

This month's Market Minute reflects the views of our Investment Office and was composed by  
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## OVERVIEW

April's negative momentum carried over into the first few weeks of May as the S&P 500 neared bear market territory. By the end of the day on May 19, the S&P corrected -18.7% from its January 3rd all time high — a few points shy of a bear market (i.e., a decline of more than -20.0%).<sup>1</sup> During May, the S&P experienced an abrupt reversal with the index having its best week of the year and tenth best week since 2006 helping the index close out the month nearly unchanged (+0.2%). Bond markets were relatively subdued and experienced modest reversals from prior month's losses as they now appear to have fully digested the expectations for the Federal Reserve's path towards an eventual 3.0% interest rate. Meanwhile, nominal economic activity continues to expand, though at a slower pace than was experienced in 2021 but inflation pressures remain and continue to weigh on real (inflation adjusted) growth.

## DOMESTIC EQUITY As of May 31, 2022

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	0.3%	-4.5%	-8.4%	-2.6%
S&P 500	0.2%	-8.6%	-12.8%	-0.3%
Russell 2000	0.1%	-9.8%	-16.6%	-17.0%
Russell 1000 Growth	-2.3%	-14.1%	-21.9%	-6.3%
Russell 1000 Value	1.9%	-3.8%	-4.5%	0.9%

Domestic equity markets found interesting ways to earn near zero during May. The S&P 500 traded up the first three days +4.1% only to fall over the next two weeks by -9.3% and then recovering over +6.5% to close out the month essentially flat. Small cap stocks (Russell 2000 Index) were even more volatile, gaining +4.6% for the first 3-days before then falling then -11.9% in just over a week before gaining +9.9% to end the month essentially flat. Broad markets were led by the energy, utility, and financials sectors with each gaining +15.8%, +4.3%, and +2.7% during the month, respectively. Within both large cap and small cap, value stocks beat growth stocks by nearly identical margins. The Russell 1000 Value Index gained +1.9% and the Russell 1000 Growth Index lost -2.3%, while in small cap the Russell 2000 Value Index gained +1.9% as compared to a -1.9% decline for the Russell 2000 Growth Index.

**INTERNATIONAL EQUITY MARKETS**

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	0.7%	-5.6%	-10.7%	-12.4%
MSCI EAFE	0.7%	-5.8%	-11.3%	-10.4%
MSCI Emerging Markets	0.4%	-5.1%	-11.8%	-19.8%
MSCI EAFE Small Cap	-0.7%	-7.5%	-15.4%	-16.0%

Non-U.S. developed markets led U.S. markets as the MSCI EAFE Index posted gains of +0.7%. Like domestic equities, value beat growth globally and across the market capitalization spectrum. Emerging markets (MSCI Emerging Markets Index) rallied as the month ended, posting gains of +0.4% as news of China's lockdowns coming to an end buoyed Chinese markets (MSCI China Index+1.2% in May). India (MSCI India Index), meanwhile, was a drag on emerging markets after losing -5.8% during the month, and despite May's declines, India has outperformed most developing and developed markets for the first five months of the year.

European equities have fared well despite the ongoing tumult of the Russian – Ukraine war. The MSCI Europe Index gained a modest +0.8% in May, and both the MSCI Europe Index and the MSCI EAFE (primarily Europe and Japan) are ahead of the S&P 500 year-to-date. European markets in part are being supported by the fact that European economies are dominated by value-oriented companies and in general have smaller tech sectors, which has been a significant contributor to this year's market declines. Additionally, European firms more exposed to North America are outperforming those that are more oriented to China and Asia.

**FIXED INCOME** *As of May 31, 2022*
**FIXED INCOME MARKETS**

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	0.6%	-3.2%	-8.9%	-8.2%
BarCap Global Aggregate	0.3%	-5.2%	-11.1%	-13.2%
BarCap US High Yield	0.2%	-3.3%	-8.0%	-5.3%
JPM Emerging Market Bond	0.2%	-5.3%	-14.1%	-13.8%
BarCap Muni	1.5%	-1.3%	-7.5%	-6.8%

The good news is that bond markets stopped going down in May. After five consecutive months of monthly declines, aggregate bond markets (Bloomberg Aggregate index) gained +0.6% in May as the 10-yr U.S. Treasury yield fell from 2.94% to 2.85%.<sup>1</sup> Municipal bonds (Bloomberg Municipal Index) followed the Bloomberg Aggregate Index and notched gains of 1.5% in May. Investment grade corporate debt (Bloomberg Investment Grade Corporate Bond Index) benefited from a combination of tightening credit spreads and lower treasury yields to return +0.9%. While high yield bonds and emerging market debt spreads modestly widened and delivered near unchanged returns for the month (Bloomberg High Yield index at +0.3%. and J.P. Morgan Emerging Market Bond index at +0.2%).

**CLOSING**

A pause may be in order for stock and bond markets, in the sense that they could be done falling — for now, as we are in the camp that significant deleveraging and rotations (which could now be slowing) have been notable culprits to the declines in markets. As a result, the S&P 500 reached near bear market territory while the bond market appears to have discounted the Fed's aggressive monetary policy stance likely leaving both stocks and bonds in consolidation mode for the coming weeks. All eyes will be on incoming inflation data for evidence that a peak in core inflation statistics are in the rear-view mirror. Unfortunately, food and energy prices could continue to weigh on headline inflation statistics in coming months. Lastly, corporate fundamentals remain relatively strong as both revenues and earnings are expected to grow 10% for this year as compared to last year. Meanwhile, stock buyback activity reached new record level in Q1 as significant cash positions for large cap U.S. companies were put to work buying shares.

## SOURCES

1 Bloomberg 5/31/2022

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