# Investment market commentary

31 May 2023

# Monthly commentary

## May 2023

**Tensions were high in May as market participants eagerly awaited a decision on whether Washington would vote to lift the US debt ceiling to avoid a default on its financial obligations. An in-principal agreement was established towards the end of the month after the proposed two-year deal passed through the House vote and brought the US economy closer to averting a fiscal catastrophe.**

Global equity markets were mostly negative this month as US debt ceiling negotiations cast a shadow over investor sentiment. The gains that did occur were largely limited to US large-cap tech stocks in what was a fairly poor month all round.

In the banking space, First Republic Bank became the latest US lender to declare insolvency and simultaneously surpassed Silicon Valley Bank (SVB) as the second largest US bank failure in history. Regardless of another blow to the health of the US banking system, wider concerns around the sector generally abated as the month progressed.

In other news, this month brought a fresh round of rate hikes from global central banks but also saw further progress on the disinflation front as the market continues to seek out that goldilocks zone of both softer inflation and looser financial conditions.

The MSCI World Index ended the month down -0.2% (local currency) as weakness overseas offset a small advance in the US. Emerging markets (-1.0%) ended in negative territory as key economic indicators showed that China's reopening looks to be running out of steam. Commodity prices generally fell over the month, with WTI crude oil prices declining over 11% despite the announced production cuts from OPEC. A soft Kiwi dollar supported unhedged returns, with the MSCI World Index up 2.0% (in unhedged NZD).

As was widely expected, the Reserve Bank of New Zealand (RBNZ) increased the Official Cash Rate (OCR) by 25 basis points (bps) to 5.5%. The comments that followed the announcement came as a surprise, with the RBNZ stating that they anticipate 5.5% to be the peak of this cycle despite many economists upping their terminal rate forecasts to 6%.

**Trans-Tasman equities:** Share markets on both sides of the Tasman were relatively weak this month. The ASX 200 slumped -2.5% as the Reserve Bank of Australia (RBA) unexpectedly hit play again on their tightening campaign. Mining and energy stocks exacerbated the decline after further weakness in commodity prices. Not faring much better, the NZX 50 ended the month down -1.7%.

**Global equities:** The MSCI World experienced a minor setback of -0.2% (local currency) in what was a choppy month for global equities. Strength in the technology sector largely offset any uncertainty around whether lawmakers would pass the US debt ceiling bill. The NASDAQ was up 5.9%, with US chipmaker Nvidia leading the surge after releasing a blowout sales forecast.

**Property and infrastructure:** Listed property markets bounced back with a hiss and a roar in January, as they benefited from more upbeat market sentiment. With the pace of interest rate hikes expected to slow, the investment outlook for the sector is becoming increasingly attractive to investors. Listed infrastructure also fared well, trending upwards along with the broader market.

**NZ bonds and cash:** In May, the proclamation of peak terminal rates by the RBNZ did little to reel in local yields as they pushed on to end the month higher. The NZ 10-year government bond yield closed the month at 4.27% (+15 bps from a month prior) after the Treasury outlined a bond tender programme at the top end of expectations.

**Global bonds:** Global bonds lost ground on the back of renewed monetary tightening focus. Among government bonds, 10-year Treasury yields climbed to their highest levels since the collapse of SVB. Elsewhere, Gilts were especially weak as core CPI in the UK accelerated to 6.8% year-on-year in April (up 0.6% from a month earlier).

**Currency:** The NZD/USD fell -3.0% as the RBNZ surprised the market by indicating that they expect their latest cash rate hike to be the peak of this tightening cycle. Expectations of tighter policy from the US Federal Reserve offered a good deal of support to the US dollar, while rising rate differentials also propped up the GBP. Elsewhere, the Turkish lira plummeted after election results confirmed five more years of President Erdoğan's "unsustainable" economic policies.

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