



May 2018: Market Review

Global equity markets were mixed in May, with U.S. indexes positive, while international indexes were negative. The S&P 500 Index added 2.41% and is up 2.02% year-to-date. The Dow Jones Industrial Average was up 1.41% in May, leaving it with a (0.24%) return so far in 2018. Tech stocks were particularly strong, as the NASDAQ Composite rose 5.50% during the month. The index has added 8.31% for the year.

In U.S. economic news, the Trump administration decided to move forward with tariffs on steel and aluminum imported from the European Union and other U.S. trade partners after initially delaying their implementation by a month, raising fears of a trade war. The Federal Reserve held interest rates steady at its May meeting, but futures markets are pricing in a greater-than-88% probability that the Fed will raise rates in June. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up 0.8% in March, while on a year-over-year basis, prices were 6.5% higher than a year ago. Among commodities, WTI crude oil ended May at \$67 a barrel, down from April's closing price of \$69. Gold closed the month at \$1,300 per troy ounce, down from \$1,316 at the end of April.

Growth-style equities outperformed value stocks in May. Among large cap stocks, the Russell 1000 Growth Index gained 4.38% in May, lifting its 2018 performance to 6.23%. The Russell 1000 Value Index added 0.59%, which brought its year-to-date return to (1.93%). For small cap stocks, the Russell 2000 Growth Index added 6.30% for the month and is up 8.85% on the year. The Russell 2000 Value Index gained 5.82% and is up 4.81% so far in 2018. The Russell Midcap Index was up 2.27% in May and has added 1.64% year-to-date.

International equities were mostly negative in May. The MSCI EAFE Index was down (2.25%) and has lost (1.55%) so far this year. The MSCI Europe Index fell (3.28%) in May and is off (2.58%) this year. European markets were roiled by the formation of a two-party coalition government in Italy, due to both parties sharing a skeptical view of the European Union. Spain is also on the cusp of political upheaval as Prime Minister Mariano Rajoy may leave or be removed from office following allegations of corruption. The MSCI Pacific Index dipped (0.55%), but has gained 0.21% in 2018. The MSCI Emerging Markets Index fell (3.54%) and is down (2.61%) so far this year. Weakness in major EM countries like Brazil (-16.37%), Mexico (-13.67%), South Africa (-6.73%), and Korea (-5.24%) dragged down the index.

U.S. fixed income markets were mostly positive in May, despite continued volatility in interest rates. The yield on the 10-Year Treasury closed May at 2.82%, down from April's close of 2.94%. However, the 10-Year Treasury yield reached 3.10% in mid-May. The Bloomberg Barclays U.S. Aggregate Bond Index rose 0.71% for the month, but is down (1.50%) this year. The Bloomberg Barclays U.S. Treasury Index gained 0.90% in May, but is off (1.10%) year-to-date. The Bloomberg Barclays Treasury 20+ Year Index added 2.18% during the month, leaving it with a return of (3.20%) so far in 2018. The Bloomberg Barclays Corporate High Yield Index dipped (0.03%) and is down (0.24%) year-to-date.

While U.S. markets had their second-best month of the year in May, much uncertainty remains, both domestically and internationally. The Trump administration's trade measures, political changes in Europe, and ongoing questions surrounding improvements in the relationship between North Korea and the U.S. and its allies may dominate investors' views of the markets in the coming months. Despite these geopolitical uncertainties, corporate earnings growth remains strong, supported by solid economic growth and unemployment rates at a multi-decade low.



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