

The market narrative in May transitioned to a debate on whether we are looking at recession or repricing debate; both nine letters, both look kind of similar, but are fundamentally very different beasts. In the end, May added to the 2022 legacy of heightened equity market volatility, geopolitical uncertainty, and sizable monetary policy influence. As expected, the Fed raised its policy rate 50 basis points in May and underscored its desire for similar 50 bp hikes over the next two meetings with the intent to keep tightening financial conditions until clear and convincing data of slowing inflation emerges. They are certainly not alone in their intent to eliminate emergency levels of policy accommodation with the ECB, BoE, and many other central banks moving the same direction. From a fundamental perspective, corporate profit growth is reverting to sustainable levels, inflation is running persistently high, the job market remains very healthy, and overall service and manufacturing sector activity is expanding.

Overall, it's been a very challenging year with markets on pace for record levels of volatility and virtually all financial assets (stocks and bonds) struggling. U.S. and most international equity markets flirted with bear market territory mid-month before recovering over 8% in the final six trading days. May saw continued dispersion within global equity markets with some areas doing particularly well (value, small caps, international developed markets, Latin American, and energy stocks) and some not so much (growth stocks, REITs, Eastern Europe). While the S&P 500 notched a 0.2% gain on the month, year to date it is down 12.8%, international stocks are down 11.3% (-4.9% in local currency terms), and emerging markets are 11.7% lower.

May did break a streak of five consecutive down months in the bond market, returning 0.6%, but still have not provided much shelter with broad U.S. bonds down approximately 9%, non-U.S. bonds -14.5%, municipal bonds losing 7.5%, and high yield bonds off 8% year to date—numbers which place 2022, through May, as the worst performing bond market on record with data going back to the early 1970's.

Commodity markets continued their advance with a 1.5% in May thanks to the energy complex (+10.4%)

continuing its rally on the back of Russian-Ukraine global supply concerns while industrial metals lost ground on global growth slowdown concerns.

### Market Anecdotes

- Aggregate S&P 500 EPS (12mo) of \$134.90 is sitting at a record high and has increased 7% YTD priced at trailing and forward P/E multiples of 20.6x and 18.3x respectively. BCA Research made note that the 140bps rise in yields this year coincides with a 22% decline in forward P/E ratios.
- Earnings, dividends, and multiple expansion/contraction are the drivers of stock market returns and the latter has both given (2020-2021) and taken (2022) in grand fashion in recent years.
- The headwind of high and rising bond yields has relented recently giving higher P/E stocks some breathing room and increasing the number of modestly priced stocks, particularly in non-U.S. markets.
- Q1 GDP revision, from -1.4% to -1.5%, came with a strong upward revision to personal consumption spending which was offset by lower private inventory investments. Growth of 3.9% and an upward trend in sales to domestic purchasers signals healthy GDP for Q2.
- Robust consumer balance sheets (demand) support a constructive view of forward growth expectations with \$4t in checking and loose currency and \$4.5t in money market holdings.
- BCA pointed out the slowdown in their Global Leading Economic Index confirms slowing global growth momentum, but the diffusion index appears to have bottomed and is shifting higher.
- While the U.S. housing market has cooled in step with a 2% rise in mortgage rates, it doesn't give us the sense of any looming issues. Affordability measures and mortgage rate spread to Treasuries provides an encouraging perspective when viewed long term.
- EU oil embargo details were released early last week, sending tremors through energy markets, but OPEC later surprised investors with an

unexpected production increase to 648,000bpd in July and another increase in August which essentially restores all pandemic related production cuts.

- China's weak housing market, zero tolerance Covid policy, and weakening global manufacturing demand has begun to influence policy with the PBoC lowering its 5yr loan rate by 15bps following a rate cut in the mortgage market in May.

## Economic Release Highlights

- The May Employment report registered 390,000 jobs versus consensus estimate of 325,000 and an unemployment rate of 3.6%.
- The Personal Income and Outlays ('PIO') revealed YoY headline and core PCE Price Index of 6.3% and 4.9% respectively with MoM at 0.2% and 0.3%. The PIO report also reported Personal Income (0.4%a vs 0.6%e) and Personal Consumption Expenditures (0.9%a vs 0.7%e).
- May YoY headline and core CPI registered 8.6% and 6.0% respectively with headline data exceeding consensus 8.2% and core data coming in relatively in line with the 5.9% consensus. MoM readings were (1.0%a vs 0.7%e) and (0.6%a vs 0.5%e).
- U.S. PMIs for May (C, M, S) of 53.8, 57.5, and 53.5 missed forecasts and came in below the low end of the consensus range across the board. International PMIs for May (C, M, S) in Japan (51.4, 53.2, 51.7), Eurozone (54.9, 54.4, 56.3), and U.K. (51.8, 54.6, 51.8).
- JPM Global Composite PMI (C, M, S) of 51.5, 52.4, 52.2 shows acceleration in the composite and services readings and an unchanged level in the manufacturing sector from the prior month.
- May's ISM Manufacturing Index increased to 56.1, in excess of the point forecast and on the high end of the consensus range. ISM Services came in at 55.9 versus consensus forecast of 56.3.
- The May UofM Consumer Sentiment declined to a decade low of 59.1 in early May, well below consensus calls for 64.0.
- The Conference Board Consumer Confidence reading for May came in at 106.4 versus consensus forecast of 104.0.
- The NFIB Small Business Optimism Index was unchanged in April, registering 93.2 and still well below the long-term average reading of 98.0.

- The Housing Market Index missed expectations, registering 69 versus consensus of 75. Starts (1.724mm) and Permits (1.819mm) were both in the middle of their respective consensus forecasted ranges. Existing Home Sales of 5.61mm was within consensus range of 5.45mm-6.00mm.

## Positioning

We expected persistent uncertainty due to evolving monetary policy, inflation dynamics, the war in Ukraine, and ongoing pandemic related supply chain issues to translate to a continuation of heightened volatility in global financial markets. Central banks are facing a dilemma between hiking interest rates too aggressively at the risk of tipping economies into recession or not tightening enough and triggering an inflationary spiral. Making matters more complicated is the Russia-Ukraine conflict which has clearly served to further aggravate inflation pressures. Although core inflation readings have fallen from March highs, the future path of inflation (speed and magnitude) will dictate monetary policy and fear discounts embedded in equity multiples, fixed income spreads, and the shape of the yield curve over the next several months.

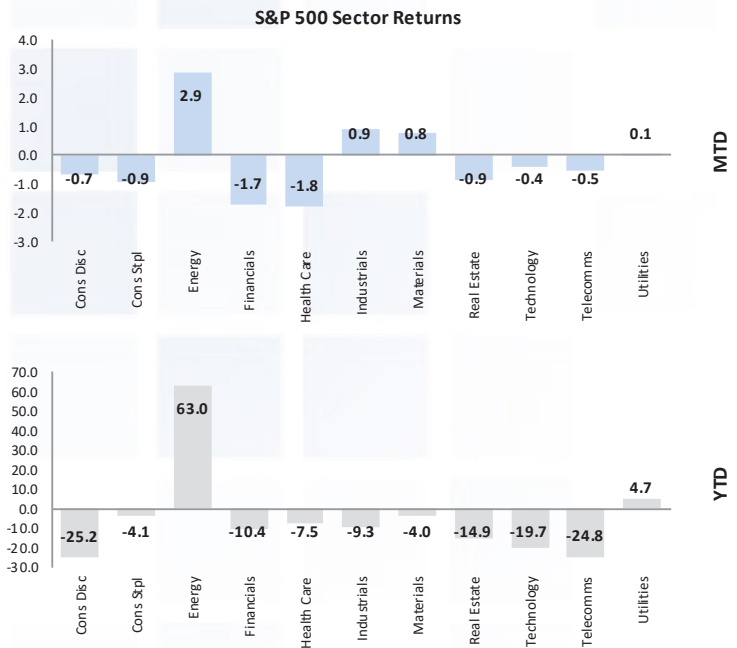
Our base case expectation is that core inflation (ex food and energy) peaked in April and the second half of 2022 will allow for the Fed to reassure markets that this is not and won't need to be a 'Paul Volcker style Fed' with a heavy-handed mandate to whip inflation at all costs. Decelerating inflation should also stabilize equity market multiples and relax the near parabolic rise in interest rates we've seen since late December.

We maintain an overweight to equities in our strategic view (12-18 months) while acknowledging policy risks, both monetary and geopolitical, over a shorter-term horizon. We continue to favor value-oriented exposures over higher valuation/growth sectors. Although valuations are dramatically cheaper overseas, geopolitical tensions between the West and Russia appear to be accelerating (the risk of oil and gas embargos along with not so veiled threats of retaliation by Russia into Western Europe) thus tempering our short-term outlook for developed markets. A cautious stance is also warranted with emerging markets allocations as China tries to emerge from zero Covid policy and other emerging market central banks aggressively fight inflationary pressures. Fixed income investors should continue to extend duration back toward neutral and remain overweight credit sectors—especially within floating rate issues.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr	Commodities	5/31/22	3/31/22	12/31/21	9/30/21
Dow Jones	32990	0.33	(2.14)	(8.43)	(2.65)	12.30	Oil (WTI)	118.41	100.53	75.33	75.22
NASDAQ	12081	(1.93)	(11.96)	(22.53)	(11.53)	18.44	Gold	1838.70	1942.20	1805.90	1742.80
S&P 500	4132	0.18	(5.16)	(12.76)	(0.30)	16.44					
Russell 1000 Growth		(2.32)	(10.76)	(21.88)	(6.25)	18.31	Currencies	5/31/22	3/31/22	12/31/21	9/30/21
Russell 1000 Value		1.94	(1.09)	(4.52)	0.93	12.75	USD/Euro (\$/€)	1.07	1.11	1.13	1.16
Russell 2000		0.15	(8.65)	(16.57)	(16.92)	9.70	USD/GBP (\$/£)	1.26	1.32	1.35	1.35
Russell 3000		(0.13)	(6.15)	(13.89)	(3.68)	15.60	Yen/USD (¥/\$)	128.53	121.44	115.17	111.50
MSCI EAFE		0.89	(4.83)	(11.02)	(9.90)	6.93					
MSCI Emg Mkts		0.47	(7.22)	(11.68)	(19.56)	5.36	Treasury Rates	5/31/22	3/31/22	12/31/21	9/30/21
Fixed Income	Δ Yield	1 Mo	3 Mo	YTD	1 Yr	3 Yr	3 Month	1.16	0.52	0.05	0.04
US Aggregate	1.89	(0.00)	0.09	0.12	(0.11)	(0.82)	2 Year	2.53	2.28	0.73	0.28
High Yield	4.72	(0.02)	0.30	0.46	(0.06)	(1.00)	5 Year	2.81	2.42	1.26	0.98
Municipal	1.78	(0.06)	0.03	0.07	(0.09)	(0.40)	10 Year	2.85	2.32	1.52	1.52
							30 Year	3.07	2.44	1.90	2.08

Style Returns				MTD
	V	B	G	
L	1.94	-0.15	-2.32	
M	1.92	0.08	-3.87	
S	1.92	0.15	-1.89	

	V	B	G	YTD
L	-4.52	-13.72	-21.88	
M	-5.88	-12.87	-25.43	
S	-8.25	-16.57	-24.79	



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