MONTHLY MARKET COMMENTARY

	Close	May Return	YTD Return
S&P 500 Index	2,705.27	+2.16%	+1.18%
Russell 2000 Index	1,633.61	+5.95%	+6.39%
MSCI Europe, Australasia, and Far East (EAFE) Index	1,986.17	-2.81%	-3.15%
MSCI Emerging Markets Index	1,120.71	-3.75%	-3.26%
Bloomberg Barclays U.S. Aggregate Bond Index	2,015.76	+0.71%	-1.50%
Bloomberg Barclays Municipal Bond Index	1,163.60	+1.15%	-0.33%
Gold (spot)	$1,298.52	-1.28%	-0.35%

Source: Bloomberg. Equity indexes are price-only and do not include the impact of dividends. Bond indexes are total return.

MAY MARKET WRAP

Geopolitics took center stage towards month end as President Trump abruptly cancelled his planned summit in Singapore with North Korean leader Kim Jong-un (a decision since reversed) and global markets were buffeted by political turmoil in Italy and Spain.

Despite the fear of a developing trade war and weakness in emerging markets, strong corporate earnings reports provided fuel to power stocks early in the month. The S&P 500 Index gained 2.2% (2.4% including dividends) and finished the month back in positive territory on a year-to-date basis. Performance was dominated by the Information Technology sector, which accounted for over three-quarters of the index's monthly advance. Solid performance from Apple (+13.1%), Facebook (+11.5%) and Micron Technology (+25.3%) helped drive the sector. For the month, 7 out of the 11 sectors in the index gained.

According to Standard & Poor's, equity volatility decreased as only 3 trading days in the month had a move of at least 1% up or down versus 6 last month.

The Russell 2000 Index of U.S. small company stocks rallied nicely during the month with a gain of almost 6%, hitting a new all-time high in the process.

Interestingly, small-caps lagged large-caps both last year and into this year as well. Once the threat of a trade war with China picked up with President Trump's announcement of a 25% tariff on steel imports at the beginning of March, small-caps began to outperform (since March 1, the Russell 200 gained 8% while the S&P 500 was down slightly by 0.3%.)

A logical explanation why is the fact that small-cap companies on average derive only about half the amount of sales from overseas than large-cap companies do. Another tailwind for small-caps has been the stronger trade-weighted U.S. dollar, which has advanced by about 4.5% since the beginning of April. Relative to large-caps, small-caps tend to do well when the U.S. dollar is strengthening.

In the equity-style derby, growth stocks continue to outpace value stocks. In May, the Russell 1000 Growth Index was up 4.2% versus only 0.3% for the Russell 1000 Value Index. On a year-to-date basis, the gap has been sizable. Growth has exceeded value by approximately 8.5 percentage points (+5.6% vs. -2.9%).

Publicly-traded real estate, as measured by the MSCI US REIT Index, generated a third consecutive month of gains, rising 3.6%. Over the past three months, the index advanced 8.3% but is still down year-to-date by 4.6%.

Equity markets outside of the U.S. struggled during May led by the political uncertainty that reemerged in Europe, trade tensions, rising U.S. interest rates, and the strengthening U.S. dollar. Developed markets, measured using the MSCI EAFE Index, fell by 2.8% and the MSCI Emerging Markets Index fell 3.8%. Notably impacting emerging markets were currency troubles in both Argentina and Turkey. Both nations saw their respective currencies plummet in value during the month attributed to the U.S. dollar's rise. As the dollar rises, it hurts many developing countries by making it more expensive to service dollar-denominated sovereign debt.

The yield on the benchmark 10-year U.S. Treasury note fell by 9 basis points (0.09%) to end the month at 2.86%. The rate did peak at 3.11% during the middle of the month, its highest close since July 2011, before moving lower as investors sought refuge in Treasuries as geopolitical risks increased.

Fixed-income markets finished higher in May. The Bloomberg Barclays U.S. Aggregate Index of taxable bonds rose 0.7%. The high-yield market, as measured by the Bloomberg Barclays U.S. Corporate High-Yield Bond Index, gained 0.65%. Municipal bonds, as measured by the Bloomberg Barclays Municipal Bond Index, advanced a solid 1.2%.

The Federal Reserve's Open Market Committee (FOMC) met and, as expected, made no changes to monetary policy. The Street expects an increase of 0.25% in the short-term federal funds rate upon completion of the two-day FOMC meeting on June 13.

Despite some clouds on the horizon (e.g. trade protectionism, Eurozone political discord, and emerging market capital flight), recent economic indicators continue to look solid overall for the U.S. economy.

GDP growth for Q1 was revised slightly lower to an annualized 2.2% rate from 2.3%, mainly due to a slower accumulation of inventories. One bright spot was a sizable revision in the growth of business fixed investment for items such as equipment, structures, and software to 6.5% from 4.6%.

Other economic releases that indicated a relatively healthy U.S. economy include surveys of both the manufacturing and service sector, retail sales, consumer confidence, and industrial production. Reports of prices at the wholesale and retail level suggest inflation remains quite tame.

In April, the U.S. jobs report indicated that the unemployment rate fell to its lowest level since December 2000 at 3.8%. The longest continuous job expansion on record now sits at 92 months.

Looking forward, the economic environment still appears favorable for further gains in corporate profits and equity prices. But we must be mindful of the geopolitical risks, particularly surrounding the issue of international trade policy, which could result in higher levels of market volatility.

Also, the Fed may end up overreacting to strong employment data with more aggressive rate hiking. Investors will be eagerly awaiting the Fed's statement on June 13 for additional insight on the future path of monetary policy.

Sincerely,

Bob Landry, CFA, CFP
Chief Investment Strategist | United Capital

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UNITED CAPITAL

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Definitions:

S&P 500 Index: A broad based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. It is a capitalization-weighted, unmanaged index that is calculated on a total return basis with dividends reinvested. The S&P 500 represents about 75% of the NYSE market capitalizations.

Russell 2000 Index: This index measures the performance approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small-cap stocks in the United States.

MSCI Europe, Australasia, and Far East (EAFE) Index: This index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

MSCI Emerging Markets Index: This index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of June 2009 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

Bloomberg Barclays U.S. Aggregate Bond Index: A market capitalization weighted bond index of investment grade U.S. dollar-denominated fixed-income securities.

Bloomberg Barclays Municipal Bond Index: The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds.

Gold (spot): Gold price per ounce in US Dollars.