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Poor performance in April was followed by a volatile month in May but stocks and bonds rallied late in the month to finish May flat to a little higher. Large cap stocks in the S&P 500 index were up slightly 0.18% for the month bringing their year-to-date loss to -12.76%. Small cap stocks in the Russell 2000 were up similarly at 0.15% leaving them with a year-to-date loss of -16.56%. International stocks in the MSCI EAFE index were also up 0.75% and emerging market stocks were up 0.44% so now their year-to-date returns are -11.34% and -11.76% respectively. Yields declined in May resulting in a 0.64% monthly gain and -8.92% year-to-date loss for the Barclays US Aggregate Bond Index.

A new strain of COVID is leading to a resurgence in infections and hospitalizations but for the most part is not leading to restrictions that affect the economy or markets. China just lifted restrictive shutdowns in Shanghai and other cities June 1. Those shutdowns did affect us through the supply chain which is one of the factors contributing to inflation and hampering economic growth.

Weak economic growth is still one of the major factors affecting the markets. The first quarter GDP report showed an economy in decline with a negative growth rate of -1.5%. This came as a surprise to most analysts and is particularly disappointing when we are recovering from a pandemic related shutdown.

Inflation continues to be the major factor affecting markets - not only because of the strain it puts on the spending power of companies and consumers, but also because of the remedy to high inflation. The Fed will likely be forced to raise rates and withdraw liquidity from the economy at a time when the economy is already faltering. The longer it takes to get inflation under control, the greater the threat to economic growth.

Even with energy prices hitting levels not seen since the early 1980's, U.S. energy companies are met with significant regulatory hurdles, hindering their ability to increase production. Since energy is an important component in the production and transportation of every product sold, higher costs are increasing prices and squeezing profit margins. In addition, congress and the white house are pushing for additional federal spending which would add even more fuel to the inflationary fires.

We got a slight reprieve from rising interest rates in May with the 10-year US Treasury Bond yielding 2.84% at the end of May, down from 3.0% at the beginning of the month. The Fed raised the Fed Funds rate by 0.5% at the FOMC meeting on May 4 as expected, and markets are indicating another 0.5% rate hike at the next meeting in June. Markets had initially expected rates to rise 0.25% per meeting but high inflation has forced the Fed to move much faster regardless of the weakness in the economy.

Investors have valid reasons for concern and volatility is likely to continue. We continue to advocate against market timing and in favor of investing for the long term according to your risk tolerance. As always, please contact us with any questions or concerns.