



May 2019: Market Review

Global equity prices slipped from April's record highs during the month as re-escalating trade tensions and economic growth fears troubled investors. The S&P 500 declined -6.4% in May but remains up +10.7% year-to-date. The Dow Jones Industrial Average fell -6.3% (up +7.5% year-to-date) while the tech-heavy NASDAQ Composite dropped -7.8% (up +12.9% so far this year).

In U.S. economic news, the second reading of first quarter real GDP showed an expansion of 3.1% annualized, revised downwards from 3.2% but beating expectations due to strength in consumption and exports. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up +0.7% in March, while on a year-over-year basis, prices were +3.7% higher than a year ago. Among commodities, WTI crude oil ended May at \$54 a barrel, down from \$64 a barrel at the end of last month. Gold closed the month at \$1,306 per troy ounce, up from \$1,283 at the end of April.

Within domestic equities, growth and value performed in line among large-cap equities, but growth beat value in mid- and small-cap stocks. Among large cap stocks, the Russell 1000 Growth Index fell -6.3% versus a -6.4% decline for the Russell 1000 Value Index. In mid cap equities, the Russell Midcap Growth Index depreciated -5.6% for the month while the Russell Midcap Value Index dropped -6.4%. In small cap stocks, the Russell 2000 Growth Index lost -7.4% during the month while the Russell 2000 Value Index fell -8.2%.

All major international indexes also posted declines amid trade concerns and ongoing sluggish economic data in the Eurozone. The MSCI EAFE Index decreased -4.8% for the month but has gained +7.6% year-to-date while the MSCI Europe Index declined -5.5% during the month (up +8.5% so far this year). The MSCI Pacific Index lost -3.6% during the month yet has appreciated +6.3% so far in 2019. The MSCI Emerging Markets Index returned -7.3% during the month, ending May with a +4.1% year-to-date gain. Emerging market returns were negatively impacted by weakness in China (-13.5%) and Korea (-9.3%) during the month.

U.S. fixed income markets were positive in May as investors embraced the risk-off environment. The yield on the 10-Year Treasury closed the month at 2.14%, down significantly from last month's close of 2.51%. The Treasury yield curve narrowed in May, with the spread between the 10-Year and 2-Year yields ending the month at 19 basis points, down from 24 basis points at April 30. The Bloomberg Barclays Treasury 20+ Year Index was the strongest performer, gaining +6.7% during the month and ending May up +9.7% year-to-date. The Bloomberg Barclays U.S. Aggregate Bond Index added +1.8% for the month (up +4.8% year-to-date) and the Bloomberg Barclays U.S. Treasury Index appreciated +2.4% (up +4.2% so far in 2019). The Bloomberg Barclays Corporate High Yield Index was the weakest performer, falling -1.2% for the month but has gained +7.5% so far this year.

The steady climb in equity indexes thus far in 2019 was disrupted in May as the escalation of trade tensions caused a rush to safer assets. With a new threat of tariffs on goods from Mexico, trade disputes on two fronts could have a more problematic impact on the economy and investor sentiment. In addition, weakening manufacturing data in the U.S. and abroad and a lack of inflationary pressures have caused a rerating of economic growth forecasts for the second quarter. On the other hand, the U.S. unemployment rate at a 50-year low and consumer confidence at an 18-year high serve as positive indicators for potential domestic growth.