MONTH IN REVIEW

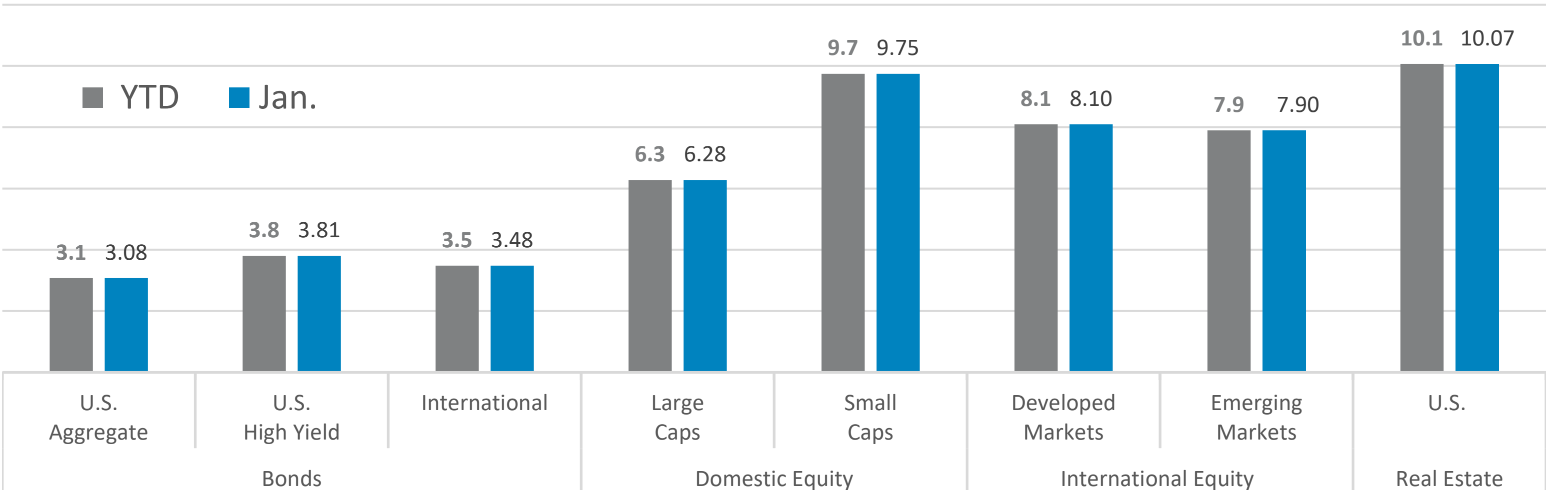
January 2023

Quick Takes

- **Risk Assets Catch a Bid.** Risk assets started the new year with a strong month with almost all major asset classes posting solid performance for the month of January.
- **GDP Was Up Despite The Fed.** After the Fed spent the majority of the last year in a dramatic campaign of tightening monetary policy to reduce rampant inflation, the US Economy remained resilient with GDP growth for the final quarter of 2022 landing well above consensus expectations of +2.6%, coming in at +2.9%.
- **Greenback Stumbles.** With recent economic data suggesting that the Fed might be on the right path to taming inflation and keeping the economy afloat, market participants are seeing a path to the Fed pausing interest rate hikes, which has led to the dollar steadily declining into the start of the year.
- **Labor Markets and Inflation.** While market participants cheered on the solid data readings regarding GDP, some areas of the economy are flashing warning signs with wage growth continuing to slow and consumer spending hinting at curbing demand for goods and services. While this could be good for inflation, it might be bad news for continued positive GDP growth in the future.

Asset Class Performance

After 2022's dismal market performance across almost all major risk assets, 2023 has started off with reversing that trend with almost all major risk asset classes healthily in the green. Domestic Real Estate and Small Caps were some of the leaders for the month of January, but International and Emerging Equity markets were hot on their heels.



Source: Bloomberg, as of January 31, 2023. 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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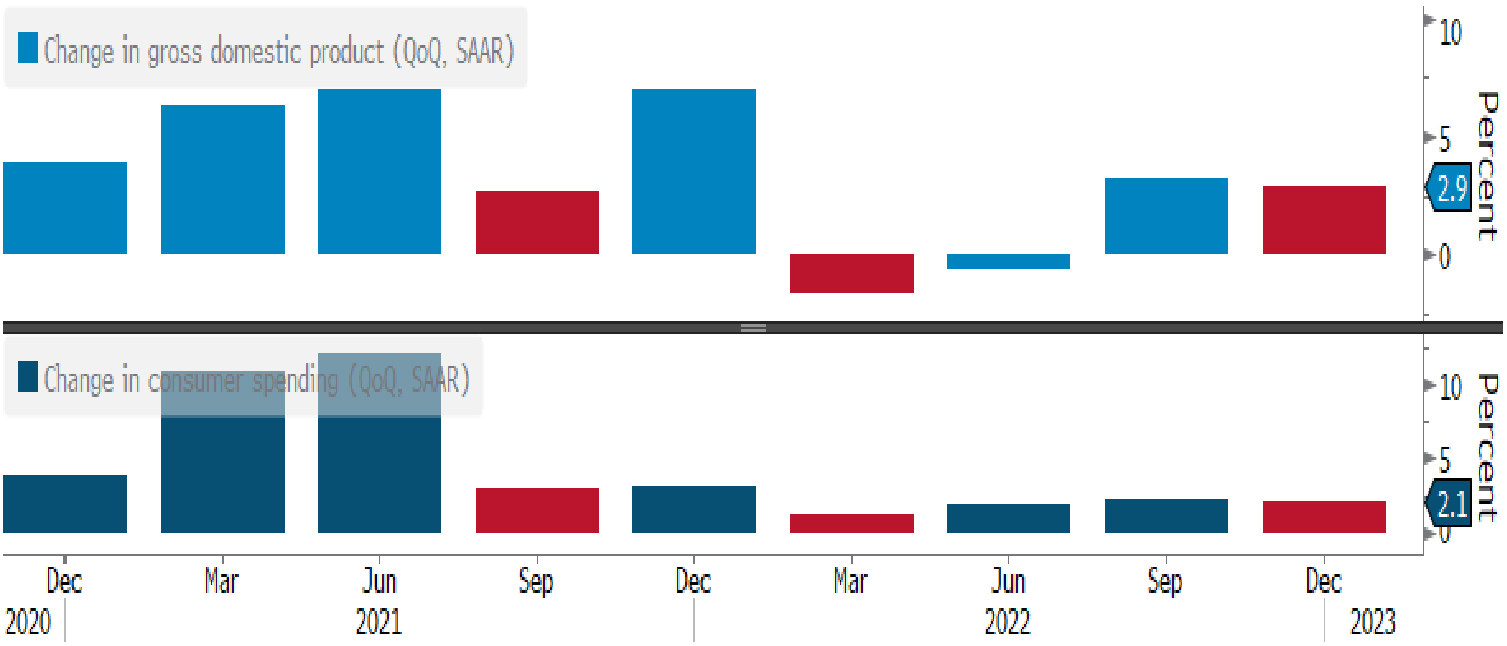
US Economy Expands At A Healthy Pace In Q4 of 2022

GDP Increases Despite Fed Monetary Tightening Actions

Change in GDP, QoQ (top) and Change in Consumer Spending, QoQ (bottom)



Source: Bureau of Economic Analysis, Bloomberg

Much to market participants' surprise, initial GDP numbers for the final quarter of 2022 came in healthily above expectations of +2.6%, landing at +2.9%. This surprise in the data reading comes on the back of one of the most extreme monetary tightening campaigns in history enacted by the Federal Reserve throughout 2022. With the Fed increasing interest rates to slow down the economy and thus tame rampant inflation, the economy's resiliency to continue growing is a sign that the Fed is moving in the right direction to tame inflation while not sending the US economy into a sustained recessionary period. While the headline GDP numbers are encouraging, when digging into the underlying data there are still some areas where warning signs are flashing. As illustrated in the lower portion of the chart above, Consumer Spending came in below the previous quarter at +2.1%. This highlights that consumers are feeling the effects of runaway inflation and have been curbing back spending throughout much of last year. This data comes paints a mixed picture, where less consumer demand is helpful for the narrative of reducing the rate of increasing inflation but if consumer spending drops by too much for too long, this could send the economy into a recessionary period. While the Fed has tools in the toolbox to combat a contraction in economic growth, their willingness to utilize these tools, i.e., cutting interest rates or quantitative easing, will be largely dependent on where inflation, employment, and goods and services demand data levels are at, and possibly more important the trends that those data points are exhibiting if that scenario begins to play out.

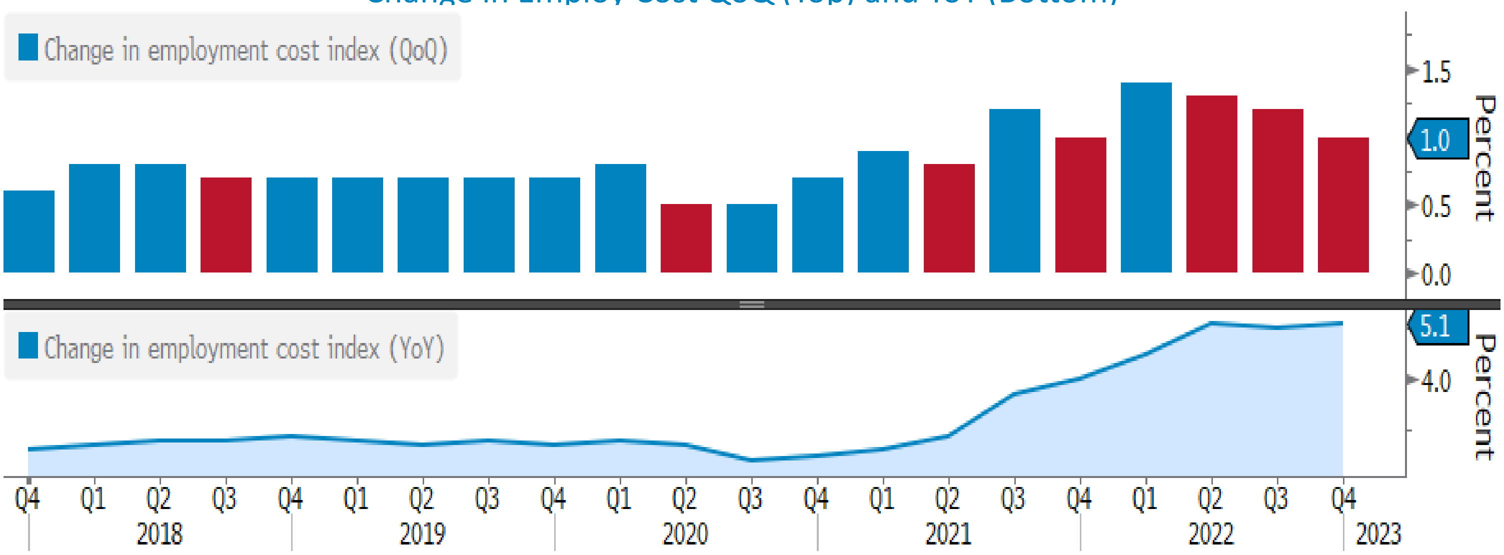
Bottom Line: The US Economy ended last year on the right foot with GDP numbers coming out higher than expected for the final quarter of the year. This could hint that the Fed is on track to tame inflation while not sending the economy into a recession but some of the underlying data is leading market participants to believe that we are not out of the woods yet and that the risk of the Fed overtightening monetary policy is still on the table. The Fed's narrative has led many market participants to believe that even if the Fed sends the US Economy into a recession and inflation has not reached the Fed's desired level, they will keep monetary conditions tight to prioritize taming inflation over economic growth.

What’s Ahead

Wages Are Showing Signs of Cooling

Employment Costs Increase at a Slowing Rate

Change in Employ Cost QoQ (Top) and YoY (Bottom)



Source: Bureau of Labor Statistics, Bloomberg

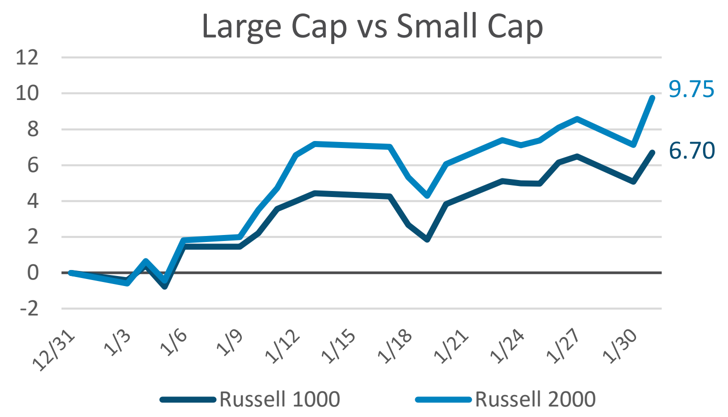
As highlighted in the chart above, employment costs, as measured by the Employment Cost Index, have steadily declined after the first quarter of 2022 and the reading for the final quarter of 2022 was no different. The index came in at +1.0% for the fourth quarter of 2022, which was softer than consensus expectations of +1.1%. As shown in the lower chart above, the Year-Over-Year metric on the index has mostly flatlined throughout 2022, compared to its steep upward climb during 2021. This illustrates the effects of the Fed’s swift monetary tightening policy throughout last year and bleeding over into the new year. The labor markets have been an area of emphasis for the Federal Reserve with the Unemployment Rate maintaining its multidecade low level, which was a component of the rapid increase experience during 2021 as employers were competing for talent to keep up with demand. As laborers began to earn more compensation, they tended to consume more which has been a component in the runaway inflation that the Fed has been attempting to combat with their decisive tightening of monetary policy. With wage growth coming in softer than expected for the final quarter of 2022, the narrative of disinflation, increasing inflation but at a slower rate than previous readings, is supported by this and is just one prime example that the Fed’s tightening of monetary policy is further working its way through the US economy. The slowing of wage growth could have a waterfall effect on slowing inflation, especially as rising costs for consumers continue to eat their way through built up savings obtained during the monetary loosening actions taken by the Fed during the global pandemic, where consumers begin to materially reduce their spending on goods and services due to decreased acceleration in wage compensation. Additionally, employers may not have to compete as much for the limited supply of workers as cost control measures are implemented from corporations, who are also seeing increased costs due to inflation. On the note of corporation cost control programs, headlines have started breaking through the first month of the year that corporations are beginning to layoff workers, especially those in the technology sector. It remains to be seen if the robust job market will be materially offset by these layoff plans in the coming months. As highlighted in previous editions, the Fed has a difficult balancing act of cooling the economy and thus taming inflation down to a more sustainable level without sending the US economy into a sustained period of economic contraction. So far, the Fed appears to be on track to orchestrate a “soft landing”, where inflation is reduced to their target level and GDP growth remains positive throughout this process, but only time will tell if they be able to determine the accurate time of when to halt monetary tightening process and possibly even begin to loosen policy.

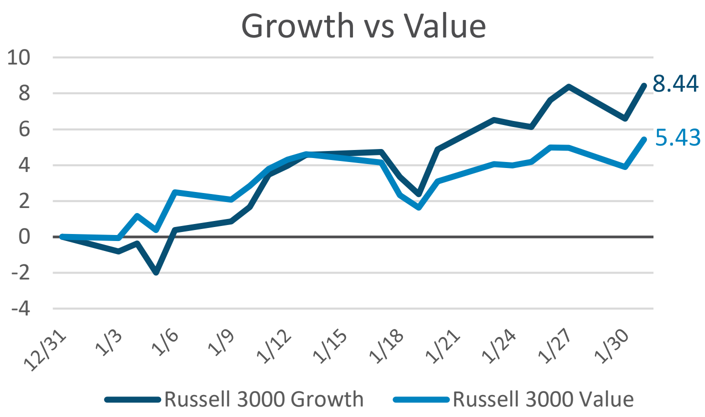
Bottom Line: With wage growth continuing to show signs of cooling down through the end of last year, it appears that the Fed might be making material progress on taming inflation back towards their more sustainable long run target level. Market participants will be keeping a close eye on labor market statistics over the coming months as this could hint to when the Fed will pause its tightening of monetary policy.

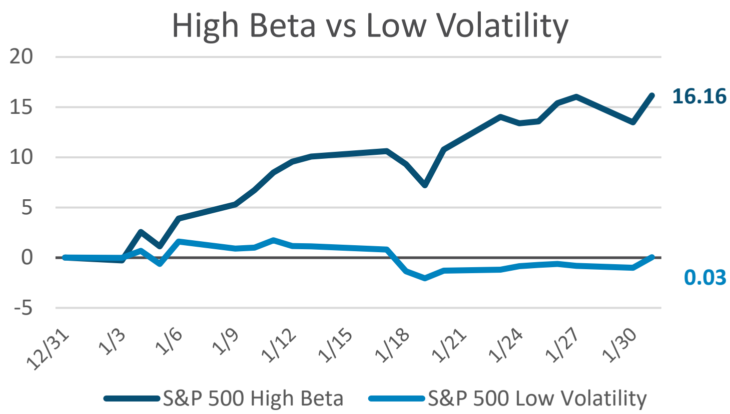
Equity Themes

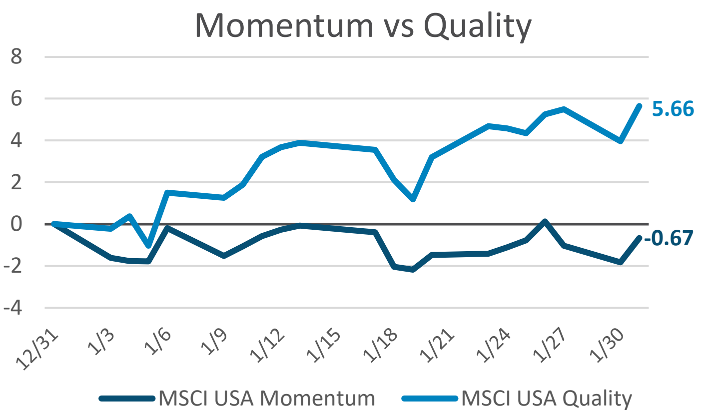
What Worked, What Didn’t

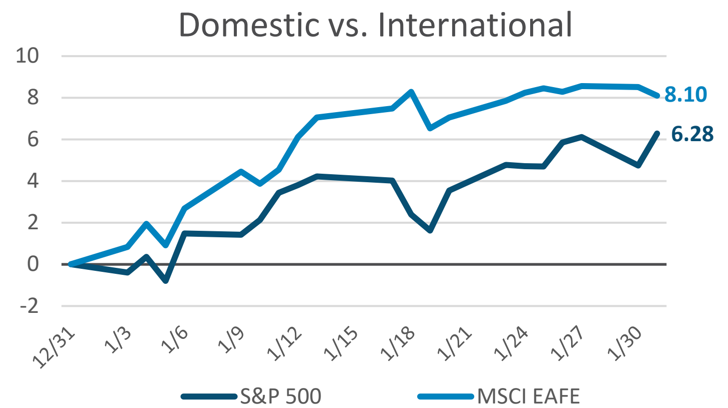
- **Small over Large and Growth over Value.** Both Large and Small Cap equities posted a strong start to the year, but Small Caps candidly outperformed Large Caps for January. After a dismal last year, Growth equities came back in favor for the month of January, but Value styled equities also posted a strong start to the year.
- **High Beta Crushes Low Vol, Quality beats Momentum.** High Beta equities crushed Low Volatility equities for the month of January, outperforming by over +16%. Momentum equities weren’t as lucky, posting a negative month to start the year but Quality equities put up solid performance in the month of January.
- **International over Domestic, Developed over Emerging.** International equities outperformed Domestic equities for the start of the year and Emerging Markets almost outperformed their Developed Market peers but eventually stumbled into the close of the month, underperforming Developed Markets by about -20bps for the month of January.

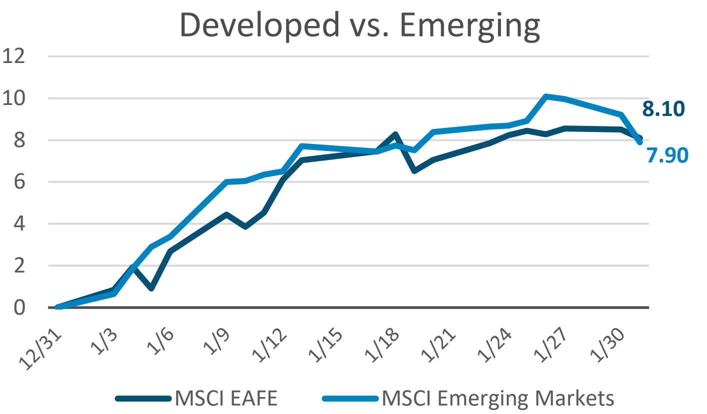












Source: Bloomberg.

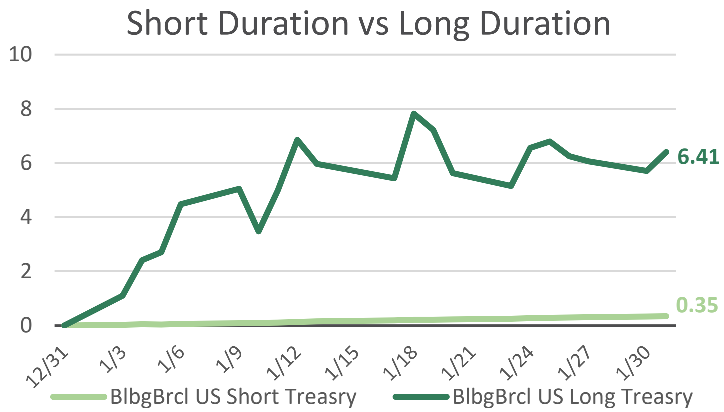
January 2023

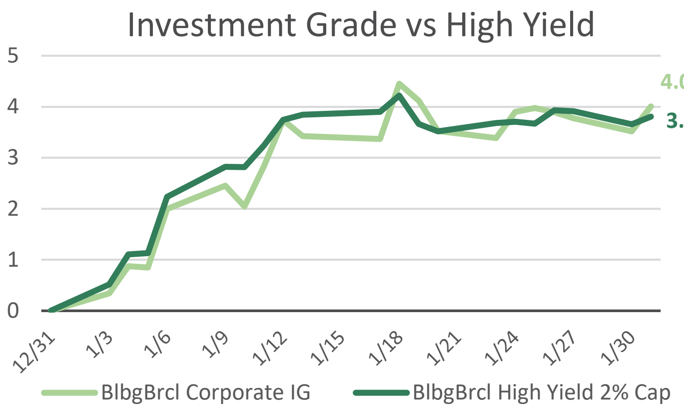
Bond Themes

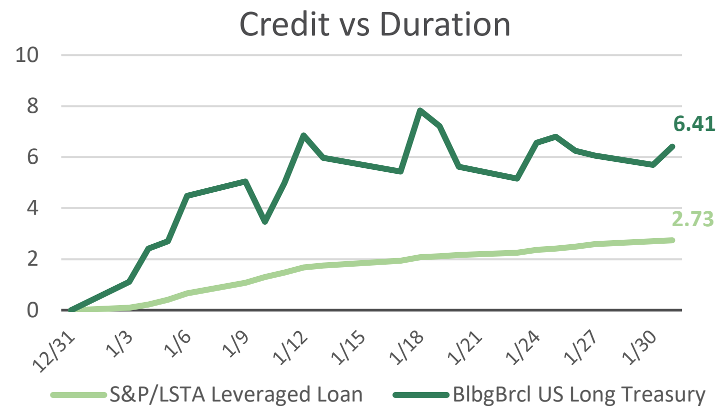
MONTH IN REVIEW

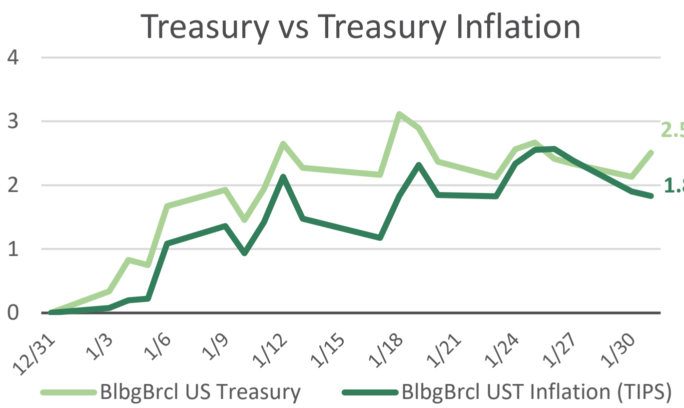
What Worked, What Didn't

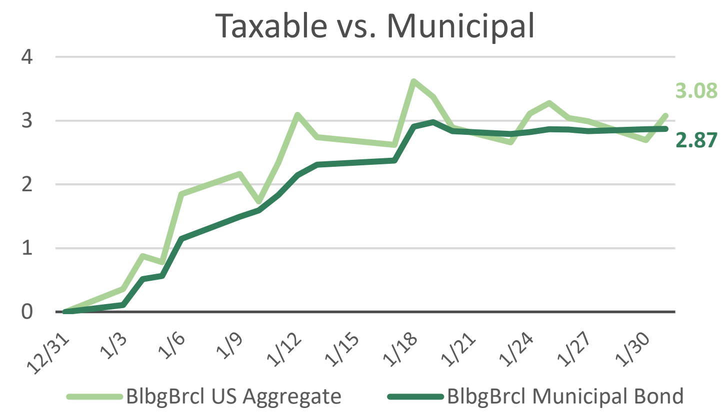
- **Go Long and High Quality.** Longer Dated bonds dominated their shorter duration peers and High Yield and Investment Grade traded in near lockstep for the month of January with Investment Grade posting a modest margin of out performance.
- **Credit and TIPS Underperform.** Long Treasury bonds posted a strong month of outperformance versus Credit and TIPS underperformed Treasuries as well.
- **Taxables Outperform Munis and International Outperform Domestic Bonds.** Taxable bonds posted a decent margin of outperformance versus their Municipal peers and International Bonds outperformed Domestic Aggregate bonds for the first month of the year.

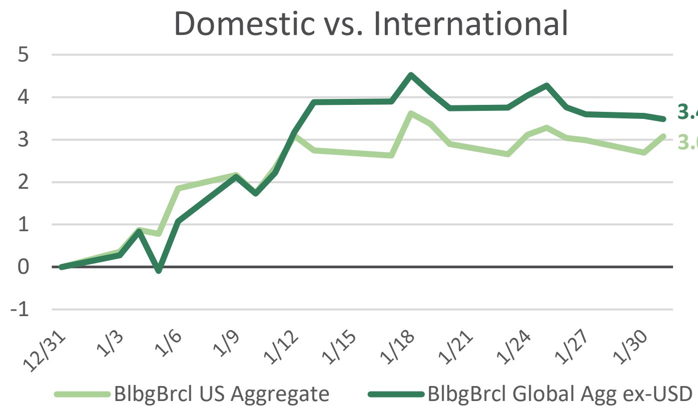












Source: Bloomberg.

January 2023

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.

	Jan-03	Jan-04	Jan-05	Jan-06	Jan-09	Jan-10	Jan-11	Jan-12	Jan-13	Jan-17	Jan-18	Jan-19	Jan-20	Jan-23	Jan-24	Jan-25	Jan-26	Jan-27	Jan-30	Jan-31	Jan	YTD	
High	IEQ 0.88	EM 3.01	USB -0.08	RE 2.81	EM 0.75	SCG 1.63	RE 3.63	SCG 1.79	SCG 0.80	MCG 0.32	USB 0.99	EM 0.76	LCG 2.41	MCG 1.76	IBD 0.51	IEQ 0.66	LCG 1.43	RE 1.02	USB -0.27	SCV 2.49	SCG 9.99	SCG 9.99	High
	EM 0.84	RE 2.15	HYB -0.20	IEQ 2.56	MCG 0.53	SCV 1.25	LCG 1.77	SCV 1.68	EM 0.66	IEQ 0.31	IBD 0.28	IBD 0.16	MCG 2.29	SCG 1.60	USB 0.44	IBD 0.40	MCG 1.27	LCG 0.75	HYB -0.55	SCG 2.43	RE 9.98	RE 9.98	
	USB 0.59	MCV 1.73	EM -0.30	MCV 2.47	LCG 0.52	MCG 1.14	MCG 1.64	IEQ 1.48	MCG 0.61	IBD 0.31	HYB 0.12	IEQ -0.16	MCV 1.83	LCG 1.60	RE 0.30	SCV 0.34	RE 1.11	SCV 0.61	IEQ -0.64	RE 1.97	SCV 9.66	SCV 9.66	
	60/40 0.21	SCV 1.40	LCV -0.72	SCG 2.41	SCG 0.49	MCV 0.78	MCV 1.26	IBD 1.20	LCG 0.55	LCG 0.16	60/40 -0.32	USB -0.23	SCG 1.76	MCV 1.03	60/40 0.08	MCV 0.32	EM 0.95	SCG 0.48	IBD -0.70	MCG 1.96	EM 9.13	EM 9.13	
	HYB 0.19	IEQ 1.33	60/40 -0.75	LCG 2.37	IEQ 0.43	LCG 0.74	SCV 1.23	RE 1.08	IEQ 0.53	RE 0.10	IEQ -0.35	60/40 -0.38	SCV 1.61	LCV 0.98	EM 0.07	SCG 0.21	MCV 0.85	MCG 0.38	60/40 -0.85	MCV 1.82	IEQ 9.00	IEQ 9.00	
	RE 0.18	IBD 1.28	SCV -0.96	SCV 2.22	HYB 0.36	LCV 0.72	SCG 1.17	60/40 0.83	SCV 0.47	60/40 -0.07	EM -0.68	RE -0.54	EM 1.53	SCV 0.90	HYB 0.07	60/40 0.21	LCV 0.77	MCV 0.36	LCV -0.97	LCG 1.64	MCG 8.72	MCG 8.72	
	LCV -0.03	MCG 1.26	IEQ -1.00	EM 2.09	IBD 0.32	EM 0.72	60/40 0.96	USB 0.72	LCV 0.28	SCG -0.10	MCG -1.14	HYB -0.59	LCV 1.40	EM 0.72	SCV -0.09	LCV 0.20	SCG 0.67	60/40 0.01	MCV -1.03	LCV 1.39	LCG 8.33	LCG 8.33	
	SCV -0.30	LCV 1.17	MCV -1.04	LCV 2.08	60/40 0.28	IEQ 0.29	LCV 0.88	HYB 0.56	MCV 0.22	USB -0.18	LCG -1.30	LCV -0.66	RE 1.24	60/40 0.47	MCV -0.11	USB 0.12	SCV 0.49	LCV -0.08	SCV -1.09	60/40 0.88	MCV 8.08	MCV 8.08	
	MCV -0.31	HYB 1.15	SCG -1.19	IBD 2.01	USB 0.25	60/40 0.27	IEQ 0.76	MCV 0.54	60/40 0.15	MCV -0.21	RE -1.39	SCV -0.74	IEQ 0.88	IEQ 0.41	LCV -0.11	EM 0.10	60/40 0.38	USB -0.15	RE -1.20	HYB 0.78	60/40 6.32	60/40 6.32	
	MCG -0.71	SCG 1.14	IBD -1.30	60/40 1.90	MCV 0.08	RE 0.22	IBD 0.75	EM 0.49	HYB 0.00	SCV -0.25	SCG -1.45	LCG -0.89	60/40 0.79	RE 0.37	IEQ -0.13	MCG 0.00	HYB 0.25	IEQ -0.20	MCG -1.43	IEQ 0.58	LCV 5.14	LCV 5.14	
	LCG -0.76	60/40 1.12	MCG -1.39	MCG 1.82	RE 0.00	IBD 0.00	HYB 0.66	LCV 0.47	IBD -0.10	HYB -0.34	MCV -1.61	MCV -1.11	HYB 0.20	HYB -0.01	LCG -0.23	HYB -0.01	IEQ 0.08	IBD -0.26	SCG -1.61	USB 0.41	HYB 3.67	HYB 3.67	
	SCG -0.87	USB 0.55	LCG -1.62	HYB 1.42	SCV -0.16	HYB -0.12	USB 0.62	LCG 0.43	USB -0.37	LCV -0.49	SCV -1.73	SCG -1.22	IBD -0.23	IBD -0.13	SCG -0.43	LCG -0.11	USB -0.17	HYB -0.30	LCG -1.67	IBD 0.35	IBD 3.36	IBD 3.36	
Low	IBD -1.08	LCG 0.35	RE -2.67	USB 1.09	LCV -0.41	USB -0.38	EM 0.42	MCG 0.32	RE -0.55	EM -0.56	LCV -1.78	MCG -1.48	USB -0.41	USB -0.25	MCG -0.65	RE -0.11	IBD -0.41	EM -0.47	EM -2.01	EM -0.22	USB 3.33	USB 3.33	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. 020823001 MKS