

MONTHLY RECAP

May 2021 Recap

At-A-Glance

The Dow Industrials jumped 2.2% in May, outperforming the S&P 500, while both indices extended gains into a fourth month.

The tech-heavy Nasdaq Composite fell 1.44% in May, its first negative month since October 2020.

The Small Cap Russell 2000 Index edged fractionally higher last month, capping its eighth straight monthly gain for the first time since 1995.

Among major asset classes, since the March 23, 2020 bear market low, the S&P 500 has risen 91.6%, the Bloomberg Barclays U.S. Aggregate Bond Index has gained 4% and the Bloomberg Commodities Index has climbed 49.7%.

Market Indices ¹	May	Year-to-Date
S&P 500	0.70%	12.62%
Russell 3000	0.46%	12.34%
Russell 2000	0.21%	15.30%
MSCI EAFE	3.26%	10.07%
MSCI Emerging Markets	2.32%	7.26%
Barclays U.S. Aggregate Bond	0.33%	-2.29%
Barclays U.S. Municipal Bond	0.30%	0.78%
Barclays U.S. Corporate High Yield	0.30%	2.25%

¹Morningstar Direct (all equity performance percentages are total return based, which include reinvested dividends)

U.S. stocks saw early May gains amid positive economic data that boosted business recovery optimism, yet by mid-month, gains faded on rising inflation concerns that sparked volatility. Despite several state and national positive vaccination milestones, the S&P 500 eked out a fractional gain for the month. Moreover, the Nasdaq Composite snapped a six-month winning streak as investors rotated away from growth into value-oriented companies.

The Federal Reserve's key measure of inflation, the personal consumer expenditure index (PCE), spiked 3.6% in April from a year ago, its highest pace since 2008. Core PCE inflation, which excludes volatile food and energy prices, rose 3.1% Y/Y, well above the Fed's 2% target and the largest increase since 1992. The central bank, however, has reiterated that it is willing to let inflation run hot for a considerable amount of time before tightening monetary policy. Fed Vice Chairman Clarida said it best that, at most, policymakers may only agree to "talk about talking about" tapering of monthly asset purchases over the coming policy meetings.

Small and Mid cap stocks delivered uneven results in May as the Russell 2000 small cap-focused index trailed Mid and Large caps, while the Russell Mid Cap Index performed a bit better, gaining 0.80% last month. As shown below in style box performance tables, Value stocks (aka cyclicals or economically sensitive companies and industries that prosper when the economy improves) performed best across all market caps – both for the month and year. Small cap Value climbed the most, up 3.11%. The data reflects vaccination milestones which have resulted in an accelerating rotation from Growth to Value as federal and state governments lift business restrictions and reopen.

In sector performance, as shown in the second table below, cyclicals and commodity-related sectors posted the strongest gains last month and for the year. Energy, Materials and Financials are this year's biggest gainers. Technology fell 0.9% last month, trimming its YTD gain to 6.4% while Healthcare gained 1.9% in May, extending its 2021 gain to 9.3%.

	May			YTD		
	Value	Core	Growth	Value	Core	Growth
Large	2.33%	0.47%	-1.38%	18.41%	12.14%	6.32%
Mid	1.97%	0.80%	-1.53%	20.86%	14.56%	3.42%
Small	3.11%	0.21%	-2.86%	27.47%	15.30%	4.10%

Index returns above are represented by: Large Value (Russell 1000 Value), Large Core (Russell 1000), Large Growth (Russell 1000 Growth), Mid Value (Russell Mid Cap Value), Mid Core (Russell Mid Cap), Mid Growth (Russell Mid Cap Growth), Small Value (Russell 2000 Value), Small Core (Russell 2000), Small Growth (Russell 2000 Growth). Source: Morningstar Direct, total return based, including reinvested dividends.

Top Performers – May	Top Performers – YTD ¹
Energy (+5.77%)	Energy (+39.22%)
Materials (+5.22%)	Financials (+29.53%)
Financials (+4.79%)	Materials (+20.91%)
Bottom Performers – May	Bottom Performers – YTD ¹
Technology (-0.91%)	Consumer Discretionary (+6.22%)
Utilities (-2.38%)	Consumer Staples (+5.22%)
Consumer Discretionary (-3.81%)	Utilities (+4.65%)

¹ Morningstar Direct (all performance percentages are total return based, which include reinvested dividends)

Foreign equity markets outperformed domestic equities in May, with the MSCI EAFE Index, representing developed markets outside of the U.S. and Canada, surging 3.26%. Europe's Stoxx Euro 50 index, representing that region's largest blue chips, advanced 2.5% in May and is up 15.8% YTD, outperforming the S&P 500 in the first five months of the year for the first time since 2017. Emerging markets trailed in May, but recently climbed to a two-week high amid cautious progress on vaccinations and slowing rates of viral infections. MSCI indices for Brazil and Russia each surged over 9% last month, while India followed, up 7.8%. Globally, the MSCI All-Country World Index rose 1.4% in May.

Turning to fixed income markets, U.S. Treasuries, as measured by the Bloomberg Barclays U.S. Government Bond Index, rose 0.34% in May, capping its first back-to-back monthly gain since last July, as yields again retreated from earlier YTD highs. With inflation concerns in key focus, it may be little surprise that Bloomberg Barclays U.S. Treasury Inflation Protected Securities (TIPS) index performed best in May, up 1.2%. In contrast, investment-grade bonds of all types rose 0.33% in aggregate last month, while municipal bonds gained 0.30%. Higher-risk, non-investment grade high yield corporate bonds also rose 0.30% last month, aided by the Fed's ongoing monthly asset purchases of high-yield bonds.

The Bloomberg Barclays Commodity Index gained 2.73% in May on continuing weakness of the U.S. Dollar (-1.6%) which is nearing a multi-year low. Copper prices, which often serves as an economic bellwether, advanced 4.4% in May, while increased travel prospects drove U.S. WTI crude oil futures up 4.3% to end May at \$66.32/barrel. Gold prices rose 7.8% in May, turning positive YTD (+0.54%). The commodity "softs" category, which includes sugar and cotton, advanced 6.1%, extending its YTD gain to 19%.

This report is created by Cetera Investment Management LLC. For more insights and information from the team, follow [@CeteraIM](https://twitter.com/CeteraIM) on Twitter.



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Glossary

The **Bloomberg Barclays Capital U.S. Aggregate Bond Index**, which was originally called the Lehman Aggregate Bond 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 debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly.

The **Bloomberg Barclays US Municipal Bond Index** covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holding have a fluctuating average life of around 12.8 years. This total return index is unhedged and rebalances monthly.

The **Bloomberg Barclays US Corporate High Yield Index** measures the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in

practice the index holdings has a fluctuating average life of around 6.3 years. This total return unhedged index was created in 1986, with history backfilled to July 1, 1983 and rebalances monthly.

The **Barclays U.S. Government Bond Index** is comprised of the U.S. Treasury and U.S. Agency Indices. The index includes U.S. dollar-denominated, fixed-rate, nominal US Treasuries and US agency debentures (securities issued by US government owned or government sponsored entities, and debt explicitly guaranteed by the US government). The US Government Index is a component of the U.S. Government/Credit and U.S. Aggregate Indices, and eligible securities also contribute to the multi-currency Global Aggregate Index. The U.S. Government Index has an inception date of January 1, 1973.

The **Bloomberg Commodity Index** is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual reweightings of the components).

The **Cboe Volatility Index[®] (VIX[®])** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

The **MSCI EAFE** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.

The **MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **Russell Midcap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

The **S&P BSE SENSEX Index** is a free-float market-weighted index of 30 well-established and financially sound stocks on the Bombay Stock Exchange, representative of various industrial sectors of the Indian economy.

The **S&P 500** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad-based capitalization-weighted index.

The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.

The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with

a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.

West Texas Intermediate (WTI) is a crude oil stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams. WTI is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.