Greetings,

Economic data released in May was somewhat softer than expected. GDP weakened to +1.3%, inflation was +2.8%, and the April jobs reports posted weaker job creation numbers and lower wage growth, while the unemployment rate held at 3.9% (near a 50-year low). Retail sales were weaker than expected, leading to concerns about slowing consumer spend, as highlighted on numerous corporate earnings calls.

Disinflation is expected to continue for the rest of the year. Chairman Powell of the Federal Reserve suggested the disinflation narrative may need more time to play out as the committee reviews data and gains confidence that inflation is moving closer towards their 2% target. The market appears to be pricing in a 60% chance of an interest rate cut at the Fed's September meeting.

May was a strong month for stocks after more strong earnings reports, with the Nasdaq, Dow and S&P 500 notching new all-time highs. More than half of May's S&P 500's gains can be attributed to four mega tech stocks (Nvidia +26%, Apple +13%, Microsoft +6.8% and Alphabet +6%). While this concentration of top performers raises questions about market leadership, we believe the market remains strong with positive performance during the month of 10 out of 11 sectors (energy lagged). We also expect the benefits of AI to be a positive factor for each sector, not just technology.

The month of June will continue to provide economic data that we will watch. The timing of interest rate cuts is still likely in the latter half of the year, but we will provide updates in future market commentary. As always, we will remain disciplined in our approach to well-diversified portfolios and provide any material updates as they come along.

Warm Regards,

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