

May 2023

# Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 5/31/2023

## Global Overview

Domestic and international asset classes struggled during May in the face of continued quantitative tightening and economic ripples from the U.S. banking crisis. Both the U.S. and ECB hiked rates another 25 basis points, but while the U.S. may take a hiking pause, the ECB is predicted to hike rates through the end of the year. Domestic equities' gains benefited from the technology sector strength brought about by mega cap holdings. Weak sentiment brought about by global inflation and economic turmoil contributed to the MSCI World Index losing 1.0% in May.

## U.S. Markets & Economy

Mixed economic news proved difficult for both domestic equity and fixed income returns in May. First off, the Fed hiked rates another 25 basis points at the May meeting. This placed the market-implied terminal fed funds rate back to 5.35%, similar to the beginning of the year. Fed officials are hinting at a pause in June, leaving time for the debt ceiling negotiations to be resolved. It is anticipated additional hikes could resume in July, but at a slower pace while the Fed assesses new economic data and bank lending activity. The market has hopes for a debt ceiling deal, aiding in equities rebounding towards the end of the month as Congress showed signs of approaching a solution to avoid default. The banking crisis persisted as First Republic Bank failed in early May, and was acquired by JP Morgan Chase. Volatility in the banking industry continued to drag down performance in financials and value-oriented funds as the Russell 1000 Value fell another 3.9%. But, overall market sentiment was boosted due to 77% of S&P 500 companies beating first quarter earnings expectations, with information technology leading the pack at 84% and communication services trailing at 62%. Despite positive earnings surprises, consumer confidence remained depressed, hitting a six-month low of 59.2 in May. The varied news reflected minimal returns in broad markets, as the Russell 3000 Index increased 0.4%. Further economic indicators, like consumer spending increased throughout the year, keeping inflation persistent at 4.9% in April, declining only 0.1% from March. Similar to prior months, Composite PMI has remained steady, but Manufacturing PMI dipped into contraction at 48.4. Continuing jobless claims have inched up since the beginning of the year representing a 13% increase year-to-date, reaching approximately 1.8 million claims, but overall unemployment remains near historic lows at 3.7%.

After two consecutive months of favorable returns in fixed income asset classes, all domestic fixed income generated negative returns. Returns were negatively impacted by higher interest rates, with the 10-year Treasury yield increasing from 3.6% to a monthly-high of 3.8% after hawkish comments from Fed officials. However, yields declined again in tandem with increased confidence for a debt deal, ending the month with only a five basis point jump. U.S. investment grade corporate spreads had little movement in May, widening by one basis point (from 141 bps to 142 bps). The heightened Treasury yields and Fed policy changes forced fixed income returns into negative territory last month with the Bloomberg U.S. Govt/Credit Index experiencing a loss of 1.2%.

## International Markets & Economy

The Eurozone experienced similar economic activity as the U.S. For starters, the ECB hiked rates another 25 basis points, but unlike the U.S., the Eurozone market is pricing three additional hikes through the end of the year. Manufacturing PMI moved further into contractionary territory, at 44.6, but Service PMI stayed consistent at 55.9. The U.S. banking crisis continued to hinder Euro consumer sentiment, which held steady at -17.4, stalling the Euro Area market rally as the MSCI Europe Index declined 5.9% during the month. Although China's PMI remained robust, a decline in Hong Kong investor sentiment over concerns about Taiwan resulted in the MSCI China Index falling 8.4%.

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May 2023

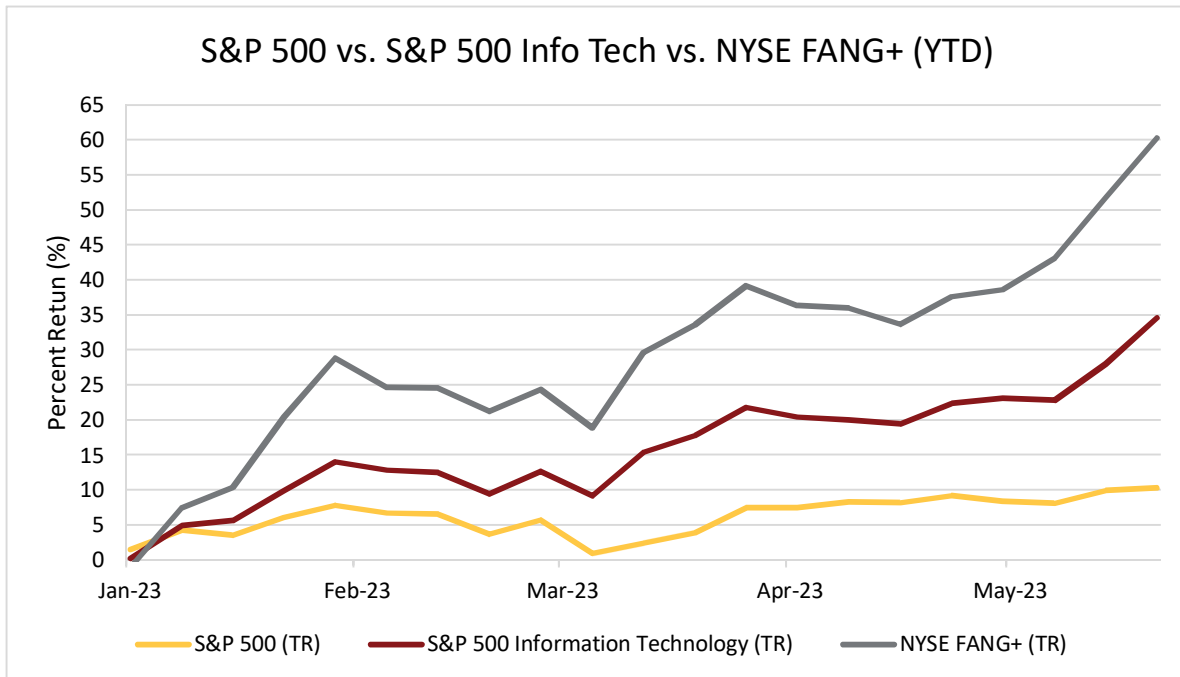
Page 2 of 6

declining for the second consecutive month and down 9.1% year-to-date. Chinese New Orders indicate slowing future production as the index declined from 53.6 to 48.8 in April. Despite the success of China early in the year due to the reopening, recent volatility in the Chinese market has hurt emerging markets. With the MSCI Emerging Markets Index holding a 31.4% weight to China, large tumbles drag down emerging market returns which declined 1.7% in May.

## In the News

Despite volatility and quantitative tightening, the U.S. stock market has remained relatively resilient throughout the year, with the S&P 500 gaining 9.7% year-to-date. However, this performance is a bit distorted due to the largest tech holdings lifting overall returns. More specifically, the top five holdings in the S&P 500 (Apple, Microsoft, NVIDIA, Amazon, and Alphabet make up 20.3% of the index) have been the primary drivers in returns contributing \$2.9 trillion in market cap this year out of the total net market cap increase of \$2.8 trillion. To call out the largest outlier, NVIDIA, who joined the \$1 trillion market cap club this month, has climbed 166% this year. This unequal weight is more drastic in the Russell 1000 Growth Index where the top five holdings make up 35.6% of the index, leading the Russell 1000 Growth Index to generate hefty returns of 20.8% year-to-date. Although these strong individual returns have been beneficial to investors, they can strike trouble for actively-managed mutual funds. More often than not, managers implement risk controls that limit their exposure to broad sectors and individual holdings. Due to the growth being highly concentrated in the tech sector and a handful of holdings, managers that underweight the index's largest names or held underweights in the tech sector, were more likely to experience subpar returns compared to the benchmark. As seen in the chart of the month, FANG+, a concentrated index that includes the top ten holdings in the S&P 500, has generated monumentally different results than the S&P 500 this year. A similar story can be seen in the information technology sector, which gained 34.6% year to date, lifting overall S&P 500 returns. Although index fund investors benefited from the concentration of return generated by the big names in top-heavy S&P 500 and Russell 1000 Growth Indexes, investors and active managers that seek to diversify single stock specific risks in their approach have been challenged, as the omission or underweighting of one or two top index holdings can meaningfully detract from the year-to-date performance.

## Chart of the Month



Source: Morningstar

# DeMarche Dashboard

Data and Commentary for Periods Ended 5/31/2023

May 2023

Page 3 of 6

## Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	(1.00)	3.85	8.52	2.07	10.96	7.79	8.59
	BBgBarc US Agg Bond TR USD	(1.09)	2.04	2.46	(2.14)	(3.65)	0.81	1.39
	Russell 3000 TR USD	0.39	4.17	8.74	2.03	12.25	10.07	11.45
	DJ Industrial Average TR USD	(3.17)	1.39	0.25	1.96	11.27	8.49	10.61
	NASDAQ Composite PR USD	5.80	12.92	23.59	7.07	10.88	11.69	14.11
	MSCI EAFE NR USD	(4.23)	0.91	6.81	3.06	8.53	3.21	4.56
	FTSE Treasury Bill 3 Mon USD	0.42	1.23	1.95	3.38	1.19	1.51	0.94
	Bloomberg Commodity TR USD	(5.64)	(6.54)	(11.37)	(22.48)	17.15	3.17	(1.86)
Domestic Equities	S&P 500 TR USD	0.43	5.75	9.65	2.92	12.92	11.01	11.99
	S&P MidCap 400 TR	(3.19)	(7.03)	(0.29)	(2.63)	12.58	6.00	9.05
	S&P SmallCap 600 TR USD	(1.75)	(9.41)	(2.03)	(7.26)	13.57	3.80	8.93
	Russell 1000 TR USD	0.47	4.93	9.30	2.45	12.45	10.61	11.76
	Russell 1000 Growth TR USD	4.56	12.81	20.76	9.55	12.85	13.84	14.76
	Russell 1000 Value TR USD	(3.86)	(2.86)	(1.43)	(4.55)	11.63	6.78	8.42
	Russell Mid Cap TR USD	(2.79)	(4.79)	0.61	(4.51)	10.19	6.88	9.31
	Russell Mid Cap Growth TR USD	0.06	(0.03)	7.62	5.75	5.80	8.18	10.56
	Russell Mid Cap Value TR USD	(4.44)	(7.44)	(3.17)	(9.49)	12.31	5.24	8.00
	Russell 2000 TR USD	(0.92)	(7.35)	(0.04)	(4.68)	9.23	2.74	7.36
	Russell 2000 Growth TR USD	0.02	(3.58)	4.86	2.68	4.62	2.74	7.90
	Russell 2000 Value TR USD	(1.97)	(11.27)	(5.04)	(11.50)	13.60	2.09	6.43
International Equities	MSCI ACWI Ex USA NR USD	(3.64)	0.43	4.77	(1.41)	7.23	2.22	3.83
	MSCI EAFE NR USD	(4.23)	0.91	6.81	3.06	8.53	3.21	4.56
	MSCI EAFE Growth NR USD	(3.08)	4.57	10.28	6.13	6.17	4.46	5.72
	MSCI EAFE Value NR USD	(5.39)	(2.59)	3.46	0.08	10.61	1.55	3.16
	MSCI Japan NR USD	1.86	6.29	8.56	4.53	4.29	1.78	4.99
	MSCI AC Asia Ex Japan NR USD	(1.83)	(0.53)	0.30	(8.08)	2.97	(0.59)	3.60
	MSCI Europe NR USD	(5.87)	0.37	8.40	4.68	10.42	4.07	4.68
	MSCI United Kingdom NR USD	(6.57)	(2.22)	4.41	(0.40)	11.70	1.86	2.93
	MSCI EAFE Small Cap NR USD	(4.18)	(2.45)	2.56	(4.68)	5.17	0.33	5.50
MSCI EM NR USD	(1.68)	0.15	1.05	(8.49)	3.47	(0.67)	1.90	
Fixed Income	BBgBarc US Govt/Credit TR USD	(1.24)	2.18	2.53	(1.96)	(3.73)	1.06	1.51
	BBgBarc US Govt/Credit Interm TR USD	(0.74)	2.16	2.19	(0.53)	(2.03)	1.36	1.36
	BBgBarc US Govt/Credit Long TR USD	(2.73)	2.27	3.60	(6.18)	(8.36)	0.38	2.31
	ICE BofA US High Yield TR USD	(0.95)	1.13	3.73	(0.17)	2.99	2.92	3.89
	Credit Suisse HY USD	(0.76)	1.51	4.07	0.43	3.34	2.93	3.84
	S&P/LSTA Leveraged Loan TR	(0.18)	0.83	4.12	5.91	5.92	3.69	3.77
	FTSE WGBI NonUS USD	(0.98)	1.09	2.66	(4.03)	4.04	0.70	4.07
	BBgBarc Gbl Agg Ex USD TR	(2.69)	1.23	0.57	(6.49)	(5.64)	(2.84)	(1.01)
REITs	FTSE Nareit All REITs TR	(4.17)	(5.85)	(2.43)	(16.02)	5.17	4.00	5.79
	Wilshire US REIT TR USD	(2.83)	(4.51)	1.17	(12.91)	7.46	4.20	5.65

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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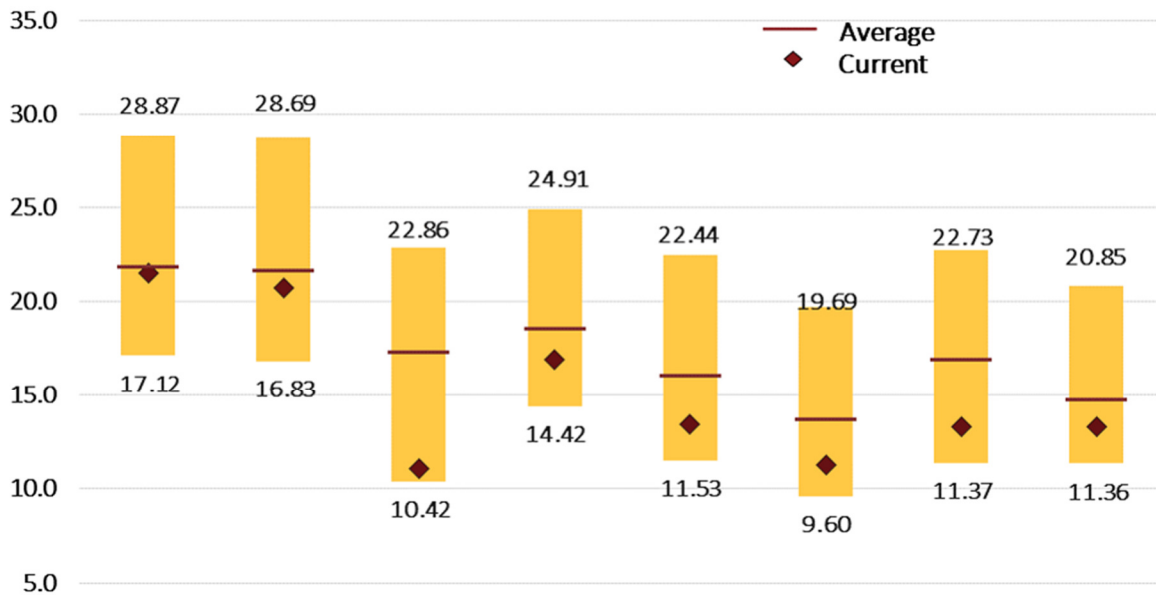
# DeMarche Dashboard

Data and Commentary for Periods Ended 5/31/2023

May 2023

Page 4 of 6

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



	S&P 500	Russell 1000	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Month	Mar-21	Mar-21	Nov-17	Mar-21	Mar-21	Jan-21	Mar-21	Jan-21
Low Month	Dec-18	Dec-18	Sep-22	Dec-18	Sep-22	Oct-22	Sep-22	Sep-22

Source: Morningstar

## Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates <sup>3</sup> per US \$		Inflation <sup>2</sup>
	Latest <sup>1</sup>	2023 <sup>1</sup>	2024 <sup>1</sup>	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
<b>United States</b>	1.30	1.50	0.90	3.70	3.57	-	-	5.60
<b>China</b>	2.20	5.30	4.90	5.20	2.81	7.06	6.74	0.70
<b>Japan</b>	0.40	1.40	1.10	2.60	0.39	140.53	127.23	3.10
<b>United Kingdom</b>	0.10	-0.20	0.90	3.90	3.71	1.23	1.26	6.20
<b>Euro Area</b>	0.10	0.80	1.50	6.60	3.23	1.07	1.07	5.60
<b>Germany</b>	-0.30	0.30	1.70	5.60	2.32	1.10	1.07	5.70
<b>France</b>	0.20	0.70	1.30	7.10	2.89	0.91	1.07	6.20
<b>Italy</b>	0.60	0.60	1.00	7.80	4.18	1.10	1.07	6.31
<b>Canada</b>	0.80	1.10	1.40	5.00	2.84	1.36	1.28	4.30
<b>India</b>	0.69	5.90	7.10	7.80	7.11	81.97	76.17	6.07
<b>Mexico</b>	1.00	1.80	2.10	2.80	8.77	17.66	19.80	8.09
<b>Brazil</b>	1.90	1.00	1.10	8.50	12.49	5.00	4.78	7.25

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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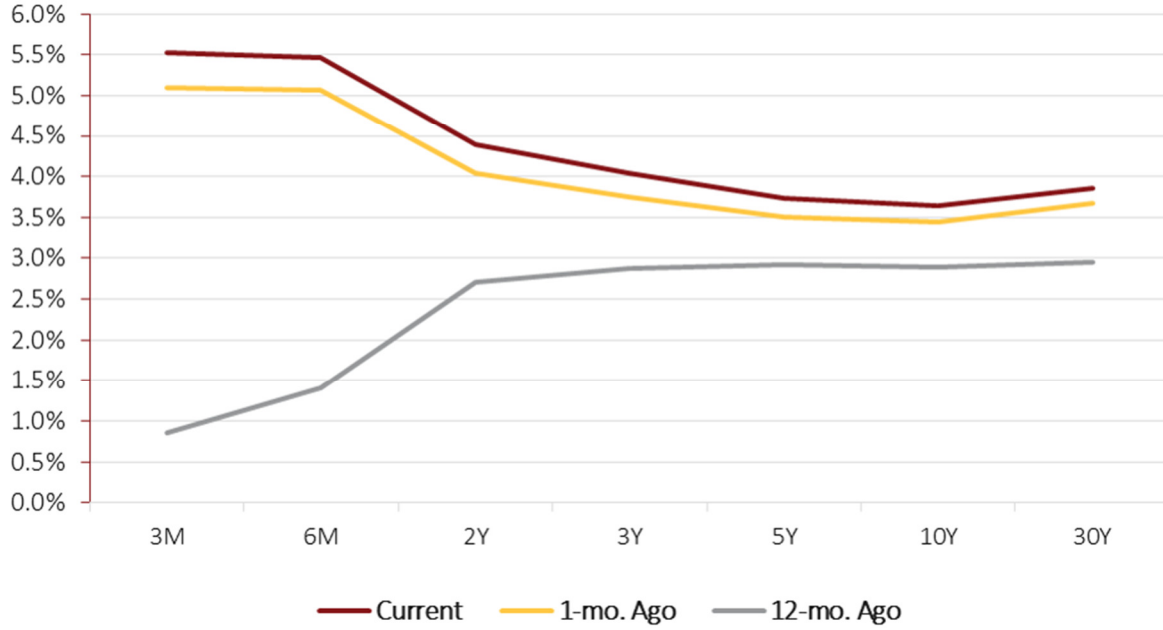
Data and Commentary for Periods Ended 5/31/2023

May 2023

Page 5 of 6

## U.S. Treasury Yield Curves

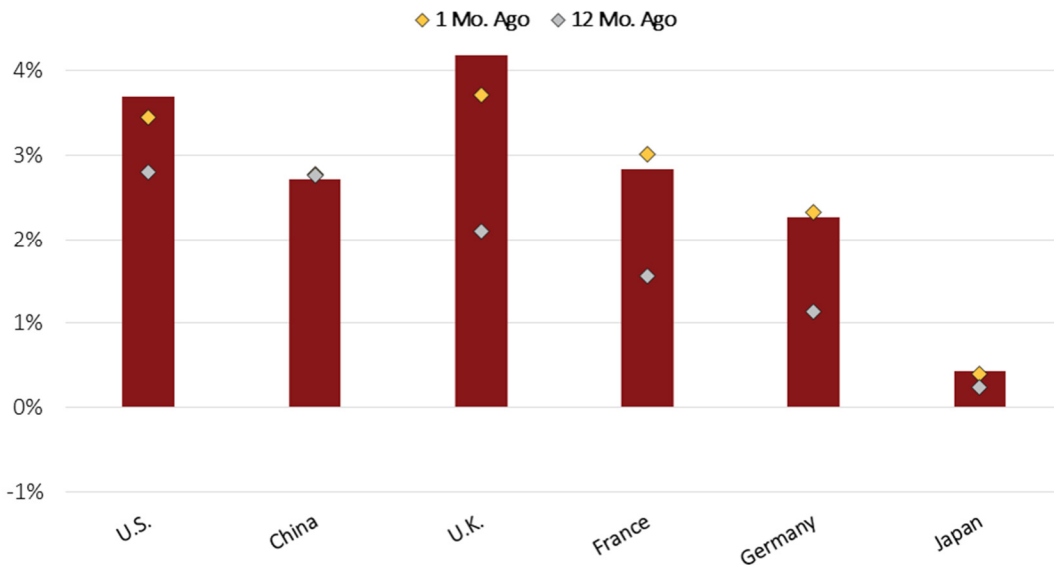
as of 05/31/2023



Source: Federal Reserve Bank

## 10-Year Sovereign Yields

as of 05/31/2023 (most recently available)



Source: Trading Economics

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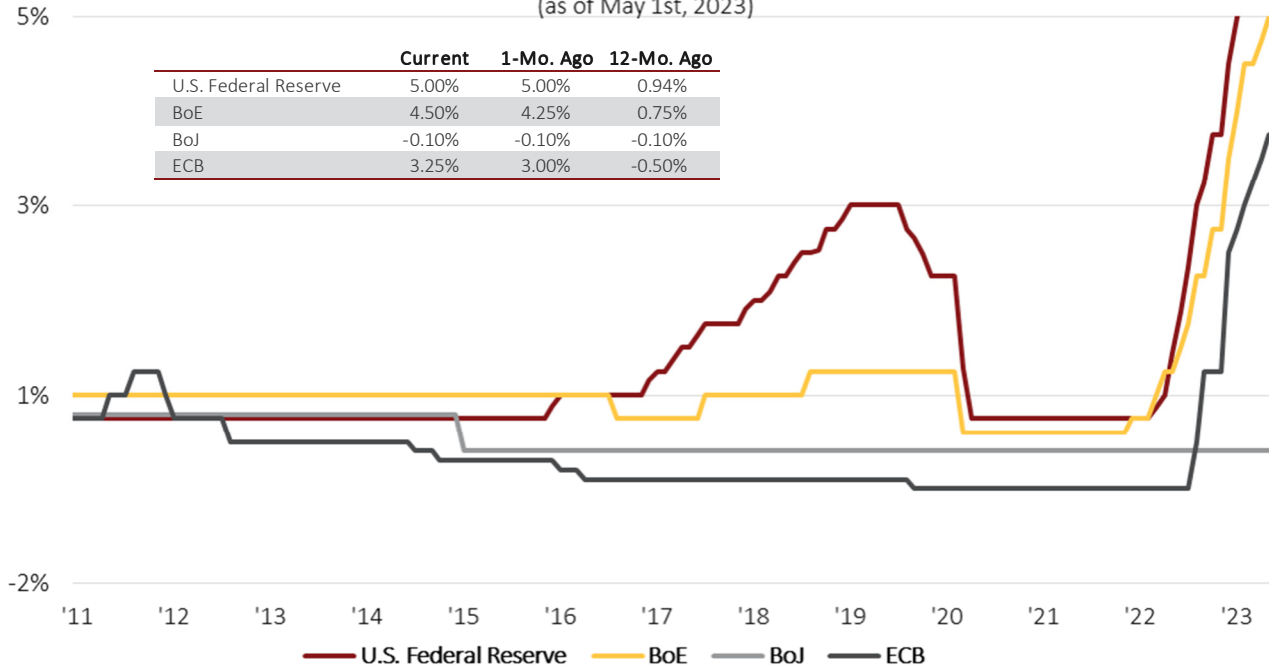
Data and Commentary for Periods Ended 5/31/2023

May 2023

Page 6 of 6

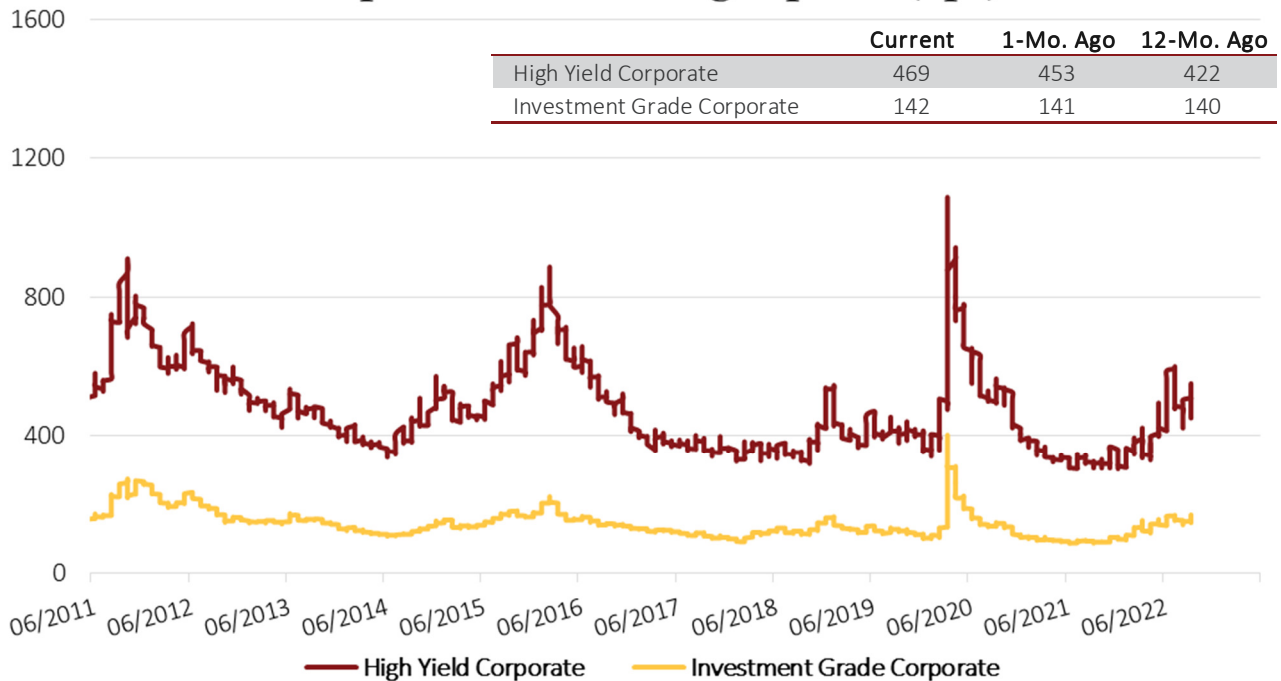
## Central Bank Policy Rates

(as of May 1st, 2023)



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

## Corporate Bond Average Spread (bps)



Source: Federal Reserve Bank