



Monthly Recap

Financial markets were shaped by significant legal, economic, and geopolitical developments in May. Ongoing trade negotiations between the US and key partners—including China, Japan, the United Kingdom, and the United Arab Emirates—played a significant role in easing global trade tensions. These diplomatic efforts led to mutual agreements to reduce or suspend certain retaliatory tariffs. Additionally, pending appeal, the Federal Circuit stayed the US Court of International Trade's ruling that President Trump's imposition of broad tariffs under Section 232 was unlawful. These developments helped lift equities, with the Dow Jones, S&P 500 and Nasdaq up 3.94%, 6.15% and 9.56%, respectively. However, economic data remained mixed: Q1 GDP contracted by 0.2%, jobless claims rose to 1.92 million, and consumer sentiment hit its second-lowest level historically, although the Conference Board's confidence index rebounded sharply by month-end. Inflation readings for May were slightly below expectations, suggesting some easing in price pressures. The Federal Reserve kept interest rates steady but hinted at rising internal debate, with markets now pricing in two potential rate cuts by year-end. Treasury yields were volatile, ending with a steeper curve (10-year at 4.39%, 2-year at 3.89%), while credit spreads widened modestly. Gold has held steady near highs as safe-haven demand increased, whereas oil declined amid demand concerns and potential OPEC+ supply increases. Corporate earnings for Q1 remain robust, with 97% of companies having reported a blended growth rate of 13%, but management commentary highlighted continued macro uncertainty and cautious outlooks. Overall, while legal relief on tariffs offered a reprieve, economic headwinds and policy ambiguity left markets navigating an uneven recovery.

Key Thought

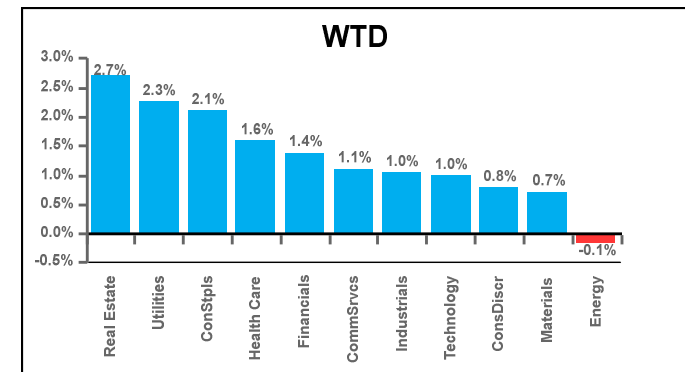
The concept of "US exceptionalism," particularly in equity market performance, is under renewed scrutiny as major US equity indexes have substantially underperformed international indexes this year. Trade relations and domestic fiscal policies will play a pivotal role in shaping how US leadership is viewed globally. The outperformance of US assets relative to global peers is not guaranteed, and recent public discussions highlight a complex interplay between efforts to stimulate growth and concerns over fiscal sustainability. US fiscal health is a significant factor. The growing national debt, which recently prompted Moody's to downgrade the US credit rating to Aa1, raises concerns about an increased US risk premium. Federal spending remains high, with the budget deficit now at 27% of federal spending, underscoring the fiscal challenge. If not managed effectively, these conditions can weigh on investor sentiment, particularly among bond investors, and affect the perception of US exceptionalism. The recently passed House tax bill aims to extend the tax rates established in 2017 and influence the economic landscape by trimming entitlement spending. The Tax Foundation estimates that preventing tax rates from reverting to pre-2017 levels would reduce federal tax revenue by \$4.1 trillion from 2025-2034 but would increase long-run GDP by 0.8%. Proponents argue that the bill could reduce the deficit by approximately \$1.9 trillion over ten years compared to a simple extension of the 2017 tax cuts, due to expected higher revenues and entitlement reforms. Furthermore, tariff policies add another layer of complexity. President Trump has imposed tariffs that, while projected to raise \$2.1 trillion in revenue from 2025-2034, are also estimated to reduce US economic output by 0.8% in the long run, potentially offsetting some benefits from tax cuts. Maintaining US equity exceptionalism on a long-term basis requires stable policy-making, renewed optimism in key sectors like big tech, and potentially a cooling off in other major global markets. The current fiscal path and the specifics of tax legislation, including the new House bill, will be crucial determinants. Balancing pro-growth tax measures with long-term fiscal responsibility is essential for the US to maintain its historically strong economic standing.

Stocks	Wk		Wk	Div	YTD	12 Mos
	Close	Net Change	% Change		% Change	% Change
DJII-USA	42,270.07	667.00	1.60	1.91	-0.64	10.91
S&P 500	5,911.69	108.87	1.88	1.63	0.51	12.92
NASDAQ	19,113.77	376.56	2.01	1.07	-1.02	14.20
S&P MidCap 400	3,001.38	23.79	0.80	2.44	-3.83	1.76
EAFE	88.81	0.77	0.87	3.27	17.46	10.45
Emerging Markets	56.69	-0.76	-1.32	3.18	8.56	6.88

12/31/24			FOREX	Price	Wk % Change
Treasuries	Current Yield	Yield			
1 - Year	4.10	4.15	EUR/USD	1.14	-0.14
2 - Year	3.89	4.24	USD/JPY	144.30	1.06
5 - Year	3.95	4.38	GBP/USD	1.35	-0.61
10 - Year	4.39	4.57	USD/CAD	1.37	0.04
30 - Year	4.92	4.78			

Sector - Large Cap	Wk		WTD	MTD	QTD	YTD
	Close	Net Change				
Defensive						
Staples	917.35	16.06	1.8%	1.7%	2.8%	7.5%
Health Care	1,543.45	27.46	1.8%	(5.7%)	(9.3%)	(3.8%)
CommServices	352.61	7.28	2.1%	9.6%	10.3%	3.2%
Eco Sensitive						
Consumer Disc	1,717.38	28.73	1.7%	9.4%	9.0%	(6.2%)
Energy	619.34	-2.66	(0.4%)	0.3%	(13.5%)	(5.4%)
Industrials	1,207.31	17.30	1.5%	8.6%	8.8%	8.2%
Info Tech	4,524.41	104.31	2.4%	10.8%	12.5%	(1.8%)
Materials	544.68	4.34	0.8%	2.8%	0.5%	2.8%
Interest Rate Sensitive						
Financials	845.93	14.79	1.8%	4.3%	2.0%	5.2%
Utilities	414.48	4.50	1.1%	3.4%	3.4%	7.7%
REIT	260.11	6.74	2.7%	0.7%	(0.3%)	2.3%

COMING UP NEXT WEEK			Consensus	Prior
06/02	Markit PMI Manufacturing SA (Final)	(May)	49.2	52.3
06/02	ISM Manufacturing SA	(May)	49.5	48.7
06/03	Factory Orders SA M/M	(Apr)	-3.0%	3.4%
06/03	JOLTS Job Openings	(Apr)	7,270K	7,192K
06/04	ADP Employment Survey SA (Final)	(May)	125.0K	62.0K
06/04	Markit PMI Services SA (Final)	(May)	52.3	52.3
06/04	ISM Services PMI SA	(May)	52.1	51.6
06/05	Unit Labor Costs SAAR Q/Q (Final)	(Q1)	5.7%	5.7%
06/05	Productivity SAAR Q/Q (Final)	(Q1)	-0.80%	-0.80%
06/06	Nonfarm Payrolls SA	(May)	125.0K	177.0K
06/06	Unemployment Rate	(May)	4.2%	4.2%
06/06	Consumer Credit SA	(Apr)	\$11.5B	\$10.2B



Russell Style Return

WTD	Value	Blend	Growth	YTD	Value	Blend	Growth
Large	1.26%	1.78%	2.26%	Large	2.32%	0.87%	-0.43%
Medium	1.03%	1.44%	2.18%	Medium	-0.58%	0.94%	4.97%
Small	1.29%	1.24%	1.08%	Small	-7.83%	-6.98%	-6.19%

Source: FactSet