

May 2024

Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 5/31/2024

Global Overview

Equities bounced back in May following a challenging April market. The catalyst for this rebound was inflation coming in below expectations, sparking optimism around potential rate cuts. While the Fed made hawkish remarks that stalled market growth towards the end of the month, the S&P 500 Index rose 5.0% in May. International indices fared similarly to the U.S., as Europe experienced economic growth relative to the previous months, boosting their stock market and contributing to the MSCI World Index gaining 4.5% last month.

U.S. Markets & Economy

Domestic equities made strides in May despite hawkish remarks from the Fed and an unexpected fall in consumer confidence. Earnings provided a more optimistic environment, with 77% of S&P 500 companies exceeding analyst expectations. Furthermore, share repurchases have been on the upswing, with buybacks reaching their highest level in nearly two years, instilling additional confidence among investors. Economic data released in May also indicated signs of a slowing economy. At the beginning of the month, initial jobless claims spiked up to 232k, well above expectations, but had simmered down to 219k by month's end, aligning with expectations. Domestic manufacturing and industrial production slowed throughout the month, with industrial production in April falling 0.4% (compared to the expected increase of 0.1%). ISM Manufacturing PMI fell below market expectations, decreasing to 48.7 in May. April's Core CPI came in slightly below expectations at 3.6%, giving the futures market confidence in rate cuts. Notably, sales from restaurants and bars have been moderating, which is typically a leading indicator of an economic slowdown. Nevertheless, the market has been interpreting bad news as good news, as the Fed is sensitive to economic data, and the market has been hoping for weakening data to prompt rate cuts. However, the FOMC minutes from the May meeting revealed that "there has been a lack of further progress towards the Committee's two percent inflation objective" and that the "disinflation process" would be longer than initially thought. Despite these hawkish comments from the FOMC meeting, a significant earnings beat from Nvidia signaled that the momentum driven by AI still has traction, helping to prop up the broad-based market. Large-caps outperformed small-caps once again, with the original Magnificent 7 (minus Tesla) making strides over the month, uplifting large-caps, or more specifically, large-cap growth. While growth and value were both strong over the month, gains in the utility sector (which is more predominate in value-styles) helped to drive returns for value-oriented funds. This led to the Russell 1000 Growth Index increasing 6.0% while the Russell 1000 Value Index only grew 3.2%.

In the fixed income space, 10-year Treasury yields fell in the first half of the month in response to the weakening economy and the softer jobs report. But, they snapped back up at the end of the month primarily due to slowing Core CPI. Additional potential reasons for the rise in yields are weaker Treasury auctions throughout the month, Q1 GDP which was revised lower, and Fed officials saying, while unlikely, they are not taking rate increases off the table. By month end, yields decreased from 463 to 451 basis points. In turn, this caused bonds to post positive returns as the Bloomberg U.S. Aggregate Index rose 1.7%. Investment-grade corporate spreads continue to price in economic perfection, tightening 3 basis points over the month. High yield spreads remain tight as well at 320 basis points with defaults remaining at a historically low level of 2.6% relative to the long-run average of 3.5%. Contrary to the historic trend, defaults have remained low, despite the slowing economy.

International Markets & Economy

Equities outside of the U.S. posted positive returns in May as well. The Eurozone experienced strong monthly returns in response to rebounding economic data. First, consumer confidence grew steadily throughout 2024 and is now at its highest point since March 2022 while unemployment reached a record low of 6.4%. This stronger data is partly due to Manufacturing PMI that has been on the upswing, now at 47.4 (but still below 50, indicating a contraction), as well as industrial production that has grown over the past couple of months. Furthermore, the market continues to price in

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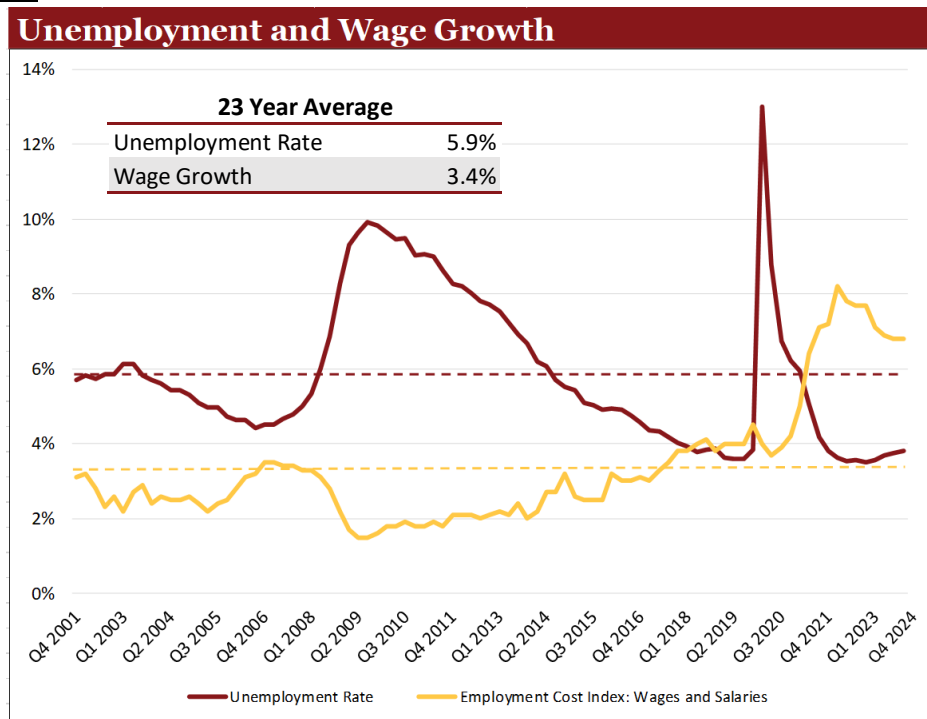
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the ECB's first rate cut in June. While ECB officials indicate that the path forward after June is uncertain, especially after the hotter-than-expected inflation print of 2.6%, even the ECB President Christine Lagarde said there is a "strong likelihood" of a June cut. In reaction to the generally positive outlook from the Eurozone, the MSCI Europe Index climbed 4.9% in May. Japan's economy and market had mixed results. Although the strong Nvidia earnings boosted the AI theme, particularly in Japan, lifting tech stocks, the ongoing depreciation of the Yen hurt market returns. While BOJ authorities likely continued their intervention at the beginning of the month through buying USD, the depreciation has been driven in part by the interest differential between Japan and the U.S., which puts pressure on Japan's central bank for another rate hike. However, slowing inflation coupled with falling GDP clouds any plans of additional hikes. Within emerging markets, panic within China's property sector continued, prompting the government to issue yet another rescue package that removed the floor on mortgage rates, lowered down payments, and bought unsold homes. This in turn caused the Chinese market to have a successful first half of May contributing to the MSCI China Index growing 2.4% over the month, and helping to bolster the MSCI Emerging Markets Index to grow 0.6%.

In the News

While the market is currently pricing in one, maybe two, 25 basis point rate cuts throughout the year, the Fed's decision will likely be data-dependent, as Fed officials need to see leading indicators show signs of a loosening economy. Although the Fed mainly focuses on inflation data, some side effects of a slowing economy include a rising unemployment rate and declining wage growth. As seen in the chart below, neither wage growth (as measured by the Employment Cost Index) nor the unemployment rate are close to reverting towards historical averages. While wage growth has cooled marginally throughout 2024, it still remains above the long term average. Additionally, discretionary spending has decreased in recent months, but wage growth needs to come down further so that spending, and therefore core CPI, comes down. Notably, unemployment rising well above wage growth has typically signaled a recessionary period, as in 2008 and 2020. But, today's environment details the opposite pattern and still shows a more resilient economy from what was originally expected. As the market continues to adapt to the higher interest rate environment, the Fed continues to look for signs of a moderating economy in inflation, wage growth, discretionary spending, and unemployment.

Chart of the Month



Source: FRED

Data as of 12/31/2023

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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	4.47	3.82	9.52	24.92	6.67	12.76	9.13
	Bloomberg US Agg Bond TR USD	1.70	0.04	(1.64)	1.31	(3.10)	(0.17)	1.26
	Russell 3000 TR USD	4.72	3.35	10.15	27.58	7.83	15.00	12.09
	DJ Industrial Average TR USD	2.58	(0.31)	3.52	19.97	6.00	11.62	11.25
	NASDAQ Composite PR USD	6.88	4.00	11.48	29.37	6.77	17.56	14.71
	MSCI EAFE NR USD	3.87	4.54	7.07	18.53	3.06	8.05	4.60
	FTSE Treasury Bill 3 Mon USD	0.46	1.38	2.30	5.61	3.01	2.17	1.48
	Bloomberg Commodity TR USD	1.76	7.95	6.79	10.95	6.85	8.15	(1.08)
Domestic Equities	S&P 500 TR USD	4.96	3.91	11.30	28.19	9.57	15.80	12.69
	S&P MidCap 400 TR	4.39	3.60	7.87	25.97	4.67	12.26	9.76
	S&P SmallCap 600 TR USD	5.04	2.36	1.59	20.34	0.62	10.13	8.99
	Russell 1000 TR USD	4.71	3.47	10.58	28.01	8.46	15.42	12.40
	Russell 1000 Growth TR USD	5.99	3.28	13.08	33.60	11.12	19.37	15.80
	Russell 1000 Value TR USD	3.17	3.70	7.64	21.71	5.45	10.74	8.61
	Russell Mid Cap TR USD	2.85	1.52	5.66	23.11	3.10	11.07	9.47
	Russell Mid Cap Growth TR USD	1.07	(2.53)	4.24	21.91	1.57	11.06	10.67
	Russell Mid Cap Value TR USD	3.59	3.25	6.24	23.67	3.81	10.28	8.14
	Russell 2000 TR USD	5.02	1.12	2.68	20.12	(1.65)	8.61	7.66
	Russell 2000 Growth TR USD	5.36	(0.04)	4.62	18.38	(3.34)	7.79	8.06
	Russell 2000 Value TR USD	4.68	2.30	0.85	21.76	(0.17)	8.77	6.87
International Equities	MSCI ACWI Ex USA NR USD	2.90	4.21	5.79	16.74	0.27	6.81	4.03
	MSCI EAFE NR USD	3.87	4.54	7.07	18.53	3.06	8.05	4.60
	MSCI EAFE Growth NR USD	3.81	2.01	6.70	13.76	0.25	7.90	5.54
	MSCI EAFE Value NR USD	3.94	7.36	7.49	23.58	5.72	7.78	3.43
	MSCI Japan NR USD	1.34	(0.67)	7.03	18.63	2.43	7.56	6.15
	MSCI AC Asia Ex Japan NR USD	1.56	5.43	5.27	11.23	(7.11)	3.96	3.98
	MSCI Europe NR USD	4.84	6.70	8.24	19.71	4.19	9.03	4.39
	MSCI United Kingdom NR USD	3.58	10.26	8.82	18.91	6.69	7.13	2.91
	MSCI EAFE Small Cap NR USD	4.33	5.00	3.66	14.38	(2.89)	5.71	4.77
MSCI EM NR USD	0.56	3.52	3.41	12.39	(6.23)	3.55	2.66	
Fixed Income	Bloomberg US Govt/Credit TR USD	1.60	0.05	(1.53)	1.53	(3.07)	0.05	1.42
	Bloomberg US Govt/Credit Interm TR USD	1.21	0.48	(0.31)	2.67	(1.41)	0.76	1.46
	Bloomberg US Govt/Credit Long TR USD	2.82	(1.25)	(5.13)	(1.90)	(7.77)	(1.90)	1.55
	ICE BofA US High Yield TR USD	1.13	1.32	1.63	11.17	1.78	4.03	4.20
	Credit Suisse HY USD	1.02	1.34	1.84	11.11	2.04	4.10	4.14
	Morningstar LSTA US LL Index TR USD	4.06	3.79	8.88	23.56	5.12	11.68	8.40
	FTSE WGBI NonUS USD	0.80	(1.75)	(5.42)	(0.89)	(9.80)	(4.27)	(2.26)
	Bloomberg Gbl Agg Ex USD TR USD	1.00	(1.37)	(4.77)	0.10	(7.95)	(2.89)	(1.69)
REITs	FTSE Nareit All REITs TR	5.16	(1.18)	(4.28)	9.37	(1.77)	2.89	5.75
	Wilshire US REIT TR USD	5.05	(1.70)	(3.18)	11.10	0.34	3.70	5.70

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

Source: Morningstar

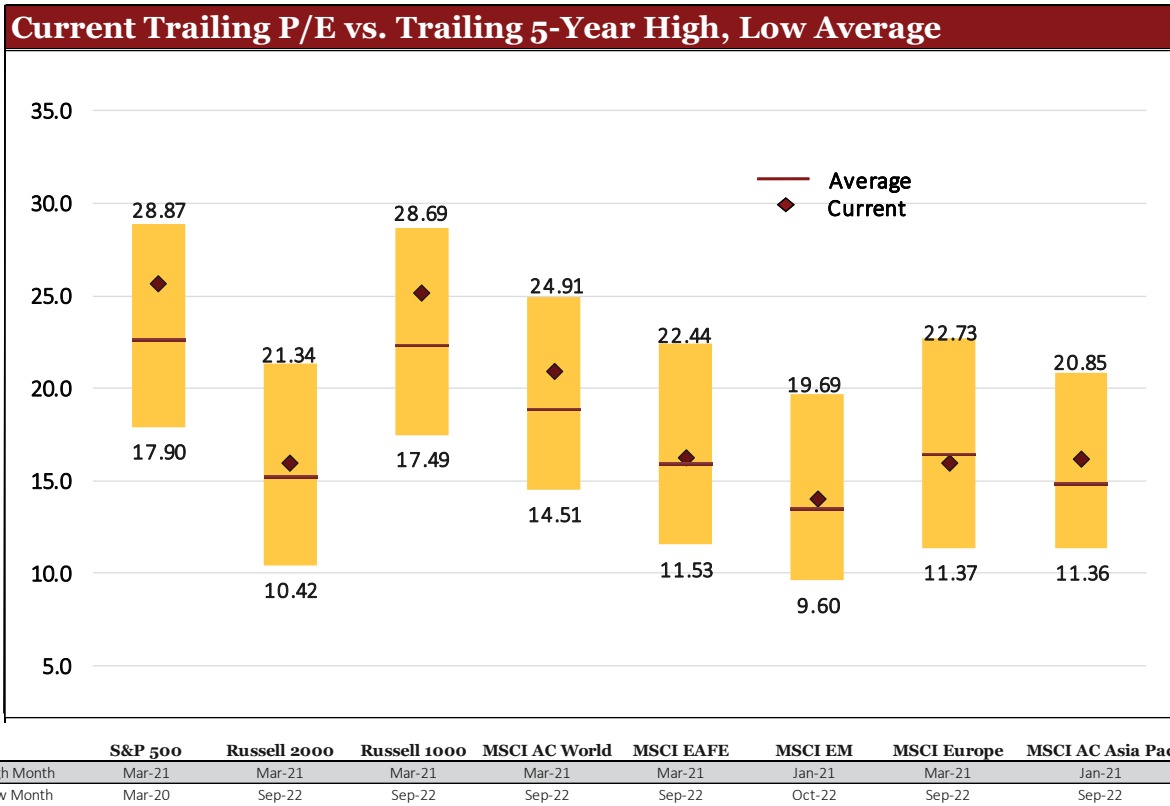
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Source: Morningstar; Data as of 5/31/2024

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates ³ per US \$		Inflation ²
	Latest ¹	2024 ¹	2025 ¹	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
United States	1.30	2.56	1.83	3.90	4.42	-	-	3.60
China	1.60	4.94	4.52	5.00	2.36	7.24	7.06	0.70
Japan	-0.50	0.45	1.10	2.60	1.07	156.90	139.14	2.20
United Kingdom	0.60	0.44	1.04	4.30	4.23	1.27	1.24	3.90
Euro Area	0.30	0.73	1.45	6.40	3.07	1.09	1.08	2.90
Germany	0.20	0.21	1.11	5.90	2.58	1.09	1.08	3.00
France	0.20	0.72	1.27	7.50	3.07	1.09	1.08	1.90
Italy	0.30	0.66	1.17	6.90	3.89	1.09	1.08	2.00
Canada	0.40	1.04	1.82	6.10	3.59	1.37	1.36	1.60
India	2.10	6.59	6.58	7.64	6.95	83.40	81.97	5.09
Mexico	0.30	2.20	2.03	2.60	10.12	16.68	17.81	4.37
Brazil	0.00	1.90	2.14	7.50	11.84	5.15	4.94	4.66

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

1. Latest GDP is seasonally adjusted annualized rate. 2024 & 2025 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)

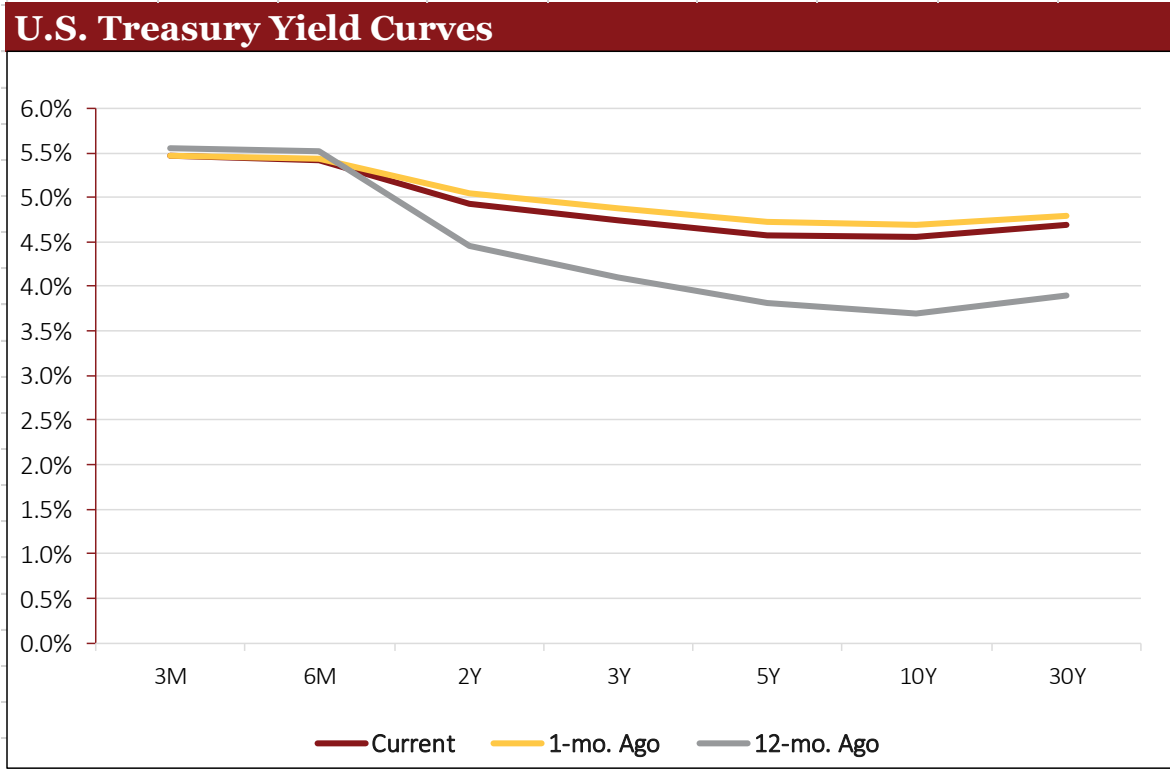
4. Germany, France, and Italy currency exchange rates are taken at the Euro Area exchange rates

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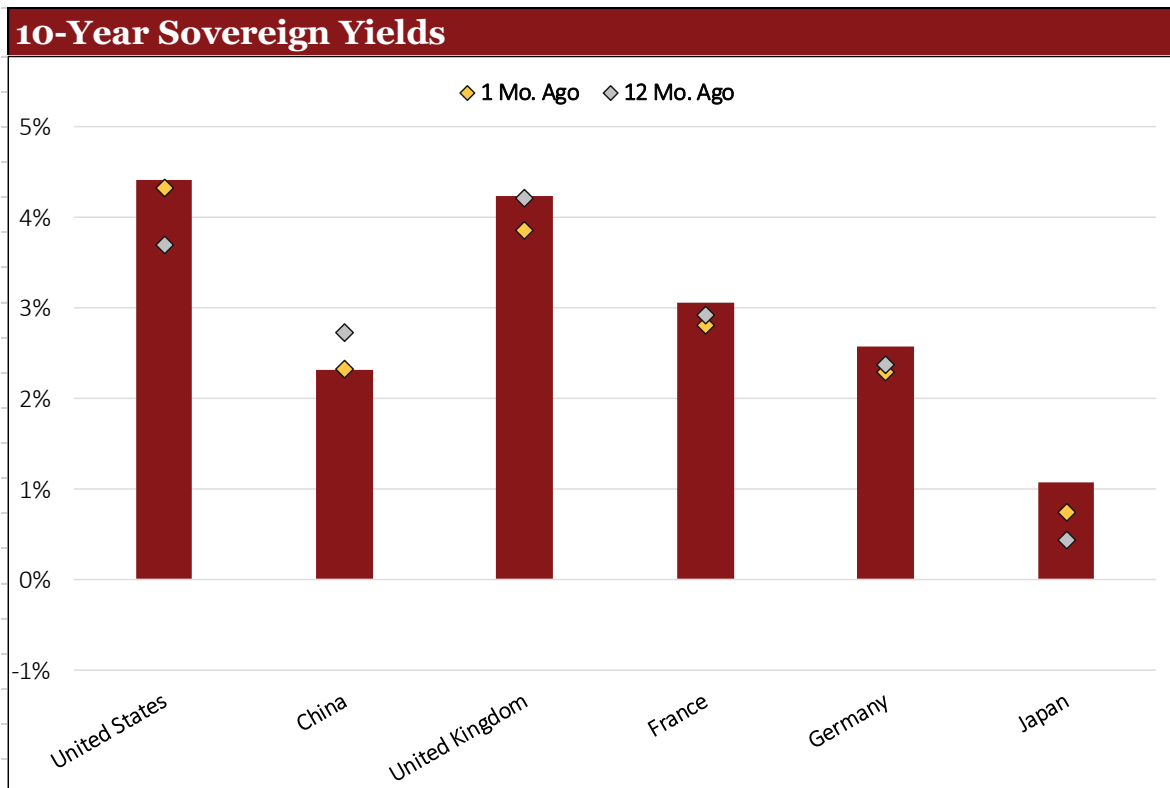
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Source: Federal Reserve Bank; Data as of 5/30/2024



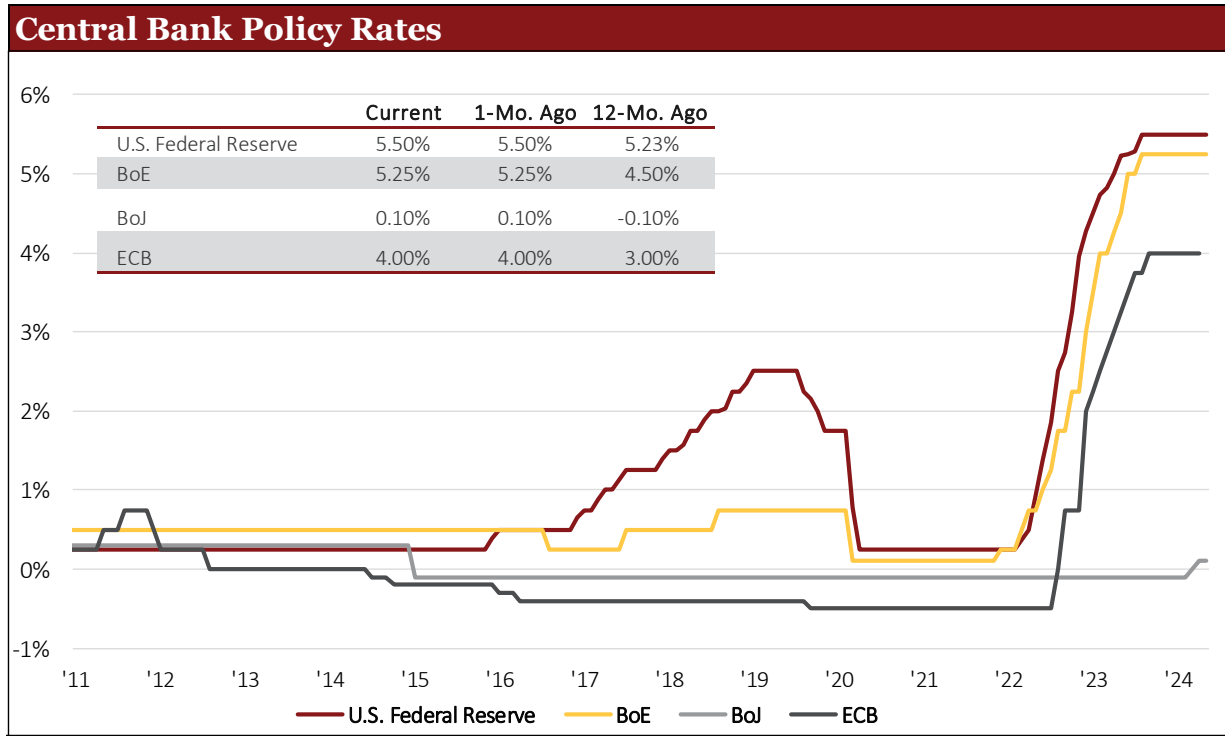
Source: Trading Economics; Data as of 5/30/2024

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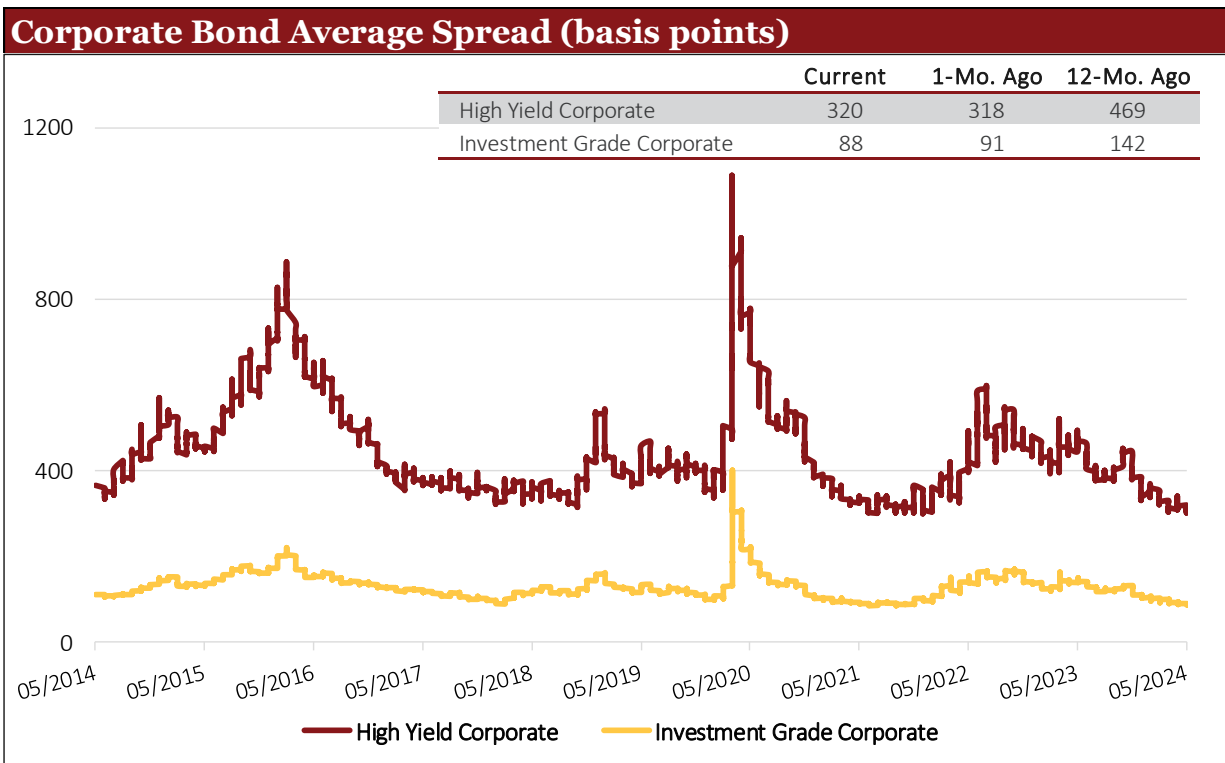
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Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics; Data as of 5/1/2024



Source: Federal Reserve Bank, Bank of America; Data as of 5/31/2024