MONTH IN REVIEW

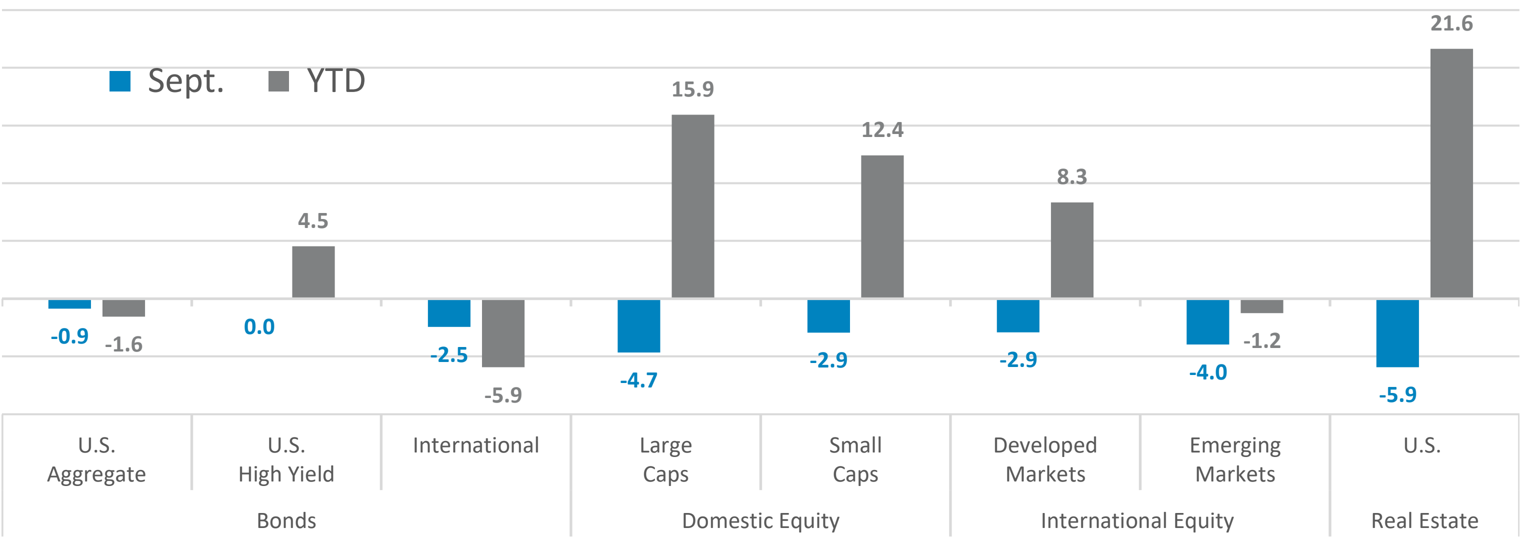
September 2021

Quick Takes

- **Risk assets hit a speed bump.** September ended deeply in the red for risk assets as global growth concerns began to weigh on the market. September is the first negative month since January and the worst month since March of 2020.
- **Duration erodes growth.** The yield on the US 10-year Treasury rose for the sixth week in a row as the Fed produced hawkish language after its Jackson Hole Symposium. As yields continued to climb, growth equities and longer duration bonds fell, but high yield and credit managed to tread water.
- **Support for the Dollar.** With the Fed clearly alluding to tighter monetary policy "soon", probably by year end, the dollar climbed +1.73% for the month. Projections for interest rate hikes were pushed forward into 2022 and should offer support for a stronger greenback.
- **Supply chokes demand.** Supply chain bottlenecks have stifled additional growth. Regional outbreaks, and subsequent shutdowns, due to the delta variant have upended manufacturing and global logistics. Additionally, continued strife within the labor market are further impacting "return to normal".

Asset Class Performance

For the first time since January, almost all risk assets posted a loss for the month of September. High Yield Bonds were the winners for the month by ending flat. Supply-chain shortages and slowing growth caused the sell-off.



Source: Bloomberg, as of June 30, 2021. Asset-class performance is presented by using total returns for an index proxy that best represents the respective broad asset class. U.S. Bonds (Barclays U.S. Aggregate Bond TR), U.S. High Yield (Barclays U.S. HY 2% Issuer-Capped TR), International Bonds (Barclays Global Aggregate ex USD TR), Large Caps (S&P 500 TR), Small Caps (Russell 2000 TR), Developed Markets (MSCI EAFE NR USD), Emerging Markets (MSCI EM NR USD), Real Estate (FTSE NAREIT All Equity REITS TR).

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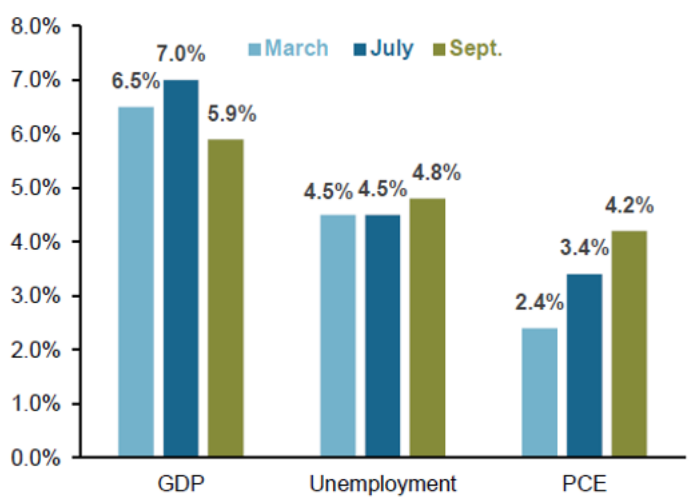
Stocks retreat from record highs on continuing growth concerns

September, historically the worst month for stocks, held up to its reputation and ended with most major asset classes in the red. The sell-off was a result of concerns over slowing economic growth and the effect that fast-approaching tighter monetary policy might have on subsequent economic growth. After a slew of public speaking events from Federal Reserve officials, growth estimates for the year began to moderate, with GDP now estimated to be +5.9% versus the higher estimate of +7.0% back in July. Fed officials also see unemployment being higher than previously estimated as well as higher inflation for the year. After the Fed's September meeting, the first interest rate hike was moved up from the beginning of 2023 to 2022. The Fed's more hawkish tone has caused volatility amongst yields on interest bearing securities and on the final Tuesday of the month, the yield on the 10-year Treasury note reached 1.567%, a level not seen since June. This spooked traders as they fled from higher duration equities, i.e., growth style equities, and longer maturing bonds. Small Cap equities offered some protection from the drawdown, down -2.9% versus Large Cap equities being down -4.7% for the month. After being on a seemingly unstoppable tear for most of the year, Real Estate finally had its day of reckoning and sold off -5.9% for the month. International bonds and equities also offered some form of protection, down -2.5% and -2.9% respectively.

The Fed's Changing View of the Economy

2021 estimates as outlined in the FOMC's Summary of Economic Projections

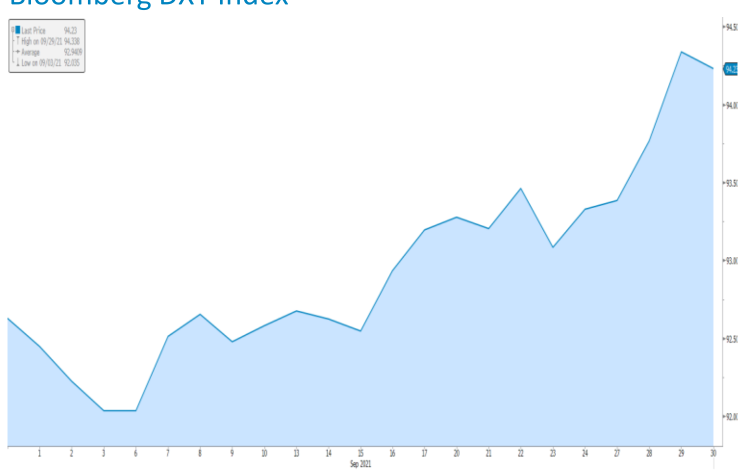


Source: J.P. Morgan Guide to the Markets.

With global investors looking to derisk, the dollar became a haven for many and rose +1.73% for the month, as measured by Bloomberg's DXY Index. This also contributed to International asset's falling for the month. Emerging markets were hit hard during the month as well. Concerns regarding a possible contagion effect from China's largest property developer, Evergrande, nearing default. Headlines began to emerge equating Evergrande's probable default to U.S.'s Lehman Brother's default back in the Great Financial Crisis. Ultimately, it appears that a mass systemic failure of the financial system will be unlikely, however the effects will not be nothing. China's GDP will likely take a hit and over economies affected as a result.

Dollar Pushes Higher Amidst Global Volatility

Bloomberg DXY Index



Source: Bloomberg

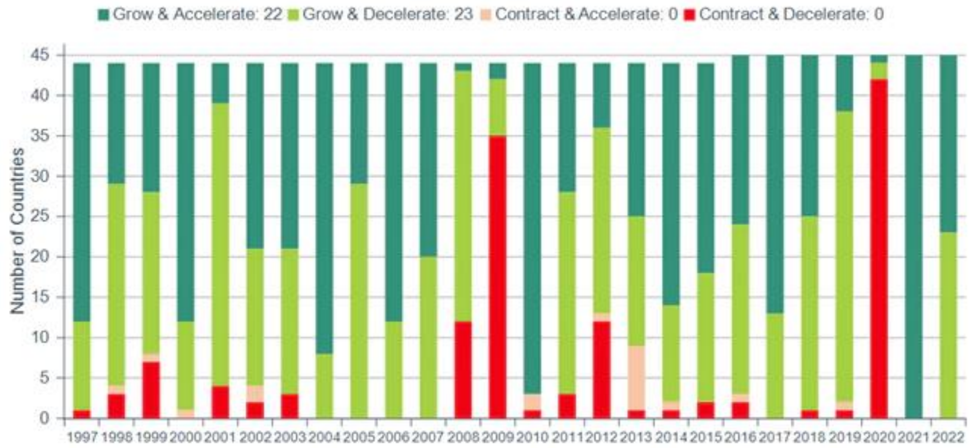
With the Fed looking to tighten monetary policy by year end, the backdrop for a stronger dollar seems supportive, which will likely weigh on International and Emerging markets.

<u>Bottom Line</u>**: September was the worst month for markets since the beginning of the pandemic. Significant risks to the market have emerged, including slowing economic growth and possible monetary tightening during this slowing growth period, high inflation that is showing signs of being stickier rather than transitory, supply-chain and logistical bottlenecks, and laborers not returning to the workforce. While this recent bout of volatility has not been seen since March of 2020, historically speaking, September and October are typically the most volatile months of the year.**

All eyes on employment, inflation, and The Fed

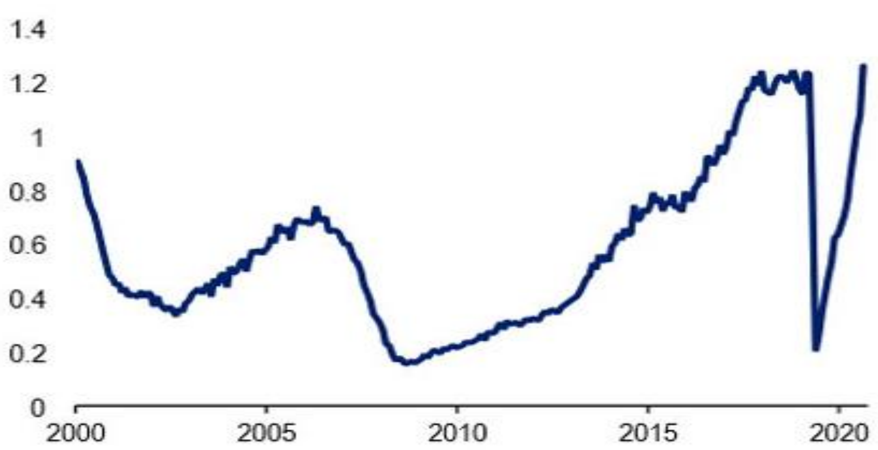
Growth Is Expected To Rise In All Major Countries In 2022

Number of major economies with growing GDP



Source: Charles Schwab, Macrobond and OECD data as of 09/17/21.

After a bout of violent volatility in September due to expectations of slowing economic growth in the coming months, markets will be looking for any signs of weakness in key areas. The next big clue will likely come from employment information in the first week of October. At the start of the Fed's unprecedented easing of monetary policy when the pandemic first began, they highlighted several key metrics that would need to be met for the economy to have made "substantial progress" towards recovery and thus begin the process of tightening their easy monetary policy. In summary, they are looking for high inflation and vast improvements in employment. Inflation has been running at its highest levels since 2008, as measured by the Consumer's Price Index (CPI). Despite these high levels, it has shown signs of increasing at a slower rate in the most recent readings but remains elevated. With inflation at these elevated levels, market participants have now shifted their focus to employment. Unfortunately, employment has been weaker than expected over the month of September, with jobless claims missing their mark every week for the month, save for the first reading. Job openings have hit an all time high, according to the Job Openings and Labor Turnover Survey (JOLTS), there were over 10.9 million open positions in the United States for the month of July. As illustrated in the chart below, there are now more open positions than unemployed workers. Some laborers have been hesitant to return to work due to the ongoing threat that the delta variant poses to covid sensitive jobs. Additionally, government unemployment assistance programs have been ongoing throughout the summer, however most of the programs ended in September. With these programs ending and schools resuming their fall sessions, market participants are hopeful that this will be enough to get laborers back into the workforce. If the Fed decides that employment has checked the box for "substantial progress", then quantitative easing programs will end in the final months of the year. This tightening of monetary policy will pose as a headwind for risk assets but overheating the economy with continued stimulus could end in disaster. While growth is expected to slow in the coming months and monetary policy is expected to tighten, both of which will act as headwinds to risk assets, economic growth is expected to continue in all major economies through next year, as illustrated in the chart above. This continued economic growth should act as a support for risk assets into the new year.



Source: Bureau of Labor Statistics, BofA Global Research

<u>Bottom Line</u>: With inflation easily beating the Fed's expectations at its elevated levels and employment nearing the mark of "substantial progress", monetary policy is set to tighten by year end. This combined with slowing economic growth will act as a headwind to risk assets, but economic growth is expected to continue through 2022. This tug of war between headwinds and tailwinds will likely increase volatility for the coming months.

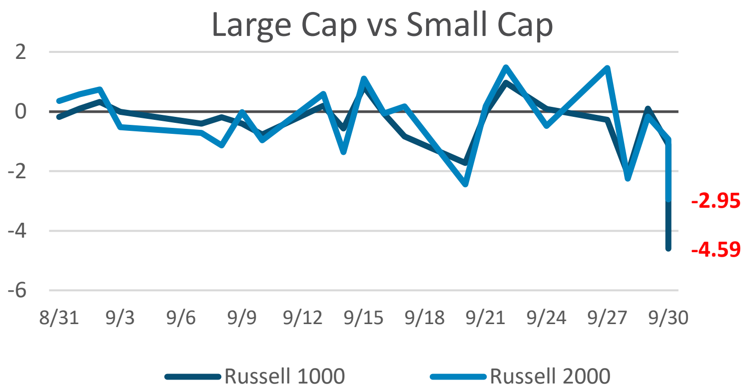
September 2021

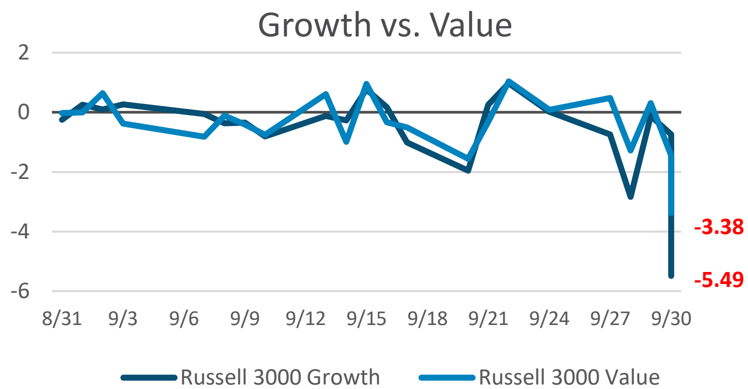
Equity Themes

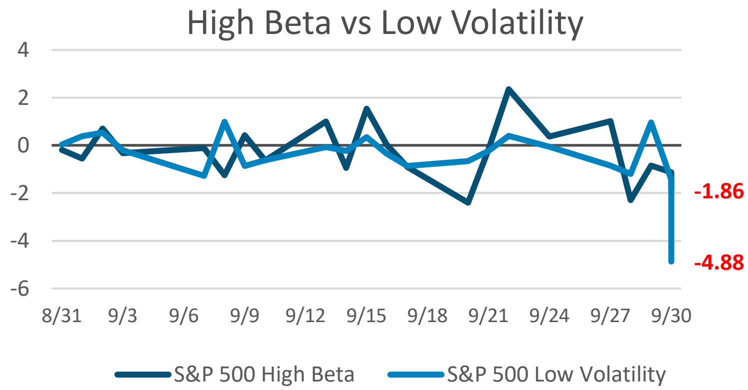
MONTH IN REVIEW

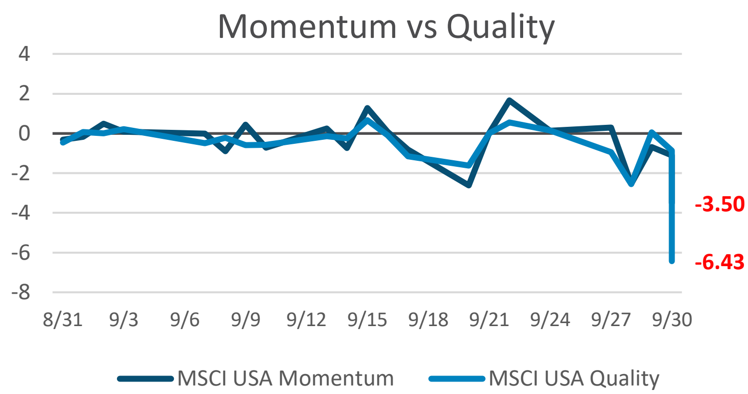
What Worked, What Didn't

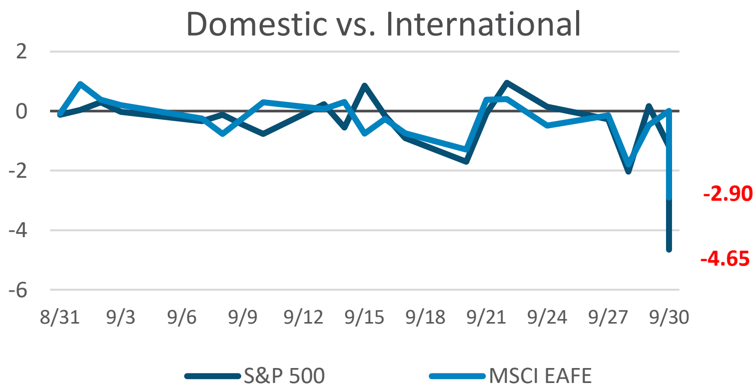
- **Growth Falters.** Growth style equities were punished more severely than their value styled peers for the month of September, falling -5.49% versus -3.38%.
- **Momentum and Low Volatility Safe Havens.** Breaking the recent trend of Quality outperforming, Momentum equities offered some downside protection, and less surprising, Low Volatility stocks outperformed High Beta equities.
- **International Outperforms.** International equities outperformed their domestic counterparts by +1.75%, but were still down -2.90%, deepening their underperformance for the year. Emerging markets landed between Domestic and Developed International equities, down -3.97% for the month and negative for the year.

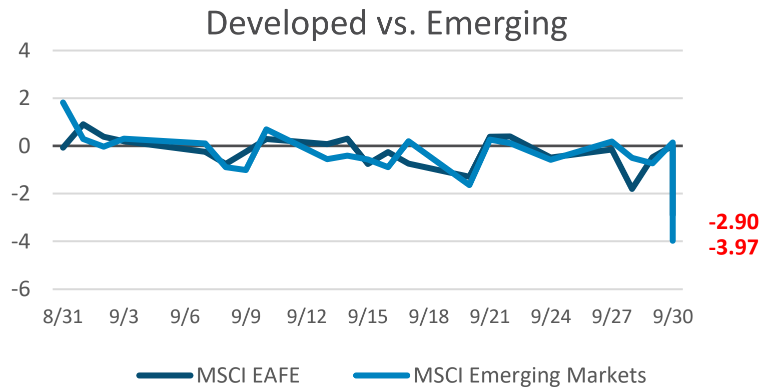








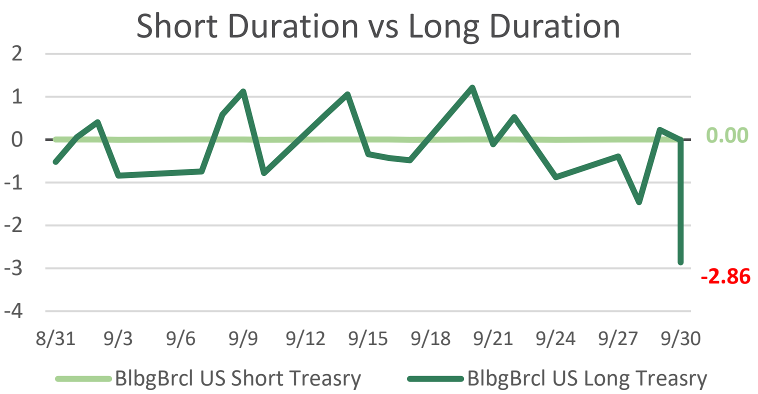


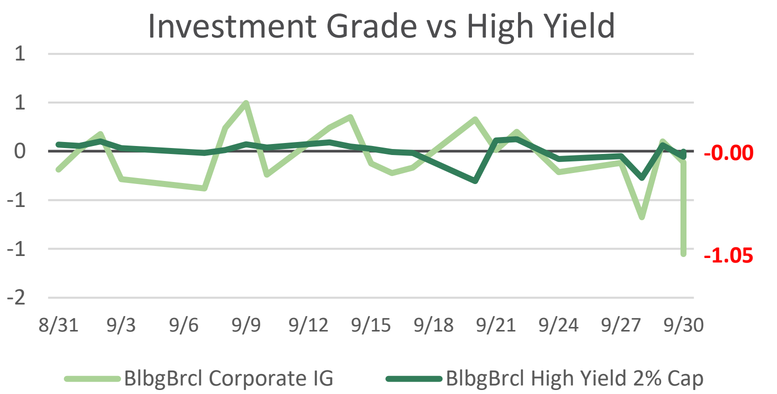


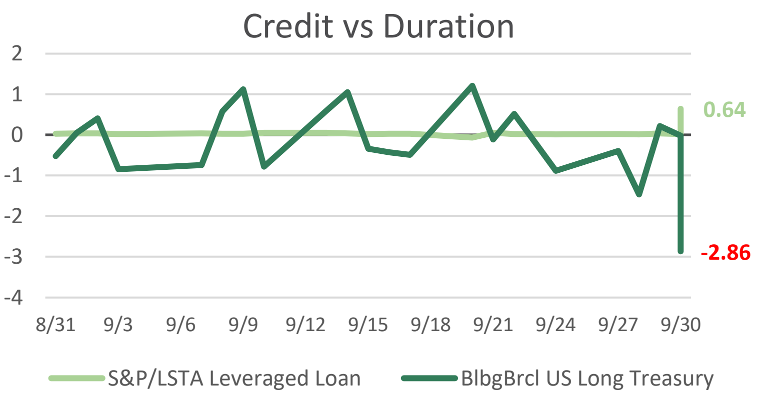
Source: Bloomberg.

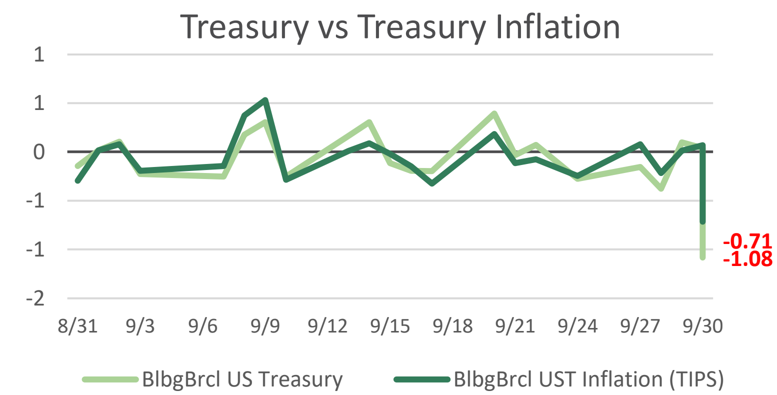
What Worked, What Didn't

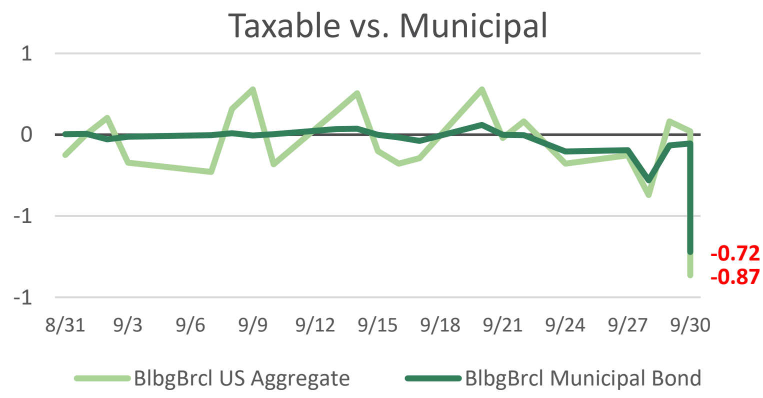
- **Go Short and Low Quality.** Short Duration U.S. Treasuries and High Yield Bonds and Credit were the only asset classes to offer any measure of safety during the volatile September month. Short Duration Treasuries and High Yield were flat for the month of September, and Credit returned a modest +0.64%.
- **TIPS & Munis Outperform.** TIPS offered limited protection from the Treasury sell-off during the month, but still fell -0.71%. Similarly, Munis performed better than the Aggregate bond index, but still lost -0.72%.
- **Evergrande Weighs on International Bonds.** The Evergrande situation in China dragged international bonds down -2.45% for the month, leading to Domestic bonds far outperforming at -0.87% for the month.

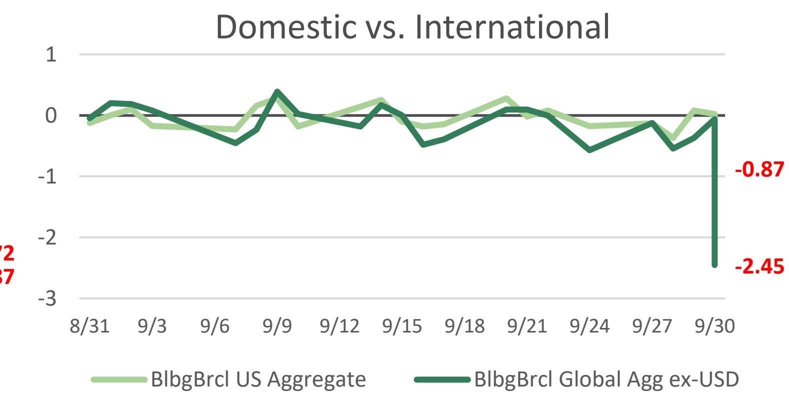












Source: Bloomberg.

September 2021
Asset Class Performance

MONTH IN REVIEW

The Importance of Diversification. From period to period there is no certainty what investment will be the best, or worst, performer. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as less portfolio volatility, improved risk-adjusted returns, and more effective compounding.

	Sep-01	Sep-02	Sep-03	Sep-07	Sep-08	Sep-09	Sep-10	Sep-13	Sep-14	Sep-15	Sep-16	Sep-17	Sep-20	Sep-21	Sep-22	Sep-23	Sep-24	Sep-27	Sep-28	Sep-29	Sep-30	Sep	YTD	
High	RE 1.80	SCG 0.86	EM 0.53	EM 0.58	RE 0.55	USB 0.32	IBD -0.10	SCV 0.92	USB 0.22	SCV 1.19	MCG 0.65	SCG 0.12	USB 0.19	IEQ 0.99	SCG 1.59	SCG 1.87	LCV 0.13	SCV 1.98	IBD -0.37	SCG 2.86	EM 0.80	HYB -0.44	SCV 23.85	High
	EM 1.28	MCV 0.66	IEQ 0.45	IEQ 0.07	USB 0.16	IBD 0.28	EM -0.11	IEQ 0.79	HYB -0.05	SCG 1.06	SCG 0.29	USB -0.09	IBD 0.10	EM 0.74	SCV 1.40	SCV 1.84	LCG 0.10	SCG 0.91	USB -0.42	SCV 2.69	USB -0.02	USB -0.97	RE 22.04	
	IEQ 0.91	LCV 0.63	LCG 0.37	LCG -0.05	HYB 0.11	SCG 0.22	HYB -0.15	LCV 0.61	IBD -0.10	MCV 0.94	RE 0.19	SCV -0.09	HYB -0.35	SCG 0.52	MCG 1.26	MCV 1.42	MCV 0.05	EM 0.65	HYB -0.46	MCG 1.31	IBD -0.04	SCV -0.98	MCV 19.66	
	SCG 0.90	MCG 0.57	MCG 0.27	HYB -0.26	LCV -0.06	MCG 0.17	USB -0.20	MCV 0.56	LCG -0.22	LCV 0.93	LCG 0.13	HYB -0.12	RE -0.52	LCG 0.26	EM 1.25	LCV 1.40	HYB -0.15	MCV 0.52	RE -0.71	MCV 1.28	HYB -0.11	IBD -1.97	LCV 17.37	
	SCV 0.43	RE 0.44	60/40 0.05	USB -0.27	IBD -0.09	HYB 0.09	IEQ -0.22	RE 0.40	RE -0.25	LCG 0.79	HYB -0.03	EM -0.43	60/40 -1.05	60/40 0.25	MCV 1.17	MCG 1.19	SCV -0.16	LCV 0.35	MCV -1.18	EM 1.24	IEQ -0.40	60/40 -2.34	LCG 15.15	
	60/40 0.40	SCV 0.44	RE 0.03	60/40 -0.29	MCV -0.13	60/40 -0.07	60/40 -0.40	60/40 0.29	60/40 -0.30	MCG 0.72	IEQ -0.16	IBD -0.47	LCV -1.50	MCG 0.18	LCV 1.00	IEQ 1.08	USB -0.17	IEQ -0.06	LCV -1.24	LCG 0.98	60/40 -0.43	LCV -2.36	MCG 10.46	
	MCG 0.36	IEQ 0.41	HYB 0.01	SCV -0.53	60/40 -0.29	SCV -0.14	MCG -0.50	EM 0.27	MCG -0.33	RE 0.37	USB -0.17	MCG -0.53	MCV -1.54	HYB 0.17	RE 0.98	LCG 1.00	MCG -0.22	60/40 -0.07	EM -1.29	RE 0.97	MCG -0.54	MCV -2.40	IEQ 9.06	
	IBD 0.26	IBD 0.33	IBD -0.06	IBD -0.61	LCG -0.30	IEQ -0.17	LCV -0.76	HYB 0.25	IEQ -0.42	60/40 0.33	60/40 -0.19	60/40 -0.58	MCG -1.73	USB 0.04	LCG 0.94	EM 0.78	IBD -0.31	HYB -0.09	60/40 -1.34	IEQ 0.91	LCG -0.80	SCG -2.49	60/40 6.51	
	LCG 0.25	60/40 0.24	USB -0.17	MCG -0.80	MCG -0.63	EM -0.19	LCG -0.78	SCG 0.13	EM -0.84	IEQ 0.29	MCV -0.25	LCV -0.59	IEQ -1.85	RE 0.00	60/40 0.57	60/40 0.52	60/40 -0.36	USB -0.14	SCV -1.48	LCV 0.86	SCG -0.83	IEQ -2.65	SCG 4.07	
	MCV 0.09	HYB 0.13	SCG -0.31	LCV -0.83	IEQ -0.79	MCV -0.25	MCV -0.79	USB 0.13	LCV -0.93	HYB 0.15	LCV -0.36	MCV -0.94	LCG -1.89	IBD -0.07	IEQ 0.50	IBD 0.06	SCG -0.69	IBD -0.16	IEQ -2.18	60/40 0.80	SCV -1.06	EM -3.74	HYB 2.88	
	HYB 0.09	USB 0.10	LCV -0.35	SCG -0.83	SCV -1.00	LCG -0.38	SCG -0.91	IBD 0.00	MCV -0.94	IBD 0.09	SCV -0.52	RE -0.95	SCV -1.96	SCV -0.24	HYB 0.18	HYB 0.05	IEQ -0.94	LCG -0.86	LCG -2.84	IBD 0.44	LCV -1.54	MCG -4.04	USB -1.72	
	USB 0.03	LCG -0.02	MCV -0.44	MCV -1.04	SCG -1.34	LCV -0.43	SCV -1.03	LCG -0.18	SCG -1.15	EM -0.02	IBD -0.54	LCG -1.15	SCG -2.64	LCV -0.29	USB 0.03	RE -0.34	RE -1.14	MCG -0.98	SCG -2.97	USB 0.28	RE -1.56	LCG -4.80	EM -1.94	
Low	LCV -0.02	EM -0.45	SCV -0.45	RE -1.11	EM -1.46	RE -1.94	RE -1.33	MCG -0.63	SCV -1.45	USB -0.09	EM -1.13	IEQ -1.31	EM -2.69	MCV -0.29	IBD -0.22	USB -0.49	EM -1.19	RE -1.36	MCG -3.05	HYB 0.27	MCV -1.61	RE -4.86	IBD -5.87	Low

Legend

- 60/40 Allocation (60/40)
- Large Growth (LCG)
- Large Value (LCV)
- Mid Growth (MCG)
- Mid Value (MCV)
- Small Growth (SCG)
- Small Value (SCV)
- Intl Equity (IEQ)
- Emg Markets (EM)
- U.S. Bonds (USB)
- High Yield Bond (HYB)
- Intl Bonds (IBD)
- Real Estate (RE)

Source: Bloomberg. Asset-class performance is presented by using market returns from an exchange-traded fund (ETF) proxy that best represents its respective broad asset class. Returns shown are net of fund fees for and do not necessarily represent performance of specific mutual funds and/or exchange-traded funds recommended by the Prime Capital Investment Advisors. The performance of those funds may be substantially different than the performance of the broad asset classes and to proxy ETFs represented here. U.S. Bonds (iShares Core U.S. Aggregate Bond ETF); High-Yield Bond (iShares iBoxx $ High Yield Corporate Bond ETF); Intl Bonds (SPDR® Bloomberg Barclays International Corporate Bond ETF); Large Growth (iShares Russell 1000 Growth ETF); Large Value (iShares Russell 1000 Value ETF); Mid Growth (iShares Russell Mid-Cap Growth ETF); Mid Value (iShares Russell Mid-Cap Value ETF); Small Growth (iShares Russell 2000 Growth ETF); Small Value (iShares Russell 2000 Value ETF); Intl Equity (iShares MSCI EAFE ETF); Emg Markets (iShares MSCI Emerging Markets ETF); and Real Estate (iShares U.S. Real Estate ETF). The return displayed as "Allocation" is a weighted average of the ETF proxies shown as represented by: 30% U.S. Bonds, 5% International Bonds, 5% High Yield Bonds, 10% Large Growth, 10% Large Value, 4% Mid Growth, 4% Mid Value, 2% Small Growth, 2% Small Value, 18% International Stock, 7% Emerging Markets, 3% Real Estate.

Advisory services offered through Prime Capital Investment Advisors, LLC. ("PCIA"), a Registered Investment Adviser. PCIA doing business as Prime Capital Wealth Management ("PCWM") and Qualified Plan Advisors ("QPA").

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