



MONTH IN REVIEW

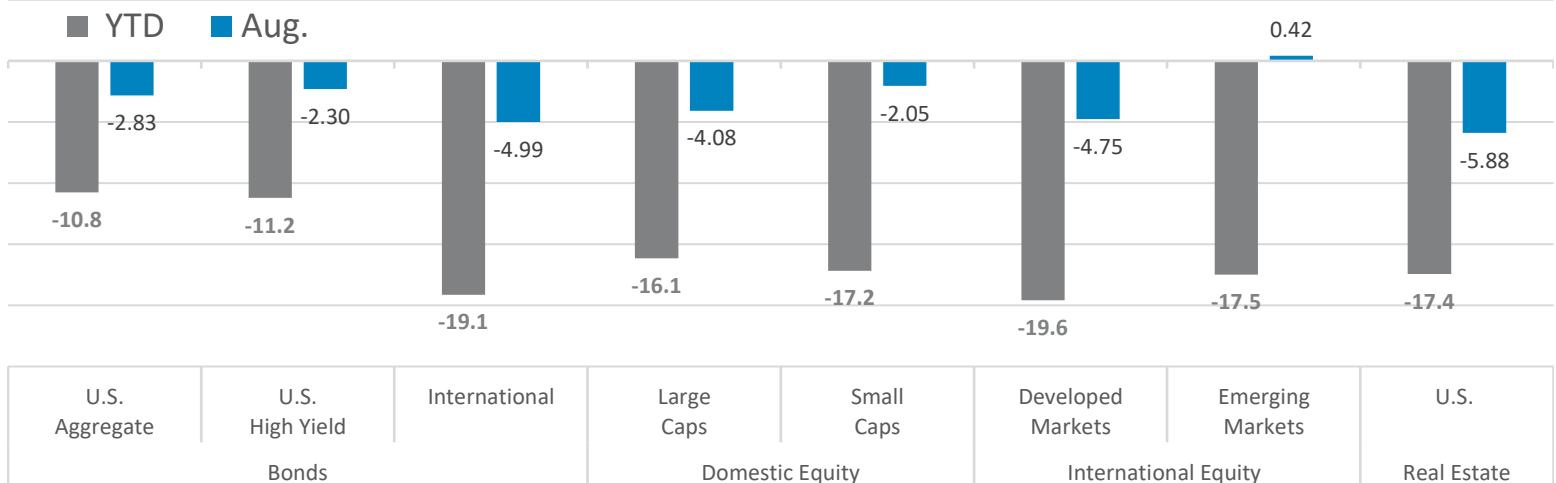
August 2022

Quick Takes

- **Risk Assets Resume Selloff.** Risk assets posted another negative month as the market selloff resumed on the heels of Powell’s hawkish Jackson Hole speech.
- **Inflation Rolls Over and Rates Go Higher.** After Powell’s warning comments, the yield on the 10-year resumed its ascent which pulled down bonds and equities alike. This all occurred despite inflation showing its initial signs of cooling. Inflation’s impact on monetary policy seems to be the main deterrent from markets
- **Greenback Continues Grind Higher.** The dollar spent most of the month grinding higher but finally retreated from its high the final few days of the month. Despite this last-minute retreat, the greenback remains near record high levels.
- **Labor Markets and Inflation.** The Unemployment Rate fell to 3.5% as the jobs market retained its robustness despite the recent rate hikes conducted by the Fed. Inflation, as measured by CPI, showed its initial signs of relenting its stubborn climb higher, but Powell warned that the war on rampant inflation was far from over.

Asset Class Performance

To the relief of many market participants, inflation, as measured by the CPI, finally rolled over. Despite this positive signal, markets turned negative as Powell warned that the battle against inflation was far from over. Equities and Bonds both posted an abysmal month, but Emerging Markets equities were able to eek out a positive month.



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).



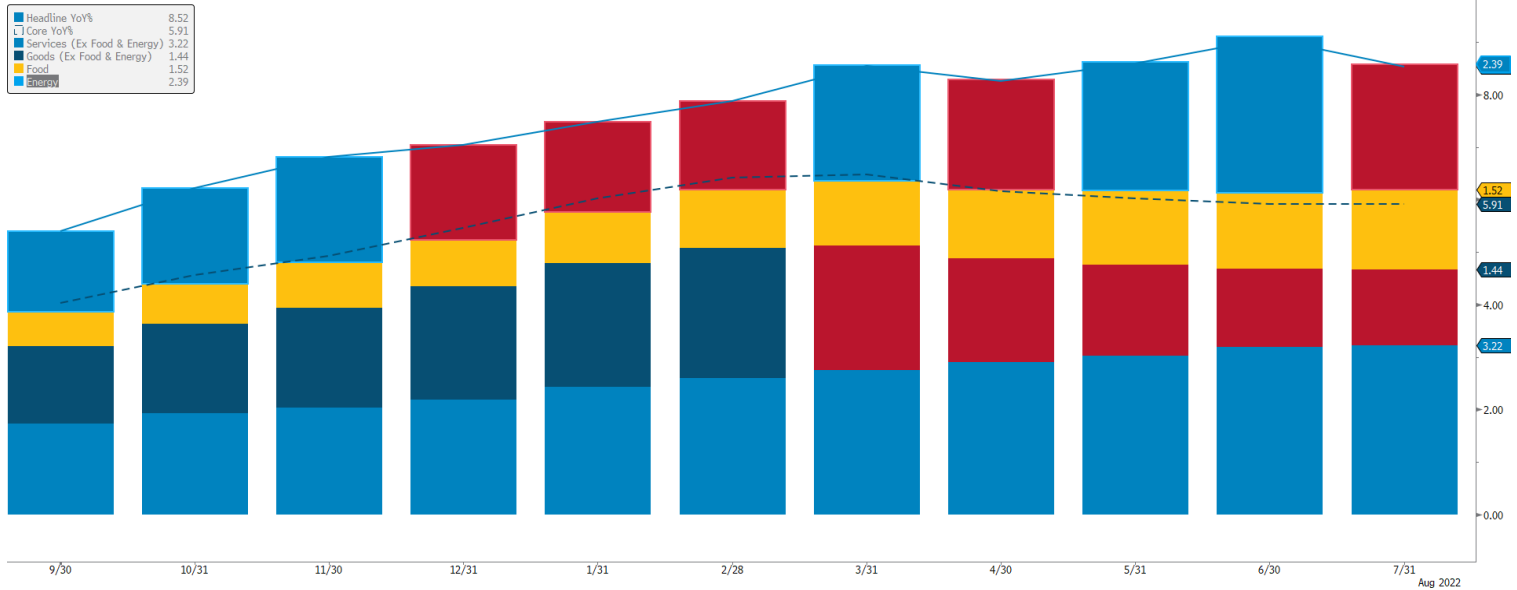
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Inflation Finally Rolls Over

Inflation Lands Softer Than Expected

Change in Consumer Price Index Year over Year



Source: Bureau of Labor statistics, Bloomberg

Giving market participants a reason to cheer, inflation, as measured by the Consumer Price Index (“CPI”), came in cooler than expected at +8.5% versus survey estimates of +8.7% on the headline year-over-year measure. While one positive data reading certainly does not make a trend, this could be the initial sign that the Fed’s tightening of monetary policy is beginning to work its way through the economy. Rather than taking the stage to declare victory, Chairman Powell’s commentary at the Fed’s Jackson Hole Economic Symposium was decisively hawkish, warning market participants that further actions will likely be necessary to achieve price stability and return inflation to the Fed’s long-term target range of around +2.0%. Powell warned that swift decisive action is preferred, rather than a longer period of softer action. After Powell’s comments, interest rates resumed their climb higher with the yield on the 10-Year Treasury jumping up +54bps for the month, landing at 3.19% and the yield on the 2-Year Treasury rose even more at +61bps for the month, ending at 3.49%. With interest rates climbing higher again, equity and bond valuations alike suffered for the month of August. Almost every risk asset class was in the red for the month with growth equities being amongst one of the worst performers. To achieve higher

levels of growth, these companies must often source capital from the debt markets. With interest rates grinding higher, this makes the cost of capital to these companies more expensive and thus a lower valuation is demanded by the market. Additionally, labor markets remain tight with the unemployment rate hitting 3.70% at the August reading, however that data is backward looking and is often revised at later readings as data becomes available. Many companies have announced hiring freezes, if not outright employee layoffs. So, it remains to be seen if the Fed’s actions have been sufficient to cool the labor markets to a more sustainable level of matching labor demand with labor supply.

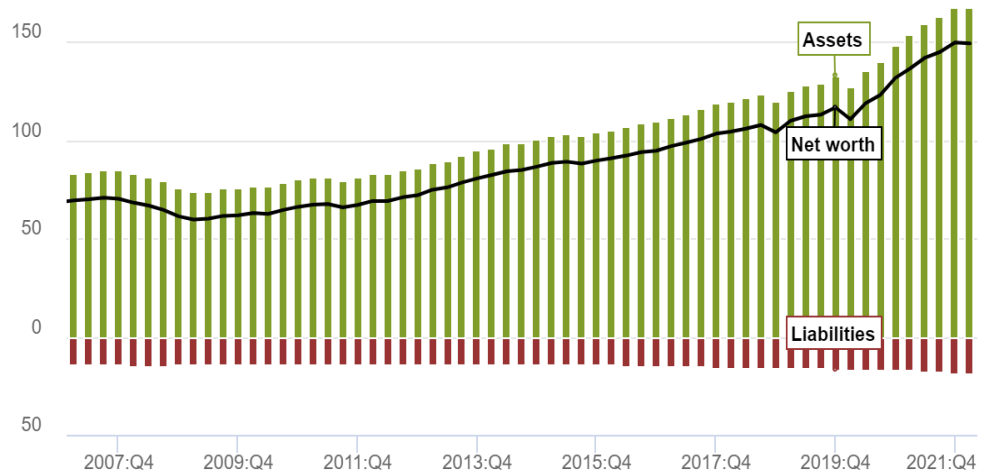
Bottom Line: Inflation showed the initial signs of cooling, but the Fed warned that the battle was far from over and more decisive action in the short-term is preferred to a longer-term softer approach. Labor markets continued to show resilience in remaining tighter than the Fed would like, but this may be due to the delay in available data as many companies have announced hiring freezes or even layoff plans. The combination of these events led market participants to return to selling and risk assets tumbled for the month of August.



Hawkish Fed's Warning of Inflation Expectations

With inflation, as measured by CPI, showing its first signs of cooling off, the Fed cautioned market participants from getting overly excited with his hawkish Jackson Hole commentary. As previously mentioned, his comments warned market participants that the Fed will favor swift and decisive action rather than dragging out the battle against rampant inflation over a longer period. Additionally, Powell warned about inflation expectations and how those expectations could become a self-fulfilling prophecy where market participants change their short-term behavior due to their future expectations of where inflation will land. Powell went on to further claim that long-term inflation expectations have been well anchored by market participants to approximately in-line with the Fed's long-term target, which indicates that market participants believe the Fed will eventually successfully tame inflation. Short-term inflation expectations have remained more volatile as the chart below illustrates. Over the past year, the 1-year median forecast for inflation has whipsawed and ultimately climbed higher and higher until the most recent reading settled a little north of 6.22% as of

Will Household Balance Sheets Cushion Economic Slowdown? Balance Sheet of US Households and Nonprofit Organizations



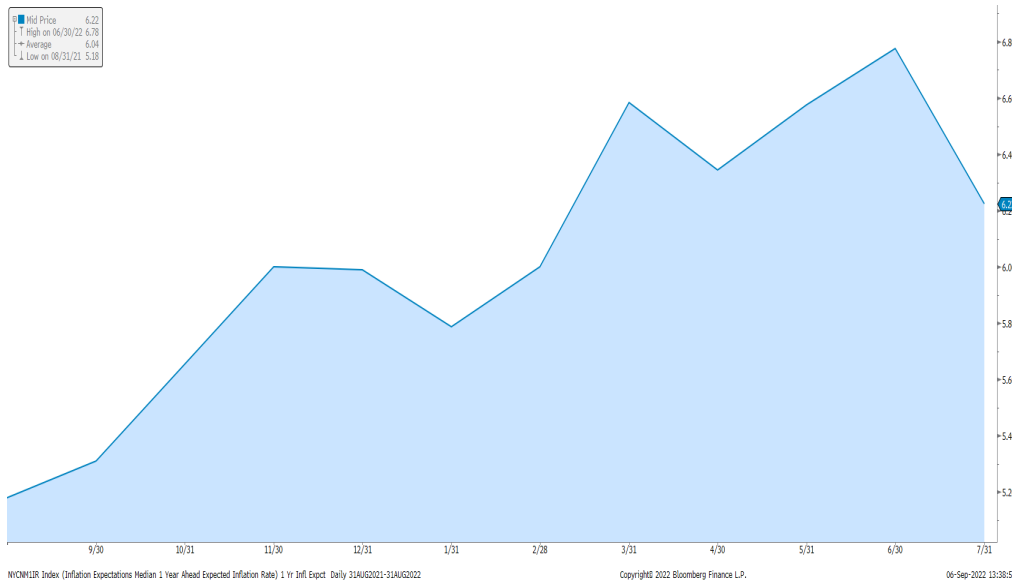
Source: Federal Reserve

07/31/2022. According to Powell's comments, it appears that the Fed will be keeping a close eye on inflation expectations, especially those of a shorter-term nature, to gauge how market participants are interpreting the effectiveness of the Fed's monetary tightening policy and the Fed will use this interpretation to predict how market

participants' behavior may change in the short-term in reaction their monetary tightening. As the Fed attempts to wrangle inflation, market participants are hopeful that robust consumer balance sheets will help shelter the US economy as the Fed attempts to engineer a "soft landing", where growth slows to a more sustainable level without sending the economy into a recession. As illustrated in the chart above, consumer balance sheets are off their record high levels at the last reading, but remain substantially higher than pre-pandemic levels, suggesting that consumers could likely absorb the effects of tightening monetary policy without detrimental effects to their net worth.

Inflation Expectations

1-Year Median Inflation Expectations



NYCMR Index (Inflation Expectations Median 1 Year Ahead Expected Inflation Rate) 1 Yr Infl Expect Daily 31AUG2021-31AUG2022

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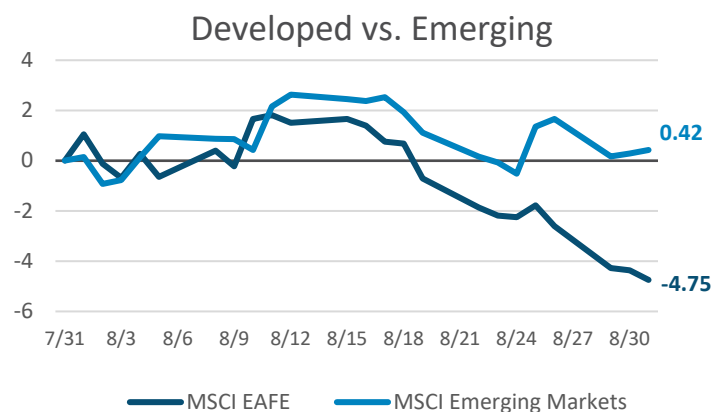
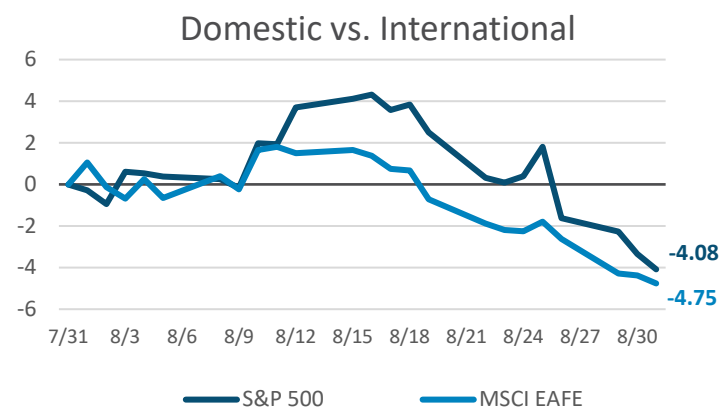
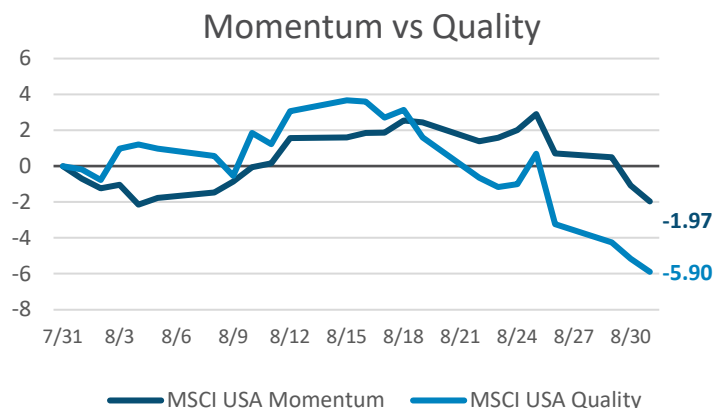
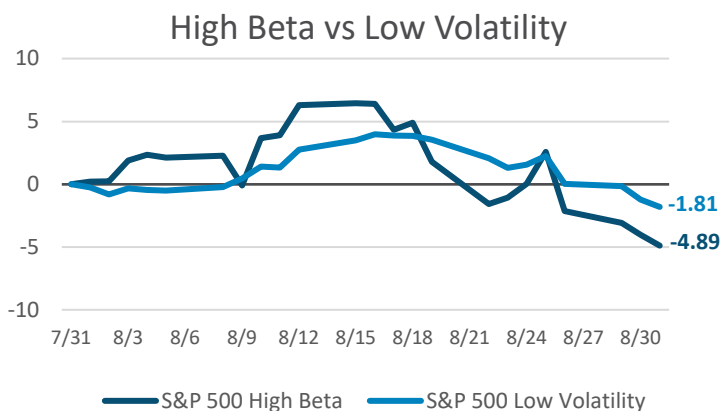
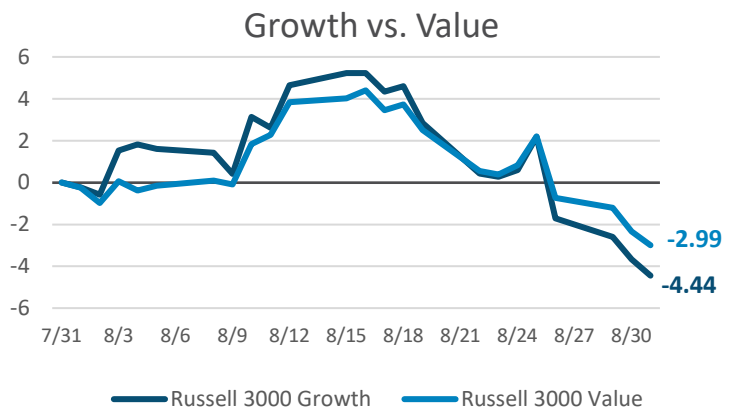
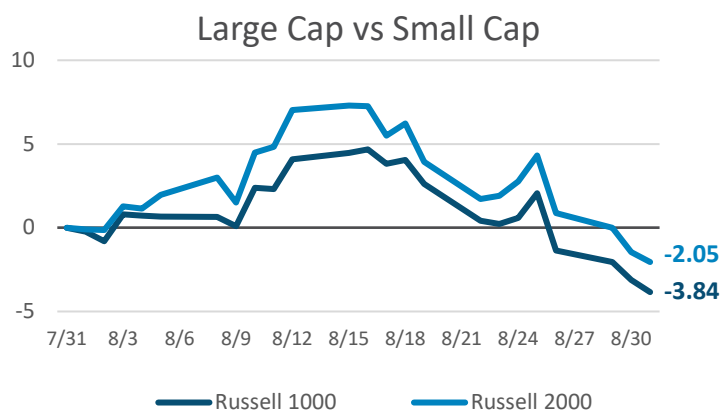
Source: Federal Reserve Bank of New York, Bloomberg

Bottom Line: While inflation showed the first signs of cooling, the Fed warned that the battle was far from over and that they would closely monitor inflation expectations amongst market participants and how that may affect consumer behavior. With consumer balance sheets off, but very close to, record high levels, it appears that consumers will be able to weather and potentially prevent the US economy from entering into a sustained level of economic contraction.



What Worked, What Didn't

- Small over Large and Growth over Value.** Small Cap equities offered some downside protection from the selloff in August falling -205bps while Large Cap equities fell by -384bps. Value equities outperformed Growth equities as rates ascended for the month.
- Low Vol and Momentum Outperform.** Low Volatility equities were in the red for the month, but much less than their High Beta peers and Momentum outperformed Quality equities for the month of August.
- Domestic over International, Emerging over Developed.** Domestic equities outperformed their International peers by a small margin, but both were deeply in the red for the month of August. Emerging Markets were one of the only equity categories in the green for the month, up a meager 42bps for the month.

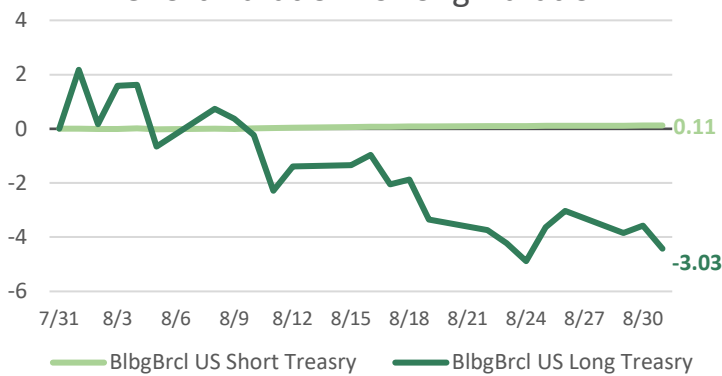




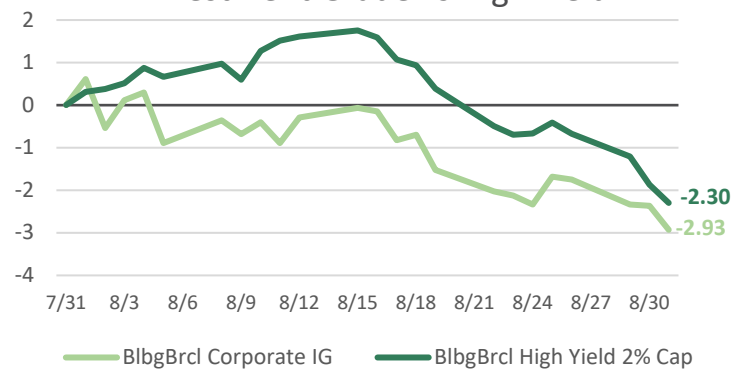
What Worked, What Didn't

- **Rates Spike.** Longer Dated bonds suffered as rates resumed their ascent on the back of Powell's Jackson Hole speech as he warned that the battle to combat rampant inflation was closer to beginning than ending.
- **Inflation Adjusted Underperforms, Credit Outperforms.** TIPS faltered as CPI rolled over for the month of August and Credit easily outperformed Long Duration Treasuries.
- **Munis Outperform Taxables and Domestic Outperforms International.** Munis, while still negative for the month of August, outperformed their taxable peers and International bonds plummeted almost -500bps for the month of August, compared to Domestic bonds only being down 283bps for the month.

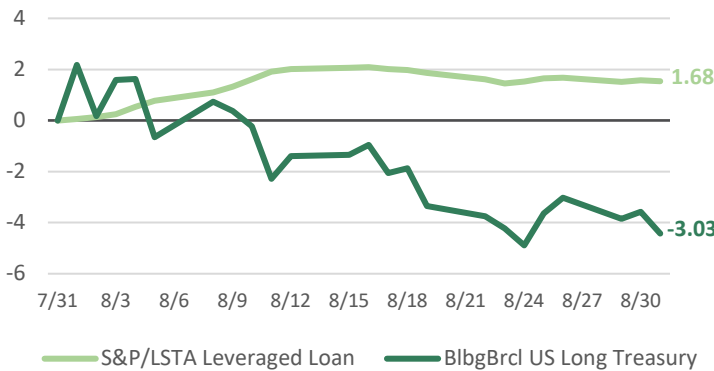
Short Duration vs Long Duration



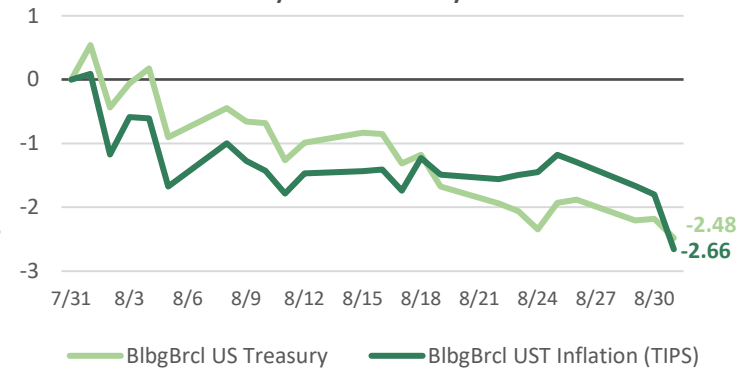
Investment Grade vs High Yield



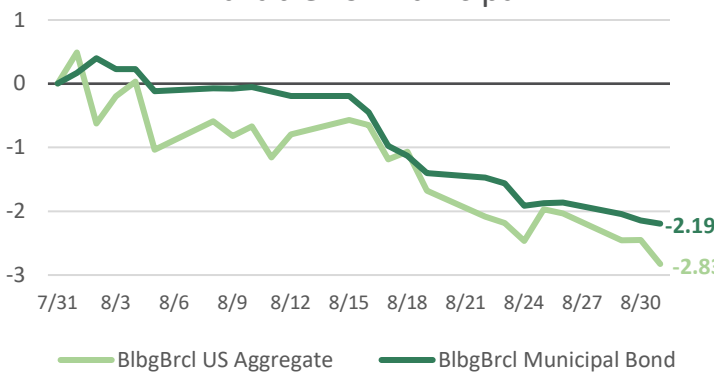
Credit vs Duration



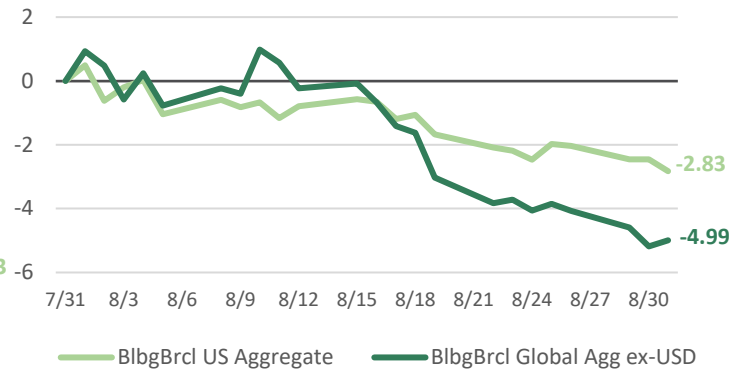
Treasury vs Treasury Inflation



Taxable vs. Municipal



Domestic vs. International



August 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.

	Aug-01	Aug-02	Aug-03	Aug-04	Aug-05	Aug-08	Aug-09	Aug-10	Aug-11	Aug-12	Aug-15	Aug-16	Aug-17	Aug-18	Aug-19	Aug-22	Aug-23	Aug-24	Aug-25	Aug-26	Aug-29	Aug-30	Aug-31	Aug	YTD		
IBD	0.69	0.40	2.15	0.70	1.00	1.12	0.59	3.27	0.67	2.19	0.59	0.53	-0.42	0.92	-0.70	-0.43	0.53	1.07	2.16	-0.19	-0.19	0.13	0.36	SCG	-0.86	LCV	-9.95
USB	0.35	0.10	1.67	0.70	0.70	1.01	-0.04	3.27	0.58	2.03	0.49	0.42	-0.42	0.39	-0.92	-0.88	0.33	0.81	1.61	-1.09	-0.22	-0.04	-0.34	EM	-1.33	USB	-10.68
IEQ	0.14	-0.43	1.64	0.51	0.58	0.80	-0.10	2.60	0.45	1.92	0.38	0.19	-0.59	0.29	-1.02	-1.13	0.25	0.60	1.57	-1.48	-0.38	-0.63	-0.40	LCV	-2.96	HYB	-11.96
SCV	0.05	-0.46	1.19	0.31	0.28	0.63	-0.22	2.38	0.40	1.76	0.27	0.01	-0.78	0.29	-1.12	-1.38	0.15	0.57	1.54	-1.65	-0.38	-0.72	-0.43	USB	-3.04	MCV	-12.00
MCG	0.05	-0.48	1.04	0.27	0.28	0.46	-0.37	2.25	0.10	1.60	0.25	-0.02	-0.79	0.26	-1.14	-1.70	0.05	0.46	1.53	-1.90	-0.48	-0.77	-0.53	SCV	-3.06	SCV	-12.25
HYB	0.03	-0.56	0.91	0.24	0.20	0.38	-0.43	2.17	-0.03	1.53	0.14	-0.03	-0.80	0.24	-1.19	-1.82	0.03	0.45	1.49	-2.46	-0.51	-0.97	-0.54	MCV	-3.13	60/40	-15.85
60/40	0.02	-0.73	0.88	0.21	0.10	0.30	-0.45	1.83	-0.18	1.49	0.13	-0.04	-0.87	0.21	-1.36	-1.88	-0.03	0.26	1.47	-2.62	-0.62	-1.06	-0.55	MCG	-3.28	RE	-18.21
SCG	-0.12	-0.73	0.84	0.00	-0.30	0.23	-0.54	1.53	-0.26	1.06	0.02	-0.08	-1.03	0.15	-1.37	-1.92	-0.04	0.13	1.36	-2.86	-0.64	-1.17	-0.60	60/40	-3.96	EM	-18.58
LCG	-0.24	-0.91	0.79	-0.05	-0.48	0.21	-0.74	1.50	-0.35	1.01	-0.04	-0.15	-1.06	-0.01	-1.50	-2.06	-0.08	0.12	1.11	-2.93	-0.87	-1.18	-0.67	HYB	-4.31	IEQ	-19.81
LCV	-0.25	-1.03	0.59	-0.19	-0.51	0.12	-0.90	1.49	-0.48	0.89	-0.18	-0.29	-1.10	-0.33	-1.66	-2.09	-0.17	0.12	1.10	-3.01	-0.87	-1.18	-0.68	LCG	-4.67	SCG	-22.17
MCV	-0.36	-1.29	0.45	-0.31	-0.70	0.11	-0.90	1.30	-0.53	0.77	-0.46	-0.32	-1.32	-0.57	-1.98	-2.16	-0.19	-0.03	0.94	-3.48	-0.89	-1.43	-0.71	RE	-5.86	IBD	-22.82
RE	-0.84	-1.42	0.32	-0.41	-1.12	0.09	-1.64	1.25	-0.57	0.45	-0.60	-0.37	-1.64	-0.77	-1.99	-2.26	-0.20	-0.07	0.55	-3.69	-0.94	-1.46	-0.71	IEQ	-6.12	LCG	-23.28
EM	-0.85	-1.60	0.21	-0.47	-1.32	-0.24	-1.89	0.25	-0.69	0.24	-0.84	-0.47	-1.66	-1.07	-2.25	-2.34	-1.33	-0.27	0.54	-3.81	-0.94	-1.47	-0.82	IBD	-7.28	MCG	-25.19

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. 090822001 MKS

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