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Market Trends

May 2024

with Chief Economist
David Bassanese

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Global Markets

- Market Overview
- Global bonds
- Global equities
- Global sector/factor trends
- Global regional trends

Market overview – May 2024

Major Asset Class Performance

	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
Defensive Assets	**0.5%**	**-1.6%**	**-0.2%**	**2.2%**	**2.0%**	**1.5%**
Cash	0.4%	0.4%	1.1%	1.1%	2.2%	4.3%
Aust. Bonds	0.4%	-2.0%	-0.5%	2.6%	2.1%	0.9%
Global Bonds	0.8%	-1.7%	-0.1%	1.9%	1.7%	1.7%
Gold	1.8%	2.5%	13.8%	0.4%	14.3%	18.6%
Growth Assets	**1.4%**	**-3.1%**	**1.5%**	**11.4%**	**13.1%**	**17.8%**
A-REITs	1.9%	-7.6%	3.1%	18.1%	21.8%	23.4%
Aust. Equities	0.9%	-2.9%	1.2%	9.4%	10.7%	12.9%
Global Equities-$A	1.6%	-2.8%	1.6%	12.0%	13.8%	20.2%
Balanced Portfolio	**1.0%**	**-2.4%**	**0.7%**	**6.8%**	**7.5%**	**9.7%**
MSCI ACWI - LC	3.7%	-2.8%	4.2%	10.2%	14.9%	24.1%
World vs $A	-2.0%	-0.1%	-2.5%	1.5%	-1.0%	-3.2%

Source: Bloomberg. Past performance is not indicative of future performance. Defensive, growth and Balanced portfolio returns based on asset weights for the Betashares strategic balanced managed portfolio.

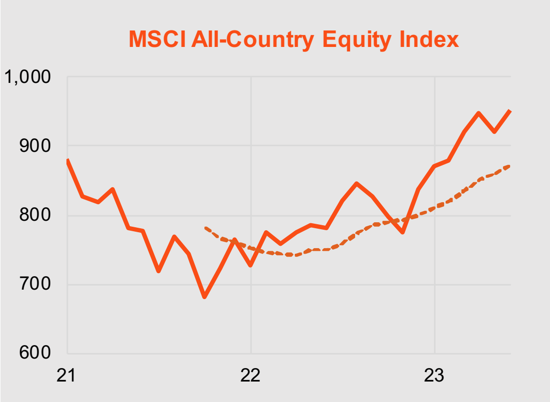
Our hypothetical balanced portfolio rebounded by 1.0% in May, reflecting gains in both growth and defensive assets as bond yields eased. An easing in Iran-Israel tensions and a US CPI inflation report which, for the first time in months, was no worse than expected helped to support investor sentiment.

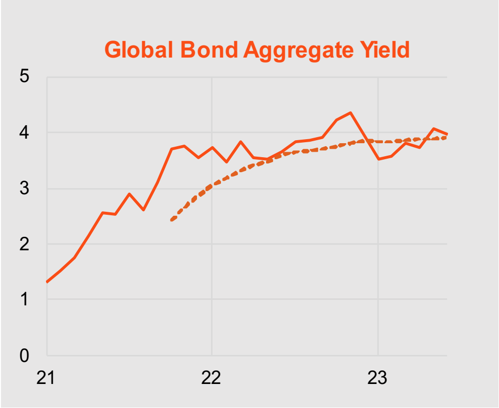
Defensive assets rose 0.5%, reflecting modest gains in Australian and global fixed-rate bonds as bond yields fell back. Gold prices also strengthened further.

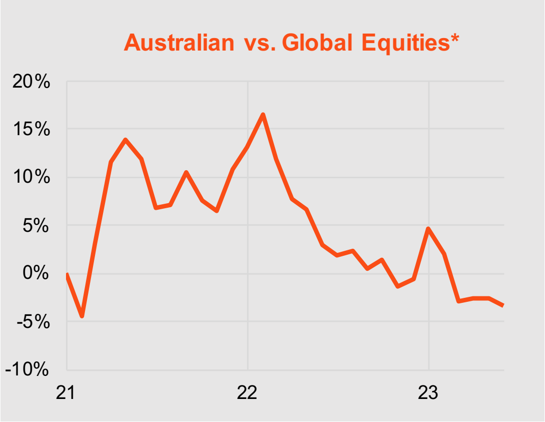
Growth assets rose 1.4%, with global equities in unhedged AUD terms returning 3.7%. The trend in global equities has been upwards since bottoming in late 2022.

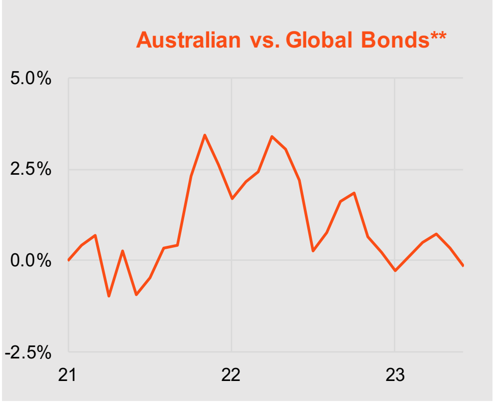
The decline in bond yields supported a 1.9% rebound in the interest-rate sensitive local listed property sector, while Australian equities returned 0.9%. The trend in the relative performance of Australian equities remains downwards since early 2023. Relative returns for Australian versus global bonds have been choppy over the past year.

Global & Australia Major Asset Class Performance









Source: Bloomberg. Past performance is not an indicator of future performance. *Australian equities: S&P/ASX 200 vs Global MSCI ACWI in unhedged $A terms. **Bonds: Bloomberg Australian Composite Bond Index vs. Bloomberg Global Aggregate Bond Index hedged $A terms. Australian vs. global equity and bond performance in percentage difference from start of chart.

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Global bonds

The Bloomberg Global Aggregate Bond Index (AUD hedged) returned 0.8% in May, largely reflecting a notable retracement in US bonds yields. US 10-year bond yields declined by 0.18% to 4.50% p.a. after having gained 0.48% in April.

In turn, this reflected better news on the US inflation front, with the April CPI report in line with expectations – following upside surprises in the previous three months. There was a minor increase in US rate cut expectations over the coming year.

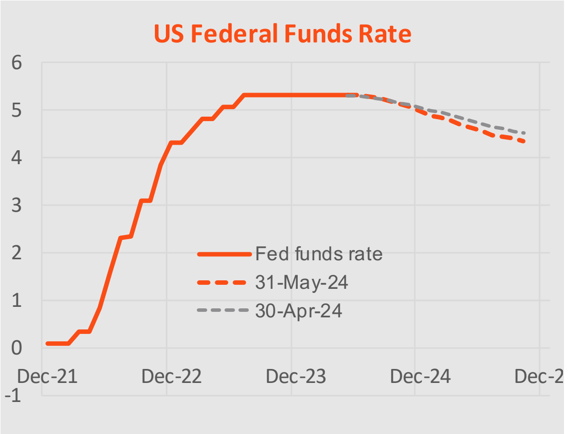
German and Japanese bond yields continued to rise, though remain considerably lower than in the US. The European Central Bank is still widely expected to cut rates in June, though Japan is slowly trying to extricate itself from a long-held policy of near-zero interest rates.

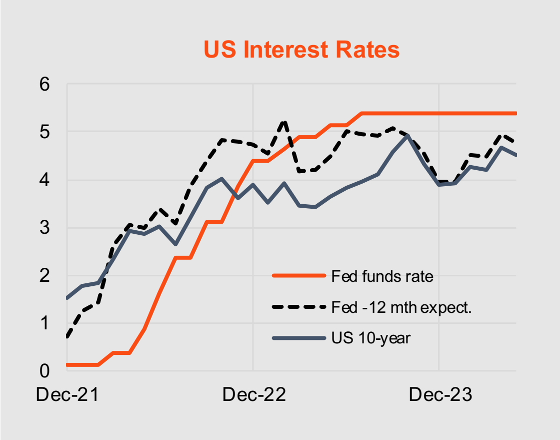
Credit spreads remain reasonably contained, with a modest rebound in both emerging market and high-yield corporate bond spreads in May, though within a still declining trend.

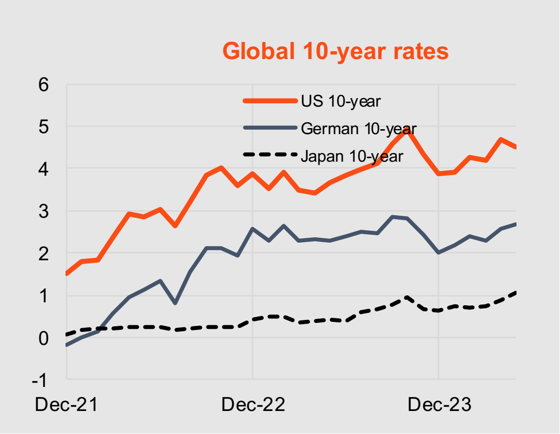
All up, the yield-to-maturity on the Bloomberg Global Aggregate Index declined by 0.08% to 3.98% p.a.

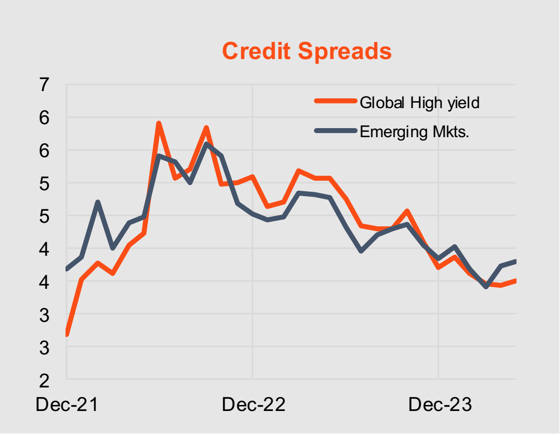
Global Bonds	Last	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
US Fed Funds	5.38	0.00	0.00	0.00	0.00	0.00	0.25
Fed F 12-mth exp.[3]	4.78	-0.17	0.48	0.27	-0.04	0.23	0.30
US 10-yr yield	4.50	-0.18	0.48	0.25	-0.08	0.17	0.85
German 10-yr	2.66	0.08	0.29	0.25	-0.03	0.22	0.38
Japan 10-yr	1.07	0.19	0.15	0.36	0.04	0.40	0.63
High yield spread	3.50	0.07	-0.03	-0.11	-0.48	-0.59	-1.57
Global Bond yield	3.98	-0.08	0.31	0.17	-0.13	0.04	0.32
Global Bonds-$US H	557	0.9%	-1.6%	0.2%	2.3%	2.4%	3.2%
Hedging cost		-0.1%	-0.1%	-0.3%	-0.4%	-0.7%	-1.5%
Global Bonds-$A H	**999**	**0.8%**	**-1.7%**	**-0.1%**	**1.9%**	**1.7%**	**1.7%**

Select Global Interest Rates









Source: Bloomberg, Refintiv, Betashares. **Past performance is not indicative of future performance.**

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Global equities

Lower bond yields and an easing in Middle East tensions contributed to a rebound in the MSCI All-Country World Equity Return Index of 3.7% in May on a hedged (local currency) basis, following a 2.8% decline in April.

Thanks to still bullish earnings expectations, forward earnings rose a further 1.9% in the month, while the forward-PE ratio rose 1.6% to 17.4 from 17.1.

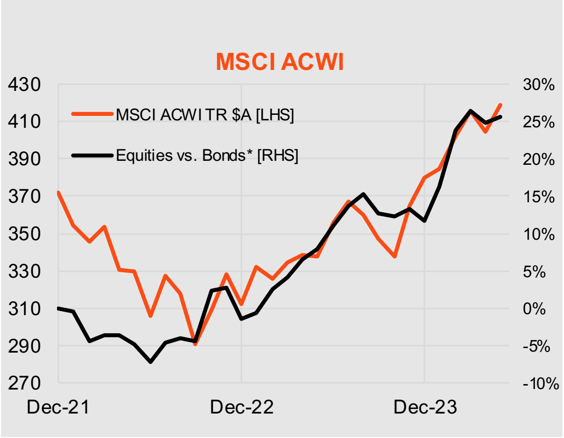
Despite the rise in the PE ratio, the decline in bond yields allowed for a modest re-widening in equity risk premium to (a still relatively tight) 1.2%.

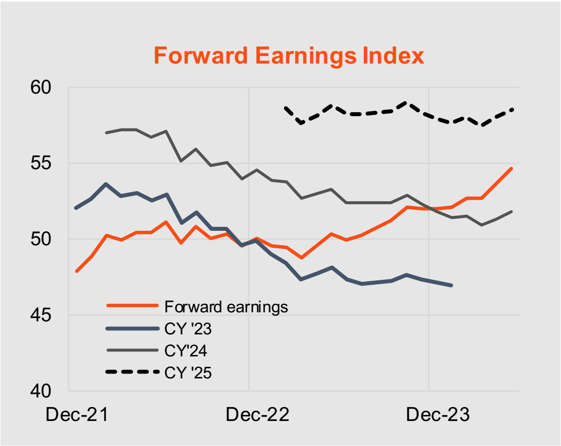
In unhedged AUD terms, global equities rose by 1.6%, reflecting a firmer $A over the month. On an unhedged basis, global equities have returned 20.2% over the past year.

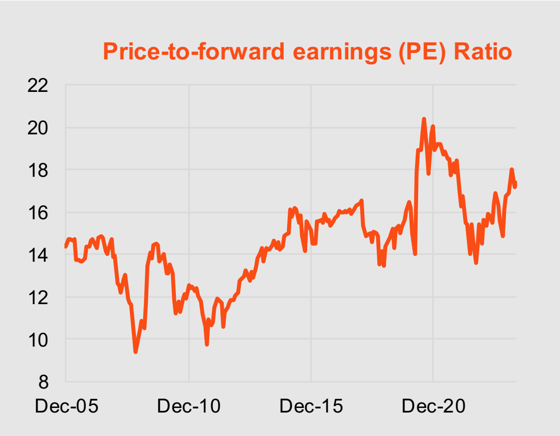
Given the tight equity risk premium, global equities remains vulnerable to higher bond yields in the short-term. Barring the US Federal Reserve returning to a tightening bias, however, we have likely passed the peak in bond yields in this cycle.

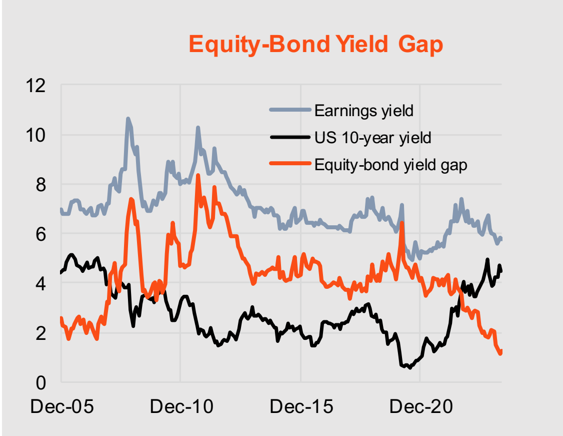
Global Equities	Last	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
US 10-yr yield	4.50	-0.18	0.48	0.25	-0.08	0.17	0.85
Equity-risk premium[5]	1.24	0.09	-0.20	-0.24	-0.40	-0.64	-1.57
Earnings yield[6]	5.74	-0.09	0.28	0.01	-0.48	-0.47	-0.71
PE ratio[7]	17.4	1.6%	-4.7%	-0.1%	8.3%	8.2%	12.4%
Forward Earnings[8]		1.9%	1.9%	3.7%	1.5%	5.3%	8.6%
MSCI ACWI Price Index		3.5%	-2.9%	3.6%	9.9%	13.9%	22.1%
Dividend		0.2%	0.1%	0.6%	0.3%	1.0%	2.0%
Total Return-hedged		3.7%	-2.8%	4.2%	10.2%	14.9%	24.1%
World vs $A		-2.0%	-0.1%	-2.5%	1.5%	-1.0%	-3.2%
Total return-$A basis[9]		**1.6%**	**-2.8%**	**1.6%**	**12.0%**	**13.8%**	**20.2%**

MSCI All-Country World Equity Index









Source: Bloomberg, Refintiv, Betashares. * Equities versus bonds refer to the MSCI All Country World Equity Return Index (local currency) versus the Bloomberg Global Aggregate Bond Return Index ($US Hedged) **Past performance is not indicative of future performance**

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Global sector/factor trends

Strength in gold prices contributed to continued strength in global mining stocks in May, with MNRS' index returning a further 6.3% (the same as April).

Elsewhere, the tug of war between growth and value exposures continued, with relative performance still influenced by the movement in bond yields. On the value side, global banks continued to perform well last month, with BNKS returning a further 3.9%. The decline in bond yields, however, also supported a solid rebound in the technology-heavy NASDAQ-100, with HNDQ rebounding 6.4%.

The rebound in HNDQ is indicative of the fact the easing bond yields and the "soft landing" scenario may still favour growth/technology exposures in the coming year despite their relatively lofty valuations. Despite cheaper valuations, the rotation to "value" is still far from assured.

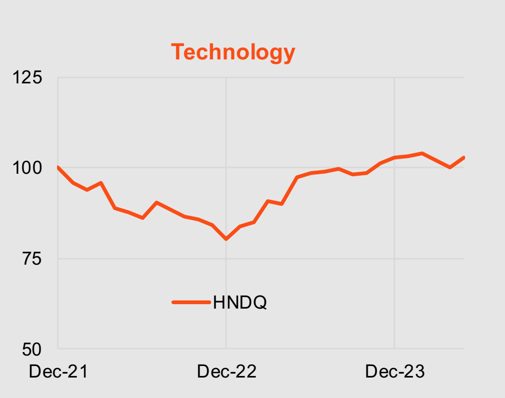
Selected Betashares Global Equity Indices – May Performance

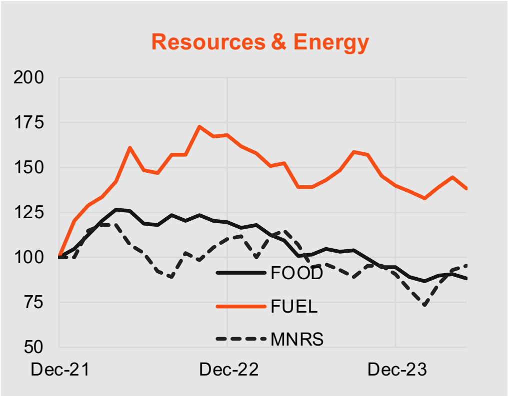
Global Equitiy Sectors	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
MSCI ACWI	**3.7%**	**-2.8%**	**4.2%**	**10.2%**	**14.9%**	**24.1%**
HNDQ	6.4%	-4.4%	2.9%	13.3%	16.5%	30.8%
HQLT	3.5%	-4.8%	0.9%	13.9%	15.0%	25.6%
FUEL	-0.7%	0.9%	8.5%	0.5%	9.0%	23.1%
BNKS	3.9%	0.3%	11.8%	10.8%	23.9%	36.9%
DRUG	2.5%	-3.3%	1.6%	10.1%	11.9%	13.1%
FOOD	0.4%	-1.5%	5.6%	1.6%	7.3%	8.5%
MNRS	6.3%	6.3%	34.8%	-14.8%	14.9%	10.5%

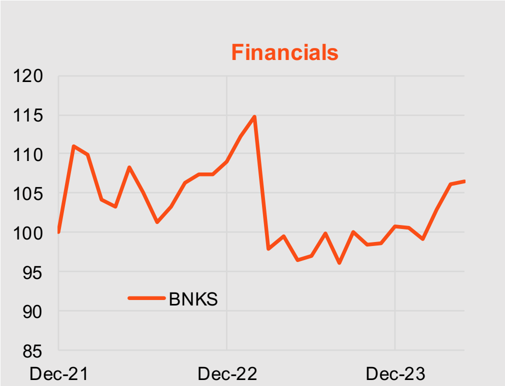
Source: Bloomberg, Betashares. Shows the performance of the index that each ETF seeks to track, and not the ETF itself. Does not take into account ETF management fees and costs. You cannot invest directly in an index. **Past performance is not indicative of future performance of any index or ETF.**

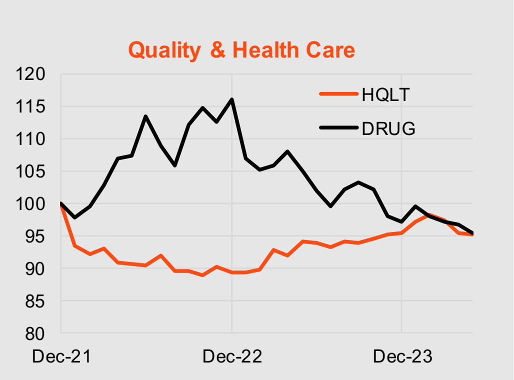
Selected Betashares Global Equity Index Exposures

*Relative Performance Indices**









Source: Bloomberg, Betashares. *International ETF indices vs. MSCI ACWI. Index performance is used to show long term performance of the asset class. Chart shows performance of the index which the relevant ETF aims to track, not the actual past performance of the ETF. Index performance does not take into account ETF fees and costs. You cannot invest directly in an index. ETF may not have been in existence for entire period specified in the chart. **Past performance is not an indicator of future performance.**

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Global regional trends

Along with the rebound in growth/technology, US equities performed relatively strongly in May with the S&P 500 up 5.0%.

Over the past 6-to-12 months the strongest relative performance has been in Japan (HJPN ETF) and the US (S&P 500). America's performance is related to the ongoing strength in growth/technology exposures, whereas Japan's performance can be attributed to relative cheapness, a weak Yen, and solid corporate earnings as more companies focus on improved shareholder returns.

Australian and UK relative performance, however, remain in a downtrend, while Europe is broadly tracking global returns.

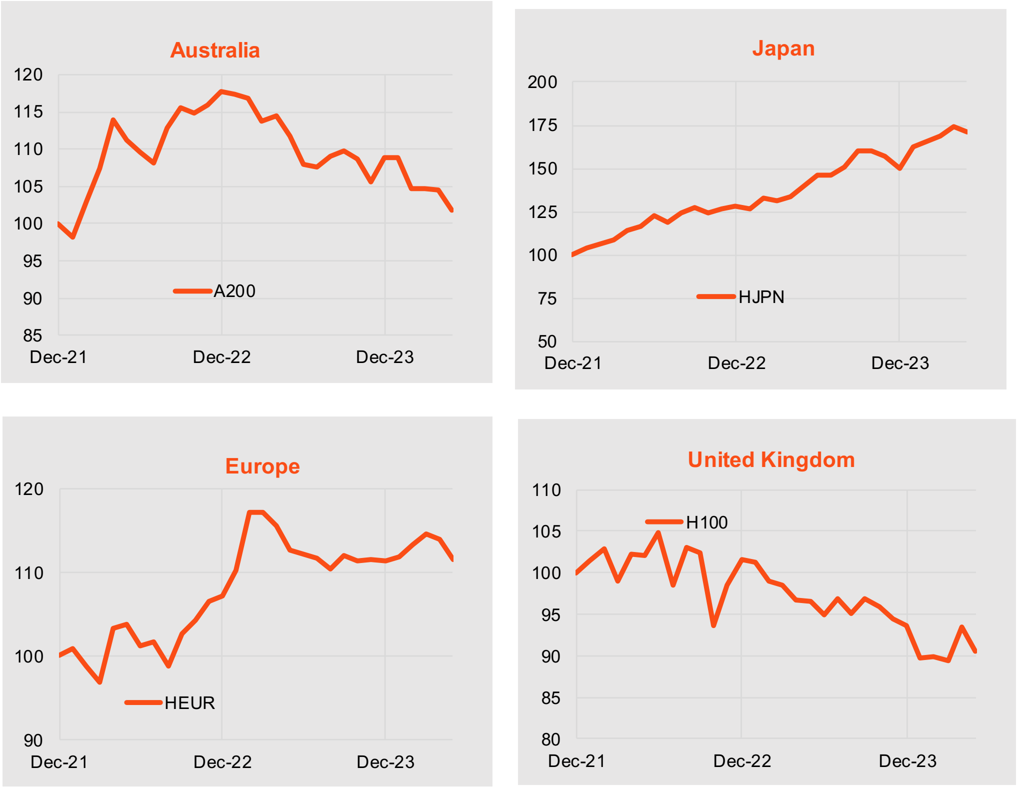
Selected Betashares Global Equity Indices – May Performance

Global Equitiy Regions	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
MSCI ACWI	**3.7%**	**-2.8%**	**4.2%**	**10.2%**	**14.9%**	**24.1%**
A200	0.9%	-2.9%	1.2%	9.5%	10.8%	13.2%
HJPN	1.5%	0.3%	7.3%	16.2%	24.7%	51.6%
S&P 500	5.0%	-4.1%	3.9%	12.0%	16.4%	28.2%
H100	2.1%	2.7%	9.9%	3.0%	13.2%	15.6%
HEUR	1.5%	-3.3%	2.6%	12.0%	14.9%	22.9%

Source: Bloomberg, Betashares. Shows the performance of the index that each ETF seeks to track, and not the ETF itself. Does not take into account ETF management fees and costs. You cannot invest directly in an index. **Past performance is not indicative of future performance of any index or ETF.**

Selected Betashares Global Equity Index Exposures

*Relative Performance Indices**



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Australian Markets

- Australian cash and bonds
- Australian equities
- Australian equity themes

Australian cash and bonds

The Bloomberg Australian Bond Composite Index returned 0.4% in May, in line with broadly flat local bond yields. Cash returns, according to the Bloomberg Bank Bill Index, lifted another 0.4%.

There was little change in the market's RBA rate outlook over the past month, with local long-term bond yields holding steady despite the decline in US yields. This likely reflected recent higher than expected inflation results and a continued neutral to mild tightening bias from the RBA.

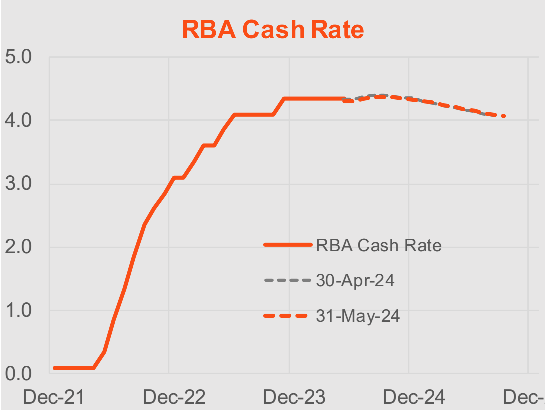
Indeed, fixed-rate bonds have experienced choppy sideways performance against cash since the peak in bond yields in October last year.

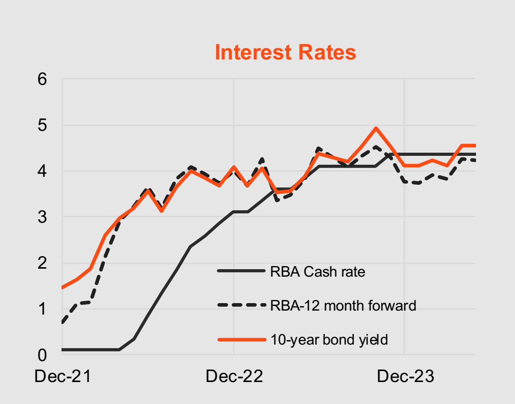
Corporate credit spreads, meanwhile, continue to narrow, which is supportive of corporate bond outperformance over government bonds.

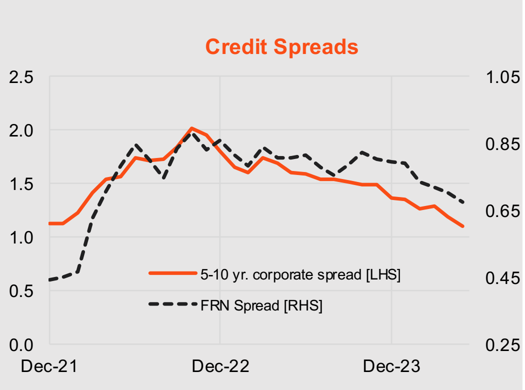
Australian Bonds	Last	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
RBA Cash Rate (%)	4.35	0.00	0.00	0.00	0.00	0.00	0.50
RBA 12-mth exp.[3]	4.24	-0.03	0.45	0.31	-0.36	-0.05	0.41
US 10-yr yield	4.5	-0.18	0.48	0.25	-0.08	0.17	0.85
Aust. 10-yr yield	4.41	-0.01	0.46	0.27	-0.28	0.00	0.80
FRN spread[1] (%)	0.68	-0.03	-0.02	-0.06	-0.07	-0.13	-0.13
Hybrid Spread[2] (%)	5.60	1.00	1.00	3.00	-0.08	2.92	2.43
5-10yr spread[4]	1.10	-0.09	-0.10	-0.16	-0.23	-0.39	-0.51
AusBond Comp. yield	4.56	0.00	0.44	0.32	-0.28	0.04	0.69
AusBond Comp. Return Index		0.4%	-2.0%	-0.5%	2.6%	2.1%	0.9%
B/Bg Bank Bill Return Index		0.4%	0.4%	1.1%	1.1%	2.2%	4.3%

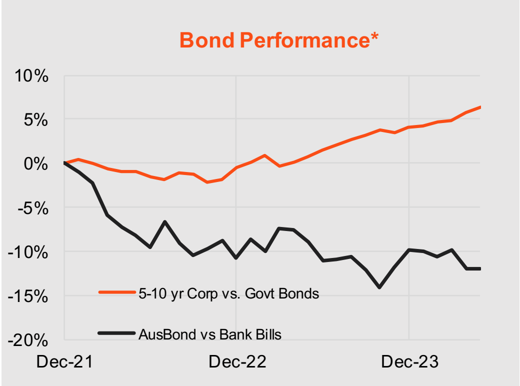
Source: Bloomberg, Refintiv, Betashares. *Bloomberg AusBond Composite Index, Bloomberg Bank Bill Index, Bloomberg 5–10-year Australian Government and Corporate Bond Indices. **Past performance is not indicative of future performance.**

Select Australian Interest Rates









Source: Bloomberg. Past performance is not an indicator of future performance. *AusBond Index vs Bank bills and corporate vs. government 5-10 year bond performance is the percentage difference in returns from start of chart.

Australian equities

The S&P/ASX 200 Return Index rose 0.9% in May after a 2.9% decline in April. The market ended the month still above the trading range it was stuck in for the previous few years.

Forward earnings declined by 0.7% in the month, reflecting downgrades to expected earnings growth. Forward earnings are down 5.4% over the past year, and it's the weakness in earnings that largely accounts for the underperformance of the Australian market versus global peers.

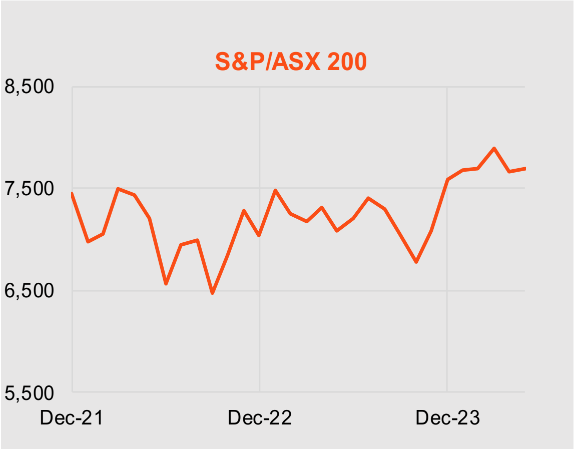
At 16.4, the forward PE ratio is at the top end of its range over recent decades (apart from the COVID period spike).

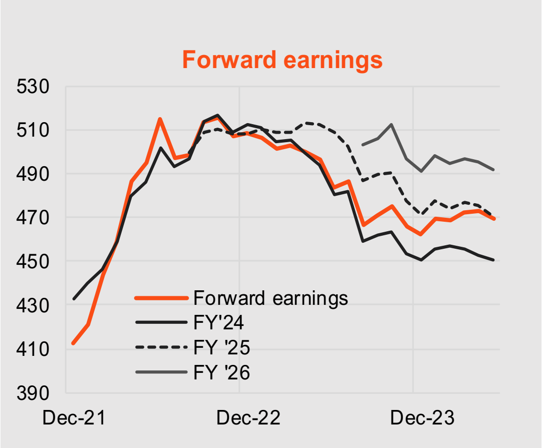
Given positive expected earnings growth in FY'25, forward earnings should rise over the coming year – but at this stage not as much as expected by the global market. The recent downtrend in earnings expectations - due to sluggish economic growth and delayed rate cut expectations - is also concerning.

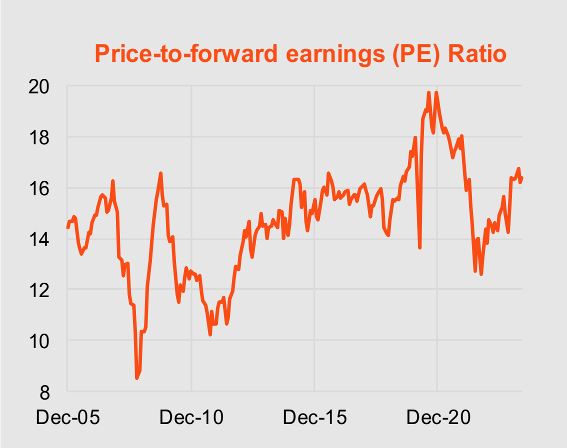
Australian Equities	Last	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
Aust. 10-yr yield	4.41	-0.01	0.46	0.27	-0.28	0.00	0.80
Equity-risk premium[5]	1.69	-0.06	-0.27	-0.27	-0.21	-0.48	-1.71
Earnings yield[6]	6.10	-0.07	0.19	0.00	-0.48	-0.48	-0.90
PE ratio[7]	16.4	1.2%	-3.1%	-0.1%	7.9%	7.9%	14.8%
Forward Earnings[8]	469.6	-0.7%	0.1%	0.1%	0.7%	0.8%	-5.4%
S&P/ASX 200 Price Index	7,702	0.5%	-2.9%	0.0%	8.6%	8.7%	8.6%
Dividend		0.4%	0.0%	1.1%	0.8%	2.0%	4.3%
Total Return		**0.9%**	**-2.9%**	**1.2%**	**9.4%**	**10.7%**	**12.9%**

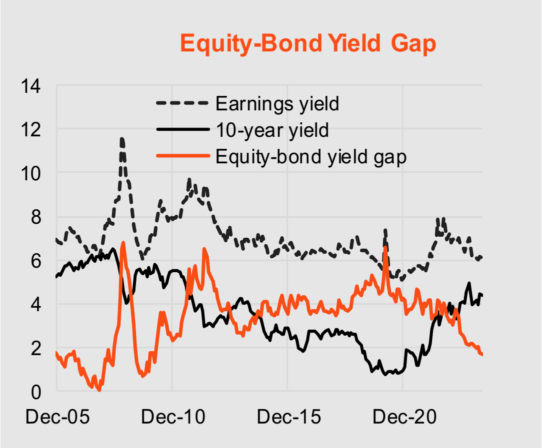
Source: Bloomberg, LSEG Datastream, Betashares. **Past performance is not indicative of future performance.**

S&P/ASX 200 Equity Index









Source: Bloomberg, LSEG Datastream, Betashares. **Past performance is not indicative of future performance.**

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Australian equity themes

Within the Australian sharemarket, technology (ATEC), financials (QFN) and quality (AQLT) have delivered relatively strong performance over the past year, whereas small caps (SMLL) and resources (QRE) have tended to underperform.

Eventual RBA rate cuts should favour a strengthening in credit growth and hence the performance of financials, while the small but vibrant technology sector would also benefit from an eventual lowering in bond yields.

The tilts away from resources and towards technology are also favouring companies that screen highly by the quality factor (i.e. companies with relatively high return on equity without excess leverage) though the superior earnings performance of these companies across a range of sectors appears to be mainly responsible for AQLT's ongoing outperformance.

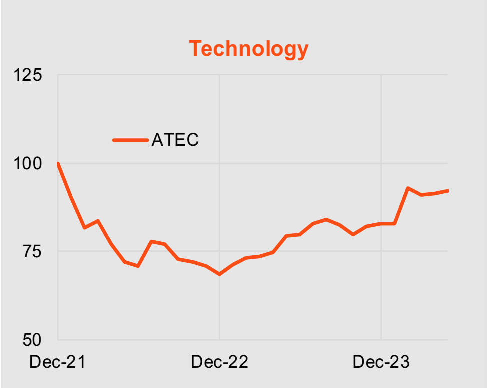
Selected Betashares Australian Equity Indices – May Performance

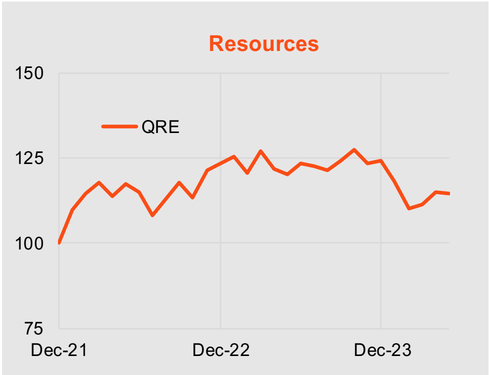
Aust. Equity Returns	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
S&P/ASX 200	**0.9%**	**-2.9%**	**1.2%**	**9.4%**	**10.7%**	**12.9%**
ATEC	2.0%	-2.6%	0.3%	23.8%	24.2%	31.0%
QFN	2.6%	-3.5%	2.1%	15.4%	17.8%	26.8%
QRE	0.4%	0.5%	5.1%	-2.3%	2.7%	7.7%
AQLT	2.4%	-3.3%	2.6%	14.2%	17.2%	22.0%
QOZ	0.7%	-2.6%	1.5%	9.7%	11.4%	16.6%
SMLL	-1.0%	-3.8%	-0.2%	8.6%	8.3%	10.2%

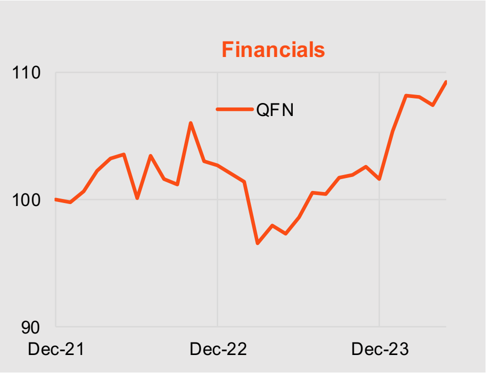
Source: Bloomberg, Betashares. Shows the performance of the index that each ETF seeks to track, and not the ETF itself. Does not take into account ETF management fees and costs. You cannot invest directly in an index. **Past performance is not indicative of future performance of any index or ETF.**

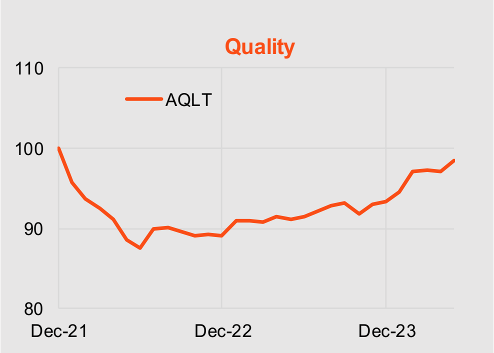
Selected Betashares Australian Equity Index Exposures

*Relative Performance Indices**









Source: Bloomberg, Betashares. Australian ETF indices vs. S&P/ASX 200. Index performance is used to show long term performance of the asset class. Chart shows performance of the index which the relevant ETF aims to track, not the actual past performance of the ETF. Index performance does not take into account ETF fees and costs. You cannot invest directly in an index. ETF may not have been in existence for entire period specified in the chart. Past performance is not an indicator of future performance.

Additional information

1. FRN yield and return is based on that of the Bloomberg Floating Rate Bond Index. FRN spread is its yield difference to the 30-day bank bill rate.
2. Hybrid yield refers to average yield on 5-year to call AT1 hybrids. Hybrid spread is the difference in the hybrid yield and the 30-day bank bill rate. Hybrid returns are gross returns, which include franking credits. The actual after-tax hybrid return for investors will depend on their overall tax situation and ability to benefit from franking credits.
3. 12-month forward RBA/Fed expectation is the market implied expected change in the RBA/Fed cash rate over the coming 12 months, based on interest rate futures.
4. Yields and returns relating to 5–10-year government and credit exposures related to the Bloomberg 5-10 Year maturity Australian Government Bond Index and the 5-10 Year Bloomberg Australian Credit Index.
5. The equity-risk premium is defined as the difference between the equity market's forward-earnings yield (reciprocal of the forward PE ratio) and the 10-year government bond yield.
6. Forward earnings yield is the market's level of forward earnings divided by the equity price index.
7. The price to forward earnings (PE ratio) is the ratio of forward earnings to the equity price index.
8. Forward earnings are a time-weighted pro-rata average of the expected level of earnings for the current and following financial year. The weight on next year's earnings in the calculation grows as the new year approaches.
9. Global equity total returns includes estimated reinvested dividends and are in local currency terms. Australian equity returns also include estimated reinvested dividends and are in Australian dollar terms.

Further information on the complete range of Betashares exchange traded products can be found here.

Considerations when investing

Investment risk

The value of an investor's portfolio can go down as well as up. Risks include:

- Market risk with equities
- Currency risk with international investments
- Interest rate risk with cash and bonds.

No guarantees

Future outcomes are uncertain – desired return outcome may not be achieved.

General information only

Today's discussion does not take into account any person's individual circumstances and is not personal financial advice.

Professional advice

Investors should seek professional financial advice before investing.

Research

See relevant Product Disclosure Statement for more information about risks and other features of each fund and consider the relevant Target Market Determination which sets out the class of consumers that comprise the target market for the relevant fund.

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Written by David Bassanese

Ex Treasury, OECD Macquarie Bank and AFR, Betashares Chief Economist and Author or the Australian ETF Guide.

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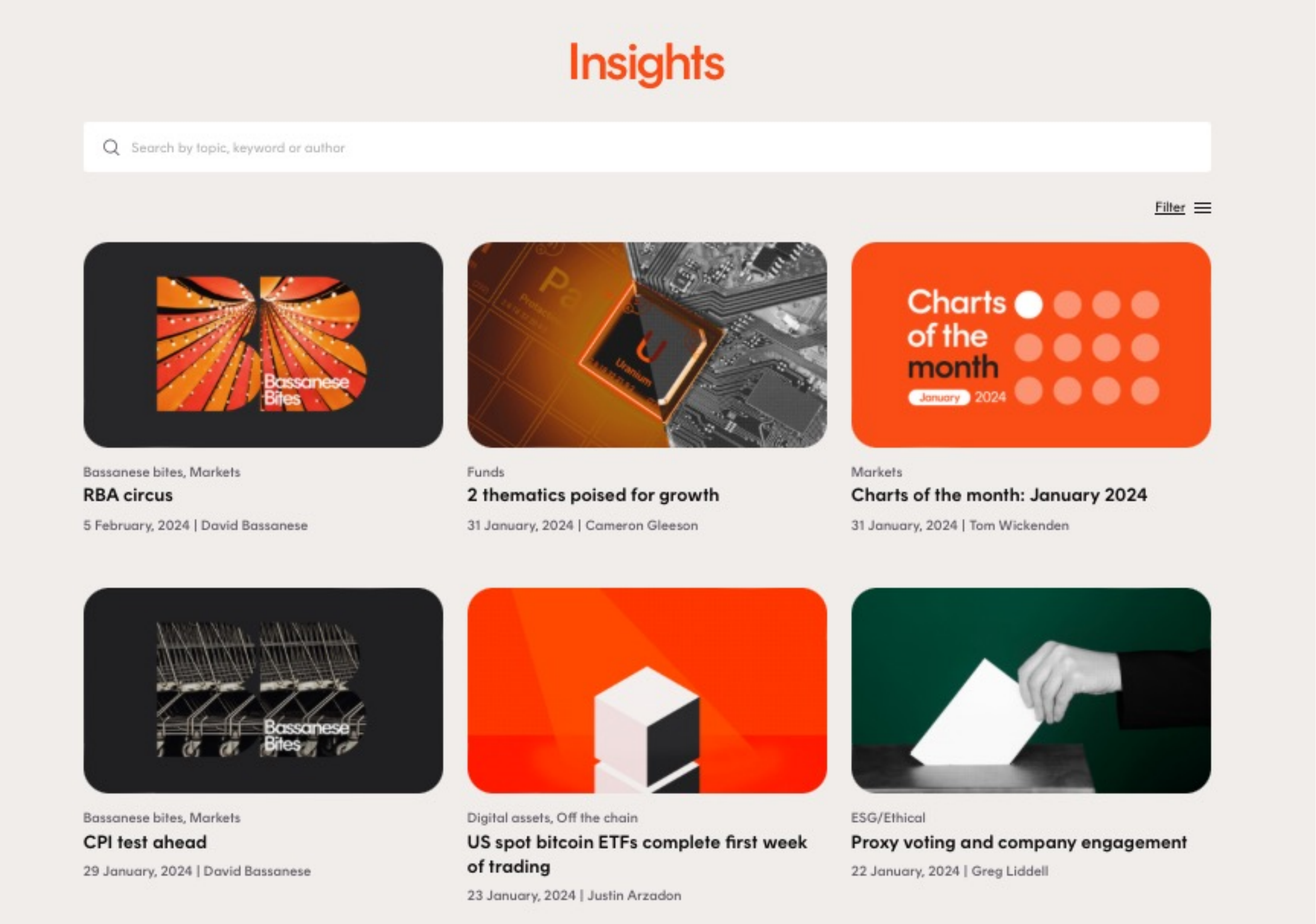

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