



MAY 2024

Capital Markets Commentary

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Mixed Signals

The stock market reached some notable milestones in May. The Dow Jones Industrial Average closed above 40,000 for the first time on May 16, and just five days later, the S&P 500 closed at a new all-time high of 5,321. The S&P 500 surged nearly +5% during the month, pushing its year-to-date gains to over 11%. U.S. Small-cap stocks, represented by the Russell 2000 Index, also posted a solid monthly return of +5% and pulled its year-to-date performance into positive territory. Developed international equities ex-US, climbed nearly +4% higher in May, bringing its 2024 return over +7%.

AS OF MAY 31, 2024

INDEX	1-MONTH	QTD	YTD
S&P 500 TR USD	4.96%	0.67%	11.30%
S&P MidCap 400 TR USD	4.39%	-1.89%	7.87%
Russell 2000 TR USD	5.02%	-2.37%	2.68%
MSCI EM NR USD	0.56%	1.01%	3.41%
MSCI EAFE NR USD	3.87%	1.21%	7.07%
Bloomberg US Agg Bond TR USD	1.70%	-0.87%	-1.64%

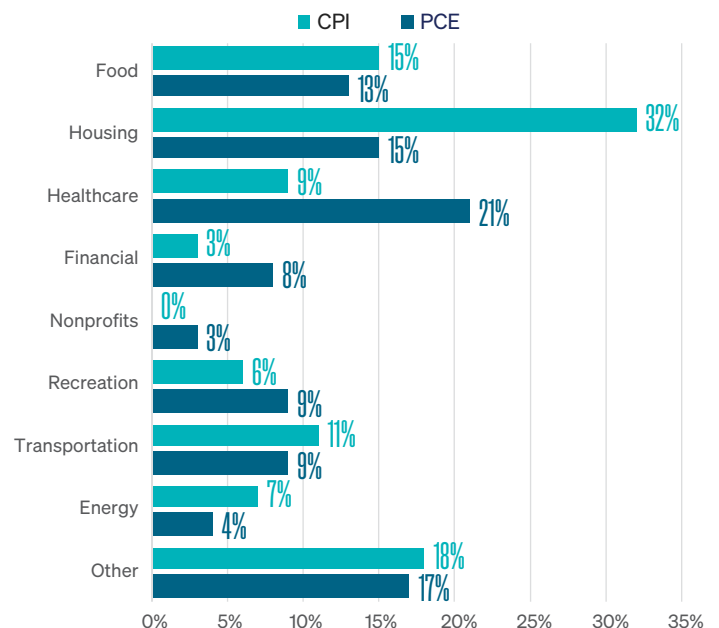
SOURCE: MORNINGSTAR

Although market performance was impressive in May, some of the economic data released in the month was mixed. Many investors are feeling uncertain about the future path of Federal Reserve policy. On the one hand, some indicators suggested a slowdown, raising hopes for a potential rate cut.

Inflation

May's CPI report climbed 3.3% year-over-year, which was below expectations. While this was good news, the May PCE report will not be released until the end of the month. The Fed's preferred inflation measure, the Personal Consumption Expenditures (PCE) index, showed a year-over-year increase of 2.7% in April. The Fed favors PCE because it is more comprehensive than CPI and includes spending from rural consumers, not just urban consumers. PCE more accurately reflects changes in consumer tastes because its weightings are updated monthly, capturing consumers' substitution effect, compared to CPI, which rebalances its weighting annually. Another key difference is that the Shelter component is approximately 35% weight in CPI and only 15% in PCE.

DIFFERENCES BETWEEN CPI AND PCE



SOURCE: MORNINGSTAR

Federal Reserve

The Fed held its June 12th meeting and maintained the overnight lending range of 5.50%-5.25%, as was widely expected. Powell's statement at the press conference was: "We see today's CPI report as progress and as, you know, building confidence," Powell said. "But we don't see ourselves as having the confidence that would warrant beginning to loosen policy at this time." The biggest news of this meeting was in the FOMC's dot-plot expectations for the remainder of the year. This latest report shows that eleven of the nineteen members of the FOMC are anticipating no more than a single rate cut this year. In March, the Fed had anticipated three rate cuts in 2024.

FOMC 2024 DOT-PLOT EXPECTATIONS	NUMBER OF VOTING MEMBERS
Rate Hike	0
No Rate Cuts	4
(1) 0.25% Rate Cut	7
(2) 0.25% Rate Cuts	8

SOURCE: FOMC

U.S. Economy

Consumers are doing their part to keep the U.S. economy growing. The National Automobile Dealers Association reported strong vehicle sales in May, totaling 15.91 million units. For perspective, the long-term average since 1974 is 14.8 million units each month.

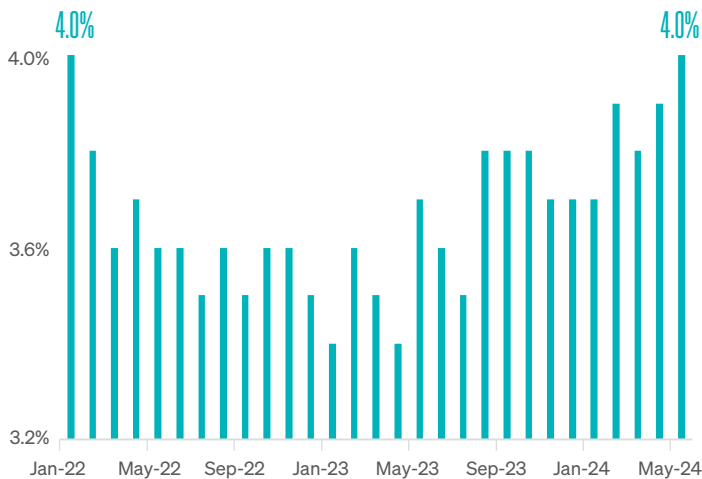
The Institute for Supply Management (ISM) indices provided contrasting economic views. The ISM Services PMI exceeded expectations, expanding to 53.8, indicating robust growth in services. Conversely, the ISM Manufacturing PMI fell from 49.2 to 48.7, indicating a further contraction in the manufacturing sector with reductions evident in new orders and inventories.

Labor Market

The labor market also displayed mixed signals. Initial jobless claims rose from 220,000 to 229,000, surpassing expectations. On the other hand, the Job Openings and Labor Turnover Survey (JOLTS) showed a significant drop in job vacancies to 8.06 million in April, nearly 300,000 lower than the previous month and substantially below expectations.

May saw a surprising surge in nonfarm payrolls, with 272,000 new jobs, significantly beating expectations of 190,000. Despite this strong job growth, the unemployment rate rose from 3.9% in April to 4.0% in May, the highest level since January 2022. This rise in unemployment, alongside the increase in workers reporting job losses and fewer new workforce entrants, adds complexity to the labor market picture.

U.S. UNEMPLOYMENT RATE



SOURCE: BLS

Looking Forward

May 2024 was characterized by mixed economic signals, reflecting a dynamic and uncertain economic environment. The strong stock market performance and milestones were counterbalanced by divergent inflation indicators, mixed ISM indices, and a labor market with both strong job growth and rising unemployment. These factors collectively contribute to an uncertain outlook for Fed policy and market direction moving forward. Investors will need to stay vigilant to navigate these complex variables in the months ahead.

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INDEX DESCRIPTIONS

S&P 500 Index: The Index tracks the stock performance of 500 of the largest companies listed on stock exchanges in the United States. It is one of the most followed equity indices and includes approximately 80% of the total market capitalization of U.S. public companies.

S&P 400 MidCap Index: This index serves as a gauge for the U.S. mid-cap equities sector and is the most widely followed mid-cap index. To be included in the index, a stock must have a total market capitalization between \$5.8 billion and \$15.8 billion.

Russell 2000 Index: The Index is constructed to provide a comprehensive, unbiased barometer of the small-cap segment of the US equity market. A subset of the Russell 3000 Index, it includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

MSCI EAFE Index: The Index is an equity index that captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. With 783 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI EM Index: The Index captures large and mid-cap representation across 24 Emerging Markets (EM) countries. With 1,440 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg US Aggregate Bond Index: The Index is a broad-based flagship benchmark that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS, and CMBS (agency and non-agency). Provided the necessary inclusion rules are met, US Aggregate-eligible securities also contribute to the multi-currency Global Aggregate Index and the US Universal Index. The US Aggregate Index was created in 1986, with history backfilled to January 1, 1976.



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