

May 2022

# DeMarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for Periods Ended 5/31/2022

## Global Overview

Markets began to rebound in May despite inflation and supply chain issues persisting within the global economy, which were compounded by disruptions in China's output and the geopolitical conflict in Russia-Ukraine. The Federal Reserve increased the fed funds rate another 50 bps at their May FOMC meeting in an attempt to slow inflation. The Bank of England also raised interest rates in May due to inflation concerns, raising their base interest rate by 25 bps up to 1%. The European Union is set to ban all Russian seaborne oil to the EU, increasing energy costs and applying pressure on Russia's already struggling economy. Through May's volatility, broad global equity markets managed to produce marginally positive returns with the S&P 500 Index up 0.2% in May (down 12.8% year-to-date) similar to the MSCI EAFE Index return of 0.8% for the month (down 11.3% year-to-date).

## U.S. Markets & Economy

U.S. equity markets began to rally slightly in May even with major indices hitting their 52-week low. Although U.S. GDP decreased at a 1.5% annual rate in the first quarter with trade being the largest detractor, the S&P 500 Index had a slight gain of 0.2% in May. After bottoming out in mid-May, the S&P 500 Index rebounded almost 8.5%, reflecting the potential for a stabilizing U.S. equity market. As U.S. imports slow, market consensus expects to see a boost in second quarter GDP. Despite unemployment remaining at a healthy 3.6% rate and Headline CPI slowing to an 8.3% year-over-year rate in April from its 8.5% peak in March, consumer sentiment deteriorated in May falling from 65.2 to 58.4. Consumer spending is still rising, even though high inflation continues to shrink disposable income. Value indexes continue to outperform growth as the Russell 1000 Value Index gained 1.9% in May as compared to the 2.3% decline in the Russell 1000 Growth Index.

In addition to the 50 bps interest rate hike in May, which places the current federal funds rate at 1%, the fixed income market is pricing in two sequential 50 bps hikes in June and July with additional hikes later in the year bringing the expected fed funds rate to 2.9% by February 2023. Despite the May rate hike, the Bloomberg U.S. Aggregate Index gained 0.6%, but remains down 8.9% year-to-date. As interest rates rose, high yield spreads widened by 25 bps in May while investment grade spreads declined by 1 basis point. As a result, some high yield credit indexes declined during the month including the Credit Suisse High Yield Index reporting a loss of 3.5% in May, down 7.5% year-to-date.

May's FOMC minutes indicated that the Federal Reserve is considering a two-phase approach to facilitate economic stabilization. Initially, the Federal Reserve will focus on evening out inflation while attempting to protect economic growth, bringing the economy to a neutral level. However, the Federal Reserve is still prepared to move ahead with multiple 50 bps interest rate increases in 2022 willing to accept increases in the unemployment rate in order to achieve its inflation target. The Fed's interest rate hikes will be combined with their balance sheet reduction plans, which begin in June by no longer reinvesting proceeds of \$30 billion in maturing Treasuries and \$18 billion in maturing agency mortgage backed securities per month.

## International Markets & Economy

While Russia's incursion of Ukraine rages on, Shanghai's lockdown is expected to be lifted by the end of the month potentially alleviating many of the supply chain and slowing production effects that still ripple throughout China's economy. China has struggled to maintain output levels as steel production and inputs have declined significantly.

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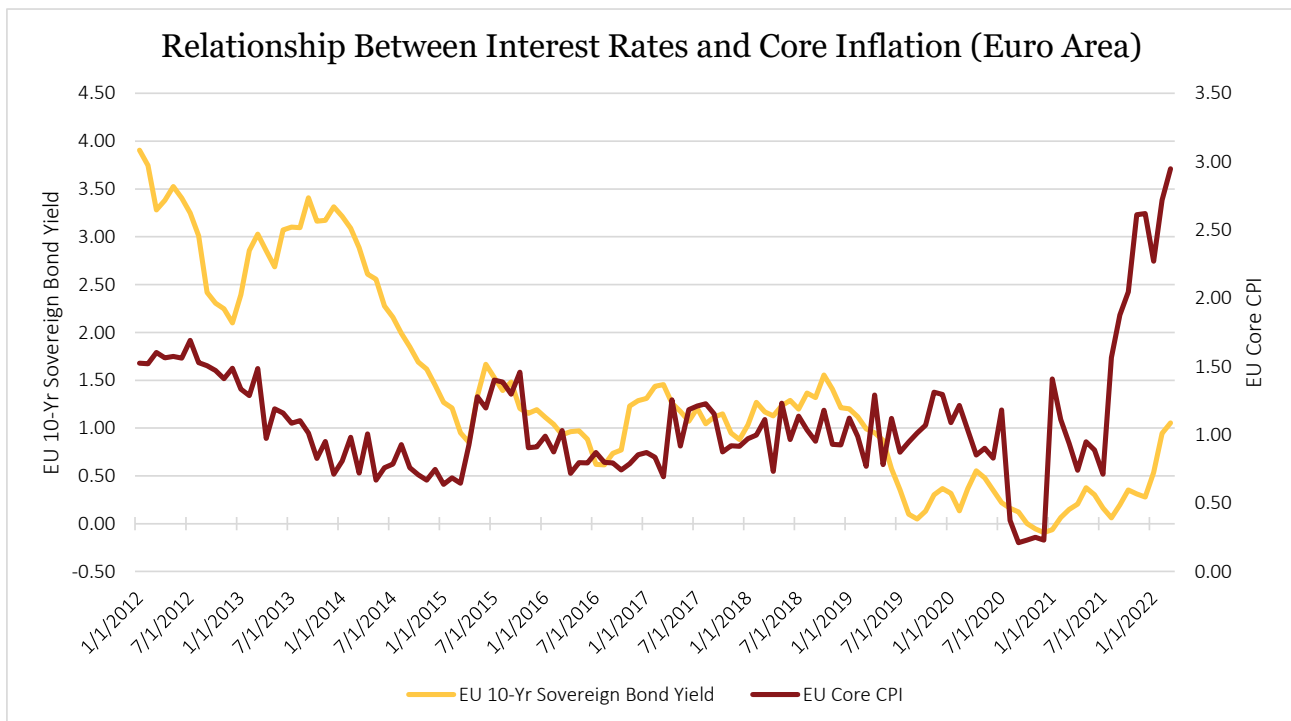
Further disruptions to the global economy come from transportation delays and production suspensions which diminish China's output. These supply chain delays are affecting Emerging Markets as headline inflation surged between 8-12% in Chile, Brazil, and Mexico, exposing those economies to the risk of stagflation. Although the MSCI China Index produced a positive return of 1.2% this month, the index is still down 35.9% year-to-date. The MSCI EM Index reported slight gains of 0.4% in May, but is down 11.8% year-to-date. Europe will likely see further inflation and economic volatility due to energy shortages as the result of the upcoming Russian oil embargo. The Bank of England reports expected inflation to peak at 10.2% by the end of 2022. Consumer confidence in the EU continued to decline to -22, reaching the lowest level since April 2020. The MSCI EAFE Index reported a gain of 0.8% this month, but is down 11.3% year-to-date.

## In the News

Regardless of the potential economic consequences throughout the European Union, the push continues for oil sanctions against Russia. The EU maintained a face of unity and formally approved a plan that will end around 90% of oil purchases from Russia by sea shipment. The plan exempts imports by pipeline, which will benefit countries like Hungary and Slovakia, both of which are heavily reliant on Russian-sourced oil. The embargo aims to further hinder Russia's economy, which is set to have its worst year since 1994 with predictions of GDP being down 12% by the end of the year. The embargo will put increased pressure on European core inflation, which is currently reported at 3.8%. As seen below in the Chart of the Month, EU Core CPI has risen monumentally ahead of bond yields, and with the upcoming shift in supply of oil in the Euro Area, inflation will continue to rise. Due to minimal GDP growth of 0.3% in the Euro Area, continued global production slowdowns, rising energy prices, and problematic inflation, market consensus anticipates the UK and Europe may be hurdling towards stagflation and recession.

## Chart of the Month

Source: Federal Reserve Economic Data (FRED)



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## Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	0.08	(5.72)	(12.97)	(4.82)	12.65	9.72	11.06
	BBgBarc US Agg Bond TR USD	0.64	(5.86)	(8.92)	(8.22)	0.00	1.18	1.71
	Russell 3000 TR USD	(0.13)	(6.15)	(13.89)	(3.68)	15.60	12.75	14.00
	DJ Industrial Average TR USD	0.33	(2.14)	(8.43)	(2.65)	12.30	11.87	12.91
	NASDAQ Composite PR USD	(2.05)	(12.14)	(22.78)	(12.13)	17.47	14.28	15.63
	MSCI EAFE NR USD	0.75	(5.16)	(11.34)	(10.38)	6.43	4.17	7.15
	FTSE Treasury Bill 3 Mon USD	0.05	0.09	0.10	0.13	0.65	1.09	0.61
	Bloomberg Commodity TR USD	1.52	14.87	32.74	41.85	19.82	10.85	0.86
Domestic Equities	S&P 500 TR USD	0.18	(5.16)	(12.76)	(0.30)	16.44	13.38	14.40
	S&P MidCap 400 TR	0.75	(5.12)	(10.98)	(6.52)	13.28	9.56	12.24
	S&P SmallCap 600 TR USD	1.86	(5.74)	(11.37)	(8.73)	13.22	9.78	12.72
	Russell 1000 TR USD	(0.15)	(5.98)	(13.72)	(2.71)	16.03	13.12	14.24
	Russell 1000 Growth TR USD	(2.32)	(10.76)	(21.88)	(6.25)	18.31	16.13	16.06
	Russell 1000 Value TR USD	1.94	(1.09)	(4.52)	0.93	12.75	9.50	12.06
	Russell Mid Cap TR USD	0.08	(5.26)	(12.87)	(6.77)	12.87	10.48	12.78
	Russell Mid Cap Growth TR USD	(3.87)	(13.33)	(25.43)	(18.71)	9.44	10.65	12.59
	Russell Mid Cap Value TR USD	1.92	(1.22)	(5.88)	(0.06)	13.37	9.10	12.31
	Russell 2000 TR USD	0.15	(8.65)	(16.57)	(16.92)	9.70	7.72	10.83
	Russell 2000 Growth TR USD	(1.89)	(13.53)	(24.79)	(25.71)	6.18	6.87	10.55
Russell 2000 Value TR USD	1.92	(4.15)	(8.25)	(7.67)	12.21	7.83	10.71	
International Equities	MSCI ACWI Ex USA NR USD	0.72	(5.46)	(10.74)	(12.41)	6.49	4.42	6.39
	MSCI EAFE NR USD	0.75	(5.16)	(11.34)	(10.38)	6.43	4.17	7.15
	MSCI EAFE Growth NR USD	(1.17)	(8.52)	(19.93)	(16.57)	6.61	5.21	7.82
	MSCI EAFE Value NR USD	2.46	(2.07)	(2.40)	(4.46)	5.55	2.71	6.22
	MSCI Japan NR USD	1.64	(7.78)	(13.43)	(13.32)	5.10	3.67	6.99
	MSCI AC Asia Ex Japan NR USD	0.46	(7.36)	(12.34)	(21.60)	5.91	4.37	6.30
	MSCI Europe NR USD	0.75	(5.14)	(12.04)	(9.75)	7.13	4.10	7.36
	MSCI United Kingdom NR USD	1.72	(1.90)	(0.24)	2.53	6.01	3.70	5.41
	MSCI EAFE Small Cap NR USD	(0.72)	(7.57)	(15.42)	(16.01)	6.59	4.11	8.86
MSCI EM NR USD	0.44	(7.29)	(11.76)	(19.83)	5.00	3.80	4.17	
Fixed Income	BBgBarc US Govt/Credit TR USD	0.48	(6.26)	(9.62)	(8.50)	0.25	1.38	1.83
	BBgBarc US Govt/Credit Interm TR USD	0.74	(3.69)	(5.72)	(6.16)	0.57	1.32	1.57
	BBgBarc US Govt/Credit Long TR USD	(0.31)	(13.13)	(19.49)	(14.77)	(0.43)	1.79	2.90
	ICE BofA US High Yield TR USD	0.25	(4.29)	(7.76)	(5.00)	3.16	3.42	5.36
	Credit Suisse HY USD	(3.52)	(5.11)	(7.54)	(4.77)	2.53	3.42	5.02
	S&P/LSTA Leveraged Loan TR	(2.56)	(2.30)	(2.45)	(0.26)	2.91	3.35	4.04
	FTSE WGBI NonUS USD	0.64	(6.38)	(11.45)	(17.16)	5.92	4.48	6.68
	BBgBarc Gbl Agg Ex USD TR	0.64	(6.38)	(11.45)	(17.16)	5.92	4.48	6.68
REITs	FTSE Nareit All REITs TR	(4.32)	(1.87)	(12.99)	3.18	7.88	8.27	9.53
	Wilshire US REIT TR USD	(4.54)	(1.40)	(8.24)	14.11	10.29	9.03	9.07

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

Source: Morningstar

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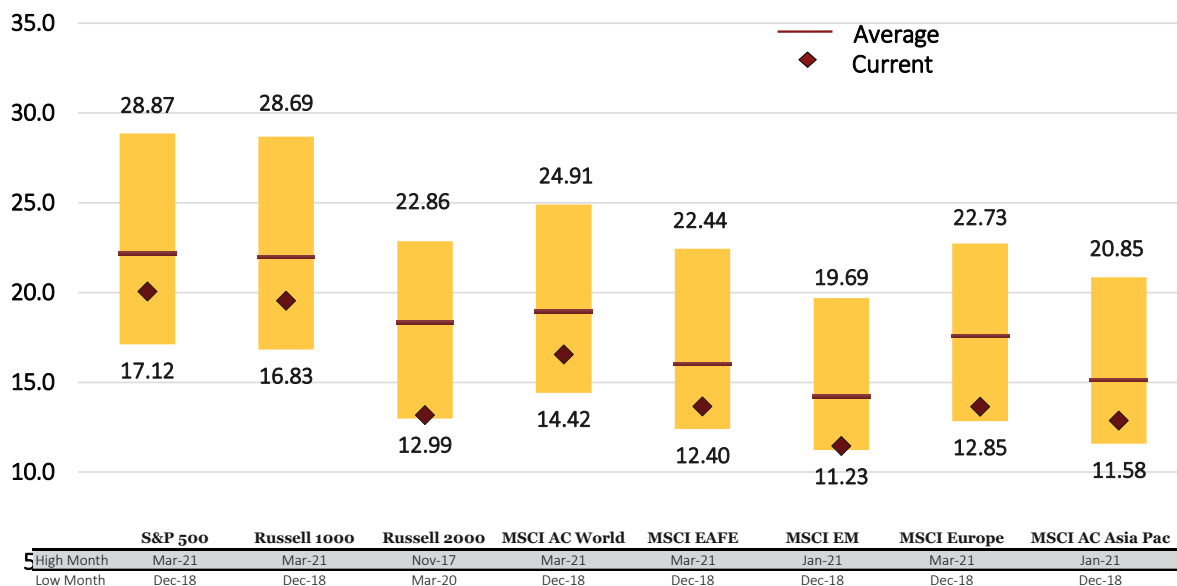
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## Current Trailing P/E vs. Trailing 5-Year High, Low, Average



Source: Morningstar

## Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates <sup>3</sup> per US \$		Inflation <sup>2</sup>
	Latest <sup>1</sup>	2022 <sup>1</sup>	2023 <sup>1</sup>	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
<b>United States</b>	-1.50	3.73	2.44	3.60	2.92	-	-	6.20
<b>China</b>	1.30	5.06	5.14	6.10	2.80	6.70	6.38	0.90
<b>Japan</b>	-0.20	3.41	1.09	2.50	0.26	127.14	109.81	2.10
<b>United Kingdom</b>	0.80	4.74	2.07	3.70	2.15	1.26	1.42	6.20
<b>Euro Area</b>	0.30	4.32	2.50	6.80	0.84	1.07	1.22	3.80
<b>Germany</b>	0.20	4.10	2.40	5.00	1.23	1.07	1.22	3.80
<b>France</b>	-0.20	4.20	2.10	7.30	1.75	1.07	1.22	3.20
<b>Italy</b>	0.10	4.60	2.60	8.40	3.28	1.07	1.22	3.30
<b>Canada</b>	0.80	3.88	2.76	5.20	3.02	1.27	1.21	5.70
<b>India</b>	1.84	8.10	5.50	7.80	7.34	76.17	74.52	6.95
<b>Mexico</b>	1.00	3.30	2.50	3.00	8.70	19.58	19.97	7.22
<b>Brazil</b>	1.00	1.40	2.10	10.50	12.73	4.73	5.26	9.44

Sources: (Most recently available data) St. Louis Federal Reserve, The Wall Street Journal, OECD, Trading Economics

1. Latest GDP is seasonally adjusted annualized rate. 2022 & 2023 is forecasted data from OECD

2. In terms of Core CPI

3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

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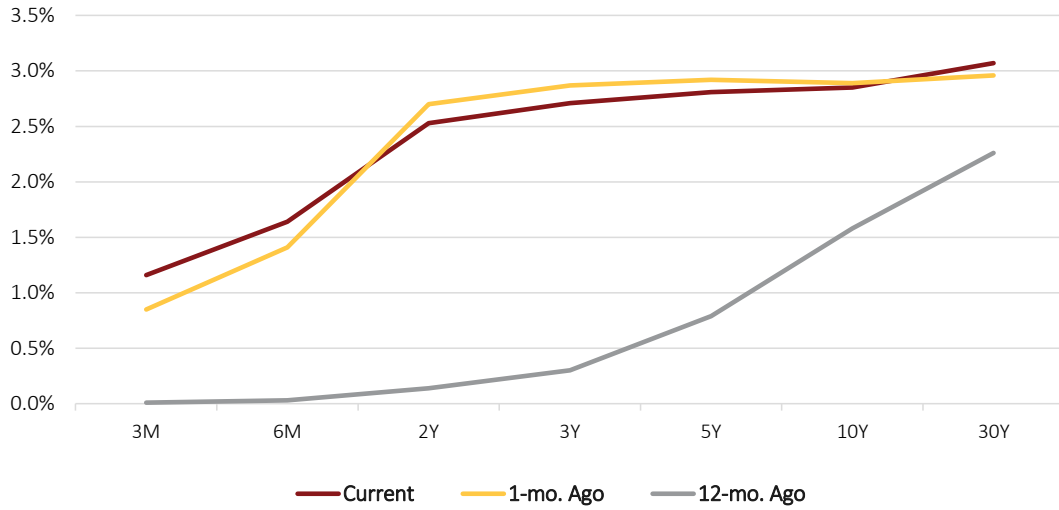
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## U.S. Treasury Yield Curves

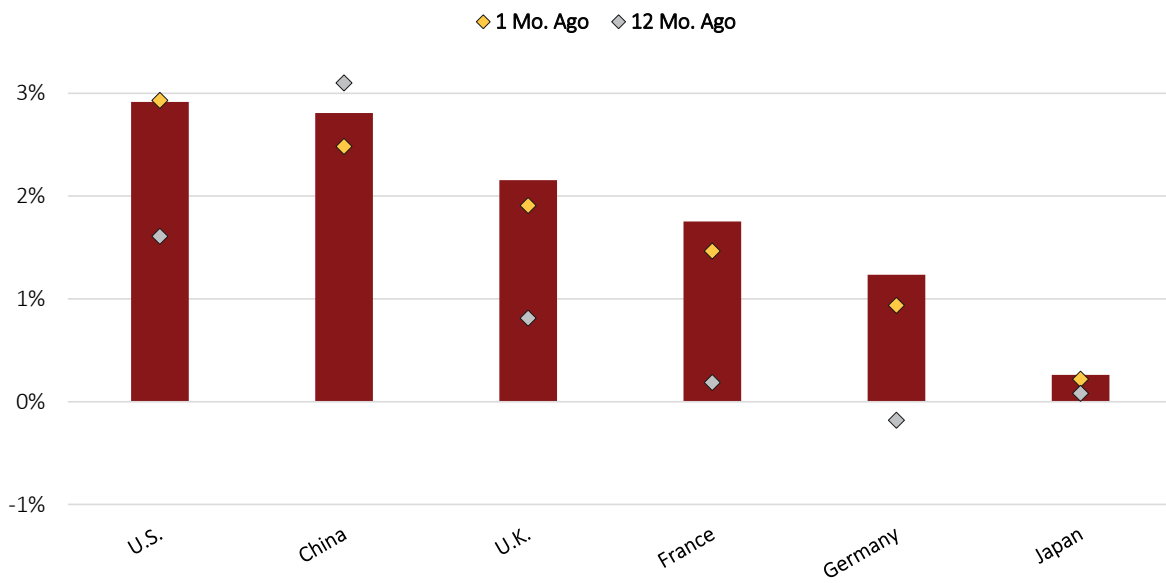
as of 5/31/2022



Source: Federal Reserve Bank

## 10-Year Sovereign Yields

as of 5/31/2022 (most recently available)



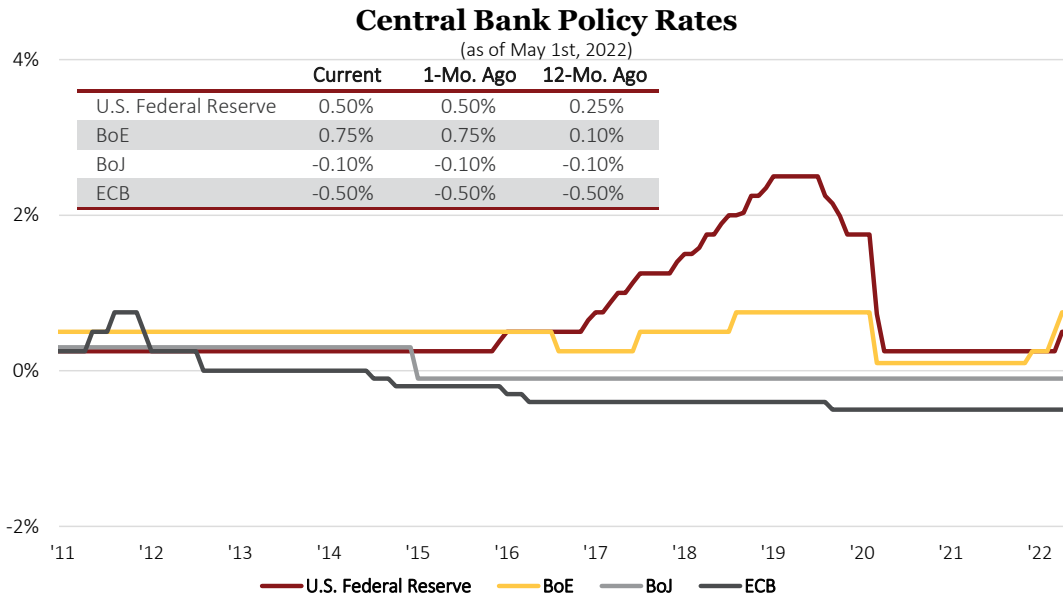
Source: Trading Economics

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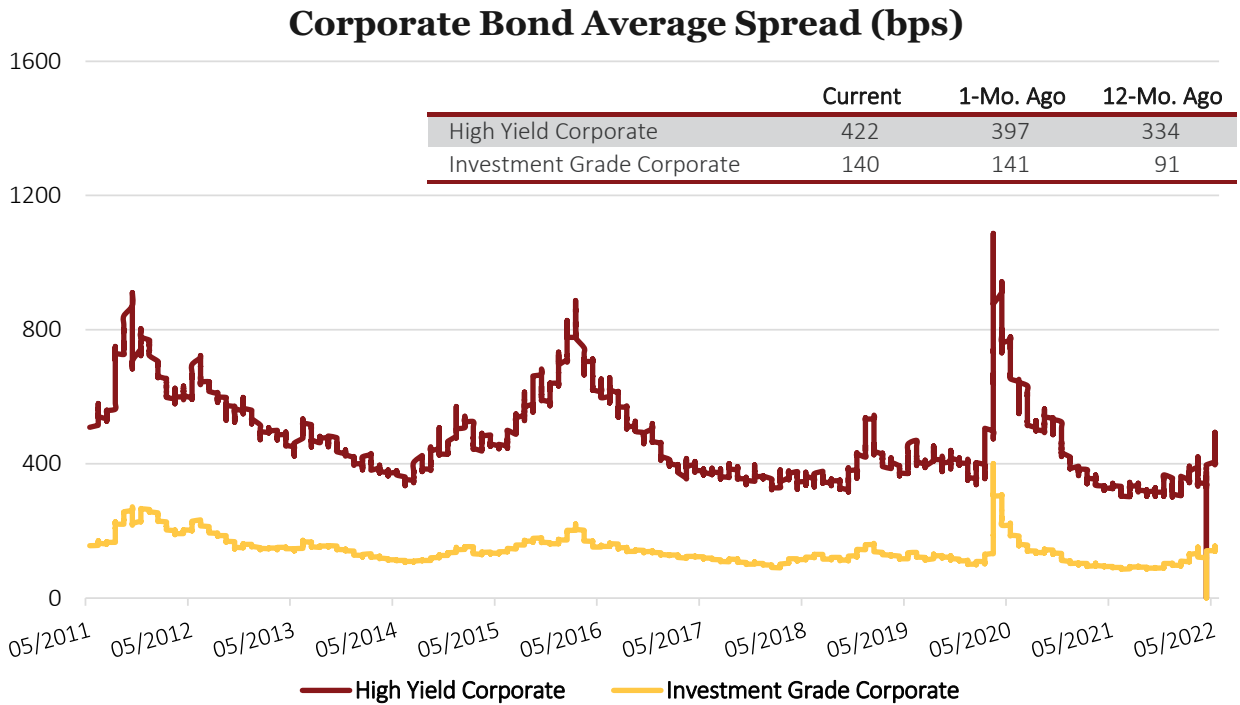
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Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics



Source: Federal Reserve Bank