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Markets Update

May 2022

A quick glance at the S&P 500's 0.2% return for May might mislead one into thinking it was a quiet month for stocks. Despite finishing roughly flat, intra-month volatility remained elevated and the index briefly dropped into a bear market (i.e., down 20% from its peak) before solidly rebounding in the final week to recover losses. With two interest rate hikes now in the bag, including a 50-basis point increase in May, market sentiment was buoyed by some better earnings reports from a pocket of retailers later in the month, sentiment shifted toward positive consumer spending as a tailwind for the economy despite heightened inflation. As the curtain closes on May, the Federal Reserve is also set to begin the next step in quantitative tightening, that is to initiate the run-down of its massive $8.9T bond portfolio. While the late in the month turnaround for stocks was certainly welcomed by investors, a heightened sense of uncertainty remains, and we expect volatility to continue. As one might expect in this backdrop of macro uncertainty, inflation and supply constraints, commodities continue to dominate the return environment. Other private assets are also positive contributors, (real estate, PE, infrastructure) and we will review more data after quarter end results are in.

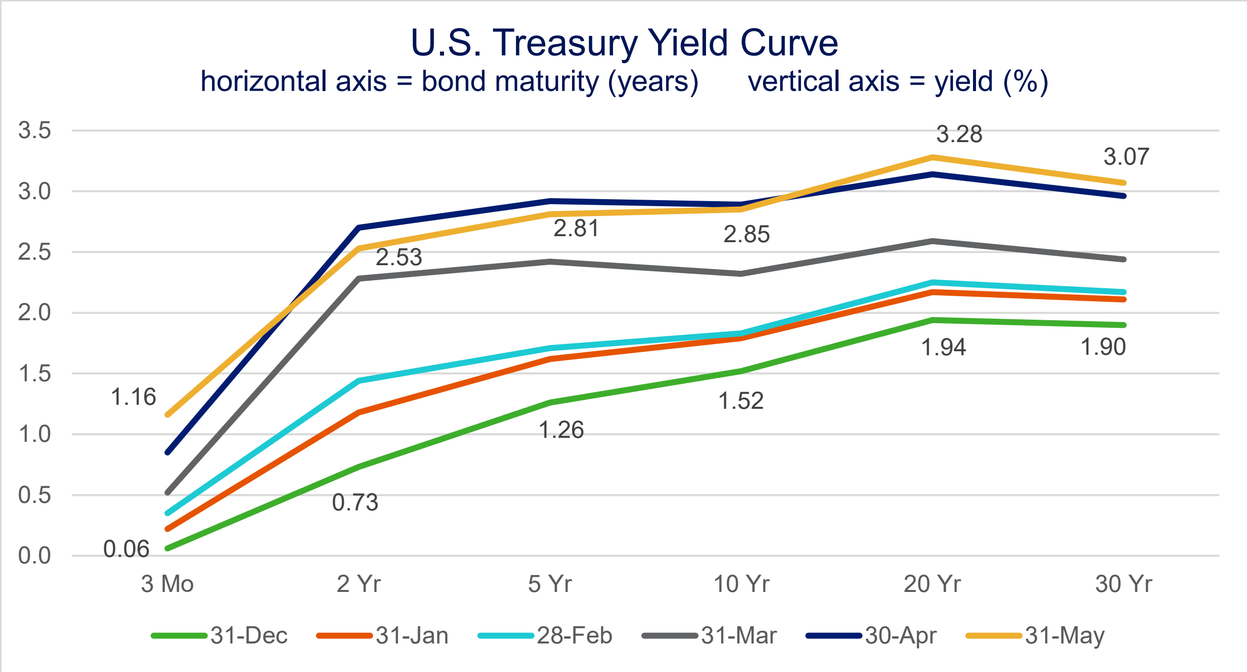
	May	YTD 2022
EQUITIES		
S&P 500	0.2%	-12.8%
Russell 3000	-0.1%	-13.9%
Russell 1000	-0.2%	-13.7%
Russell 1000 Growth	-2.3%	-21.9%
Russell 1000 Value	1.9%	-4.5%
Russell Midcap	0.1%	-12.9%
Russell 2000	0.2%	-16.6%
Russell 2000 Growth	-1.9%	-24.8%
Russell 2000 Value	1.9%	-8.2%
MSCI EAFE	0.7%	-11.3%
MSCI Emerging Markets	0.4%	-11.8%
FIXED INCOME*		
U.S. Aggregate	0.6%	-8.9%
U.S. Treasury	0.2%	-8.3%
U.S. 1-3 Year Treasury	0.6%	-2.4%
U.S. TIPS	-1.0%	-5.9%
U.S. Intermediate Gov/Credit	0.7%	-5.7%
U.S. Gov/Credit	0.5%	-9.6%
U.S. Long Gov/Credit	-0.3%	-19.5%

U.S. Investment Grade Credit	0.9%	-11.5%
U.S. High Yield	0.2%	-8.0%
Global Aggregate (USD)	0.3%	-11.1%
Emerging Markets (USD)	0.0%	-13.2%
COMMODITIES		
Bloomberg Commodity	1.5%	32.7%

Source: S&P, Russell, MSCI, Bloomberg. **Bloomberg Indices*

Fixed Income

Ultra-short-term rates continued to march higher during the month, consistent with Federal Reserve interest rate hikes, but yields were otherwise subdued relative to prior months, which was a welcome reprieve for bond investors.



Source: U.S. Department of the Treasury

Less volatility in yields translated into better performance for most sectors of the bond market. The Bloomberg U.S. Aggregate Index was positive at 0.6% but is down 8.9% year-to-date. U.S. TIPS (-1.0%) were lower on the back of moderating inflation expectations, while nominal U.S. Treasuries (+0.2%) managed a small positive return for the month. Emerging market debt remains challenged this year, pressured by sustained inflation and rising interest rates, among other country specific factors.

Equities

The seesaw experience of May saw continued momentum for value stocks relative to growth stocks. Unlike the broad U.S. equity market, growth stocks have been unable to skirt bear market status this year. As was noted in our mid-May market commentary, troubling earnings (e.g., Walmart and Target) added to the growing list of investors concerns, but some relief came later in the month from other retailers (e.g., Macy's), suggesting the future prospect for consumers may not be as dire as some are predicting. Meanwhile, markets outside the U.S. turned in another month of relative outperformance, and both developed international markets and the emerging markets are slightly outperforming the broad U.S. market year-to-date. Given the macro issues that face non-U.S. economies and companies, the performance seems to be coming from relative valuations of non-U.S. stocks versus U.S. stocks.

Looking Ahead

Stabilization in the bond market and a late month rally in stocks were encouraging developments and engendered a sense of optimism largely absent from markets this year. Whether we've seen the worst for stocks remains to be seen, but bargain hunters do seem to be emerging. With an eye towards May's inflation data (released in early June), the gradual lifting of lockdowns in China and what Fed officials say next, the tale of 2022 continues to be written in short choppy chapters.

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