May 2023 Performance Summary

US equity markets were relatively flat over the month, with the S&P 500 index returning 0.4%. However, performance was bifurcated across the investment universe, with large-cap tech stocks emerging as a positive outlier during the month on more upbeat sentiment around artificial intelligence (AI). The mega-cap growth index returned +5.5%, while small and mid-cap growth equities were flat and large, mid, and small-cap value equities posted declines.

Inflation continued to decelerate in the U.S., with the annual rate of change dropping below 5% for the first time in two years. The Federal Reserve hiked interest rates by an additional 25bps during the month, however it softened its messaging about the potential for future policy tightening. The looming debt ceiling dominated headlines; however the Senate reached an agreement by the end of the month.

Equity markets declined outside of the U.S., with the MSCI EAFE and MSCI Emerging Markets indices returning -4.2% and -1.7%, respectively, in U.S. dollar terms. Japanese equities were the one positive contributor, returning +1.0%. Performance across global markets mirrored the dynamic experienced in the U.S. – large growth stocks were a positive outlier as semiconductor companies and other perceived beneficiaries from the rise of AI experienced a significant boost to sentiment. In the emerging markets, China and Hong Kong experienced declines as the economic recovery has been weaker than anticipated following the China “re-opening.”

Most government bond yields generated negative performance in May as yields rose throughout the month. With the economic weakness in China, increasing concerns emerged about global growth, which led to the U.S. dollar strengthening across all major currencies during the month.

In May, the Long-Term Pool declined by -1.2%, trailing the policy benchmark by 10 basis points. On a relative basis, the Pool's domestic large/mid-cap and emerging market equity asset classes were the largest detractors, while domestic small cap and international equities posted the largest relative outperformance. Year-to-date, the Long-Term Pool gained 4.3%, which was in-line with its benchmark.

The Socially Responsible Pool declined by -1.1% for the month, outperforming its policy benchmark return by 20 basis points. The pool's domestic large-cap and international
equity allocations were the largest relative outperformers for the month. Year-to-date, the Pool gained 5.1%, which was in-line with its benchmark.

The Mid-Term Pool declined by -1.1% for the month, outperforming its policy benchmark by 10 basis points. Year-to-date, the Pool gained 4.0%, which trailed the benchmark by 30 basis points. As the Pool is largely invested in index funds, any return differences are primarily driven by cash movement in the Pool that result in temporary deviations from policy asset allocation targets.

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