

May 2020 Market Update

Equities continued their rally in May with U.S. equities gaining 4.9% and international equities up 3.6%. U.S. equities are 10.2% below February's all-time high and international equities are 17.6% shy of their all-time high set in January 2018. Bonds were up 0.5% in May and real estate pulled out a marginal 0.2% gain. Real estate has been the most disappointing asset class, still down over 20% for the year.

The rally has been funded by unprecedented fiscal and monetary stimulus and an optimistic outlook on the COVID-19 crisis. The personal savings rate in April leapt to 33.0%, much higher than the typical 5-8% range, meaning that a proportion of personal income is bolstering the stock market.

One comment we hear frequently is the coronavirus is accelerating long-term trends already in place and the stock market is no exception. Market sectors that propelled returns in the last few years are this year's winners. The tech sector is the top sector in the market, up 7.3% this year, with consumer discretionary second at 2.1% and healthcare third at 1.6%. Large cap stocks are down 5.0% YTD while small caps are down 20.8%. Growth stocks are up 3.7% while value is down 14.7% (S&P 500 components). U.S. stocks have outperformed international stocks by 9.0% year-to-date. This reflects trends that have generally been in place for the last 10 years or more.

What to do? Maintain a long-term outlook and allocate between stocks and bonds accordingly. Short-term needs in bonds, long-term needs in stocks. Also consider increasing allocations to cheaper overseas stocks.

Table 1: Benchmark Index Performance as of May 31, 2020

<i>Benchmark Index</i>	<i>1 Mo</i>	<i>YTD</i>	<i>12 Mo</i>	<i>5 Yr Ann</i>
U.S. Equities	4.9%	-5.9%	11.4%	9.4%
International Equities	3.6%	-14.9%	-3.4%	0.9%
Fixed Income	0.5%	5.5%	9.4%	3.9%
US Real Estate	0.2%	-20.7%	-14.6%	2.3%

Chart 1: 2020 Year-to-Date Market Index Performance

