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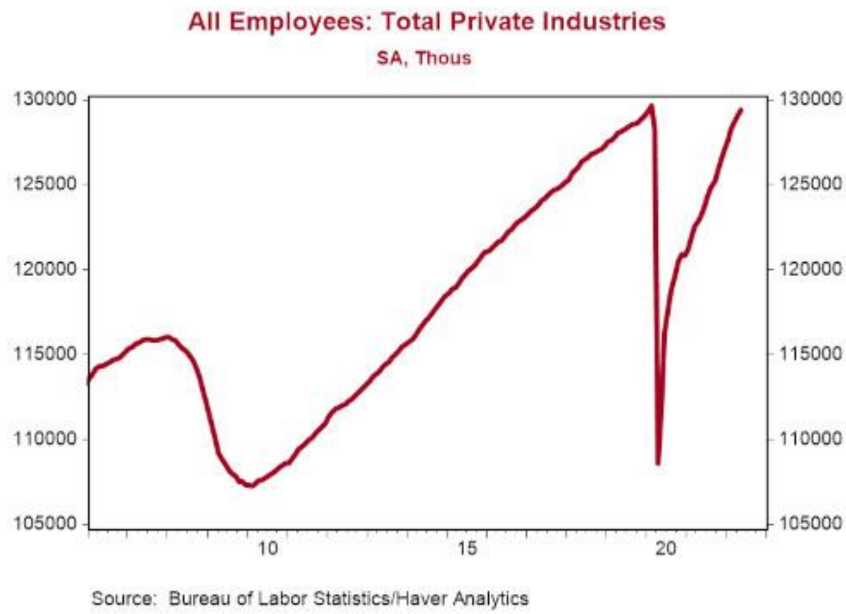
REGISTERED INVESTMENT ADVISOR

The P&A Blog
June 10, 2022

May Market Recap

By Dan Frost

May's jobs report continued to point to a strong labor market that is continuing to heal from the pandemic. A total of 390,000 jobs were added during the month and the unemployment rate remains at 3.6%. Total nonfarm payrolls are still 822,000 below where they were in February of 2020, but should surpass that highwater mark later this year, assuming the labor market remains on the current trajectory. High inflation remains the biggest concern facing the overall economy and consumers. Wages are up 4.2% from last year, but consumer prices are up 8.5%.



The Stock Market

For the month of May, the S&P 500 posted a gain of 0.18%. The modest return masks the volatility that investors experienced with 10 of the 21 trading days where the market rose or fell by 1% or more. The technical definition of a bear market (down 20% from the most recent peak) was narrowly avoided. The S&P 500 traded there on an intraday basis but managed to rally off the lows to post a year-to-date return of -12.76% through May 31st.

Six of the 11 sectors that make-up the S&P 500 were up during the month. The top performer was once again Energy, rising 15.77% in May and up 58.47% so far in 2022 as oil prices remain above $100 per barrel. Real Estate, Consumer Discretionary and Consumer Staples were the laggards, falling -4.5% to -5.0%.

Fixed Income

As expected, the Federal Reserve raised interest rates by a half of a percent at their meeting in early-May. They also voted to begin reducing the Fed's holdings of Treasury and mortgage-backed securities beginning June 1st. Combined, these actions are intended to tighten monetary conditions in an effort to combat inflation. After rising by over 0.50% in April, interest rates finished the month slightly lower with the 10-year Treasury note at 2.85%.

Conclusion

The past five months have been a rough ride for investors. May included a stretch where the S&P 500 declined for seven consecutive weeks. Something that has only occurred three other times since 1928. The bright spot is that following those three other times the market was up over the following 1-, 3-, 6- and 12-months. History obviously never repeats itself exactly and this time could be different, but we can take some encouragement from the fact that the market did rise nearly 7% in the last full week of May.
Whether the market stabilizes and moves higher from here or has more declines ahead is unknown. However, eventually the market will bottom, and returns will once again begin to compound. Short-term volatility is the price investors pay for long-term returns.

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