RAYMOND JAMES

Monthly Market Review

Vaccinations & Improving Economy Keep Most Asset Class Performance Shining

May 2021

Elevated Market Volatility Due To Fears Inflation Will Continue To Run Hot

Monthly Highlights

- US COVID-19 Trends Improve As 295+ Million Vaccinations Are Administered To Date.
- The Fed Balance Sheet Reaches A New Record Level But Discussions Of Tapering May Come.
- ISM Manufacturing Index Remains In Expansion Territory For The Twelfth Consecutive Month.
- Base Effects Push Core Inflation To The Fastest Pace Since December 1995.
- Jobless Claims Fall To The Lowest Level Since The Pandemic Began.
- National Home Price Index Rises At The Fastest Year-Over-Year Pace Since 2005.
- 10-Year Treasury Yield Falls An Additional 5 Basis Points From The Recent March Peak.
- Municipal Bond & Investment-Grade Spreads Decline To The Lowest Level Since July 2007.
- Best Quarterly Year-Over-Year Earnings Growth Since 1Q10 Helps S&P 500 Continue Its Rally.
- 7 of 11 S&P 500 Sectors in Positive Territory With Energy (+5.8%) The Top Performer.
- US Dollar Falls To The Lowest Level Since January As Fed Holds Rates Steady & Yields Decline.
- Precious Metals Post Best Month Since December 2020; Gold Posts Best Month Since July 2020.
- Copper Prices Reach Highest Level On Record.

Economy | US Job Gains 'Chill' Due To Misalignments Between Skills & Openings.

- The second reading of **1Q21 GDP** was unchanged (+6.4% quarter-over-quarter (QoQ)), keeping the economy within less than 1% of pre-pandemic levels. Personal consumption (+11.3%) and business fixed investment (+10.8%) were both sources of strength.
- The US surpassed 33 million **COVID-19** cases, but the 7-day average for new cases declined to the lowest level since March 2020 (~20k) intra-month.
- The US has administered over 295 million **vaccines**, with more than 40% of the population now fully vaccinated. President Biden's goal is to have 70% of the population receive the first dose by July 4.
- The **Fed's balance sheet** reached a record ~$7.9 trillion as bond purchases continued. As the economy improves and inflation rises, Fed leaders have signaled that discussions of tapering asset purchases may occur sooner than originally planned.
- Biden reduced the size of his original $2.25 trillion **infrastructure plan** to $1.7 trillion but vast partisan differences remain in regards to scope and pay-fors.
- **May ISM Manufacturing** (60.7) remains in expansion territory for the twelfth consecutive month as new orders strengthened (67.0 vs. 64.3 in April).
- **The US gained 266k jobs** in April, but the unemployment rate rose to 6.1% in part due to misalignments between skills and jobs available.
- **Jobless claims** fell to the lowest level (406k) since the pandemic began, bringing the 4-week rolling average (~459k) below the 500k threshold.
- The pace of **headline inflation** (+4.2% YoY) increased at the fastest pace since September 2008. The pace of **Core CPI** (+3.0% YoY) accelerated to the fastest pace since December 1995. Base effects are temporarily pushing the pace of inflation higher, with supply chain bottlenecks also boosting prices due to pent-up demand.
- **Consumer confidence** (117.2) fell slightly as the 'expectations' subsector fell to the lowest level since February amid fears of inflation and prospects that the Fed may taper earlier than expected.
- **Core retail sales** (ex. food, autos, and gas, -1.5% month-over-month (MoM)) declined for the second time in three months, but the year-over-year pace (+29.1%) is now more than 6x the 10-year average (+4.3%).
- **Housing data** weakened from prior months as housing starts (-9.5%), new home sales (-5.9%), existing home sales (-2.7%), and building permits (-1.3%) all declined. The pace of home price gains (Case Shiller National Home Price Index +13.2% YoY) rose to the fastest pace since 2005 and is nearly 3x the previous 20-year average.
- **China's Manufacturing PMI** (51.0) fell for the fourth time in five months but remains in expansion territory.
- **Euro Zone Manufacturing PMI** (62.8) declined slightly after reaching the highest level on record last month. Euro zone economic sentiment (114.5) improved for the fourth straight month to the highest level since 2018.

Fixed Income | Narrowing Credit Spreads Allow Most Sector Returns To 'Heat Up.'

- The **Bloomberg Barclays US Aggregate Index** (+0.3% MoM) rallied for the second consecutive month. The broader fixed income market benefited from narrowing investment-grade and municipal bond spreads as well as Treasury yields receding further from the recent peak.
- **TIPS** (+0.9% MoM) rallied for the sixth time over the last seven months and outpaced Treasurys (+0.3%) for the thirteenth time in fourteen months.
- **Emerging market bonds** (+0.9% USD MoM) rallied for the second consecutive month due to a weaker dollar and as spreads declined to a three-year low.
- **US investment-grade bonds** (+0.8% MoM) rallied for the second consecutive month as spreads narrowed an additional four basis points to reach the lowest level since February 2007. The strength was led by the Industrials (+0.8%) and Financials (+0.7%) sectors.
- **International sovereign bonds** (G7 ex. US +0.6%) rallied for the second consecutive month as the dollar weakened to the lowest level since January.
- **Treasurys** (+0.3%) rallied for the second consecutive month. Despite strengthening economic data and rising inflation, the 10-year Treasury yield contracted further, now ~16 basis points below the recent peak.
- **Municipals** (+0.3% MoM) rallied for the sixth time in seven months as municipal bond spreads narrowed to the lowest levels since July 2007 intra-month. All three sectors (General Obligation, Revenue, and High Yield) contributed to the rally.
- **High-yield bonds** (+0.3% MoM) rallied for the thirteenth time over the last fourteen months due to strength in the Energy sector. High-yield spreads rose five basis points during the month, but remain near the lowest levels since July 2007.

Equities | Strong Earnings & Vaccinations 'Take The Heat Off' From Inflation Fears.

- **Global equities** (MSCI All Country World Index +1.6% USD MoM) rallied for the sixth time in seven months as vaccinations helped accelerate the recovery for most countries. Ongoing fiscal stimulus and improving earnings also boosted the rally.
- **European** equities (MSCI Europe ex UK +4.7% USD MoM) rallied for the sixth time over the last seven months and outperformed global equities for the third consecutive month.
- **Japanese equities** (MSCI Japan +2.3% USD MoM) rallied for the third time in four months, posted their best month since December, and outpaced global equities for the first time in sixth months.
- **EM equities** (MSCI EM +1.2% USD MoM) rallied for the seventh time in eight months but were outpaced by the developed markets (MSCI EAFE USD +3.7% MoM) for the fourth consecutive month.
- Within EM, **Asia** (MSCI Asia ex JP +0.2% USD MoM) underperformed **LATAM** (MSCI LATAM +7.2% USD MoM) for the third consecutive month.
- **US Large-Cap** equities (S&P 500 +0.7% MoM) rallied for the sixth time in seven months due to the best quarterly year-over-year earnings per share growth since 1Q10, improving economic activity, and ramped up vaccine dissemination. However, inflation fears and the potential for early Fed tapering fueled market volatility throughout the course of the month.
- 7 of the 11 **S&P 500 sectors** were positive, with Energy (+5.8%) the top performer and Consumer Discretionary (-3.8%) the worst performer.
- **US Small-Cap** equities (Russell 2000 +0.2% MoM) rallied for the thirteenth time over the last fourteen months but underperformed large-cap equities for the third consecutive month.

Commodities | A Weaker Dollar Led Most Commodities To Post 'Sizzling' Returns.

- The **Bloomberg Barclays Commodity Index** (+2.7% MoM) rallied for the seventh time in eight months. Further vaccination progress, improving economic activity in most countries, a weaker USD and supply chain constraints all boosted the asset class.
- The **US Dollar Index** (-1.4% MoM) declined for the second consecutive month. Steadily improving global economic activity and easing Treasury yields (relative to yields across the globe) led the dollar to weaken.
- The **Bloomberg Precious Metals Index** (+7.8% MoM) rallied for second consecutive month as gold prices (+7.8% MoM) posted their best month since July 2020. Strength in silver prices (+8.3% MoM) also contributed to the index moving higher.
- The **Bloomberg Softs Index** (+5.3% MoM) rose for the seventh time in the last eight months due to strength in coffee (+14.8%) and sugar (+2.2%) prices.
- The **Bloomberg Industrial Metals Index** (+3.8% USD MoM) posted its seventh month of gains over the last eight months as copper prices (+4.7%) rose to the highest level on record intra-month.
- The **Bloomberg Energy Index** (+3.3% MoM) rallied for the fourth time in five months. Improving global economic activity and progress toward a sustainable reopening pushed crude oil prices higher (+4.3%) despite rising COVID-19 cases in some emerging markets and the potential for a deal between Iran and the US to be consummated. Discussions between the two are ongoing, but an agreement could lead global supply levels higher. Strength in natural gas prices (+1.9%) also contributed to the index moving higher.
- The **Bloomberg Grains Index** (-3.9% MoM) declined for the second time in ten months due to weakness in corn (-4.9%) and soybean (-0.2%) prices.

Figure 1: Core Inflation On The Rise Due To Base Effects

Core inflation rose (+3.0%) on a year-over-year basis to the highest level since 1995 in large part due to base effects and supply chain bottlenecks.

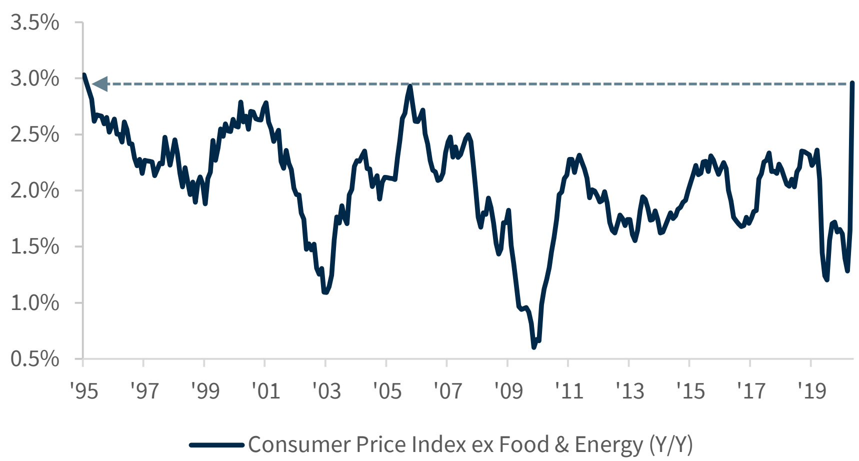

Figure 2: Inflation Fears Drive Commodity-Related Sectors

7 of the 11 S&P 500 sectors were positive for the month, with Energy the top performer (+5.8%) as crude oil prices rallied. The sector is also the top performer on a year-to-date basis (+39.2%).

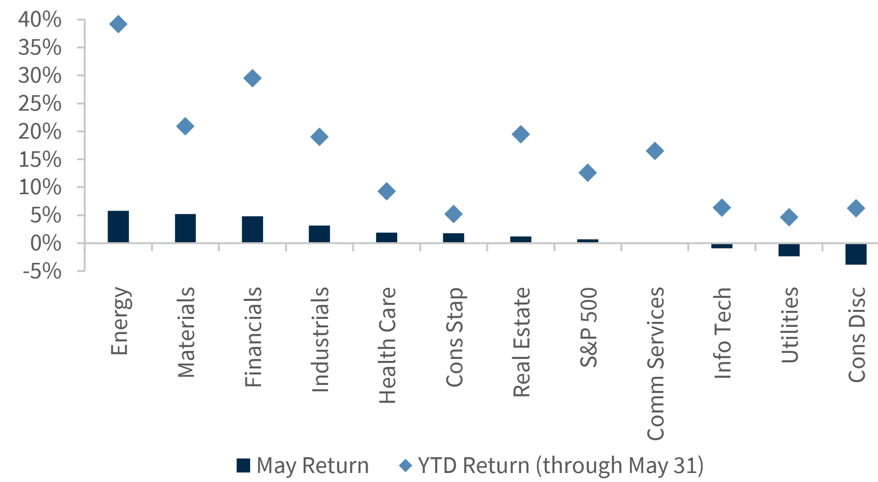

Figure 3: Investment-Grade Spreads Fall To Lowest Level Since 2007

Investment-grade spreads narrowed an additional 4 basis points in May, and fell further from the pandemic-induced peak to reach the lowest levels since February 2007.

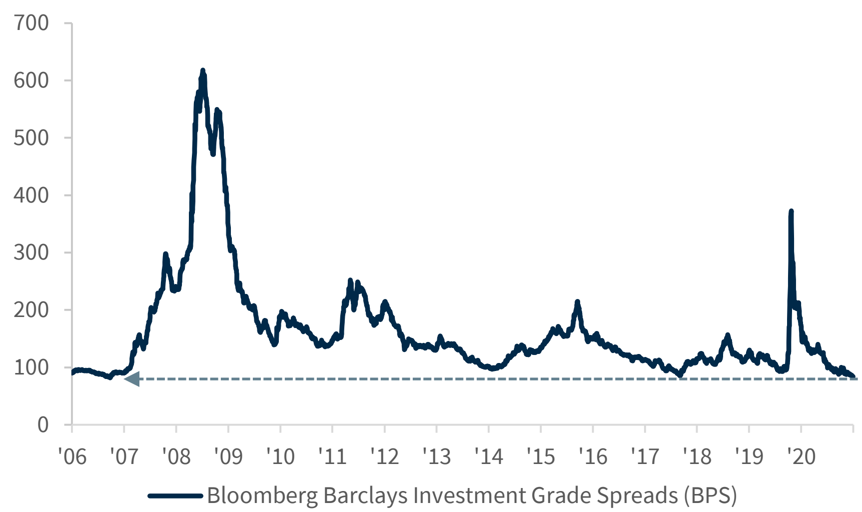

Figure 4: Copper Prices Reach Highest Level Since 2011

The Bloomberg Industrial Metals Index rallied nearly 4% as copper prices soared to the highest level ($10,725) on record. Copper is up 33% on a year-to-date basis.

Fixed Income | Credit Spreads Narrow To Multi-Year Lows

	May	YTD	1 Year	3 Year	5 Year	10 Year
TIPS	0.9%	2.3%	7.6%	5.7%	3.9%	2.6%
EM Bonds	0.9%	-1.3%	8.2%	6.2%	5.3%	5.4%
US Investment Grade	0.8%	-2.9%	3.6%	7.0%	5.0%	4.9%
International Bonds	0.6%	-4.7%	3.1%	2.3%	1.6%	0.5%
Treasuries	0.3%	-3.2%	-3.7%	4.4%	2.5%	2.7%
US Aggregate	0.3%	-2.3%	-0.4%	5.1%	3.2%	3.3%
Municipals	0.3%	0.8%	4.7%	5.0%	3.5%	4.3%
High Yield	0.3%	2.2%	15.0%	7.1%	7.4%	6.4%

Equities | Large Cap Outperforms Small Cap; Value Outperforms Growth

	May	YTD	1 Year	3 Year	5 Year	10 Year
Russell 2000 Value	3.1%	27.5%	79.4%	10.7%	13.8%	10.6%
Russell 1000 Value	2.3%	18.4%	44.4%	12.9%	12.3%	11.5%
DJ Industrial Average	1.9%	12.8%	36.0%	12.2%	14.2%	10.6%
S&P 500	0.7%	12.6%	40.3%	18.0%	17.2%	14.4%
Russell 1000	0.5%	12.1%	42.7%	18.4%	17.5%	14.4%
Russell 2000	0.2%	15.3%	64.6%	13.1%	16.0%	11.9%
Russell 1000 Growth	-1.4%	6.3%	39.9%	23.0%	22.1%	17.0%
Russell 2000 Growth	-2.9%	4.1%	50.1%	14.5%	17.6%	12.8%

Commodities & FX | Copper Prices Reach New Record High

	May	YTD	1 Year	3 Year	5 Year	10 Year
BBG Precious Metals	7.8%	1.3%	14.2%	11.7%	7.3%	-0.8%
Gold	7.8%	0.5%	8.8%	13.5%	9.4%	2.2%
Copper	4.7%	32.9%	92.8%	15.1%	17.4%	1.1%
Crude Oil (WTI)	4.3%	36.7%	86.9%	-0.4%	6.2%	-4.3%
BBG Industrial Metals	3.8%	21.4%	64.7%	5.6%	11.9%	-1.9%
BBG Energy Index	3.3%	29.7%	41.3%	-14.0%	-6.4%	-14.3%
BBG Commodity Index	2.7%	18.9%	46.1%	0.8%	1.7%	-5.7%
US Dollar Index	-1.4%	0.1%	-8.5%	-1.4%	-1.2%	1.9%

International Equities (in USD) | Developed Markets Outperform EM Equities

	May	YTD	1 Year	3 Year	5 Year	10 Year
MSCI LATAM	7.2%	5.4%	47.8%	3.1%	7.8%	-2.5%
MSCI Europe ex UK	4.7%	13.6%	45.7%	12.1%	12.0%	7.0%
MSCI UK	3.8%	15.0%	36.1%	2.4%	5.4%	3.7%
MSCI EAFE	3.7%	10.7%	39.5%	8.8%	10.4%	6.4%
MSCI Japan	2.3%	2.4%	26.5%	7.1%	10.2%	7.7%
MSCI AC World	1.6%	11.0%	42.4%	14.4%	14.8%	10.2%
MSCI EM	1.2%	6.1%	49.8%	9.6%	14.0%	4.4%
MSCI Asia ex JP	0.2%	5.5%	50.4%	10.4%	15.2%	7.0%

S&P 500 Sectors | Recovery & Earnings Overshadow Inflation Fears

	May	YTD	1 Year	3 Year	5 Year	10 Year
Energy	5.8%	39.2%	40.9%	-7.3%	-1.1%	-0.7%
Materials	5.2%	20.9%	60.2%	17.1%	15.6%	10.7%
Financials	4.8%	29.5%	66.2%	14.4%	17.0%	13.7%
Industrials	3.1%	19.0%	58.0%	14.6%	15.1%	13.0%
Health Care	1.9%	9.3%	22.0%	16.8%	13.8%	15.3%
Cons Stap	1.8%	5.2%	23.1%	15.9%	9.2%	11.2%
Real Estate	1.2%	19.5%	29.7%	15.2%	10.2%	10.4%
Comm Services	-0.1%	16.5%	43.7%	23.1%	12.3%	10.9%
Info Tech	-0.9%	6.4%	42.6%	27.3%	28.7%	20.9%
Utilities	-2.4%	4.6%	12.8%	12.3%	9.5%	10.8%
Cons Disc	-3.8%	6.2%	38.6%	19.3%	18.5%	17.4%

Key Asset Class Levels

	May	Start of Year	1 Year	3 Year	5 Year	10 Year
S&P 500	4,204	3,756	3,030	2,721	2,099	1,331
DJIA	34,529	30,606	25,401	24,753	17,873	12,442
MSCI AC World	711	646	509	513	403	344
S&P 500 Dividend Yield	1.44	1.55	1.95	2.02	2.26	2.09
1-3M T-Bills (Cash, in %)	0.01	0.06	0.13	1.82	0.27	0.04
2YR Treasury Yield (in %)	0.14	0.12	0.18	2.47	0.88	0.46
10YR Treasury Yield (in %)	1.58	0.91	0.71	2.93	1.84	3.07
30Yr Treasury Yield (in %)	2.26	1.64	1.48	3.10	2.64	4.24
EURUSD	1.22	1.22	1.11	1.17	1.11	1.44
Crude Oil - WTI ($/bbl)	68	49	34	68	49	101
Gold ($/oz)	1916	1895	1728	1304	1214	1536

Data as of May 31, 2021: Asset classes ranked by May performance.

DISCLOSURES

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

US TREASURIES | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

HIGH YIELD SECURITIES | High yield securities involve additional risks and are not appropriate for all investors.

SMALL-CAP STOCKS | Small-cap stocks involve greater risks and are not suitable for all investors.

DOMESTIC EQUITY DEFINITION

LARGE GROWTH | **Russell 1000 Growth Total Return Index:** This index represents a segment of the Russell 1000 Index with a greater-than-average growth orientation. Companies in this index have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values. This index includes the effects of reinvested dividends.

SMALL GROWTH | **Russell 2000 Growth Total Return Index:** This index represents a segment of the Russell 2000 Index with a greater-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000.

LARGE BLEND | **Russell 1000 Total Return Index:** This index represents the 1000 largest companies in the Russell 3000 Index. This index is highly correlated with the S&P 500 Index. This index includes the effects of reinvested dividends.

SMALL BLEND | **Russell 2000 Total Return Index:** This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest US companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends.

LARGE VALUE | **Russell 1000 Value Total Return Index:** This index represents a segment of the Russell 1000 Index with a less-than-average growth orientation. Companies in this index have low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values. This index includes the effects of reinvested dividends.

SMALL VALUE | **Russell 2000 Value Total Return Index:** This index represents a segment of the Russell 2000 Index with a less-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

FIXED INCOME DEFINITION

AGGREGATE BOND | **Bloomberg Barclays US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

MUNICIPAL | **Bloomberg Barclays Municipal Total Return Index:** The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

US INDEXES AND EQUITY SECTORS DEFINITION

DOW JONES INDUSTRIAL AVERAGE (DJIA) | The **Dow Jones Industrial Average (DJIA)** is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

S&P 500 | The **S&P 500 Total Return Index:** The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

INTERNATIONAL EQUITY DEFINITION

EMERGING MARKETS EASTERN EUROPE | **MSCI EM Eastern Europe Net Return Index:** The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS ASIA | **MSCI EM Asia Net Return Index:** The index captures large- and mid-cap representation across eight Emerging Markets countries. With 554 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS LATIN AMERICA | **MSCI EM Latin America Net Return Index:** The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | **MSCI Emerging Markets Net Return Index:** This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

PACIFIC EX-JAPAN | **MSCI Pacific Ex Japan Net Return Index:** The index captures large- and mid-cap representation across four of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 150 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

JAPAN | **MSCI Japan Net Return Index:** The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

FOREIGN DEVELOPED MARKETS | **MSCI EAFE Net Return Index:** This index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.

EUROPE EX UK | **MSCI Europe Ex UK Net Return Index:** The index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 337 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

MSCI EAFE | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

COMMODITY DEFINITIONS

US DOLLAR INDEX | The US dollar index (USDX) is a measure of the value of the US dollar relative to the value of a basket of currencies of the majority of the US's most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies.

BLOOMBERG BARCLAYS COMMODITY INDEX | Bloomberg Barclays Commodity Index is a commodity group sub index of the Bloomberg CITR. The index is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return on fully collateralized futures positions and is quoted in USD.

BLOOMBERG INDUSTRIAL METALS INDEX | Bloomberg Industrial Metals Index is composed of futures contracts on aluminum, copper, nickel and zinc. It reflects the return of underlying commodity futures price movements only. It is quoted in USD.

BLOOMBERG SOFTS INDEX | Bloomberg Softs Index is a commodity group sub index of the Bloomberg CI. It is composed of futures contracts on coffee, cotton and sugar. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

BLOOMBERG PRECIOUS METALS INDEX | Bloomberg Precious Metals index is a commodity group sub index of the Bloomberg CI. It is composed of futures contracts on gold and silver. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

BLOOMBERG GRAINS INDEX | Bloomberg Grains Index is a commodity group subindex of the Bloomberg CI. It is composed of futures contracts on corn, soybeans and wheat. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

INTERNATIONAL DISCLOSURES

DATA SOURCES:

FactSet, as of 5/31/2021

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