Market Commentary

Dart Capital

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Equity markets made modest gains over the month, supported by generally solid corporate earnings releases.

US

US economic data has cooled over recent weeks, with job openings continuing to moderate from their elevated levels of the 2021-23 period, and survey data from the services and manufacturing sectors far weaker than economist expectations. Furthermore, late in the month, the revised estimate for first quarter GDP was revised down to an annualised pace of 1.3%, down from the initial estimate of 1.6% [1], due in large part to weaker household spending than previously indicated.

Despite this, the latest figures show little progress of inflation moving closer to the Federal Reserve's 2% target. The Consumer Price Index only declined from 3.5% in the 12 months to March, to 3.4% in April[2], leading the monetary policy committee, the FOMC, to take a generally more hawkish tone. The most recent meeting minutes showing that the Committee were wavering in their confidence that inflation is moving closer to target. These comments helped push yields higher in the bond market following declines early in the month, with the yield on the 10 year Treasury bouncing from a mid-month low of 4.34%, to end the month at 4.5%.[3]

In the equity market, Nvidia delivered a very strong earnings report, with revenue and profits both ahead of expectations, as the company continues to enjoy very strong demand for their graphics processing units (GPUs) as the largest technology companies carry out a huge increase in capital expenditure in order to upgrade their data centres for the greater processing requirements of artificial intelligence applications. However, this strength of demand is by no means uniform across the technology sector, with the end of the month seeing disappointing quarterly earnings updates from the likes of CRM software firm Salesforce and database management specialist MongoDB, which showed that corporate IT spending on other areas is nowhere near as buoyant. The S&P 500 gained 4.8% in local currency, price return, terms.[4]

UK

Mid-month saw the Conservative government call a snap election, set for the 4th July, with Labour currently expected to gain a decisive majority in the House of Commons. With Labour expected to take a relatively centrist stance, and adhere to the fiscal rules laid out by the Office of Budgetary Responsibility (OBR), the market impact isn't expected to be overly large. Domestic inflation was slightly above economist expectations, with the inflation rate declining to 2.3% in April, down from 3.2% in the 12 months to March.[5] Whilst most areas saw declining inflation, much of the higher-than-expected figures was hospitality and leisure, where companies are still seeing solid demand and were able to pass on rising labour costs emanating from April's increase in the minimum wage.

Following the data, most economists now view a base rate cut in June as unlikely, although there is one more inflation print prior to the June meeting of the Bank of England's MPC. We saw a nascent pick-up in UK small and mid-cap stocks over the month, catalysed by further bid activity and the return of inflows into this area of the market for the first time in several years. In our view, this cycle will play out like many others, where investor capital eventually returns to smaller companies as risk-aversion moderates, in turn bringing valuations back up to more normal levels and delivering significant gains for incumbent holders. MSCI UK All-Cap gained 1.8% over the month in price return terms.[4]

Eurozone

Despite inflation coming remaining above their 2% target, with inflation remaining unchanged from the prior month at 2.4% in the 12 months to April,[6] the European Central Bank (ECB) is expected to cut the base rate in their June meeting, with supportive comments from several members of the policy setting committee over the month seen as preparing the market for this decision. The upcoming EU elections in early June will be watched by many for signs of whether closer integration between the EU members will be possible. MSCI Europe ex-UK ended the month up 2.7% in local currency terms.[4]

Asia

The nascent rally in Chinese stocks faltered over the second half of the month, as ongoing concerns about the weak, and highly important, property sector knocked sentiment. MSCI China H ended the month up 4.8%, having been up 12% at its peak earlier in the month.[4] The Bank of Japan appear increasingly intent on bringing forward monetary tightening, in an attempt to support the value of Yen which is, by most metrics, historically cheap. The Japanese corporate earnings season was more disappointing than some had hoped, with some companies not announcing as much in the way of corporate governance improvement. MSCI Japan ended the month up 1.1% in Yen terms.[4]

Commodities

The weakening of US economic data weighed on the oil price over the month, with the price of the Brent Crude benchmark declining 6% in US Dollar terms over the month.[3] However, we saw a continued move higher in other parts of the commodity complex, with a particular rally in the likes of natural gas in the US, and silver in the precious metals space. We have spoken extensively previously about silver, but we continue to note that mined silver supply is lower now than it was a decade ago, at a time when industrial demand is growing strongly, and, following a sustained period of selling by western investors, there is little supply available now that interest from investors are finally increasing their allocations, and this is squeezing prices higher. That said, with speculators now jumping into the silver market, the silver price will be prone to large pullbacks, as we have seen so far in June. Notably, in the same vein to the gold market, silver mining stocks continue to price in a far lower silver price than current market levels, and we see this as a significant opportunity for long-term investors.

1.. *US Bureau of Economic Analysis*
2. *US Bureau of Labor Statistics*
3. *LSEG Datastream*
4. *FE Analytics*
5. *Office of National Statistics (ONS)*
6. *Eurostat*

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