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Stocks and bonds both rebounded in May. Large cap stocks in the S&P 500 Index had a strong showing in May - up 4.9% - and they are now up 11.3% year-to-date. Small cap stocks in the Russell 2000 gained 5.0% in May and are now up 2.7% year-to-date. International stocks in MSCI EAFE also had a positive month, up 3.9%, for a year-to-date gain of 7.1%. Emerging market stocks also rose 0.6% for the month and are now up 3.4% YTD. The yield on the 10-year Treasury bond finished the month at 4.5%, close to where it started the month. Across all maturities, bond yields were generally lower for the month, so Barclays US Aggregate Bond Index gained 1.7% for May and reduced its year-to-date loss to -1.6%.

The GDP growth rate for the first quarter of 2024 was revised down to 1.3% from 1.6% reported last month. The core personal consumption expenditures (PCE) price index increased 3.3% from the prior quarter, compared with an increase of 1.8% in the fourth quarter of 2023, according to the Bureau of Economic Analysis. This is the inflation index the Fed watches most closely when determining how well inflation is controlled.

Corporate earnings are expected to be stronger in 2024 than the previous year. The "magnificent 7" stocks continued to dominate earnings growth in Q1 2024 but are expected to decline in their dominance as the year progresses and earnings accelerate among the rest of the S&P 500. Profit margins were the primary source of earnings growth in Q1.

Large cap growth stocks continue to outpace value stocks so far in 2024. Large cap growth stocks are up 13.1% year-to-date through May while small cap stocks are up a scant 2.7%. This is primarily because earnings growth in the large tech sector has been robust while small cap stocks continue to struggle to make a profit. Approximately 42% of companies in the small cap index are failing to make a profit currently.

The inflation rate continues to remain uncomfortably high. Higher inflation rates put the Fed in an uncomfortable position after planning to make several interest rate cuts this year. They have said for months that their decision to cut rates will be data dependent and will only occur when they are confident they will achieve their 2.0% inflation target. Now, rate cuts likely won't come until this fall if at all in 2024.

The employment picture was expected to stabilize in May after a stumble in April. Unemployment is low at just 3.9%. The April employment report showed just 175,000 new jobs created according to the establishment survey. This was considered a weak report that was welcomed by equity markets because it gives the Fed a reason to cut rates. The May jobs report, out June 7, is expected to show 190,000 jobs created, though this report has been hard to forecast in recent months. The unemployment rate is expected to remain close to 3.9% again this month.

We continue to encourage investors not to try and time the market by trading in and out and instead invest according to risk tolerance. If you have questions about the strategy for your account, please contact your advisor.