Allianz Global Investors

05/2023

Market Snapshot

Equity Snapshot

United States

US stock indices advanced over May, helped by news of a last-minute agreement between President Joe Biden and House of Representatives Speaker Kevin McCarthy to raise the debt ceiling. The deal, which is yet to be approved by Congress, should prevent a US default and will suspend the debt ceiling until after the next presidential election in late-2024. The broad-based S&P 500 Index posted modest gains to close around a nine-month high, but the tech-heavy Nasdaq Composite Index jumped to levels seen last April, helped by a surge in AI-related stocks.

US economic news was mixed. First-quarter GDP growth was revised up to 1.3% on an annualised basis, from an initial estimate of 1.1%, as consumer spending remained resilient despite high inflation. The job market remained solid, with the economy adding 253,000 jobs in April and the unemployment rate falling to 3.4%. However, retail sales continued to come in below forecasts, rising just 0.4% in April. The University of Michigan's consumer sentiment index slid to a six-month low of 59.2 in May

Europe

European equities closed May modestly lower (in EUR terms) as investors balanced concerns over the economic outlook and a possible US default against generally better-than-expected corporate earnings. At a sector level, information technology was the standout performer, with stocks such as ASML lifted by growing interest in AI applications, while real estate and energy were the weakest.

The flash estimate of the HCOB eurozone composite purchasing manager's index fell to a three-month low of 53.3 in May from 54.1 in April. While the contraction in manufacturing activity deepened, services activity remained robust. After a slight rise in the headline inflation rate in April, hopes that the downward trend would continue in May were boosted by lower-than-expected inflation data in Germany, Spain and France. The European Central Bank slowed the pace at which it raised rates, increasing them by 25 basis points (bps) to 3.25%, but warned that the fight against inflation was far from over.

Asia

Asian equity markets declined over the month due to concerns overs China's weak recovery from the pandemic and worries over a potential US default caused by the debt ceiling. Chinese equities retreated sharply amid growing concerns that the economic rebound after the ending of China's zero-COVID policy was losing steam. The official manufacturing purchasing managers' index (PMI) unexpectedly fell to a five-month low in May.

Elsewhere in the Asia ex Japan region, Taiwan and South Korea performed better, helped by robust rallies in tech companies, particularly chipmakers. ASEAN markets generally declined with Indonesia holding up the best. Elsewhere, Indian equities advanced due to stronger-than-expected economic growth in the first quarter of 2023.

Bond

In May, global bond returns were mixed. US bonds sold off as investors were unnerved by the growing possibility of a US default as soon as 1 June. News of a debt-ceiling agreement between President Joe Biden and House of Representatives Speaker Kevin McCarthy helped US bond yields to decline slightly in the closing days of the month. Euro-zone bonds closed May slightly higher. While fears of a US default caused the yield on the 10-year German Bund to rise back above 2.5% for the first time in two months, yields subsequently declined again amid growing hopes that euro-zone inflation would resume its downward trend in May.

Outlook

May was a mixed month for economic datapoints, with the direction of Global Equity markets fluctuating between gains and losses. In the US, first quarter GDP was revised up on an annualised basis, as consumer spending remained resilient. The job market also remained solid with a falling unemployment rate. PMI data in the US, Eurozone, UK, and China are still contracting, with manufacturing deepening while services remain relatively robust.

Inflation remains high, especially in the UK, with major central banks (excluding Japan) continuing to tighten monetary policy by 25bps in May. The US rate of 5.25% is now the highest it has been since mid-2007. The Federal Reserve did however remove its previous narrative that further monetary tightening “may be appropriate”.

The US market could be a softer spot, which could well be offset by a late revival of China. Any change to the interest rate narrative would likely be helpful for Growth, given that rising rates were our primary source of pain through most of 2022. With labour markets strong and inflation falling, even simply due to base effects, the outlook is looking more positive.

As our clients know, we do not seek to take a position or even a strong view on near-term economic matters. Rather, we seek to own the companies most likely to outperform through a range of macroeconomic environments. So far this year, quarterly sales and earnings have been robust, with a high proportion of our portfolio companies beating expectations. As the effects of monetary policy continue to work their way through the system, we remain focused on opportunities that will best compound client wealth over the long-term.