MONTH IN REVIEW

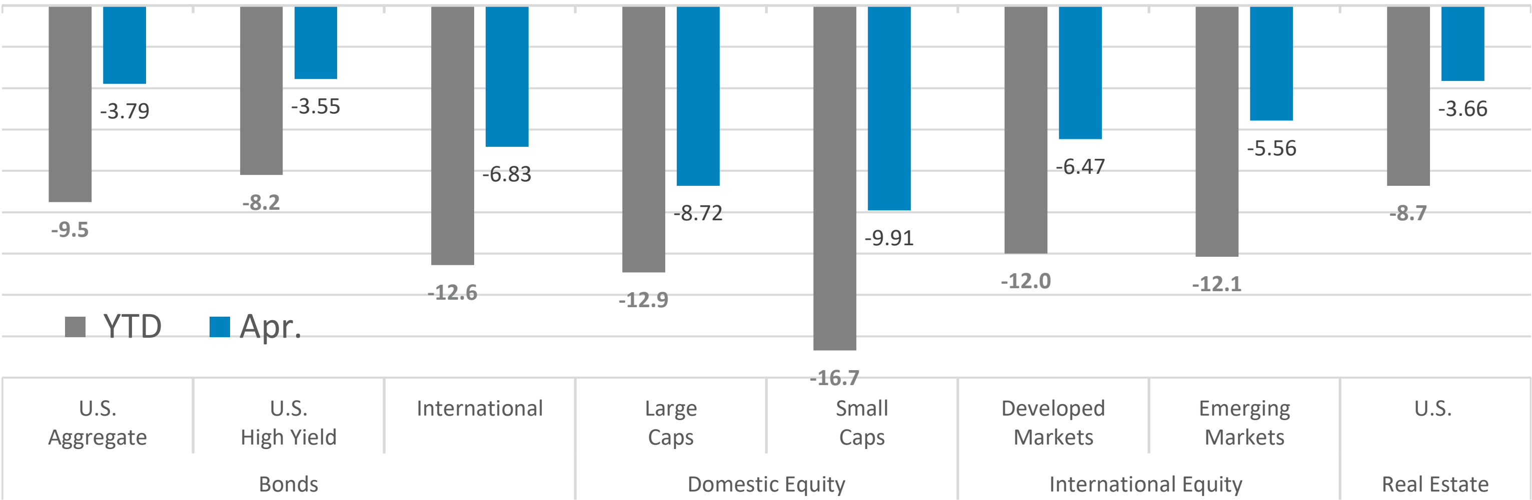
April 2022

Quick Takes

- **Risk Assets Decimated.** April was a bloody month for risk assets across the board. Equities, both domestic and abroad, sold off significantly for the month of April and Bonds, offered little to no protection from the pain.
- **Has Inflation Finally Peaked?.** On the heels of the Fed initiating interest rate liftoff and offering some details on their path to quantitative tightening, Core CPI came in softer than expected. While this is encouraging, it is still too early to tell if Inflation has peaked and will show signs of normalizing.
- **Greenback Soars To 5 Year High.** As the Fed gave more clarity to their quantitative tightening process, the dollar took off for the month of April and reached a 5-year high of 103.928 at the end of the month.
- **Economic Production, Labor Markets, and Inflation.** GDP missed the mark for the month of April, falling -1.4% versus expectations of +1.0%. Inflation, as measured by Core CPI, came in below expectations for the month of April. Labor markets appear to have leveled off for the month of April with most of the high frequency data coming roughly in-line with market participant expectations.

Asset Class Performance

The tough year for risk assets continued through April with all major asset classes posting a negative month for April and deepened their year-to-date rut. In times of volatility, bonds typically offer a measure of downside protection, but with the Fed determined to combat inflation via interest rate increases, fixed income offered little safety.



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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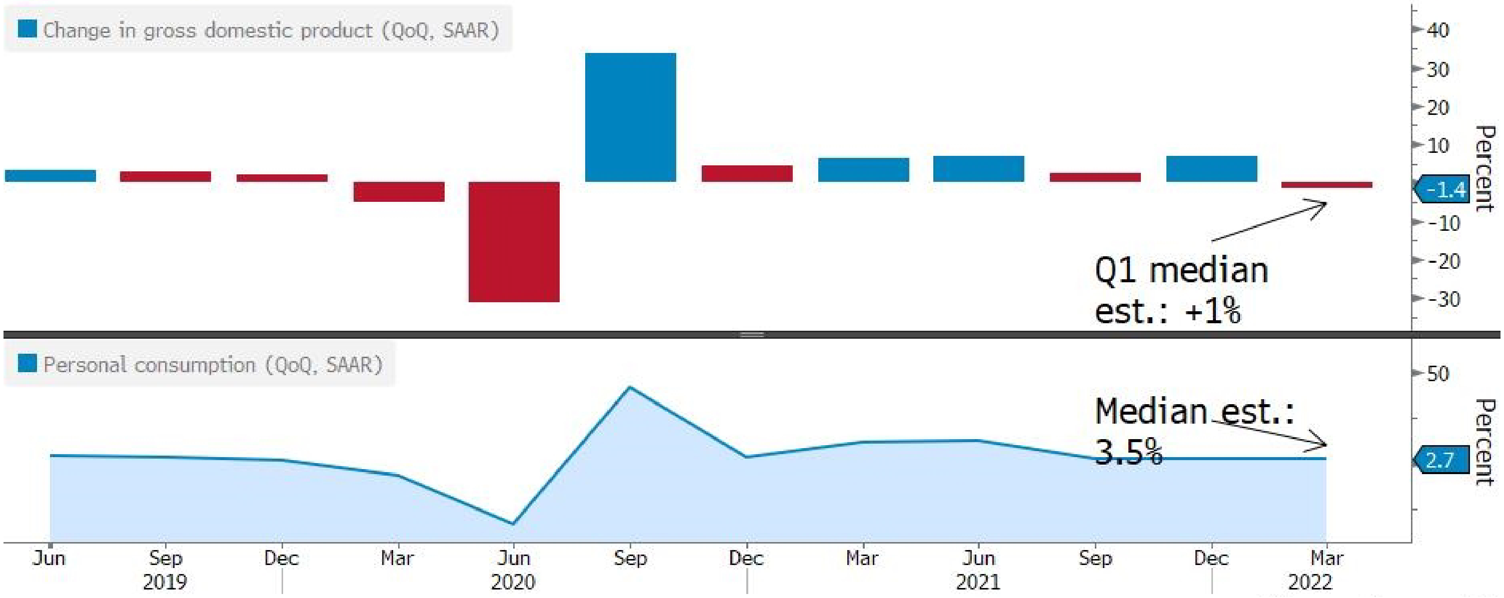
GDP Unexpectedly Shrinks in First Quarter of the Year

U.S. Economic Production Misses the Mark for Q1

Change in GDP (QoQ) and Personal Consumption (QoQ)



Source: Bureau of Economic Analysis, Bloomberg

For the first time since the start of global pandemic, U.S. GDP fell by -1.4% on an annualized basis in the first quarter of the year, widely missing expectations for an expansion of +1.0% on an annualized basis. Digging into the underlying data, the contraction was due to a large increase in imports and drop in exports. However, on a year-over-year basis, GDP grew by +3.6%. This illustrates how volatile economic production numbers calculations can be from quarter-to-quarter. Given that the calculation methodology leads to volatile quarter-over-quarter readings, market participants ultimately weren't overly concerned that the headline number was negative and were encourage by the consumer spending and business investment portions of the data. With Core CPI, which excludes the more volatile components of energy and food prices, coming in below consensus estimates, this may mean that inflation has finally peaked. Ultimately, the implications for both the economic production and inflation readings will materialize through the Federal Reserve's monetary tightening policy, which will consist of raising interest rates and their balance sheet runoff. Fed speakers throughout the month of April have stated that fighting inflation is their main priority and that may lead to a more aggressive tightening plan than originally communicated.

At the Fed's meeting in May, they are anticipated to raise interest rates by 50bps and further guidance on their balance sheet runoff is expected during the press conference following the meeting. The Fed is currently in a precarious position where the committee must maintain loose enough monetary policy to continue positive economic growth, while tightening monetary policy enough to bring inflation back to its target range. A misstep in either direction could have lasting effects on not only the U.S. economy, but also financial markets both domestic and abroad.

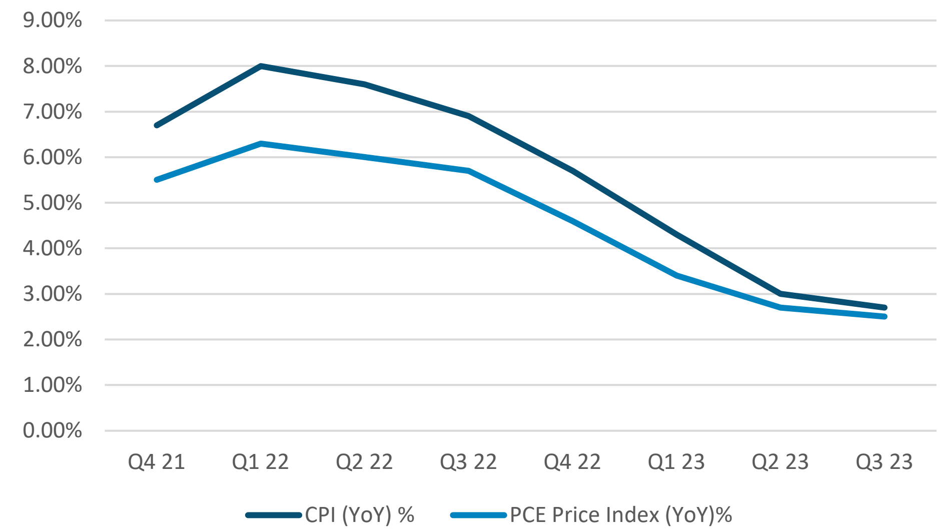
Bottom Line: U.S. GDP contracted for the first quarter of the year and inflation, as measured by Core CPI, showed the initial signs that inflation may have peaked on the heels of the Fed's interest rate liftoff. While market participants chalked up the economic contraction as temporary, expecting the robust consumer spending and business investment to prop up GDP numbers for the rest of the year, this further illustrates the tightrope that the Fed must walk for the rest of the year, balancing taming inflation while still maintaining a loose enough monetary policy to encourage continued economic growth.

The Fed and its Attempts for Goldilocks Monetary Policy

With inflation hinting at the initial signs of peaking in April combined with first quarter GDP contracting, the Fed has an extremely difficult job of balancing tightening monetary policy while still encouraging continued economic expansion. The Fed's commentary has recently taken on a very hawkish tone, suggesting that the committee will prioritize combatting inflation rather than prioritizing economic growth in the short-term. Currently, the Fed is expected to raise interest rates by 50bps in their May meeting, but some members have stated that more dramatic action is warranted given inflations persistent nature. Additionally, more guidance regarding their balance sheet runoff, which is called quantitative tightening, is expected to be discussed after their meeting. The Fed is expected to begin their runoff in May starting at $35 billion and increasing over the next three months to $95 billion and will maintain that pace until their balance sheet reaches a more normalized level. This means that the Fed will not reinvest its proceeds from bonds that are set to mature during this time period, which should help to temper the pace of the economy and thereby reduce upward pressure on inflation. The balance sheet normalization is slated to occur just as global supply chain pressures have begun to ease. As illustrated in the chart below, the Federal Reserve Bank of New York's Global Supply Chain Pressure Index peaked at the beginning of the year and has eased since then. The Index is still at levels above pre-pandemic readings but has shown marked improvement from the height of the disruptions. As this continues to ease, it should also ease price pressure, thereby reducing inflation. As illustrated in the chart above, Bloomberg's estimated levels of CPI and PCE (the Fed's preferred method of inflation tracking) are expected to drastically decline over the next 12 months, landing approximately at the Fed's long run target. As inflation pressures naturally ease from easing supply chain constraints, the Fed will have to carefully thread the needle of monetary policy tightening to ensure that they do not overcorrect and send the economy into a significant contraction.

Can the Fed Cool Inflation While Keeping the Economy Warm?

Bloomberg CPI (YoY) and PCE Price Index (YoY) Forward Estimates



Source: Bloomberg

Global Supply Chain Pressure Eases

Federal Reserve Bank of New York Global Supply Chain Pressure Index

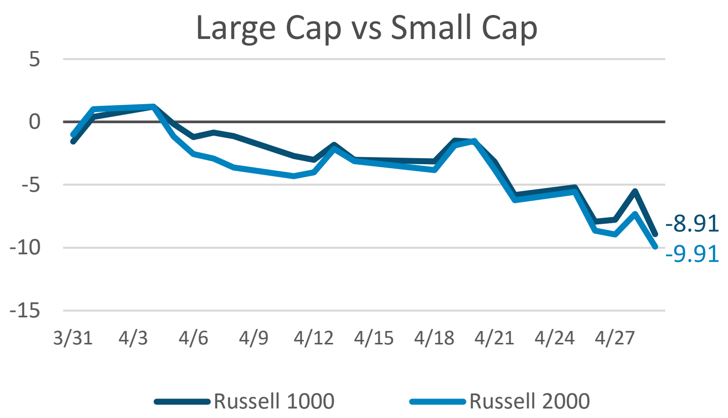
Source: FOMC, Bloomberg

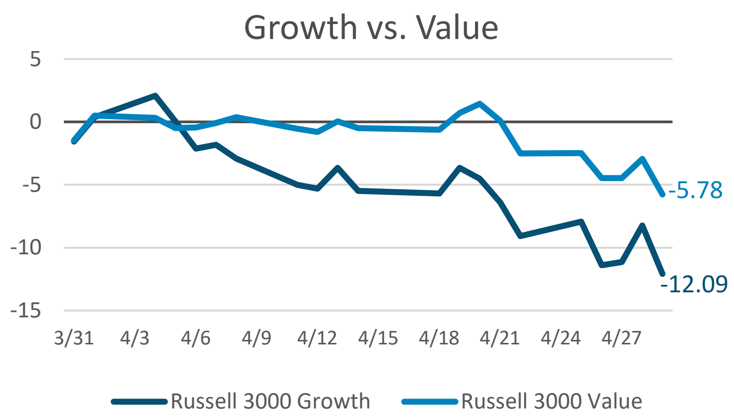
Bottom Line: All eyes are on the Fed as they are expected to increase interest rates as well as provide additional guidance on their balance sheet normalization program to help temper inflation. This monetary tightening policy is ramping up just as pandemic related inflation pressures, like global supply chain constraints, are rolling over and starting the ease. This leaves an uncertain path forward for the Fed who will have to nimbly adapt monetary policy to make sure inflation doesn't continue to run rampant, but to also continue to promote economic growth.

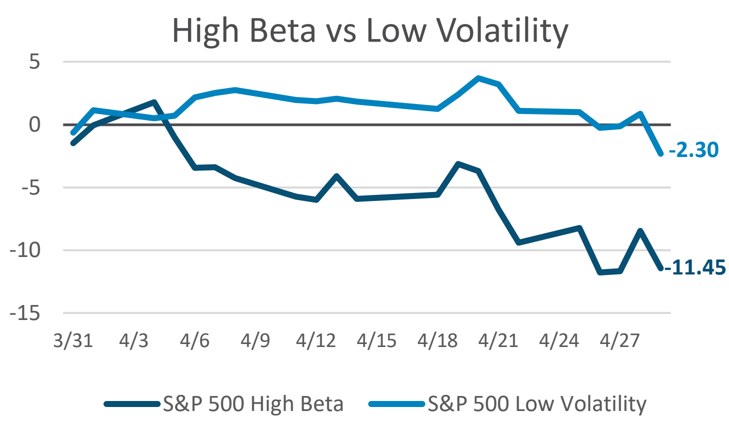
Equity Themes

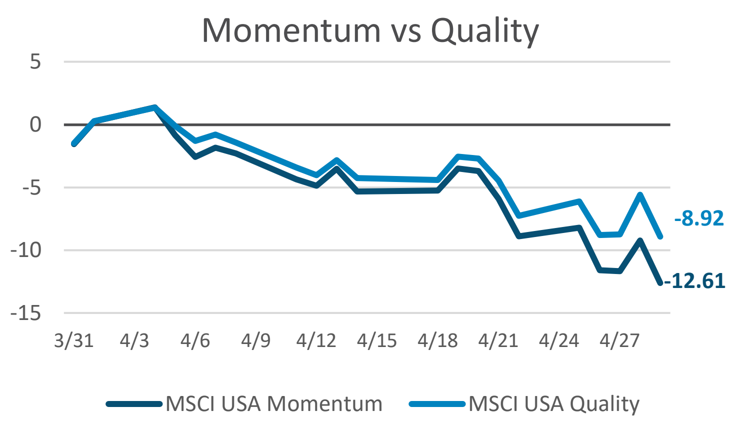
What Worked, What Didn't

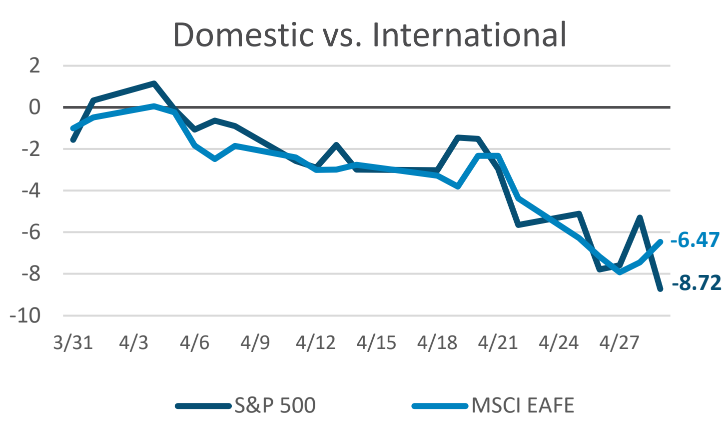
- **Large Cap Over Small Cap, Value Over Growth.** Large Cap equities offered downside protection versus Small Cap equities, but both were significantly in the red for the month. Value equities offered significant downside protection versus Growth equities.
- **Quality and Low Vol Protect.** While not immune from the sell off, Quality and Low Volatility equities offered some protection for the month of April versus their respective Momentum and High Beta peers.
- **International over Domestic, Emerging over Developed.** Domestic equities underperformed versus International Developed equities and after a difficult start to the year, Emerging Markets equities outperformed both International Developed markets as well as Domestic equities.

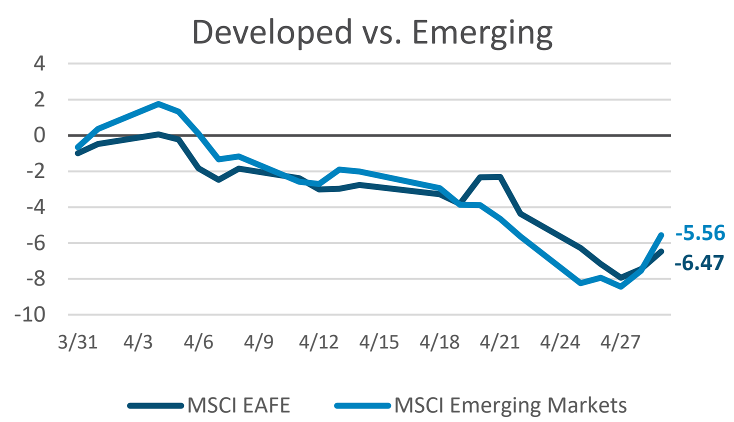








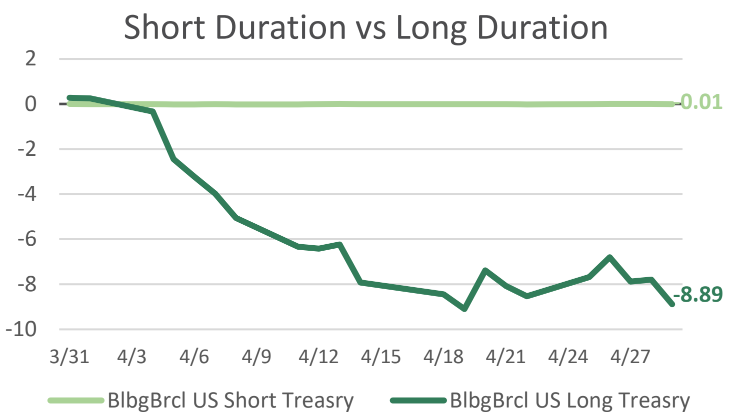


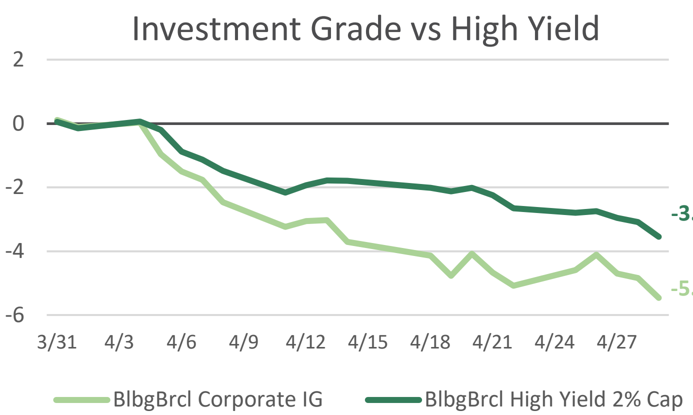


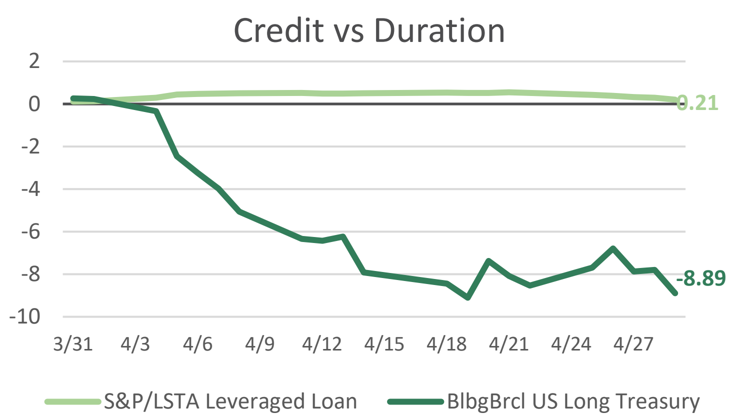
Source: Bloomberg.

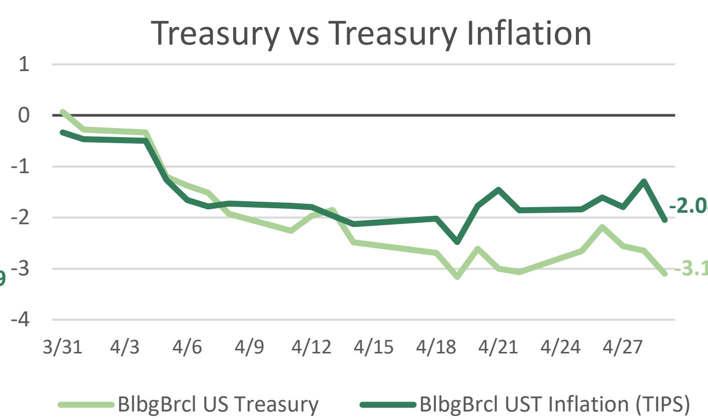
What Worked, What Didn’t

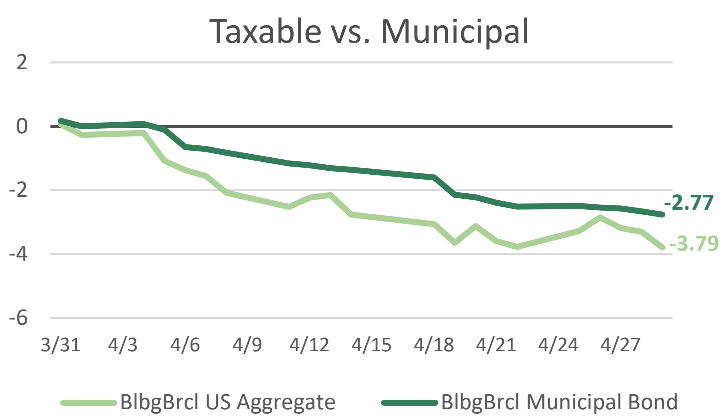
- **Short Duration and Higher Yielding Bonds Outperform.** Overall bonds continued their struggle posting large losses for the month of April. Short Duration was able to post a slightly positive return and High Yield offered some downside protection versus their Investment Grade peers.
- **TIPS Outperform As Inflation Concerns Mount.** Inflation, as measured by Core CPI, came in below expectations for the month of April, regardless TIPS outperformed Treasuries for the month. Credit also outperformed Long Treasuries for the month.
- **Munis and International Outperform.** Muni bonds offered some downside protection, as did International bonds as market participants priced in the more hawkish Fed.

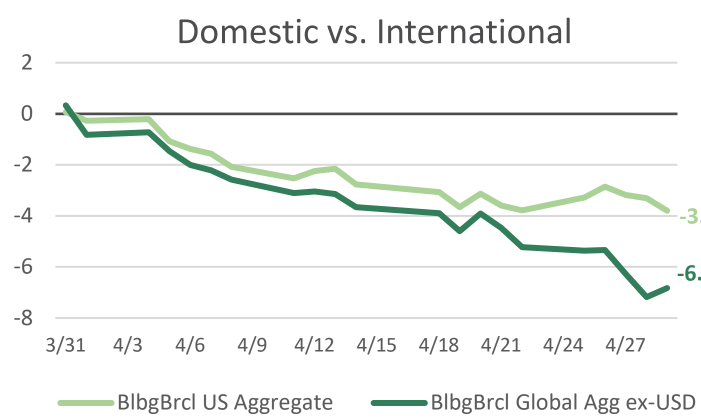












Source: Bloomberg.

April 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.

	Apr-01	Apr-04	Apr-05	Apr-06	Apr-07	Apr-08	Apr-11	Apr-12	Apr-13	Apr-14	Apr-18	Apr-19	Apr-20	Apr-21	Apr-22	Apr-25	Apr-26	Apr-27	Apr-28	Apr-29	Apr	YTD	
High	RE 1.67	LCG 1.78	RE -0.33	RE 1.17	MCG 0.51	LCV 0.54	USB -0.43	HYB 0.77	MCG 2.25	SCV -0.41	MCV -0.08	MCG 2.77	RE 1.81	USB -0.55	USB -0.10	MCG 1.51	USB 0.31	EM 1.17	LCG 3.42	SCG 2.86	RE 2.45	LCV -6.45	High
	EM 1.66	EM 1.76	LCV -0.69	LCV 0.07	LCV 0.44	MCV 0.41	SCV -0.65	SCV 0.43	SCG 1.94	IEQ -0.46	LCV -0.11	SCG 2.42	MCV 0.90	HYB -0.69	HYB -0.60	SCG 1.39	IBD -0.20	IEQ 0.45	MCG 2.49	SCV 2.69	LCV -3.02	MCV -7.80	
	SCG 1.20	MCG 1.32	USB -1.01	USB -0.26	LCG 0.35	RE 0.12	HYB -0.69	USB 0.32	SCV 1.80	RE -0.49	LCG -0.13	LCG 2.12	IBD 0.79	RE -0.79	IBD -0.64	LCG 1.30	HYB -0.59	LCG 0.35	RE 1.86	MCG 1.31	MCV -3.11	HYB -8.72	
	IEQ 0.94	SCG 0.89	MCV -1.02	IBD -0.28	IEQ 0.22	EM 0.09	MCV -0.75	SCG 0.27	LCG 1.71	MCV -0.49	HYB -0.16	RE 2.10	LCV 0.71	IBD -0.91	EM -0.89	HYB 0.85	60/40 -1.60	MCV 0.17	SCV 1.86	MCV 1.28	HYB -5.41	USB -9.43	
	SCV 0.81	HYB 0.76	IBD -1.11	MCV -0.36	MCV 0.03	IEQ 0.04	SCG -0.75	60/40 -0.12	EM 1.31	LCV -0.55	SCV -0.26	SCV 1.79	SCV 0.67	IEQ -1.08	60/40 -1.37	USB 0.67	RE -1.63	LCV 0.06	SCG 1.64	EM 1.24	SCV -5.95	SCV -10.09	
	MCG 0.64	60/40 0.46	HYB -1.30	60/40 -0.77	60/40 -0.05	IBD -0.21	IBD -0.79	IBD -0.21	MCV 1.21	HYB -0.67	USB -0.31	MCV 1.64	IEQ 0.67	60/40 -1.19	IEQ -1.63	60/40 0.29	LCV -2.03	60/40 -0.05	LCV 1.57	LCG 0.98	IEQ -6.26	RE -10.30	
	MCV 0.51	IEQ 0.40	60/40 -1.30	HYB -0.79	HYB -0.16	60/40 -0.28	60/40 -0.95	MCV -0.22	IEQ 1.08	IBD -0.71	EM -0.34	LCV 1.31	USB 0.57	LCV -1.29	RE -1.73	LCV 0.03	EM -2.19	MCG -0.13	EM 1.44	RE 0.97	60/40 -6.51	60/40 -12.08	
	60/40 0.42	USB 0.08	IEQ -1.35	SCV -0.93	USB -0.22	SCV -0.31	LCV -0.95	RE -0.22	60/40 0.88	USB -0.81	RE -0.36	60/40 0.52	60/40 0.37	MCV -1.50	SCV -2.46	SCV 0.01	MCV -2.22	SCV -0.23	MCV 1.42	IEQ 0.91	USB -6.51	IEQ -12.76	
	LCV 0.40	MCV -0.08	EM -1.84	IEQ -1.20	SCG -0.30	USB -0.50	IEQ -1.06	LCV -0.31	LCV 0.77	60/40 -0.87	60/40 -0.37	IEQ 0.47	HYB 0.31	SCV -1.85	MCV -2.60	MCV -0.01	SCV -2.58	USB -0.40	IEQ 1.42	LCV 0.86	LCG -8.73	EM -13.24	
	LCG 0.22	SCV -0.14	LCG -1.92	EM -1.31	IBD -0.41	HYB -0.61	RE -1.11	EM -0.32	HYB 0.60	EM -1.29	IBD -0.54	HYB -0.09	SCG -0.06	LCG -1.90	LCV -2.60	RE -0.34	IEQ -2.79	HYB -0.49	60/40 1.12	60/40 0.80	EM -9.31	IBD -14.87	
	HYB -0.01	LCV -0.16	SCV -2.23	SCG -1.88	SCV -0.50	MCG -0.83	EM -1.25	LCG -0.36	RE 0.59	SCG -1.57	IEQ -0.58	IBD -0.26	MCG -0.49	EM -1.93	SCG -2.68	IBD -0.45	MCG -3.60	SCG -0.51	HYB 0.56	IBD 0.44	MCG -9.88	LCG -20.12	
	IBD -0.18	RE -0.36	MCG -2.26	MCG -2.04	RE -0.75	LCG -1.08	MCG -1.32	MCG -0.53	IBD 0.58	MCG -1.62	MCG -1.17	EM -0.50	EM -0.59	SCG -2.71	MCG -2.83	IEQ -0.48	LCG -3.79	RE -0.60	USB -0.04	USB 0.28	IBD -10.54	MCG -22.50	
Low	USB -0.18	IBD -0.38	SCG -2.64	LCG -2.22	EM -0.80	SCG -1.22	LCG -2.27	IEQ -0.75	USB 0.20	LCG -1.93	SCG -1.28	USB -0.61	LCG -0.93	MCG -2.94	LCG -2.90	EM -0.73	SCG -3.92	IBD -1.46	IBD -0.61	HYB 0.27	SCG -11.89	SCG -23.29	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.

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