

May 2021

# DeMarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for Periods Ended 5/31/2021

## Global Overview

The U.S. equity market underperformed the international developed and emerging markets in May as investors digested mixed U.S. economic news. This was primarily the result of a disappointing U.S. employment report and a falling labor participation rate. The broader domestic equity markets, as seen in the S&P 500 Index, returned 0.7% during the month and 40.3% during the last 12 months. The value-oriented indices regained their leadership in May as the Russell 2000 Value Index returned 3.1% during the month, as compared to the -2.9% return in the Russell 2000 Growth Index. In addition, the Russell 1000 Value returned 2.3% as compared to the -1.2% return in the Russell 1000 Growth. International developed stocks led the broad equity markets, with the MSCI EAFE Index returning 3.3% for the month, as European countries eased COVID-19 restrictions, which helped drive optimism and business activity. India and Brazil's markets shifted in the latest month as they have started to come out of the worst of the COVID-19 crisis. As a result, the MSCI Emerging Markets Index also outperformed the U.S. in May with a 2.3% return for the month, while posting a strong 51.0% return over the last 12 months.

## U.S. Markets & Economy

Both domestic equity and fixed income markets were impacted by mixed economic news, including a better-than-expected ISM Manufacturing PMI and a disappointing May employment report. The May ISM Manufacturing PMI report increased to 61.0 in May, from 60.7 in April, largely due to a broad based increase in new orders, inventories, and an increase in backlog orders. The strong report showed the index reaching a record growth rate in factory activity, but growth was constrained by supply-chain disruptions, leading to backlogs and rising input prices. A similar disruption is occurring in the market for lumber, as mills shut down during the pandemic and have had a hard time keeping up with the booming housing market. The Chart of the Month below shows how correlated these markets have been, as the price of lumber increased by 60% over the last 12 months, in conjunction with home prices increasing 13% during the same time period. The May ISM Services PMI also reported strength with a 64.0 report in May, as compared to 62.7 report in April. The ISM Services report was also broadly based with increases in business activity, new orders, export orders, inventory, and backlog orders. The U.S. Labor Department's employment report was the disappointing news as the economy added only 559,000 jobs in May, as compared to the anticipated 671,000 jobs expected. This is still far above the dismal 278,000 jobs added in April. Unemployment dropped to 5.8% in May, from 6.1% in April, but the labor participation rate declined to 61.6% in May, down from a 63.3% level last February.

Returns in the bond market were muted after digesting the mixed economic news, combined with signs of the Fed beginning to shift from being extremely dovish to a number of Fed members, pointing to higher-than-expected realized inflation and a faster recovery that could set the stage for a gradual withdrawal of accommodation within their next few meetings. This uncertainty regarding potential Fed action caused the 10-year Treasury yield to retrace the months gain back down to a 1.63% yield. Inflation expectations remained stable as the 5-year TIPs breakeven inflation rate increased to 2.6% in May from 2.5% in April. The Bloomberg Barclays U.S. Aggregate Index returned 0.3% during the month of May, and the ICE BofA U.S. High Yield Index returned 0.3% for the month.

## International Markets & Economy

In non-U.S. developed markets, the MSCI EAFE index posted a 3.3% return for the month of May, with value stocks continuing to lead for the second month in a row. The IHS Markit Manufacturing PMI in the Eurozone continued to increase, reaching 63.1, eclipsing last month's all-time record high of 62.9. The IHS Markit Services PMI rose to 55.2,

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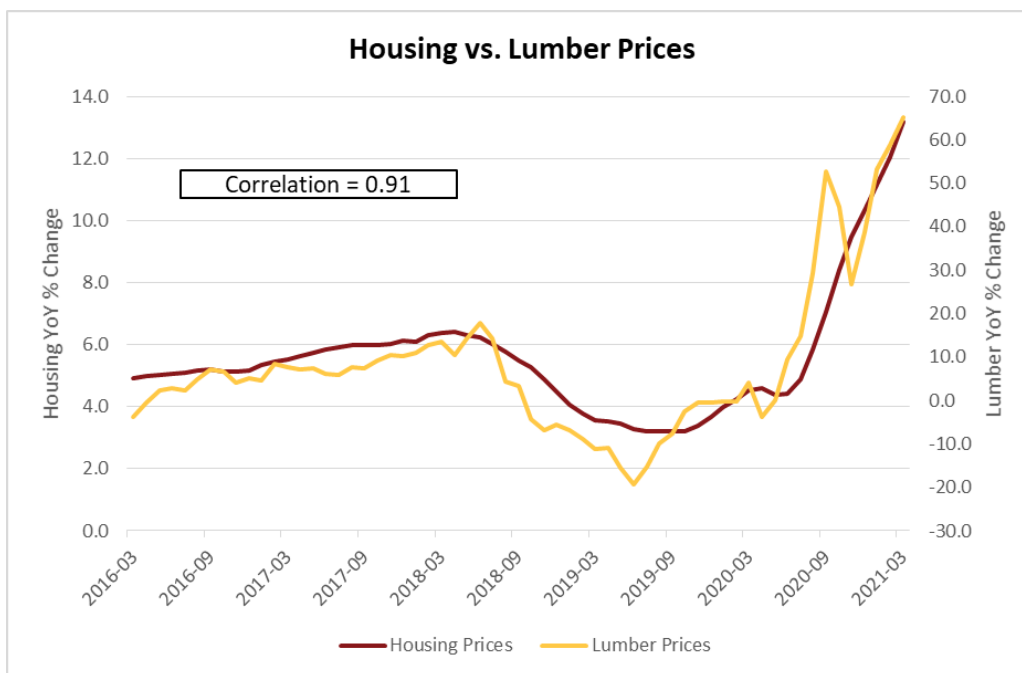
which is the highest reading in the last three years. European countries eased COVID-19 restrictions, which helped drive optimism in business activity. The number of Europeans that have received at least one dose of a COVID-19 vaccine doubled during the month as supplies became more readily available throughout the region. The recovery in Japan, however, is not as successful as Japan's services sector. It suffered a deeper contraction in May as the government extended restrictions on the hospitality sector through the end of the month in areas including Tokyo and Osaka.

During the month of May, emerging market countries outside of China continued to lead with the MSCI EM index, returning 2.3%. China is trailing the broader EM index by nearly 600 basis points year-to-date, as their COVID-19 market recovery occurred earlier than other emerging market countries. Indian equities had a strong month in May, returning 8.5%, as they have started to come out of their worst COVID-19 crisis yet. Brazilian equity markets returned 11.4% during May, the highest among the emerging market countries, as GDP growth in Brazil surprised to the upside.

## In the News

On May 7, 2021, a ransomware attack on Colonial Pipeline Co. forced the largest U.S. pipeline for refined oil products to shut down for five days. The Colonial Pipeline system is 5,500 miles long and transports around 45% of the fuel on the East Coast. The shutdown caused fuel shortages and an increase in fuel prices across major east coast and southeastern U.S. cities. The national price of gasoline rose above \$3.00 for the first time since 2014 as a result of the shutdown. The CEO of Colonial Pipeline Co. confirmed to the Wall Street Journal that his company paid the hackers a \$4.4 million ransom in the form of bitcoin to bring the pipeline back online. Corporate hacks have been increasing in the past few years, and the payment sparked concerns that hackers would be incentivized to attempt more brazen ransomware attacks on corporations going forward.

## Chart of the Month



Source: Federal Reserve of St. Louis, S&P/Case-Shiller U.S. National Home Price Index, U.S. Bureau of Labor Statistics - Producer Price Index by Commodity: Lumber and Wood Products: Lumber

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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	1.44	9.69	11.39	40.63	14.41	14.23	10.31
	BBgBarc US Agg Bond TR USD	0.33	(0.14)	(2.29)	(0.40)	5.06	3.25	3.29
	Russell 3000 TR USD	0.46	9.42	12.34	43.91	18.03	17.36	14.21
	DJ Industrial Average TR USD	2.21	12.18	13.76	38.79	14.82	16.88	13.37
	NASDAQ Composite PR USD	(1.53)	4.22	6.68	44.88	22.70	22.68	17.10
	MSCI EAFE NR USD	3.26	8.81	10.07	38.41	8.23	9.77	5.88
	FTSE Treasury Bill 3 Mon USD	0.00	0.01	0.02	0.09	1.36	1.14	0.60
	Bloomberg Commodity TR USD	2.73	8.86	18.94	46.22	2.05	2.85	(5.11)
Domestic Equities	S&P 500 TR USD	0.70	10.72	12.62	40.32	18.00	17.16	14.38
	S&P MidCap 400 TR	0.20	9.60	18.81	56.77	13.71	14.62	12.29
	S&P SmallCap 600 TR USD	2.08	7.63	23.15	73.07	12.50	15.89	13.25
	Russell 1000 TR USD	0.47	9.89	12.14	42.66	18.43	17.46	14.41
	Russell 1000 Growth TR USD	(1.38)	7.14	6.32	39.92	23.02	22.07	16.98
	Russell 1000 Value TR USD	2.33	12.69	18.41	44.38	12.94	12.33	11.51
	Russell Mid Cap TR USD	0.80	8.81	14.56	50.29	16.15	15.39	12.83
	Russell Mid Cap Growth TR USD	(1.53)	2.02	3.42	37.78	19.89	18.95	14.20
	Russell Mid Cap Value TR USD	1.97	12.43	20.86	56.61	12.59	12.25	11.58
	Russell 2000 TR USD	0.21	3.34	15.30	64.56	13.06	16.01	11.86
	Russell 2000 Growth TR USD	(2.86)	(3.86)	4.10	50.14	14.48	17.57	12.76
	Russell 2000 Value TR USD	3.11	10.69	27.47	79.38	10.72	13.83	10.64
International Equities	MSCI ACWI Ex USA NR USD	3.13	7.51	9.87	42.78	8.93	10.88	5.36
	MSCI EAFE NR USD	3.26	8.81	10.07	38.41	8.23	9.77	5.88
	MSCI EAFE Growth NR USD	3.03	8.61	6.76	35.16	11.99	12.06	7.58
	MSCI EAFE Value NR USD	3.46	8.99	13.29	41.52	4.15	7.22	4.00
	MSCI Japan NR USD	1.56	1.07	1.58	25.19	6.43	9.70	7.34
	MSCI AC Asia Ex Japan NR USD	1.22	1.10	6.53	51.52	10.44	15.14	6.80
	MSCI Europe NR USD	4.17	12.27	13.35	42.52	8.91	9.64	5.52
	MSCI United Kingdom NR USD	4.01	11.56	15.29	36.46	2.39	5.44	3.63
	MSCI EAFE Small Cap NR USD	2.00	8.42	10.88	45.31	8.30	11.19	8.37
	MSCI EM NR USD	2.32	3.28	7.26	51.00	9.65	13.88	4.10
MSCI China NR USD	0.77	(4.25)	1.73	38.70	8.37	16.81	7.29	
Fixed Income	BBgBarc US Govt/Credit TR USD	0.51	(0.17)	(2.95)	(0.53)	5.53	3.55	3.56
	BBgBarc US Govt/Credit Interm TR USD	0.40	0.12	(0.98)	0.73	4.65	2.90	2.74
	BBgBarc US Govt/Credit Long TR USD	0.81	(0.94)	(7.91)	(3.76)	8.43	5.72	6.72
	ICE BofA US High Yield TR USD	0.29	1.56	2.31	15.18	6.79	7.24	6.25
	Credit Suisse HY USD	0.26	1.76	2.69	15.41	6.50	7.17	6.17
	S&P/LSTA Leveraged Loan TR	0.58	1.10	2.90	12.51	4.30	4.91	4.31
	FTSE WGBI NonUS USD	1.49	1.80	5.32	41.66	9.20	12.72	6.94
	BBgBarc Gbl Agg Ex USD TR	1.49	1.80	5.32	41.66	9.20	12.72	6.94
REITs	FTSE Nareit All REITs TR	0.78	14.64	17.95	34.24	11.97	8.86	9.57
	Wilshire US REIT TR USD	1.35	14.77	19.13	36.48	10.55	7.06	8.68

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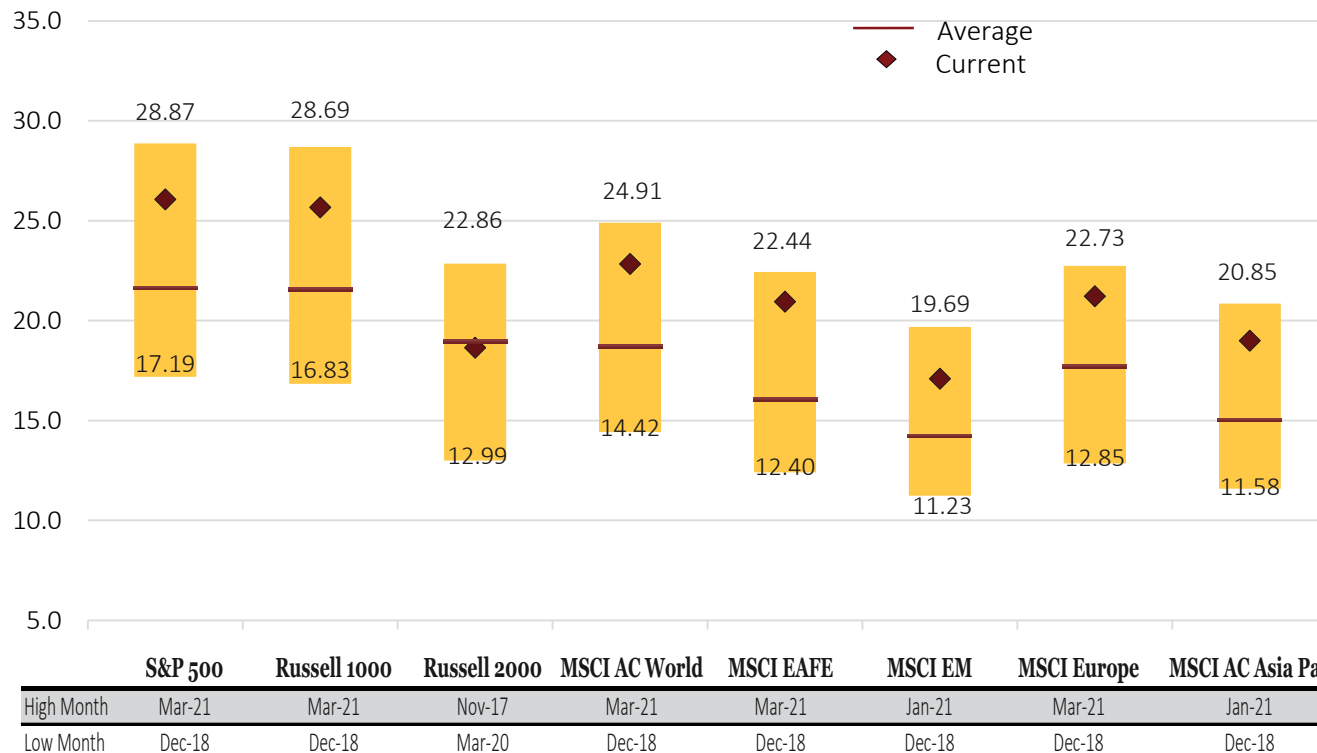
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## Current P/E vs. Trailing 5-Year High, Low, Average



Source: Morningstar

## Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates per US \$		Inflation <sup>2</sup>
	Latest	2021 <sup>1</sup>	2022 <sup>1</sup>	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
<b>United States</b>	6.40	6.90	3.60	6.10	1.61	-	-	4.20
<b>China</b>	0.60	8.50	5.80	5.10	3.20	6.37	7.14	0.90
<b>Japan</b>	-1.30	2.60	2.00	2.80	0.08	109.83	107.67	-0.40
<b>United Kingdom</b>	-1.50	7.20	5.50	4.80	0.80	1.42	1.23	1.50
<b>Euro Area</b>	-0.60	4.30	4.40	8.00	0.21	1.22	1.11	2.00
<b>Germany</b>	-1.80	3.30	4.40	4.40	-0.18	1.22	1.11	2.50
<b>France</b>	-0.10	5.80	4.00	8.00	0.17	1.22	1.11	1.40
<b>Italy</b>	0.10	4.50	4.40	10.70	0.92	1.22	1.11	1.30
<b>Canada</b>	1.40	6.10	3.80	8.10	1.48	1.21	1.38	3.40
<b>India</b>	7.90	9.90	8.20	6.50	6.02	73.21	75.66	4.29
<b>Mexico</b>	0.80	5.00	3.20	4.70	6.57	19.93	22.19	6.08
<b>Brazil</b>	1.20	3.70	2.50	14.70	9.14	5.22	5.33	6.76

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

1. Forecasted data from OECD

2. In terms of CPI All Items

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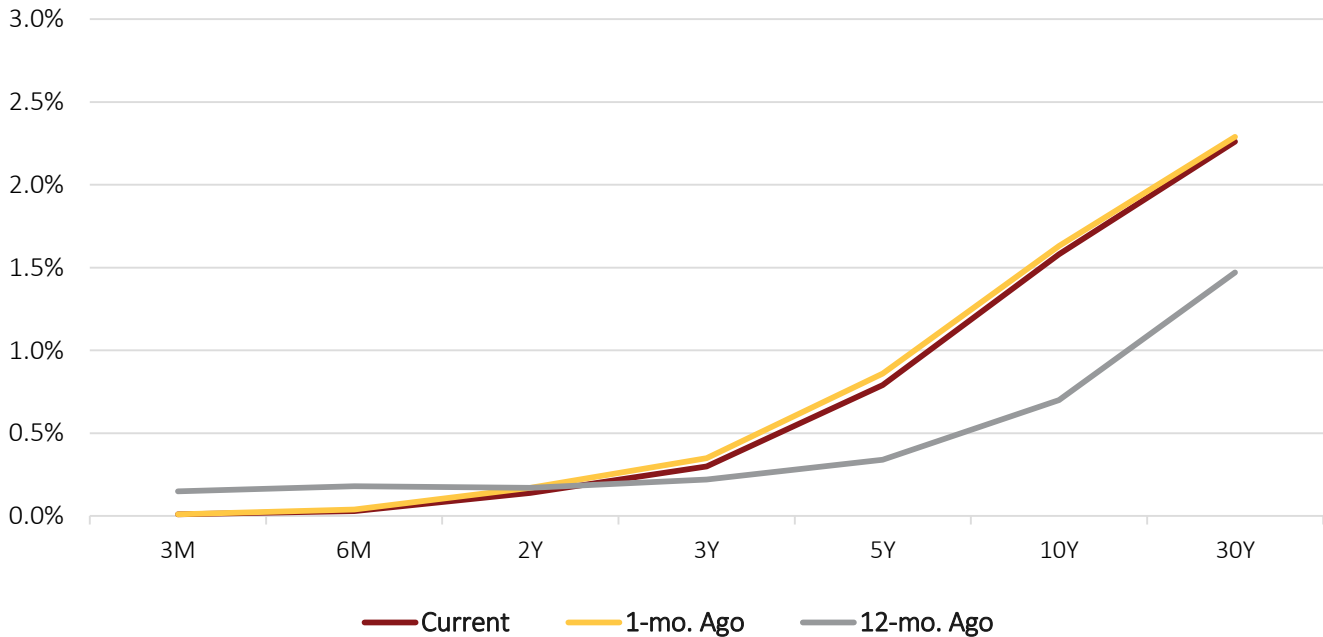
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## U.S. Treasury Yield Curves

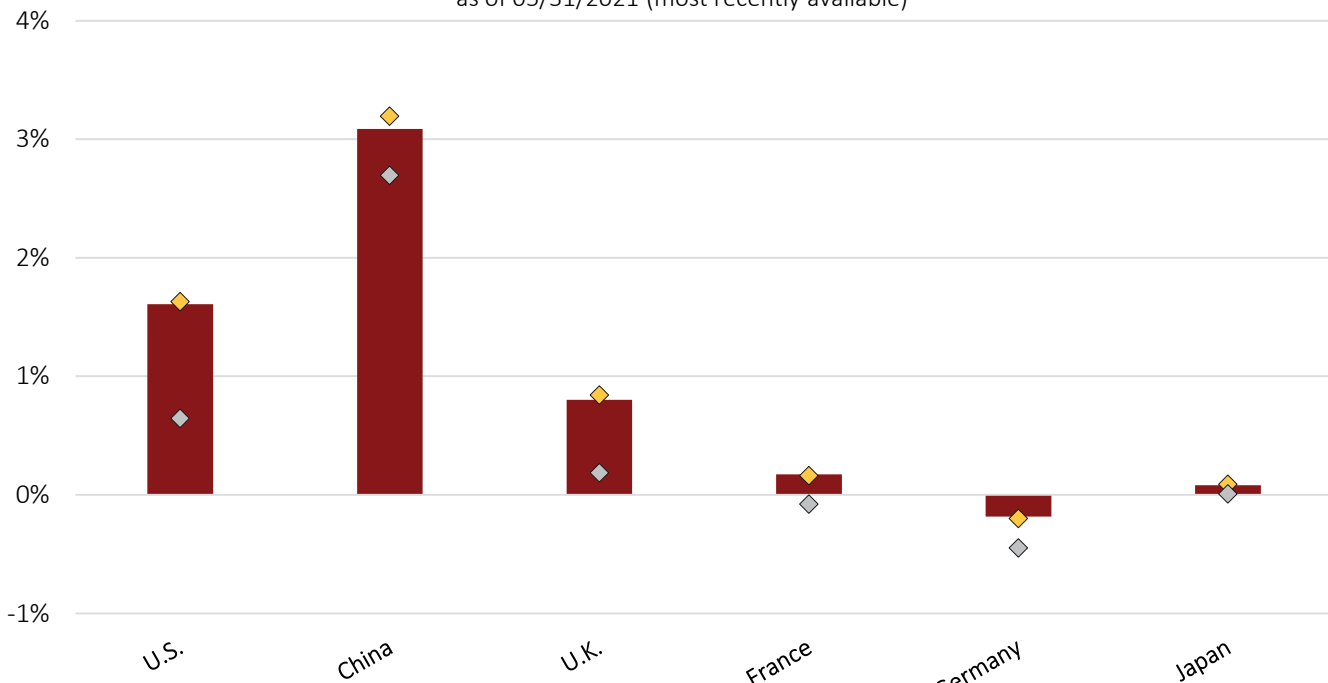
as of 05/31/2021



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

## 10-Year Sovereign Yields

as of 05/31/2021 (most recently available)



Source: Trading Economics

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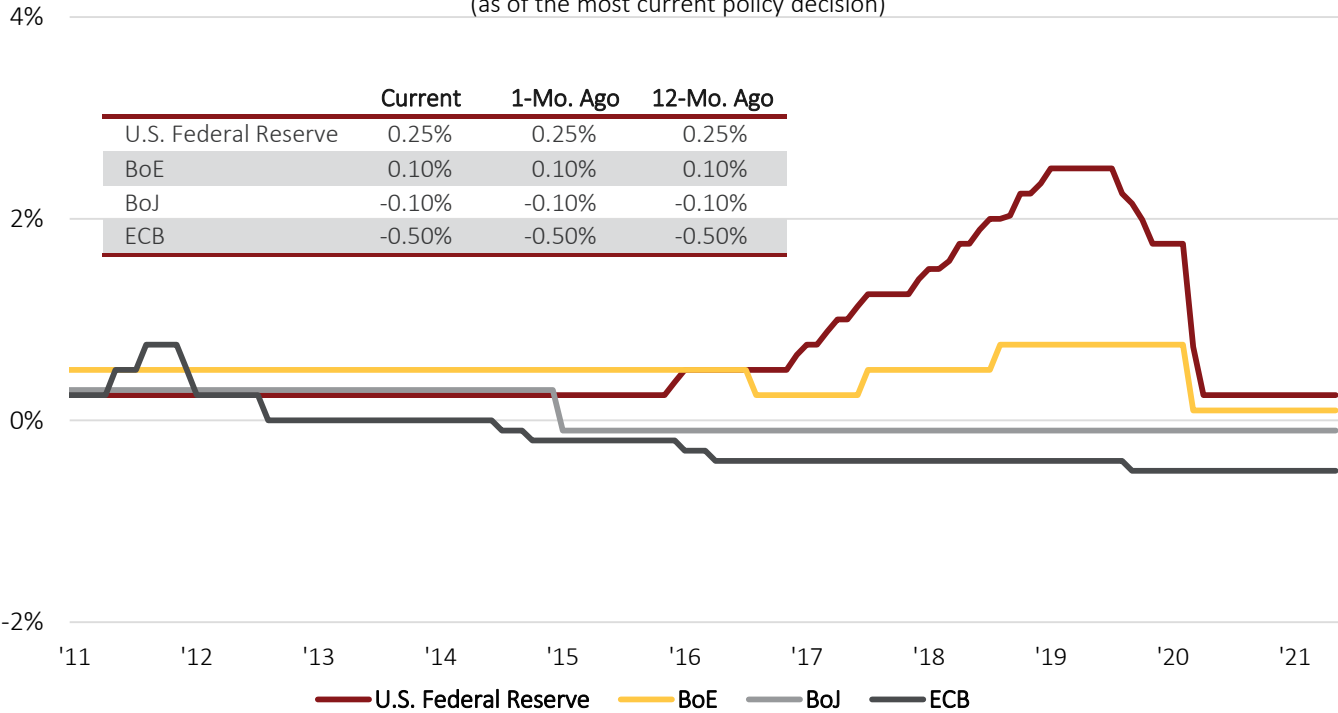
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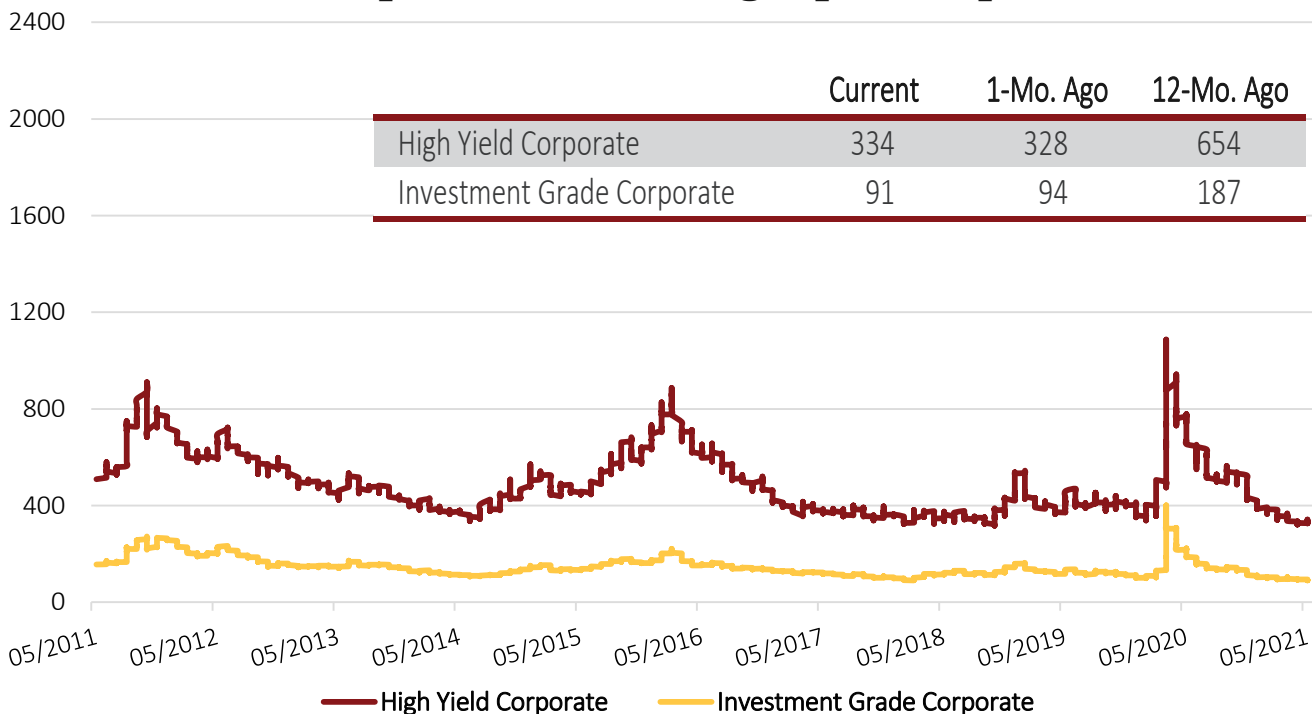
## Central Bank Policy Rates

(as of the most current policy decision)



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

## Corporate Bond Average Spread (bps)



Source: Federal Reserve Bank, Bank of America