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2023 May Market Wrap   Thursday 1 June 2023

We remain in a stock-picker's market, after emerging from the largely macro-driven environment of the pandemic. This is emphasised by the still-clouded outlook for the economic cycle and interest rates on one hand — and the extraordinary AI-driven uplift in revenue guidance from chip-maker NVIDIA on the other. The outlook for US rates remains uncertain. Fed-speak remains mixed.

NVIDIA reported a blow-out quarter. Its second-quarter revenue guidance was more than 50% ahead of consensus expectations on the back of AI-related demand for its GPU (graphics processing unit) chips, driving huge bottom-line upgrades.

Other economic data from last week suggests the US outlook is stronger than expected, while much of the rest of the world looks weaker. China is not contributing as much as expected and Germany is now in technical recession.

We saw a positive development on the US debt ceiling. The Biden administration and House speaker Kevin McCarthy over the weekend agreed to raise the debt limit and cap federal spending until after the 2024 election.

We continued to receive mixed communications from the Fed, with no clear direction. This overshadowed the release of May's FOMC meeting minutes. While inflation remains too high, concerns continue over the impact from tightening credit conditions due to stress in the banking system.

Higher than expected inflation has increased the chance of another interest rate rise, as Reserve Bank of Australia governor Philip Lowe urged the Albanese government to lift productivity to avoid its push for bigger pay rises fuelling higher interest rates.

The surprise jump in inflation to 6.8 per cent in April from 6.3 per cent a month earlier was driven by rising rents, a lift in holiday travel costs and higher transport costs, following the unwinding of the temporary cut in the fuel excise last year.

While inflation remained below the 8.4 per cent peak reached last December, the RBA is increasingly concerned that price pressures could prove persistent as wages growth accelerates.

The persistence in inflation is all the more vexing for the central bank given there are signs it is achieving its desired economic slowdown.

Partial data suggested GDP growth ground to a halt in the first three months of the year as households cut back on discretionary spending. Personal insolvencies rose 12.6 per cent to 2494 in the March quarter compared to the same period last year.

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Some economists said the monthly consumer price index indicator bolstered the case for the RBA to increase the cash rate, now 3.85 per cent, at its meeting on Tuesday.

Money markets on Wednesday afternoon ascribed a one-in-three chance of a 0.25 of a percentage point interest rate increase next week, up from 20 per cent before the release of the monthly CPI data.

Rates expectation vary from no move the rates to 4.35 per cent. The thought of rate cuts in 2023 appears to be losing support.

If you have any questions do not hesitate to contact me.

Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	-1.51%	+0.29%	-0.72%
Nasdaq	+7.57%%	+23.59%	+7.84%
S&P 500	+2.18%	+1.92%	+8.86%
Russel 2000	+0.60%	-5.67%	-0.66%
Europe 600 Index	-2.32%	+2.97%	+6.32%
UK FTSE 100 Index	-4.39%	-1.15%	-0.08%
Hong Kong Hang Seng	-7.44%	-14.37%	-7.82%
Japan Nikkei 225	+5.93%	+12.49%	+18.37%
China Shanghai Composite	-3.57%	+0.70%	+3.73%
India S&P BSE Sensex	+2.34%	+13.07%	+2.93%
ASX 200 (Australia)	-2.53%	+2.71%	-0.73%

Australian Dollar

	Close	52-week Range
AUD	0.6502%	0.6170-0.7364%

Government Bonds

	Close	52-week Range
US 3 Month Bill	5.407%	0.750-7.959%
US 10 Years Note	3.422%	2.524 – 4.325%
US 30 Years Bond	3.677%	2.857 – 4.424%
Australia 10 years	3.353%	2.959-4.256%

Source: Wall Street Journal.