May Market Update: Wet and stormy in the world of politics

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In a nutshell

- Rishi Sunak calls General Election for 4th July
- Donald Trump found guilty of falsifying business records.
- Nvidia continues to deliver strong results

What's moving markets

With Rishi Sunak unexpectedly calling an election and Donald Trump becoming the first criminally convicted former President, politics dominated the headlines in May. Although both are newsworthy, neither feels likely to alter the course of events. A Labour victory seems almost inevitable, and entirely irrespective of the election timing. And Trump's most dedicated supporters are unlikely to change their minds now.

Rishi's soggy election announcement came hot on the heels of the UK's latest inflation data. Annualised CPI came in at 2.3%, down from 3.2% in the previous month, with the Prime Minister seemingly attempting to ride on the coattails of positivity around price growth. The slight irony was that the datapoint was a couple of tenths higher than expected and likely pushed any chance of a rate cut from the Bank of England to August, at the earliest.

We got further clarity from other Central Banks in May, too. The ECB is firmly at the front of the queue with a June rate cut pretty much priced in while the Fed is lingering at the back, attempting to navigate the perfect economic landing – inflation to target and unemployment under control.

There are some question marks beginning to emerge on both fronts, however. Inflation isn't falling as quickly as hoped, with CPI stalling around 3.5% and the Fed's preferred Core PCE (Personal Consumption Expenditure) measure suggesting an annualised rate of 2.5-3% over the rest of the year.

Job growth came in much lower last month, with nonfarm payroll figures (a key indicator of jobs being created) dropping from 315,000 to 175,000. Q1 GDP growth was also revised down, led by weaker consumer data. Credit card delinquencies are also on the rise. All of this makes judging the speed and timing of rate cuts very hard. The markets' current best guess is September for the Fed's first move, and maybe another cut before the year's out.

Asset class implications

Government Bonds yields in the UK and US continue to trade in a 4-4.5% window. The longer inflation stays above target and we avoid a proper recession, the more this range feels like fair value. This is keeping the yield curve inverted, with attractive short-term rates on offer.

A lack of strong demand at the recent Treasury auction did nothing to lower these figures. Against this backdrop, Government Bonds delivered a positive return for the month, led by ongoing coupon payments.

10 year bond yields in Japan broke through 1%, signalling tighter monetary policy might be on the horizon. This wasn't enough to reverse the ongoing weakening of the Yen, which has acted as the large headwind to (unhedged) overseas investors lately.

Developed Market equities produced strong returns for May, with the UK, US and Europe all performing well. Nvidia's quarterly earnings announcement was the big ticket event last month - they came in with strong revenue numbers and forecasts, and its share price jumped again.

Although Asia and Emerging Markets underperformed over the month, previous performance has been strong enough to mean YTD numbers are still favourable across the board for equities.

Name	1m	3m	YTD	1yr	3yr
FTSE Actuaries UK Conventional Gilts All Stocks	0.82	-0.42	-3.69	3.04	-22.98
ICE BofA Global Corporate	1.35	0.69	-0.35	4.90	-7.70
ICE BofA Global High Yield	1.22	1.59	2.48	11.45	0.93
FTSE All Share	2.41	9.93	8.68	15.44	25.54
FTSE USA	3.02	2.81	10.82	24.24	41.93
FTSE World Europe ex UK	3.71	5.71	8.90	18.09	26.29
FTSE Japan	-0.52	-1.18	6.55	14.72	18.82
FTSE Asia Pacific ex Japan	0.22	4.32	4.61	10.02	-3.74
FTSE Emerging	-0.62	3.86	5.18	11.62	-2.73

Source: FE Analytics, GBP total return (%) to last month end

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