

Stocks Diverge, Yields Rise, & Artificial Intelligence Theme Gains Traction

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Monthly Market Summary

- The S&P 500 Index gained +0.5% in May, outperforming the Russell 2000 Index's -0.8% return. There was significant sector return dispersion with Technology, the top performer, gaining +8.9% and Energy, the worst performer, returning -10%.
- Corporate investment grade bonds produced a -1.8% total return as interest rates rose, underperforming corporate high yield bonds' -1.2% total return.
- The MSCI EAFE Index of developed market stocks traded down -4.0%, underperforming the MSCI Emerging Market Index's -2.4% return.

May 2023 Recap: Stocks Continue to Diverge & Treasury Yields Rise

May marked a continuation of this year's investment trends. In the equity market, large cap stocks outperformed small cap stocks for a third consecutive month, while Growth stocks continued to outperform Value stocks. The Nasdaq-100 Index of growth stocks returned +7.9% in May, bringing its year-to-date gain to +30.9%. Congressional debt ceiling negotiations were the primary focus in the credit market, where a sharp rise in yields led both Treasury and corporate bond prices to decline. The Bloomberg Commodity Index traded lower for a sixth consecutive month, with declines across energy and metals. While falling commodity prices could help ease inflation, the declines suggest demand is softening and economic activity is slowing.

One theme we are watching closely is the return gap within the equity market. As an example, the S&P 500, which weights companies by market capitalization, is up +9.7% year-to-date. However, the equal-weighted version of the S&P 500 has posted a -0.7% total return, underperforming the market-cap weighted version by -10.3%. This performance dispersion theme is also evident across S&P 500 sectors. Technology, Communication Services, and Consumer Discretionary each traded higher in May, with year-to-date returns exceeding +17.5%. In contrast, the eight remaining S&P 500 sectors each traded lower in May with negative returns thus far in 2023. The sizable performance gaps indicate that while the S&P 500 is trading higher, the gains and strength are concentrated in a relatively small group of sectors and mega cap stocks.

Investors Excited by the Artificial Intelligence Revolution

One of the factors contributing to Technology's strong 2023 return is excitement around artificial intelligence, or AI. AI, which refers to the ability of a digital computer or a machine to perform tasks commonly associated with human intelligence, is being hailed as the next big technological advance. It has the potential to revolutionize the economy by increasing productivity, replacing and/or automating certain jobs, and expanding corporate profit margins. Companies are mentioning AI more on earnings calls, and investors are rushing to find the big AI winners. While AI has the potential to be transformational, we believe the AI revolution is in its early innings. We will continue to watch the theme, but investors' excitement may be premature today.

THIS MONTH IN NUMBERS

FIGURE 1

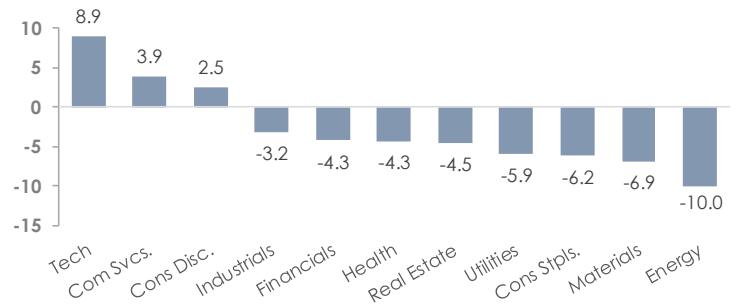
U.S. Style Returns (May in %)

	Value	Blend	Growth
Large	-3.9	0.5	4.7
Mid	-4.5	-2.8	0.1
Small	-1.8	-0.8	0.2

Data Reflects Most Recently Available As of 5/31/2023

FIGURE 2

U.S. Sector Returns (May in %)



Data Reflects Most Recently Available As of 5/31/2023

FIGURE 3

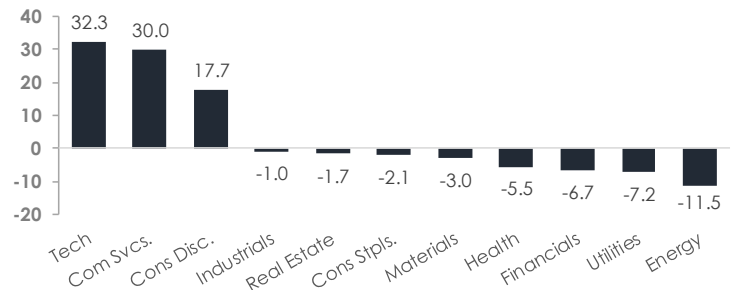
U.S. Style Returns (YTD in %)

	Value	Blend	Growth
Large	-1.5	9.7	20.9
Mid	-3.2	0.6	7.6
Small	-4.9	0.0	4.9

Data Reflects Most Recently Available As of 5/31/2023

FIGURE 4

U.S. Sector Returns (YTD in %)



Data Reflects Most Recently Available As of 5/31/2023

FIGURE 5

Market Data Center

Stocks	1 month	3 months	6 months	YTD	1 year	3 years
S&P 500	0.5%	5.8%	3.3%	9.7%	2.8%	43.2%
Dow Jones	-3.2%	1.4%	-3.8%	0.2%	1.8%	36.8%
Russell 2000	-0.8%	-7.3%	-6.5%	0.0%	-4.7%	30.1%
Russell 1000 Growth	4.7%	12.9%	11.6%	20.9%	9.4%	43.0%
Russell 1000 Value	-3.9%	-2.9%	-5.4%	-1.5%	-4.8%	37.9%
MSCI EAFE	-4.0%	1.9%	5.7%	7.7%	3.5%	28.4%
MSCI EM	-2.4%	-0.1%	-1.9%	0.8%	-8.2%	8.3%
NASDAQ 100	7.9%	18.7%	19.0%	30.9%	13.6%	51.6%

	Dividend Yield	NTM P/E	P/B
S&P 500	1.55%	18.1x	3.8x
Dow Jones	1.98%	16.5x	4.2x
Russell 2000	1.62%	19.9x	1.9x
Russell 1000 Growth	0.80%	24.6x	9.1x
Russell 1000 Value	2.23%	13.8x	2.3x
MSCI EAFE	2.50%	12.9x	1.7x
MSCI EM	2.48%	11.9x	1.5x
NASDAQ 100	0.62%	25.7x	6.3x

Fixed Income	Yield	1 month	3 months	YTD	1 year	3 years
U.S. Aggregate	4.60%	-1.1%	2.0%	2.6%	-2.2%	-10.4%
U.S. Corporates	5.47%	-1.8%	2.6%	3.4%	-2.6%	-10.7%
Municipal Bonds	4.04%	-0.6%	1.5%	1.7%	0.7%	-1.7%
High Yield Bonds	8.87%	-1.2%	0.9%	2.7%	-1.6%	4.1%

Commodities	Level	1 month	YTD
Oil (WTI)	68.09	-11.3%	-15.2%
Gasoline	2.58	5.4%	0.0%
Natural Gas	2.27	-12.1%	-44.8%
Propane	0.56	-24.0%	-27.9%
Ethanol	2.35	1.7%	6.8%
Gold	1,982	-0.9%	8.5%
Silver	23.59	-6.5%	-1.9%
Copper	3.63	-6.2%	-4.6%
Steel	934	-12.6%	25.5%
Corn	5.94	1.5%	-12.5%
Soybeans	13.22	-8.3%	-11.7%

Key Rates	5/31/2023	4/30/2023	2/28/2023	11/30/2022	5/31/2022	5/31/2020
2 yr Treasury	4.39%	4.06%	4.80%	4.38%	2.54%	0.14%
10 yr Treasury	3.64%	3.45%	3.92%	3.70%	2.84%	0.65%
30 yr Treasury	3.86%	3.67%	3.93%	3.82%	3.05%	1.42%
30 yr Mortgage	7.08%	6.85%	7.03%	6.67%	5.35%	3.52%
Prime Rate	8.25%	8.00%	7.75%	7.00%	4.00%	3.25%

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