MONTHLY MARKET RECAP

June 2, 2025

Index	Asset Class	2025 May	2025 YTD	2024
Equity Indexes		**Total Returns**		
NASDAQ 100	Mega Cap U.S. Growth Equity	9.1%	1.9%	25.9%
S&P 500	Large Cap U.S. Equity	6.3	1.1	25.0
S&P 400	Mid Cap U.S. Equity	5.4	(3.3)	13.9
S&P 600	Small Cap U.S. Equity	5.2	(8.2)	8.7
MSCI All Country World	Global Equity	5.8	5.5	18.0
MSCI All Country World (Ex U.S.)	International Equity	4.7	14.4	6.1
MSCI Europe, Asia & Far East (EAFE)	International Developed Market Equity	4.7	17.3	4.4
MSCI Emerging Markets (EM)	International Emerging Market Equity	4.3	8.9	8.1
Fixed Income Indexes				
Bloomberg U.S. Aggregate Bond	U.S. Investment Grade Bond	(0.7)	2.5	1.3
S&P National AMT-Free Municipal Bond	U.S. Investment Grade Muni Bond	(0.2)	(1.4)	1.3
S&P Municipal Bond High Yield	U.S. Muni Bonds (Below Investment Grade)	(0.0}	(1.1)	6.7
Bloomberg U.S. Corp. High Yield	U.S. Corp Bonds (Below Investment Grade)	1.7	2.7	8.2
Index Blends: Stock/Bond				
80%/20%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		4.5	5.0	14.5
60%/40%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		3.2	4.4	11.1
40%/60%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		1.9	3.8	7.7
20%/80%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		0.6	3.1	4.5

Data as of 5/31/2025. Source: Morningstar, and blended benchmark returns are based on monthly rebalancing.

Please see important disclosures at end of this report.

Overview & Economy

Debbie Downer vs. Pollyanna. Throughout May, investment markets remained primarily focused on tariffs and their implications, and to a lesser extent on progressing tax and spending legislation (a.k.a., the Big Beautiful Bill).[1] The bond market is exhibiting trepidation about the outlook, with market yields creeping higher. On the other hand, equity markets seem more focused on the day-to-day news flow and appear entirely "complacent" about what's next (credit the adjective to Jamie Dimon, CEO of JPMorgan[2]).

From the recently released minutes of the Federal Open Market Committee meeting in early-May, Fed officials denoted heightened economic uncertainty and increased risks of both higher unemployment and higher inflation.[3] Since then, President Trump lowered and/or postponed threatened tariffs on China and the European Union, although the matter of tariffs has now been taken up by Federal Courts, where it is being considered whether the President overstepped his authority.[4]

Even more interesting to us than the ongoing judicial badminton around tariffs, is the escalating and even unprecedented disparities/dispersions/contrasts across and within investment markets, along with the increased volatility (even intraday). We will likely take up these topics in more detail in a future special report, but for now, we'd just like to highlight a couple important devolutions regarding the macro asset classes of U.S. stocks and bonds:

- ***Shift in Relative Size*** – In sharp contrast to basically the entire 20th century, the size of the U.S. stock market has come to surpass the size of the U.S. bond market. The combined valuation of U.S. stocks and bonds as of yearend 2024 totaled about $109.1 trillion – of which, stocks accounted for about 57% and bonds 43%. This compares with relative weights of about 27%/73% for stocks/bonds at yearend 2008, just after the Financial Crises.[5] This important flip in relative size has been driven by the sharp rally in U.S. stocks since 2008 (up 554% in terms of the S&P 500) and a decline in bond values since 2020 due to rising rates/yields.

- ***Shift in Stock Ownership*** – Public equity markets have grown sharply since the post-WWII economic expansion, and have been traditionally the purview of institutional investors – referring to professionally managed pension funds, insurance pools, mutual funds, etc. This has also flipped, as retail investors now represent the largest ownership segment of U.S. equities. As of 2022/2023, the latest data available, 40.7% of the $58.1 trillion U.S. equity market was in the hands of retail households[6] – and this is before we consider the portions of equity index ETFs and mutual funds also in retail hands. This important shift reflects the compounding growth over recent years of 401k assets, along with the continuing abandonment of employer and union sponsored defined benefit plans.

The implications of the aforementioned important devolutions are that: (1) No longer are conservative bond investors (folks just looking to get repaid) the principal drivers of U.S. investment markets; and (2) No longer are research-intensive institutional investors the largest participants in the U.S. equity market. While the relative size between the bond and stocks markets has historically fluctuated through market cycles, the shift in equity ownership towards retail is secular and appears likely to widen.

Equity Markets

Equity indexes logged solid returns in May across the board, and as of now only U.S. Mid and Small Caps are down YTD. Mega-Cap Growth stocks led in the month, but International stocks remain the hands-down leaders YTD. Of course, International stocks do have over a decade of underperformance to make up.

Fixed Income Markets

Reflecting risks arising from tariffs and the prospects of further increases to U.S. Government budget deficit and debt, all three major credit rating agencies have now downgraded U.S. credit for their top notch – with Moody's recent downgrade being the third.[7] The ongoing bond market angst is most evident on the long-end of the yield curve – e.g., in 10 to 30-year Treasuries. Thirty-year Treasury market yields are treading near 5.0%, a level not seen since before the Financial Crises and a level above which material constraints to economic activity are feared (e.g., for residential mortgage rates and corporate borrowings). Turning our attention to the intermediate-term bond indexes we track, investment-grade bond indexes ticked down in May, whereas the risk-on high yield indexes reflect less concerns. In May, the muni bond indexes continued to underperform the taxable bond indexes. As we've previously written, muni bond investors are moving to discount the reduced tax benefits of muni dividends with lower Federal tax rates, as well as the implications of reduced Federal funding for states.

Reference(s):

1) CNBC News Article, "House Republican tax bill favors the rich…", Updated May 23, 2025 – *Link*
2) CNN Business Article, "Jamie Dimon warns…[about] 'extraordinary amount of complacency' ", May 19, 2025 – *Link*
3) The Wall Street Journal Article, "The Fed Forecasts Stagflation", May 28, 2025 – *Link*
4) The New York Times Article, "Tariff Rulings Inject New Uncertainty into Trump Trade Strategy", May 29, 2025 – *Link*
5) Multiple Sources, Total Value Data, U.S. Stock Market & U.S. Bond Market – *Link1*, *Link2*
6) NASDAQ, The 2024 Intern's Guide to the Market Structure (Ownership Breakdown of U.S. Equity Market) – Link
7) Forbes Article, "Bond Investors Sound the Alarm", May 31, 2025 – Link

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