A Hawkish FED Increased Recession Concerns

KANDOR GLOBAL

As of May 31, 2022

Global equity markets finished the month relatively flat thanks to a late rally after being pressured for most of the month. Growth worries took the stage after the Fed increased its target rate 50 basis points at the beginning of the month, what was the largest increase since 2000. Concerns that monetary tightening will send the economy into a recession put downward pressure on yields, alleviating fixed income markets. Consumer economic data and some corporate earnings brought back optimism, with signals that consumers remain strong despite high inflation and the US economy could likely resist the Fed's hiking path and quantitative tightening. This staged a strong comeback for equities despite the ongoing global uncertainties.

US Equity	May-22	YTD	Last 12m
S&P 500	0.2%	-12.8%	-0.3%
Russell 1000	-0.2%	-13.7%	-2.7%
Russell 1000 Value	1.9%	-4.5%	0.9%
Russell 1000 Growth	-2.3%	-21.9%	-6.3%
Russell 2000	0.2%	-16.6%	-16.9%
Russell 2000 Value	1.9%	-8.2%	-7.7%
Russell 2000 Growth	-1.9%	-24.8%	-25.7%
International Equity			
MSCI All-Country World ex-US	0.7%	-10.7%	-12.4%
MSCI EAFE	0.7%	-11.3%	-10.4%
MSCI Europe	0.7%	-12.0%	-9.7%
MSCI Japan	1.6%	-13.4%	-13.3%
MSCI Emerging Markets	0.4%	-11.8%	-19.8%
Fixed Income			
U.S. Intermediate Treasuries	0.7%	-5.1%	-5.7%
U.S. Long Treasuries	-1.9%	-20.1%	-14.3%
U.S. TIPS	-1.0%	-5.9%	-1.4%
Corporate IG Bond	0.9%	-11.9%	-10.3%
High-Yield Bonds	0.2%	-8.0%	-5.3%
Tax-Exempt Bonds	1.3%	-8.3%	-6.5%
International Bonds	0.3%	-11.1%	-13.2%
Emerging Market Bonds	0.0%	-13.2%	-13.5%
Currencies			
Us Dollar	-1.2%	6.4%	13.3%
Euro	1.8%	-5.6%	-12.2%
Yen	-0.8%	11.8%	17.4%
Emerging Markets	0.5%	-1.7%	-2.9%
Real Assets			
Commodities	1.5%	32.7%	41.9%
Energy	15.0%	55.7%	68.8%
Industrial Metals	-6.2%	1.8%	6.6%
Gold	-3.1%	0.4%	-3.6%
Master Limited Partnerships	7.7%	27.9%	27.5%
Real Estate Investment Trust	-6.2%	-13.8%	3.9%
Alternative Investments*			
Equity Hedge	-0.8%	-2.8%	2.3%
Equity Market Neutral	0.2%	0.8%	-1.5%
Event Driven	-1.7%	-4.2%	-6.8%
Relative Value Arbitrage	-1.0%	-6.1%	-6.2%
Macro	-0.9%	1.9%	-1.1%

Source: Bloomberg data

*AI Source: HFRI Hedge Fund Indices

Fixed Income

After a large sell-off since the beginning of the year, fixed income assets were mostly positive in May as concerns of a recession weighed on yields. The US 10-year Treasury yield fell from 2.94% to 2.85% while the 2-year fell from 2.73% to 2.56%[2]. Investment grade bonds outperformed high yield as investors preferred higher quality assets amid economic slowdown fears. TIPs were amongst the few assets with negative returns in fixed income as inflation came down in April.

Liquid Real Assets

Commodities continue their uphill path as energy prices increase. EU's ban on Russian oil created upwards pressure on energy prices as global demand rises. Industrial metals had the worst performance of real assets for the month, affected by concerns on global growth[3]. Gold was also pressured as high treasury yields have weighed on the metal since the end of March. RIETs had a negative performance as mortgage rates increase and leading indicators suggest housing markets are starting to slow[4].

US Equity

The S&P 500 bounced back from a sharp drop at the beginning of May to end the month with a +0.2% return. The month was very volatile for equities as investors sentiment shifted from recession concerns to economic optimism based on consumer strength and peaking inflation. Inflation came at 8.3% YoY, down from 8.5% on March but above estimates of 8.1%[2]. PMIs are still in expansionary territory but falling and consumer confidence continued to deteriorate due to inflation. Value stocks continued to outpaced growth stocks, thanks to energy, utilities and financials that were the top performers of the month. Consumer discretionary and information technology underperformed weighed by inflation, dragging down the growth factor.

International Equity

International equities closed the month on positive territory in USD terms. Europe was the worst performing region at the beginning of the month on fears that the ECB would increase rates to tame inflation. EU leaders decided to embargo Russia's oil, putting upward pressures to energy prices which increased inflation concerns. The region ended the month flat as the MSCI Europe registered +0.7% return, after it found some support in economic data[1]. Similarly, China started the month in the red, dragging down emerging markets, as it refused to ease lockdowns and Covid cases increased. By month end Chinese equities recovered after the central bank cut interest rates and Beijing relaxed some Covid measures, implementing fiscal policies to support businesses and stimulate demand.

Alternative Investments

It wasn't an easy month for hedge fund strategies as volatility remained high and there was a lot of rotation in the market. Equity market neutral strategies were able to achieve some positive return from undervalued and overvalued stocks, but this was not the case for equity hedge strategies that had negative performance. Macro managers also suffered from recession concerns as investors rotated to fixed income assets[5].

Sources:

[1] June 2022. JP Morgan. Monthly Market Review: Review of markets over May 22 - Link

[2] Bloomberg Data.

[3] June 2022. Greycourt. Capital Market Flash Report. A summary of global market activity in May - Link

[4] June 2022. JP Morgan. Monthly Market Review: Review of markets over May 22 - Link

[5] June 2022. Greycourt. Capital Market Flash Report. A summary of global market activity in May - Link

Disclaimer