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INVESTMENT
MANAGEMENT

MONTHLY RECAP

May 2023 Recap

At-A-Glance

After a 1.56% April gain, the S&P 500 gained 0.43% in May, marking a third straight monthly gain. The benchmark performance widely trailed the Nasdaq Composite's 5.93% gain, while avoiding the Dow Industrials' 3.17% loss.

Following a tenth Fed rate hike in May, the yield on U.S. 10-year Treasury notes climbed nearly 0.19% last month to finish at 3.635%.

U.S. WTI oil futures tumbled to $68.09/barrel at month end, down 11.3% in May. U.S. crude oil futures are down 15.2% YTD.

Overall, the Bloomberg Commodity Index slid 5.64% in May, deepening its YTD loss to 11.37%.

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Market Indices[1]	May	Year-to-Date
S&P 500	0.43%	9.65%
Russell 3000	0.39%	8.74%
Russell 2000	-0.92%	-0.04%
MSCI EAFE	-4.23%	6.81%
MSCI Emerging Markets	-1.68%	1.05%
Bloomberg U.S. Aggregate Bond	-1.09%	2.46%
Bloomberg U.S. Municipal Bond	-0.87%	1.65%
Bloomberg U.S. Corporate High Yield	-0.92%	3.64%

[1]Morningstar Direct (all equity performance is total return, which includes reinvested dividends)

The S&P 500 ended up around a half percent in May after a strong tech rally (driven largely by artificial intelligence stocks) lost steam on the final trading day of the month. Congress is racing to approve the Fiscal Responsibility Act of 2023 before the June 5 "X-date". Treasury Secretary Janet Yellen expects the U.S. to run out of cash to pay its debts, though investors have largely dismissed these risks. The Nasdaq 100 Index had its best May performance since 2005, gaining just over 7.7%, extending its year-to-date (YTD) gain to 30.79%.

Markets were supported by several positive themes, including resilient consumer spending trends, favorable quarterly earnings, and signs that the Federal Reserve is nearing the end of its fastest tightening cycle on record. Investors, however, continued to grapple with slowing growth trends in China and ongoing U.S. recession fears. Importantly, the first quarter earnings season came in significantly better than feared. Overall, S&P 500 companies recorded a 1.3% year-over-year decline in operating earnings per share (EPS) in the first quarter, far better than the consensus forecast for a 6.5% decline.

April disinflation signposts carried over into May, as the latest consumer price index (CPI) reading eased from 5% to 4.9% annualized, the slowest pace since April 2021. Moreover, a downward revision in first quarter unit labor costs (4.2% annualized versus 6.3% expected) could potentially provide Fed policymakers enough breathing room to hold rates unchanged at their June FOMC meeting. On May 3, the Fed raised its key fed funds interest rate by 0.25% to a current rate of 5.00% - 5.25%.

As shown in the boxes below, large caps outperformed small and mid caps again in May and year-to-date (YTD). However, in a style reversal from April, investors overwhelmingly favored growth over value, especially among large cap companies. This May reversal resumed the ongoing 2023 growth leadership trend on a YTD basis.

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May

	Value	Core	Growth
Large	-3.86%	0.47%	4.56%
Mid	-4.44%	-2.79%	0.06%
Small	-1.97%	-0.92%	0.02%

YTD

	Value	Core	Growth
Large	-1.43%	9.30%	20.76%
Mid	-3.17%	0.61%	7.62%
Small	-5.04%	-0.04%	4.86%

Style returns 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, includes reinvested dividends.

In the sector performance, only three of the 11 S&P 500 sector groups ended positive in May, with gains dominating in Technology, followed by Communication Services and Consumer Discretionary. Energy was the best-performing sector in 2021 (+54.6%) and 2022 (+65.7%), but five months into 2023 Energy dropped to the worst-performer – both in May and YTD.

Top Sector Performers – May	**Bottom Sector Performers – May** [1]
Technology (+9.46%)	Consumer Staples (-6.07%)
Communication Services (+6.21%)	Materials (-6.85%)
Consumer Discretionary (+3.21%)	Energy (-10.03%)
Top Sector Performers – YTD	**Bottom Sector Performers – YTD** [1]
Technology (+33.95%)	Financials (-6.77%)
Communication Services (+32.81%)	Utilities (-7.22%)
Consumer Discretionary (+18.73%)	Energy (-11.40%)

[1] Morningstar Direct (all S&P 500 sector performance percentages are total return based, which include reinvested dividends)

Foreign developed equity markets broadly underperformed the U.S. in May, with the MSCI EAFE Index (representing developed markets outside of the U.S. and Canada) trailing S&P 500 returns by 3.80%. Japan was an exception, with MSCI returns for the island nation holding positive for the month, up 1.86%. Emerging markets also underperformed the U.S., falling 1.68% last month, trimming 2023 gains to just above 1%. Some MSCI country indices fared better, including Taiwan (+7.34%), South Korea (+4.80%), and India (+2.91%) while South Africa (-13.97%) and China (-8.43%) lagged.

Turning to fixed-income markets, investors closely followed Treasury yields that gyrated amidst changing central bank rate outlooks and the debacle associated with reaching the $31.4 trillion federal debt ceiling. On a broader basis, investment-grade bonds declined 1.09% in May as measured by the Bloomberg U.S. Aggregate Bond Index. Bloomberg's U.S. High Yield Bond Index, representing holdings of below investment-grade (junk-rated) corporate bonds, fell just under 1% last month and municipal bonds declined 0.87%.

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Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

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.