Monthly Review and Outlook

May 2023

Review

Global equities (shares) fell slightly in May, in US dollar terms.

Investor enthusiasm for artificial intelligence boosted technology shares.

In fixed income, government bond prices fell (meaning yields rose).

Company shares

UK equities fell in May. Large UK energy and basic materials companies were among those who fell the most amid general weakness in commodity prices. Technology was the only sector to make positive returns, although financials companies fared relatively well, helped by the banks sector, which held its value.

US equities made slight gains in a month of highly varied sector returns. Economic data had a positive impact on equities, but the prospect of a government default made investors jittery. US central bank the Federal Reserve (Fed) enacted another 0.25 percentage point rate rise, as expected. Energy and materials equities were among the weakest performers. Their performance contrasted starkly with technology shares, which gained strongly. Fervour around artificial intelligence (AI) and the potential for a boom in related technology drove chipmakers, in particular, higher.

European shares fell, after a generally positive year so far, as the MSCI Europe (excluding UK) index returned -2.3 percent. All sectors fell aside from information technology, which was boosted by semiconductor equities. This followed on from higher-than-expected sales projections from some US chipmakers, which helped show the growth potential stemming from AI.

The Japanese stock market continued its strong momentum during May, with the MSCI Japan index returning 4.5 percent. Foreign investors continued to purchase Japanese stocks, driving Japanese equities to their highest level in 33 years. Asia equities (excluding Japan) fell, with sharp declines in Hong Kong and China offsetting gains in South Korea, Taiwan and India. Investor optimism in China, seen earlier in the year following the reopening of China's economy after the Covid-19 pandemic, faded due to disappointing economic data and weakening demand. Taiwan's performance was driven by technology companies, as investors rushed to buy AI-related shares.

Bonds

Government bond prices generally fell in May (meaning bond yields rose). But there was divergence between markets, with weaker data across the eurozone leading to the market's outperformance as investors sought the safety of European government bonds. The yield on US government bonds with 10-year expiry dates increased from 3.42 percent to 3.63 percent, with the yield on the two-year rising from 4.01 percent to 4.40 percent. Germany's 10-year yield decreased slightly from 2.31 percent to 2.27 percent. The UK 10-year yield saw the largest rise, from 3.72 percent to 4.18 percent, and the two-year increased from 3.78 percent to 4.34 percent. The UK bond market performed more weakly than the US and Europe, mainly due to more persistent high inflation that might drive the Bank of England to raise rates for longer than its developed market peers. Government bond prices often fall when interest rates rise.

Commodities

The Bloomberg Commodity Index fell by 5.6 percent in May. Energy performed particularly poorly, with sharp falls in the price of natural gas and crude oil. Nickel and zinc prices also fell sharply. In agriculture, weaker prices for soybeans, sugar and coffee offset modest price gains for cocoa, cotton and corn. Silver and gold both declined in value.

Outlook

We continue to be positioned for a slowdown in US economic activity driven by higher interest rates. Our positive view on government bonds and negative stance on equities are consistent with our view on the effectiveness of higher US interest rates. We remain cautiously positioned, as we believe that there is evidence that economic conditions are deteriorating in the US.

Asset overview

Our general view of assets in the coming months is summarised as follows. These are our in-house views as at the end of May 2023.

Equities	🔴	We continue to hold a negative stance on equities, as inflation has been persistent and economic conditions look to be worsening
Government bonds	🟢	We remain positive as we expect the global economy to slow and rates to peak soon. If inflation reduces in line with consensus, then we believe this should support bonds prices.
Corporate bonds	🟡	We maintain a neutral stance as valuations are still not attractive.
Commodities	🟢	We have a slightly positive overall stance. We anticipate a slowdown in demand for commodities overall but have a positive outlook on gold.

	Legend
🟢	Positive outlook
🔴	Negative outlook
🟡	Neutral outlook

Source: Schroders, 9 June 2023

Important information