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Highland ReCAP

A Review of Capital Markets

May 2023

Summary

Most major indexes moved lower in May on volatile trading. With the U.S. Treasury warning that a deal would be needed to raise the debt ceiling by the first week of June to avoid a default, President Biden and House Speaker McCarthy spent most of the month haggling over various proposals before settling on a package to send to Congress during the Memorial Day weekend. While few expected a U.S. default to become a real threat, and most anticipated a prolonged negotiation pushing uncomfortably close against the deadline, news of a deal did little to spark markets into month-end. Interest rates crept higher into late May before easing once a debt ceiling agreement materialized. Only large cap U.S. stocks finished the month with positive returns, benefiting from strong performance from the tech sector.

Equities

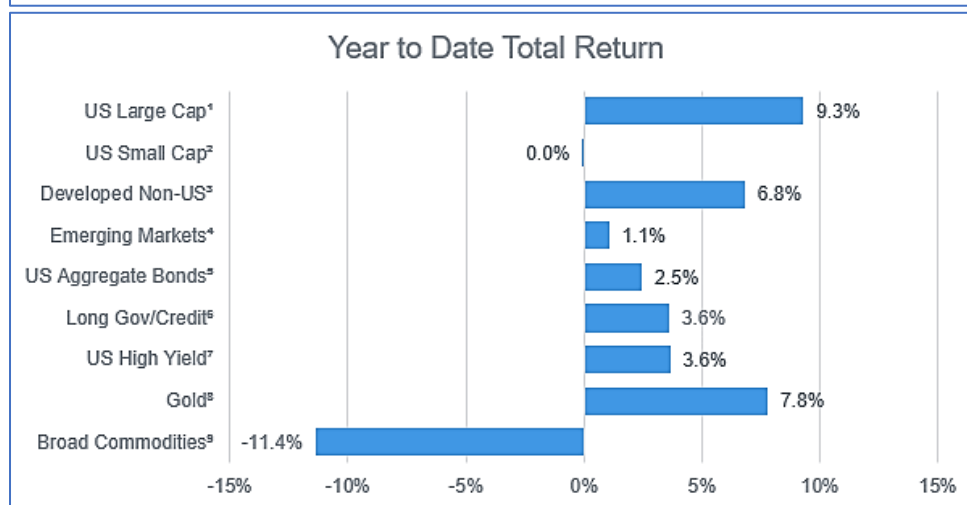
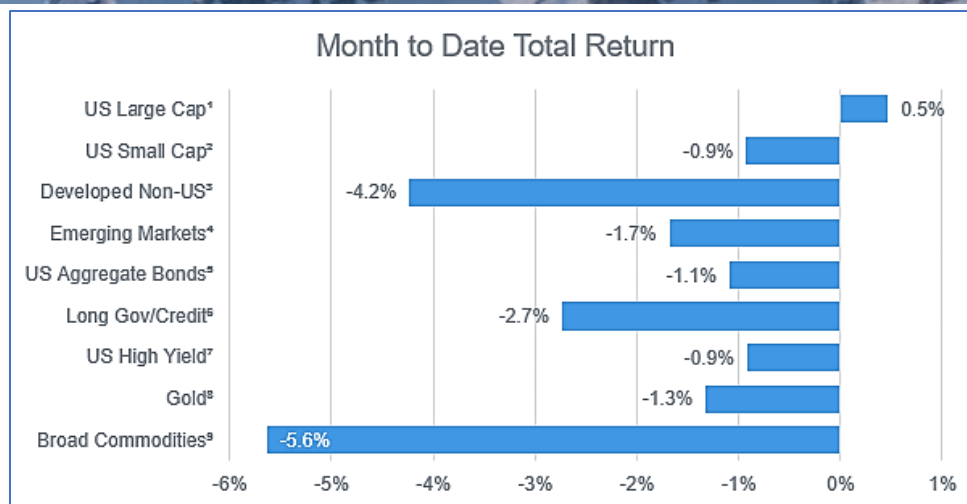
Investors' newfound infatuation with artificial intelligence helped boost blue chip technology names in the U.S., while macroeconomic concerns weighed on small caps and non-U.S. stocks. The biggest winner in the AI gold rush was Nvidia, which briefly joined the \$1 trillion market cap club, positioning itself as a major supplier of the high-end chips which are critical to fuel future growth in generative AI, such as ChatGPT. Outside of the U.S., inflation spiked unexpectedly in the UK, with April's CPI coming in a full half-percent above expectations, putting pressure on the Bank of England and heightening recession risk. Emerging markets equities were swamped by macroeconomic headwinds and traded lower for the month.

Fixed Income

The month of May kicked off with yet another rate increase from the Federal Reserve, a 0.25% hike to move the Fed Funds rate above 5% for the first time since late 2007. On the heels of the banking stress of March and April, future hikes became less of an inevitability, with commentary from Fed officials indicating that June's meeting could bring a pause to the latest tightening cycle. Jitters around debt ceiling negotiations were most prevalent at the short end of the curve, with Treasury Bills due the first half of June trading at yields above 7% in the days prior to the deal's announcement. Credit spreads were stable for the month, with bond prices moving lower on balance due to higher Treasury yields.

Market Trends

As of May 31, 2023



	1M	3M	YTD	1Y	3Y	5Y	10Y
US Large Cap ¹	0.5%	4.9%	9.3%	2.4%	12.5%	10.6%	11.8%
US Small Cap ²	-0.9%	-7.4%	0.0%	-4.7%	9.2%	2.7%	7.4%
Developed Non-US ³	-4.2%	0.9%	6.8%	3.1%	8.5%	3.2%	4.6%
Emerging Markets ⁴	-1.7%	0.2%	1.1%	-8.5%	3.5%	-0.7%	1.9%
US Aggregate Bonds ⁵	-1.1%	2.0%	2.5%	-2.1%	-3.6%	0.8%	1.4%
Long Gov/Credit ⁶	-2.7%	2.3%	3.6%	-6.2%	-8.4%	0.4%	2.3%
US High Yield ⁷	-0.9%	1.1%	3.6%	0.0%	2.9%	3.1%	4.0%
Gold ⁸	-1.3%	7.3%	7.8%	6.4%	2.8%	7.5%	2.7%
Broad Commodities ⁹	-5.6%	-6.5%	-11.4%	-22.5%	17.2%	3.2%	-1.9%

1 – Russell 1000, 2 – Russell 2000, 3 – MSCI EAFE, 4 – MSCI Emerging Markets, 5 – Bloomberg US Agg, 6 – Bloomberg US Long Gov/Credit
7 – Bloomberg US Corporate High Yield, 8 – Bloomberg Gold Subindex, 9 – Bloomberg Commodity

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Disclosure Statements

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FTSE Russell

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