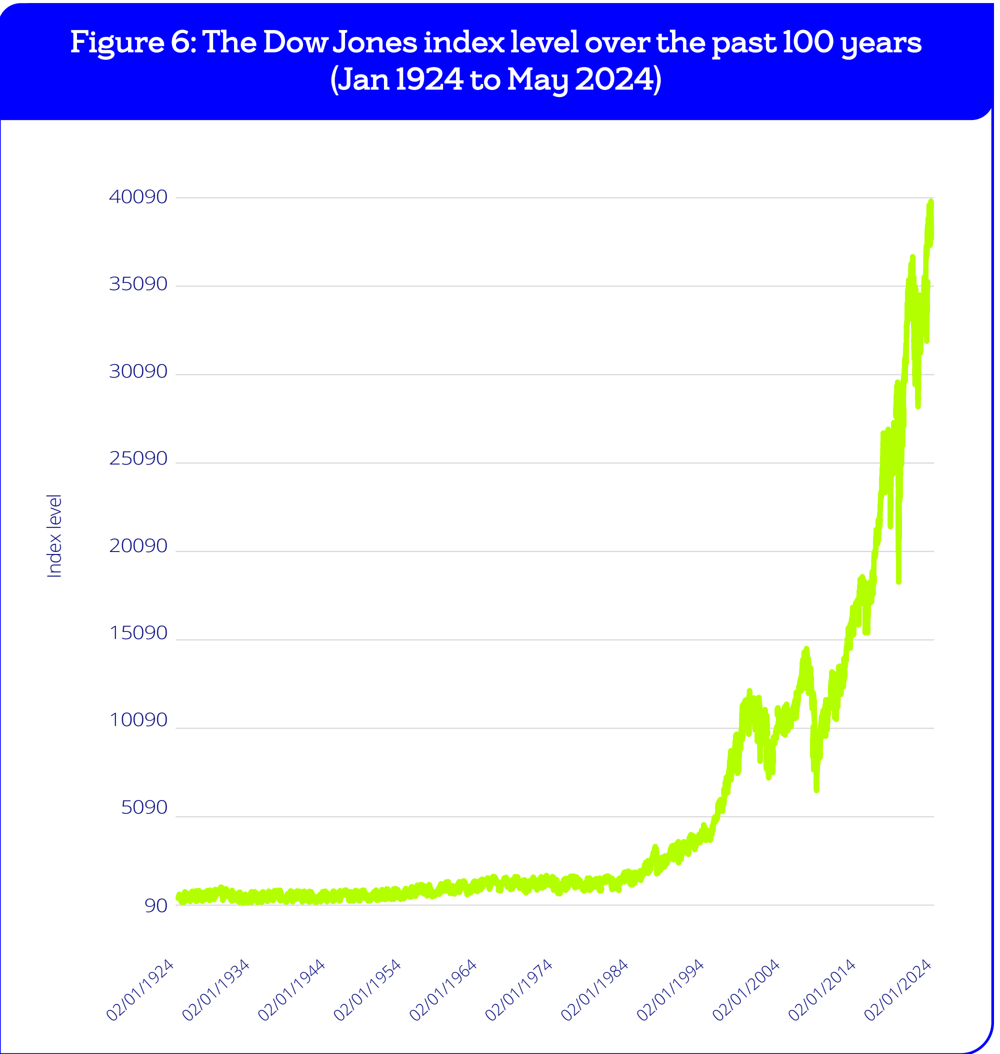
Investor confidence has been steadily improving in recent months, with fund managers around the globe investing more in the equity market according to Bank of America's Global Fund Manager Survey[19]. Their May survey showed investors were at their most bullish since November 2021, driven largely by expectations about interest rate cuts, with the highest allocation to the global stock market since January 2022.

In turn, many well-known stock market indices have reached record highs this month.

- Most notably, the US Dow Jones index, one of the oldest and best known indices, reached a milestone 40,000 level.
- Others to have reached record highs included: the MSCI World index, the US S&P 500 index, Europe's Stoxx 600 index, the UK's FTSE 100 index and Ireland's ISEQ index - all of which are key measures of market returns in these countries/regions.

Bottom line: There is an optimism amongst investors but it has not reached levels where it is excessively high. Furthermore it has been coming off a period where investor sentiment had reached such low levels not seen since the Great Financial Crisis of 2007-08. It is probably too early to think of this as a 'contrarian signal' and it's more likely to be a source of impetus for the equity market.

Figure 6: The Dow Jones index level over the past 100 years (Jan 1924 to May 2024)



Source: Bloomberg 04.06.24

[19] Source: Bank of America Merrill Lynch Global Fund Manager Survey 'The "no-landing" peak' May 2024

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Kevin's viewpoint

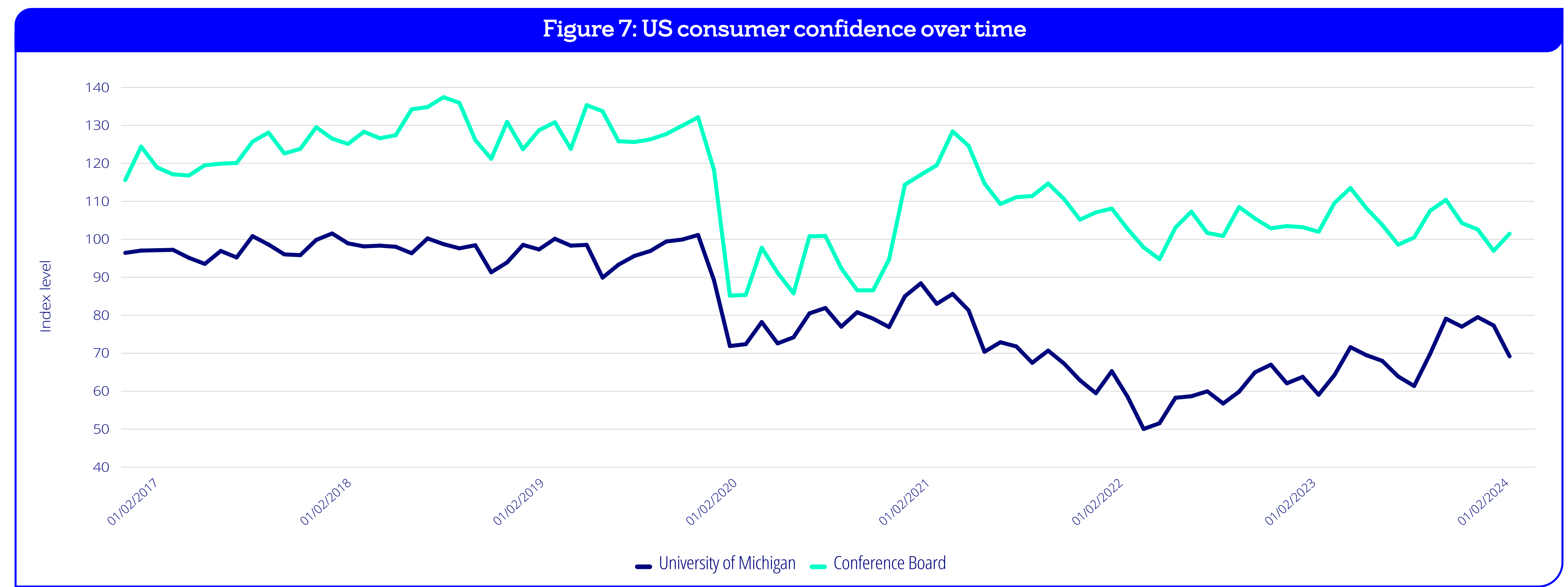
1 Can the Fed engineer a soft-landing?

Amongst the most important questions for investors today is whether the US economy is heading into a period of stronger growth, which would continue to support the earnings expectations that are ahead. Some argue that a recession is a more likely outcome in 2025 and as a consequence earnings expectations are too rosy.

Key factors to consider

Economic growth in the US slowed in Q1 2024 and was considerably below what was expected. The cause was higher imports so hardly a sign of economic weakness and the market largely ignored it. But might there be weakness on the way? Key to the direction the US economy takes will be how the consumer reacts (See Figure 7).

The US has two prominent measures of consumer confidence. The University of Michigan index, and the Conference Board index. Many who watch both indices say that the Conference Board survey tends to be better at picking up on indicators related to the job market and job security, while the Michigan survey is a better measure of issues like the price of petrol and shopping.



Source: Bloomberg 28.05.2024

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Kevin's viewpoint

1 Can the Fed engineer a soft-landing? (Cont'd)

There are three factors that are a cause for concern:

(1) Labour market softening

The US employment market is showing the first signs of softening. Until recently the US economy had been creating more job openings than there were people available to fill them. This gap has been shrinking and if the trend continues there will be more unemployed workers than job openings by early 2025[20].

(2) How consumers finance their spending

The Covid-19 pandemic era savings pile of the US consumer was depleted at the end of Q1 2024. Indeed, the last time the US savings rate was as low as it currently is was before the Great Financial Crisis[21]. US consumers had turned to their credit cards last year, but that too is slowing down.

(3) Consumer confidence

Perhaps as a consequence of the first two factors, consumer confidence in the US has fallen in recent months. That said the most recent data towards the end of May perked up for the first time in four months, as views about business conditions and the labour market were less negative.

The Fed's dilemma

However, with near-full employment, commodity & producer prices rising faster, the Fed faces a dilemma. Its most powerful tool to improve the economy is a reduction in interest rates. It is having to tread carefully though. The sticky inflation data of recent months serves to show how challenging it will be to deliver rate cuts at just the right time, while also keeping consumer confidence on the right side of optimism.

For investors, the timing of interest rate cuts will be centre stage this year to manage the US economy.

- If US inflation falls consistently, it means the Fed will cut interest rates by year end and possibly earlier if the data is convincing.
- If the timing is right, that can in turn support the goldilocks outcome of "not too hot inflation, not too cool growth" for the US economy.
- If they go too soon, they risk creating stronger growth and a fresh impetus to inflation and weaken longer term inflation expectations.
- If they go too slowly, they risk tipping the economy into a recession with an accompanying impact on company earnings.

It will be all eyes on the Fed over the coming months.

[20] Source: BCA Research 24.05.24
[21] Source: BCA Research 24.05.24

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Kevin's viewpoint

2 Global economic outlook

The other factor that will be a key consideration in the year ahead will be the prospects for the rest of the world. In the past year, the US proved more robust, rebounding strongly and decoupled from the more lacklustre, near-recessionary conditions elsewhere. So far in 2024, there is the beginnings of a convergence happening. The recent cooler economic growth in the US contrasts with a slight pick-up in Eurozone, UK and Chinese growth.

All things taken into account, what might we expect?

- The most likely outcome seems one where the global economy slowly transitions in the coming year, with more modest growth as a slowing in US growth is met by a modest recovery in Europe and Asia.
- The Fed engineers a soft-landing but it is not without significant risks.
- Equity markets usually price in changes like this months before a recession happens and at this juncture the market is not expecting a recession to be part of the path ahead.
- For the months ahead, a continuation of the growth in risk assets looks like the path of least resistance, but there are headwinds on the horizon which may cause investors to become more cautiously-minded.

As always, we encourage you to talk to an Advisor before making any change to your investment portfolio.

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Performance table

Table 1: 5 year historic performances

	2019	2020	2021	2022	2023
Global equities	29.0%	6.7%	27.5%	-13.0%	18.1%
US equities (S&P 500)	33.9%	8.7%	38.2%	-13.0%	22.2%
European equities (Stoxx 600)	28.0%	-1.4%	25.8%	-9.9%	16.6%
US equities (Dow Jones)	27.8%	0.8%	29.9%	-1.00%	12.5%
UK equities (FTSE 100)	24.4%	-16.3%	26.0%	-0.6%	10.0%
Irish equities (ISEQ)	33.7%	4.0%	15.7%	-14.5%	25.1%
Emerging market equities	21.8%	9.1%	4.9%	-14.9%	6.6%
Global bonds	5.4%	4.9%	-2.6%	-15.1%	4.5%
US government bonds	11.4%	8.3%	-2.0%	-12.5%	5.8%
European government bonds	6.9%	4.3%	-3.7%	-18.4%	7.2%
Emerging market debt	14.5%	-3.4%	6.4%	-9.8%	5.4%
Broad commodities	7.9%	-13.1%	37.0%	20.7%	-10.9%
US corporate bonds	11.2%	7.8%	-1.9%	-17.1%	5.8%
European corporate bonds	6.3%	2.4%	-1.2%	-14.0%	8.4%
Japanese equities	21.6%	4.1%	10.0%	-10.5%	15.5%
NVIDIA	80.5%	104.2%	142.1%	-47.1%	228.2%
Apple	92.7%	67.5%	44.6%	16.2%	44.20%
Amazon	25.5%	61.9%	9.9%	-39.7%	75.10%
Alphabet	30.7%	20.2%	77.5%	16.9%	53.20%
Microsoft	60.7%	30.9%	63.7%	-23.5%	53.10%
Tesla	28.2%	674.4%	60.8%	-62.8%	95.3%
Meta	59.7%	22.2%	32.2%	-48.9%	184.70%

Source: BOI Investment Markets/Bloomberg, 04.06.24.

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