Capital Market Review

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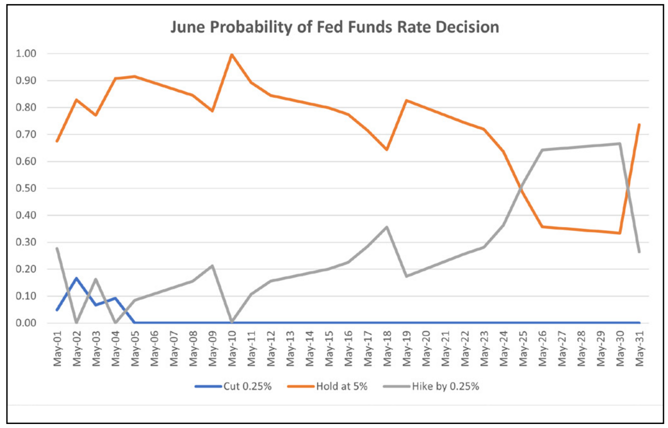
Looking at just the S&P 500 Index, the month of May appears boring since the index increased by only 0.4%. However, about one-quarter of trading days in May saw the index move up or down by over 1%, and there was a difference of almost 20% between the month's best and worst-performing sectors. May was hardly a boring month! International equities declined under the headwind of a strengthening U.S. Dollar, and bond yields fell the first half of the month only to rise and end May about where they began. Quite a variety of macroeconomic events influenced the month's wide-ranging returns. Let's look at a few.

As the debt ceiling debate loomed over most of the month, our nation has officially avoided a default since President Biden signed the bill over the weekend. While this was the expected outcome all along, even an extremely bipartisan Washington D.C. knew a deal had to be made. However, the debate still heightened nerves in financial markets. At one point during the last week of May, very short-term bonds maturing on June 1st, the so-called X date, were yielding 7%, demonstrating the nervousness in markets. Now that the debt ceiling debate is behind us (at least for the next 18 months), markets have turned their full attention back to inflation, labor markets, and the Federal Reserve (Fed).

And what would a market update be without comments on the Fed? Throughout May, we saw predictions for the Fed to keep rates at the current 5%, hike rates to 5.25%, and even cut rates to 4.75% at their next meeting on June 14th. For several months, the Fed has been stating that they are data dependent and tried to enforce that message with speeches throughout May. This led the markets to overanalyze every new data point and, combined with debt ceiling uncertainty, to think any interest rate scenario was possible. The last week of May alone went from a 70% chance of a pause to a 70% chance of a rate hike and back to the likely outcome of a pause, all in just six business days.



Although a very short time frame, May is an example of why timing the markets and tactical trades are so difficult. The U.S. Dollar strengthened, the chance of a Fed rate hike increased throughout the month, and we cannot forget a potential government default. Yet, stocks finished the month higher, for the most part. Numerous factors influence the markets daily, and predicting how stocks will respond to each is next to impossible. Times when tensions are high and headlines are dire are when irrational investors drive behavior. The only way to navigate these times successfully is patience and waiting for rational investors to regain control.

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