MAY 2023
MARKET RECAP

Andrew Murphy, CFA
Co-Chief Investment Officer

109 STATE STREET, 2nd FLOOR BOSTON, MA 02109
WINTHROPWEALTH.COM | 617.530.1010

The equity market produced a gain of +0.4% in May, bringing the year-to-date return to +9.6%. Since the 2022 closing low on October 12, 2022, the S&P 500 has increased by +18.1%. Despite the strong performance over the last several months, the S&P is still in bear market territory (a decline of -20% on a closing basis without a subsequent +20% increase) and now sits about -10% below the all-time high reached on January 3, 2022.

- **Concentration**: Only about 25% of S&P 500 stocks were positive in May. The top five weightings in the index, mainly growth names, performed very well and drove the market higher for the month: Apple (+4.6%), Microsoft (+7.1%), Amazon (+14.4%), Alphabet (+14.0%), and Nvidia (+36.3%).
- **Market Cap**: Large Caps (+0.4%) outperformed Mid (-3.2%) and Small (-0.9%).
- **Style**: Growth (Russell 1000 Growth: +4.6%) exceeded Value (Russell 1000 Value: -3.9%).
- **Sector**: Only three of eleven sectors were positive in the month with Technology (+9.5%) and Communication Services (+6.2%) as the top performers and Materials (-6.9%) and Energy (-10.0%) as the laggards.

On the last day of the month, the House passed a bill to raise the debt ceiling into 2025 by a 314-117 vote. The bill now moves to the Senate where leaders from both parties have indicated they hope to pass the legislation on June 1st or 2nd. Treasury Secretary Janet Yellen has stated that June 5th is the ultimate deadline to avoid a potential default. We won't celebrate until the bill is signed by President Biden, but indications look promising that the country will avoid a self-inflicted disaster and we can all focus on more important things than Congress' debt ceiling political theater. At least for another two years. Please see our **Client Question on the Debt Ceiling**. Here's an easy prediction – we will witness almost the exact same thing and have almost the exact same view for how the next debt ceiling debate will play out in 2025.

Both our short- and long-term market outlooks remain the same. The S&P 500, currently at 4,181, has been stuck in a trading range from 3,600 to 4,300 for over 12 months. We expect the S&P 500 to remain rangebound for the time being as the fundamentals of the stock market do not support a rapid recovery back to all-time highs yet. Importantly for actively managed portfolios, a rangebound market does not mean that we are planning to sit on our hands. If the market were to break below this range to a new cycle low, our short-term view would turn more positive, and we would look to add to equities. If the S&P were to break above the range and toward all-time highs, our short-term view would turn increasingly cautious, and we would begin trimming equities. *Rebalancing a portfolio may cause investors to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss.*

Over the long-term (years), we still suspect this difficult economic environment over the last eighteen months has created a strong opportunity for investors willing to live with some short-term discomfort. The attached chart, **Investing After Market Declines**, utilizes S&P 500 month-end data from 1940 – 2021 and shows that investing when the index is down more than -10% from the all-time high has produced both strong average annualized returns and a high percentage of positive outcomes. We believe those who were able to either stay invested, rebalance, or add to their existing holdings will eventually be rewarded. *Historically, equity markets have recovered from recessions and downturns; however, past performance is no guarantee of future returns. It is important to consider your own risk tolerance, financial circumstances, and time horizon.*

The markets have several major events over the next month, including, May Employment Report (6/2), CPI Inflation (6/13), FOMC Meeting (6/14), and PCE Inflation (6/30).

At **Winthrop Wealth,** we follow a **Total Net Worth Approach** and we believe the right mindset paired with a comprehensive finan-cial plan and a thorough investment process can provide confidence in pursuing your long-term financial goals, especially during times of heightened market volatility. We help our clients navigate challenging markets by seeking to ensure their short-term cash flow needs are met while managing the rest of their investments in a globally diversified portfolio. By having two to three years of scheduled cash flows invested in ultra-short fixed income instruments, we seek to decrease the likelihood that we will need to sell out of risk assets after a market decline to fund distributions. *Investing involves risk including loss of principal. No strategy assures success or protects against loss.*

- **Framework for Navigating Current Conditions**
- **The Debt Ceiling**
- **Silicon Valley Bank Failure**
- **Market Timing Does Not Work**
- **Bond Primer**
- **Yield Curve Inversion**

Fixed Income Market

The Bloomberg Barclays US Aggregate Bond index (Agg), which acts as a proxy for the investment-grade bond market, decreased by 1.1% in May as the 10-Year Treasury yield increased from 3.42% to 3.64% during the month (bond prices move inversely to interest rates and credit spreads). The bond market is still trying to find its footing after coming off the worst calendar year (2022: -13%) since inception of the index in 1976. Please see our **Client Question: Bond Primer** where we detail bond mechanics, characteristics, types, risks, and historical returns.

Our objective with fixed income is to provide ballast, stability, and income to portfolios. Ballast means that, ideally, the fixed income holdings are increasing when equity markets are declining. Bonds did not provide ballast for most of 2022 as interest rates rapidly increased during the first half of the year. We have continuously stated that we expect the negative correlation between stocks and bonds to return in the future once yields level out, and that all else equal, the fixed income markets need yields to stabilize rather than decrease to achieve positive returns. We will highlight the following time periods and note that the Bond market has produced solid returns for nearly 12 months:

10-Year Treasury Yield					Bloomberg Barclays
Start	Yield	End	Yield	Difference	Total Return Index
June 15, 2022	3.47%	May 31, 2023	3.64%	0.17%	2.03%
October 1, 2022	3.83%	May 31, 2023	3.64%	-0.19%	4.38%
January 1, 2023	3.87%	May 31, 2023	3.64%	-0.23%	2.46%

Source: Bloomberg

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

The Treasury yield curve is still inverted with both the 3-Month (5.39%) and 2-Year (4.40%) higher than the 10-Year (3.64%) yield. In general, the Fed influences shorter term Treasury yields by setting the target federal funds rate while the market controls long term rates as investor demand will vary based on future expectations of inflation and economic growth. An inverted yield curve is a sign of a pessimistic economic outlook and typically signals that investors expect the Fed to cut rates soon. If the Fed does cut rates as investors expect, the 3-Month and 2-Year yields will fall below the 10-Year and the yield curve will be upward sloping again. **Please see our Client Question: Yield Curve Inversion**.

The yield to maturity of various bond indices remain at their highest levels in years. Yield to maturity Is defined as the estimated annualized rate of return an investor can expect on a bond if purchased today and held to maturity, assuming the issuer makes all their interest and principal payments (i.e., no defaults). The yield to maturity on the US Aggregate Bond index was 4.4% at the end of the month, which is the highest level since 2009. In other words, future returns from the Agg bond index have not been this attractive in 14 years.

Monetary Policy

The Federal Open Market Committee (FOMC, Fed) increased interest rates by another 25 basis points (0.25%) at their May 3rd meeting to bring the top end of the federal funds rate to 5.25%, the highest level since 2007.

According to minutes from the meeting, the committee is divided on whether further rate increases will be necessary. With inflation at present levels, some Fed officials would prefer to continue raising rates. While several FOMC members believe interest rates are high enough due to the cumulative effect of tighter financial conditions caused by the Fed's actions undertaken to-date and turmoil in the banking sector.

Market pricing is currently leading toward one more 25 basis point rate hike at either the June 14th or July 26th meeting. We suspect that upcoming inflation data will determine the Fed's next move. If inflation breaks higher, more rate hikes are on the table. On the other hand, if inflation continues to decelerate, the Fed will likely hold. Odds that the Fed will start to cut rates, which spiked higher during the banking unrest in mid-March, have diminished as the economy continues to plod along. Market pricing on rate cuts is fluid, so expectations will rise if the economy weakens or if more banks run into trouble.

Please see our **Client Question on The Fed**, which details the key entities, and the impact monetary policy has on the economy, interest rates, and stock prices.

Inflation

While most readings have decelerated over the past few months and are below peak levels, current inflation data is still elevated. The Fed has divided inflation into three buckets: goods (decelerating as supply chains normalize), housing (decelerating under rising mortgage rates but not showing up in inflation data until mid-2023), and non-housing related core services (still elevated due to the strong labor market and robust average hourly earnings). The Fed theorizes the best way to decrease services inflation is to lower demand by weakening the labor market and raising the unemployment rate.

The Fed's latest Summary of Economic Projections show the median participant expects Core PCE Inflation to fall to 3.6% in 2023, 2.6% in 2024, and 2.1% in 2025.

- **Consumer Price Index (CPI)**: tracks the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The index does include food and energy prices.
  - Latest Reading (April): 4.9%.
  - Peak (June 2022): 9.1%.
  - Prior Reading (March): 5.0%.
  - Source: Bureau of Labor Statistics.

- **Core Personal Consumption Expenditure (PCE) Index**: measures the prices paid by consumers for goods and services based on surveys of what businesses are selling. Core means that the index excludes food and energy prices. This is the Fed's preferred inflation measure, which they target at an average of 2%.
  - Latest Reading (April): 4.7%.
  - Peak (February 2022): 5.4%.
  - Prior Reading (March): 4.6%.
  - Source: Bureau of Economic Analysis.

- **Average Hourly Earnings**: tracks total hourly renumeration (in cash or in kind) paid to employees in return for work done (or paid leave). Data is from the Current Employment Statistics (CES) survey.
  - Latest Reading (April): 4.4%.
  - Peak (April 2020): 8.0%.
  - Prior Reading (March): 4.3%.
  - Source: Bureau of Labor Statistics.

US Economy

The US economy continues to meander along and send mixed signals about its future path.

We started writing that the US would likely experience a mild recession last summer, and our view has not changed as several recessionary indicators are still flashing yellow or red, including the **yield curve**, leading economic indicators, and the ISM Manufacturing survey. Meanwhile, the strength of the economy currently lies with the labor market as the unemployment rate of 3.4% is at a 50-year low. With the Fed actively trying to soften the labor market to bring down inflation by lowering the overall demand for goods and services, we expect the unemployment rate to eventually increase.

An over-simplified business cycle historically followed a similar pattern: the economy expands rapidly–- unemployment falls–- inflation overheats–- financial bubbles form–- the Fed responds by raising interest rates – credit tightens–- good borrowers struggle to find loans – the economy stumbles–- a recession occurs – the economy bottoms–- repeat. We've seen the first stages of the business cycle play out starting in mid-2020. The turmoil in the banking sector that started with **Silicon Valley Bank** may end up tightening credit enough to push the economy into a recession. According to the latest FOMC minutes, the Fed now projects "the effects of the expected further tightening in bank credit conditions, amid already tight financial conditions, would lead to a mild recession starting later this year, followed by a moderately paced recovery."

While our view remains that a mild recession is still the most likely outcome, we could be pleasantly surprised if inflation continues to decelerate, and the Fed stops their rate hiking cycle.

The good news for long-term investors is that the S&P 500 already priced in an average recession last year when the index fell by -24.5% from January 3rd through October 12th. We are not sure if October 12th marks the ultimate bottom for this period, although unless your view is that this is the start of another Great Depression or Financial Crisis, then a lot of the damage in the equity market may have already occurred at the October low.

A key tenant to our investment philosophy is to maintain a long-term viewpoint. A lot of short-term predictions about the market or the economy are just noise. As such, we focus on the fact that **recessions can create buying opportunities for long-term investors**. During the last 15 recessions, the S&P 500 declined by an average of -30.0%. However, once the market bottomed, performance was very strong over subsequent 1-YR (+50.1%), 3-YR (+79.0%), and 5-YR (+142.1%) periods. *All performance referenced is historical and is no guarantee of future results.*

MAY 2023 MARKET RETURNS

US Equity											
Index	**May**	**2023**	**2022**	**2021**	**2020**	**2019**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
S&P 500	0.43%	9.64%	-18.13%	28.68%	18.39%	31.47%	2.89%	12.89%	10.99%	11.80%	9.75%
Russell 3000	0.39%	8.73%	-19.22%	25.64%	20.88%	31.01%	2.01%	12.22%	10.05%	11.28%	9.74%
Dow Jones Industrial Average	-3.17%	0.25%	-6.86%	20.95%	9.72%	25.34%	1.96%	11.26%	8.48%	10.45%	9.41%
Nasdaq	5.93%	24.07%	-32.51%	22.21%	45.05%	36.73%	8.06%	11.76%	12.73%	15.24%	12.23%
S&P 400	-3.20%	-0.32%	-13.10%	24.73%	13.65%	26.17%	-2.69%	12.53%	5.97%	8.91%	10.04%
Russell 2000	-0.93%	-0.06%	-20.46%	14.78%	19.93%	25.49%	-4.71%	9.19%	2.71%	7.22%	8.53%
Russell 1000 Growth	4.56%	20.75%	-29.14%	27.59%	38.49%	36.39%	9.54%	12.83%	13.83%	14.61%	11.19%
Russell 1000 Value	-3.86%	-1.45%	-7.56%	25.12%	2.78%	26.52%	-4.59%	11.59%	6.75%	8.23%	8.20%
International Equity											
MSCI Index	**May**	**2023**	**2022**	**2021**	**2020**	**2019**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
EAFE	-4.23%	6.81%	-14.45%	11.26%	7.82%	22.01%	3.06%	8.52%	3.21%	4.43%	6.42%
Europe	-5.81%	10.95%	-17.86%	13.54%	7.89%	23.20%	8.01%	10.47%	3.19%	4.74%	5.88%
Japan	1.86%	8.56%	-16.65%	1.71%	14.48%	19.61%	4.53%	4.29%	1.78%	4.97%	5.89%
China	-8.43%	-9.07%	-21.93%	-21.72%	29.49%	23.46%	-14.75%	-8.83%	-7.01%	1.85%	9.42%
Emerging Markets	-1.68%	1.05%	-20.09%	-2.54%	18.31%	18.42%	-8.49%	3.47%	-0.67%	1.82%	8.27%
ACWI ex US	-3.64%	4.77%	-16.00%	7.82%	10.65%	21.51%	-1.41%	7.23%	2.22%	3.71%	6.57%
US Fixed Income											
Bloomberg Barclays Index	**May**	**2023**	**2022**	**2021**	**2020**	**2019**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Aggregate	-1.09%	2.46%	-13.01%	-1.54%	7.51%	8.72%	-2.14%	-3.65%	0.81%	1.38%	3.01%
Treasury Bills	0.41%	1.89%	1.52%	0.04%	0.54%	2.21%	3.33%	1.17%	1.48%	0.91%	1.28%
Corporates	-1.45%	2.78%	-15.76%	-1.04%	9.89%	14.54%	-1.70%	-2.95%	1.56%	2.28%	3.86%
Securitized MBS/ABS/CMBS	-0.72%	2.29%	-11.67%	-1.04%	4.18%	6.44%	-2.57%	-3.47%	0.23%	1.11%	
High Yield	-0.92%	3.64%	-11.19%	5.28%	7.11%	14.32%	0.05%	2.90%	3.09%	3.96%	6.70%
Munis	-0.87%	1.65%	-8.53%	1.52%	5.21%	7.54%	0.49%	-0.64%	1.65%	2.28%	3.47%
US Equity Sectors											
Index	**May**	**2023**	**2022**	**2021**	**2020**	**2019**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Technology	9.46%	33.95%	-28.19%	34.52%	43.88%	50.27%	19.33%	20.15%	20.17%	20.51%	14.10%
Real Estate	-4.51%	-1.77%	-26.21%	46.14%	-2.17%	29.00%	-15.53%	4.75%	6.25%	5.59%	
Industrials	-3.16%	-0.99%	-5.51%	21.10%	11.05%	29.32%	4.11%	14.54%	7.42%	10.11%	9.40%
Energy	-10.04%	-11.44%	65.43%	54.39%	-33.68%	11.81%	-7.55%	31.77%	5.31%	3.26%	8.54%
Consumer Discretionary	3.21%	18.64%	-37.03%	24.43%	33.30%	27.94%	-0.79%	6.65%	8.23%	11.60%	10.49%
Communication Services	6.21%	32.81%	-39.89%	21.57%	23.61%	32.69%	5.53%	6.18%	9.23%	6.24%	7.45%
Consumer Staples	-6.08%	-1.89%	-0.62%	18.63%	10.75%	27.61%	0.68%	10.60%	11.34%	9.03%	9.65%
Utilities	-5.87%	-7.22%	1.56%	17.67%	0.52%	26.35%	-9.96%	6.14%	8.47%	9.25%	9.51%
Materials	-6.85%	-2.99%	-12.28%	27.28%	20.73%	24.58%	-10.68%	12.79%	7.54%	8.51%	9.09%
Financials	-4.32%	-6.77%	-10.57%	34.87%	-1.76%	32.09%	-8.60%	12.97%	5.35%	9.00%	4.58%
Health Care	-4.29%	-5.60%	-1.95%	26.13%	13.45%	20.82%	-1.71%	9.23%	11.19%	11.96%	9.82%
	Calendar Year Returns						**Annualized Returns**				

Source: Bloomberg

DISCLOSURES

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The prices of small cap stocks and mid cap stocks are generally more volatile than large cap stocks.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

The Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Bloomberg Barclays US Treasury Bills 1-3 Month Index is designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months. The Index includes all publicly issued zero coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and at least 1 month, are rated investment grade, and have $300 million or more of outstanding face value.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

The Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 13 week (3 Month) U.S. Treasury Bills.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Financial planning is a tool intended to review your current financial situation, investment objectives and goals, and suggest potential planning ideas and concepts that may be of benefit. There is no guarantee that financial planning will help you reach your goals. Asset allocation does not ensure a profit or protect against loss.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.

Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.

Securities offered through LPL Financial, Member FINRA/SIPC. Investment Advice offered through Winthrop Wealth, a Registered Investment Advisor and separate entity from LPL Financial.