MONTHLY MARKET UPDATE

May 2024

OPAL WEALTH ADVISORS

Global equity markets bounced back nicely in May from what felt like some routine market consolidation experienced in April. Both stocks and bonds posted nice gains in a month where the S&P 500 took out its late March record high and bond yields pulled back slightly, enabling marginal gains across most fixed income sectors. Key drivers in the month were healthy Q1 earnings results, a strong generative AI-related rally, and an increase in the economic soft landing narrative for the U.S. economy.

Economic metrics during the month included a softer and in line reading for PCE headline (2.7%) and core (2.8%) inflation alongside persistently firm wage growth of 4.1%. The labor market saw a healthy establishment survey report 272,000 new jobs, well above the median forecast but an increase in unemployment to 4% in the household survey. PMI readings are slowing but mixed with a healthy Markit (M,S) reading of 51.3, 54.8 looking much more constructive than the ISM (M,S) reading of (48.7, 53.8). First quarter S&P 500 earnings and revenue growth of 6% and 4.2% respectively exceeded expectations but the overall results were somewhat skewed by the concentrated (top heavy) nature, again highlighting the lack of breadth in market fundamentals. Commercial real estate loans continued to weigh on market psyche (and bank balance sheets) but the trend of 'extend and pretend' continued with the hope of interest rates pulling back toward less restrictive territory and for improving fundamentals. Monetary policy in the U.S. remained in limbo with markets receiving slow growth anecdotes as reasoning for a Fed pivot toward rate cuts later this year and healthy growth anecdotes as reasoning for a 'higher for longer' policy. OIS and futures markets are currently pricing in one or two rate cuts beginning as early as September or as late as December of this year.

The S&P 500 and Russell 2000 both gained 5% on the month led by technology, telecom, and utilities sectors with energy, industrials, and consumer discretionary names lagging. International developed (+3.9%) and emerging (+0.56%) managed gains but to a lesser extent with Europe (+4.8%), Japan (+1.2%), and China (+2.4%) all posting gains and Brazil (-5%) lagging. Bonds posted decent gains with the 10yr UST yield falling from 4.69% to 4.51% while high yield and investment grade credit spreads remained relatively flat at 3.2% and 0.88% respectively.

Market Anecdotes

- In the week leading up to Memorial Day weekend, the S&P traded higher in 23 of the prior 30 weeks. In the 9 prior observations since 1945, forward 1-year returns were positive 73% of the time with an average gain of 9.8%.
- Q1 earnings season is officially over with solid 6% bottom line growth and 4.2% top line growth leaving the S&P 500 priced at a 20.5x fwd P/E. A beat rate of 80% and margin of 7.5% were healthy as well. AI was the key theme with 199 companies citing AI in earnings calls last quarter.
- According to BCA Geopolitical analysis, Donald Trump's conviction of 34 felony counts by a New York state court last week, while troubling, is unlikely to change the course of the November elections with less than 15% of Trump supporters indicating they may reconsider if found guilty.
- The latest BofA Fund Manager Survey has equity managers the most bullish since January 2022 with overweighting U.S. stocks the most crowded sentiment. It also shows over 60% of bond managers expecting higher rates in 2024.
- The Fed's Survey of Loan Officers showed weaker loan demand across the board and continued tightening standards for CRE and C&I loans with particular scrutiny on credit cards.
- The National Association of Realtors noted the combination of high prices and high mortgage rates have taken U.S. home affordability to the lowest on record.
- A look at commercial real estate (CRE) and the CMBS maturity wall highlights the importance of the economy and Fed policy as it relates to the level of interest rates. CRE equity values feel at or close to bottom, but lagged price discovery

suggests that only time will heal pandemic era wounds.

- Data from Dealogic and Blackrock illustrated the very high percentage of high yield bond issuance year to date (77%) earmarked for paying down/refinancing existing debt.
- The PBoC announced a $42b property market rescue package designed to absorb excess housing inventory, relaxing mortgage rules, and lowering down payment requirements for homebuyers.

Economic Release Highlights

- The May jobs report came in stronger than consensus (272,000 vs 182,000) and average hourly earnings were warm at 0.4% (0.3%) MoM and 4.1% (3.9%) YoY. The unemployment rate moved one tick higher to 4% (3.9% expected) and labor participation fell two ticks to 62.5%.
- PCE inflation came in right at the consensus forecast for both YoY headline (2.7%) and core (2.8%) as well as MoM headline (0.3%) and core (0.2%). Personal income grew 0.3% and personal consumption expenditures slowed from 0.8% last month to 0.2%.
- Headline and core CPI YoY readings of 3.4% and 3.6% and MoM readings of 0.3% were softer than expected and lower than March readings across the board.
- Headline and core PPI registered 2.2% and 2.4% YoY respectively, with warmer than expected MoM readings (0.5% vs 0.3%) and (0.5% vs 0.2%).
- May's U.S. (C,M,S) PMI registered 54.4, 50.9, 54.8, beating consensus forecasts and improving relative to April across the board.
- PMIs in the Eurozone exceeded consensus for the composite (52.3 vs 52.0) and manufacturing (47.7 vs 46.3) but were slightly under for services (53.3 vs 53.5). The UK composite of 52.8 saw manufacturing edge higher (49.1 to 51.5) but services moved slightly lower (55.0 to 52.9).
- May's ISM Manufacturing Index registered 48.7, below consensus forecast of 49.8. ISM Services rebounded and beat consensus (53.8 vs 50.7).
- The JOLT Survey reported 8.059M job openings, notably fewer than the 8.4M forecast and past several months.
- Retail Sales cooled notably relative and came in below consensus (0.0% vs 0.4%) while the Control Group unexpectedly declined by 0.3%.
- The final UofM Consumer Sentiment Index for May was revised up from 67.4 to 69.1 and the 1yr inflation expectation fell from 3.5% to 3.3%.
- May's Consumer Confidence Index came in well above consensus forecast (102.0 vs 95.3) and the high end of forecast estimates.
- The NFIB Survey improved from 88.5 to 89.7 in the most recent reading but the trend this year has been down.
- New (634k vs 645k) and Existing (4.14M vs 4.195M) Homes Sales both came in below consensus and at the low end of the forecast range. Pending Home Sales Index fell 7.7%, well below the consensus forecast of 0.3% growth.
- Housing Starts (1.360M vs 1.435M) and Permits (1.440M vs 1.480M) both came in under consensus forecast.
- A reading of 45 for the Housing Market Index was below consensus forecast and the prior month's reading, both of which were 51. The Case-Shiller Home Price Index grew 0.3% MoM and 7.4% YoY, exactly in line with the consensus forecast.

Outlook

We continue to guide clients toward a neutral stance with regard to risk assets in the short term but see reason for caution over our 12-24 month forecast horizon as the picture of slowing growth, labor market deterioration, and inflation (rates) take hold. Our base case view is for these conditions to express themselves in financial markets over the next 18 months.

Continue favoring periodic tactical (0-6 months) asset allocation shifts and rebalancing/profit taking, particularly when equity markets become extended (short term overbought). We remain neutral from a growth/value style perspective and continue to favor quality U.S. equity markets over non-U.S. on balance, but our investment committee recently upgraded its rating of economic conditions across developed international equity markets from neutral to constructive and in emerging markets from cautious to neutral given recent developments in China.

Recommended fixed income positioning remains neutral from a duration perspective but underweight high yield bonds and bank loan markets over our 12-24 month forecast horizon in sympathy with our view on risk assets.

Equity	**Level**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
Dow Jones	38686	2.58	(0.31)	3.52	19.97	6.00
NASDAQ	16735	6.98	4.19	11.82	30.37	7.61
S&P 500	5278	4.96	3.91	11.30	28.19	9.57
Russell 1000 Growth		5.99	3.28	13.08	33.60	11.12
Russell 1000 Value		3.17	3.70	7.64	21.71	5.45
Russell 2000		5.02	1.12	2.68	20.12	(1.65)
Russell 3000		4.72	3.35	10.15	27.58	7.83
MSCI EAFE		4.00	4.90	7.46	19.12	3.60
MSCI Emg Mkts		0.59	3.61	3.53	12.85	(5.85)
Fixed Income		**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate		1.70	0.04	(1.64)	1.31	(3.10)
High Yield		1.13	1.32	1.63	11.17	1.78
Municipal		(0.29)	(1.53)	(1.91)	2.67	(1.29)

Commodities	**5/31/24**	**3/31/24**	**12/31/23**	**9/30/23**
Oil (WTI)	78.96	83.96	71.89	90.77
Gold	2348.30	2214.40	2078.40	1870.50
Currencies	**5/31/24**	**3/31/24**	**12/31/23**	**9/30/23**
USD/Euro ($/€)	1.09	1.08	1.11	1.06
USD/GBP ($/£)	1.27	1.26	1.27	1.22
Yen/USD (¥/$)	157.19	151.22	140.92	149.43
Treasury Rates	**5/31/24**	**3/31/24**	**12/31/23**	**9/30/23**
3 Month	5.46	5.46	5.40	5.55
2 Year	4.89	4.59	4.23	5.03
5 Year	4.52	4.21	3.84	4.60
10 Year	4.51	4.20	3.88	4.59
30 Year	4.65	4.34	4.03	4.73

Style Returns

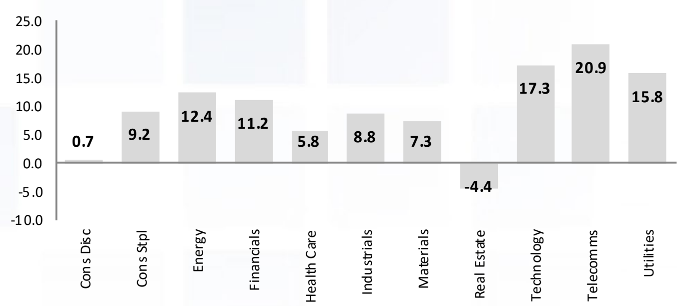
MTD

	V	B	G
L	3.17	4.71	5.99
M	3.59	2.85	1.07
S	4.68	5.02	5.36

S&P 500 Sector Returns

YTD

	V	B	G
L	7.64	10.58	13.08
M	6.24	5.66	4.24
S	0.85	2.68	4.62



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