MONTH IN REVIEW

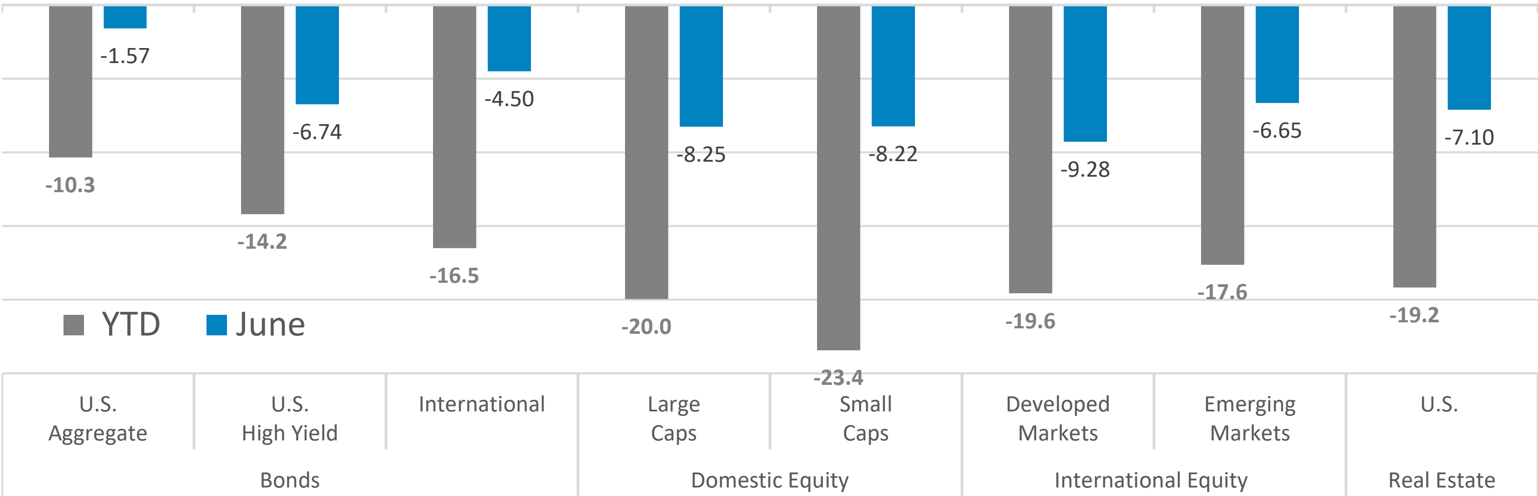
June 2022

Quick Takes

- **Another Rough Month For Risk Assets.** Risk assets resumed their downward trend after last month's brief break. Stocks, as measured by the S&P 500 index, closed out the month down -8.25%, leading to the worst first six months of a year in 52 years.
- **Consumers Are Not Excited About The Future.** With the Fed attempting to reign in overheating inflation via increasing interest rates, consumers begin to feel the pressure of the tightening financial conditions. The University of Michigan's Consumer Sentiment Survey reached its lowest level in history.
- **Greenback Resumes Grind Higher.** The dollar spent the first half of the month climbing upward, before retreating from its high point in the month on the 15th and spent the remainder of the month trading mostly sideways.
- **Production, Labor Markets, and Inflation.** While labor markets are still showing healthy signs, the Bureau of Labor Statistics reported that at current unemployment levels, there are almost two jobs for every out of work laborer, signs that the Fed's tightening of financial conditions are possibly starting to moderate demand, which may begin to bleed over into labor markets.

Asset Class Performance

Sellers returned to the market after taking a brief pause in May. Risk Assets were negative for the month across the board and across the globe. International Developed markets had the biggest drawdown for June, with US Small Cap stocks following closely behind. Bonds offered some downside protection for the month, but were 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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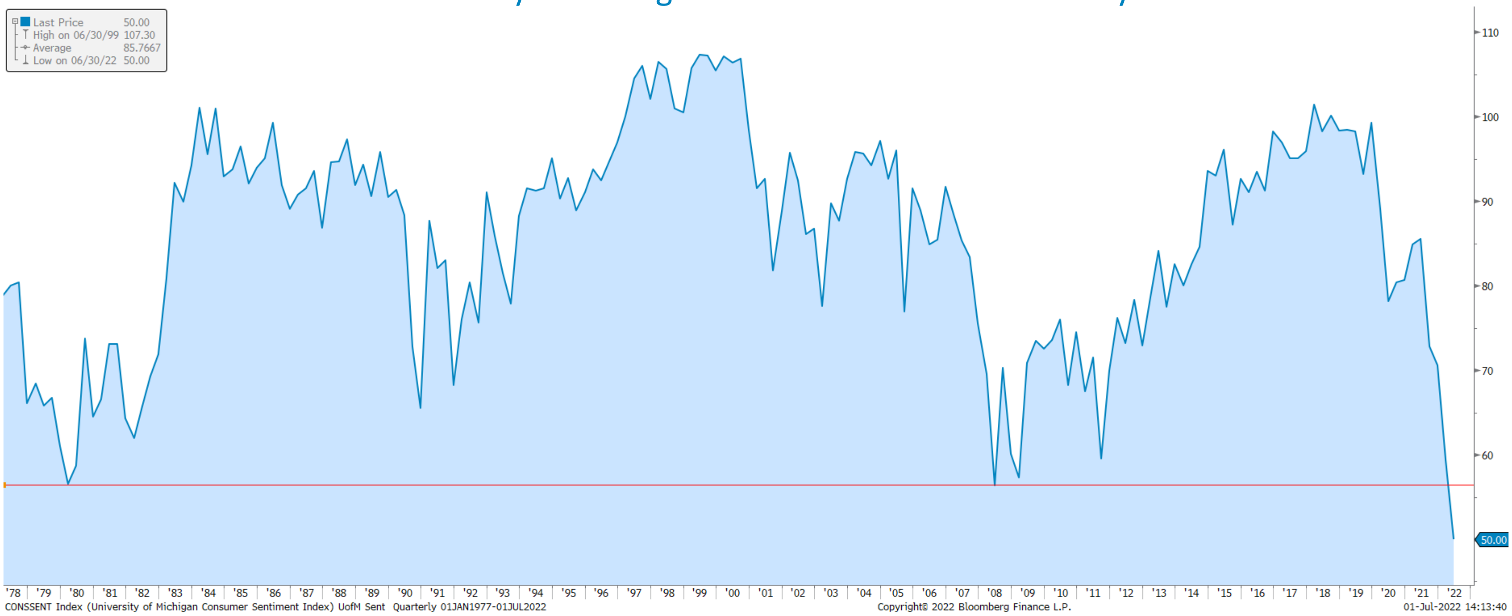
Consumer Sentiment Plummets as Financial Conditions Tighten

Consumer Sentiment Falls to Lowest Level in History

University of Michigan Consumer Sentiment Survey



Source: University of Michigan, Bloomberg

After the Fed enacted a supersized 75bps interest rate hike during their June meeting, Consumer Sentiment, as measured by the University of Michigan Consumer Sentiment Survey, fell to its lowest level in history. The previous record low occurred during the Great Financial Crisis of 2008 when the financial system was wrought with systemic issues, which was only slightly lower than the 1980s when inflation, as measured by the Consumer Price Index, was running close to 15% on an annualized basis. The FOMC made this decision on the heels of an inflation reading, as measured by the Consumer Price Index, which came in well above expectations of +8.3% at +8.6% for the month of May on an annualized basis. Throughout the month, FOMC members' rhetoric continued to promise that taming runaway inflation was their top priority. Chairman Powell gave guidance during his press conference that they do not anticipate rate hikes of this magnitude in future hikes but left some wiggle room by saying that a 75bps hike for the next meeting in July is not off the table. With the Fed increasing their pace of the tightening of financial conditions, the effects of this policy regime are reverberating across the economy. As mentioned above, consumers are feeling the pressure of this tightening as evidenced by Consumer Sentiment falling to its lowest level in history, additionally, GDP for the first quarter of the year came in below expectations of -1.5%, landing at -1.6% on an annualized basis. With this being the second reading in a row of contraction in economic production, as measured by change in GDP, the U.S. economy is in what is called a technical recession. While concerning, GDP readings are often volatile due to the inexact science that goes into the calculation methodologies, which often leads to market participants taking these readings with a grain of salt. Regardless, it seems that the strong labor market is the one area of the US economy that continues to boom, cushioning the impact of the contraction in economic production.

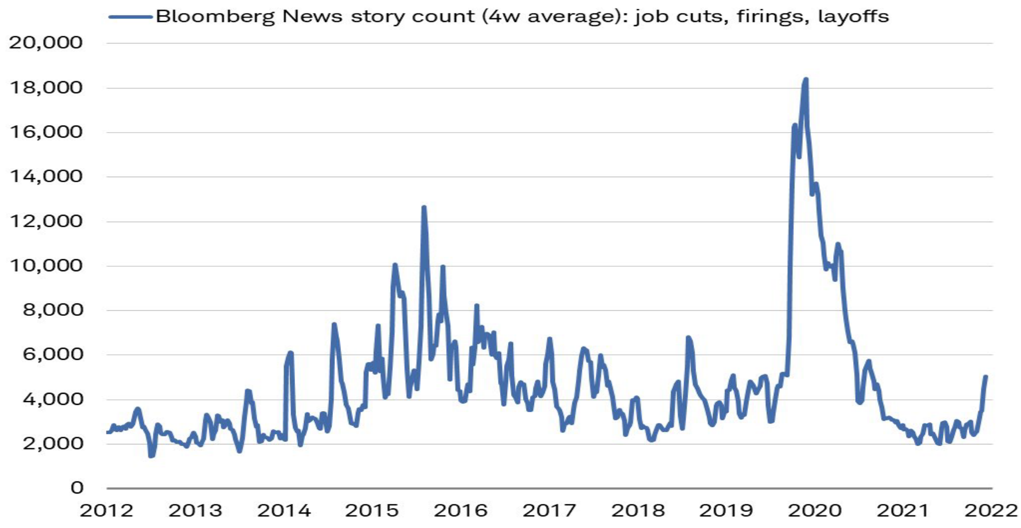
Bottom Line: The Fed continued to tighten monetary policy and upped their game in June by enacting a 75bps hike in interest rates. The effects of this tightening are hitting consumers hard with Consumer Sentiment falling to its lowest levels in history. Consumers aren't the only ones feeling the pressure, as this tightening has led to a contraction in GDP numbers for the second quarter in a row, landing the US economy in a technical recession. Despite this, the labor market remains strong and may prop up the economy.

Tightening Financial Conditions May Spillover to Labor Markets

With the Fed increasing interest rates by 75bps last month and leaving the door open for either a 50bps or 75bps increase at the July meeting, it appears that it's full steam ahead on the tightening of financial conditions to combat rampant inflation. With the unemployment rate remaining steady in the mid 3% range, the Fed has shifted their dual mandate mission of maximum employment and stable prices (stable inflation), to a single mandate of taming inflation. As seen with the larger than usual increase in interest rates, their main tool for cooling ever hot inflation is increasing interest rates, which will make the cost of borrowing higher, and that is intended to reduce demand. As demand for goods and services moderates, businesses will have to compete more heavily for sales, which should lead to prices at least stabilizing, if not lead to discounts in price. As firms compete for the fewer dollars that will be in the financial system, margins (operating margins, profit margins, etc.…) will likely come under pressure. Some businesses may be able to sustain short to intermediate term pressure on their margins due to their healthy balance sheets entering this environment, however, some businesses, especially those in high growth mode, will not be able to subsidize the pressure on the margin and will likely begin to make difficult capital budgeting decisions. For some, this will mean delaying or abandoning projects that require large amounts of capital, but even this may not be enough for some firms. If it's not enough, firms will likely place freezes on hiring new people and may even begin to enact layoffs for non-mission critical laborers. As Liz Ann Sonders, Chief Investment Strategist for Charles Schwab & Co., Inc., highlighted in the chart above, news stories featuring stories around slackening labor markets have been on the rise for the year. While concerning, the Bureau of Labor Statistics reported that there are approximately 11.4 million open jobs in US and with the Unemployment Rate at 3.6%, this means there are almost two jobs for every out of work laborer. Ultimately, it appears that the Fed has some room to tighten financial conditions without threatening the labor market to an extreme, but it may turn into balancing act where the Fed must choose between taming inflation and propping up labor markets to full employment.

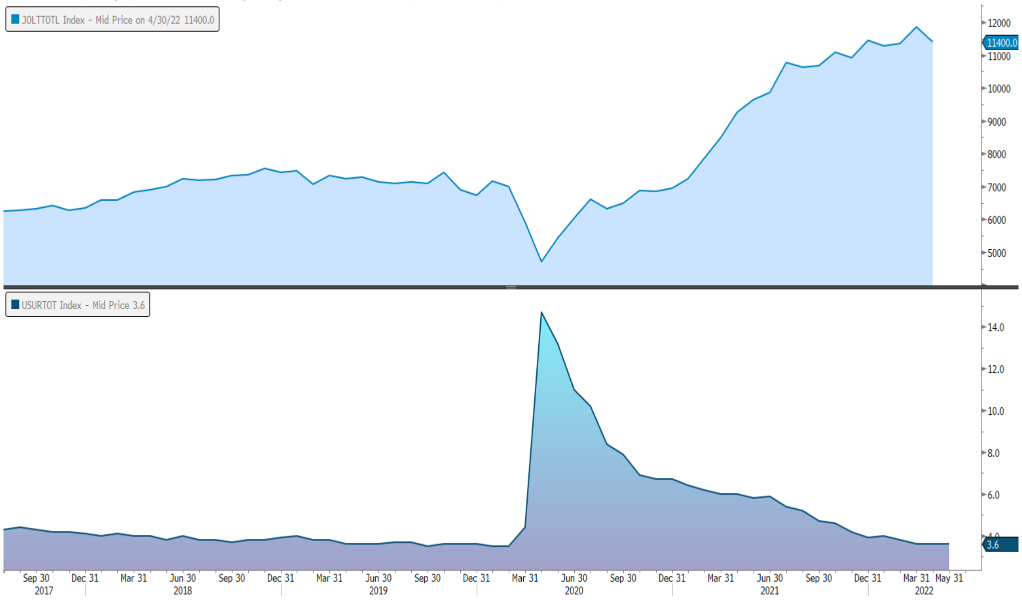
Is the Red-Hot Labor Market Starting to Cool?

4 Week Average Count of Bloomberg News Stories Featuring Layoffs



Labor Markets Have Room For Slack

JOLTS (Top) vs. Unemployment Rate (Bottom)



Source: Bureau of Labor Statistics, Bloomberg

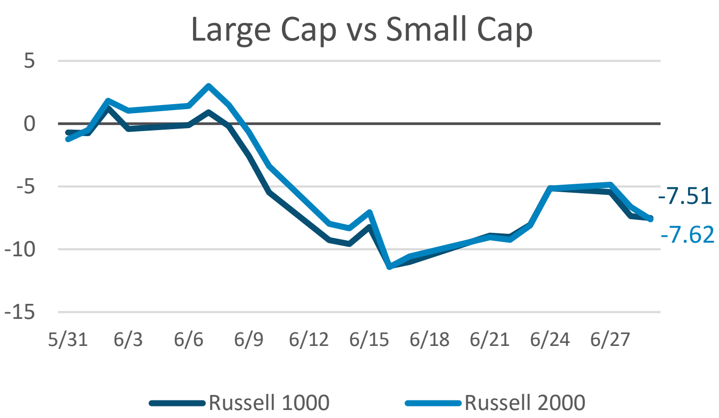
<u>Bottom Line</u>: With the Fed tightening financial conditions, it appears that demand should begin to moderate as their policy is enacted. Currently, labor markets appear to have some room to absorb moderating demand, but it remains a risk that the Fed may tighten too much, which could force the Fed to return to a dual mandate of balancing price stability while maintaining a labor market that is at full employment.

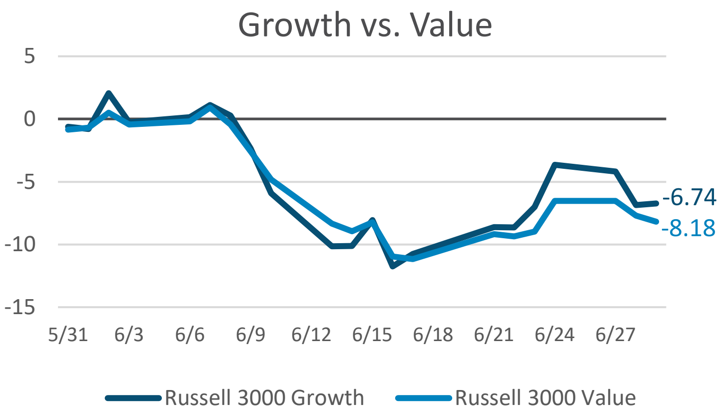
June 2022

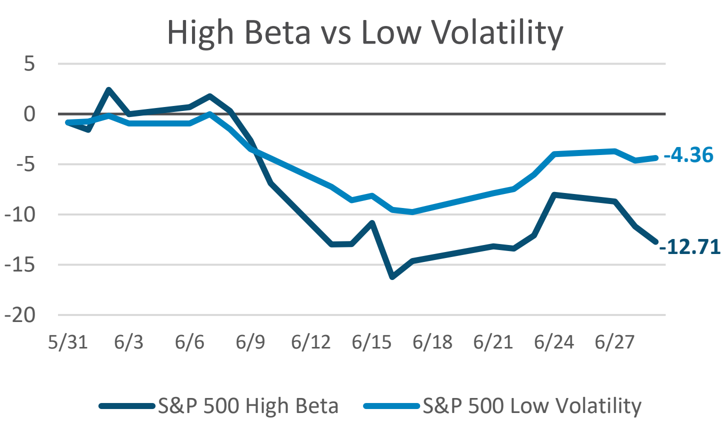
Equity Themes

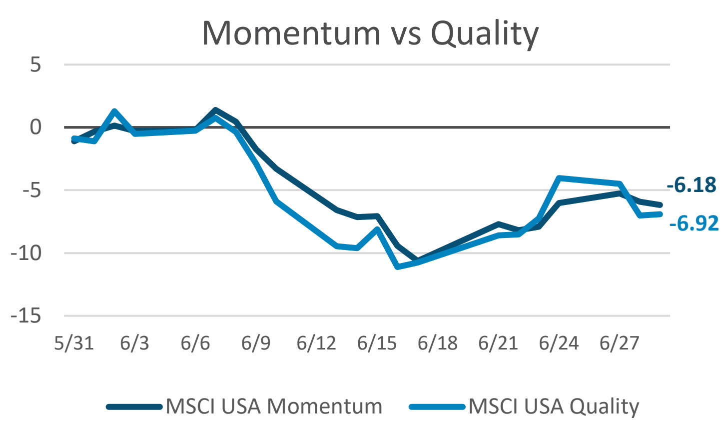
What Worked, What Didn't

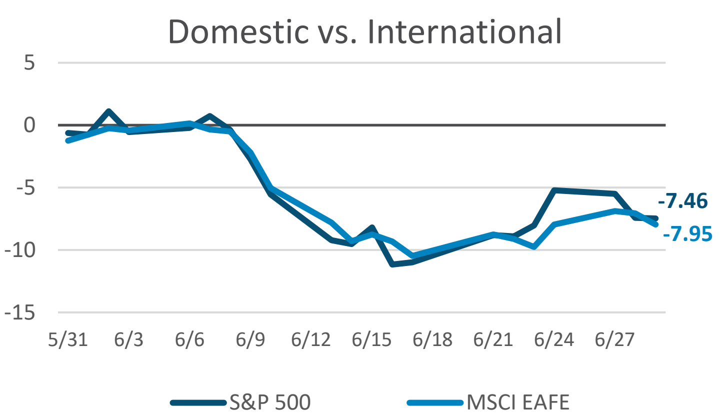
- **Large or Small? It Didn't Matter Much.** Closely tracking each other throughout the month, especially the second half, Large Caps barely outperformed Small Cap equities by a thin margin. Growth outperformed value by a healthy margin for June, but both indices were deeply negative for the month.
- **High Beta Gets Crushed and Quality Underperforms Momentum.** High Beta equities plummeted by almost -13% for June, versus their Low Volatility peers down only -4.36% for the month. Quality and Momentum style equities were in a general lockstep for the month, but Momentum was able to outperform by a small margin.
- **Domestic over International, Emerging over Developed.** Domestic equities outperformed their International peers by almost 50bps, but Emerging Market equities were able to post a superior month to both Domestic and Developed International equities as positive news from China began to emerge.

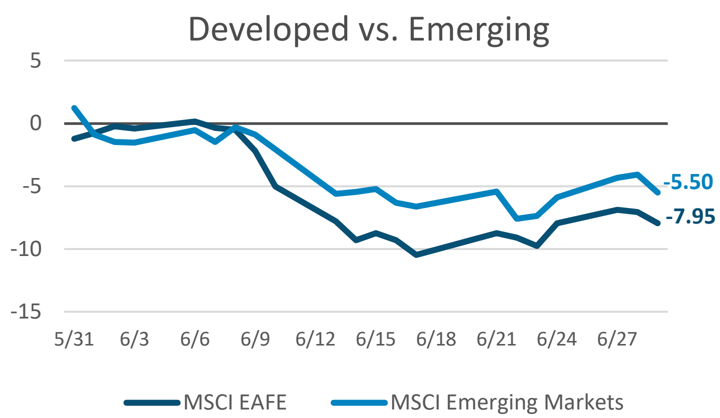










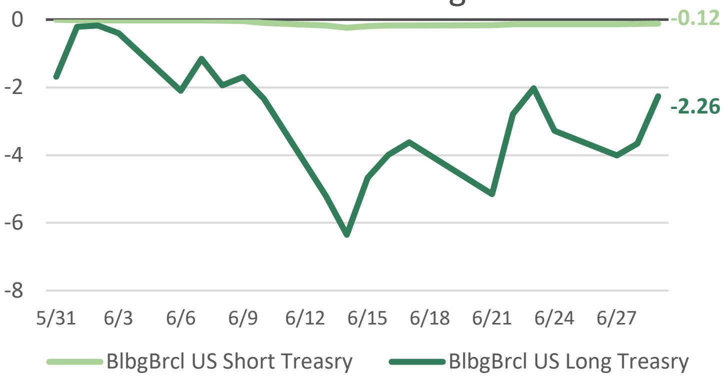


Source: Bloomberg.

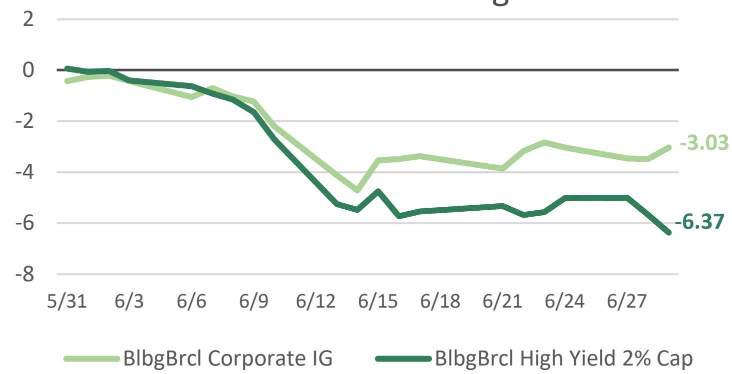
What Worked, What Didn't

- **Short Over Long, Quality Over High Yield.** Longer Dated bonds spent the first half of the month in near free fall but recovered some before going on a rollercoaster ride for the second half of the month. Ultimately, Shorter Maturities posted a slightly positive month while Longer Maturities were down -2.26% for June. Investment Grade, while still negative, posted a strong margin versus their lower quality, higher yielding peers.
- **Safety Beats Inflation for May.** Despite Inflation surprising to the upside for June, investors flight to safety ultimately won out with Treasuries outperforming their Inflation Adjusted peers.
- **Munis Outperform Taxables and Domestic Outperforms International.** Munis posted a small margin on Corporates and Domestic bonds posted a strong margin of outperformance against International bonds.

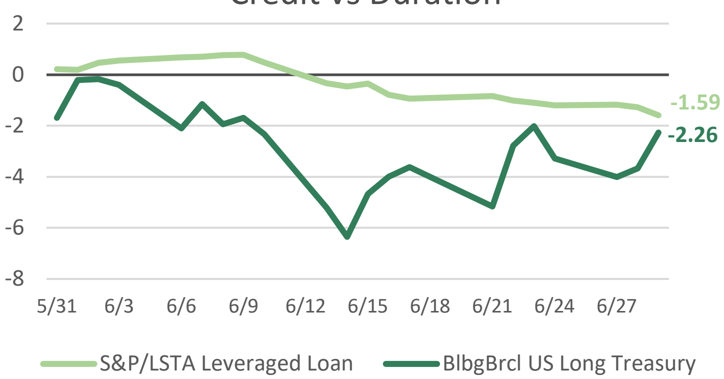
Short Duration vs Long Duration



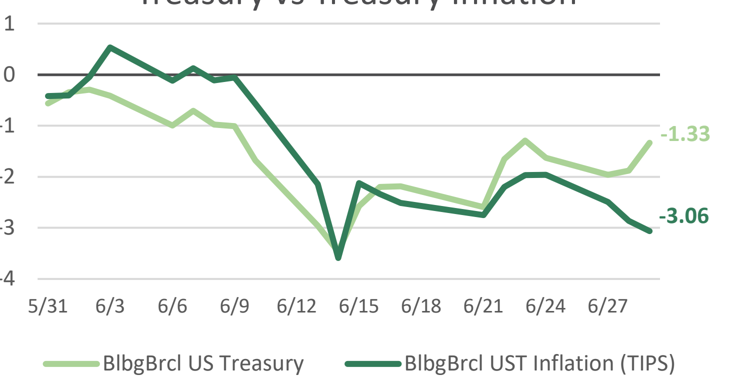
Investment Grade vs High Yield



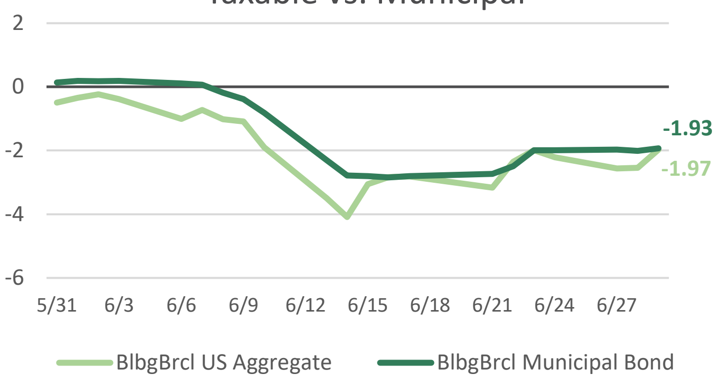
Credit vs Duration



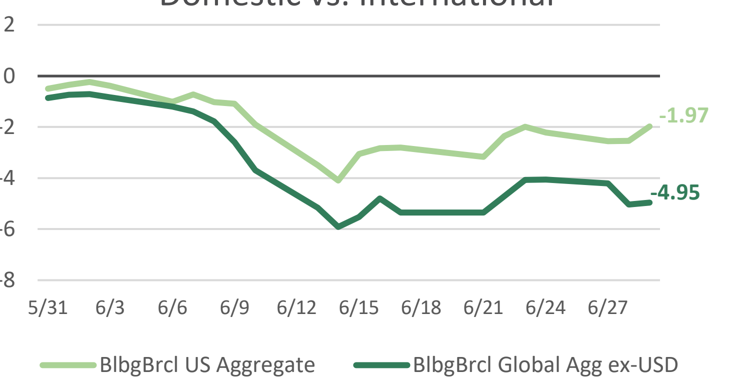
Treasury vs Treasury Inflation



Taxable vs. Municipal



Domestic vs. International



Source: Bloomberg.

June 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.

	Jun-01	Jun-02	Jun-03	Jun-06	Jun-07	Jun-08	Jun-09	Jun-10	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Jun-21	Jun-22	Jun-23	Jun-24	Jun-27	Jun-28	Jun-29	Jun-30	Jun	YTD
High	SCV -0.19	MCG 3.92	USB -0.17	SCV 0.59	SCG 1.68	EM 0.54	USB -0.11	USB -0.77	USB -1.64	EM 1.39	LCG 2.28	USB 0.24	SCG 1.70	LCG 2.54	RE 1.44	SCG 2.75	LCG 3.69	SCV 0.44	USB 0.04	USB 0.58	IBD 0.94	USB -2.00	USB -10.56
	HYB -0.37	SCG 3.15	IBD -0.47	EM 0.54	SCV 1.47	USB -0.41	HYB -0.80	EM -1.11	IBD -2.72	HYB 0.66	RE 2.26	IBD -0.07	MCG 1.37	LCV 2.32	IBD 1.12	MCG 2.64	MCG 3.67	SCG 0.36	EM -0.61	LCG 0.18	USB 0.45	EM -4.69	LCV -12.34
	USB -0.41	LCG 2.85	SCV -0.65	MCG 0.40	MCG 1.43	IBD -0.64	IBD -1.44	HYB -1.70	60/40 -3.16	LCG 0.08	MCG 2.09	HYB -1.59	LCG 0.94	MCG 1.90	USB 0.85	RE 1.96	SCG 3.30	EM 0.12	IEQ -0.68	60/40 -0.08	HYB -0.05	SCG -5.42	HYB -13.72
	EM -0.70	IEQ 2.08	HYB -0.74	LCG 0.40	RE 1.34	LCG -0.79	60/40 -1.50	IBD -1.94	IEQ -3.31	MCG -0.13	IBD 2.09	60/40 -1.91	RE 0.82	SCG 1.70	SCG 0.36	LCG 1.75	MCV 3.07	MCV 0.09	60/40 -0.93	HYB -0.15	RE -0.20	60/40 -5.74	MCV -15.63
	60/40 -0.72	EM 1.72	LCV -0.95	IEQ 0.40	MCV 1.20	HYB -0.86	SCV -1.90	60/40 -1.95	HYB -3.35	SCG -0.34	HYB 1.94	IEQ -2.20	EM 0.38	MCV 1.70	MCG 0.14	HYB 0.72	IEQ 2.99	LCV 0.01	IBD -1.00	IBD -0.18	60/40 -0.26	IBD -6.40	60/40 -16.63
	LCV -0.75	SCV 1.72	MCV -0.98	MCV 0.36	LCV 1.10	60/40 -0.86	IEQ -2.06	RE -2.20	EM -3.50	60/40 -0.39	IEQ 1.87	RE -2.51	HYB 0.31	SCV 1.62	60/40 0.08	60/40 0.64	SCV 2.75	RE -0.22	HYB -1.10	IEQ -0.38	EM -0.47	MCG -6.42	EM -16.81
	LCG -0.79	MCV 1.46	60/40 -0.99	LCV 0.20	LCG 0.94	MCG -1.11	LCV -2.20	LCV -2.28	LCV -3.60	SCV -0.41	SCG 1.74	LCV -2.86	SCV 0.28	EM 1.61	HYB -0.03	IBD 0.61	LCV 2.69	MCG -0.29	MCV -1.15	EM -0.40	SCV -0.53	RE -6.70	SCV -16.99
	MCV -0.85	RE 1.45	SCG -1.04	SCG 0.13	60/40 0.63	SCG -1.24	RE -2.21	SCV -2.35	MCV -4.40	MCV -0.46	60/40 1.51	EM -3.07	MCV 0.16	RE 1.56	LCG -0.03	LCV 0.42	EM 2.37	60/40 -0.32	RE -1.18	LCV -0.46	IEQ -0.54	LCG -6.86	IEQ -18.34
	RE -0.89	60/40 1.34	RE -1.33	60/40 -0.03	USB 0.38	LCV -1.29	SCG -2.24	IEQ -2.41	LCG -4.42	USB -0.59	EM 1.32	LCG -3.92	60/40 0.15	IEQ 1.51	LCV -0.17	USB 0.42	RE 2.13	IBD -0.32	LCV -1.27	RE -0.60	LCV -0.69	HYB -7.00	IBD -19.51
	SCG -0.90	LCV 1.17	IEQ -1.43	RE -0.35	IBD 0.37	IEQ -1.40	MCV -2.31	MCV -2.67	SCV -4.57	LCG -0.71	SCV 1.15	MCV -4.07	USB -0.01	60/40 0.99	MCV -0.27	EM 0.30	60/40 1.79	IEQ -0.42	SCV -1.54	MCG -0.64	MCV -0.91	LCV -8.12	RE -20.03
	IBD -0.95	IBD 0.58	EM -1.63	IBD -0.37	EM 0.31	MCV -1.61	EM -2.35	SCG -3.12	RE -4.93	RE -0.78	USB 1.11	SCV -4.50	IBD -0.07	HYB -0.07	SCV -0.61	MCV 0.30	HYB 0.71	USB -0.45	SCG -2.12	MCV -0.77	SCG -0.95	IEQ -8.23	LCG -27.30
	IEQ -1.06	HYB 0.42	MCG -1.74	USB -0.61	IEQ 0.30	SCV -1.71	MCG -2.53	MCG -3.61	SCG -5.03	IBD -0.91	MCV 0.78	MCG -4.62	LCV -0.35	IBD -0.25	IEQ -0.67	SCV 0.03	IBD 0.07	HYB -0.61	MCG -2.54	SCG -0.91	MCG -1.15	SCV -9.42	SCG -28.78
Low	MCG -1.27	USB 0.13	LCG -2.35	HYB -0.75	HYB 0.23	RE -2.30	LCG -2.64	LCG -3.72	MCG -5.08	IEQ -0.94	LCV 0.76	SCG -4.93	IEQ -0.41	USB -0.40	EM -1.79	IEQ -0.11	USB -0.16	LCG -0.70	LCG -2.84	SCV -1.13	LCG -1.25	MCV -10.23	MCG -30.28

Legend

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