May 2022 Market Update

The Markets in May 2022

The month of May proved to be a short but uneven respite from the selling pressures that have plagued markets since the beginning of the year. On the one hand, the Dow Jones Industrial Average eked out a small gain of 0.04% for the month while the broader S&P 500 index ended virtually flat. In contrast, the tech-heavy Nasdaq index continues to lose favor with investors, dropping 2.1% in May. Crypto assets have exemplified this risk-off attitude more dramatically, with Bitcoin losing 15.7% (from $37,714.88 in April down to $31,792.31 by the end of May).

In other markets, signals continue to be confusing. For instance, inflation and geopolitics are clearly impacting the price of oil. NY Mercantile Exchange crude oil prices rose from $104.69/barrel at the end of April to $114.67/barrel by May 31. At the same time, the 10-year Treasury bond yield fell from 2.887% at the end of April to 2.844% at May's close. Further, gold—which tends to rise with geopolitical instability—fell from $1,909.30/oz to $1,842.70/oz in the month.

Inflation readings surged in May to 8.6% over the prior year, a 40-year high. This unexpected reading was driven by sharp increases in energy (+ 34.6%) and groceries (+ 11.9%) - two categories which hit close to home for most consumers. Further, U.S. households' expectations for future inflation have also risen to unprecedented levels, at 6.6% over the next year and 3.9% over the next three years, according to the New York Fed. This expectation is well above the Fed's 2% target.

The Fed's 'Monetary Jenga' - how many pieces of monetary support can be removed before the economy topples into recession?

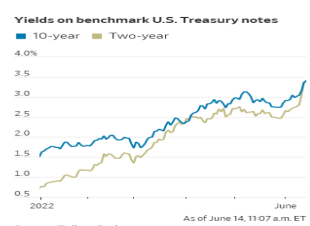
Special points of interest:

- **Markets in May saw a short but uneven respite from selling pressures, although risk assets continued to sell off.**
- **Inflation surged in May to a 40-year high of 8.6% over the prior year and expectations for future inflation are rising.**
- **Investors are now assessing the possibilities for a 75 basis point increase in rates in June.**
- **This is a tough investing environment, but I do see opportunities for higher yields and quality stocks now.**

Inside this issue:

The Look Ahead

In May, the Fed raised interest rates by a half percentage point to a range of 0.75%-1.00% and indicated that they were prepared to raise rates by another half percentage point at their meeting in early June. With inflation running persistently hot, though, many investors now wonder whether a 75 basis point increase is on the table. In this case, the Fed may be in a 'lose-lose' situation. If they raise rates too high, they risk tipping our economy into a recession. If not, they risk inflation spiraling out of control.



As the perceived risks to investors rise, U.S. Treasury rates are clearly anticipating the Fed and moving up in June (see graph in this column). This has weighed on markets and even induced what I see as a bit of panic selling recently. The weeks ahead will be tough to stay invested, but as a contrarian, I see opportunities to start picking up yield here and to focus on commodities and quality stocks for the eventual recovery.

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