

The best month of May for the S&P 500 since 2009

MONTH IN REVIEW

Equities bounced back in May after April registered the first negative month for US equities since October 2023. After coming off a loss of -4.08% for April (total return), SPX (the S&P 500) gained 4.96% (total return) in May. It was the best month of May for SPX since 2009. And after returning -4.43% (total return) in April, the NDX (the Nasdaq-100) gained 6.39% (total return) in May. The Russell 2000 returned 5.01% in May (total return) as slightly lower rates helped small caps. Year-to-date and through May, SPX gained 11.30%, NDX gained 10.54%, and the Russell 2000 gained 2.68% (total return). SPX closed back above its 50-day moving average at the end of the month, which we will illustrate later in this note. Another notable datapoint from May was the release of April's inflation data, which was slightly lower than expectations: Headline Consumer Price Index (CPI) rose 0.3% M/M (the consensus was 0.4%), and Core CPI rose 0.3% M/M (the consensus was 0.3%). April's PPI rose 0.5% M/M (the consensus was 0.3%).

Fixed income markets rallied modestly for the month of May. Both 10 & 30-year Treasury Bond yields moved lower by end of the month, and they both closed May near the middle of their recent technical ranges. The 10-yr closed at 4.50% to end the month. The 30-year Treasury yield ended the month of May at roughly 4.65%. 4.40% - 4.50% continues to be a likely technical line in the sand for the 10-yr Treasury as well as potential movements in SPX. Over the past several months and even years, the correlation between equities and fixed income has been notably high – and likely will remain so. Yields continue to be key for all markets. Additionally, the 2/10 Treasury Yield spread remained inverted, and closed out the month of May at -0.38%.

By the end of May, the amount of predicted rate cuts that the market is pricing in for 2024 was reduced to one. At the end of Q4 2023, the market was expecting 6 cuts in 2024. Additionally, what the market is currently predicting and what the Fed has been guiding are starting to line up as far as cuts; there was previously a very wide disconnect for several months to start this year. The Fed continues to target 2% inflation as its goal and incoming inflation reports will likely continue to drive the dot plot. During the May FOMC meeting, Fed Chair Jerome Powell reiterated more of the same messages from the previous few meetings: that the central bank is in no rush to cut interest rates, that rate cuts are likely to take longer than expected, and that policymakers would like to see more evidence that inflation is sustainably retreating towards 2% before doing so.

According to FactSet (as of 5/31/24), the trailing 12-month P/E ratio for SPX is 25.2, which is above the 5-year average (23.3), and above the 10-year average (21.4). The forward 12-month P/E ratio for SPX is 20.3, which is above the 5-year average (19.2), and above the 10-year average (17.8). Q1 2024 earnings were solid for SPX, as roughly 78% of SPX companies beat on EPS. This is slightly higher than the five-year average of 77% and above the ten-year average of 74%. Also, according to FactSet (as of 5/31/24), SPX is expected to report Y/Y earnings growth of 9.2% for Q2 2024, which is above the estimate of 9.0% at the end of Q1. SPX is expected to report Y/Y revenue growth of 4.7% for Q2 2024, which is above the estimate of 4.6% at the end of Q1.

Within commodities and currencies: WTI Crude Oil cooled off again in May (-6.03%). Gold continued its streak of closing over \$2,000/oz at the end of recent months as it rose by roughly 1.80% in May. Finally, the USD fell for the first month in 2024. The USD/DXY finished May near 104.60.

VOLATILITY UPDATE

The VIX Index closed out May at 12.92, down from 15.65 at the end of April. And historically, a sub-15 level in the VIX is low, as its long-term moving average is closer to 19. Aside from last October's and this April's brief spike above 20, the VIX has remained very quiet for most of the last year. The 12-month high of the VIX Index was registered on 10/23/23 at a level of 23.08. In 2022, the VIX averaged over 25, and in 2023, the VIX averaged near 17.

The MOVE Index calculates the future volatility of US Treasury yields implied by current prices of options on Treasuries of various maturities. It is thought of as "The VIX Index of the Bond Market." While it rose significantly starting in August, it started to come in by the end of October and continued to fall in Q4 2023 and into early 2024. Its 12-month high was registered on 10/3/23 at a level of 141.67. It closed out the month of May around 91.00. This index remains very calm relative to itself. Traders will continue to monitor this index to gauge potential future yield volatility.

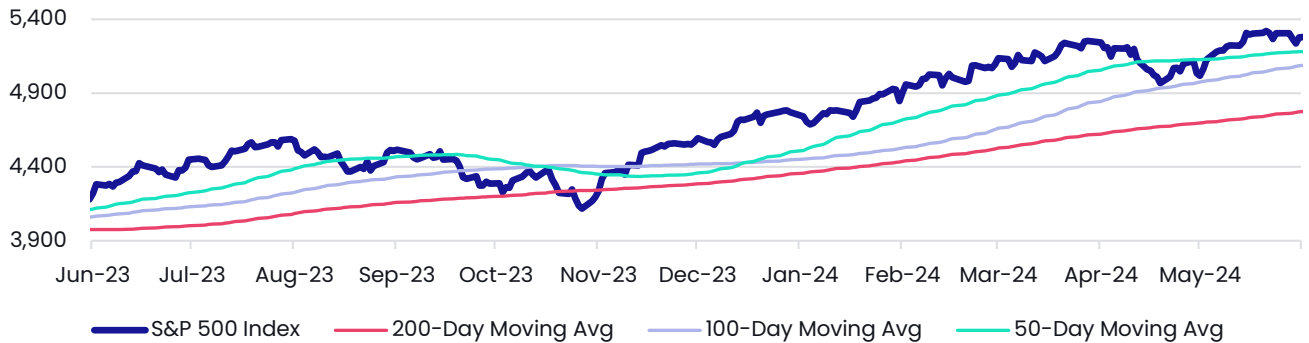
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Notable Charts

SPX Technical Levels - Trailing 12-Months



10 Yr Treasury Yield - Trailing 12-Months



VIX Index Closing Price - Trailing 12-Months



Source: Bloomberg, Morningstar Direct 2024. Past performance is not indicative of future results.

LOOKING AHEAD

Interest rates will continue to be a key factor in the future direction of equities. The Fed's next rate decision as well as May inflation data (CPI) will be released on 6/12. Additionally, the macro backdrop and geopolitical risks both continue to be uncertain. This is also an election year; political uncertainty is another factor that may influence markets in the not-too-distant future. Among the other factors listed for a potential catalyst, there are some signs of slowing economic growth in both manufacturing and labor.

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Definitions:

S&P 500® Index (SPX): An Index composed of selected stocks from five hundred (500) issuers, all of which are listed on national stock exchanges and spans over approximately 24 separate industry groups.

Nasdaq-100 Index® (NDX): The Nasdaq 100 Index is a stock index of the 100 largest companies by modified market capitalization trading on Nasdaq exchanges. The index includes companies in basic materials, consumer discretionary spending, consumer staples, healthcare, industrials, technology, telecommunications, and utilities. The index excludes financial firms.

The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 7% of the total market capitalization of that index, as of the most recent reconstitution. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

MOVE Index: The MOVE index, or Merrill Lynch Option Volatility Estimate Index, is a crucial gauge of interest rate volatility in the U.S. Treasury market. It is calculated from options prices, which reflect the collective expectations of market participants about future volatility. The index measures the implied volatility of U.S. Treasury options across various maturities. Similar to the VIX index's role in the stock market, the MOVE index is an essential tool for investors, traders, and analysts to assess risk and uncertainty in the bond market. It is often referred to as the "VIX for Bonds."

VIX Index: The CBOE Volatility Index (VIX) is a real-time index that represents the market's expectations for the relative strength of near-term price changes of the S&P 500 Index (SPX). Because it is derived from the prices of SPX index options with near-term expiration dates, it generates a 30-day forward projection of volatility. Volatility, or how fast prices change, is often seen as a way to gauge market sentiment, and in particular the degree of fear among market participants. The index is more commonly known by its ticker symbol and is often referred to simply as "the VIX." It was created by the CBOE Options Exchange and is maintained by CBOE Global Markets. It is an important index in the world of trading and investment because it provides a quantifiable measure of market risk and investors' sentiments.

Consumer Price Index (CPI): The Consumer Price Index measures the overall change in consumer prices based on a representative basket of goods and services over time. The CPI is the most widely used measure of inflation, closely followed by policymakers, financial markets, businesses, and consumers.

Yield Spread: A yield spread is a difference between the quoted rate of return on different debt instruments which often have varying maturities, credit ratings, and risk. When yield spreads expand or contract, it can signal changes in the underlying economy or financial markets.

Headline CPI: Headline inflation is the raw inflation figure reported through the Consumer Price Index (CPI).

Core CPI: Core inflation removes the CPI components that can exhibit large amounts of volatility from month to month.

Producer Price Index (PPI): The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

EPS (Earnings Per Share): Earnings per share (EPS) is a company's net income subtracted by preferred dividends and then divided by the number of common shares it has outstanding. EPS indicates how much money a company makes for each share of its stock and is a widely used metric for estimating corporate value. A higher EPS indicates greater value because investors will pay more for a company's shares if they think the company has higher profits relative to its share price.

P/E Ratio: The price-to-earnings (P/E) ratio measures a company's share price relative to its earnings per share (EPS). Often called the price or earnings multiple, the P/E ratio helps assess the relative value of a company's stock. It's handy for comparing a company's valuation against its historical performance, against other firms within its industry, or the overall market. P/E can be estimated on a trailing (backward-looking) or forward (projected) basis.

Correlation is a statistical measure that determines how assets move in relation to each other. Correlation is measured on a scale of -1 (perfect negative) to +1 (perfect positive), although perfect negative or positive correlation between two assets is rare.

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