Market Commentary: May 2024

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Big Picture

Historically, the S&P 500 underwent an average decline of 0.1% in May, making it the second worst-performing month of the year. This has led to the Wall Street adage, "Sell in May and go away."

Despite this, May saw the S&P 500 posting its best monthly performance since February, with an uptick of roughly 5%. Driving the surge were information technology stocks animated by optimism about Artificial Intelligence (AI) related growth.

The DJ Industrial Average also saw growth, increasing 2.58% in May. The NASDAQ Composite boasted a substantial 6.9% increase for the month.

In bond-related news, U.S. government bonds rallied in May, thanks to favorable inflation data fueling predictions of a potential Federal Reserve interest rate cut this year.

Yields across all maturities declined, which boosted market confidence and increased bets on a possible quarter-point Fed rate cut. The Treasury market had a positive month, with a gain of 1.1% overall.

All sectors, except for Energy, posted gains, with Information Technology leading the charge with a 2.94% increase. Crude oil prices declined, while copper prices rose to historic highs.

Returns % as of 5/30/24

Index	1 MO	QTD	YTD	1 YR	3 YR	5 YR	10 YR
U.S. Equity							
S&P 500 TR USD	4.96	0.67	11.30	28.19	9.57	15.80	12.69
DJ Industrial Average TR USD	2.58	-2.47	3.52	19.97	6.00	11.62	11.25
NASDAQ Composite TR USD	6.98	2.30	11.82	30.37	7.61	18.54	15.85
International Developed Markets							
MSCI World ex USA NR USD	3.82	1.07	6.72	18.48	3.05	8.15	4.60
Emerging Markets Equity							
MSCI EM NR USD	0.56	1.01	3.41	12.39	-6.23	3.55	2.66
U.S. Fixed Income							
BBgBarc U.S. Agg Bond TR USD	1.70	-0.87	-1.64	1.31	-3.10	-0.17	1.26
Global Fixed Income							
BBgBarc Global Aggregate TR USD	1.31	-1.25	-3.30	0.77	-5.82	-1.62	-0.37

Source: Morningstar. Past performance does not guarantee future results. All data is from sources believed to be reliable but cannot be guaranteed or warranted. Please see disclosure at the end of commentary for limitations to index performance.

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Equities

Equity markets rebounded from April's downturn.

- U.S. large-cap growth stocks led all equities.
- U.S. small-cap growth stocks kept pace with their large-cap peers.[1]
- Commodities were mixed, with Agriculture and Precious Metals gaining, while Energy lagged.[2]

Fixed Income

Bonds rallied this month after benign inflation data kept alive predictions that the Fed will cut interest rates at least once this year.

- The yield on the benchmark 10-year note ended at 4.512%, a decrease from the year-to-date high of 4.706% in April.
- The Bloomberg U.S. Aggregate bond index, a widely tracked measure of total returns on U.S. fixed income, finished up1.70%.
- International debt mirrored U.S. markets, as the Bloomberg Global Aggregate bond index finished the month up 1.31%.[3]

Factors

Equity risk factors were mixed for the month. Momentum and Quality outperformed in the United States while Value and Size outperformed in International Developed and Emerging markets.[4]

NEWS Impacting Markets

The Economy, Inflation & the Fed

The personal consumption expenditures price index met Wall Street's predictions, recording a 2.7% increase in April compared to last year. Despite robust economic indicators, such as low unemployment, increasing wages, modest GDP growth, falling inflation, and a thriving stock market, many individuals feel their financial situations are deteriorating. Prices may be growing at a slower pace, but they remain higher than before, causing distress even with a 2% inflation rate.

Prices have surged significantly since 2020, with an increase of around 20% to 30%. While the latest Consumer Price Index report indicates a substantial reduction in inflation to 3.4%, costs continue to escalate. McDonald's, for example, has reported a 40% price increase over the past five years due to higher labor, paper, and food costs.

Consumer spending has remained robust despite high interest rates and inflation. However, recent signs suggest that low-income consumers might be facing hardship. Retail sales growth came to a halt in April and recent earnings reports from Target and Walmart reflect struggles among lower-income consumers. While consumers were able to rely on pandemic-era savings during tough times, this buffer is dwindling fast, making them more susceptible to financial insecurity.[5]

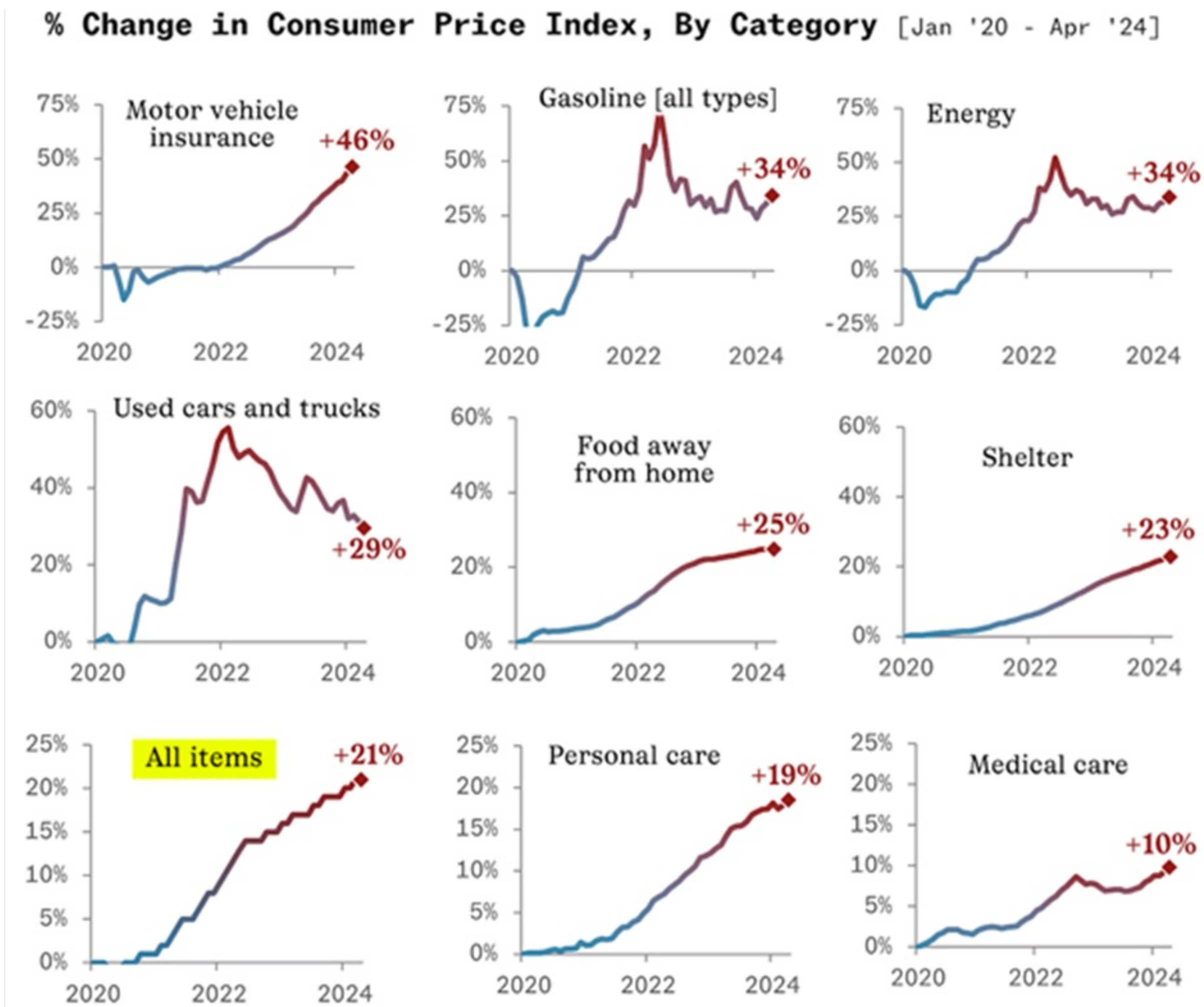
1 Morningstar Direct as of May 31, 2024.

2 S&P Dow Jones Indices as of May 31, 2024.

3 Morningstar Direct as of May 31, 2024.

4 Morningstar Direct as of May 31, 2024.

5 Dezember, R., "Dow Rises, Stocks Log Monthly Gains," Wall Street Journal, May 31, 2024. https://www.wsj.com/finance/stocks/global-stocks-markets-dow-news-05-31-2024-62b25a39?mod=finance_feat4_stocks_pos2



Source: U.S. Bureau of Labor Statistics

Final Thoughts

Research indicates that negative news headlines generate more reader engagement than positive ones, which is why new outlets tend to focus on negative news. This dynamic also influences investor psychology, often leading to anxiety and reluctance to stay invested when there is gloomy economic news.

As we head into what may be a contentious political season, investors need to look beyond the immediate news scope and focus on long-term market trends despite the constant bombardment of headlines. As history shows, maintaining patience and a long-term investment approach yields better results.

Disclosures

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S&P 500 Index represents the 500 leading U.S. companies, approximately 80% of the total U.S. market capitalization. Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The Nasdaq Composite Index (NASDAQ) measures all NASDAQ domestic and international-based common-type stocks listed on The NASDAQ Stock Market and includes over 2,500 companies. MSCI World Ex USA GR USD Index captures large and mid-cap representation across 22 of 23 developed markets countries, excluding the U.S. The index covers approximately 85% of the free float-adjusted market capitalization in each country. MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets (as defined by MSCI). The index consists of the 25 emerging market country indexes. Bloomberg U.S. Aggregate Bond Index measures the performance of the U.S. investment grade bond market. The index invests in a wide spectrum of public, investment-grade, taxable, fixed-income securities in the United States—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than one year. Bloomberg Global Aggregate (USD Hedged) Index is a flagship measure of global investment grade debt from 24 local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging market issuers. Index is USD hedged. Stock returns represented by Fama/French Total U.S. Market Research Index, provided by Ken French and available at http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html. This value-weighed U.S. market index is constructed every month, using all issues listed on the NYSE, AMEX, or NASDAQ with available outstanding shares and valid prices for that month and the month before. Exclusions: American depositary receipts. Sources: CRSP for value-weighted U.S. market return. Rebalancing: Monthly. Dividends: Reinvested in the paying company until the portfolio is rebalanced.