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FAMILY OFFICE

Economic & Market review – May 2021

Global equity markets ended mostly higher in May as coronavirus infection rates eased in most developed economies, with the notable exception of Japan.

A spike in inflation weighed on consumer and investor sentiment in the U.S., although Federal Reserve officials offered assurances it would prove temporary.

The major indexes ended mixed in May, with investors appearing to balance reopening optimism against inflation worries. Value stocks outperformed their growth counterparts, building on their substantial lead for the year to date. Sector returns varied widely within the S&P 500 Index, with energy and materials shares gaining over 5% on a total return (including dividends) basis, while consumer discretionary shares fell nearly 4%.

Longer-term Treasury yields decreased somewhat over the month, providing a moderate overall boost to the fixed income market. Treasury inflation protected securities generated strong returns as worries about inflation increased. Investors continued to favor corporate securities, particularly energy bonds, while agency mortgage-backed securities recorded modest losses. Investment-grade corporate bonds slightly outperformed the high yield bond market.

Compounding labor shortages is the dramatic rise in input costs, which was highlighted on one earnings call after another during the recent quarter-end announcements. CPI for April was up +4.2% YoY while PPI surged +6.2% YoY. The PCE Deflator rose +3.6% YoY. Despite these rises, the Fed insists that recent inflationary pressures are transitory, meaning they are unlikely to persist over the longer term.

Shares in Europe gained for a fourth consecutive month as the accelerating rollout of vaccines for the novel coronavirus and central banks' accommodative monetary policies contributed to investors' optimism about the economic recovery. In local currency terms, the pan-European STOXX Europe 600 Index ended more than 2% higher. The major equity indexes in Germany, France, and the UK have advanced in each of the past four months, while Italy's FTSE MIB Index rebounded from April's losses.

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