MARKET REVIEW & COMMENTARY

MAY 2019

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MARKET REVIEW

MAY

The old adage, 'sell in May and go away' seems to be in play for the start of summer as all major equity market indices were negative for the month. Tensions around trade and tariffs fueled market declines as these issues weighed more on U.S. stocks than international. Bonds results were positive as declining interest rates disproportionately benefited bonds with longer maturities. Real asset returns were mixed although crude oil was down notably. Among alternatives, hedge funds largely experienced modest declines for the month.

The S&P 500 retreated -6.35% in May. Technology stocks were challenged in the month leading the tech-heavy NASDAQ to a decline of -7.79%. High dividend payers were down comparable to the broader market falling -6.43%. Across capitalizations, large caps held up better than small caps. From a style standpoint, 'growth' outperformed 'value' across most capitalizations. In particular, large cap growth was down -6.32%, ahead of large cap value, which declined -6.43%. Mid cap growth stocks fell -5.75% versus mid cap value stocks decreasing -6.42%. Small cap growth was down -6.77%, outpacing small cap value, which declined -7.31%. Outside the U.S., the MSCI EAFE Index was down -4.80%, outdoing the MSCI Emerging Markets, which decreased -7.26%.

Bonds returns were positive in May, with the broad-based Bloomberg Barclays U.S. Aggregate up +1.78%. Declines in interest rates across the yield curve resulted in longer maturities outperforming shorter. Among sectors, Treasuries fared better than corporate bonds and municipal bonds. More specifically, 1-3 years Treasuries rose +0.74%, 1-5 year credit rose +0.77%, while 1-5 year municipals were up +0.74%. The Bloomberg/Barclays Long Credit Index increased +2.38% versus a +4.50% return in the Bloomberg/Barclays 10-20 year Treasury Index. Long dated 10-year municipals gained +1.50%. Outside of the United States, world government bonds increased +1.72%, in dollar terms, and emerging market debt increased +1.04%. High Yield bonds were the notable laggard within the asset class, declining -1.19%.

Real asset results were mixed in May. Crude oil had a sizable sell off, declining -16.20%. These led broader commodities indices lower as the Bloomberg Commodity Index fell -3.36%, although precious metals were up +2.95%. U.S. real estate declined -0.34%, while global real estate increased +0.15%. The dollar appreciated +0.28%.

Alternatives predominantly experienced declines in the quarter as the HFRX Equal Weighted Strategies Index was down -0.77%. The HFRX Equity Hedge Index depreciated -2.01%, as fundamental growth funds were down -2.98%, lagging fundamental value strategies, which declined -1.74%. Macro driven strategies, were down -2.06% on the month, while absolute return strategies added +0.05%.

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YEAR-TO-DATE

Even after a challenging month of May, year-to-date results remain sufficiently positive. Gains across asset classes remain at levels that we would consider attractive over a full year.

The S&P 500 has appreciated +10.73% year-to-date, with the tech-heavy NASDAQ gaining +12.85%. High dividend payers are up +8.96%. Large cap stocks have outperformed small, while 'growth' has meaningfully outperformed 'value' across capitalizations. Large cap growth has risen +13.68%, outperforming large cap value, which increased +8.45%. Mid cap growth stocks have returned +17.81% versus mid cap value stocks gaining +10.56%. Small cap growth increased +14.27% while small cap value stocks are up +9.62%. Among international markets, developed market stocks have outperformed emerging markets, with the MSCI EAFE up +7.64% versus a +4.09% gain in the MSCI Emerging Markets Index.

Bonds are universally positive year-to-date as the Bloomberg Barclays U.S. Aggregate is up +4.80%. Interest rates have declined from the levels they began the year at, leading longer maturity paper to outperform shorter. In addition, the spread between corporate bond and Treasury yields has narrowed, aiding the returns of corporate bonds. As such, high yield bonds are up a robust +7.49%. Specifically, 1-5 year credit has risen +3.52%, while 1-5 year municipals are up +2.27%, and 3-5 year Treasuries have gained +3.18%. The Bloomberg/Barclays Long Credit Index has increased +11.10% versus a gain of +4.98% in 10-year municipals and +7.33% in the Bloomberg/Barclays 10-20 year Treasury Index. TIPS have increased +5.25% while Mortgage Backed Securities are up +3.43%. World government bonds have appreciated +2.98%, in dollar terms, while emerging market debt has appreciated a solid +6.46%.

Real assets reversed last year's challenging performance and are up sharply year-to-date. Results have been fueled by crude oil, which is up +18.47%, as well as global and U.S. real estate, rising +14.45% and +15.11% respectively. The Philadelphia Stock Exchange Gold/Silver Index has depreciated -0.91%, while the Bloomberg Commodity Index has gained +2.31%. The dollar is up +1.64% on the year.

Alternatives have largely experienced moderate but positive gains as the HFRX Equal Weighted Strategies Index is up +0.71%. Among hedge fund strategies, the HFRX Equity Hedge Index has appreciated +4.52%, as fundamental growth and fundamental value strategies are up +5.65% and +6.49% respectively. Market neutral and macro driven strategies are the notable laggards having declined -1.21% and -1.79% respectively year-to-date.

INDEX RETURNS AS OF 5/31/2019

BASIC INDEX RETURNS	MONTH TO DATE RETURN	QUARTER TO DATE RETURN	YEAR TO DATE RETURN	LATEST 3 YEARS RETURN	LATEST 5 YEARS RETURN	LATEST 10 YEARS RETURN
BALANCED INDEX (50% ACWI, 35% US Gov. Cr 1-5, 5% HFRX, 5% commodity, 5% bill)	-2.85%	-1.11%	5.88%	16.79%	15.18%	70.81%
HFRX GLOBAL HEDGE FUND INDEX	-1.02%	-0.37%	2.22%	4.66%	-1.57%	12.94%
CPI - SEASONALLY ADJUSTED	0.00%	0.32%	0.88%	6.49%	7.54%	19.71%
S&P 500 COMPOSITE	-6.35%	-2.56%	10.73%	39.45%	58.59%	268.94%
LIPPER LARGE - CAP CORE	-6.41%	-2.50%	9.71%	36.58%	49.22%	225.20%
WISDOM TREE LARGE CAP DIVIDEND	-6.43%	-3.13%	8.96%	33.40%	51.01%	257.77%
MSCI ALL COUNTRY WORLD INDEX NET	-5.93%	-2.76%	9.08%	29.74%	28.94%	145.32%
MSCI EAFE NET	-4.80%	-2.13%	7.64%	18.49%	6.51%	82.94%
BLOOMBERG BARCLAYS MUNICIPAL BOND 5Y (4 - 6)	1.08%	1.10%	3.23%	6.33%	11.50%	36.17%
BLOOMBERG BARCLAYS US AGGREGATE	1.78%	1.80%	4.80%	7.68%	14.27%	45.57%
ICE BANK OF AMERICA / MERRILL LYNCH US T - BILL 3MONTH	0.23%	0.42%	1.02%	4.02%	4.20%	4.77%

EXTENDED INDEX RETURNS	MONTH TO DATE RETURN	QUARTER TO DATE RETURN	YEAR TO DATE RETURN	LATEST 3 YEARS RETURN	LATEST 5 YEARS RETURN	LATEST 10 YEARS RETURN
RUSSELL 1000 GROWTH	-6.32%	-2.08%	13.68%	53.39%	78.83%	327.52%
RUSSELL 1000 VALUE	-6.43%	-3.11%	8.45%	25.90%	37.19%	219.74%
RUSSELL MIDCAP GROWTH	-5.75%	-1.51%	17.81%	47.68%	63.14%	314.89%
RUSSELL MIDCAP VALUE	-6.42%	-3.34%	10.56%	22.26%	34.17%	265.40%
RUSSELL SMALL CAP COMP GROWTH	-6.77%	-3.55%	14.27%	50.26%	59.24%	319.51%
RUSSELL SMALL CAP COMP VALUE	-7.31%	-3.42%	9.62%	23.78%	28.47%	220.11%
MSCI EM (EMERGING MARKETS) NET	-7.26%	-5.30%	4.09%	32.65%	9.25%	63.31%
BLOOMBERG BARCLAYS US TREASURY BILL 6 MONTH	0.23%	0.43%	1.09%	4.46%	5.09%	6.52%
BLOOMBERG BARCLAYS US AGENCY	1.55%	1.60%	3.45%	6.28%	11.02%	27.35%
JP MORGAN EMERGING MARKET BOND INDEX(EMBI) + COMPOSITE	1.04%	0.29%	6.46%	11.42%	19.05%	93.35%
CITI GROUP WORLD GOVERNMENT BOND	1.72%	1.21%	2.98%	4.41%	2.74%	21.75%
BLOOMBERG COMMODITY	-3.36%	-3.77%	2.31%	-5.09%	-39.36%	-34.76%
ALERIAN ENERGY MLP	-1.14%	-2.46%	13.95%	1.15%	-29.00%	110.84%
PHILADELPHIA STOCK EXCHANGE GOLD / SILVER	-1.60%	-8.30%	-0.91%	-13.11%	-17.68%	-56.28%
LIPPER GLOBL NAT RES	-10.10%	-9.48%	2.60%	-4.91%	-30.45%	-0.66%
LIPPER PRECIOUS METAL FUND	2.95%	-3.47%	3.68%	-7.25%	-6.86%	-34.93%
MSCI WORLD REAL ESTATE	0.15%	-1.36%	14.45%	20.61%	32.08%	167.82%
LIPPER REAL ESTATE FUND	-0.13%	0.35%	16.29%	19.71%	41.97%	220.41%

Note: The data is cumulative not annualized. All data in U.S. dollars.

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CONCLUSION

We reiterate virtually the same paragraph from last month here. Much has changed in early 2019. Central banks, only recently committed to years of tightening/normalization, have again loosened their policies. This has had the predictable result of global market rallies across virtually all asset classes. What had appeared to be a slow, years' long embrace of quantitative tightening (QT) ended abruptly and quantitative easing (QE) resumed, although at a more moderate pace. However, we are seeing diminishing marginal utility in QE moves so that it will take more and more to accomplish less.

On top of this, geopolitical stalemates relating to both trade and Brexit have added uncertainty to the economic landscape. Since it is impossible to predict not only the eventual outcome to these issues, but the follow-on effects as well, it's important for investors to maintain an appropriate balance in their portfolios ensuring allocations match their risk tolerance and situation.

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