WEEK IN REVIEW

February 11, 2022

The Bottom Line

- US Markets lost the ground they gained last week after inflation came in hotter expected and tensions between Russia and Ukraine escalated.
- Yields spent most of the week in a general uptrend but fell modestly as investors de-risked on Friday. The yield on the 10-year ended flat and the 2-year yield was up +17bps.
- Economic data for the week was on the lighter side, but very impactful with the hottest inflation release since 1982 and Consumer Sentiment set a fresh decade low, as measured by the U. Mich. Consumer Sentiment survey.

Geopolitical Tensions and Inflation Spook Markets

The first half of the week was bright with potential as corporate earnings painted a robust picture for the fourth quarter of last year, but this optimism was eventually wiped out when a National Security Adviser speculated that Russia could insight conflict with Ukraine as early as next week. Both US and International Markets sold off late into Friday's trading session. European equities, as measured by the STOXX Europe 600, were able to cling to a modest weekly gain of +1.61%. Japanese markets, as measured by the Nikkei-225, also held a respectable gain of +0.93% for the week but were closed on Friday for a holiday. Domestic markets didn't fair as well, the S&P 500 lost -1.82% for the week and the tech-heavy Nasdaq Composite lost -2.18% for the week. Small Cap equities, as measured by the Russell 2000, were able to hold onto a weekly gain of +1.39% but were in the red for both Thursday and Friday's trading sessions. Market participants will be keeping a close eye on the situation unfolding between Russia and Ukraine, as well as Fed member commentary surrounding the red-hot CPI data release.

Digits & Did You Knows

HOUSING COSTS GO UP – The cost to rent housing nationwide increased by an average of +14.1% in 2021. The average monthly mortgage payment paid by a new US homeowner who put 5% down at purchase increased by 21.6% in 2021. (source: Redfin, BTN Research).

TRUSTING THE FED – In spite of inflation (measured by the Consumer Price Index) that was up +7.0% in 2021, the long-term inflation expectations of the bond market as of Tuesday 02/01/2022 are fore inflation of just +2.43% per year over the next 10 years. (source: Federal Reserve Bank of St. Louis, 10-Year Breakeven Inflation Rate, BTN Research).

Market Snapshot	Index Level	1-week Price Return	2022 Price Return
EQUITIES			
S&P 500	4,418.64	**-1.82%**	**-7.29%**
Nasdaq Composite	13,791.15	**-2.18%**	**-11.85%**
Russell 2000	2,030.15	**+1.39%**	**-9.58%**
Nikkei-225 (Japan)	27,696.08	**+0.93%**	**-3.81%**
STOXX Europe 600	469.57	**+1.61%**	**-3.74%**
RATES			
2-Year UST Note	1.48	17 bps	75 bps
10-Year UST Note	1.91	0 bps	40 bps

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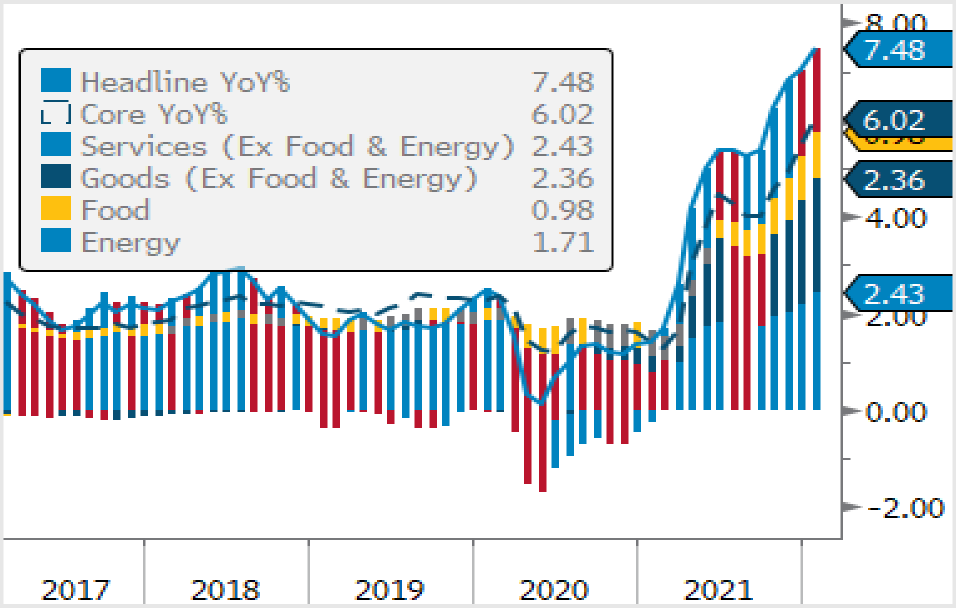
Chart of the Week

Inflation, as measured by the Consumer Price Index (CPI), rose by +0.6% for the month of January and an astounding 7.5% on a year-over-year basis. Digging down into the numbers, Core CPI, which excludes the volatile components of Food and Energy prices' contribution to the headline number, increased by 6% on a year-over-year basis, which is the largest increase since 1982. This also illustrates that prices are rising broadly across categories and not just isolated to a single input. The implications of the smoldering hot inflation numbers further increase the odds of the Fed conducting an initial interest rate hike in March and gives additional ammunition for a larger than expected initial raise, +50bps instead of +25bps. Fed members' narrative have been resistant to a 50bps hike in March thus far, but the CPI reading may change their tune.

Inflation Surges Ahead

Consumer Price Index (CPI) Year-Over-Year Change



Source: Bureau of Labor Statistics, Bloomberg

Economic Rundown

- Rising by less than expected, **Consumer Credit** was up $18.9 billion for the month of December, survey estimates were expecting an increase of $21.9 billion.
- **NFIB Small Business Optimism** missed expectations of 97.5, landing at 97.1.
- The US Trade Deficit rose to a record level with the **Trade Balance** coming in at -$80.7 billion for the month of December.
- **MBA Mortgage Applications** fell by -8.1% from the previous week's reading of +12.0%.
- Coming in slightly above expectations, **Wholesale Inventories** rose +2.2%, expectations were looking for +2.1%.
- **Initial Jobless Claims** came in slightly below expectations of +230k, landing at +223k. **Continuing Claims** were slightly above expectations of 1.615 million at 1.621 million.
- **Monthly Budget Statement** for the US Fed came in at $118.7 billion for the month of January.
- **CPI** on a year-over-year basis came in red hot at +7.5%, surpassing consensus estimates of +7.3%.
- **U. of Mich. Sentiment** fell to a new decade low of 61.7, survey expectations were estimating 67.0.

The Week Ahead

Monday	• N/A
Tuesday	• PPI • Empire Manufacturing • Net TIC Flows
Wednesday	• MBA Mortgage Applications • Retail Sales Advance • Import Price Index • Industrial Production
Thursday	• Building Permits • Housing Starts • Initial Jobless Claims
Friday	• Existing Home Sales • Leading Index

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Asset Class Performance

WEEK IN REVIEW

The Importance of Diversification. From period to period there is no certainty what investment will be the best performer… or the worst. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as lowering portfolio volatility, improving risk-adjusted returns, and helping investments to compound more effectively.

	Monday	Tuesday	Wednesday	Thursday	Friday	WEEK	
High	Small Growth 0.54	Small Growth 1.98	Mid Growth 2.98	Emg Markets -0.66	U.S. Bonds 0.66	Small Growth 1.46	High
	Small Value 0.26	Small Value 1.39	Small Growth 2.57	Intl Bonds -0.66	Intl Bonds -0.26	Small Value 1.23	
	Intl Equity 0.17	Mid Growth 1.21	Real Estate 2.29	U.S. Bonds -0.92	High Yield Bond -0.35	Mid Value 0.20	
	Mid Value 0.14	Mid Value 1.07	Large Growth 1.97	Small Value -1.21	Small Value -0.41	Emg Markets 0.12	
	Large Value 0.10	Large Growth 1.04	Intl Equity 1.62	60/40 Allocation -1.24	60/40 Allocation -0.78	Mid Growth 0.04	
	U.S. Bonds 0.09	Emg Markets 0.97	Emg Markets 1.57	Intl Equity -1.27	Mid Value -0.94	U.S. Bonds -0.43	
	Mid Growth 0.03	Large Value 0.68	Mid Value 1.53	High Yield Bond -1.32	Real Estate -1.04	Intl Equity -0.51	
	60/40 Allocation 0.00	Intl Equity 0.51	Small Value 1.22	Large Value -1.34	Large Value -1.09	Large Value -0.55	
	High Yield Bond -0.07	60/40 Allocation 0.38	Large Value 1.13	Mid Growth -1.54	Intl Equity -1.51	60/40 Allocation -0.61	
	Intl Bonds -0.09	High Yield Bond -0.11	60/40 Allocation 1.07	Mid Value -1.56	Emg Markets -1.52	Intl Bonds -0.69	
	Real Estate -0.17	Intl Bonds -0.12	High Yield Bond 0.53	Small Growth -1.73	Small Growth -1.83	High Yield Bond -1.33	
	Emg Markets -0.21	U.S. Bonds -0.31	Intl Bonds 0.45	Large Growth -2.03	Mid Growth -2.54	Real Estate -1.99	
Low	Large Growth -0.68	Real Estate -0.52	U.S. Bonds 0.06	Real Estate -2.50	Large Growth -2.93	Large Growth -2.67	Low

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, 31% International Stock, 7% Emerging Markets, 3% Real Estate.

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