MONTH IN REVIEW

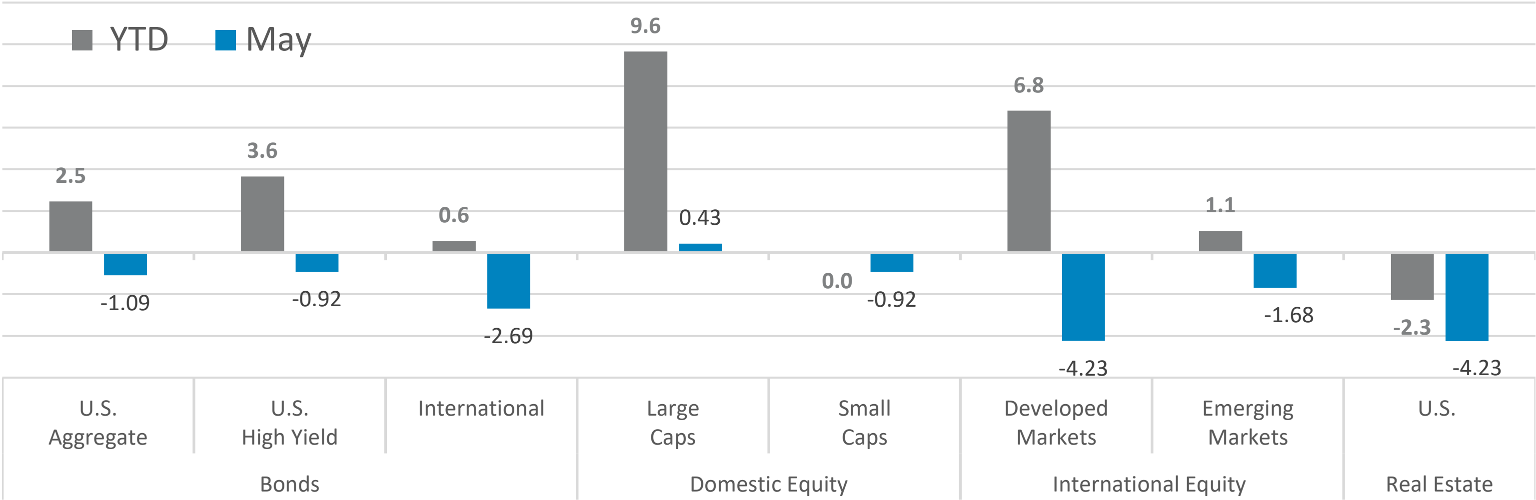
May 2023

Quick Takes

- **Risk Assets Post Dismal May.** Risk assets had a rocky month of May, with Bonds stumbling and almost all equities were right there with them, the exception being Large Cap US equities posted a modestly positive month.
- **Cooling Inflation Data.** Inflation, as measured by the CPI data release, came in slightly softer than expected, possibly hinting that inflation is on the downward trend. Core PCE, the Fed's preferred inflation metric, came in slightly above expectations for the month of May.
- **Dollar Rebounds.** The dollar spent the majority of the month in a steady grind higher, despite fears that the US government might not reach a resolution on the Debt Ceiling Limit before the government runs out of cash.
- **Labor Markets, Economic Production, and Personal Spending.** Unemployment ticked down yet again to 3.4% versus expectations of 3.6%. GDP for the first quarter of the year was revised slightly higher from the government's initial estimate of 1.1%to +1.3%. Personal Spending came in well above expectations of +0.3%, landing at +0.8%.

Asset Class Performance

The month of May closed out with somewhat depressing results as almost all asset classes were negative for the month. Large Cap US equities were able to post a modestly positive month. With the exception of Real Estate, most asset classes are still clinging to a healthy YTD gain.



Source: Bloomberg, as of December 31, 2022. 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).

QUALIFIED PLAN ADVISORS

May 2023

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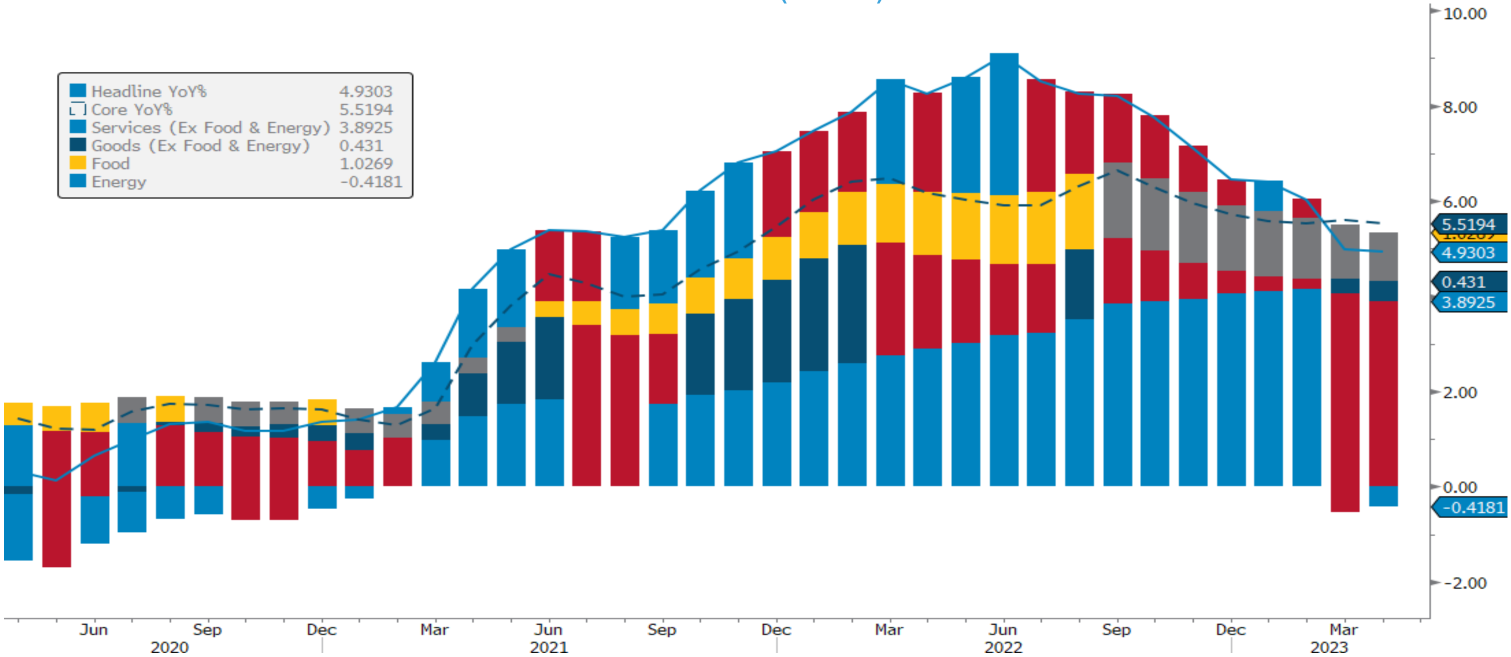
Markets & Macroeconomics

Inflation Moderates in May

Inflation Comes in Softer Than Expected for May Reading

US Consumer Price Index ("CPI") Year-Over-Year



Source: Bureau of Labor Statistics, Bloomberg

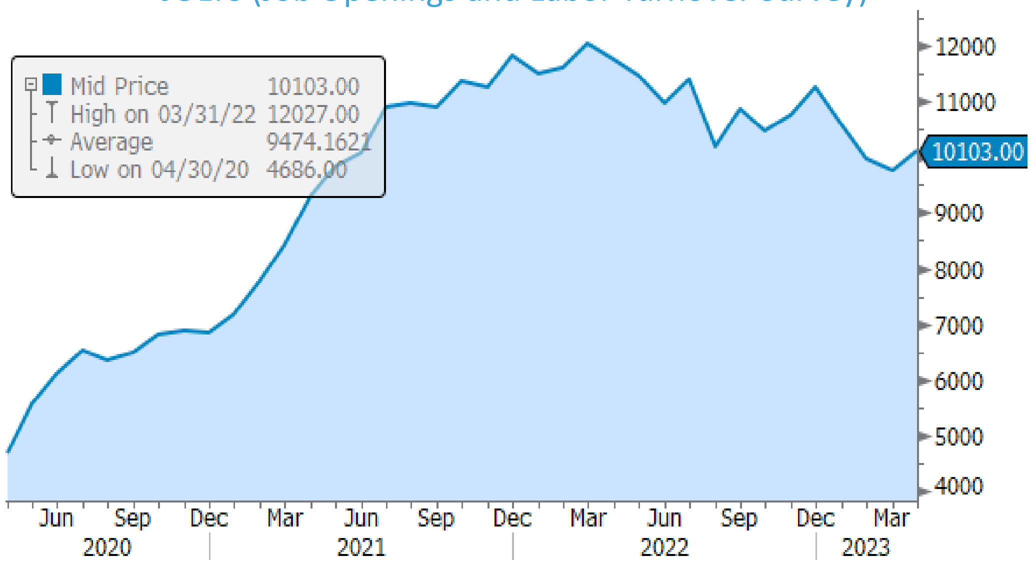
For the previous month, Inflation, as measured by the CPI, came in below expectations of +5.0% on the year-over-year metric, landing at +4.9% for the May reading. While this slightly softer than expected reading may not seem impactful, digging into the underlying data, there were several aspects that made the outlook much rosier. As illustrated in the chart above, Energy prices actually detracted from the overall reading, which isn't much of a surprise considering the recent softening of oil prices combined with declining demand due to a slowdown in economic production across the globe. More importantly, Housing and Services each posted their smallest advance since the summer of 2022. Both of these datapoints are areas that the Federal Reserve is keeping a watchful eye on as they have been some of the largest contributors to putting pressure on consumers, especially those at the lower income side of the spectrum. While the disinflationary aspects of the Housing and Service sectors in encouraging from an inflation, and ultimately tightening of monetary policy, perspective, the implications for the overall real estate market could be less exciting. On the back of the rapid increase in interest rates leading to tighter lending standards, which was then further exacerbated by the turmoil in the banking sector earlier in the year, it's possible that this slowdown in the housing sector could be the beginning of something disastrous for the US. A further drawdown in the US real estate sector, especially commercial properties that were damaged by the global pandemic, could impact consumers and investors alike. Economic data releases for the month of May related to the Housing sector painted a mixed picture, but it will likely be an area that investors and the Fed keeps a close watch on in the coming months.

Bottom Line: Inflation, as measured by the CPI, came in softer than expected for the May reading. While it was only slightly below survey estimates, the underlying datapoints showed that most categories are showing signs of disinflation, i.e., inflation is increasing at a slower pace, especially some of the sectors that were most impactful to consumers like Housing and Services inflation. If inflation continues to show signs of moderation in the coming months, this could mean that the end of the Fed's hiking cycle is over. While the inflation reading was showing positive signs, some of the collateral damage from the Fed's rapid tightening of monetary conditions may not have worked its way through the system yet. The impact on the overall real estate market, especially commercial real estate, is still unknown and will be worth watching in the future.

Economic Production Gets Revised Higher, Focus on Consumer

Job Openings Surpass All Expectations

JOLTS (Job Openings and Labor Turnover Survey)



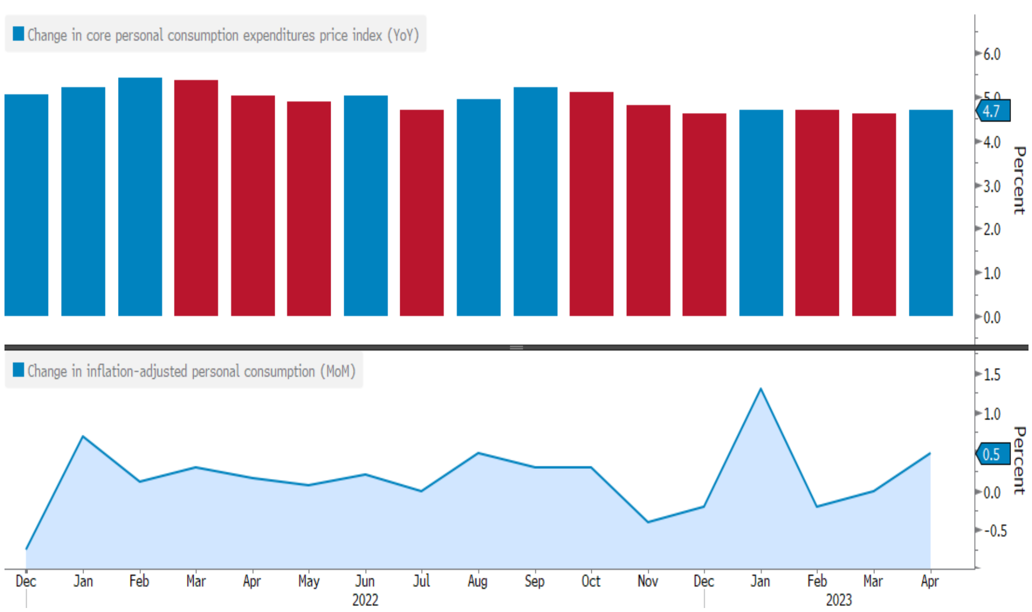
Source: Bureau of Labor Statistics, Bloomberg

After a lackluster initial reading of economic production, as measured by GDP, for the first quarter of the year, government officials revised the number higher in the month of May. The initial estimate for Q1 GDP was +1.1% in the April reading but was bumped up to +1.3% after more data became available. Additionally, Personal Consumption data for the first quarter of the year was also revised slightly higher from +3.7% to +3.8%. As mentioned on the previous page, CPI data readings have suggested that inflation is beginning to moderate as the effects of the Fed's monetary tightening continue to work its way through the economic system, but the increase in Personal Consumption suggests that consumers are still facing off with price increases. While the headline inflation data readings may suggest that the Fed can enter pause mode on rate hikes, the increase in month-over-month Consumer Spending of +0.5% represents that largest increase in the metric for the year so far. This conflicting data could leave the door open for further rate hikes to occur in the future. With this conflict in mind, the Fed will likely be patient and allow more data to come in to see the full effect and their focus will likely shift to employment. Despite the Fed's action of tightening monetary policy, the turmoil in the banking sector, and many companies announcing broad sweeping layoffs, the Job Openings and Labor Turnover Survey (JOLTS) came in above all expectations of 9.4 million, landing at 10.1 million for the month of April. This suggests that despite all the pressure on the US economic system, jobs are still a plenty, especially with Unemployment falling at the beginning of April to 3.4%. With unemployment remaining low, supply and demand suggests that wages will continue to go higher as employers compete for workers. If wages continue to go higher, than it is likely that Consumer Spending will remain resilient despite what the Fed does with interest rate hikes. If this scenario plays out, then inflation will be much more difficult for the Fed to combat over the long-term and suggests that despite a temporary pause in rate hikes, more tightening would be necessary in the future. Market participants are likely to keep a close on employment data in the coming months.

<u>Bottom Line</u>: Economic production was revised higher than initial estimates and while inflation metrics are starting to show signs of cooling down, Consumer Spending remains incredibly resilient. With this mixed reading of the data, the Fed will likely shift the majority of its focus to the Labor Markets, which are still showing signs of tightness. As long as Labor Markets remain tight, wage growth will likely be present, which will ultimately give consumers more capacity to consume. This consumer driven demand could make the Fed's battle against inflation drag out longer than the Fed is anticipating.

Consumer Spending Remains Intact

Change in Core Personal Consumption (Top), Change in Inflation-Adjusted Personal Consumption (MoM)



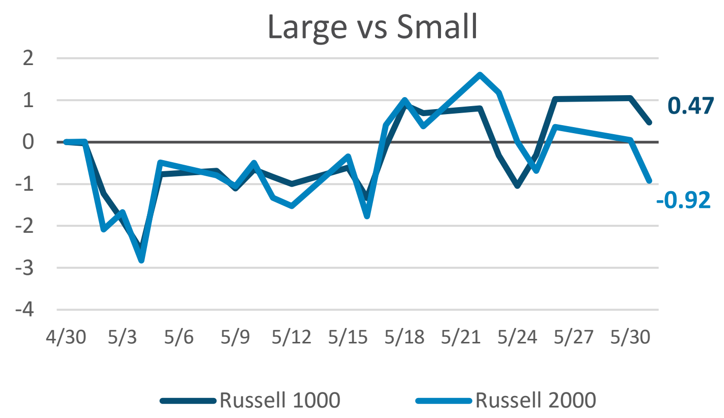
Source: US Bureau of Economic Analysis, Bloomberg

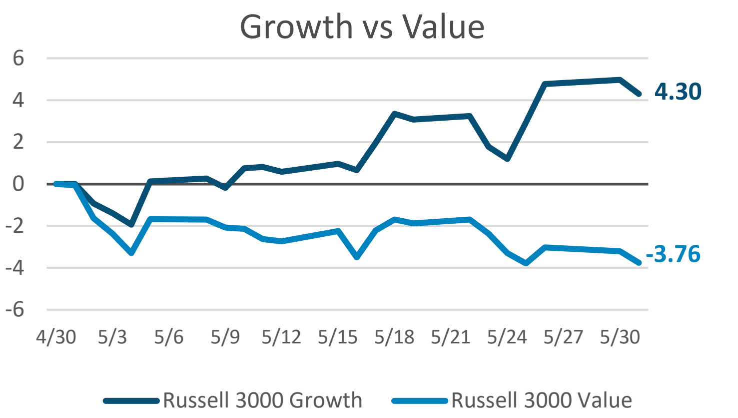
May 2023

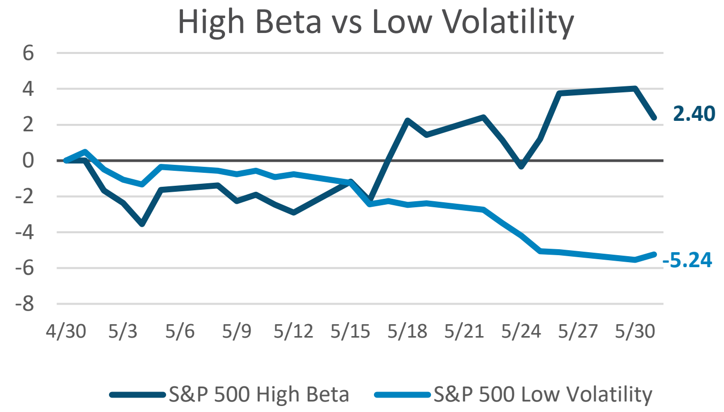
Equity Themes

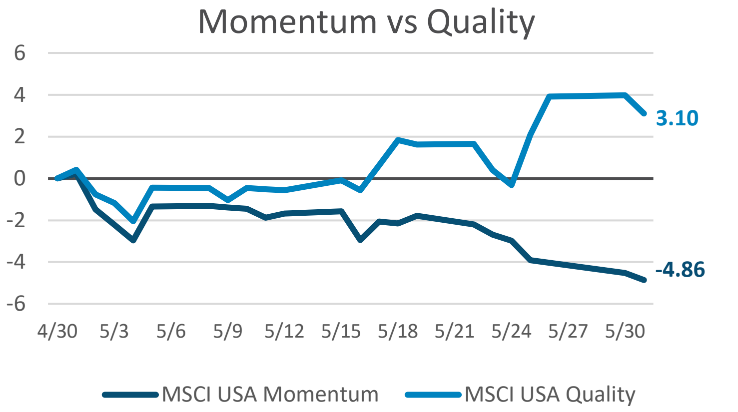
What Worked, What Didn't

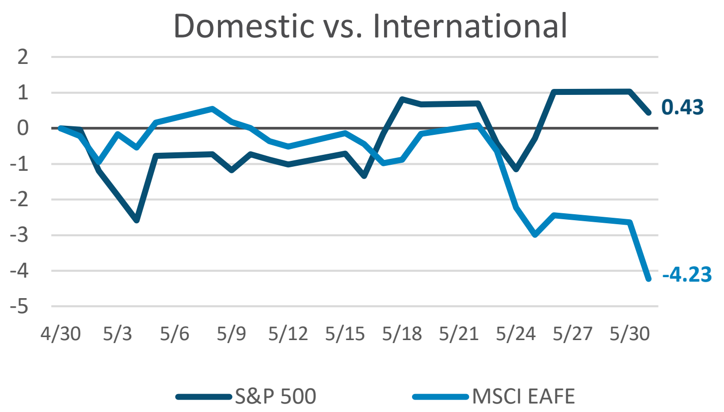
- **Large Over Small, Growth Crushes Value.** Small Cap equities struggled throughout May while Large Caps posted a respectable month of performance. Growth Styled equities significantly outperformed their Value Styled peers for May.
- **High Beta and Quality Outperform.** Low Volatility equities were in a steady state of decline throughout the month of May while High Beta equities posted a solid month of performance. Momentum styled equities were like Low Vol stocks with a steady decline in May while Quality factor equities posted a strong May.
- **Domestic over International, Emerging over Developed.** International equities mostly kept pace with their Domestic peers but stumbled into month end. Emerging Markets offered some downside protection versus their Developed International peers, but both were in the red for the month of May.

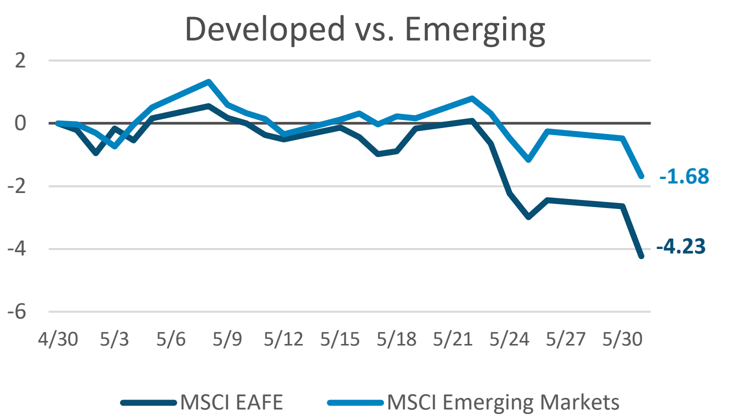










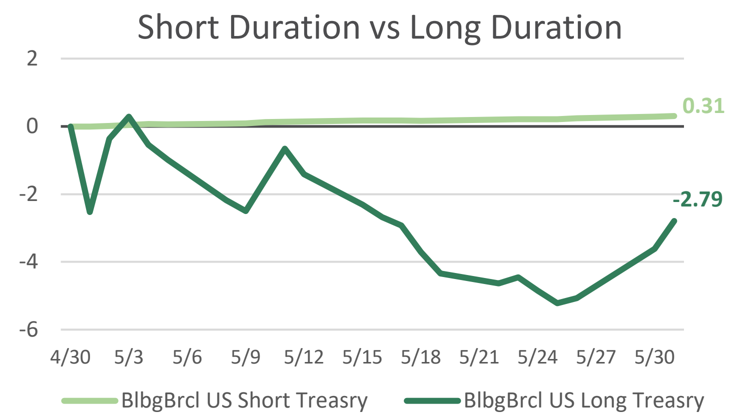


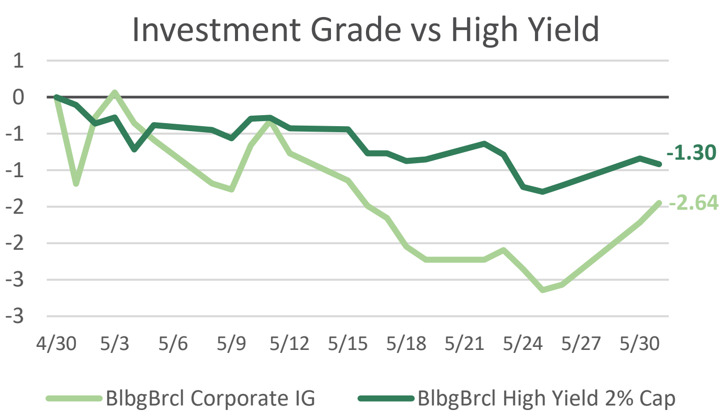
Source: Bloomberg.

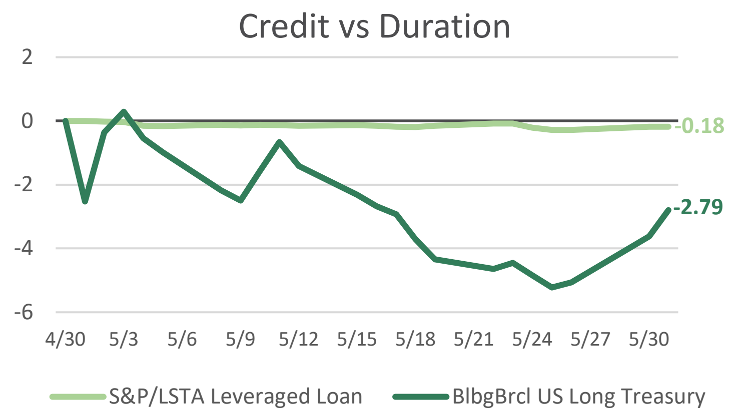
Bond Themes

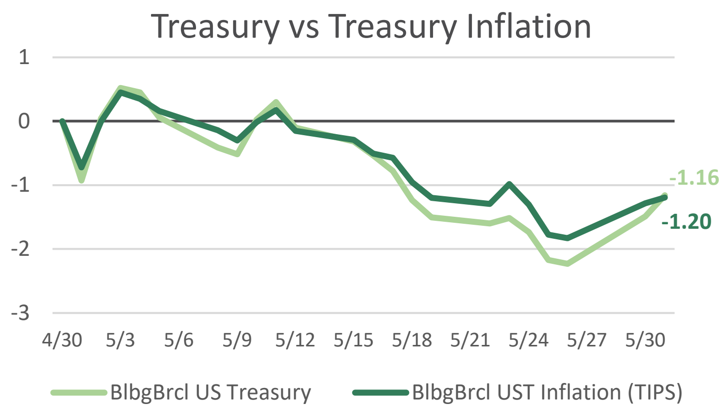
What Worked, What Didn't

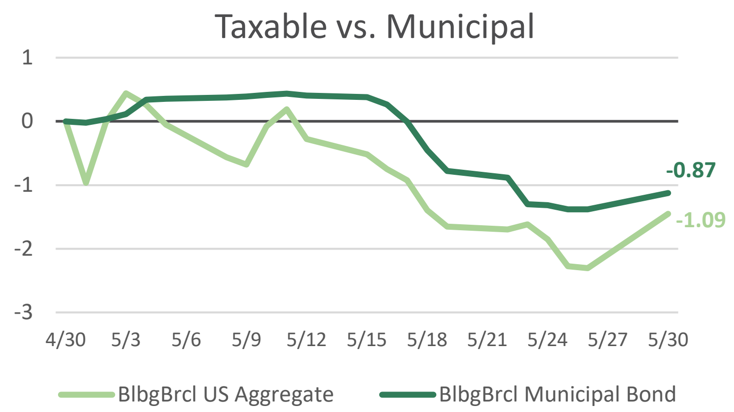
- **Short Duration and Lower Quality Outperform.** Long Duration bonds had a rough month for May, while Shorter Duration bonds posted a modestly positive month. Lower Quality, higher yielding bonds gave some downside protection versus their Investment Grade peers but both were in the red.
- **Credit Beat Duration and TIPS Outperform.** TIPS barely outperformed Treasuries for the month, but both were negative for May. Leveraged Loans, i.e., Credit, were slightly negative for May but less so than Long Duration Treasuries.
- **Munis Outperform and International Stumble.** Munis offered some downside protection versus taxable bonds, but International Bonds underperformed their domestic peers for the month.

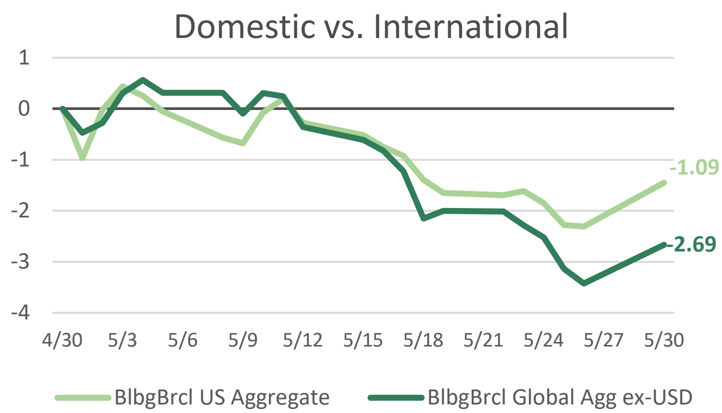












Source: Bloomberg.

May 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.

	May-01	May-02	May-03	May-04	May-05	May-08	May-09	May-10	May-11	May-12	May-15	May-16	May-17	May-18	May-19	May-22	May-23	May-24	May-25	May-26	May-30	May-31	May	YTD
High	SCG 0.38	USB 0.97	IBD 0.73	RE 0.82	SCV 2.47	MCG 0.17	USB -0.09	RE 0.96	USB 0.30	RE 0.02	EM 1.84	USB -0.23	SCV 2.82	MCG 1.53	IEQ 0.59	SCV 1.28	USB 0.11	USB -0.25	LCG 1.82	LCG 1.80	IBD 1.01	RE 0.53	LCG 4.69	LCG 19.04
	MCG 0.12	IBD 0.63	SCG 0.67	EM 0.80	SCG 2.26	LCG 0.17	MCG -0.22	LCG 0.95	LCG 0.08	MCV -0.01	SCG 1.24	LCG -0.24	SCG 1.70	LCG 1.45	IBD 0.54	SCG 1.15	SCV 0.03	IBD -0.39	MCG 0.50	EM 1.77	USB 0.67	USB 0.36	MCG -0.03	IEQ 8.84
	LCG 0.00	HYB -0.09	USB 0.44	USB -0.12	LCG 2.09	EM 0.05	SCG -0.24	SCG 0.80	60/40 -0.15	LCV -0.08	SCV 1.17	IBD -0.46	MCV 1.36	MCV 0.68	HYB 0.11	EM 0.82	IBD -0.40	LCG -0.58	RE 0.01	RE 1.16	HYB 0.43	IBD -0.04	USB -0.12	MCG 7.03
	LCV -0.06	60/40 -0.43	IEQ 0.26	IBD -0.14	MCV 1.94	LCV 0.05	HYB -0.25	USB 0.65	HYB -0.16	MCG -0.12	MCG 0.97	HYB -0.70	MCG 1.30	SCG 0.68	EM 0.08	RE 0.63	HYB -0.52	HYB -0.70	60/40 -0.07	SCG 1.14	RE 0.43	HYB -0.31	SCG -0.21	SCG 4.96
	MCV -0.12	LCG -0.90	SCV 0.15	IEQ -0.21	RE 1.66	IEQ 0.03	60/40 -0.31	HYB 0.61	IEQ -0.25	SCV -0.18	IEQ 0.77	EM -0.71	RE 1.29	LCV 0.52	60/40 -0.02	MCG 0.47	LCV -0.72	EM -0.75	HYB -0.07	MCG 1.10	LCG 0.26	60/40 -0.36	HYB -0.78	60/40 4.06
	IEQ -0.15	EM -0.97	60/40 0.04	60/40 -0.28	LCV 1.61	SCG -0.17	MCV -0.33	MCG 0.51	EM -0.36	IEQ -0.18	MCV 0.65	60/40 -0.75	LCV 1.24	SCV 0.46	LCV -0.11	HYB 0.44	60/40 -0.75	60/40 -0.79	IEQ -0.14	IEQ 0.98	MCG 0.21	LCG -0.52	60/40 -1.23	HYB 1.91
	SCV -0.19	IEQ -1.01	HYB -0.05	HYB -0.30	MCG 1.53	MCV -0.18	SCV -0.36	IBD 0.46	MCG -0.37	SCG -0.18	LCV 0.47	IEQ -0.95	LCG 1.19	HYB 0.05	RE -0.13	MCV 0.40	SCG -0.85	MCG -0.86	EM -0.21	SCV 0.97	60/40 0.02	LCV -0.54	SCV -1.63	USB 1.52
	EM -0.33	MCG -1.48	EM -0.16	LCG -0.54	IEQ 1.47	60/40 -0.19	LCV -0.40	60/40 0.36	IBD -0.43	LCG -0.22	60/40 0.37	LCV -1.25	60/40 0.54	60/40 0.05	USB -0.22	60/40 0.17	MCV -0.99	LCV -0.92	MCV -0.29	LCV 0.78	MCV -0.04	SCG -0.68	IBD -1.86	EM 1.11
	HYB -0.46	LCV -1.53	MCG -0.19	MCG -0.71	EM 1.34	IBD -0.21	IEQ -0.41	SCV 0.25	LCV -0.51	HYB -0.36	LCG 0.36	SCG -1.33	IEQ 0.47	IEQ -0.15	LCG -0.25	LCG 0.11	RE -1.07	SCG -0.92	USB -0.37	60/40 0.77	LCV -0.19	MCG -0.75	EM -2.08	IBD 0.53
	60/40 -0.47	MCV -1.58	RE -0.48	LCV -0.94	60/40 0.92	HYB -0.28	IBD -0.41	EM -0.05	MCV -0.53	60/40 -0.36	HYB -0.03	MCG -1.41	EM 0.46	RE -0.45	SCG -0.37	LCV 0.10	LCG -1.41	MCV -1.23	IBD -0.47	MCV 0.69	SCV -0.23	EM -0.93	RE -3.17	LCV -1.53
	RE -0.89	RE -1.71	LCG -0.50	MCV -1.07	HYB 0.54	SCV -0.36	LCG -0.44	LCV -0.09	SCV -0.64	IBD -0.42	RE -0.17	SCV -1.58	HYB 0.27	USB -0.47	MCV -0.39	IEQ 0.03	IEQ -1.47	SCV -1.34	SCG -0.51	HYB 0.61	SCG -0.50	MCV -1.03	LCV -3.83	MCV -2.79
	USB -1.02	SCG -1.83	MCV -0.58	SCV -1.14	USB -0.32	USB -0.55	RE -0.46	MCV -0.11	SCG -0.96	USB -0.56	IBD -0.25	MCV -1.69	USB -0.15	EM -0.54	MCG -0.43	USB -0.09	EM -1.55	IEQ -1.46	LCV -0.52	IBD 0.22	IEQ -1.01	IEQ -1.04	IEQ -3.86	RE -3.81
Low	IBD -1.26	SCV -2.31	LCV -0.81	SCG -1.17	IBD -0.35	RE -0.56	EM -0.61	IEQ -0.20	RE -1.09	EM -1.18	USB -0.25	RE -2.44	IBD -0.42	IBD -0.92	SCV -0.81	IBD -0.14	MCG -1.66	RE -2.04	SCV -0.85	USB 0.08	EM -1.15	SCV -1.28	MCV -4.34	SCV -4.41

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. 060523003 MKS