

Market Wrap

May: Unhedged Shares Win

- During May, **Global Share** performance was mediocre. Global shares gained 1.2% on an unhedged basis, but lost 0.2% on a hedged basis, due to a depreciating AUD relative to the USD.
- In the U.S., energy and materials stocks were among the weakest performers in May, with concerns over the demand outlook impacting performance. The performance contrasted starkly with the stocks in the technology sector, which made strong gains. Fervour around artificial intelligence and the potential for a boom in related technology drove chipmakers, in particular, higher.
- **Australian shares** fell during May, with the broad market index, the S&P/ASX 200 Accumulation Index losing 2.5%. The best performing sector was Information Technology, which shot the lights out, gaining 11.6% for the month. Consumer Discretionary was the worst performing sector for the month, losing 6.2%.
- **Fixed income** returns for the month were disappointing, with Australian Fixed Interest losing 1.2%, and global fixed interest losing 0.5%.
- The **Australian dollar** fell by 2.1% against the U.S. dollar over the month. The U.S. economy's resilience, coupled with a tight labour market, builds expectations for further rate increases, which in turn strengthens the USD. Combining this with a sluggish Chinese economy, doesn't help the AUD. Against the Yen, the AUD was higher, gaining 0.5%.

Debt Ceiling Raised, Inflation Falls

Globally

- The annual inflation rate in the U.S. fell to 4.0% in May 2023, the lowest since March 2021, and very slightly below market forecasts of 4.1%, driven by a decline in energy prices. In addition, the core rate, which excludes volatile items such as food and energy, has slowed to 5.3%, the lowest since November 2021, supporting the case for the Fed to consider pausing its cycle of monetary tightening.
- Discussions around the U.S. debt ceiling were the focal point for much of the month. Prior to an agreement being reached, volatility in markets increased markedly. When a compromise was finally reached, markets settled down and moved back towards a business-as-usual scenario.

Locally

- The Reserve Bank of Australia somewhat unexpectedly raised the cash rate by 0.25% to 4.1% in early June. The RBA has indicated that the door remains open for further tightening, as inflation remains persistently high and wage growth has picked up. The most recent RBA decision means the cash rate has increased by a total of 4% since May 2022, pushing borrowing costs to their highest level since April 2012.

Major asset class performance

Asset classes	1 month %	1 year %	5 years (p.a.) %
Australian Shares	-2.5%	2.9%	7.5%
Australian small companies	-3.3%	-5.8%	2.5%
Global shares (hedged)	-0.2%	1.5%	7.2%
Global shares (unhedged)	1.2%	13.4%	11.3%
Global small companies (unhedged)	-0.7%	6.0%	6.4%
Global emerging markets (unhedged)	0.4%	1.4%	2.5%
Global listed property (hedged)	-3.8%	-15.7%	-0.7%
Cash	0.3%	2.6%	1.1%
Australian fixed income	-1.2%	1.7%	1.0%
International fixed income	-0.5%	-2.6%	0.2%

Source: FactSet, Lonsec & Insignia Financial, 31 May 2023

Indices used: Australian Shares: S&P/ASX 200 Accumulation Index, Australian small companies: S&P/ASX Small Ordinaries Accumulation Index, Global shares (hedged): MSCI World ex Australia Net Total Return (in AUD), Global shares (unhedged): MSCI World ex Australia Hedged AUD Net Total Return Index; Global small companies (unhedged): MSCI World Small Cap Net Total Return USD Index (in AUD); Global emerging markets (unhedged): MSCI Emerging Markets EM Net Total Return AUD Index; Global listed property (hedged): FTSE EPRA/NAREIT Developed Index Hedged in AUD Net Total Return; Cash: Bloomberg AusBond Bank Bill Index; Australian fixed income: Bloomberg AusBond Composite 0+ Yr Index; International fixed income: Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD

Please note: Past performance is not indicative of future performance

Currency markets

Exchange rates	At close on 31/05 %	1 month change %	1 year change %
AUD/USD	0.6472	-2.1%	-9.8%
AUD/Euro	0.6070	1.4%	-9.4%
AUD/Yen	90.42	0.5%	-2.0%

Source: FactSet & Insignia Financial, 31 May 2023

All foreign exchange rates are rounded to two decimal places where appropriate.

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