

# Monthly Market Commentary

## May 2021 Recap

U.S. stocks finished mostly higher in May, as investors closely monitored the continued economic recovery and a corresponding uptick in inflation expectations. The S&P 500 (+0.6%) and Dow Jones Industrial Average (+1.9%) each notched their fourth consecutive monthly gain as cyclical and value-oriented shares outperformed with the reopening trade continuing to gain momentum. The Nasdaq Composite slid 1.5% to snap a six-month winning streak amid concerns of stretched valuations in tech and growth-related stocks, which had fueled the rebound from the March swoon in 2020. Meanwhile, a late-May rally in small cap stocks helped the Russell 2000 (+0.1%) eke out an eighth-straight monthly increase, its longest such run since 1995.

Inflation became a key focus for market participants, following a series of reports which showed prices rising as the U.S. economy continued to recover from the pandemic. The Bloomberg Commodity Index climbed to its highest level since 2011, with West Texas Intermediate crude (+4.3%) and gold (7.6%) each posting strong monthly advances. Amid rising raw material prices, the Consumer Price Index (CPI) jumped 0.8% in April, the largest monthly uptick since June 2009. Meanwhile, the five-year Treasury breakeven rate, which essentially measures the bond market's average inflation expectations during the time horizon, climbed to 2.7%, the highest level in nearly 13 years. Some Federal Reserve officials noted that it may become appropriate to talk about tapering asset purchases "at some point" in the future, according to the April meeting minutes. However, policymakers also continued to exhaust their message that price pressures should prove to be transitory.

Mixed economic reports also helped alleviate concerns about preemptive monetary policy tightening, with a string of disappointing releases serving as a reminder that the domestic recovery remains choppy. Updates on retail sales, consumer confidence, and the employment landscape missed expectations. Most notably, nonfarm payrolls rose by just 266,000 in April, well below the expected one million-job increase and good for the biggest miss on record. Separately, a report from the Institute for Supply Management (ISM) showed that U.S. manufacturing activity expanded at a slower-than-expected pace in April, weighed down by ongoing supply chain bottlenecks that have stifled output as factories struggle to keep up with pent-up demand. Still, the gauge remained at a robust 60.7 despite falling from March's 64.7 reading, which had been the strongest since 1983. Meanwhile, a measure of service sector activity in the U.S. unexpectedly eased but still revealed the second-strongest rate of growth on record in April. The U.S. labor market continued to signal a recovery, with weekly initial jobless claims ending the month at their lowest level since March 2020. Treasuries strengthened, with yields falling for a second-consecutive month in May. The benchmark 10-year note yield ended the month at 1.59%, four basis points below where it finished in April.

Stocks tied to reopening activity outperformed as major U.S. metropolitan areas began to ease many of the COVID-19-related constraints. Energy, Materials, and Financials all jumped more than 4% in May, while growth stocks lagged, with Technology and Consumer Discretionary shares both posting monthly losses. Profit tallies from retailers capped a robust first-quarter earnings season, with **Walmart** (WMT \$142.03) beating Wall Street profit estimates on strong grocery sales and a 37% jump in e-commerce revenue. **Target** (TGT \$226.92) rallied after posting a 23% jump in first-quarter sales and forecasting widening margins this year. Elsewhere, **Home Depot's** (HD \$318.91) lack of forward guidance overshadowed top and bottom line figures that dwarfed consensus estimates, while rival **Lowe's** (LOW \$194.83) also traded lower as

worries surrounding supply chain bottlenecks appeared to outweigh upbeat quarterly figures. Meanwhile, **Walt Disney Co.** (DIS \$178.65) fell after missing revenue projections and attracting fewer streaming subscribers than expected. In M&A news, **AT&T** (T \$29.43) and **Discovery, Inc.** (DISCA \$32.11) announced plans to combine their media content assets to form a new company. Shares of each company dropped, however, with AT&T losing 6.3% on the month amid news its dividend payout ratio would be cut as a result of the spinoff. Elsewhere, **Amazon** (AMZN \$3,223.07) said it would purchase MGM Studios for \$8.45 billion in its second-largest acquisition.

## Disclaimers

Pricing as of market close on May 28, 2021 unless indicated otherwise.

All investing involves some degree of risk, whether it is associated with market volatility, purchasing power or a specific security.

Additional information available upon request. Past performance is not a guide to future performance. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee as to its accuracy or completeness. This material is published solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or investment product. Opinions and estimates are as of a certain date and subject to change without notice.

## Definitions

The S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market.

The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization.

Bloomberg Commodity Index is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification.

## Price and Total Returns

### U.S. Markets

Index	Close	May Price Return (%)	May Total Return (%)	April Total Return (%)	YTD Total Return (%)*
S&P 500	4204.11	0.55	0.70	5.34	12.61
Dow Jones Industrial Average	34529.45	1.93	2.21	2.78	13.76
Nasdaq Composite	13748.74	-1.53	-1.44	5.43	6.98
S&P 400 Mid Cap	2727.44	0.08	0.20	4.50	18.81
S&P 600 Small Cap	1371.94	1.96	2.07	2.04	23.14

### U.S. Sector Performance

Index	Close	May Price Return (%)	May Total Return (%)	April Total Return (%)	YTD Total Return (%)*
Communications Services	257.37	-0.07	-0.06	7.85	16.50
Consumer Discretionary	1380.08	-3.89	-3.81	7.10	6.22
Consumer Staples	725.46	1.65	1.77	2.21	5.21
Energy	389.82	4.90	5.77	0.59	39.20
Financials	630.13	4.68	4.79	6.57	29.43
Health Care	1437.44	1.74	1.89	3.96	9.29
Industrials	886.44	2.89	3.14	3.59	19.03
Information Technology	2426.93	-1.05	-0.91	5.26	6.36
Materials	547.32	5.04	5.22	5.35	20.91
Real Estate	269.98	1.09	1.21	8.29	19.48
Utilities	329.58	-2.78	-2.34	4.28	4.73

### International Markets

Index	Close	May Price Return (%)	May Total Return (%)	April Total Return (%)	YTD Total Return (%)*
U.K. FTSE 100	7022.61	0.76	1.08	4.08	10.44
Germany DAX	15421.13	1.88	1.88	0.85	12.41
France CAC 40	6447.17	2.83	4.03	3.57	18.08
Spain IBEX 35	9148.90	3.79	3.92	2.83	14.00
Italy FTSE MIB	25170.55	4.26	5.16	-1.91	14.79
Greece ATHEX	894.85	-1.70	-1.61	5.27	10.75
MSCI Emerging Market	1376.21	2.12	2.34	2.50	7.25
Shanghai Composite	3615.48	4.89	5.02	0.20	4.29
Japan Nikkei 225	28860.08	0.16	0.16	-1.25	5.90
Hong Kong Hang Seng	29151.80	1.49	2.09	1.30	8.13
Brazil Bovespa	126215.70	6.16	6.16	1.94	6.05
Russia Micex	3721.63	5.01	6.86	0.10	15.35
India Sensex	51937.44	6.47	6.68	-1.45	9.18

## Treasuries

Maturity	May Ask Yield	April Historical Yields	March Historical Yields	February Historical Yields	January Historical Yields
2-Year	0.14	0.16	0.16	0.13	0.11
5-Year	0.80	0.85	0.94	0.73	0.42
10-Year	1.59	1.63	1.74	1.40	1.07
30-Year	2.28	2.30	2.41	2.15	1.83

## Municipal Bonds

Maturity	Close	May Price Return (%)	April Price Return (%)	March Price Return (%)	YTD Price Return (%)*
S&P Municipal Bond Index	277.68	0.40	0.80	0.55	0.95
S&P Muni Bond Long Intermediate	289.57	0.31	0.80	0.54	0.58
S&P Muni Bond Intermediate	274.31	0.26	0.72	0.49	0.52
S&P Muni Bond Short	180.64	0.06	0.17	0.17	0.36
S&P Muni Bond Investment Grade	273.21	0.34	0.77	0.54	0.70
S&P Muni Bond High Yield	351.33	1.17	1.27	0.72	4.27
S&P Muni Bond General Obligation	266.18	0.28	0.73	0.52	0.42

## Commodities

Front Month Futures	Close	May Price Return (%)	April Price Return (%)	March Price Return (%)	YTD Price Return (%)*
CRB Index	205.70	2.97	8.00	-2.87	22.59
Oil/bbl	66.32	4.31	7.47	-3.80	36.69
Natural Gas	2.99	1.88	12.38	-5.88	17.61
Gold	1902.50	7.63	3.15	-0.87	0.39
Silver	28.01	8.36	5.38	-7.08	6.07
Copper	467.75	4.43	12.10	-2.42	32.92
Nickel	18083.00	2.45	10.11	-13.54	9.15

## Foreign Exchange

Currency	Close	May Price Return (%)	April Price Return (%)	March Price Return (%)	YTD Price Return (%)*
Dollar Index	90.03	-1.59	-2.09	2.59	-0.12
Euro/USD	1.22	1.72	2.47	-2.86	0.09
USD/Yen	109.58	0.25	-1.27	3.89	6.13
GBPound/USD	1.42	2.82	0.28	-1.08	3.96
USD/CAD	1.21	-1.81	-2.19	-1.38	-5.19
USD/Krona	8.30	-1.97	-3.04	3.47	0.86
USD/Swiss Franc	0.90	-1.56	-3.23	3.86	1.55

Source: Bloomberg. \*Prices as of the close May 31, 2021

The opinions expressed here reflect the judgment of the author as of the date of the report and are subject to change without notice. Any market prices are only indications of market values and are subject to change. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Additional information is available upon request. Please contact your Financial Advisor.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company.

©2021 Wells Fargo Clearing Services, LLC. All rights reserved. CAR-0621-00265