



Recap

May saw a rebound in equity markets fueled by strong corporate earnings, moderating inflation pressures, and a softening labor market. While inflation is still too high for comfort, the latest CPI report soothed fears that a new wave of inflation was emerging. However, Friday's PCE data came in line with expectations and was not enough to suggest that inflation is heading toward the Fed's target of 2%. Fed Governors continue to opine differently on inflation, with Kashkari saying a hike is still on the table and Bostic saying he would start loosening monetary policy before the inflation rate hits 2%. Inflation has proven to be sticky in the near term, with the 3-month and 1-month PCE numbers coming in hotter than the year-over-year numbers. This will likely keep the Fed inactive regarding rate cuts through the summer, as the consensus is that inflation will likely come down very slowly over the remainder of the year. Other data released in May indicated economic growth seems to be moderating as well, with retail sales and industrial production coming in below expectations. Corporate earnings were solid for the first quarter, with 80% of S&P 500 companies having reported earnings above consensus expectations, above the long-term average of 77%. Earnings growth for the quarter is now expected to come in at a robust 6%, beating the expectation of 3.5% at the beginning of the quarter. Bond yields were volatile throughout the month and ended lower by 15 basis points (bps) through the belly of the curve. However, year-to-date yields are still higher by approximately 60-69 bps.

Key Thought for The Week

The risk of bond vigilantes emerging in the current economic climate is becoming more significant. Bond vigilantes, who sell bonds to protest unsustainable fiscal or monetary policies, can drive up yields and increase government borrowing costs. In the early 1990s, they played a pivotal role when the U.S. faced substantial budget deficits and economic uncertainties. For instance, the 10-year Treasury yield spiked from about 5.8% to over 8% in 1994 due to unexpected interest rate hikes by the Federal Reserve and concerns over inflation and fiscal sustainability. Today, the U.S. budget deficit stands at approximately 5.6% of GDP for 2024, slightly down from 6.3% in 2023. Persistent high deficits, rising interest rates, and growing public debt (\$34 trillion) create a fertile ground for bond vigilantes. As the federal debt is projected to increase from 97% of GDP to 116% by 2034, vigilantes may demand higher yields, reflecting their unease with the fiscal trajectory. The Biden administration has suggested initiatives to lower prescription drug costs and establish a corporate minimum tax to address budgetary imbalances. Raising the corporate minimum tax from 21% to 28% is projected to raise \$1.3 trillion over the next ten years, which is substantial but highly uncertain in a charged political environment. If the government fails to manage its fiscal policy convincingly, bond vigilantes could re-emerge, pressuring yields upward and challenging economic stability. The vigilance of these investors serves as a critical check on fiscal imprudence, potentially influencing government policy decisions profoundly. The recent rise in bond yields is more grounded in firm economic data, but with U.S. Federal debt as a percentage of GDP running close to 100%, we are getting dangerously close to the bond market demanding better discipline.

5/31/2024		Wk	Wk	Div	YTD	12 Mos
	Close	Net	%	Yield	Change	Change
STOCKS		Change	Change			
DJIA	38,686.32	-383.27	-0.98	1.99	2.64	17.56
S&P 500	5,277.51	-27.21	-0.51	1.46	10.64	26.26
NASDAQ	16,735.02	-185.78	-1.10	0.82	11.48	29.37
S&P MidCap 400	2,982.86	6.19	0.21	1.67	7.24	23.94
EAFE	81.18	0.13	0.16	3.12	7.74	14.87
Emerging Market	52.59	-1.43	-2.65	2.78	3.97	10.53

TREASURIES	Yield	FOREX	Price	Change
1-Year	5.19	USD/EUR	1.09	-0.09
2-Year	4.92	JPY/USD	157.15	0.11
5-Year	4.56	USD/GBP	1.27	0.05
10-Year	4.55	CAD/USD	1.36	0.28
30-Year	4.68			

Source: FactSet

Sector - Large Cap

	Close	Wk	Wk	WTD	MTD	QTD	YTD
		Net	%				
Defensive		Change					
Staples	824.23	0.80	0.1%	2.3%	1.2%	8.1%	
Health Care	1,670.88	-9.84	(0.6%)	2.2%	(3.1%)	5.1%	
CommsServices	296.23	-1.80	(0.6%)	6.6%	4.2%	20.4%	

Eco Sensitive

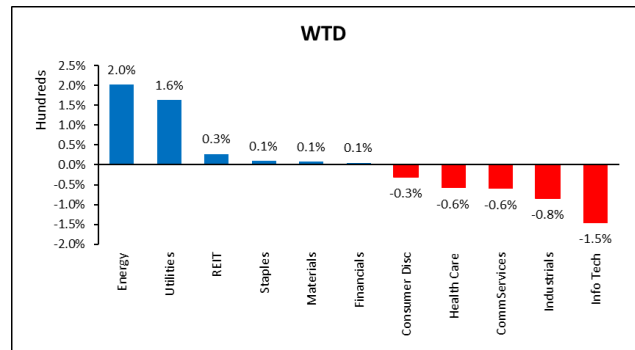
Consumer Disc	1,423.51	-4.47	(0.3%)	0.2%	(4.2%)	0.4%	
Energy	708.04	13.97	2.0%	(1.0%)	(1.8%)	10.6%	
Industrials	1,042.88	-8.89	(0.8%)	1.4%	(2.2%)	8.1%	
Info Tech	3,972.21	-58.94	(1.5%)	10.0%	4.0%	16.9%	
Materials	575.27	0.48	0.1%	3.1%	(1.7%)	6.6%	

Interest Rate Sensitive

Financials	691.28	0.36	0.1%	3.0%	(1.4%)	10.4%	
Utilities	367.47	5.87	1.6%	8.5%	10.2%	14.2%	
REIT	233.25	0.64	0.3%	3.9%	(5.2%)	(7.1%)	

COMING UP NEXT WEEK

		Consensus	Prior	
06/03	ISM Manufacturing SA	(May)	49.8	49.2
06/04	Durable Orders SA M/M (Final)	(Apr)	0.35%	0.70%
06/04	Factory Orders SA M/M	(Apr)	0.65%	0.80%
06/04	JOLTS Job Openings	(Apr)	8,425K	8,488K
06/05	ISM Services PMI SA	(May)	50.7	49.4
06/06	Unit Labor Costs SAAR Q/Q (Final)	(Q1)	4.7%	4.7%
06/06	Productivity SAAR Q/Q (Final)	(Q1)	0.30%	0.30%
06/07	Hourly Earnings Y/Y (Preliminary)	(May)	4.0%	3.9%
06/07	Nonfarm Payrolls SA	(May)	207.5%	175.0K
06/07	Unemployment Rate	(May)	3.9%	3.9%
06/07	Consumer Credit SA	(Apr)	\$11.7B	\$6.3B



Russell Style Return

	WTD	Value	Blend	Growth
Large	0.35%	(0.54%)	(1.08%)	
Medium	(0.02%)	(0.65%)	(2.18%)	
Small	0.46%	0.16%	(0.29%)	

	YTD	Value	Blend	Growth
Large	7.67%	10.48%	13.05%	
Medium	6.25%	5.65%	4.14%	
Small	0.72%	2.78%	4.65%	