Stocks move higher in May despite a late glitch.

Monthly snapshot

- Global equity markets rallied for much of May 2024, as signs of slowing inflation and weaker-than-expected economic data bolstered investors' optimism that the Federal Reserve (Fed) and other major central banks will pivot to a rate-cutting cycle by the end of summer. However, stocks weathered a downturn during the last week of the month after Minneapolis Fed President Neel Kashkari raised the possibility of interest-rate hikes.
- Global fixed-income assets also garnered positive returns in May. U.S. Treasury yields moved lower for all maturities of six months or greater. (Bond prices move inversely to yields).
- Investors have dramatically scaled back their expectations regarding the number of rate cuts the major central banks will implement this year.

Global equity markets rallied for much of May 2024, as signs of slowing inflation and weaker-than-expected economic data bolstered investors' optimism that the Federal Reserve (Fed) and other major central banks will pivot to a rate-cutting cycle by the end of summer. However, stocks weathered a downturn during the last week of the month after Minneapolis Fed President Neel Kashkari raised the possibility of interest-rate hikes. At the Barclays-CEPR International Monetary Policy Forum in London on May 28, Kashkari commented, "I think the odds of us raising rates are quite low, but I don't want to take anything off the table." Kashkari is not a voting member of the Federal Open Market Committee (FOMC), the Fed's monetary policymaking body responsible for setting the federal-funds rate.

The Nordic countries were the strongest performers among developed equity markets in May, led by Norway and Finland. North America also posted a notable gain attributable mainly to a strong rally in the U.S. The Far East recorded a positive return for the month, but was the primary developed-market laggard due to relative weakness in Japan and Hong Kong. Europe was the top performer within emerging markets for the month, attributable primarily to strength in the Czech Republic. Conversely, Latin America posted a negative return and was the most notable underperformer due to weakness in Brazil.[1]

Global fixed-income assets, as measured by the Bloomberg Global Aggregate Bond Index, gained 1.3% in May. Mortgage-backed securities (MBS) were the strongest performers within the U.S. fixed-income market, followed by corporate bonds, U.S. Treasury securities, and high-yield bonds.[2] Treasury yields moved lower for all maturities of six months or greater. Yields on 2-, 3-, 5- and 10-year Treasury notes decreased 0.15%, 0.18%, 0.20%, and 0.18%, respectively, in May. The spread between 10- and 2-year notes widened from −0.35% to −0.38% over the month, and the yield curve remained inverted.[3]

[1] All equity market performance statements are based on the MSCI ACWI Index.

[2] According to the Bloomberg US Mortgage Backed Securities Index, the Bloomberg US Corporate Investment Grade Index, the Bloomberg US Treasury Index, and the Bloomberg US High Yield Index.

[3] According to the U.S. Department of the Treasury. As of May 31, 2024.

Key measures: May 2024

Equity		
Dow Jones Industrial Average	2.58%	↑
S&P 500 Index	4.96%	↑
NASDAQ Composite Index	6.98%	↑
MSCI ACWI Index (Net)	4.06%	↑
Bond		
Bloomberg Global Aggregate Index	1.31%	↑
Volatility		
Chicago Board Options Exchange Volatility Index **PRIOR MONTHLY: 15.65**	12.92	↓
Oil		
WTI Cushing crude oil prices **PRIOR MONTHLY: $81.93**	$76.99	↓
Currencies		
Sterling vs. U.S. dollar	$1.27	↑
Euro vs. U.S. dollar	$1.09	↑
U.S. dollar vs. yen	¥157.15	↓

Sources: Bloomberg, FactSet, Lipper

Global commodity prices, as measured by the Bloomberg Commodity Total Return Index, advanced 1.8% in May. The West Texas Intermediate (WTI) and Brent crude oil prices each fell 6.0% due to concerns that softening demand for gasoline could lead to lower oil prices. The New York Mercantile Exchange (NYMEX) natural gas price surged nearly 30% over the month due to strong demand and a decline in production in the U.S. The gold spot price rose 1.9% in May as the ongoing Israel-Hamas conflict prompted investors to seek "safe-haven" investments, along with weakness in the U.S. dollar. (The gold price generally moves inversely to the U.S. dollar.) Wheat prices climbed 12.5% for the month on speculation that below-average rainfall in Russia and the Southern Plains in the U.S. could lead to supply constraints.[4]

According to minutes from the FOMC's April 30-May 1 meeting, released on May 22, the members reiterated their view that the inflation rate would fall to 2% over the medium term. However, they cautioned that recent data had not boosted their confidence to convince them that there had been progress toward the 2% level. Consequently, the FOMC participants noted that "the disinflation process would likely take longer than previously thought." The members also discussed the need to maintain restrictive monetary policy for a longer period if inflation does not "show signs of moving sustainably toward 2 percent or reducing policy restraint in the event of an unexpected weakening in labor market conditions. Various participants mentioned a willingness to tighten [monetary] policy further should risks to inflation materialize in a way that such an action became appropriate."

As of the end of May, The CME Group's FedWatch Tool implied a 15% chance that the central bank will implement an initial rate cut of 25 basis points (0.25%) following its meeting on July 30-31. The FedWatch Tool provides a gauge of the markets' expectations of potential changes to the federal-funds target rate while assessing potential Fed monetary policy actions at Federal Open Market Committee (FOMC) meetings. The FedWatch Tool reflected a 49% likelihood that the central bank will cut the federal-funds rate by 25 basis points to a range of 5.00-5.25% at its meeting on September 17-18.[5] The FOMC's next meeting is scheduled for June 11-12.

[4] According to market data from The Wall Street Journal.

[5] According to CME Group. May 31, 2024.

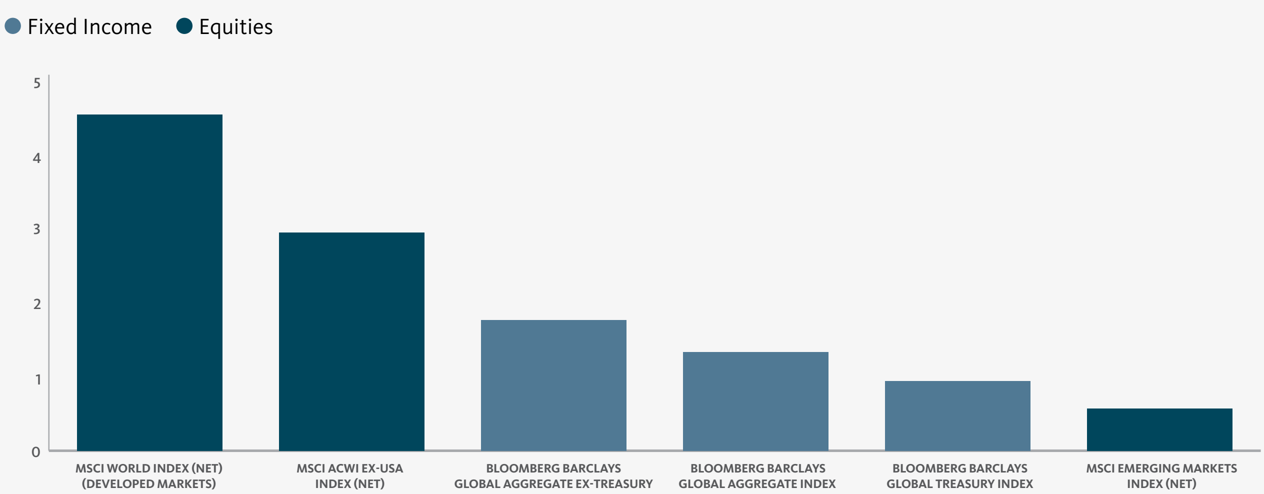
Economic data

U.S.

The Department of Labor reported that the consumer-price index (CPI) rose 0.3% in April, marginally lower than the 0.4% increase in March. The 3.4% year-over-year advance for the index was in line with market expectations, and was down slightly from the 3.5% annual rise in March. Housing and gasoline prices comprised roughly 70% of the month-over-month increase in the CPI. Housing costs rose 0.4% and 5.5% in April and year-over-year, respectively, while gasoline prices posted corresponding increases of 2.8% and 1.2% in April and the previous 12-month period. Food prices were flat in April following a 0.1% uptick in March, and rose 2.2% year-over-year, matching the annual upturn for the preceding month. The 3.6% rolling 12-month rise in core inflation, as measured by the CPI for all items less food and energy, was down 0.2 percentage point from the year-over-year upturn in March, and represented the smallest annual increase since April 2021.

According to the second estimate from the Department of Commerce, U.S. gross domestic product (GDP) grew at an annualized rate of 1.3% in the first quarter of 2024—down sharply from the 3.4% rise in the fourth quarter of 2023. The latest figure represents a decrease from the initial estimate of 1.6% for first-quarter GDP growth. The change was attributed to downward revisions in consumer spending, private inventory investment (a measure of the changes in values of inventories from one time period to the next), and federal government spending. This was partly offset by upward revisions to state and local government spending, non-residential fixed investment (purchases of both nonresidential structures and equipment and software), residential fixed investment (purchases of private residential structures and residential equipment that property owners use for rentals), and exports.

Major Index Performance in May 2024 (Percent Return)



Sources: FactSet, Lipper

U.K.

The Office for National Statistics (ONS) reported that inflation in the U.K., as measured by the CPI, rose 0.3% in April, down from the 0.6% increase in March. The CPI's 2.3% year-over-year advance was significantly lower than the 3.2% annual upturn for the previous month. The largest contributors to the 12-month rise in inflation included alcohol and tobacco, as well as health care. These more than offset declines in costs for housing and household services, and furniture and household goods. Core inflation, which excludes volatile food prices, rose at an annual rate of 3.9% in April, down from the 4.2% year-over-year increase in March.[6]

According to the initial estimate of the ONS, U.K. GDP grew 0.4% in March 2024 (the most recent reporting period), following a 0.2% increase in February. GDP grew 0.6% over the three-month period ending March 31. Output in the production and services sectors rose 0.5% and 0.2%, respectively, in March, while construction output fell 0.4%.[7]

Eurozone

Eurostat pegged the inflation rate for the eurozone at 2.4% for the 12-month period ending in April, matching the annual increase in March. Costs in the services sector rose 1.6% for the period. While prices for food, alcohol and tobacco were up 0.6% year-over-year in April, the pace of acceleration slowed considerably from the 2.6% annual rate for the previous month. Energy prices fell 0.6% over the previous 12 months following a 1.8% annual decline in March. Core inflation, which excludes volatile energy and food prices, rose at an annual rate of 2.7% in April, down 0.2 percentage point from the 2.9% year-over-year increase in March.[8]

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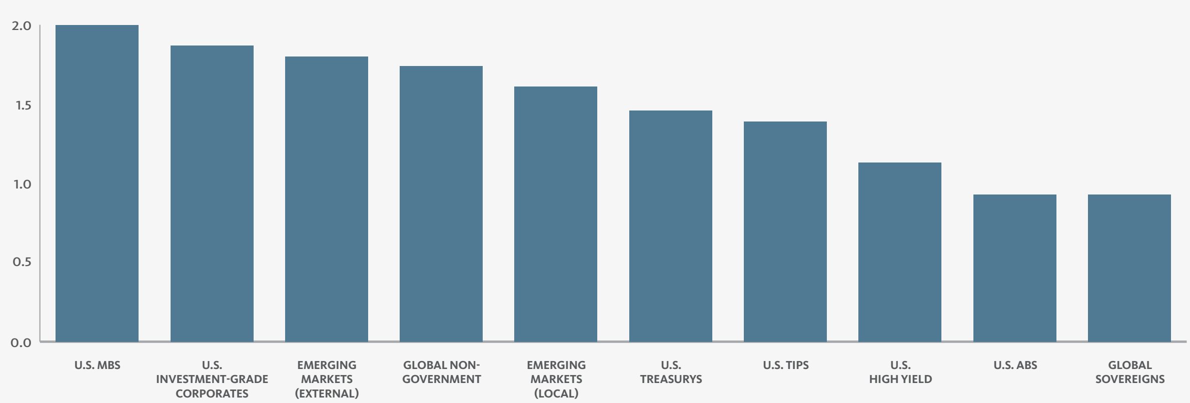
[6] According to the ONS. May 22, 2024.

[7] According to the ONS. May 10, 2024.

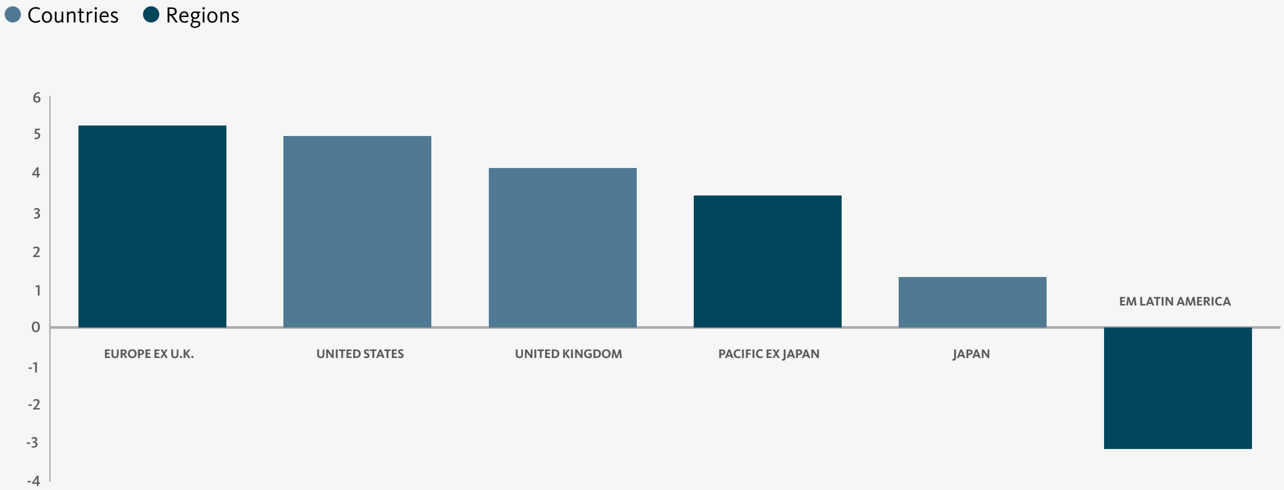
[8] According to Eurostat. May 17, 2024.

Fixed-Income Performance in May 2024 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Fixed-Income Performance Exhibit" in the Index descriptions section for more information.

Regional Equity Performance in May 2024 (Percent Return)



Sources: FactSet, Lipper. See “Corresponding Indexes for Regional Equity Performance Exhibit” in the Index descriptions section for more information.

Eurostat also reported that eurozone GDP edged up 0.3% in the first quarter of 2024, following a flat reading for the fourth quarter of 2023, and was up 0.4% year-over-year. The economies of Ireland, Hungary, and Lithuania were the strongest performers for the first quarter, expanding 1.1%, 0.8%, and 0.8%, respectively. Conversely, Sweden’s GDP ticked down 0.1% during the quarter.[9]

Central banks

During an appearance at the Peterson Institute for International Economics in Washington, D.C., on May 21, Fed Governor Christopher J. Waller acknowledged that inflation has been stickier than the central bank had anticipated. However, he noted that “more recent data on the economy indicate that restrictive monetary policy is helping to cool off aggregate demand and the inflation data for April suggest that progress toward 2 percent has likely resumed. Central bankers should never say never, but the data suggests that inflation isn’t accelerating, and I believe that further increases in the policy rate are probably unnecessary.” Peterson noted that data for April indicated that the economy may be cooling, citing flat retail sales growth, declines in manufacturing and business activity, as well as a slowdown in the labor market.

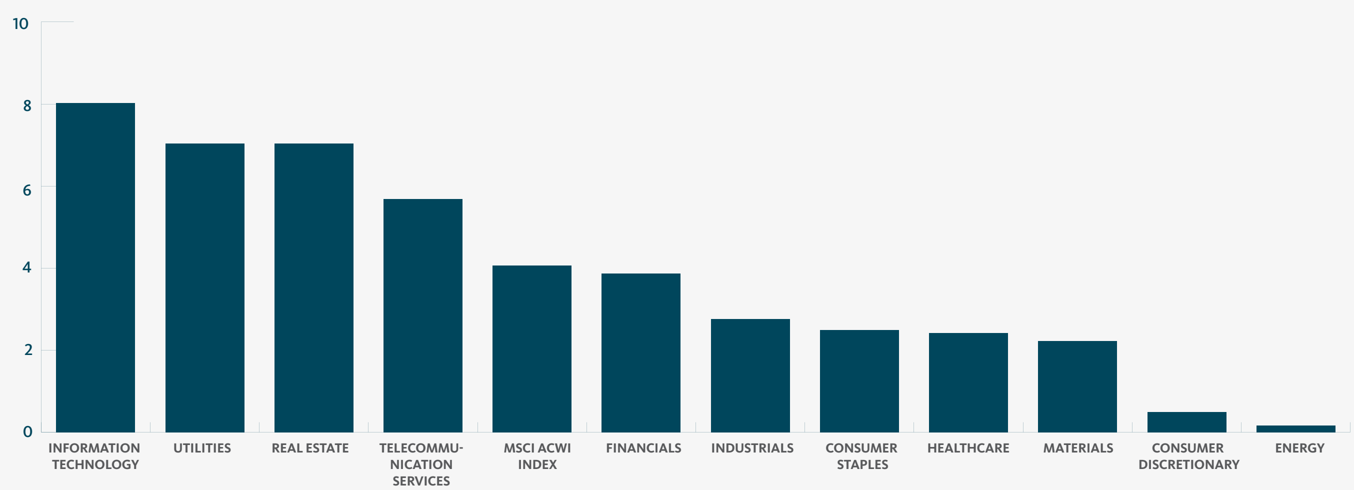
- The Bank of England (BOE) left the Bank Rate unchanged at a 15-year high of 5.25% following its meeting on May 8. In its announcement of the rate decision, the BOE commented, “Monetary policy will need to remain restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term in line with the [Monetary Policy Committee’s] remit. The Committee has judged since last autumn that monetary policy needs to be restrictive for an extended period of time until the risk of inflation becoming embedded above the 2% target dissipates.” The BOE cited several inflationary pressures, including the tight labor market, wage growth, and services price inflation.

[9] According to Eurostat. April 30, 2024.

- The European Central Bank (ECB) left its benchmark interest rate unchanged at 4.50% following its meeting on April 11, but left the door open for possible rate cuts in the not-to-distant future. In a statement announcing the rate decision, the ECB's Governing Council noted that its actions going forward "will ensure that its policy rates will stay sufficiently restrictive for as long as necessary. If the Governing Council's updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission were to further increase its confidence that inflation is converging to the target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction." The ECB's statement boosted hopes that the central bank will pivot to rate cuts at its next meeting in early June.

In its "Summary of Opinions at the Monetary Policy Meeting" of April 25-26, released on May 9, the Bank of Japan (BOJ) noted, "Japan's economy has recovered moderately, although some weakness has been seen in part. It is likely to keep growing at a pace above its potential growth rate, as a virtuous cycle from income to spending gradually intensifies." Regarding monetary policy, the central bank commented, "If the outlook for economic activity and prices will be realized and underlying inflation will increase, the Bank will adjust the degree of monetary accommodation, while it anticipates that accommodative financial conditions will be maintained for the time being." The BOJ maintained its benchmark interest rate in a range of 0.0% to 0.1% after its meeting in late April. The central bank's next meeting is scheduled for June 13-14.

Global Equity Sector Performance in May 2024 (Percent Return)



Sources: FactSet, Lipper. MSCI ACWI Index Components (as defined by SEI).

SEI's view

The global economic environment appears to be on the upswing. Services continue to lead the way, but manufacturing also is exhibiting renewed signs of life. The U.K has logged surprising strength relative to market expectations. Japan and Europe also are delivering better results. The U.S. economy still appears in good shape, but the data have recently begun to fall short of the market's lofty expectations.

Central bank divergence should be a key theme in the coming months as we believe that the ECB and the BOE will cut interest rates before the Fed. Inflation continues to be sticky in the U.S. and the U.K., although declining electricity and fuel costs in the latter country could pull headline CPI below the BOE's 2% target in the months ahead. Despite weakness in crude oil, commodity prices should continue to strengthen amid a rebound in Chinese demand and strong infrastructure needs stemming from the artificial intelligence (AI) build-out and the energy transition.

Investors have dramatically scaled back their expectations regarding the number of rate cuts the major central banks will implement this year. This a theme that may continue into 2025 if wage pressures reaccelerate and inflation remains surprisingly sticky.

The U.S. broad-market S&P 500 Index currently trades at a forward price-to-earnings (P/E) ratio of around 20, which is above the 10-year average of roughly 18.[10] The bar has been set fairly high for earnings to outperform expectations and drive prices higher. According to financial data services provider FactSet, 78% of the companies in the S&P 500 Index reporting first-quarter 2024 results as of the end of May posted earnings per share that beat consensus estimates—slightly above the five- and ten-year averages of 77% and 74%, respectively. The sectors with the most positive earnings surprises were communication services and financials.[11] We at SEI continue to favor more value-oriented market segments such as financials, as the sector looks attractive from a price/earnings multiple perspective, and we still expect higher interest rates into the summer months.

Investors have dramatically scaled back their expectations regarding the number of rate cuts the major central banks will implement this year.

[10] According to FactSet. May 31, 2024.

[11] According to FactSet. May 31, 2024.

Glossary of Financial Terms

Yield is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value.

Yield curve represents differences in yields across a range of maturities of bonds of the same issuer or credit rating (are (which is used to assess the risk of default of companies or countries). A steeper yield curve represents a greater difference between the yields. A flatter curve indicates that short- and long-term yields are closer together.

An **inverted yield curve** occurs when short-term yields exceed long-term yields. While an inverted yield curve historically has predicted economic recessions, it is an indicator—not a forecast.

Th**e federal-funds rate** is the interest rate charged to lending institutions on unsecured overnight loans. It is set by the U.S. Federal Reserve's Federal Open Market Committee. The rate is increased when the Federal Reserve wants to discourage borrowing and slow the economy and decreased when the Federal Reserve wants to spur economic growth.

Economic output comprises a quantity of goods or services produced in a specific time period.

Monetary policy refers to decisions by central banks to influence the amount of money and credit in the economy by managing the level of benchmark interest rates and the purchase or sale of securities. Central banks typically make policy decisions based on their mandates to target specific levels or ranges for inflation and employment.

Price/earnings (P/E) ratio is calculated by dividing the current market price of a stock by the earnings per share. Price/earnings multiples often are used to compare companies in the same industry, or to assess the historical performance of an individual company.

Index Descriptions

The **MSCI ACWI** Index is a market capitalization-weighted index that tracks the performance of over 2,000 companies, and is representative of the market structure of 48 developed and emerging-market countries in North and South America, Europe, Africa, and the Pacific Rim. The index is calculated with net dividends reinvested in U.S. dollars.

The **MSCI EAFE** Index is a market capitalization-weighted equity index that tracks the performance of the developed world outside North America.

The **Bloomberg Global Aggregate Bond** Index is a market capitalization-weighted index that tracks the performance of investment-grade (rated BBB- or higher by S&P Global Ratings/Fitch Ratings or Baa3 or higher by Moody's Investors Service) fixed-income securities denominated in 13 currencies. The index reflects reinvestment of all distributions and changes in market prices.

The **Bloomberg US High Yield Index** tracks the performance of fixed-rate, publicly issued, non-investment-grade (rated BB+ or lower by S&P Global Ratings and Fitch Ratings or Ba1 or lower by Moody's Investors Service) bonds.

The **Bloomberg US Treasury Index** tracks the performance of fixed-rate, nominal debt issued by the US Treasury.

The **Bloomberg US Corporate Investment Grade Index** tracks the performance of the investment-grade, fixed-rate, taxable corporate bond market.

The **Bloomberg U.S. Mortgage Backed Securities Index t**racks the performance of fixed-rate agency mortgage-backed securities (MBS) guaranteed by the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Freddie Mac (FHLMC).

The **Bloomberg Commodity Total Return Index** comprises futures contracts and tracks the performance of a fully collateralized investment in the index. This combines the returns of the index with the returns on cash collateral invested in 13-week (three-month) U.S. Treasury bills.

Consumer-price indexes measure changes in the price level of a weighted-average market basket of consumer goods and services purchased by households. A consumer price index is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically.

Corresponding Indexes for Fixed-Income Performance Exhibit	
U.S. High Yield	ICE BofA U.S. High Yield Constrained Index
Global Sovereigns	Bloomberg Global Treasury Index
Global Non-Government	Bloomberg Global Aggregate ex-Treasury Index
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index
U.S. Mortgage-Backed Securities (MBS)	Bloomberg US Mortgage Backed Securities Index
U.S. Asset-Backed Securities (ABS)	Bloomberg US Asset Backed Securities Index
U.S. Treasurys	Bloomberg US Treasury Index
U.S. Treasury Inflation-Protected Securities (TIPS)	Bloomberg 1-10 Year US TIPS Index
U.S. Investment-Grade Corporates	Bloomberg US Corporate Bond Index

Corresponding Indexes for Regional Equity Performance Exhibit	
United States	S&P 500 Index
United Kingdom	FTSE All-Share Index
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)
Japan	TOPIX, also known as the Tokyo Stock Price Index
Europe ex U.K.	MSCI Europe ex UK Index (Net)
EM Latin America	MSCI Emerging Markets Latin America Index (Net)

Disclosures

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Diversification may not protect against market risk. Past performance does not guarantee future results. Index returns are for illustrative purposes only and do not represent actual portfolio performance. Index returns do not reflect any management fees, transaction costs or expenses. One cannot invest directly in an index.

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