

June 2025

Student of the Market

BlackRock

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Stocks

**U.S. stocks bounce
back in May**



**U.S. stock market
drawdowns**



**Seasonal stock and
bond returns**



**International
diversification**



Bonds and alternatives

Inflation seasonality



**Fed funds rate and
inflation**



A Fed rate cut pause



**Alternatives
when correlations
are high**

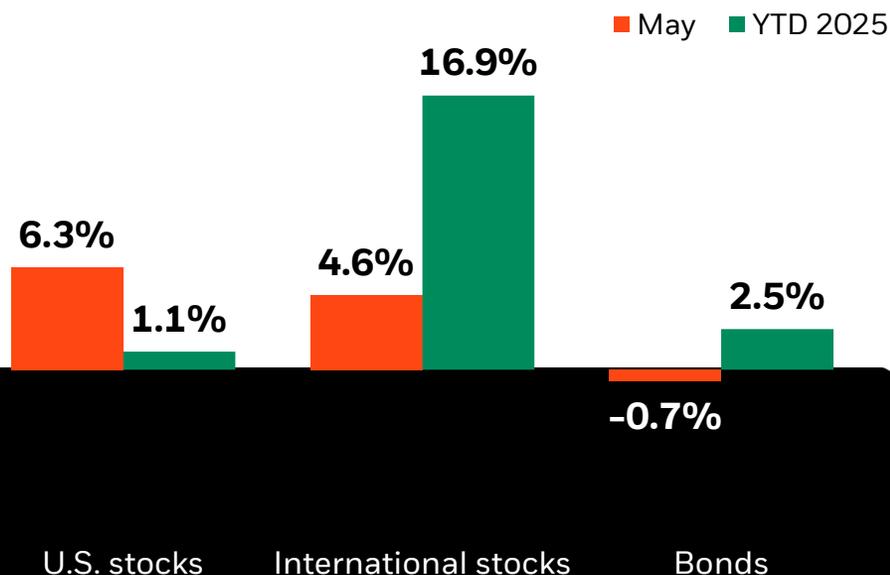


Second best May for U.S. stocks since 1950

After 3 consecutive months of losses (the first time since 8/23 - 10/23), U.S. stocks bounced back in big way

2025 asset class performance

May and YTD performance through 5/31/2025



Returns after previous “best” Mays have been robust

Returns after 7 of the top 9 periods since 1926 were positive, S&P 500 returns (%)

Year	May	Next 7 months (Jun-Dec)
1990	9.8	-6.6
2025	6.3	?
1997	6.1	15.5
1985	5.8	14.2
2009	5.6	22.8
1986	5.3	-0.1
2003	5.3	16.6
1980	5.1	25.6
1950	5.1	14.1
2024	5.0	12.3
Average	5.9	12.7



May’s rebound can in large part be attributed to easing trade tensions, as updated policy announcements sent optimism (and valuations) higher from their April levels. As a result, recession risks have also dropped – but uncertainty around trade policy details is likely to remain.

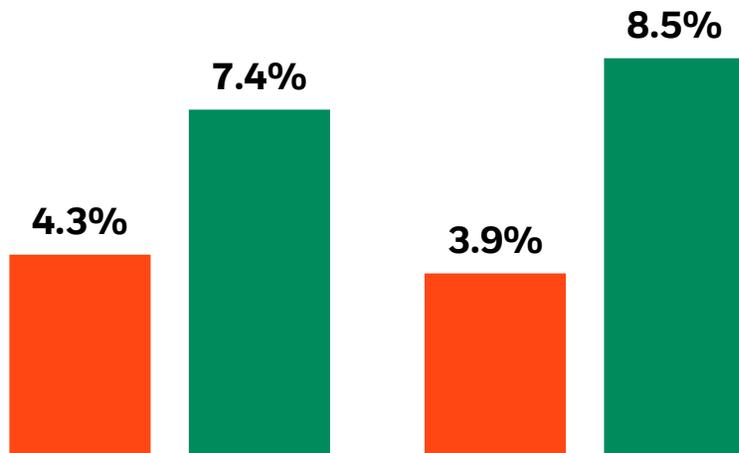
Source: BlackRock, Morningstar as of 5/31/25. U.S. Stocks are represented by the S&P 500 TR Index. International Stocks are represented by the MSCI EAFE NR Index. U.S. bonds represented by the Bloomberg U.S. Agg Bond Intermediate TR Index. **Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only.** You cannot invest directly in the index.

Sell in May and go away?

Stock market seasonality historically favored the winter and spring, but recent years has been mixed – meaning investors following the old “Sell in May and go away” adage run the risk of missing out

Stocks have entered what has been a lower return season, historically...

Average return for all 6-month periods since 1926



Since 1926

Last 50 years

■ May 1 to Oct. 31 ("Mommies to Mummies")

■ Nov. 1 to Apr. 30 ("Turkey to Tax")

...but the last 10 years have tended to see more equal seasonal performance

Average return for all 6-month periods since 2015

Mommies to mummies (May 1 to Oct 31)		Turkey to tax (Nov 1 to Apr 30)	
2015	0.8	2015-16	0.4
2016	4.1	2016-17	13.3
2017	9.1	2017-18	3.8
2018	3.4	2018-19	9.8
2019	4.2	2019-20	-3.2
2020	13.3	2020-21	28.9
2021	10.9	2021-22	-9.6
2022	-5.5	2022-23	8.6
2023	1.4	2023-24	21.0
2024	14.1	2024-25	-1.7

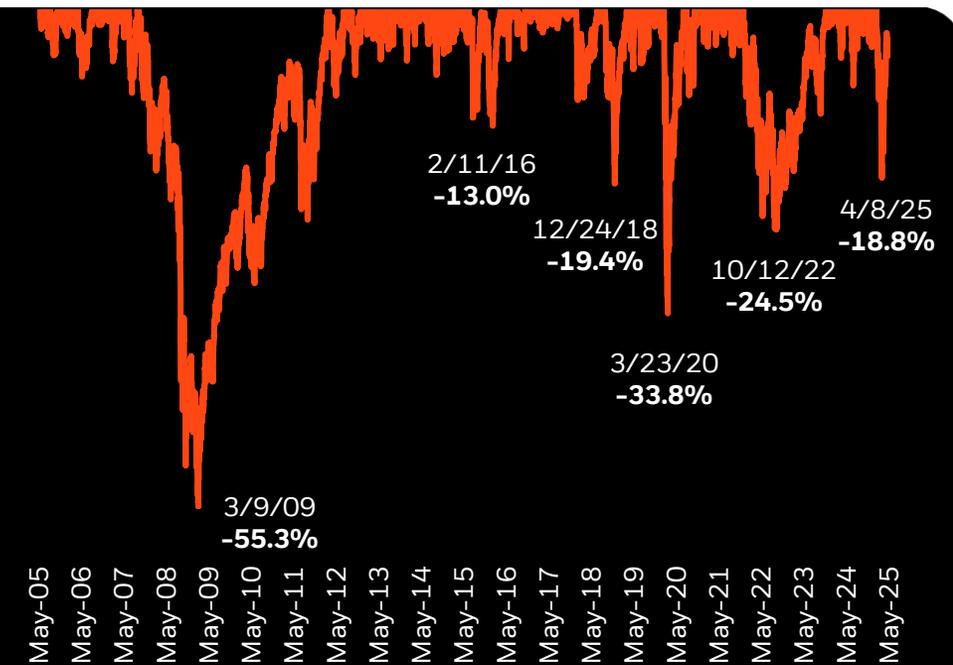
Source: BlackRock, Morningstar as of 5/31/25. Stocks are represented by the S&P 500 TR Index from 3/4/57 to 5/31/25 and the IA SBB I U.S. Lrg Stock TR USD Index from 1/1/26 to 3/4/57. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

Stocks came close to bear market territory in latest pullback

The last handful of stock market pullbacks have been followed by quick recoveries

U.S. stocks market drawdowns

Daily Max Drawdowns, last 20 years (6/1/2005 - 5/31/2025)



U.S. stock market performance following drawdown periods has been strong

Stock market drawdown date	Return after 1 year	Return after 3 years
3/9/09	77.3%	115.8%
2/11/16	30.8%	61.4%
12/24/18	39.9%	111.9%
3/23/20	77.8%	85.2%
10/12/22	23.7%	72.0%* (10/13/22 - 5/31/25)
4/8/25	18.9%* (4/9/25 - 5/31/25)	?
Average <i>(excluding partial periods)</i>	49.9%	93.6%

Source: BlackRock, Morningstar as of 5/31/25. U.S. stocks are represented by the S&P 500 TR Index. *Represents partial time-period. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

The technology divide between International and U.S. stocks

Lower allocations to technology in international indexes may contribute to a lower correlation to U.S. returns

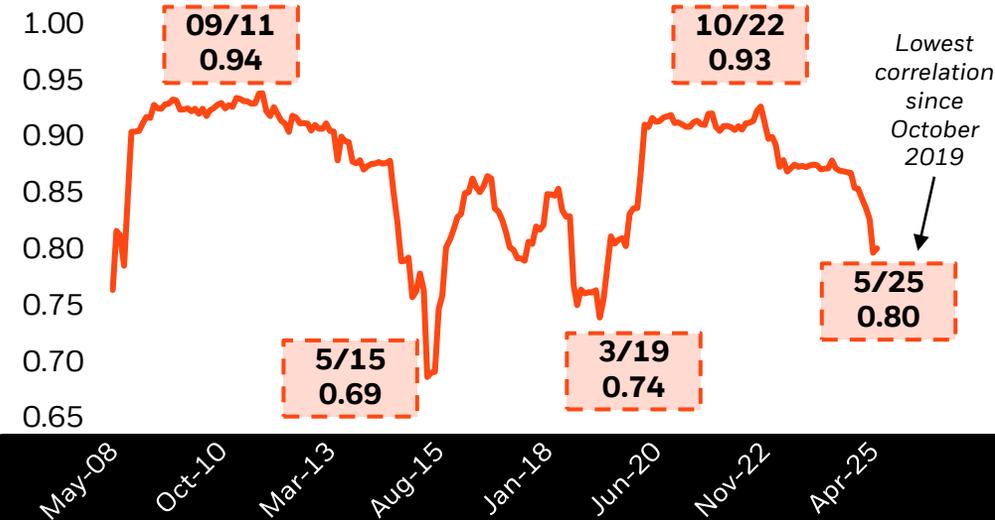
20 years later, technology sector weight difference largest ever U.S./international stocks

Index weightings, 5/2005 – 5/2025

	Int'l stock index weightings		U.S stock index weightings	
	2005	2025	2005	2025
Basic Materials	7.3	5.6	2.9	1.7
Comm Services	7.0	5.6	3.8	9.6
Consumer Cyclical	10.3	9.1	9.6	10.8
Consumer Defensive	7.7	8.2	11.2	5.9
Energy	7.6	3.2	8.3	3.0
Financial Services	23.9	23.0	20.1	13.9
Healthcare	9.0	11.6	13.5	9.6
Industrials	11.6	18.4	12.3	7.9
Real Estate	2.2	2.0	0.7	2.1
Technology	6.1	9.6	14.4	32.9
Utilities	5.1	3.3	3.3	2.5

U.S. and international stock correlation have drifted lower

3-year rolling correlation between U.S. and Int'l stocks, 5/2005- 5/2025



Source: BlackRock, Morningstar as of 5/31/25. International stocks are represented by MSCI EAFE NR Index. U.S. stocks are represented by the S&P 500 TR index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

Inflation has historically been lower in the 2nd half of the year, with bond returns higher

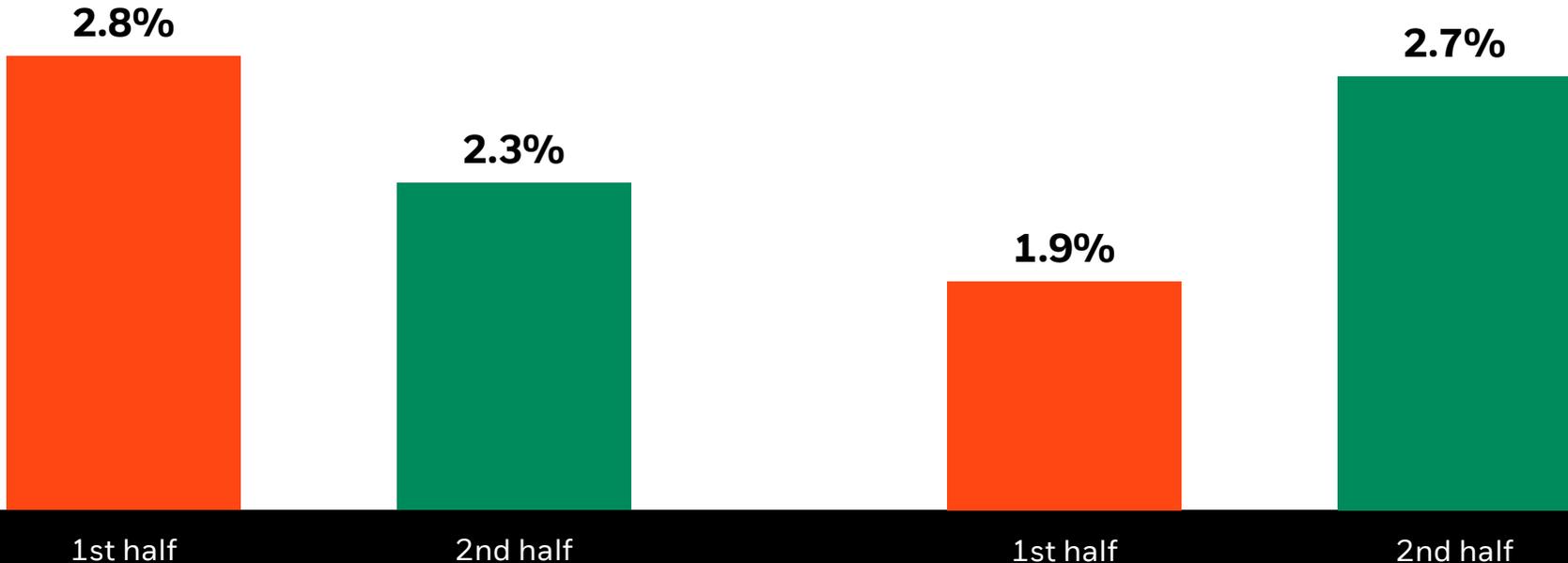
Concerns about tariffs impacts to inflation and bonds may be buffered by seasonal effects to inflation

Inflation has been lower in the 2nd half of calendar years, even when adjusting for seasonal factors...

Last 30 years, 1/1/1995 – 12/31/2024

... and bond returns have often been better in the 2nd half of the year, as well

Last 30 years, 1/1/1995 – 12/31/2024



Source: BlackRock, Morningstar as of 12/31/24. U.S. bonds are represented by the Bloomberg U.S. Agg Bond TR Index, Seasonally adjusted inflation is represented by the US BLS CPI all urban SA, Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

The Fed is on hold for now, but what if cuts resume later in 2025?

History tells us that markets may see strong returns if Fed rate cuts resume

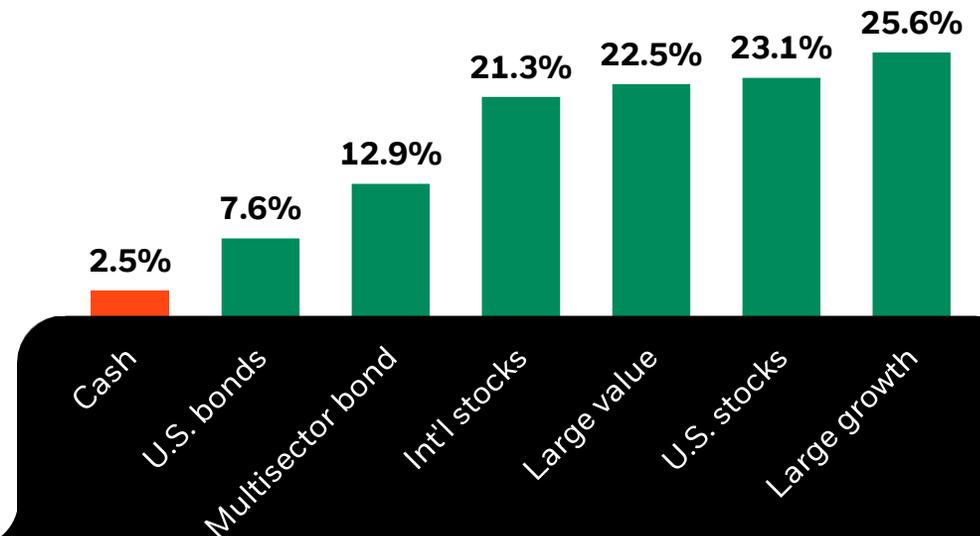
Historically, Fed rate cycle pauses don't last long

Periods of 3 months or more between rate cuts, 1/1/1990 - 5/31/2025

Dates between Fed rate cuts	Length of pause
7/13/90 - 10/29/90	3.5 months
12/20/91 - 4/9/92	3.5 months
7/6/95 - 12/19/95	5 months
11/6/02 - 6/25/03	7 months
4/30/08 - 10/18/08	6.5 months
10/31/19 - 3/3/20	4 months
12/18/24 - ?	?

Historical performance after the Fed resumes cutting interest rates

1-year average return after rate cuts resumed, 1/1/1990 - 5/31/2025



 Markets are currently expecting **2 rate cuts** before the end of the year, with the first one taking place in **September**.

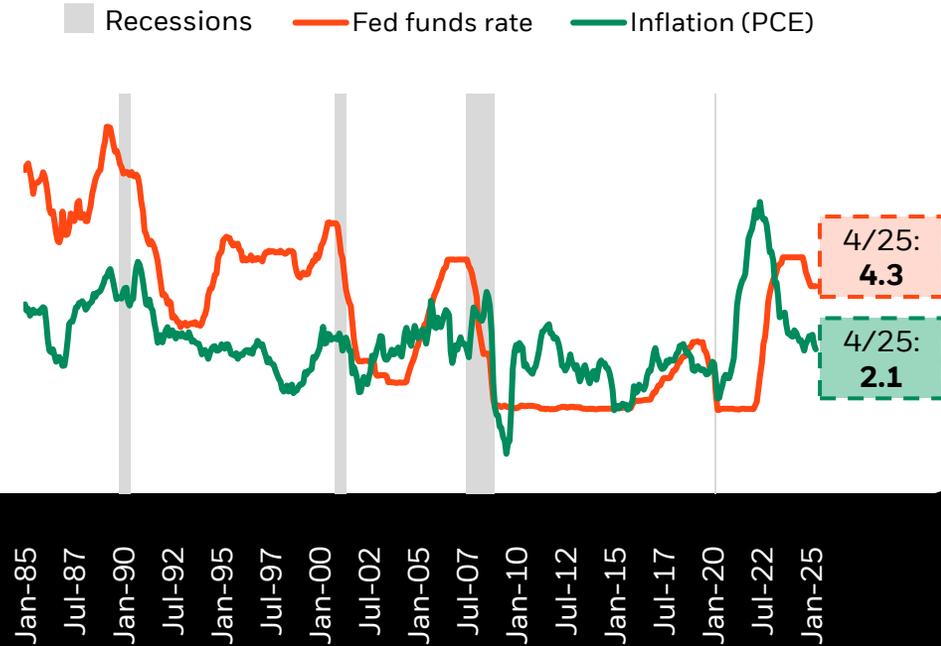
Source: BlackRock, Morningstar and the St Louis Federal Reserve as of 5/31/25. U.S. bonds represented by the Bloomberg U.S. Agg Bond TR Index, U.S. stocks represented by the S&P 500 index, Cash represented by the Taxable Money Market fund category as defined by Morningstar, Multisector bond represented by the Multisector bond fund category as defined by Morningstar, Int'l stocks represented by the MSCI EAFE Index, Large growth represented by the Russell 1000 Growth TR index and Large value represented by the Russell 1000 Value TR index. **Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only.** You cannot invest directly in the index.

Current gap between inflation and federal funds rate is the largest since 2007

Periods where the Fed funds rate was greater than inflation has often been followed by strong performance

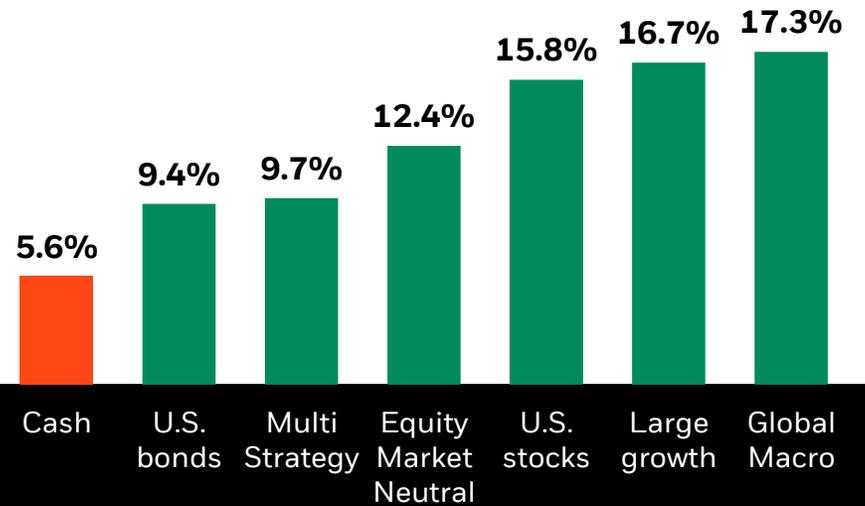
There is a large sustained gap between the Fed Funds rate and inflation right now

1/1/1985 – 5/31/2025



Returns following previous large gaps in the fed funds rate and inflation

Avg. 1-year return following periods of a 2% or greater gap between inflation and the fed funds rate, 1/1/1985 – 5/31/2025

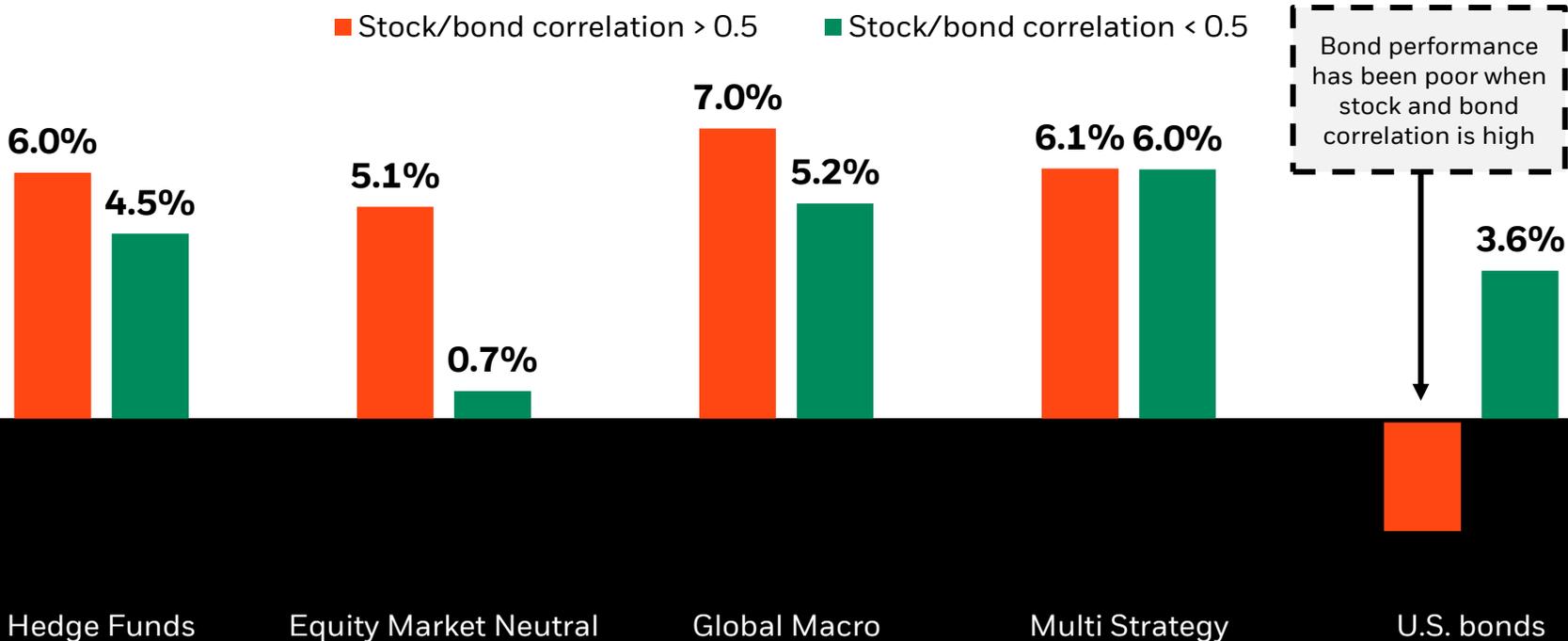


Source: BlackRock, Morningstar, Federal Reserve and NBER as of 5/31/25. Federal Funds rate and PCE as reported by the Federal Reserve. Recession time periods are those defined by the NBER. U.S. stocks represented by the S&P 500 TR Index, U.S. bonds represented by the Bloomberg U.S. Agg Bond Intermediate TR Index, Cash represented by the Taxable Money Market fund category as defined by Morningstar, Equity Market Neutral represented by the Credit Suisse Equity Market Neutral Index, Global Macro represented by the Credit Suisse Global Macro Index, Multi Strategy represented by the Credit Suisse Multi Strategy Index, and Large growth represented by the Russell 1000 growth index. **Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only.** You cannot invest directly in the index.

Alternative performance amid high stock and bond correlations

The 3-year correlation for stocks and bonds is 66%, leaving room for alternatives to help

3-year performance and correlation data, since common inception (4/1/2012– 4/30/2025)



Why do alternatives do better when stock/bond correlations are higher? Cash returns have been higher when correlations are higher. Cash returned 3% when correlations were >0.5 and only 1.9% when correlations were <0.5. Alternatives strategies often use cash to execute their strategies, potentially benefiting from those higher cash returns when doing so.

Source: BlackRock, Morningstar as of 5/31/25. U.S. bonds represented by the Bloomberg U.S. Agg Bond Intermediate TR Index, Hedge Funds represented by the Credit Suisse Hedge Fund Index, Equity Market Neutral represented by the Credit Suisse Equity Market Neutral Index, Global Macro represented by the Credit Suisse Global Macro Index, and Multi Strategy by the Credit Suisse Multi Strategy Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

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Returns as of 5/31/25	1 Year Return	5 Year Avg. Annual Return	10 Year Avg. Annual Return
S&P 500 TR USD	13.52	15.94	12.86
Bloomberg US Agg Bond TR USD	5.46	-0.90	1.49
IA SBBI US Large Stock TR USD Ext	13.52	15.94	12.86
IA SBBI US IT Govt TR USD	5.38	0.67	1.64
MSCI EAFE NR USD	13.33	11.42	5.97
US BLS CPI All Urban SA ¹	2.33	4.58	3.09
US Fund Money Market-Taxable	4.38	2.46	1.63
Russell 1000 Growth TR USD	17.62	17.69	16.08
Russell 1000 Value TR USD	8.91	13.02	8.60
Credit Suisse Hedge Fund USD ¹	5.79	8.06	4.33
Credit Suisse Equity Market Neutral USD ¹	10.95	6.94	3.48
Credit Suisse Global Macro USD ¹	1.27	7.70	4.44
Credit Suisse Multi Strategy USD ¹	6.00	7.79	5.13

Source: Morningstar as of 5/31/25. ¹Due to data availability and update frequency, returns are as of 4/30/25. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

Index Definitions:

- The **S&P 500 TR Index** is an unmanaged index that is generally considered representative of the U.S. stock market on a total return basis. Included are the largest 500 stocks by market cap.
- The **Bloomberg U.S. Agg Bond TR Index** is an unmanaged index that is generally considered representative of the U.S. bond market on a total return basis.
- The **IA SBBI US Large Stock TR Index** is an unmanaged index that is generally considered representative of the historical U.S. stock market on a total return basis prior to the inception of the **S&P 500 TR Index** in 1970.
- The **IA SBBI US IT Govt TR Index** is an unmanaged index that is generally considered representative of the historical U.S. bond market on a total return basis prior to the inception of the **Bloomberg U.S. Agg Bond TR Index** in 1989.
- The **MSCI EAFE NR Index** is an unmanaged index that is generally considered representative of International Developed Markets (ex-U.S.) stocks on a net return basis.
- The **US BLS CPI All Urban SA 1982-1984 Index** is an unmanaged index that is generally considered representative of the U.S. inflation rate on a seasonally adjusted basis.
- **US Fund Money Market - Taxable** is an average of funds within the US Fund Money Market – Taxable category as defined by Morningstar.
- The **Russell 1000 Growth TR Index** is an unmanaged index that is generally considered representative of the stocks within the 1,000 largest stocks in the entire U.S. stock market that have higher valuations than the index average, on a total return basis.
- The **Russell 1000 Value TR Index** is an unmanaged index that is generally considered representative of the stocks within the 1,000 largest stocks in the entire U.S. stock market that have lower valuations than the index average, on a total return basis.
- The **Credit Suisse Hedge Fund Index** is compiled by Credit Suisse Hedge Index LLC. It is an asset-weighted hedge fund index and includes only funds, as opposed to separate accounts. The index uses the Credit Suisse Hedge Fund Database, which tracks approximately 9,000 funds and consists only of funds with a minimum of US\$50 million under management, a 12-month track record, and audited financial statements. The index is calculated and rebalanced on a monthly basis, and reflects performance net of all hedge fund component performance fees and expenses.
- The **Credit Suisse Equity Market Neutral Hedge Fund Index** is a subset of the Credit Suisse Hedge Fund Index that measures the aggregate performance of long/short equity funds. Long/short equity funds typically invest in both long and short sides of equity markets, generally focusing on diversifying or hedging across particular sectors, regions or market capitalizations. Managers typically have the flexibility to shift from value to growth; small to medium to large capitalization stocks; and net long to net short. Managers can also trade equity futures and options as well as equity related securities and debt or build portfolios that are more concentrated than traditional long-only equity funds.
- The **Credit Suisse Global Macro Index** is a subset of the Credit Suisse Hedge Fund Index that measures the aggregate performance of global macro funds. Global macro funds typically focus on identifying extreme price valuations and leverage is often applied on the anticipated price movements in equity, currency, interest rate and commodity markets. Managers typically employ a top-down global approach to concentrate on forecasting how political trends and global macroeconomic events affect the valuation of financial instruments. Profits can be made by correctly anticipating price movements in global markets and having the flexibility to use a broad investment mandate, with the ability to hold positions in practically any market with any instrument.

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Index Definitions (cont.):

- The **Credit Suisse Multi Strategy Index** is a subset of the Credit Suisse Hedge Fund Index that measures the aggregate performance of multi-strategy funds. Multi-strategy funds typically are characterized by their ability to allocate capital based on perceived opportunities among several hedge fund strategies. Through the diversification of capital, managers seek to deliver consistently positive returns regardless of the directional movement in equity, interest rate or currency markets. The added diversification benefits may reduce the risk profile and help to smooth returns, reduce volatility and decrease asset-class and single-strategy risks. Strategies adopted in a multi-strategy fund may include, but are not limited to, convertible bond arbitrage, equity long/short, statistical arbitrage and merger arbitrage.

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