

## May's Markets in Full Bloom



### In Short

- Equity markets rebounded in May, with the S&P 500 gaining 6.2%, up 1.1% year-to-date. International markets continued an upward trend, with the All-Country World ex-U.S. index rising 14% year-to-date, benefitting from a weaker U.S. dollar.
- “Hard” economic data has remained steady, while pockets of weakness in “soft” data raise questions. The U.S. consumer appears to be hanging on despite a period of more negative sentiment.
- Investors should continue to adhere to long-term asset allocations. Portfolio diversification and utilization of active management where appropriate may help to mitigate downside risks during periods of volatility.

### The Month in Markets

Investors may look at the calendar and be shocked to see that we are nearing the midpoint of the year following a dizzying flurry of tariff headlines that caused sharp movements in both equity prices and bond yields. After experiencing swings that brought the Cboe Volatility Index (VIX) to its highest level since the onset of the COVID-19 pandemic, the S&P 500 is relatively unchanged year-to-date, up 1.1% through May. In fact, the index posted its best monthly performance since November 2023, rising 6.2%.

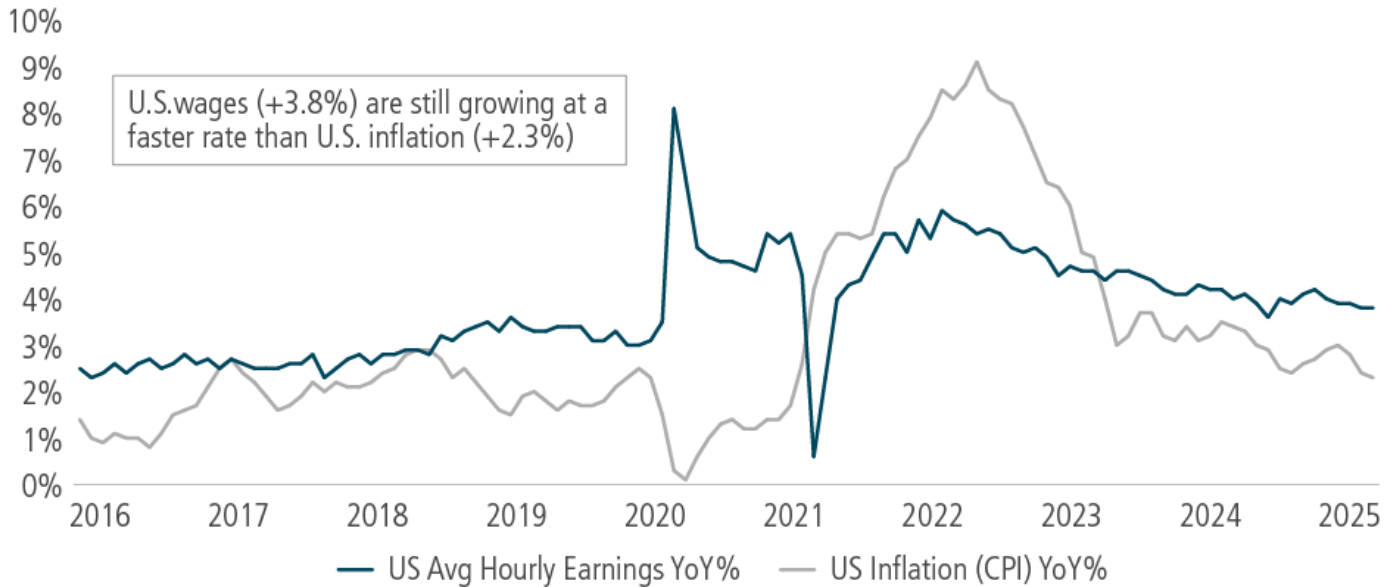
The S&P 500 equal-weighted index, with a 1.3% year-to-date return, is still narrowly outperforming its market-weighted counterpart, but the Magnificent 7 stocks came roaring back in May, gaining about 14%, with Nvidia, Microsoft and Broadcom the notable drivers of broader index performance. After being pressured by China's DeepSeek competition earlier this year, followed by a generally risk-off environment since then, the Magnificent 7 are still down by around 3% year-to-date as a basket of stocks.<sup>1</sup> Pockets of AI-related tailwinds, in part from the announcement of a \$600 billion U.S.-Saudi Arabia AI partnership and a strong earnings season and outlook, gave technology stocks a much-needed lift. On a sector level, more defensive areas of the market such as Industrials, Utilities and Consumer Staples have fared better this year than Technology and Consumer Discretionary; this dynamic could be set to continue in any additional periods of volatility, especially once the 90-day tariff pause is over.

Despite the year's turbulence, the U.S. economy has held relatively steady when looking at what is commonly referenced as “hard data” (i.e., any measurable, objective economic metric like GDP or employment levels). Q1 GDP showed a slight quarter-over-quarter contraction, which was primarily attributed to a surge in imports meant to get ahead of tariffs and a slight deceleration in consumer and government spending. Otherwise, the report wasn't cause for major concern and the second read was revised slightly higher.

April inflation data was better than expected, with CPI at its lowest year-over-year level since early 2021, following a generally disinflationary trend. The monthly employment report continued to show strength with a historically low unemployment rate and better-than-expected levels of job creation, even as continuing jobless claims hit their highest level since 2021. Domestic companies fared well in Q1 with S&P 500 earnings growing at a blended rate of about 13%—the index's second-straight quarter of double-digit growth. Going into the second half of the year, all these indicators will be watched closely to get a sense of the impact of the administration's policy decisions and the likely path of Federal Reserve policy (with two interest rate cuts priced in by year-end).

<sup>1</sup>Magnificent 7 stocks are defined as Microsoft, Apple, Nvidia, Amazon, Meta, Alphabet and Broadcom as of the end of May 2025.

### *U.S. Wages Continue to Grow Above the Inflation Rate*



Source: Bloomberg as of April 2025.

### **To Spend or Not to Spend?**

There have been some concerns this year about “soft data,” which includes surveys, sentiment indicators and expectations like consumer confidence. However, May Consumer Confidence came in at 98.0, well ahead of consensus and up from 85.7 in April. May's improvement came after five consecutive months of declines and was largely attributed to easing trade tensions after momentum in U.S.-China discussions. Since then, trade discussions seem to be in a general holding pattern, at least until July, as the U.S. works through negotiations and awaits resolution of the trade court decision disallowing tariffs. Besides trade, the Republican tax bill has been a source of both optimism on growth and worries over deficit spending.

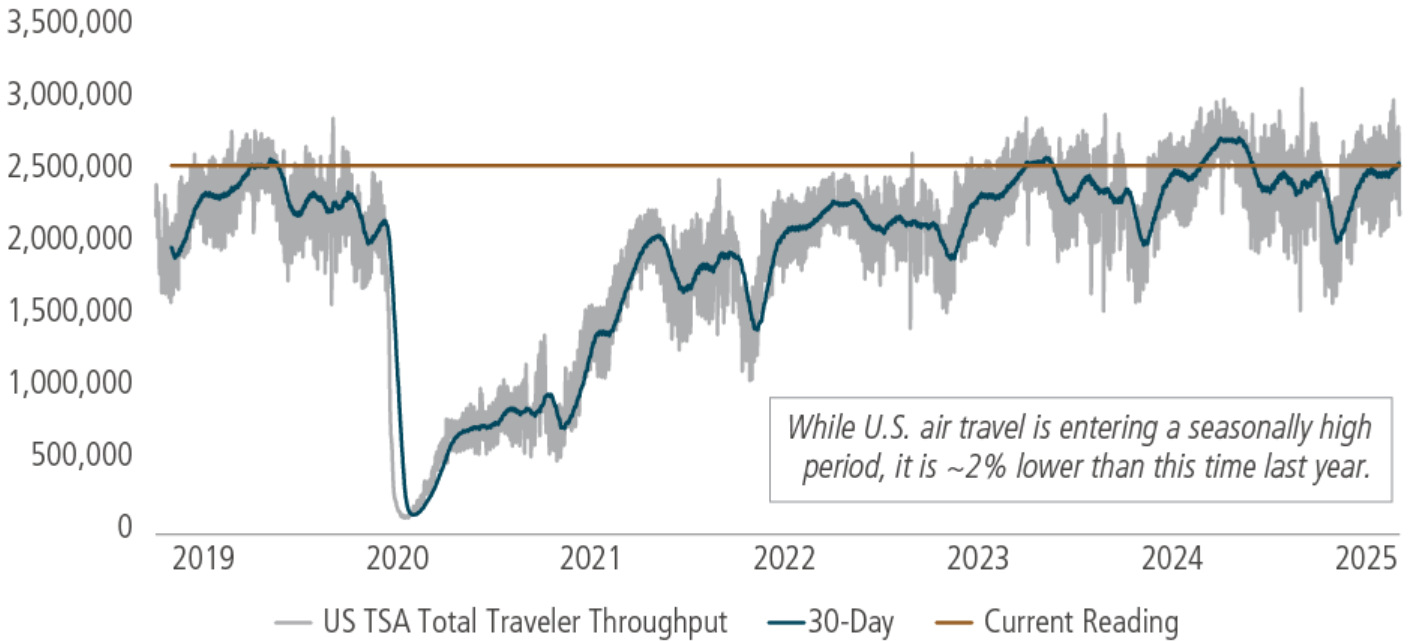
Another cause for concern is the relative price of the U.S. dollar which has fallen significantly so far this year, down over 8%. The pressure on the dollar has been surprising, given that higher U.S. tariffs would usually be expected to push up its relative value as U.S. consumers buy fewer foreign goods. Also, an increase in risk aversion (especially given an increase in market volatility) typically drives investors towards the haven of U.S. assets. Dollar weakness has acted as a tailwind for foreign investments, with the All-Country World ex-U.S. index up 14% year-to-date, and it is possible that downward pressure on the currency could continue.

Many of the dynamics at play bring the state of the U.S. consumer—representing about two-thirds of GDP—into question, especially as we start to look under the hood at recent spending patterns. As evident in recent earnings calls across a variety of sectors, the high-level takeaway seems to be that higher- and middle-income consumers have money to spend but are being choosier about how to spend it. This trend is shown in the strength of bellwethers like Walmart and Home Depot, with some general softness in discretionary retail, such as Target.

Restaurants, which tend to quickly reflect changes in sentiment, are showing stable spending in aggregate, but also clear winners and losers around value and innovation. Travel volume, in contrast, has slowed, particularly among airlines, as travelers postpone booking their trips. All things considered, the consumer is set up fundamentally well, with cash holdings still elevated and a supportive labor market.

As long as the consumer hangs in, we believe the potential for recession remains low. That said, the picture is mixed across sectors and industries, and we have not yet seen the full impact of tariffs or other emerging policies. Based on preliminary federal revenue data, the effective level of U.S. tariffs was about 4.5% in April and 6.5% in May, but if enacted as proposed, could eventually double or triple. We will be watching closely to see if wavering sentiment eventually translates into more meaningful action, perhaps in the form of a sustained pullback in consumer spending.

### U.S. Air Travel Passenger Count



Source: Bloomberg as of June 2, 2025.

Rather than “selling in May and going away,” investors should continue to adhere to long-term strategic asset allocations. Diversification across asset class, sector, size and style, and utilizing active management where appropriate, may help mitigate downside risks during periods of volatility. This strategy has worked well so far this year; for example, a Moderate 50% stocks/50% bonds portfolio including international exposure has outperformed a domestic-only portfolio by 1.6% through May.

### Portfolio Implications

**Equities** were higher across the board during the month, led by domestic growth stocks. We recently upgraded our views on global equities and developed non-U.S. equities due to major fiscal stimulus announced in Europe and ongoing advances in corporate governance in Japan, while maintaining an overweight to small and midcaps as we anticipate better performance against a more predictable policy backdrop and lower rates later in the year. Otherwise, we maintain an “at-target” view across equities. Admittedly, short-term volatility related to the end of the 90-day tariff pause, coupled with historical volatility in June and August due to seasonality factors, may create pressure for equities. However, any larger pullbacks (10% or more) could be an appropriate trigger to add risk, especially for those holding excess cash. In this more challenging environment, we favor employing active management to select companies with high earnings visibility.

**Fixed Income** was flat to mostly negative for the month after some yield volatility, although high yield moved higher as spreads tightened. We are more constructive on investment-grade fixed income as yields are close to fair value, with shorter-dated bonds in particular presenting little downside risk, in our opinion. With the spread of bond yields over cash rates likely to widen further, we see opportunities to deploy cash tactically, adding and/or shortening duration based on the movement of rates. The proposed tax bill has added a level of uncertainty to the mix, as investors may continue to demand higher term premiums to compensate for the risk of holding long-term government bonds at a time when large federal deficits are creating uncertainty about future economic stability. Multi-sector bond funds may be an appropriate vehicle to consider, given the levers a manager can opportunistically pull across sector, duration profile and region. Overall, our soft-landing outlook and debt sustainability concerns make us cautious on longer-dated bonds, even if policy rates are cut in the latter half of the year.

With a fading liquidity drought and an expected pickup in mergers and acquisitions and other deal activity due to a healthy macro backdrop, we believe significant opportunities still exist within *Private Markets*, as investors should expect new buyout activity and an unlocking of distributions. That said, liquidity and capital solutions providers will likely remain important to work through the substantial backlog of legacy investments. As a result, we continue to see compelling opportunities across secondaries, mid-life co-investments and capital solutions. We are cautious on core

private real estate, but this is offset by what we see as abundant market-dislocation opportunities in the value-add and opportunistic sectors and, particularly, real estate secondaries. Neuberger Berman's deep relationships and unique position within the private equity ecosystem have translated into record levels of deal flow across our platform.

## Index Returns as of May 2025

Equities				Fixed Income Currencies & Commodities			
	<u>May-25</u>	<u>3M</u>	<u>YTD</u>		<u>May-25</u>	<u>3M</u>	<u>YTD</u>
<b>Major U.S. Indices</b>				<b>Major U.S. Indices</b>			
S&P 500 Index	6.3%	-0.4%	1.1%	Cash	0.4%	1.0%	1.7%
Nasdaq Composite	9.6%	1.6%	-0.7%	U.S. Aggregate	-0.7%	-0.3%	2.4%
Dow Jones	4.2%	-3.1%	0.1%	Munis	0.1%	-2.4%	-1.0%
<b>U.S. Size Indices</b>				<b>U.S. Corporates</b>			
Large Cap	6.4%	-0.4%	1.0%	Investment Grade	0.0%	-0.3%	2.3%
Mid Cap	5.7%	-0.2%	1.1%	High Yield	1.6%	0.8%	2.9%
Small Cap	5.3%	-4.1%	-6.8%	Short Duration (1.9 Yrs)	-0.1%	1.1%	2.3%
All Cap	6.3%	-0.5%	0.6%	Long Duration (12.8 Yrs)	-1.7%	-3.7%	0.6%
<b>U.S. Style Indices</b>				<b>Global Fixed Income Indices</b>			
All Cap Growth	6.3%	-0.5%	0.6%	Global Aggregate	-0.4%	3.2%	5.3%
All Cap Value	3.5%	-2.6%	2.0%	EMD Corporates	0.6%	0.4%	2.7%
<b>Global Equity Indices</b>				<b>Commodities</b>			
ACWI	5.7%	2.5%	5.3%	Commodities	-0.6%	-1.6%	3.0%
ACWI ex US	4.6%	8.1%	14.0%	<b>U.S. Treasury Yields</b>			
DM Non-U.S. Equities	4.7%	9.3%	17.3%	U.S. 10-Year Yield	0.2%	0.2%	-0.2%
EM Equities	4.3%	6.4%	8.9%	U.S. 2-Year Yield	0.3%	-0.1%	-0.3%
<b>Portfolios</b>				<b>FX</b>			
50/50 Portfolio	3.2%	-1.4%	0.1%	U.S. Dollar	-0.1%	-7.7%	-8.4%

Source: Bloomberg, Total returns as of May 31, 2025. S&P 500 Index is represented by S&P 500 Total Return Index. Nasdaq Composite NASDAQ-Composite Total Return Index. Dow Jones is represented by Dow Jones Industrial Average TR. Large Cap is represented by Russell 1000 Total Return Index. Mid Cap is represented by Russell Midcap Index Total Return. Small Cap is represented by Russell 2000 Total Return Index. All Cap is represented by Russell 3000 Total Return Index. Large Cap Growth is represented by Russell 1000 Growth Total Return. Large Cap Value is represented by Russell 1000 Value Index Total Return. Small Cap Growth is represented by Russell 2000 Growth Total Return. Small Cap Value is represented by Russell 2000 Value Total Return. ACWI is represented by MSCI ACWI Net Total Return USD Index. ACWI ex US is represented by MSCI ACWI ex USA Net Total Return USD Index. DM Non-U.S. Equities is represented by MSCI Daily TR Gross EAFE USD. EM Equities is represented by MSCI Daily TR Gross EM USD. Cash is represented by ICE BofA US 3-Month Treasury Bill Index. U.S. Aggregate is represented by Bloomberg US Agg Total Return Value Unhedged USD. Munis is represented by Bloomberg Municipal Bond Index Total Return Index Value Unhedged USD. Munis Short Duration is represented by Bloomberg Municipal Bond: Muni Short (1-5) Total Return Unhedged USD. Munis Intermediate Duration is represented by Bloomberg Municipal Bond: Muni Intermediate (5-10) TR Unhedged USD. Investment Grade is represented by Bloomberg US Corporate Total Return Value Unhedged USD. High Yield is represented by Bloomberg US High Yield BB/B 2% Issuer Cap Total Return Index Value Unhedged USD. Short Duration is represented by Bloomberg US Agg 1-3 Year Total Return Value Unhedged USD. Long Duration is represented by Bloomberg US Agg 10+ Year Total Return Value Unhedged USD. Global Aggregate is represented by Bloomberg Global-Aggregate Total Return Index Value Unhedged USD. EMD Corporates is represented by J.P. Morgan Corporate EMBI Diversified Composite Index Level. EMD Sovereigns – USD is represented by J.P. Morgan EMBI Global Diversified Composite. Commodities is represented by Bloomberg Commodity Index Total Return. Commodities ex Energy is represented by Bloomberg Ex-Energy Subindex Total Return. U.S. 10-Year Yield is represented by US Generic Govt 10 Yr.

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