MONTH IN REVIEW

March 2022

Quick Takes

- **Equities Cautiously Advance.** Domestic and International Developed equities posted a month in the green but remain in the red for the year thus far. Bonds and Emerging Markets continued their year-to-date rut.

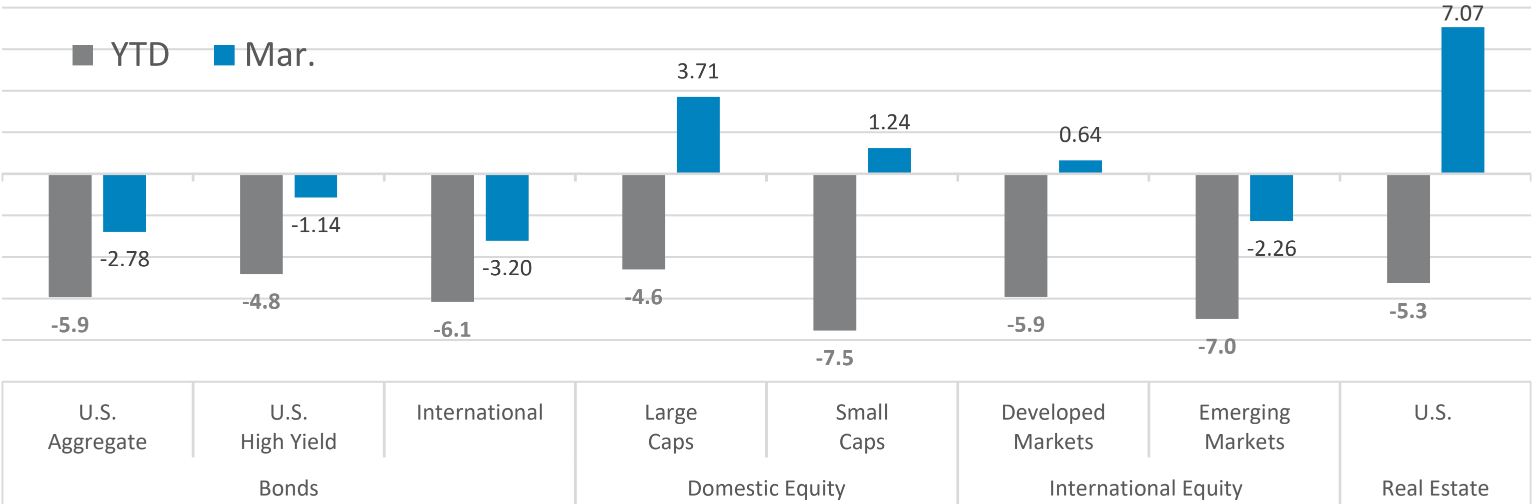
- **Interest Rate Liftoff.** As expected, the Federal Reserve conducted their first interest rate hike of 25bps during their March meeting. The yield on the 2-Year UST Note jumped 90bps and the yield on the 10-Year UST Note rose 51bps. The Fed is expected to continue to increase rates for the remainder of 2022.

- **Greenback Has A Bumpy Month.** The dollar went for a rollercoaster ride for the month of March, rising to a recent high of 99.293 at the beginning of the month, but finally settled at 98.312 by the end of the month.

- **Supply chains, Labor Markets, and Inflation.** Inflation showed no signs of rolling over with the Consumer Price Index (CPI) rising +7.9% on a year-over-year basis and the Producer Price Index (PPI) screamed ahead at +10% for the same period. Labor markets continued along the same theme as before- too many jobs, not enough workers, indicating that tightness will likely be here to stay for a while.

Asset Class Performance

After a dismal start to the year, equities were able to show some signs of life, but bonds, both domestic and international were still negative for the month, deepening their YTD selloff. While equities mostly posted a positive month, YTD returns are also still in the red.



Source: Bloomberg, as of December 31, 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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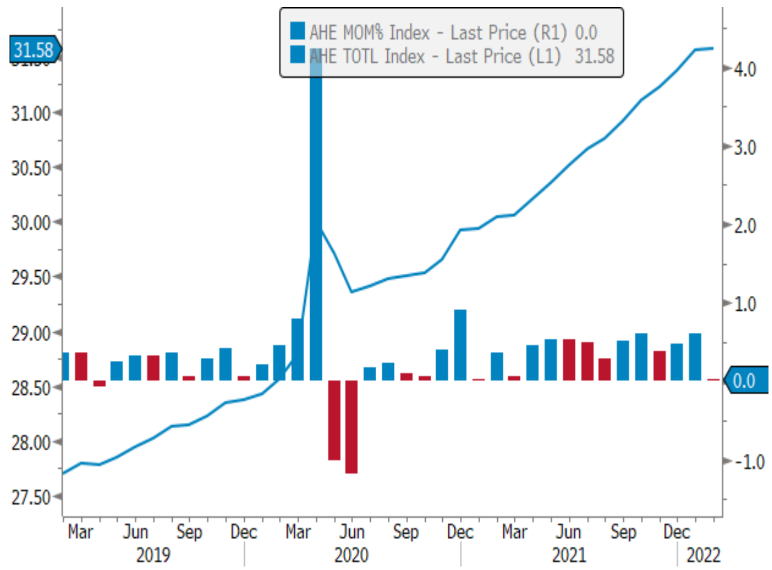
Inflation Carries On at a Red-Hot Pace, but Wage Growth Flattens

Regardless of the preferred inflation metric, from CPI to PCE to PPI, most measures told the same story-inflation is continuing to rise into the new year. While the Russia-Ukraine conflict's direct impact on the US should be minimal, it will likely affect global supply chains, which have continued to be strained as the world "learns to live with Covid-19". This additional pressure on supply chains will likely bleed over into inflation as raw materials for producers and finished goods for consumers will remain scarce and at elevated price levels. Sustained levels of increasing inflation will put additional pressure on the Federal Reserve to take more decisive action in getting inflation under control via interest rate hikes and quantitative tightening. The Fed was originally delaying interest rate hikes due to the labor market's start and stop action due to the spread of various Covid-19 variants throughout last year. Now, it appears that the US economy, and many others, are finding ways to "live with Covid" and the labor market remains very tight with the unemployment rate below pre-pandemic levels and a plethora of open jobs with the Job Openings Labor Turnover Survey (JOLTS) coming in at 11.26 million at the beginning of the month. Participation in the labor market remains below pandemic levels, insinuating that there is still recovery to be had. It's possible that if rampant inflation continues, sidelined workers may return to the labor market as savings dwindle due to increased price levels and increased levels of compensation as employers compete for workers. While employers are desperate to find help, they may have reached their limit on compensation, as illustrated in the chart above, wage growth has begun to flatline for this year. Inflation isn't just affecting consumers, employers are also feeling the pressure, so the flattening wage growth may be due to employers attempting to gain greater control on input prices.

Are Wages Cooling Down?

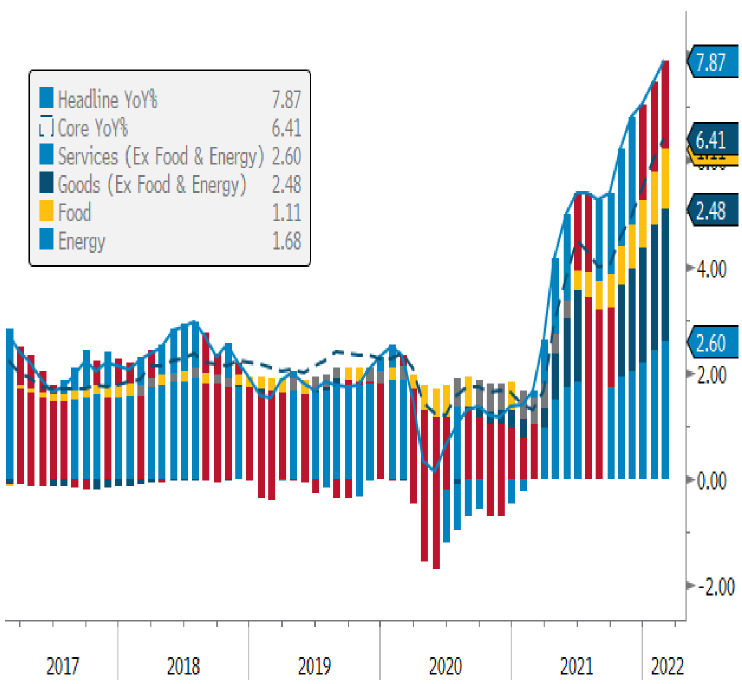
Average Hourly Earnings total vs. Month over Month Change



Source: Bureau of Labor Statistics, Bloomberg

Consumer Prices Show No Signs of Slowing

CPI YoY and Category Contribution

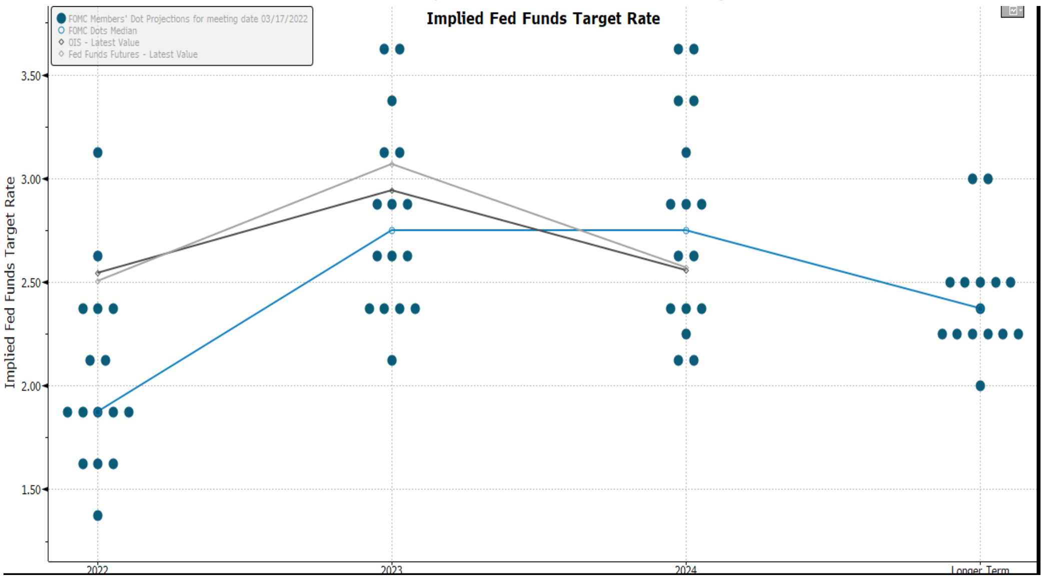


Source: Bureau of Labor Statistics, Bloomberg

Bottom Line: Economic data releases for the month of March showed that the trending topics of rising inflation and tight labor markets showed little signs of abating. The Federal Reserve initiated interest rate liftoff with a 25bps hike in the Fed Funds Rate and the readings surrounding hot inflation and robust employment, despite lower participation and flatlining wage growth, leaves little room for the Fed to not continue to hike interest rates throughout the remainder of the year and opens the door to a more aggressive policy, possibly even one or two 50bps hike in the coming months.

March 2022
What's Ahead

Fed Turns Aggressively Hawkish As Inflation Estimates Rise
FOMC Dot Plot, Implied Fed Funds Target Rate

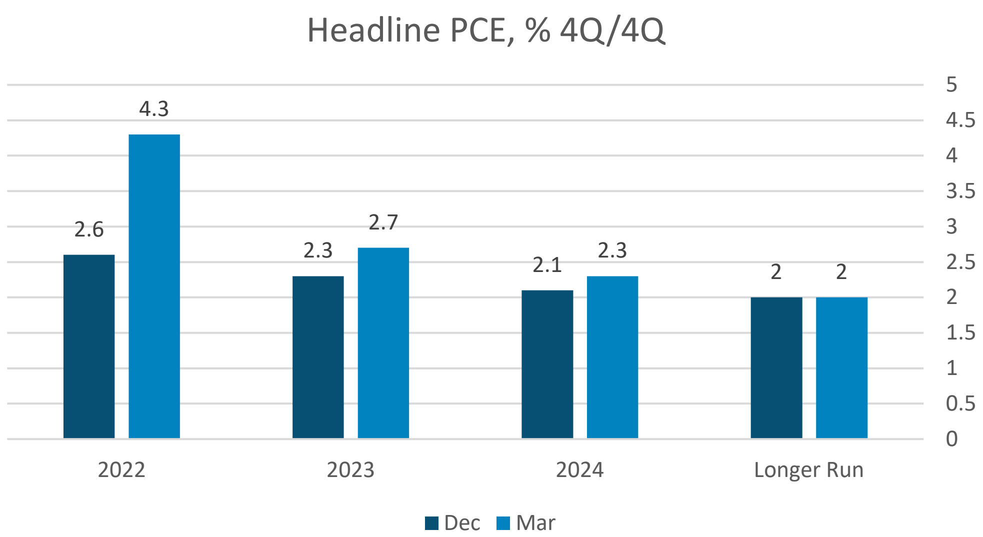


Source: FOMC, Bloomberg

With inflation running rampant year to date, which has added pressure onto the Federal Reserve to increase the pace on their scheduled timeline of monetary tightening. Even with the interest rate hike conducted during the March FOMC meeting, many market participants are wondering if 25bps was enough or if 50bps would have been more appropriate given high price levels and ever tight labor markets. As illustrated in the chart below, FOMC Members' estimated projections of Headline PCE, their preferred metric for monitoring inflation, have greatly increased for the full year 2022 between their December meeting and their March meeting. Looking out to 2023 and 2024, FOMC members are estimating a modest increase in inflation from their December meeting, but their Longer Run estimate has remained stable at 2.0%. After the FOMC's blackout period, members took on an aggressively hawkish tone, vowing to prioritize rising prices over shorter-term economic growth. This hawkish tone will likely lead to the FOMC voting to increase the Fed Funds Rate during each of their remaining meetings for this year and greatly increases the probability for at least one, if not two, 50bps hikes instead of 25bps. The FOMC is in a tight spot from a creditability standpoint as their previous communications promised a more gradual and measured monetary policy tightening. As the Federal Reserve tries to play catchup with the potentially overheating economy, consumers are adjusting spending habits with the increased price level of goods and services from snarled supply chains and and red-hot inflation, which may impact future economic growth. With consumers cutting back and the Fed potentially aggressively implementing monetary policy tightening, both of which will likely lead to decreased economic growth, this increases the probability for the US economy to enter a recessionary period. While the threat of recession remains top of mind for market participants and consumers alike, given that consumers' and corporations' balance sheets are in near pristine condition, the recession that the US could experience would likely be mild and short-lived.

<u>Bottom Line</u>: The Fed is under intense pressure to get a handle on inflation via their monetary policy tightening and given current and estimated levels of inflation and employment, the Fed appears to be playing catchup. This could lead to more drastic measures taken by the Fed as the year goes and the potential for a policy error has increased, which could lead to a recession for the US economy, albeit would likely be a mild and short-lived contraction in economic production given the excellent financial position consumers and corporations are currently in.

Fed's Inflation Estimates Increase
FOMC's Headline PCE Estimates in December '21 vs. March '22

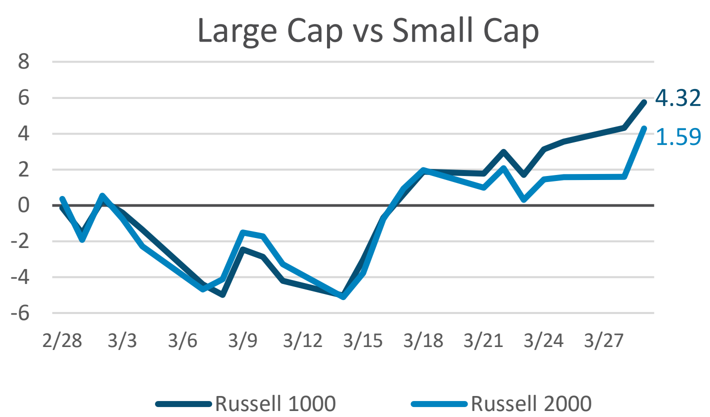


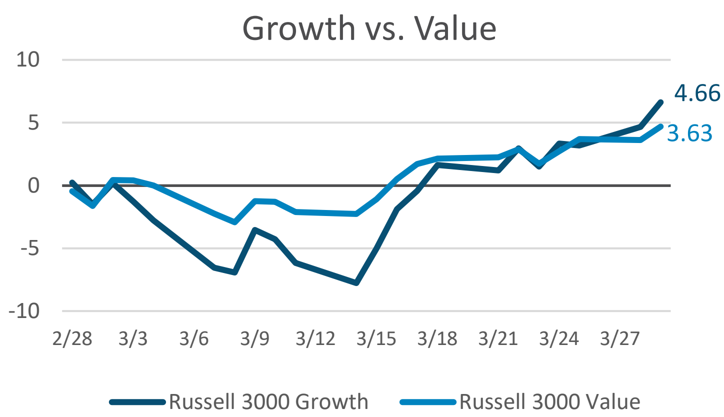
Source: FOMC, Bloomberg

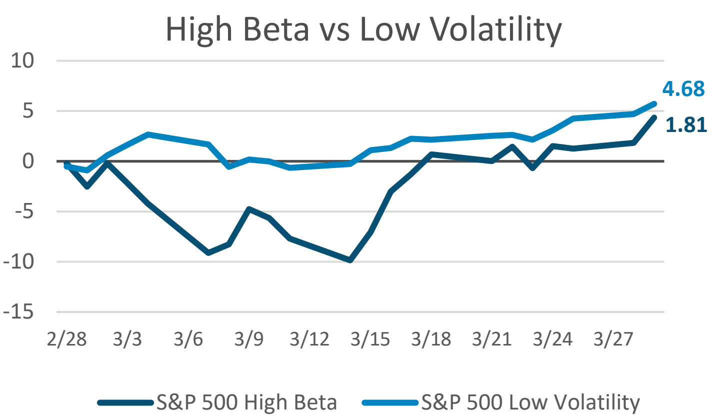
Equity Themes

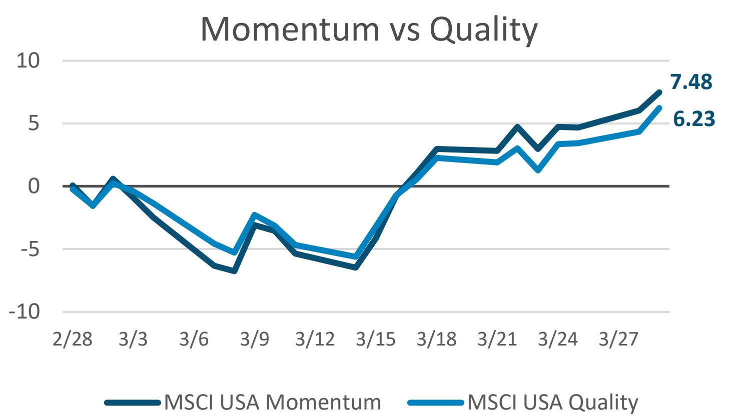
What Worked, What Didn't

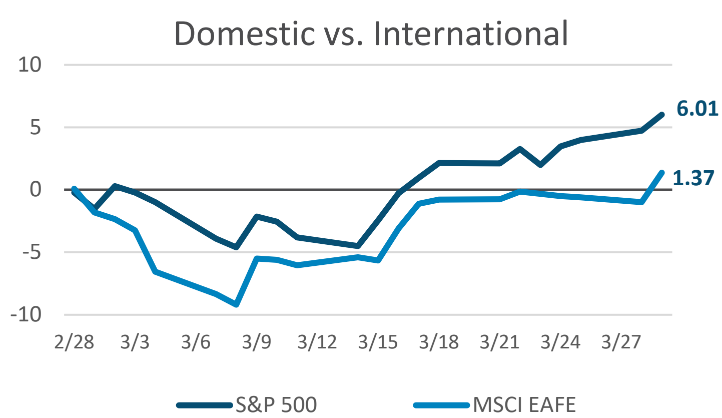
- **Large Cap Over Small Cap, Growth Over Value.** After a bloody start to the year, Large Cap stocks had some noticeable outperformance versus Small Cap equities and Growth equities were able to outperform their Value styled peers for the month of March.
- **Momentum and Low Volatility Outperform.** Markets moved into a cautious risk on trade during the latter part of the month where Momentum style equities where able to gap above Quality equities and Low Volatility stocks beat out High Beta equities.
- **Domestic Equities Over International, Developed Over Emerging.** Domestic equities candidly outperformed International equities, still plagued with the effects of the Russia-Ukraine Crisis, and Emerging Markets were one of the few equity classes negative for the month.

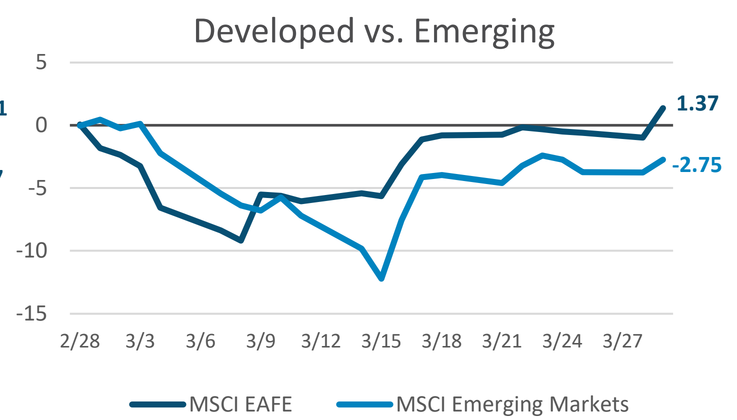












Source: Bloomberg.

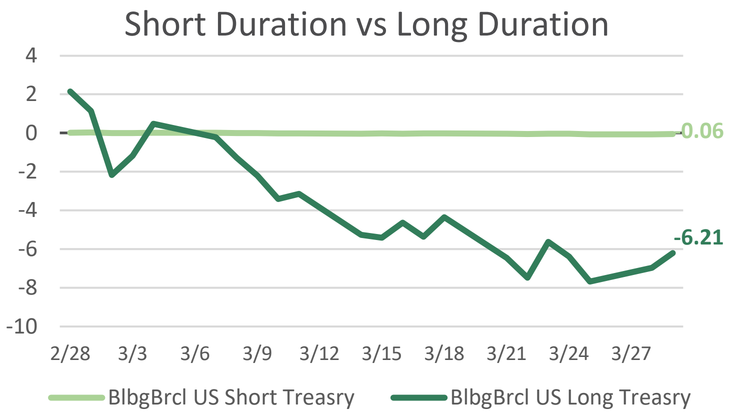
March 2022

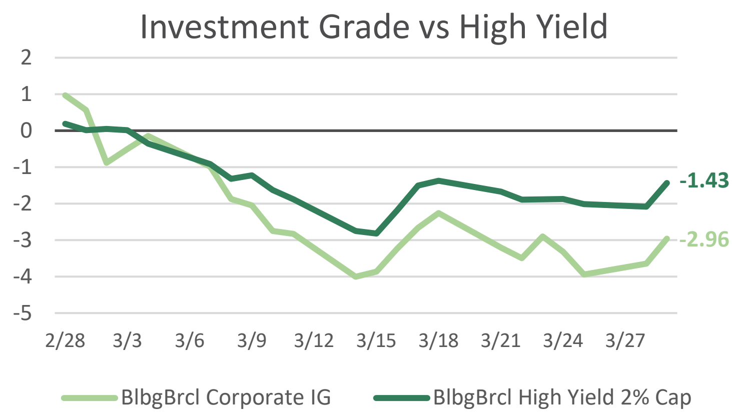
Bond Themes

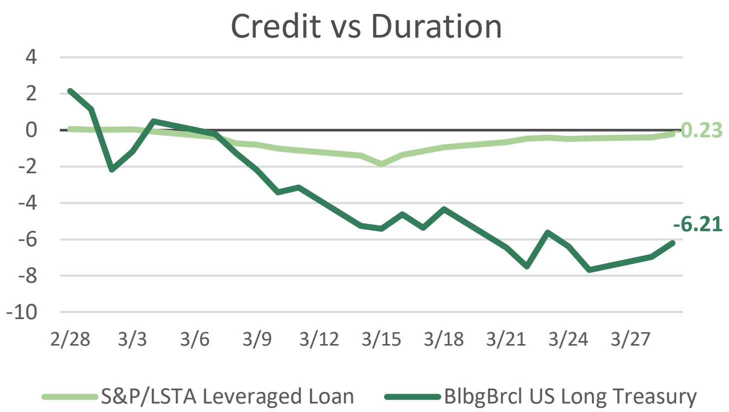
MONTH IN REVIEW

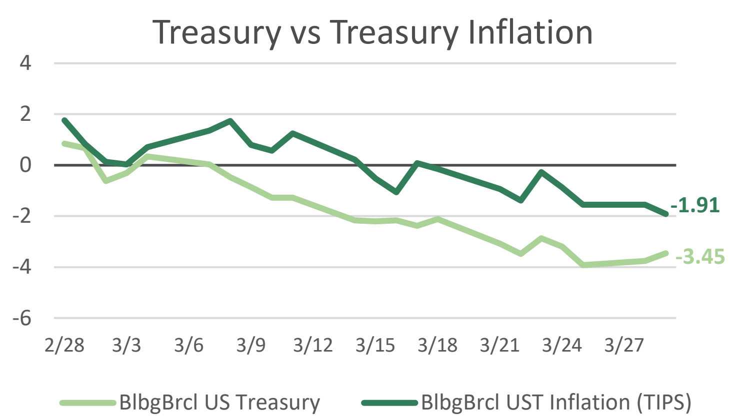
What Worked, What Didn't

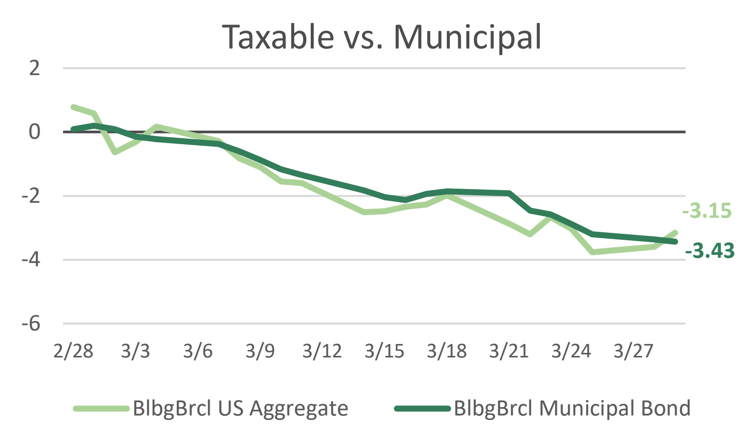
- **Short Duration and Higher Yielding Bonds Outperform.** Bonds overall were battered for the month with the Fed's interest rate liftoff, but Shorter Duration was able to post a slightly positive month and Higher Yielding bonds offered some downside protection, but were still in the red.
- **TIPS Protect but Munis Do Not.** With inflation continuing to roar ahead, it's of little surprise that TIPS offered some downside protection, but Munis couldn't boast the same as they underperformed Aggregate bonds.
- **Stay Home.** International bonds underperformed Domestic Bonds, but both were deeply in the red for the month.

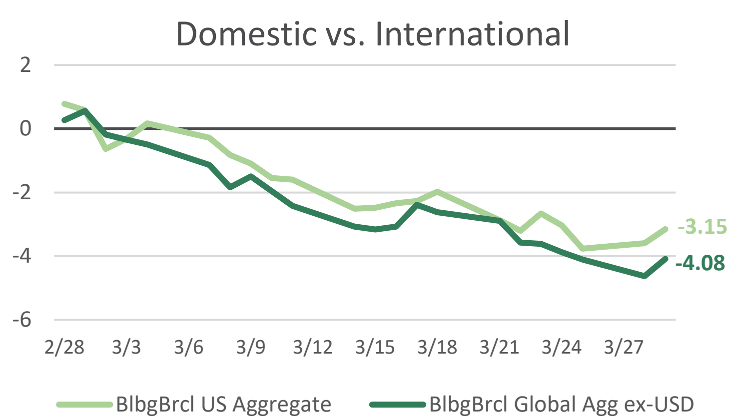












Source: Bloomberg.

March 2022
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.

	Mar-01	Mar-02	Mar-03	Mar-04	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Mar-28	Mar-29	Mar-30	Mar-31	Mar	YTD	
High	USB 0.56	SCV 2.66	RE 0.82	RE 0.49	USB -0.58	IEQ 0.87	IEQ 4.18	RE 0.24	USB -0.02	IEQ 0.92	LCG 3.09	EM 8.05	SCG 2.21	MCG 2.43	LCV 0.20	EM 1.81	USB 0.41	LCG 1.87	RE 1.17	SCG 2.86	SCG 3.23	IBD 0.42	USB -0.05	RE 6.86	LCV -0.74	High
	IBD 0.05	MCV 2.41	USB 0.34	USB 0.40	HYB -0.87	SCG 0.64	MCG 3.89	SCV 0.21	IBD -0.70	LCV -0.11	MCG 2.41	SCG 4.21	MCG 2.20	LCG 2.16	MCV 0.12	MCG 1.73	IBD 0.05	MCG 1.64	LCV 0.95	SCV 2.69	RE 2.85	USB 0.27	IBD -0.30	LCG 3.96	MCV -1.87	
	RE -0.26	SCG 2.11	LCV 0.07	LCV -0.37	IBD -1.53	SCV 0.45	LCG 3.75	MCV 0.04	HYB -0.72	IBD -0.34	SCG 2.19	MCG 4.17	RE 1.46	SCG 1.67	SCV -0.23	LCG 1.72	HYB -0.32	SCG 1.33	SCV 0.93	MCG 1.31	MCG 2.75	LCV -0.26	HYB -0.36	MCV 3.12	SCV -2.49	
	HYB -0.28	LCV 1.97	MCV -0.09	HYB -0.65	SCV -2.05	EM 0.33	SCG 3.64	LCV -0.11	LCV -0.79	MCV -0.50	MCV 1.35	IEQ 3.59	LCG 1.31	EM 1.43	LCG -0.33	SCG 1.50	60/40 -0.65	MCV 1.14	MCV 0.93	MCV 1.28	IEQ 2.22	EM -0.28	60/40 -0.93	LCV 2.90	HYB -4.73	
	60/40 -0.85	RE 1.73	HYB -0.30	MCV -0.84	RE -2.05	60/40 -0.11	EM 2.83	USB -0.56	RE -0.84	RE -0.71	LCV 1.26	LCG 3.28	MCV 1.22	IEQ 0.97	RE -0.53	IEQ 0.94	EM -0.66	LCV 1.00	IEQ 0.05	EM 1.24	SCV 2.07	HYB -0.30	RE -1.05	SCV 2.00	USB -5.85	
	EM -1.33	MCG 1.69	SCV -0.35	IBD -0.84	60/40 -2.20	IBD -0.11	MCV 2.11	SCG -0.62	MCV -0.92	60/40 -0.74	60/40 0.96	SCV 2.27	LCV 1.18	60/40 0.78	IBD -0.59	SCV 0.65	RE -1.08	IEQ 0.93	LCG -0.13	LCG 0.98	LCG 1.79	60/40 -0.33	SCV -1.08	MCG 1.55	60/40 -6.12	
	MCG -1.43	LCG 1.64	IBD -0.54	60/40 -0.96	LCV -2.29	MCV -0.16	SCV 1.96	MCG -0.69	60/40 -0.93	USB -0.97	IEQ 0.95	60/40 2.24	SCV 0.89	MCV 0.57	IEQ -0.62	LCV 0.63	LCV -1.15	SCV 0.88	60/40 -0.21	RE 0.97	EM 1.70	IEQ -0.41	SCG -1.18	IEQ 0.52	RE -6.43	
	LCG -1.48	IEQ 1.26	60/40 -0.64	SCV -1.02	SCG -2.87	HYB -0.35	60/40 1.95	60/40 -0.72	SCV -0.98	SCV -1.00	SCV 0.78	MCV 1.91	IEQ 0.84	SCV 0.35	60/40 -0.70	60/40 0.60	MCV -1.19	RE 0.63	IBD -0.36	IEQ 0.91	MCV 1.62	RE -0.68	MCV -1.26	SCG 0.33	IEQ -6.46	
	LCV -1.54	60/40 0.53	EM -1.41	LCG -1.48	MCV -2.98	USB -0.36	LCV 1.79	LCG -0.79	IEQ -1.08	HYB -1.19	HYB 0.75	LCV 1.59	60/40 0.71	LCV 0.35	USB -0.98	MCV 0.59	IEQ -1.30	60/40 0.60	MCG -0.65	LCV 0.86	60/40 1.40	MCV -0.73	MCG -1.46	60/40 -0.08	EM -7.57	
	SCV -1.84	HYB 0.24	LCG -1.43	MCG -1.89	IEQ -3.17	MCG -0.41	RE 1.60	HYB -0.84	LCG -1.95	LCG -1.67	RE 0.70	HYB 1.40	HYB 0.69	HYB 0.33	MCG -1.07	HYB 0.51	SCV -1.42	EM 0.53	HYB -0.72	60/40 0.80	HYB 1.23	LCG -1.14	LCV -1.47	HYB -1.29	IBD -7.73	
	SCG -1.87	EM 0.17	IEQ -1.97	EM -2.02	EM -3.74	RE -0.56	IBD 1.26	IBD -0.92	EM -2.09	MCG -1.92	USB 0.22	RE 1.25	IBD 0.43	USB 0.22	HYB -1.15	RE 0.28	LCG -1.44	HYB 0.21	SCG -0.75	IBD 0.44	LCV 0.96	MCG -1.39	EM -1.51	USB -2.81	LCG -9.02	
	MCV -1.95	IBD -0.67	SCG -2.09	SCG -2.14	LCG -3.91	LCG -0.56	HYB 0.83	IEQ -1.20	SCG -2.42	EM -2.42	IBD 0.22	IBD 0.85	USB 0.17	RE 0.19	EM -1.54	USB -0.27	MCG -1.80	IBD -0.19	EM -0.79	USB 0.28	IBD 0.80	SCV -1.73	LCG -1.51	IBD -3.04	SCG -12.65	
Low	IEQ -2.19	USB -1.20	MCG -2.09	IEQ -2.90	MCG -4.41	LCV -0.81	USB -0.21	EM -1.87	MCG -2.58	SCG -2.73	EM 0.14	USB 0.07	EM -0.51	IBD 0.17	SCG -1.54	IBD -0.31	SCG -2.01	USB -0.22	USB -0.79	HYB 0.27	USB 0.47	SCG -2.07	IEQ -1.66	EM -3.38	MCG -12.68	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.