Monthly Market Recap

May 2024

FIDELIS CAPITAL

From the Investment Committee

"Sell in May and go away" would have been bad advice to follow in 2024. Despite a continued hawkish tone from the Federal Reserve, equity markets saw new all-time highs across multiple indices. This marked the best May since 2009.

Q1 earnings season concluded with strong results and upside surprises across multiple sectors, with utilities notably joining the top performers.

In the bond markets, interest rates continued to try and weigh the impact of a "higher for longer" message coming from various Fed speakers. The 10-year Treasury finished the month around 4.50%, which is about where it started the month. Fed funds futures, which signal the market's interest rate expectations, are now indicating that there are no more than two interest rate cuts priced in for 2024. This is a far cry from the six cuts that were priced in when we entered the year.

Thus far in 2024, it is apparent that the equity markets are pricing in a "soft landing" scenario, and the bond market has recently seen additional volatility related to the changing expectations around future Fed policy.

We continue to be on the lookout for stickier-than-expected inflation and are watching the health of the U.S. consumer closely as we head into the summer. Because of these factors, we continue to remain neutral in our outlook towards risk assets and advocate a balanced approach within the confines of our clients' investment objectives.

Key Takeaways

S&P Hits New All-Time High	• The S&P 500, as well as the Dow Jones and NASDAQ, all hit new all-time highs during the month of May. • Optimism around a "soft landing" scenario outweighed a more hawkish tone from the Fed. • The Communications, Technology, and Utilities sectors were the top performers.
Inflation Remains Sticky in April	• Domestic CPI for the month came in slightly above expectations at 3.5%, which is still significantly above the 2% target. • Wage inflation appears to remain sticky. • Global inflation outlook is still mixed, with Spain printing hot and the U.K. posting lower but still higher than expected.
Fed Funds Rate Remains at 5.25 – 5.5%	• The Fed held interest rates steady at the conclusion of their May meeting. • Fed commentary throughout the month indicated that investors should be prepared for a "higher for longer" interest rate environment. • In Powell's words, "... inflation is still too high, further progress in bringing it down is not assured, and the path forward is uncertain."
Better-Than-Expected Q1 Earnings Season	• With 98% of S&P 500 companies reported, Q1 earnings were better than forecasted. • According to FactSet, the expected year-over-year growth rate was 3.4%. The actual rate reported was 5.9%. • This growth rate is the highest since Q2 2022.

Asset Class Performance

Equities

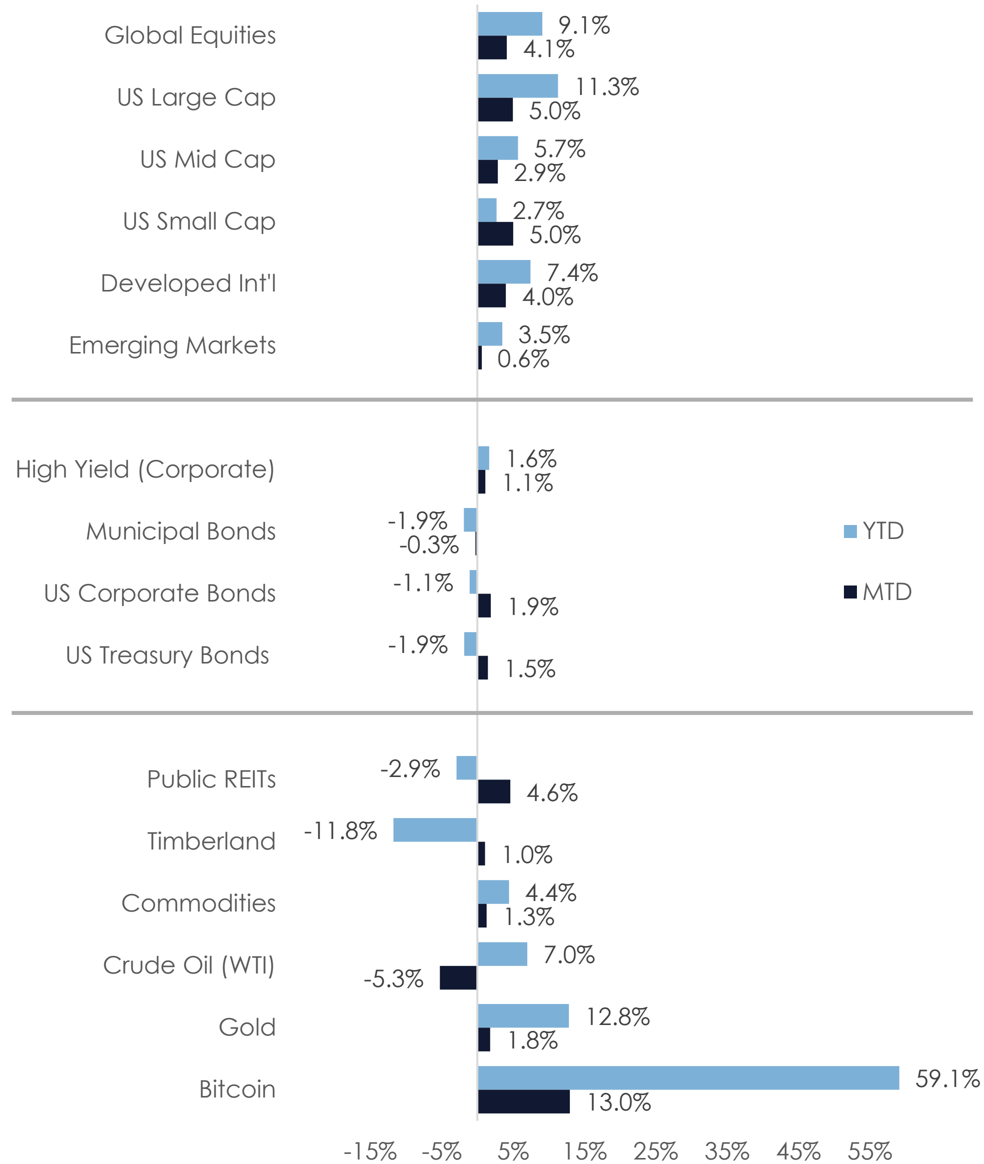
- Following a disappointing April, global equities rallied back strongly in May, led by U.S. large-cap growth stocks. Earnings growth continues to come in better than expected, with margins of mega-cap technology maintaining multi-year highs.
- Strength was quite broad, with 10 of the 11 equity sectors positive on the month, with only energy fractionally negative.

Fixed Income

- Treasury rates declined for the month, which had a positive effect for fixed income returns. However, within the municipal market, an overwhelming amount of new issue supply moved returns negative for May.
- For the YTD, interest rates are decidedly higher, forcing most returns into negative territory, with the notable exception of lower credit bonds as investors were willing to take on the additional credit risk.

Real Assets

- Real Estate continues to struggle this year, with elevated interest rates putting pressure on both valuations and business fundamentals.
- Energy price growth remains muted. However, at current price levels, energy companies remain highly cash-flow positive and possess compelling valuations.



Source: Bloomberg as of May 31, 2024.

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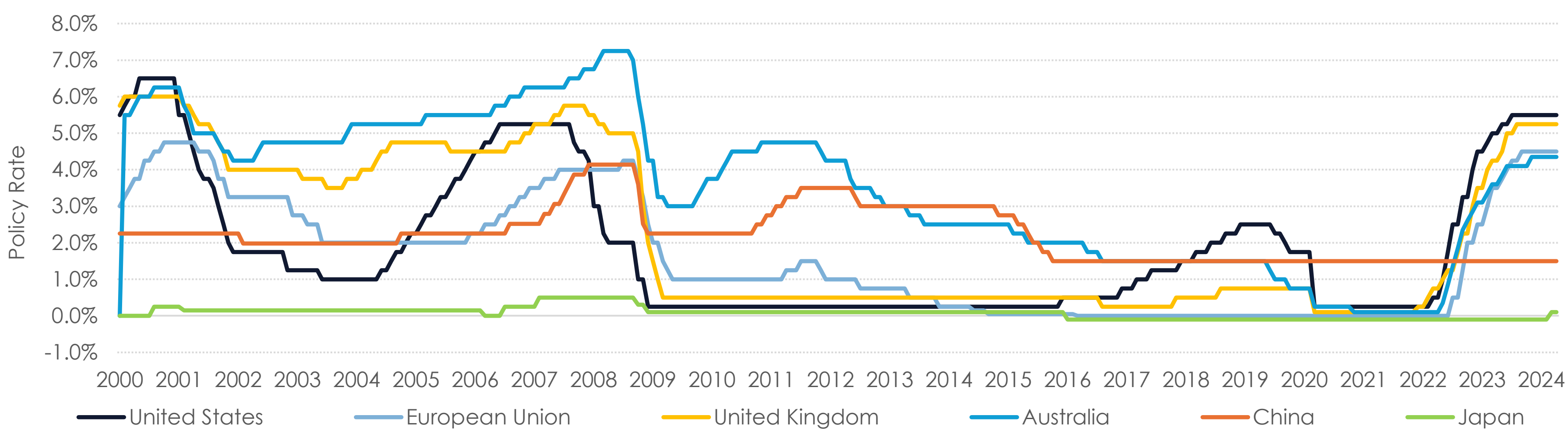
Macroeconomic Overview

	Yr End 2023 %	Prior Period %	Recent Period %	YTD Change %
GDP* (YoY Change)	3.10	2.90	3.10	(0.20)
Conference Board - LEI	(0.30)	(0.60)	(0.30)	(0.30)
Unemployment Rate	3.70	3.90	3.80	0.20
CPI (YoY Change)	3.40	3.40	3.50	0.00
CPI ex. Food & Energy	3.90	3.60	3.80	(0.30)
PCE	2.94	2.75	2.81	(0.19)
Effective Fed Funds Rate	5.33	5.33	5.33	0.00
10-Year U.S. Treasury	3.88	4.50	4.51	0.62

- ***GDP:*** GDP was revised down from 1.6% to 1.3% for Q1. This is the lowest reading since Q2 of 2022.
- ***CPI:*** CPI was in line with expectations. However, following previous stronger-than-expected prints, it will likely take additional benign inflation readings to get the Fed feeling comfortable enough to cut rates.
- ***Unemployment:*** Payrolls came in lower than expected and the unemployment rate ticked up slightly. The Fed may view this as a positive but will still look to inflation signals prior to making a cut to the discount rate.

Recent Global Central Bank Policy Rates History: Coordinated Responses to Global Economic Threats*



Source: Bloomberg as of April 30, 2024. *GDP reported quarterly.

**Source: Federal Reserve, ECB, BOE, RBA, PBOC, BOJ as of May 22, 2024.

U.S. Equity Markets

	MTD %	YTD %	1 Yr %
Communications Services	6.58	20.88	41.67
Technology	10.08	17.31	38.11
Utilities	8.97	15.82	15.95
Energy	(0.39)	12.38	25.02
S&P 500	4.96	11.30	28.08
Financials	3.16	11.15	33.54
Consumer Staples	2.45	9.18	11.82
Industrials	1.65	8.77	29.63
Materials	3.22	7.30	24.40
Health Care	2.38	5.78	14.32
Consumer Discretionary	0.30	0.73	20.76
Real Estate	5.08	(4.37)	9.28

QTD (%)

	Value	Core	Growth
Large	-1.2	0.3	1.5
Mid	-1.8	-2.7	-4.8
Small	-2.0	-2.4	-2.8

YTD (%)

	Value	Core	Growth
Large	7.6	10.6	13.1
Mid	6.2	5.7	4.2
Small	0.8	2.7	4.6

Best

- Communications: Mega-cap communications names Meta and Netflix were up more than 8% for the month and 30% for the year.
- Technology: Following a disappointing April, technology stocks came ripping back in May. Apple rose more than 10% on the month, with NVIDIA up more than 25% following strong first quarter earnings.

Worst

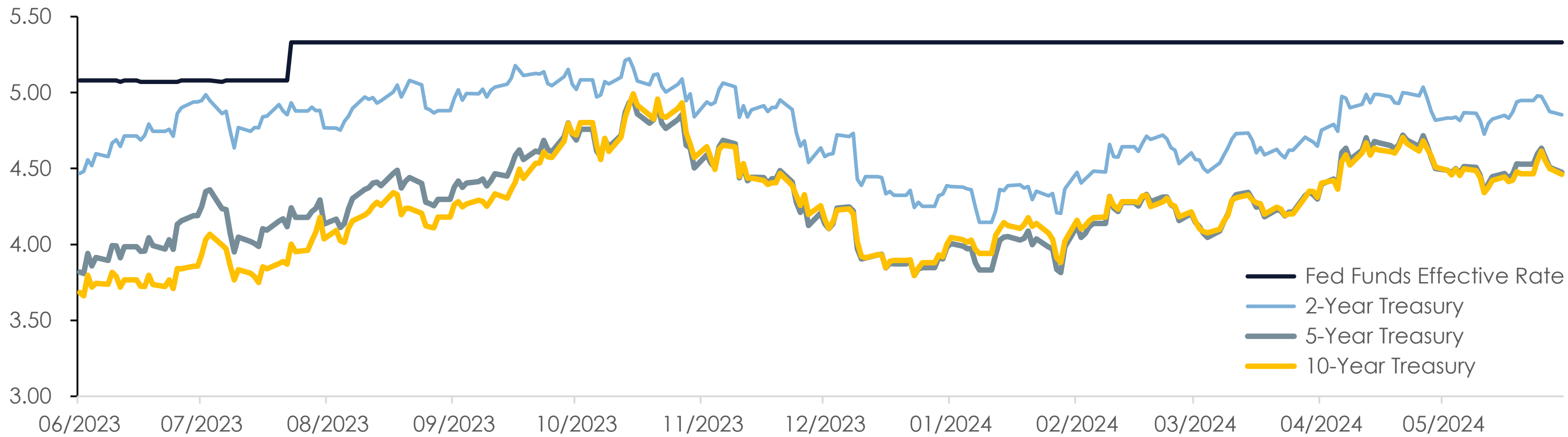
- Energy: While commodity prices broadly eased in May, leading to a 2-7% pull back in most energy names, we believe weakness will be short lived given the strength of the broader economy.

- ***Market Capitalization:*** Large-cap names continued to outperform mid- and small-cap stocks. Mega-cap technology rallied strongly for the month as earnings continued to impress and margins remained at multi-year highs.
- ***Style:*** While value names have continued to broadly lag growth stocks, utilities and financials have rallied nicely this year, with utilities up more than 15% and financials 11% YTD.

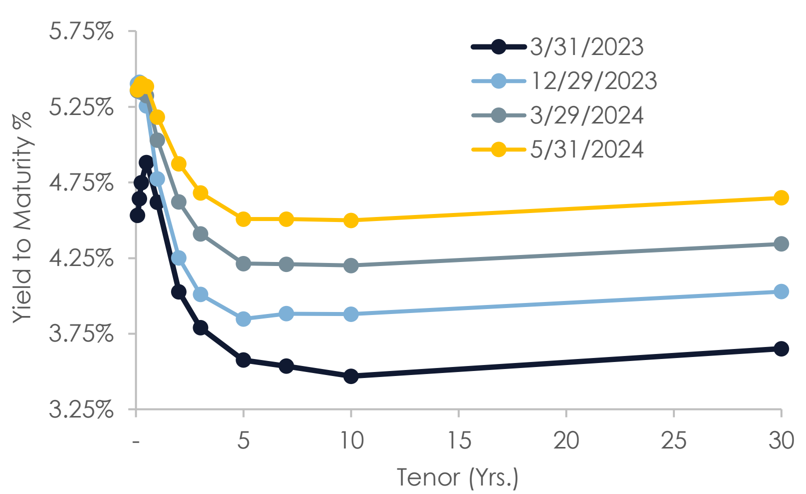
Source: Bloomberg as of May 31, 2024.

Fixed Income

Fed Funds Rate & Treasury Yields



U.S. Treasury Yield Curve

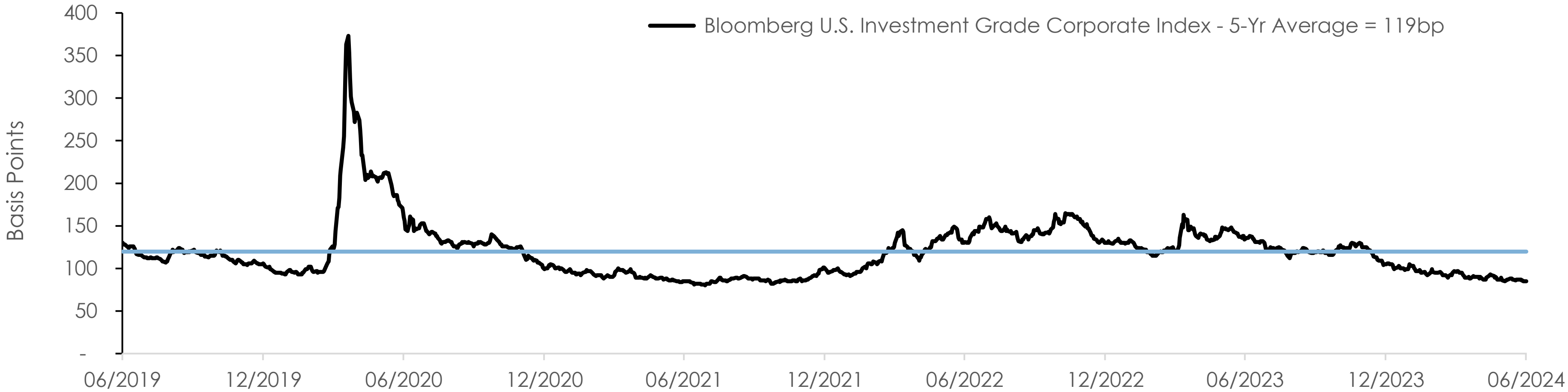


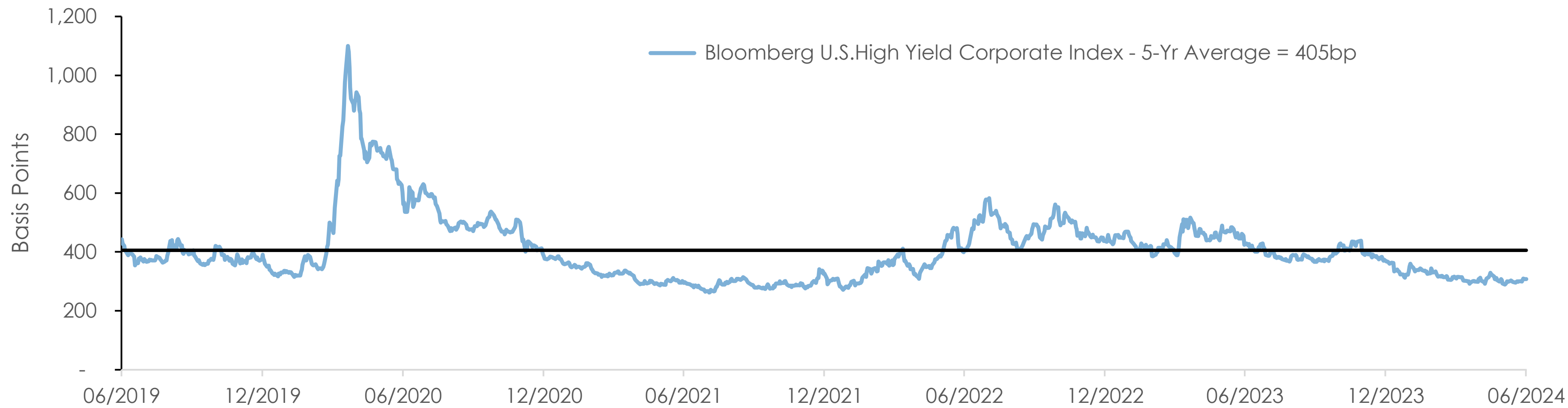
- While the general consensus is that the next move will be a cut in the fed funds rate, the timing of such action is in flux, alternating between the July and September FOMC meeting dates.
- In May, Treasury yields moved lower for longer maturity bonds, from 10bp to 12bp, as recent inflation data came in slightly lower than expected. This is also a result of Chair Powell and other Fed officials expressing confidence in the Fed's ability to control inflation.
- For the year, however, rates are significantly higher. Towards the end of 2023, the market erroneously priced in an aggressive easing path for 2024. That has since been reversed, forcing yields higher across the Treasury curve.

Source: Bloomberg as of May 31, 2024.

Fixed Income (cnt'd)

Investment Grade and High Yield Corporate Bond Spreads: Near the Tightest It Has Been in 3 Years

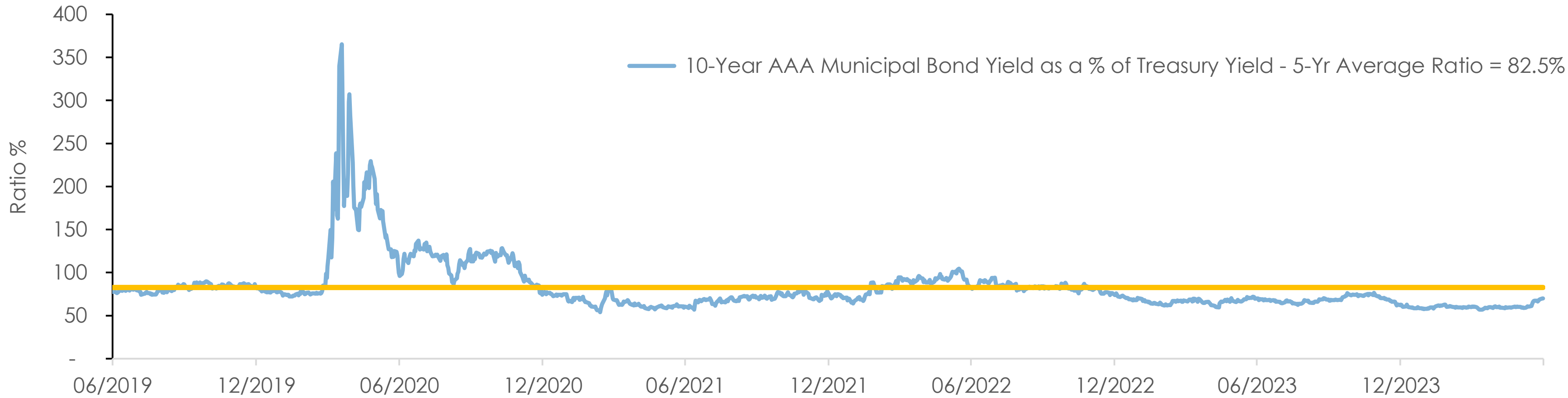


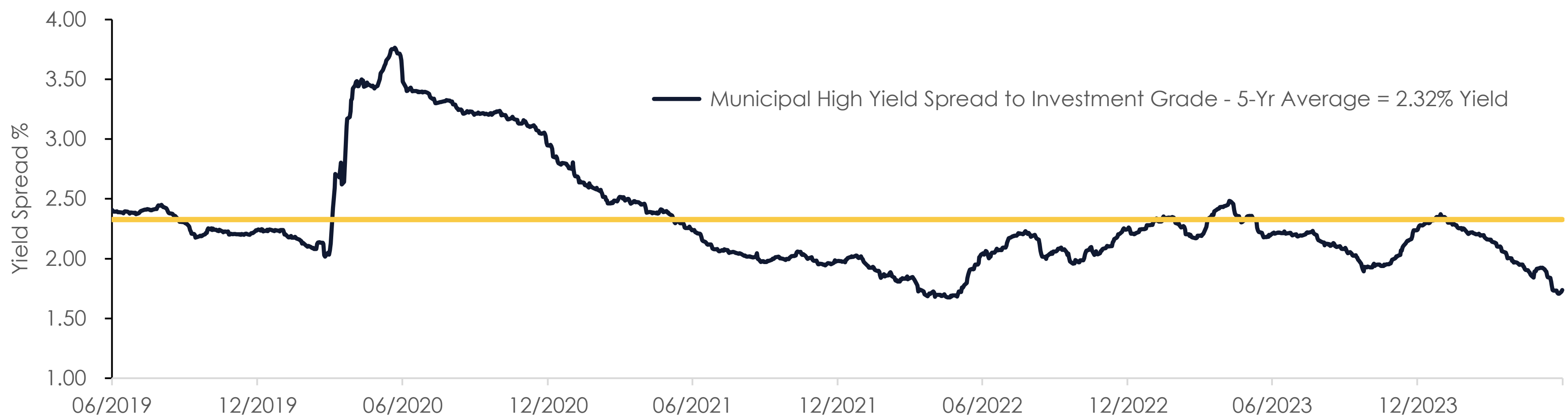


Source: Bloomberg as of May 31, 2024.

Fixed Income (cnt'd)

Investment Grade and High Yield Municipal Bond Spreads: High Yield Spreads at 3-Year Lows





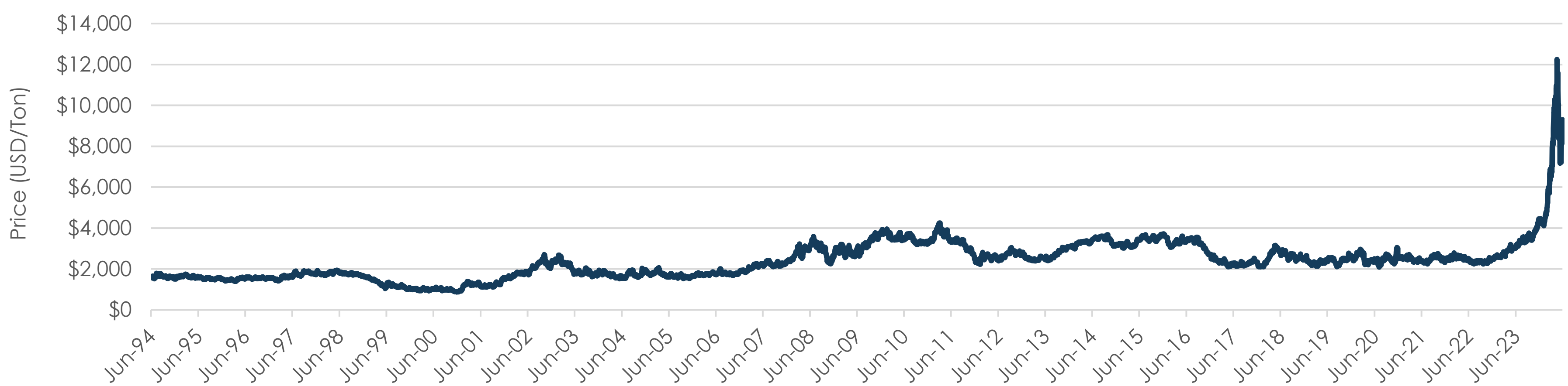
Source: Bloomberg as of May 31, 2024.

Real Assets

	Price USD	MTD %	YTD %	1 Yr %
Real Assets				
FTSE NAREIT	680.41	4.59%	-2.94%	10.12%
FTSE NAREIT - Timberland	154.20	1.05%	-11.78%	6.58%
Bloomberg Commodity Index	102.99	1.30%	4.41%	5.12%
Crude Oil (WTI) [bbl.]	76.99	-5.28%	6.98%	17.51%
Natural Gas [MMBtu]	2.59	11.56%	-2.45%	-20.40%
Copper [lb.]	10,040.00	0.49%	17.30%	24.12%
Gold [oz.]	2,327.33	1.80%	12.81%	18.58%
Silver [oz.]	30.41	15.65%	27.79%	29.48%
Bitcoin	67,630.41	12.96%	59.10%	149.40%
Ethereum	3,790.11	27.94%	66.06%	103.13%

- ***Summary:*** Strength in the U.S. economy continues to keep commodity prices elevated. While gains in energy prices remain muted due to the impact of U.S. energy independence, a number of cyclical commodities have made notable moves, with some breaking out to new all-time highs.
- ***Silver:*** After years of underperformance, gold's little brother has finally woken up, more than doubling gold's performance YTD.
- ***Copper:*** Copper has quietly rallied to a new all-time high this year, with LME inventories shrinking to their lowest level in nearly 20 years.

Dark Times Over for Chocolate Lovers? Cocoa Prices Dramatically Cool Off



Source: Bloomberg as of May 31, 2024.

Financial Markets Performance

	Price USD	MTD %	QTD %	YTD %	1 Yr %	3 Yr %	5 Yr %
Global Equity							
MSCI ACWI	785.54	4.12%	0.72%	9.10%	24.02%	5.59%	12.22%
U.S. Equity							
S&P 500	5,277.51	4.96%	0.67%	11.30%	28.08%	9.54%	15.77%
Russell 1000	2,882.75	4.71%	0.25%	10.57%	27.91%	8.43%	15.39%
Russell Mid Cap	3,268.41	2.85%	-2.71%	5.66%	23.01%	3.07%	11.04%
Russell 2000	2,070.13	5.01%	-2.38%	2.68%	20.02%	-1.68%	8.57%
International Equity							
MSCI ACWI ex US	330.38	2.97%	1.18%	6.07%	17.19%	0.72%	7.37%
MSCI EAFE	2,355.67	3.96%	1.39%	7.42%	19.00%	3.55%	8.67%
MSCI Europe	173.67	5.05%	3.18%	8.46%	20.46%	4.75%	9.60%
MSCI Japan	1,713.27	1.32%	-3.69%	7.06%	18.96%	2.82%	7.92%
MSCI Emerging Markets	1,048.96	0.59%	1.02%	3.49%	12.65%	-5.94%	3.89%
Global Fixed Income							
Bloomberg US Corporate High Yield	2,520.25	1.10%	0.15%	1.63%	11.20%	1.77%	4.19%
Bloomberg Municipal Bond Index	1,296.65	-0.29%	-1.53%	-1.91%	2.67%	-1.29%	0.93%
Bloomberg US Corporate Total Return	3,185.11	1.87%	-0.72%	-1.12%	4.39%	-2.71%	0.98%
Bloomberg US Treasury Total Return	2,234.91	1.46%	-0.90%	-1.85%	-0.22%	-3.37%	-0.67%
Bloomberg Global Aggregate	455.83	1.31%	-1.25%	-3.30%	0.77%	-5.81%	-1.62%
Bloomberg U.S. Aggregate	2,126.49	1.70%	-0.87%	-1.64%	1.30%	-3.10%	-0.17%
Bloomberg Gov't/Credit	2,470.25	1.60%	-0.82%	-1.53%	1.52%	-3.06%	0.05%
Bloomberg High Yield Municipal Bond Index	437.99	0.76%	0.14%	1.65%	8.17%	-0.27%	2.61%

Source: Bloomberg as of May 31, 2024.

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2024 Tactical Views

Asset Class	Underweight		Neutral		Overweight
Cash				●	
Fixed Income			●		
U.S. Government			●		
Corporates			●		
Municipals				●	
High Yield			●		
Developed Int'l		●			
Emerging Markets		●			
Equities			●		
U.S. Large Cap					●
U.S. Mid Cap				●	
U.S. Small Cap				●	
Developed Int'l		●			
Emerging Markets		●			
Real Assets			●		
Commodities			●		
Timberland			●		
Private Real Estate			●		
Alternatives			●		
Hedge Funds			●		
Private Equity					●
Private Debt			●		

Equity Sectors	Underweight		Neutral		Overweight
Energy				●	
Healthcare			●		
Consumer Discretionary			●		
Industrials			●		
Technology				●	
Communications			●		
Financials	●				
Real Estate	●				
Utilities	●				
Materials			●		
Consumer Staples		●			

- **Equities:** We remain neutral equity positioning with a domestic overweight.
- **Equity Sectors:** Energy remains our strongest overweight sector given a positive macro backdrop and good balance sheet fundamentals in the space.
- **Real Assets:** We are neutral on real assets but considering a slight overweight in the future. We may be seeing a longer demand cycle ahead given needed infrastructure expenditures, which have a long lead time.

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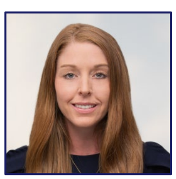

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Disclosures & Definitions

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When referencing asset class returns or statistics, the following indices are used to represent those asset classes, unless otherwise notes. Each index is unmanaged, and investors can not actually invest directly into an index:

TIPS: Bloomberg Global Inflation-Linked: U.S. TIPS Total Return Index Unhedged
Municipals 5-Year: Bloomberg Municipal Bond 5 Year (4-6) Total Return Index Unhedged USD
Core Bond: Bloomberg US Aggregate Total Return Index USD
High Yield Municipals: Bloomberg Muni High Yield Total Return Index Value Unhedged USD
High Yield: Bloomberg US Corporate High Yield Total Return Index USD
U.S. Long Duration: Bloomberg US Aggregate Government & Credit - Long
Foreign Bond: Bloomberg Global Aggregate ex-USD Total Return Index Value USD (50/50 blend of hedged and unhedged)
Real Assets: S&P Real Assets
U.S. Large Cap: Russell 1000 Total Return Index
U.S. Small Cap: Russell 2000 Total Return Index
International Developed: MSCI EAFE Net Total Return USD Index
Emerging Markets: MSCI Emerging Markets Net Total Return USD Index
U.S. Equity REITs: FTSE Nareit Equity REITs Total Return Index USD
Commodities: Bloomberg Commodity Total Return Index
Hedge Funds: Hedge Fund Research HFRI Fund of Funds Composite Index
Foreign Bond: Bloomberg Global Aggregate x USD Total Return Unhedged
U.S. Core Bond: Bloomberg U.S. Aggregate Total Return Index USD
U.S. High Yield: Bloomberg US Corporate High Yield Total Return Index USD
U.S. MBS: Bloomberg U.S. MBS (30Y) Total Return Index
U.S. All Cap: Russell 3000 Total Return Index
U.S. Large Cap: Russell 1000 Total Return Index
U.S. Small Cap: Russell 2000 Total Return Index
US Value: Russell 3000 Value Total Return Index
US Growth: Russell 3000 Growth Total Return Index
Int'l Developed All Cap: MSCI EAFE IMI Net Total Return USD Index
Int'l Developed Large Cap: MSCI EAFE Large Cap Net Total Return USD Index
Int'l Developed Small Cap: MSCI EAFE Small Cap Net Total Return USD Index
Int'l Developed Value: MSCI EAFE Value Net Total Return USD Index
Int'l Developed Growth: MSCI EAFE Growth Net Total Return USD Index
EM All Cap: MSCI Emerging Markets IMI Net Total Return USD Index
EM Large Cap: MSCI Emerging Markets Large Cap Net Total Return USD Index
EM Small Cap: MSCI Emerging Markets Small Cap Net Total Return USD Index
EM Value: MSCI Emerging Markets Value Net Total Return USD Index
EM Growth: MSCI Emerging Markets Growth Net Total Return USD Index

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Material Risks & Limitations

Fixed Income securities are subject to interest rate risks, the risk of default and liquidity risk. U.S. investors exposed to non-U.S. fixed income may also be subject to currency risk and fluctuations.

Cash may be subject to the loss of principal and over longer period of time may lose purchasing power due to inflation.

Domestic Equity can be volatile. The rise or fall in prices take place for a number of reasons including, but not limited to changes to underlying company conditions, sector or industry factors, or other macro events. These may happen quickly and unpredictably.

International Equity can be volatile. The rise or fall in prices take place for a number of reasons including, but not limited to changes to underlying company conditions, sector or industry impacts, or other macro events. These may happen quickly and unpredictably. International equity allocations may also be impact by currency and/or country specific risks which may result in lower liquidity in some markets.

Real Assets can be volatile and may include asset segments that may have greater volatility than investment in traditional equity securities. Such volatility could be influenced by a myriad of factors including, but not limited to overall market volatility, changes in interest rates, political and regulatory developments, or other exogenous events like weather or natural disaster.

Private Equity involves higher risk and is suitable only for sophisticated investors. Along with traditional equity market risks, private equity investments are also subject to higher fees, lower liquidity and the potential for leverage that may amplify volatility and/or the potential loss of capital.

Private Credit involves higher risk and is suitable only for sophisticated investors. These assets are subject to interest rate risks, the risk of default and limited liquidity. U.S. investors exposed to non-U.S. private credit may also be subject to currency risk and fluctuations.

Private Real Estate involves higher risk and is suitable only for sophisticated investors. Real estate assets can be volatile and may include unique risks to the asset class like leverage and/or industry, sector or geographical concentration. Declines in real estate value may take place for a number of reasons including, but are not limited to economic conditions, change in condition of the underlying property or defaults by the borrow.

Marketable Alternatives involves higher risk and is suitable only for sophisticated investors. Along with traditional market risks, marketable alternatives are also subject to higher fees, lower liquidity and the potential for leverage that may amplify volatility or the potential for loss of capital. Additionally, short selling involved certain risks including, but not limited to additional costs, and the potential for unlimited loss on certain short sale positions.

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