May's Record-Breaking Market Performance Elicits Optimism

May was a month of milestones, with all three major U.S. equity indexes hitting new highs – and markets in the U.K., India and Germany also setting records. Stocks were driven up by positive corporate earnings results and greater participation from sectors other than technology – and stocks other than the MAGMAN six tech stocks – with 10 of 11 sectors having positive performance.

"This was the first quarter since the fourth quarter of 2022 that the other 494 stocks in the S&P 500 had positive earnings growth," Raymond James Chief Investment Officer Larry Adam said. "In addition, big tech stocks continue to be driven by tailwinds from artificial intelligence. Even the utilities sector saw a performance boost from AI energy demand in May."

With inflation moving slowly toward the Federal Reserve's (Fed's) 2% goal and the economy proving resilient, interest rate cuts are likely to be further delayed, which will continue to put downward pressure on the real estate market.

The Congressional Budget Office released new estimates for the cost of extending the 2017 Tax Cuts and Jobs Act individual tax cuts, raising new questions as to what the tax debate might look like next year as the extensions are set to expire.

Before we dive into the details, let's look at the year-to-date results:

	12/29/23 Close	5/31/24 Close*	Change Year to Date	% Gain/Loss Year to Date
DJIA	37,689.54	38,686.32	+996.78	+2.64%
NASDAQ	15,011.35	16,735.02	+1,723.67	+11.48%
S&P 500	4,769.83	5,227.51	+457.68	+9.60%
MSCI EAFE	2,241.21	2,355.67	+114.46	+5.11%
Russell 2000	2,027.07	2,070.13	+43.06	+2.12%
Bloomberg Aggregate Bond	2,162.21	2,126.49	-35.72	-1.65%

*Performance reflects index values as of market close on May 31, 2024. Bloomberg Aggregate Bond and MSCI EAFE reflect May 30, 2024, closing values.

U.S. economy remains stable

The Consumer Price Index increased less than expected in April, signaling a slowdown in inflation, and although employment growth slowed considerably in May, it remained robust compared to the historical average, growing by 175,000 new jobs. Private jobs posted an increase of 167,000. Mortgage rates continue to weigh on housing starts, existing home sales and new home sales, which were all weaker than expected in April.

Treasurys balance on Fed action

After a strong start to the month, supported by a softer April inflation report, Treasury yields resumed their upward march as better than expected economic activity, hawkish rhetoric from the Fed and softer demand weighed on sentiment. The market is in a wait and see mode and the 10-year Treasury yield may remain within a tight range until something causes it to move.

Equities trending up, but volatility ahead

With the S&P 500 up 50% over the last 400 days, consolidation is not unexpected, especially considering investor uncertainty on the pace of disinflation and the timeline of Fed actions. The path to inflation normalization is unlikely to be smooth, so while equities may be in an uptrend, some fluctuations along the way are possible.

Biden administration raises Chinese tariffs

Trade remained a key issue in May, with the Biden administration unveiling tariff hikes on around $18 billion of Chinese imports across strategic tech sectors including electric vehicles, batteries, solar products, semiconductors and critical minerals. The administration also maintained existing duties on around $300 billion of Chinese goods.

Oil prices cool down, but risk remains

Spiking oil prices in April, bolstered by fears of all-out war between Iran and Israel, cooled off in May, just as the summer driving season began. Now the oil market is less focused on the situation in the Middle East, but the Russia-Ukraine war still presents physical risks to the oil supply as Ukrainian drones continued attacking Russian oil refineries, disrupting the processing of fuels in the world's largest oil-producing country.

Lower rates likely in euro zone and Canada, less so in U.K.

The European Central Bank seems poised to make a rate cut in response to the slow-paced economic recovery, following its Swiss and Swedish counterparts. Canada's inflation rate is now within the Bank of Canada's target range, so the central bank may lower interest rates to bolster the shaky Canadian economy. Inflation in the U.K., although falling, remains too high for most rate-setters, suggesting the Bank of England will not lower rates immediately, to the chagrin of the Conservative government ahead of a July 4 general election.

The bottom line

May's market performance elicits optimism, but volatility is always a possibility – especially with the continued uncertainty regarding inflation, interest rates and international conflicts.

We're glad to be able to bring you these updates and hope you find them helpful as we continue to pursue your financial goals. Please don't hesitate to reach out with any questions about what we've shared here or any other concerns you may have.