May 2022: Market Review

Equity markets were modestly positive in May, saved by a significant equity rally in the final week after the Federal Reserve's latest meeting minutes appeared less hawkish than expected. Market returns have been choppy as investors weigh the impact that the War in Ukraine, tightening financial conditions, and depressed consumer sentiment will have on markets. S&P 500 earnings season finished strong, with 80% of companies reporting a positive EPS surprise, while forward earnings guidance for some firms turned negative. Retail giants Walmart and Target both reported shrinking profit margins due to increased cost inputs, showing the impact of inflation and an inability to pass along price increases to shoppers. Energy stocks saw a rapid increase in prices as the demand for energy out stripped a dwindling supply. Technology stocks continued to be impacted by higher interest rates, which decrease the valuations of longer duration earnings. The tech-heavy NASDAQ Composite Index fell -1.9% in May. The S&P 500 Index reached a technical bear market (20% decline from its previous high) during mid-day trading, before rebounding to end the month +0.2% and -12.8% year-to-date. The Dow Jones Industrial Average increased +0.3%.

In domestic markets, value stocks outpaced growth across all capitalization sizes. The Russell 2000 Value Index was up +1.9%, while the Russell 2000 Growth Index fell -1.9%. The Russell Midcap Value Index rose +1.9% versus a decline of -3.9% for the Russell Midcap Growth Index. The Russell 1000 Value Index increased 1.9% while the Russell 1000 Growth declined -2.3%. WTI crude oil ended the month at $115 per barrel, up $10 from the previous month, and up +52.5% year-to-date. Gold declined to $1,842 an ounce during the month, down from $1,949 at the end of April.

Developed international indices also increased for the month as investors saw signs that inflation may have peaked in April. The MSCI EAFE Index rose +0.8% while the MSCI ACWI ex-U.S. Index (which includes emerging markets) increased +0.7%. The MSCI Emerging Market Index (+0.4%) was positive for the month of May, helped by rising Chinese markets (+0.9%) as government stimulus and hopes that the zero-tolerance policy toward coronavirus would ease as the recent wave of infections may have crested. However, emerging market equities lagged developed equities as countries such as India (-6.0%) and Saudia Arabia (-7.4%) were impacted by a global risk-off sentiment.

U.S. fixed income markets experienced a modest turnaround in May as Treasury yields fell during the month. The Federal Reserve has clearly addressed inflation as its primary concern, indicating that two 50-basis point rate hikes in June and July are likely and that the Committee will closely monitor inflation measures for the foreseeable future. The Fed also will begin to reduce its balance sheet by allowing a maximum of $47.5 billion a month, $30 billion of Treasuries and $17.5 billion of mortgage-backed securities, to run off the balance sheet between June 1 and September. The yield on the 10-year Treasury ended the month at 2.85%, declining from last month's close of 2.89%. The Bloomberg U.S. Aggregate Bond Index rose +0.6% in May and the Bloomberg Corporate High Yield Bond Index increased +0.3%. The Bloomberg +20 Year Index fell by -2.2%.

Questions continue to mount regarding the impact of the Federal Reserve's tightening cycle on the U.S. economy. Despite this volatility, the underlying fundaments of the market have remained strong. Employers added 428,000 jobs in April and the U.S. unemployment rate returned to a pre-pandemic level of 3.6%. U.S. manufacturing activity beat expectations in May. China's relaxing of its zero-tolerance COVID policies could bring some relief to a strained global supply chain. Inflation ticked down to 8.3% year-over-year in April, but not by enough to sway the central bank from its current path of monetary policy tightening. While the current market environment reflects concerns of a potential recession, macro-economic data supports a reasonable chance that the Fed can maneuver a soft landing for the U.S. economy.

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Disclosures

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