Market Commentary

May 2022

- **While April's showers didn't bring May flowers, broad equity markets eked out a positive return.**
- **The Fed indicated they'll be on cruise control this summer, likely hiking rates 50bps in June and July.**
- **We are in "wait and see" mode – while a slowdown seems clear, it remains a question whether we're headed for a mid-cycle slowdown or recession.**

MARKET RETURNS AS OF MAY 31, 2022[1]

Index return	May (%)	QTD (%)	YTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
S&P 500 TR	0.18	-8.55	-12.76	-0.30	16.44	13.38	14.40
DJ Industrial Average TR	0.33	-4.51	-8.43	-2.65	12.30	11.87	12.91
NASDAQ Composite TR	-1.93	-14.92	-22.53	-11.53	18.44	15.34	16.89
Russell 2000 TR	0.15	-9.77	-16.57	-16.92	9.70	7.72	10.83
MSCI EM GR	0.47	-5.11	-11.68	-19.56	5.36	4.17	4.54
MSCI EAFE GR	0.89	-5.55	-11.02	-9.90	6.93	4.68	7.65
Bloomberg US Agg Bond TR	0.64	-3.17	-8.92	-8.22	0.00	1.18	1.71

MARKETS

Volatility persisted in May, but overall market returns were less bad than in April with the S&P 500 and Dow Jones Industrial Average (DJIA) ending a marginally positive 18bps and 33bps, respectively. The Nasdaq trailed by a relatively wide margin and ended the month down -1.9%.

Many familiar challenges persisted – the war in Ukraine, COVID-19, inflation, rising rates, and ponderance of whether Elon Musk would, in fact, buy Twitter. There was also new market drama: cue stablecoins not being stable. While earnings were solid overall, profit warnings from companies ranging from Snap to Target increased investor concerns about inflation. Rising rates, and the expectation of further rising rates, put pressure on growth-focused companies, causing many technology companies and the tech-heavy Nasdaq index to underperform.

By May 20, the DJIA had notched its longest losing streak since 1932, during Great Depression, and the S&P 500 and the Nasdaq had their longest losing streaks since 2001, at the end of the dot-com bubble.[2]

While we didn't get flowers, we did get a couple of seedlings. On the last full week of May, markets trended upward on several catalysts including more clarity on future rate hikes and potential signs of cooling inflation in the U.S., with the first deceleration of the measure since November 2020.[3]

THE FED AND RATES

The Fed has been facing a growth-inflation trade-off. If they hike too much: recession. If they hike too little: runaway inflation.

While we know they don't want to cause a recession, it's clear that the priority is getting inflation under control. On May 17, Federal Chairman Jerome Powell stated at a conference "I would say there are a number of plausible paths to having a soft or, as I've said, soft-ish landing. And our job isn't to handicap the odds. It is to try to achieve that. The last thing I'll say, though, is that achieving price stability, restoring price stability is an unconditional need. It's something we have to do because really the economy doesn't work for workers or for businesses, or for anybody without price stability."[4]

Until this month, the Fed hadn't raised rates 50bps since the year 2000.[5] On May 25, Fed minutes gave hints of two more 50bps rate hikes in upcoming months as they assess the upcoming inflation reports.

WHAT'S NEXT?

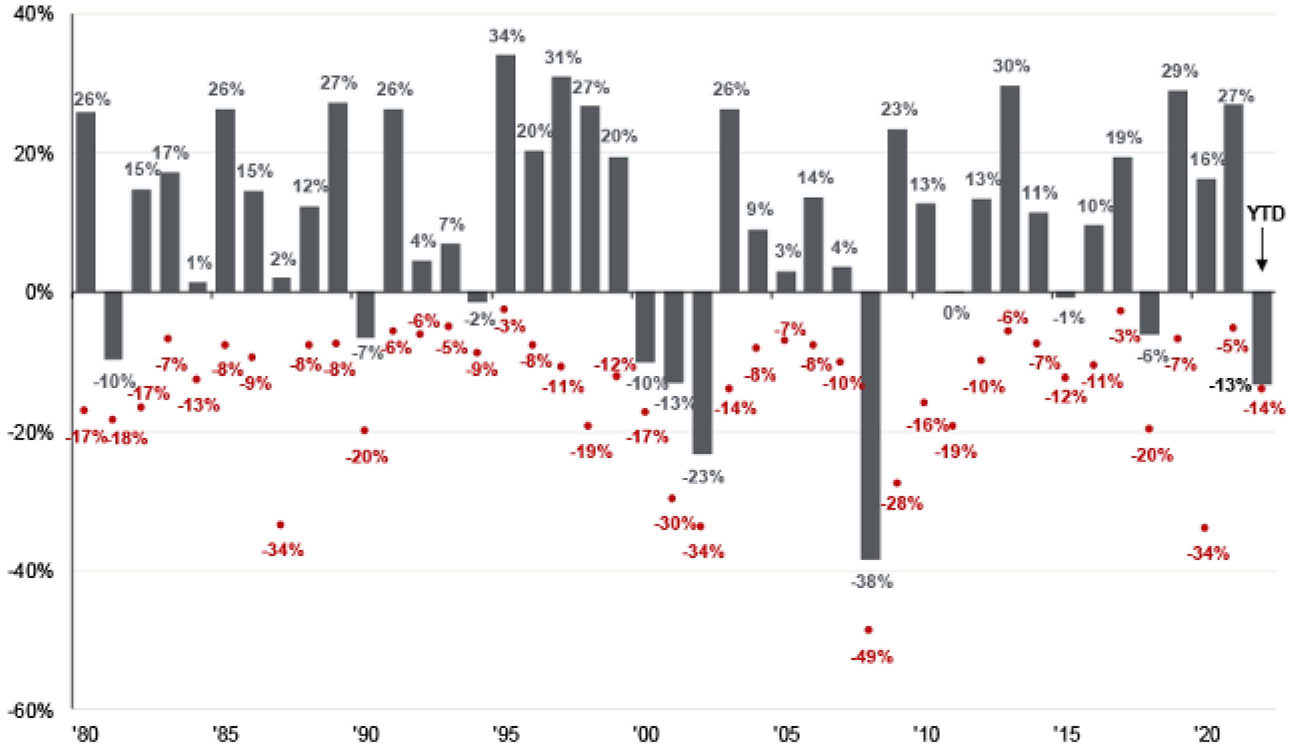
We are in "wait and see" mode – while a slowdown seems clear, it remains a question whether we're headed for a mid-cycle slowdown or recession.

If you're reassessing your portfolio before taking a break for the summer, here are three considerations.

1) **Keep your long-term investments invested for the long term.** Equity investing is not for the faint of heart, but history says equities reward long term investors. In fact, the average intra-year drop of the S&P 500 is 14%, yet in 75% of calendar years it ends positive. Since 1996, investors in the stock market have lost about half their money twice in significant bear markets; yet the market is 3x as high as it was in 1996.[6]

S&P intra-year declines vs. calendar year returns[7]

Despite average intra-year drops of 14.0%, annual returns were positive in 32 of 42 years



2) **Be smart about the ballast in your portfolio.** Consider all your options to diversify equity risk in your portfolio, from fixed income to alternatives. A more active approach in these markets may make sense; while we may be in for a period of sustained rising rates, rates have risen quite a bit already, creating attractive yields and potential opportunities to uncover.

3) **Don't forget that cash carries a different kind of risk.** Inflation risk is very real in today's market environment. While a dollar bill may look and feel the same year over year, its ability to buy the same goods declines significantly as inflation rises.

These are just ideas, not recommendations, and whether they make sense will depend on an individual's personal circumstances.

If you have questions on your portfolio positioning, or have any changes to your goals, risk tolerance, or time horizon, please reach out to schedule a conversation.

Past performance is no guarantee of future returns.

1. Data from Morningstar unless otherwise specified. Returns over one year are annualized.
2. Reuters May 20, 2022. **https://www.reuters.com/markets/us/sp-500-pace-confirm-bear-market-falls-20-record-close-2022-05-20/**
3. Reuters May 27, 2022. **https://www.reuters.com/markets/europe/cooling-us-inflation-builds-case-september-slowdown-fed-rate-hikes-2022-05-27/**
4. WSJ May 17, 2022. **https://www.wsj.com/articles/transcript-fed-chairman-jerome-powell-at-the-wsj-future-of-everything-festival-11652821738**
5. CNBC May 4, 2022. **https://www.cnbc.com/2022/05/04/fed-raises-rates-by-half-a-percentage-point-the-biggest-hike-in-two-decades-to-fight-inflation.html**
6. JPMorgan Asset Management Guide to the Markets accessed on 5/31/2022. **https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/?gclid=EAIaIQobChMIh4K33vWO-AIVtIRaBR1YcgHfEAAYASABEgI3APD_BwE&gclsrc=aw.ds**
7. JPMorgan Asset Management Principles of Long Term Investing accessed on 5/31/2022. **https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/principles-for-investing/**