

Economic and market update

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Bob reviews events in Australian and overseas markets during May.

How did markets perform in May?

Global shares made solid gains of 1.6% (in local currency terms) in May given strong corporate earnings reports, encouraging global economic data and stable bond yields.

US shares achieved record highs in May, driven by strong corporate profit results and continued optimism over President Trump's policy agenda. President Trump's bold promises of tax cuts, higher infrastructure spending and less regulation continues to buoy Wall Street despite the lack of policy detail. US economic data improved with stronger retail spending and jobs growth. Yet inflation pressures have moderated, allowing US government bond yields to edge lower.

European shares also made solid gains in May. The election of Emmanuel Macron as French President was welcomed by investors. Encouraging economic data also favoured European shares.

Chinese shares proved resilient given stable Chinese business surveys and solid activity data. China's sovereign credit rating downgrade had minimal impact.

However Australian shares disappointed in May with a 2.8% fall (S&P/ASX 200 Accumulation Index). The Federal Government's announcement of a bank levy, modest economic activity and weaker commodity prices undermined Australian shares. Financial shares were hit particularly hard by the new bank levy with a sharp fall of 7.7% in May.

The Australian dollar (AUD) fell in May. Softer Australian economic data and lower commodity prices (particularly iron ore) weakened the AUD.

What were the key factors driving markets?

The major themes driving markets in May continued to be President Trump's bold stimulus promises and the political risks in Europe, the Middle East and North Korea.

President Trump's promises of corporate tax cuts and higher infrastructure spending have been supportive of US shares. However financial markets are keenly awaiting the specific detail of President Trump's policies. Given positive business surveys and solid jobs growth, the US Federal Reserve is expected to continue raising interest rates in 2017.

The British general election to be held on 8 June, the tragic terrorist attack in Manchester as well as North Korea's nuclear ambitions were the key political concerns in May.

In Australia, our economic activity remains modest and mixed. Housing construction appears to be cooling while retail spending remains subdued. However there are some encouraging signs. Australia's unemployment rate has edged lower to 5.7% with a strong rebound in jobs growth. The National Australia Bank business survey also indicates solid responses for confidence and conditions.

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