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MARKET MINUTE

MAY REVIEW 2024

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

After a rather disappointing April, financial markets rallied with gusto to start the month of May as the S&P 500 set new record highs and the bond market recovered much of April's losses. Following the FOMC meeting on May 1st, during his press conference, Federal Reserve Chairman Powell reiterated the Fed's 2% inflation target, but the Fed did not broadly think any further rate hikes would be needed to reduce inflation. The Chairman's statement, economic data that reflected a modest slowing of growth and inflation gradually declining, and solid corporate earnings news provided the impetus for the markets to rally.

The second half of the month was less robust, and markets tended to trade sideways. Minutes of the FOMC meeting painted a picture less rosy than Chairman Powell's press conference in early May as several Fed officials worried if the current monetary policy was "insufficiently restrictive" to soften the economy and push inflation toward their 2% target.[1] Interest rates started to trend back up and stocks retreated from their record highs. As May winds down and post-Memorial Day Summer vacations begin to take shape, investors can take some comfort in solid earnings and a growing economy that may provide some buffer against any geo-political risks, interest rate uncertainty, or noise related to the upcoming US election.

U.S. EQUITY MARKETS As of May 31, 2024

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	2.6%	-2.5%	3.5%	20.0%
S&P 500	5.0%	0.7%	11.3%	28.2%
Russell 2000	5.0%	-2.4%	2.7%	20.1%
Russell 1000 Growth	6.0%	1.5%	13.1%	33.6%
Russell 1000 Value	3.2%	-1.2%	7.6%	21.7%

US equities had a good month in May with a broad spectrum of equities moving higher. Overall, momentum in equities was strong as the S&P 500 moved higher for five straight weeks, starting in the last week of April, and set two new record highs in late May. For the month, the S&P 500 gained +5.0% and more than completely offset the losses that occurred in April. US small caps (Russell 2000) gained the same as their US large cap peers gaining +5.0%, but only erased about half their losses from April. Overall, growth stocks outpaced value stocks within US large caps and small cap stocks, but not in the mid-cap space where many of its pharmaceutical and biotech names sold off during the month. In terms of sectors, nearly every sector gained in May except Energy (S&P 500 Energy Sub Index), which declined -0.4% as energy prices softened modestly during the month.

Equities were generally buoyed in May by better-than-expected close out to the Q1 earnings season, which saw the projection for Q1 earnings growth climb from ≈5% year-over-year (YoY) early in days of the month to nearly ≈6% YoY by month's end. Given this backdrop it may be no surprise that volatility in May was below average as most risk assets moved steadily higher during the month. Nonetheless, the valuation of the S&P 500 remains stretched—it is well above its average over the past 20 years—and a breakout above 5,300 looks unlikely in the near-term.

INTERNATIONAL EQUITY As of May 31, 2024

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	2.9%	1.1%	5.8%	16.7%
MSCI EAFE	3.9%	1.2%	7.1%	18.5%
MSCI Emerging Markets	0.6%	1.0%	3.4%	12.4%
MSCI EAFE Small Cap	4.3%	1.2%	3.7%	14.4%

In a similar vein, international developed equites (MSCI EAFE Index) also traded lower in April, losing -2.6%. International equities generally lagged their US counterparts, with international developed equites (MSCI EAFE Index) gaining +3.9% and Emerging Markets (MSIC EM Index) gaining +0.6% during the month. Unlike in the US, value stocks generally outperformed their growth stock peers (MSCI ACWI ex US Value +3.5% vs MSCI ACWI ex US Growth +2.6%). Meanwhile, international small cap stocks slightly outpaced their large cap peers (MSCI ACWI ex US Small Index +3.2% vs MSCI ACWI ex US +2.9%). Emerging Market equities lagged other major equity groups, despite the fact that Chinese equities (MSCI China Index) gained +2.4% in May. The overall EM Index returns were brought down by poor equity market performance in South Korea, Brazil, and India.

FIXED INCOME As of May 31, 2024

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
Bloomberg US Aggregate	1.7%	-0.9%	-1.6%	1.3%
Boomberg Global Aggregate	1.3%	-1.2%	-3.3%	0.8%
Bloomberg US High Yield	1.1%	0.1%	1.6%	11.2%
JPM Emerging Market Bond	1.8%	-0.2%	1.2%	9.7%
Bloomberg Muni	-0.3%	-1.5%	-1.9%	2.7%

US Treasury 10-year yields retreated from their late April high of 4.71% and declined to 4.35% by mid-month.[1] Even though bonds gave back some of their gains, interest rates ended the month lower with bond investors less concerned about a 5% 10-year yield, but not confident when the Fed will act and when interest rates will meaningfully decline. The Bloomberg Aggregate index had a strong month (+1.7%), high yield bonds also had a solid month (Bloomberg U.S. Corporate High Yield +1.1%) as did emerging market debt (JPM Emerging Market Bond +1.8%). Muni investors did not fare as well amid heavy new issuance and modest mutual fund outflows (Bloomberg Municipal Bond index -0.30%).

CONCLUSION & OUTLOOK

The financial markets have a lot to ponder these days – will inflation continue to decline, can we stop worrying about a possible recession, who will be the next U.S. president – as the S&P 500 sits close to record highs. The reality is that, fundamentally, we appear to be in a good position – inflation is slowly trending down, unemployment remains low, the economy is growing, and Corporate America's earnings reports were solid. In general, this is an environment that should be good for stocks and bond investors should earn their coupon income.

But every now and then a surprise occurs that could upset the markets. For example, the U.S. Treasury needs to sell trillions of dollars of U.S. Treasury securities to finance our Federal government's spending habits. During May's final week an influx of fresh Treasury supply led to tepid demand for a pair of auctions of 2-year and 5-year US Treasury securities. Is this a sign that fixed income investors are either unwilling to continue to buy more U.S. government debt or will they demand higher yields to buy the government securities? We have been waiting for 40 years for investors to say enough is enough. Could this be the beginning?

Although we might worry about the size of the U.S. budget deficit, it is just one of many issues we constantly consider in our investment research and analysis. The road we travel will likely be bumpy, but one needs to be in the markets to reap the rewards of investing. Sitting in cash might feel good today, but even mild inflation could diminish the purchasing power of your cash. In the long run, investors need returns that exceed cash plus inflation to maintain their lifestyle and our goal is to not only maintain your lifestyle but achieve your financial goals as well.

SOURCES

1 Bloomberg LP