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Stock performance was mixed in May with US Stocks doing well and foreign stocks largely down for the month. US stocks rebounded in May with the S&P 500 index finishing the month up 2.41%. It is now up 2.02% year-to-date. Small cap stocks in the Russell 2000 index were up 6.07% for the month bringing them to a 6.90% return year-to-date. International stocks in the MSCI EAFE index stumbled in May and were down -2.25% for the month and -1.55% year-to-date. Emerging market stocks were also down for the month with performance of -3.35% in May and -2.53% year-to-date.

Yields on the 10-year US Treasury bond rose sharply mid-month but ended the month lower than they started finishing at 2.89%. Because of the decrease in yields, bond prices rose resulting in a 0.71% gain for the Barclays Aggregate Bond Index in May. Bond performance is suffering so far this year with the index down year-to-date -1.50%

The second estimate for first quarter GDP growth was revised slightly lower to 2.2%, reduced from an initial estimate of 2.3%. The change was attributed to slightly slower consumer spending than was originally projected. This change is minimal and does not change most analyst's expectations for full year growth of about 3.0%.

Corporate earnings continue to come in sharply higher than last quarter as the benefits of strong economic conditions and corporate tax cuts continue to accrue. The biggest boost to earnings this year will almost certainly be in the first quarter which is just wrapping up. However, analysts are not expecting this boost to be a one quarter phenomenon but rather expect to see corporate earnings continue at this level or even higher through at least 2019.

We had a very strong May U.S. Employment report with the U.S. economy creating 223,000 new jobs for the month. This strong growth in jobs caused the unemployment rate to drop to 3.8%, the lowest rate since the financial crisis began in 2008. A tight labor market is translating to better paychecks for workers as well. Wages grew more than analysts expected as average hourly earnings rose 0.3% over the prior month and 2.7% over the prior year.

Given favorable economic conditions as reflected in corporate earnings and the strong jobs report, the Federal Reserve is likely to raise interest rates for the second time this year in June. Most analysts expect a total of three or four rate increases in 2018.

The 10-year Treasury bond yield reached 3.1% mid-month before finishing the month at 2.89%. The spike higher rattled the stock market due to the rapid pace of yield increases. While it provided some relief when yields came back down, markets will likely need to get comfortable with the idea of 10-year US Treasury yields above 3%.

Between trade negotiations, tensions with North Korea, Iran and China among other things, there is more than enough political and economic news to cause volatility in the markets. We expect the volatility we've seen so far this year to continue. Exposure to uncorrelated asset classes helps to smooth the bumps in the road. If you have any questions about your account, please do not hesitate to contact us. Also, if your situation has changed, please let us know that too as investment changes may be necessary.

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