May 2021: Market Review

Global equities moved higher in May, ignoring a spike in inflation and a weaker than expected jobs report, as coronavirus cases continued to decline and positive surprises on corporate earnings lifted returns. The U.S. consumer price index rose to 4.2% year-over-year in April, the highest level since 2008, causing some concern in the market. However, other positive economic data points were enough to propel equity returns higher during the month. The U.S. PMI numbers for both manufacturing and services reached the highest levels on record as consumer demand remains elevated. Additionally, S&P 500 companies reported first quarter earnings growth of +47% over the past 12 months, significantly beating analysts' expectations. Value stocks broadly outperformed growth in May as the Dow Jones Industrial Average rose +2.2% while the tech-heavy NASDAQ Composite fell -1.4%. The S&P 500 Index posted a modest gain of +0.7%.

The number of new coronavirus cases in the U.S. fell below 30,000 for five consecutive days in May, causing several states to remove social gathering restrictions, including the mask mandates, for vaccinated Americans. As of the end of May, 65% of the U.S. adult population have received at least one dose of a vaccine. In other economic news, the unemployment rate unexpectedly rose to 6.1% in April, opposite of consensus expectations for continued declines in the rate. Economists believe this modest increase in unemployment reflects an influx of people reentering the workforce. Alternatively in May, unemployment claims declined every week and hit a pandemic low of 406,000.

Within domestic equities, value stocks appreciated during the month while growth stocks posted declines across all capitalization sizes. The Russell 1000 Value Index gained +2.3% while the Russell 1000 Growth Index lost -1.4%. The Russell Midcap Value Index was up +2.0% versus a decline of -1.5% from the Russell Midcap Growth Index. In small-cap equities, the Russell 2000 Value Index appreciated +3.1% while the Russell 2000 Growth Index was down -2.9%. Among commodities, WTI crude oil ended the month at $66 a barrel, up from $64 at the end of April. Gold ended the month at $1,903, significantly higher than last month's close of $1,767 as investors turned to gold as a hedge for inflation.

Major international equity indices climbed this month as the vaccination rollout has accelerated, giving investors hope for a strong economic rebound overseas. The MSCI EAFE Index grew +3.3% and the MSCI Europe Index rose +4.2% during the month. The MSCI Pacific Index posted a more modest gain of +1.8% in May. The MSCI Emerging Markets Index gained +2.3% during the month, falling short of developed market equities as Taiwan (-1.2%), South Korea (+0.4%), and China (+0.6%) all underperformed.

U.S. fixed income markets posted modest gains this month despite inflation fears. The Federal Reserve calmed the market later in the month as they referred to the spike in inflation as "transitory" and believe it is a temporary rise as the economy is recovering and consumers release pent up demand. The yield on the 10-year Treasury ended the month at 1.58%, lower than last month's close of 1.65%. The Bloomberg Barclays U.S. Aggregate Bond Index added +0.3% in May and the Bloomberg Barclays Treasury 20+ Year Index gained +0.5%. The Bloomberg Barclays Corporate High Yield Bond Index gained +0.3% for the month.

Equities appreciated this month and have performed well so far this year as encouraging economic data is evidence that a strong economic rebound in 2021 is under way. Additionally, the rollout of vaccines overseas accelerated in May, and coronavirus infections have therefore declined in nearly every region of the world, showing the vaccines have been extremely efficient in curbing infections.