

World markets review — May 2024

Equities

Global equities rallied. Worries about U.S. interest rates remaining higher for longer largely faded, with sentiment buoyed by a drop in U.S. inflation and a significant slowdown in the pace of U.S. jobs growth. Emerging markets stocks lagged their developed market counterparts in a month that saw the U.S. substantially hike tariffs on certain Chinese imports. The May CBOE Volatility Index (VIX) dropped to 13.8, down 12% from the prior month. (A VIX reading below 20 is widely viewed as an indicator of market stability.)

All sectors of the MSCI All Country World Index rose, led by information technology, utilities and communication services. Energy and consumer discretionary were the chief laggards.

Equity index returns (%)	May 2024		YTD 2024	
	U.S. dollar	Local currency	U.S. dollar	Local currency
S&P 500	5.0	5.0	11.3	11.3
MSCI ACWI	4.1	3.7	8.9	10.4
MSCI ACWI ex USA	2.9	1.9	5.8	9.9
MSCI World	4.5	4.1	9.5	10.9
MSCI Emerging Markets	0.6	0.5	3.4	6.5
MSCI EAFE	3.9	2.5	7.1	11.7
MSCI Europe	4.8	3.0	8.2	10.7
MSCI Pacific	2.0	1.3	4.8	13.6

Source: RIMES

Fixed income

Global bonds made gains overall as weaker U.S. inflation brought some relief. The U.S. 10-year Treasury yield fell 18 basis points (bps) to 4.50% and U.K. 10-year gilt yields were down 3 bps to 4.32%. German 10-year bond yields rose 8 bps to 2.66% after eurozone inflation surprised on the upside. Japanese 10-year government bond yields also moved higher, rising 19 bps to 1.06% in anticipation of further monetary tightening from the Bank of Japan (BoJ). This marks the first time the country's 10-year yield has exceeded 1% in 11 years.

In foreign exchange markets, the U.S. dollar weakened, with the U.S. Dollar Index losing 1.5% over May. The euro and British pound gained 1.5% and 1.7% against the dollar, respectively, while the Japanese yen was broadly flat. Meanwhile, emerging markets currencies were mixed versus the dollar.

Fixed income index returns (%)	May 2024	YTD 2024	Exchange rates (% change vs. USD)	May 2024	YTD 2024
Bloomberg U.S. Aggregate	1.7	-1.6	Euro	1.5	-1.7
Bloomberg Global Aggregate	1.3	-3.3	Japanese yen	0.1	-10.3
Bloomberg U.S. Corp IG	1.9	-1.1	British pound	1.7	-0.1
Bloomberg U.S. Corp HY	1.1	1.6	Canadian dollar	0.8	-3.3
JPM EMBI Global Diversified	1.8	1.7	Australian dollar	2.4	-2.5
JPM GBI-EM Global Diversified	1.6	-2.7	Swiss franc	1.7	-6.7

Source: RIMES. Returns are in USD.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

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North America

U.S. equities rallied, with cooling inflation and weaker job growth helping to offset concerns over the outlook for interest rates. The S&P 500 Index and Nasdaq Composite Index advanced 5% and 7%, respectively. Cyclical sectors generally outpaced defensive areas as a decline in U.S. inflation for April contrasted with the higher-than-anticipated uptick witnessed in the prior month. Nonfarm payrolls growth for April also slowed markedly.

Most sectors of the S&P 500 made gains, led by information technology and utilities. Shares of Nvidia surged after first-quarter results and second-quarter guidance beat analysts' forecasts. Data center revenue soared year on year as the chipmaker benefited from rapidly growing demand for artificial intelligence (AI) technology. Nvidia also unveiled a 10-for-1 stock split and a significant increase in its quarterly dividend.

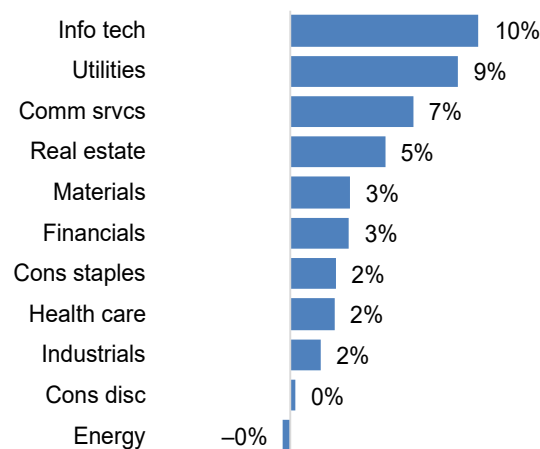
Energy was the exception as it generated slightly negative returns. Shares of oil major ExxonMobil fell as crude oil prices dropped amid demand worries. Gasoline demand in the U.S. remained relatively weak while the prospect of U.S. interest rates remaining higher for longer weighed on the overall demand outlook.

Headline U.S. inflation eased to 3.4% for April from March's 3.5%. This was generally met with relief from investors following the sharp uptick in inflation reported for March. However, Federal Reserve (Fed) chair Jerome Powell warned U.S. interest rates were likely to remain higher for longer than previously envisaged given a lack of progress in tackling price pressures this year. The core personal consumption expenditures (PCE) index, the Fed's preferred price gauge, was unchanged on an annual basis at 2.8% for April. It remains only slightly lower on an annual basis than where it stood at the beginning of 2024.

U.S. jobs growth slowed. Nonfarm payrolls for April substantially lagged economists' forecasts, with 175,000 jobs created versus the 315,000 positions added in March. Nevertheless, the S&P Global U.S. Composite Purchasing Managers' Index (PMI) jumped to 54.4 in May from April's 51.3, surpassing consensus forecasts and marking the strongest reading since April 2022. The survey showed services enjoyed the sharpest expansion in a year while manufacturing returned to modest growth after stagnating in April.

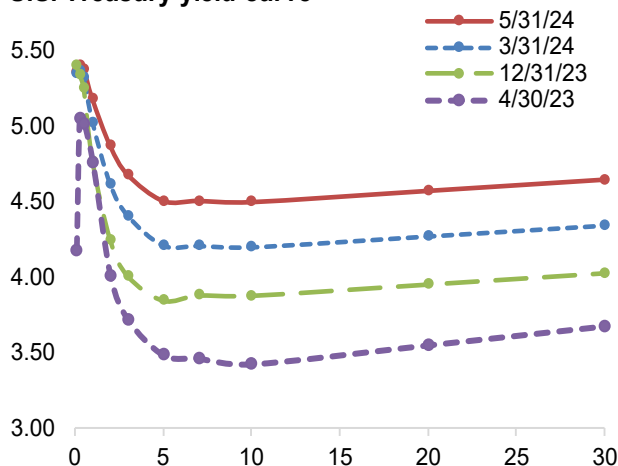
U.S. bonds gained, with the Bloomberg U.S. Aggregate Index up 1.7%, recovering some of the ground lost in the prior month. The U.S. 10-year and 2-year Treasury yields were down by 18 bps to 4.50% and 17 bps to 4.87%, respectively, over May. Within U.S. credit markets, both the Bloomberg U.S. Corporate Investment Grade Index (rated BBB/Baa and higher) and the Bloomberg U.S. Corporate High Yield Bond Index generated positive returns, although high-yield bonds lagged Treasury returns as spreads widened modestly.

S&P 500 total returns (May 2024)



Source: RIMES

U.S. Treasury yield curve



Source: Bloomberg. The x-axis represents Treasury maturities (years). The y-axis represents the U.S. Treasury yield (%).

Europe

European equities advanced. Although eurozone inflation for May was higher than expected and eurozone interest rate expectations moved up slightly, the European Central Bank was still widely anticipated to cut interest rates by 25 bps at its June meeting. Most sectors of the MSCI Europe Index rose, led by financials, real estate and industrials. The energy sector was broadly flat, with oil producers suffering from a decline in crude oil prices.

Eurozone inflation rose to 2.6% for May from 2.4% in each of the prior two months, surpassing estimates to mark the first increase this year. Energy prices rose slightly in a rebound from recent declines while services inflation picked up. Core eurozone inflation firmed to 2.9% in May from April's 2.7%.

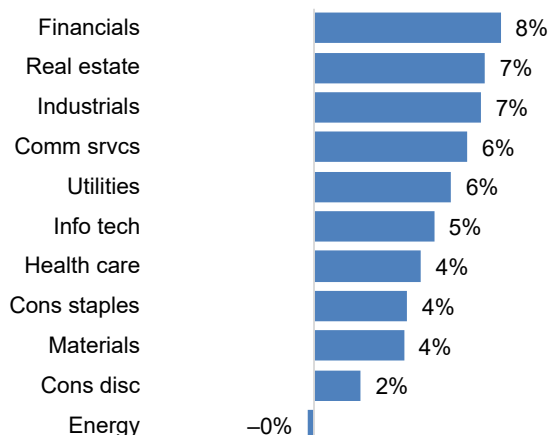
The eurozone economy strengthened in May, with the HCOB Eurozone Composite PMI rising to 52.2 from 51.7 in April, the fastest pace in a year, as business activity and new orders firmed in combination with business confidence reaching a 27-month high. While the expansion in services continued, the manufacturing segment registered its strongest score since March 2023 as the rate of decline in the sector dropped. Separately, official data showed eurozone unemployment for April dipped to a fresh all-time low of 6.4% versus 6.5% for each of the prior five months.

German wage growth accelerated to 6.2% for the first quarter of 2024, up from 3.6% in the prior quarter, indicating the strongest pace in German wage inflation for almost a decade. Germany's Bundesbank warned labor shortages and the risk of strikes meant wage growth was likely to remain elevated. Optimism on the outlook for the German economy over the next six months notably strengthened as the ZEW Indicator of Economic Sentiment reached its highest level since February 2022, rising to 47.1 in May from April's 42.9.

U.K. equities rose. Buoyed by a recovery in the service sector, the U.K. economy surpassed economists' forecasts to grow 0.6% in the first quarter of 2024, its fastest clip since the fourth quarter of 2021. U.K. inflation fell by less than anticipated in April, down to 2.3% from March's 3.2%, dampening hopes of a June interest rate cut from the Bank of England. U.K. wage growth was at 5.7% for the first quarter of 2024, unchanged from the prior quarter and defying expectations of a slowdown. The U.K. government called a general election to be held on July 4; the decision was unexpected given the opposition Labour Party's substantial lead in the opinion polls.

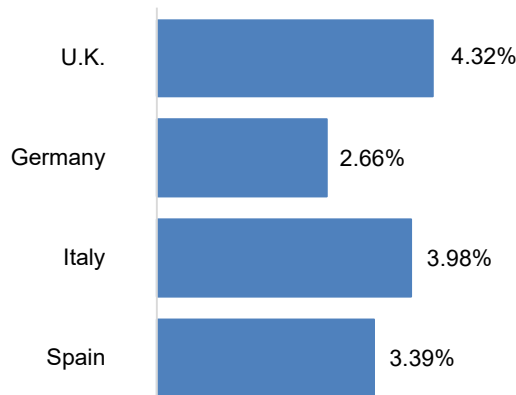
European government yields mostly moved higher with German 10-year bond yields up 8 bps to 2.66% and France's equivalent yield closing 9 bps higher at 3.14%. Meanwhile, Spanish and Italian 10-year yields rose 4 bps to 3.39% and 7 bps to 3.98%, respectively. In contrast, U.K. 10-year gilt yields eased 3 bps to 4.32%.

MSCI Europe total returns (May 2024)



Source: RIMES. Returns are in USD.

10-year government bond yields



Source: Bloomberg. As of 5/31/24.

Asia-Pacific

Japanese stocks rose, though they substantially lagged the MSCI All Country World Index. Most Japanese sectors were up in U.S. dollar terms with financials, utilities and energy generating the best returns. In contrast, the real estate, materials and consumer discretionary sectors fell in U.S. dollar terms. Japanese interest rate expectations moved higher in anticipation of further tightening from the BoJ. Japan's Ministry of Finance revealed it had intervened in currency markets to prop up the yen for the first time since 2022. The Japanese yen closed May flat against the U.S. dollar, continuing to trade around 34-year lows.

Japan's economy shrank 0.5% in the first quarter versus the prior quarter's flat reading, trailing estimates. Consumer spending contracted at a steeper pace, pressured by higher living costs and January's Noto earthquake. A drop in exports also weighed. Nevertheless, business survey data suggested private sector growth accelerated for a third consecutive month in May, with the first expansion in manufacturing activity since May 2023.

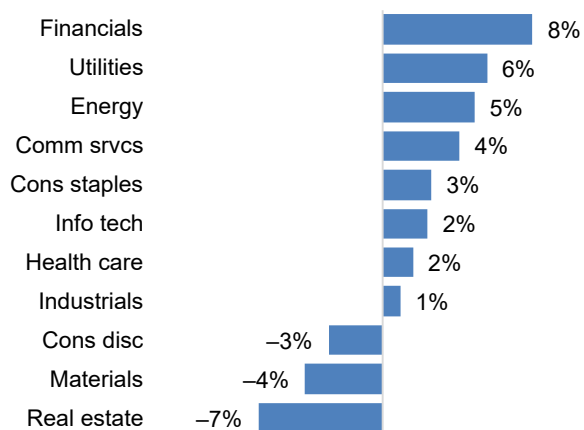
Japanese inflation eased to 2.5% in April from March's 2.7%, falling for a second consecutive month, with food price inflation dropping to its lowest level in 19 months. Meanwhile, Japan's core inflation fell to 2.2% from 2.6%. Japanese interest rate expectations nevertheless increased as markets positioned themselves for further policy tightening from the BoJ in the face of continuing yen weakness.

Hong Kong stocks rose. The city's economy expanded 2.7% year on year for the first quarter, down from the prior quarter's 4.3% pace, though well ahead of economists' forecasts. Business survey data revealed a second consecutive month of expansion in the private sector, with the S&P Global Hong Kong SAR PMI at 50.6 in April versus March's three-month high of 50.9.

Stocks in Singapore made gains. The S&P Global Singapore PMI increased to 54.2 in May from April's nine-month low of 52.6, marking the 15th straight month of expansion due to faster rises in new business and output.

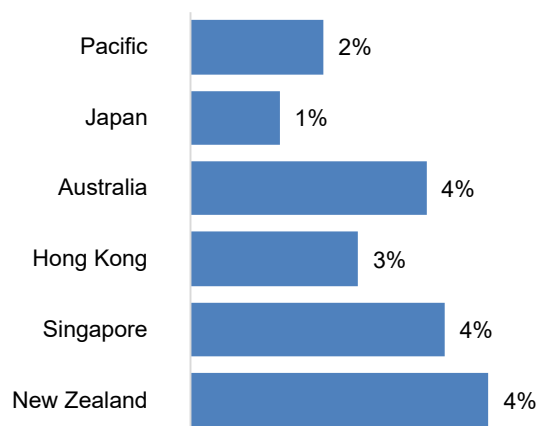
Australian equities moved higher. The Reserve Bank of Australia left interest rates on hold at 4.35% as it struck a more hawkish tone and warned inflation was falling more slowly than anticipated. It expects to keep borrowing costs around the current level until mid-2025. The Judo Bank Australia Composite Output Index edged down to 52.1 in May from April's 53 as the pace of expansion in the service sector softened. The Australian dollar rose 2.4% versus the U.S. dollar.

MSCI Japan total returns (May 2024)



Source: RIMES. Returns are in USD.

MSCI Pacific total returns (May 2024)



Source: RIMES. Returns are in USD.

Emerging markets

Emerging markets (EM) equities made modest gains, trailing developed markets. China outpaced the MSCI Emerging Markets Index despite significantly lagging the wider return from global equities. China was hit by higher U.S. import tariffs as the trade dispute between the two countries worsened. Latin American equities slid, with Brazilian stocks pressured by concerns over rising government interference. South Africa, Mexico and India all held elections toward month's end.

Chinese stocks rose. China unveiled new measures to boost its ailing property sector, easing constraints on mortgage lending and enabling local governments to invest in residential real estate projects. However, the trade dispute with the U.S. intensified as the latter unveiled a substantial rise in import tariffs on a range of Chinese products, including electric vehicles and solar cells. Factory activity fell for the first time since February, with China's official NBS Manufacturing PMI unexpectedly dropping to 49.5 for May from April's 50.4 as new orders and foreign sales declined. Chinese inflation nevertheless edged up to 0.3% in April from 0.1% in the prior month as domestic consumer demand continued to stabilize.

Indian equities were modestly higher. India's economy grew by a better-than-forecast 7.8% year on year in the first quarter, helped by a rise in manufacturing output. Monthly business survey data showed the economy was continuing to grow at a sharp clip with the HSBC Flash India Composite PMI firming to 61.7 in May from April's 61.5. Narendra Modi was widely anticipated to clinch a third term as prime minister in India's June elections.

Latin American equities slid, with Brazilian stocks suffering from concerns over increased domestic political intervention. Petrobras CEO Jean Paul Prates stood down amid government opposition to the oil group's decision to award an extraordinary dividend to shareholders. Brazil's private sector activity growth slowed, with the S&P Global Composite PMI for Brazil easing to 54 in May, down from 54.8 in April.

Emerging markets debt (EMD) made gains. Both local (returns in U.S. dollar terms) and hard currency EMD in U.S. dollar terms generated positive returns against some softening in U.S. Treasury yields. Bucking the wider trend, Brazilian local currency EMD (returns in U.S. dollar terms) was pressured by worries over higher government spending. Brazilian inflation declined to a 10-month low of 3.69% for April from March's 3.93%. In line with market forecasts, the Central Bank of Brazil cut the Selic rate by 25 bps to 10.5%.

Turkish bonds advanced, with the country's local currency EMD outpacing its hard currency EMD in U.S. dollar terms as the Turkish lira continued to strengthen in the aftermath of recent local elections. S&P upgraded Turkey's credit rating to B+ from B, highlighting a likely improvement in monetary and fiscal policy. Turkish inflation accelerated to 69.8% for April from 68.5% in the prior month, though this was behind market forecasts. Turkey's central bank maintained the key one-week repo rate at 50%.

May 2024 total returns (%)

Equity indexes (USD)		Fixed income / currency			
		USD debt (USD)	Local debt (USD)	Local debt (Local)	Exchange rate (vs. USD)
MSCI Emerging Markets	0.6	JPM EMBI Global Div	1.8	---	---
MSCI Brazil	-5.0	JPM GBI-EM Global Div	---	1.6	0.9
MSCI China	2.4	Brazil	1.7	-0.8	0.6
MSCI India	0.7	China	1.2	0.4	0.4
MSCI Mexico	-2.5	Indonesia	2.0	2.2	2.1
MSCI South Africa	-0.1	Malaysia	2.3	2.2	0.8
MSCI Korea	-3.6	Mexico	2.7	1.7	1.8
MSCI Saudi Arabia	-7.6	Poland	1.6	3.3	0.5
MSCI Taiwan	5.3	South Africa	1.5	0.8	0.7
MSCI Thailand	-1.6	Turkey	1.3	4.0	3.5

Source: RIMES

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Unless otherwise noted, all returns are in U.S. dollars and assume the reinvestment of dividends. Country stock returns are based on MSCI indexes.

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The **CBOE Volatility Index** is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time mid-quote prices of S&P 500 Index call and put options.

The **Core Personal Consumption Expenditures (PCE) Price Index** is a measure of prices paid for U.S. goods and services, excluding food and energy.

S&P Global purchasing manager indexes (PMIs) track business trends across both manufacturing and service sectors for various countries. The indexes are based on data collected from companies and follow variables such as sales, new orders, employment, inventories and prices. The **S&P Global U.S. Composite Purchasing Managers' Index**, **S&P Global Hong Kong Purchasing Managers' Index**, **S&P Global Singapore PMI**, **HSBC Flash India Composite Purchasing Managers' Index** and **S&P Global Brazil Composite Purchasing Managers' Index** provide similar information for the United States, Hong Kong, Singapore, India and Brazil, respectively. The **Hamburg Commercial Bank (HCOB) Eurozone Composite PMI** reflects responses from manufacturers in Germany, France, Italy, Spain, the Netherlands, Austria, Ireland and Greece, and service providers in Germany, France, Italy, Spain and Ireland totaling about 5,000 private sector companies. The **Judo Bank Australia Composite Output Index** measures private sector output growth in Australia.

The **NBS Manufacturing Purchasing Manager Index** measures the performance of China's manufacturing sector and is derived from a survey of state-owned companies.

J.P. Morgan Emerging Markets Bond Index (EMBI) Global Diversified and related country-specific indexes track total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, eurobonds. **J.P. Morgan Government Bond Index – Emerging Markets (GBI-EM) Global Diversified** and related country-specific indexes cover the universe of regularly traded, liquid fixed-rate, domestic currency emerging market government bonds to which international investors can gain exposure.

MSCI indexes are free-float-adjusted, market-capitalization weighted indexes. Developed market index results reflect dividends net of withholding taxes. Emerging market index results reflect dividends gross of withholding taxes through December 31, 2000, and dividends net of withholding taxes thereafter. Each index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes. **MSCI All Country World Index (ACWI)** is designed to measure results of more than 40 developed and emerging equity markets. **MSCI All Country World (ACWI) ex USA Index** is designed to measure equity market results in the global developed and emerging markets, excluding the United States. **MSCI EAFE® (Europe, Australasia, Far East) Index** is designed to measure developed equity market results, excluding the United States and Canada. **MSCI Emerging Markets Index** is a free-float-adjusted market-capitalization-weighted index designed to measure equity market results in more than 20 global emerging markets. Individual emerging markets listed herein represent a subset of the MSCI Emerging Markets Index. **MSCI Europe Index** is designed to measure developed equity market results across 15 developed countries in Europe. **MSCI Pacific Index** is designed to measure the equity market performance of the developed markets in the Pacific region. It consists of Japan, Australia, Hong Kong, New Zealand and Singapore. **MSCI World Index** is designed to measure equity market results of developed markets. The index consists of more than 20 developed-market country indexes, including the United States.

Nasdaq Composite Index is a broad-based market-capitalization-weighted index that measures all domestic and international-based common-type stocks listed on The Nasdaq Stock Market.

S&P 500 Index is a market-capitalization-weighted index based on the results of 500 widely held common stocks. This index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes.

The **ZEW Economic Sentiment Index** measures the level of optimism that analysts have about the expected economic developments in Germany over the next six months.

The **ICE U.S. Dollar Index** is a geometrically averaged calculation that measures the value of the U.S. dollar relative to a basket of foreign currencies: the euro, the yen, the British pound, the Canadian dollar, the Swedish krona and the Swiss franc. The U.S. Dollar Index, together with all rights, title and interest in and related to the U.S. Dollar Index, including all content included therein and all related intellectual property and property rights, is the exclusive property of ICE Data Indices, LLC.

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