Parkside Financial
BANK & TRUST

Monthly Market Update – May 2021

Global Economy

The month of May saw significantly higher than expected US inflation results as well as an underwhelming jobs report. Weak payroll growth was marked by a notable increase in total job openings, resulting in nearly half of US states ending participation in the Federal government's extended unemployment program over fears it is a disincentive to work. Fed meeting minutes hinted at more flexibility on prospective tapering than prior meetings, but Fed officials continue to seek to calm inflation concerns as transitory. US virus cases furthered their downward trend as the country hit the milestone of 50% of the population receiving a dose of vaccine. Global cases have also turned a corner, with India's massive surge waning and Europe making progress with vaccinations. Inflation and jobs data will continue to carry the potential for disruption to market sentiment, but reopening momentum points to continued strong global growth.

The Federal Open Market Committee did not meet in May, but the release of April's meeting minutes provided further insights into the Committee's discussions around tapering and inflation. The minutes show Fed officials continue to take an optimistic view of inflation, anticipating that near-term price pressures will fade. Additionally, several participants expressed support for beginning to discuss a plan for tapering asset purchases if the economy continued its rapid progress towards committee goals. For now, the Fed remains dedicated to its current rate of asset purchases of $120 billion per month, and the bank's balance sheet expanded to $7.9 trillion.

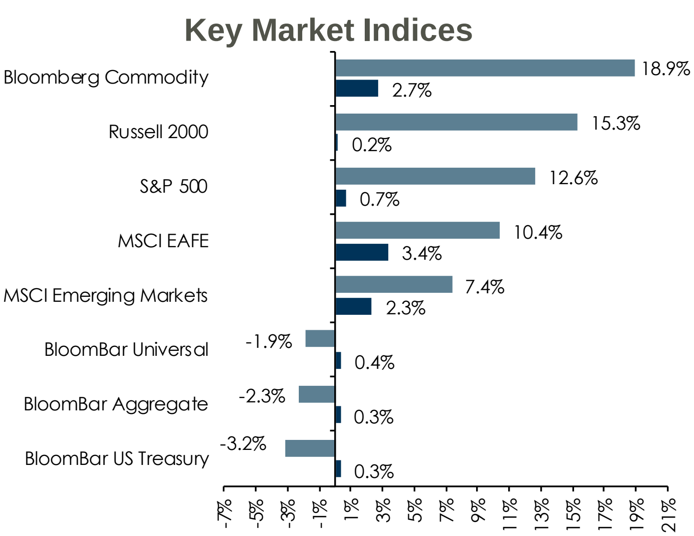
The second estimate of 1Q-21 real GDP was unchanged from the first, with a rate of +6.4% annualized. Upward revisions to consumer spending and nonresidential fixed investment were offset by downward revisions to exports and private inventory investment. The Atlanta Fed's quantitative GDP model currently forecasts continued robust growth of 10.3% in 2Q-21, in-line with analysts' consensus estimates which range from 7% - 11%.

Weekly initial unemployment claims continued to hit pandemic-era lows, falling below 400,000 by the end of May. The monthly jobs report was moderately worse than expected but a large improvement over April, with 559,000 jobs added. Unemployment declined to 5.8%, however, that drop also came alongside an unexpected drop in the labor force participation rate to 61.6% from 61.7%. Core CPI rose to +3.0% year-over-year, with a supply/demand imbalance and base effects off pandemic lows contributing to the increase. Core PCE also rose to +3.1% year-over-year through April.

	Current	Dec-20
US GDP (%)	6.40	4.00
US Unemployment (%)	5.80	6.70
CPI (Core) (%)	3.00	1.60
Fed Funds (%)	0.00 – 0.25	0.00 – 0.25
10 Year UST Yld (%)	1.60	0.92
S&P 500 Div Yld (%)	1.37	1.57
S&P 500 P/E (Trailing)	29.73	29.92
Gold/oz.	$1,902.50	$1,895.10
Oil (Crude)	$66.32	$48.52
Gasoline (Natl Avg)	$3.11	$2.33
USD/Euro	$1.22	$1.22
USD/GBP	$1.42	$1.37
Yen/USD	¥109.58	¥103.25

Source: Bloomberg

Global Markets



Source: Bloomberg

Returns for major equity indices were positive in May with mixed market sentiment, as investors balanced unexpectedly high inflation with growing optimism around reopening the economy. The S&P 500, which represents large US-based entities, returned +0.7% for the month. Sectors benefitting from inflation and a rebounding economy led the way, including Materials (+5.0%), Energy (+4.9%), and Financials (+4.7%), while Consumer Discretionary (-3.9%) Utilities (-2.7%), and I.T. (-1.1%) lagged. The Russell 2000, representing small cap stocks, returned +0.2% in May. Energy (+15.0%), Materials (+9.0%), and Communication Services (+8.0%) outperformed with Health Care (-6.1%) and Utilities (-2.2%) lagging. In-line with inflation concerns, value significantly outperformed growth across the market cap spectrum.

In the broad international developed markets, the MSCI EAFE index returned +3.4% for the month. There was minimal dispersion among sectors, with Consumer Discretionary (+5.2%), Financials (+5.1%), and Consumer Staples (+4.4%) leading while Communication Services (-0.2%), and I.T. (+0.2%) lagged. Among developed countries, Austria (+12.8%), Italy (+6.6), and Portugal (+5.8%) were the top performers, with the only negative returns coming from New Zealand (-8.2%), Israel (-2.4%), and Singapore (-0.1%). Most others were generally in the +2.0% to +5.0% range.

Emerging market stocks, as represented by the MSCI Emerging Markets index, outperformed US markets but underperformed other large cap developed markets at +2.3%. Broadly, Latin America performed well while Asia lagged. At the country level, Hungary (+16.0%), Poland (+13.7%), and Czech Republic (+10.6%) were the best performers in the month while Egypt (-5.9%), Chile (-3.3%), and Malaysia (-1.9%) lagged.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, performed in-line with equities with a +1.9% return. The energy-related Alerian MLP also outperformed other equities at +7.6%. The near-month NYMEX oil returned 4.3% as oil hit its highest price in over two years. Gold was up +7.6%, moving to positive YTD performance. The diversified Bloomberg Commodity index was up 2.7% and is up +46.2% for the past one-year.

Global Markets (continued)

US Treasury yields drifted slightly lower and have been relatively range-bound, with the 10-year rate trading in a 20 bps range over the last two months. The overall UST complex had a positive return for the month at +0.3%, with trailing one-year returns at -3.8%. Sovereign yields outside of the US were mixed but little changed, and the global stock of negative yielding debt rose slightly to $13.1 trillion from $13.0 trillion.

The BloomBar US Aggregate Bond index matched risk-free US Treasuries on an absolute basis and narrowly outperformed on a duration-matched basis with a return of +0.3% in May. The 12-month performance remains negative with a -0.4% return. Continued inflows into the investment grade bond market and momentum from reopening the economy contributed to spreads tightening across most market segments, with investment grade corporate spreads moving 4 bps tighter. With lower US Treasury yields and tighter spreads, the benchmark's yield-to-worst fell to 1.50%.

The BloomBar 1-15-Year Municipal index returned +0.1% in May. Lighter supply and strong demand contributed to muni/treasury ratios remaining near historically low levels, and supply is expected to remain muted, providing a tailwind to these ratios. Muni outlooks continue to improve on the strength of federal government spending and reopening, and further federal government support could arrive in the form of an infrastructure bill. Bipartisan negotiations on infrastructure continue, but the two sides remain far apart. It is widely expected a bill will pass in some form, although potentially without bipartisan support.

The BloomBar US Corporate High Yield index returned +0.3% for the month. Supply remained heavy with year-to-date issuance on a record-setting pace. Spreads widened 5 bps as investors weighed accelerating growth and earnings against the rise in inflation. There were no major defaults in May, marking the lightest first five months of a year for defaults since 2011. All-in yields rose 4 bps to 4.03%. Emerging Market debt was again a performance leader in the fixed income universe, helped by a weaker dollar and rising commodity prices.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-20
Japan	0.08	0.02
Germany	-0.19	-0.57
France	0.17	-0.34
United Kingdom	0.79	0.19
Spain	0.46	0.04
United States	1.60	0.92
Italy	0.91	0.54
Mexico	6.58	5.53
Brazil	9.13	6.91

Source: Bloomberg

Indices Report (Periods Ending May 31, 2021)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	0.70	12.62	40.32	18.00	17.16	14.38	10.57
Russell 1000	0.47	12.14	42.66	18.43	17.46	14.41	10.72
Russell 1000 Growth	-1.38	6.32	39.92	23.02	22.07	16.98	13.04
Russell 1000 Value	2.33	18.41	44.38	12.94	12.33	11.51	8.14
Russell 2500	0.21	15.60	60.45	15.06	16.06	12.48	10.16
Russell 2000	0.21	15.30	64.56	13.06	16.01	11.86	9.42
Russell 2000 Growth	-2.86	4.10	50.14	14.48	17.57	12.76	10.55
Russell 2000 Value	3.11	27.47	79.38	10.72	13.83	10.64	8.03
Wilshire 5000 Cap Wtd	0.46	12.63	44.01	18.16	17.45	14.27	10.68
MSCI ACWI	1.61	11.06	42.48	14.43	14.77	10.16	8.07
MSCI ACWI ex US	3.20	10.12	43.39	9.42	11.39	5.84	5.37
MSCI EAFE	3.36	10.39	39.02	8.73	10.29	6.37	4.97
MSCI EAFE Local Currency	2.18	11.54	29.24	7.42	9.38	8.31	5.14
MSCI EAFE Growth	3.09	7.00	35.59	12.39	12.47	7.98	6.37
MSCI EAFE Value	3.58	13.68	42.32	4.74	7.84	4.59	3.42
MSCI Emerging Markets	2.34	7.36	51.51	10.05	14.30	4.47	6.94
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.08	0.07	0.26	2.74	1.75	1.22	2.20
BloomBar US Aggregate	0.33	-2.29	-0.40	5.06	3.25	3.29	4.39
BloomBar Gov't Bond	0.34	-3.11	-3.61	4.45	2.49	2.69	3.85
BloomBar US Credit	0.72	-2.74	3.32	6.72	4.79	4.68	5.52
BloomBar 10 Yr Municipal	0.17	0.38	4.14	5.29	3.56	4.38	4.81
BloomBar US Corp High Yield	0.30	2.25	14.96	7.11	7.39	6.41	7.41
FTSE World Govt Bond	0.89	-3.74	2.49	3.86	2.62	1.55	3.36
BloomBar Global Aggregate	0.94	-2.35	4.47	4.38	3.11	2.15	3.71
BloomBar Multiverse	0.97	-2.15	5.03	4.47	3.32	2.32	3.86
Real Assets							
NCREIF Property	0.00	1.72	2.63	4.90	5.81	8.83	7.01
NFI ODCE Net	0.00	1.89	1.48	3.97	5.26	8.67	5.34
FTSE NAREIT US Real Estate	1.02	18.85	38.61	10.73	7.20	8.76	7.25
Bloomberg Commodity	2.73	18.94	46.22	2.05	2.85	-5.11	-3.22
Cash and Equivalents							
US T-Bills 90 Day	0.00	0.03	0.11	1.40	1.18	0.63	1.12

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