



Index Performance

- In May, International Developed equities and US Small-Caps were amongst the leaders (up 3.35% and 2.16%, respectively). Other notable moves include Broad-based Emerging Markets which increased by 1.65%, followed by US Large-Caps and US Mid-Caps which rose 0.66% and 0.19%, respectively. Meanwhile, China was down 0.17%.
- US bonds produced positive returns. Investment Grade Corporate Bonds rose 0.62%, the US Aggregate Bond Index increased by 0.25%, and High Yield Credit was up only 0.04%
- Commodities posted sizable gains as Silver surged 7.87%, Gold climbed 7.68%, Crude Oil rose 4.97%, and Broad-based Commodities increased by 2.54%.

Biden’s Infrastructure Plan: Last week, President Biden unveiled his \$6 trillion budget for 2022 in reference to his agenda and aspirations for the next decade. In addition to his \$4 trillion American Jobs Plan and American Families Plan, Biden aims to reinvest in research and development, education, public health, clean energy, and the social safety net. The budget will also be used enhance and improve infrastructure through updating highways, ports, bridges, and airports. Other details include developing more reliable broadband access, refurbishing electrical grids, stimulating both manufacturing and supply chains, as well as encouraging leadership and advancements in battery technology, biotechnology, and computer chips in the US.

Is the US large-cap index market expensive? The S&P 500 has climbed 39% over the past 12 months, while the index’s forward earnings are up about 40%, according to Credit Suisse.

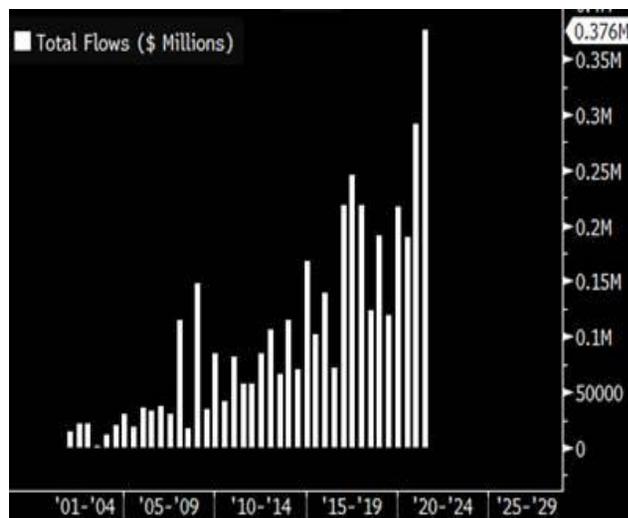
There are discussions in the marketplace that the US large-cap index market may be expensive at about 22 times forward earnings.

Value continues to look attractive: The Russell 1000 Value index has beaten its Growth equivalent by about 12 percentage points since the start of 2021. As per Credit Suisse, the Russell 1000 Growth historically trades at a 5.6x multiple point premium to Value, and it currently trades at 10.3x over.

Strong ETF Inflows Continue: In the past month, US ETFs absorbed over \$60 bln of net inflows and pushed YTD flows above \$370 bln, almost 3 times the size of 2020’s first five months. This May was also the first in two years that faced positive flows into equities, which gathered more than \$41 bln of net inflows. Moreover, fixed income accumulated over \$15 bln of net inflows while commodities saw their largest net inflow in ten months of beyond \$5 bln.

Exhibit 1

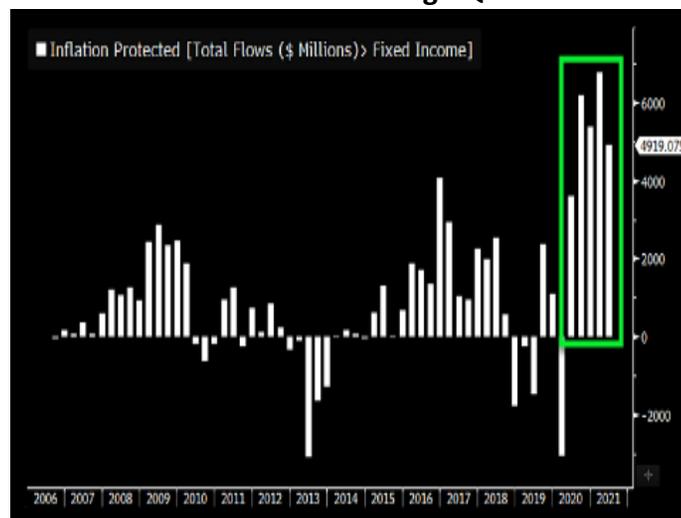
Semi-Annual Total ETF Net Inflows



Source: Bloomberg

Exhibit 2

TIPS ETF Record Inflows Starting 2Q20

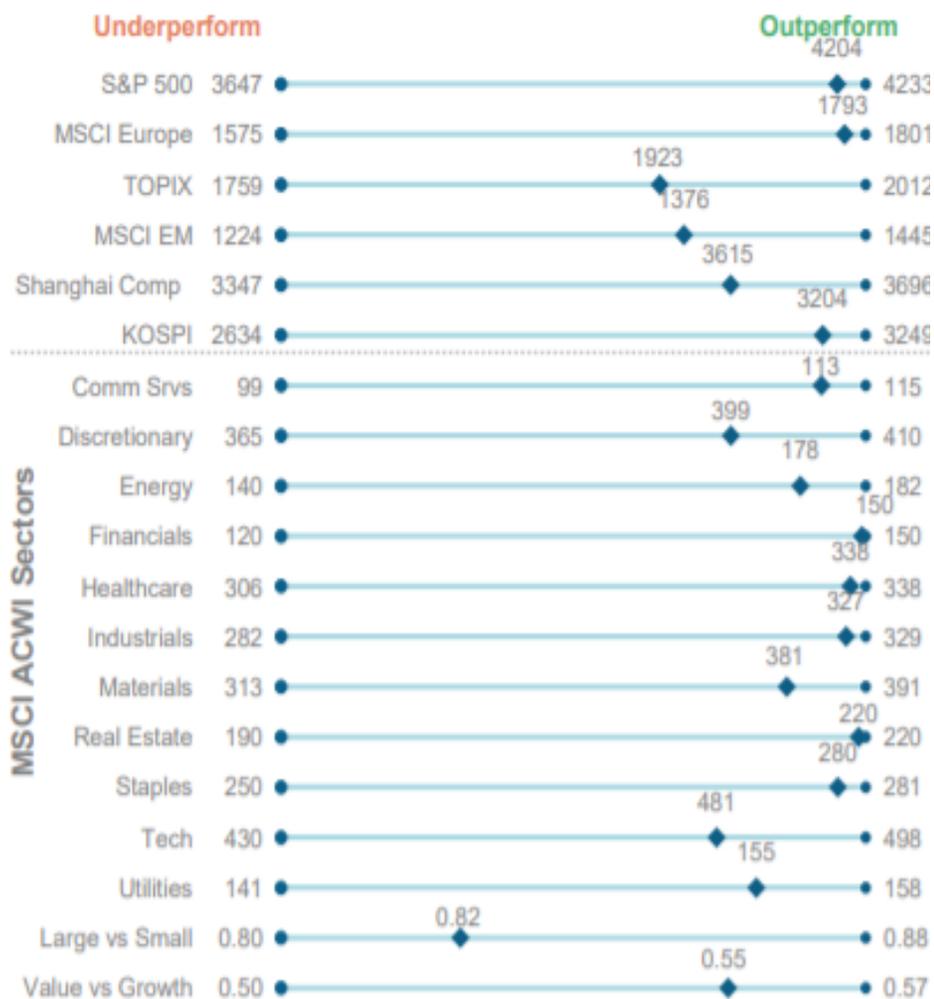


Source: Bloomberg

Index/Sector Performance

As shown in the chart below, most asset classes are near the high end of their 6-month range.

Exhibit 3
Sector/Index Performance: Current vs. Last 6-mo Range

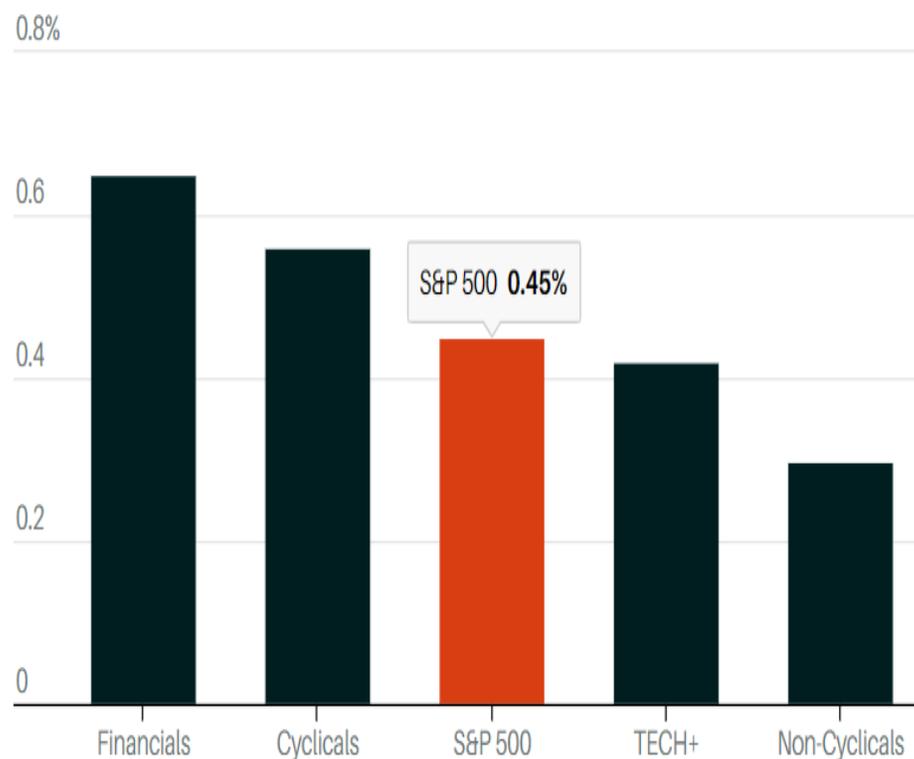


Source: Morgan Stanley Research, Bloomberg. Note: All prices as of May 31st 2021 close.

Performance on Days When Inflation Expectations Rise

May continued to see the results of inflation concerns following a core CPI print mid-month which was the highest level in 30 years. Credit Suisse points out that stocks have lately risen on days when inflation and yield expectations have increased. For instance, the chart below shows that on days when inflation expectations rose, Financials and Cyclical produced an average daily return of over 0.6% and 0.5%, respectively, outperforming the S&P 500 which only produced an average daily return of 0.45%.

Exhibit 4
Average Daily Returns on Days When Inflation Expectations Rise



Source: Standard & Poor's, the BLOOMBERG PROFESSIONAL™ service, FactSet, Credit Suisse. Note: Trailing 1-year analysis based on 5-year breakeven.

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