MONTH IN REVIEW

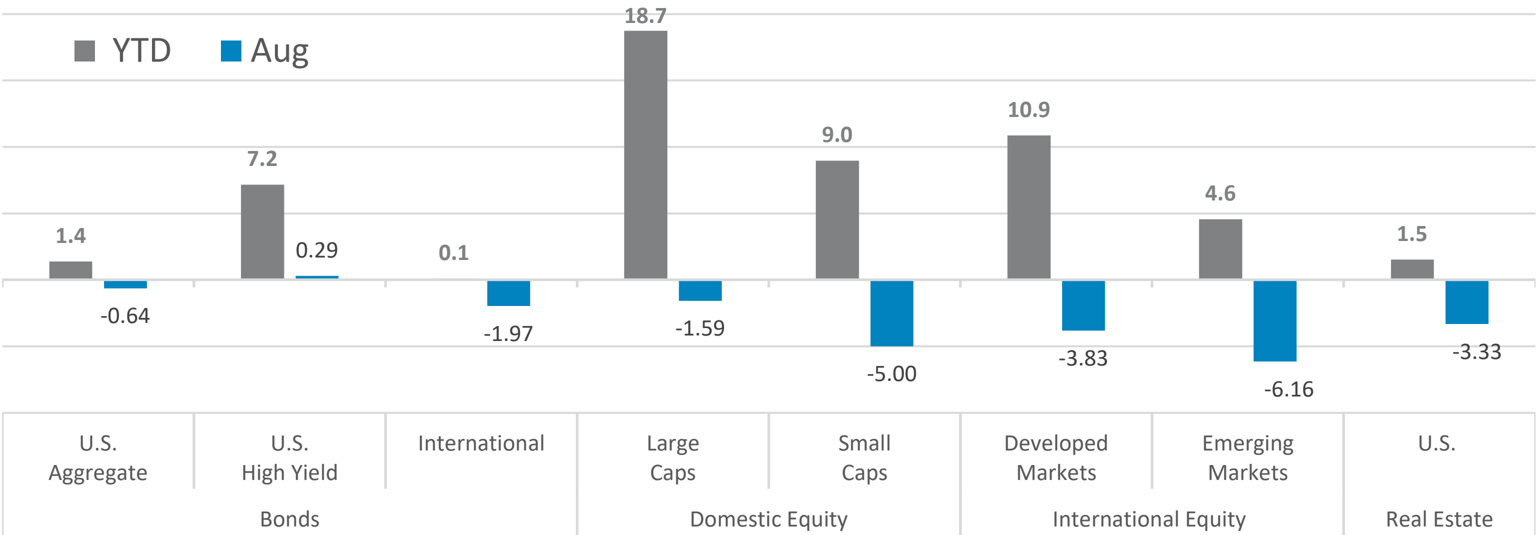
August 2023

Quick Takes

- **Risk Assets Hit Summer Fatigue.** Risk assets closed out the summer in the red for the month on the back end of some disappointing earnings results.
- **Inflation Rises Modestly.** Inflation, as measured by the Fed's preferred data point of Core PCE Deflator, had a modest tick up for the August reading, but most market participants shrugged this off as a temporary spending boom on end of summer vacations, or similar entertainment events, as well as parents preparing for children returning to school in the coming weeks.
- **Dollar Summer Strength.** The greenback bucked the weakness it has displayed most of the year and had a modestly strong month to close out the summer, appreciating against most major currencies as some international economies had some signs of weakness.
- **Economic Production Revised Lower, Labor Markets Stay Tight.** The first revision to GDP for the second quarter of the year was revised modestly lower, catching some market participants off guard. Labor Markets, as measured by the Unemployment Rate, came in lower than estimates of 3.6%, landing at 3.5% for the month of July.

Asset Class Performance

Risk Assets lost some steam in the final month of the summer as earnings season began winding down and some signs of weakness in the global economic system became apparent. While August wasn't a strong month for risk assets, year-to-date returns are still healthily in the green.



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).

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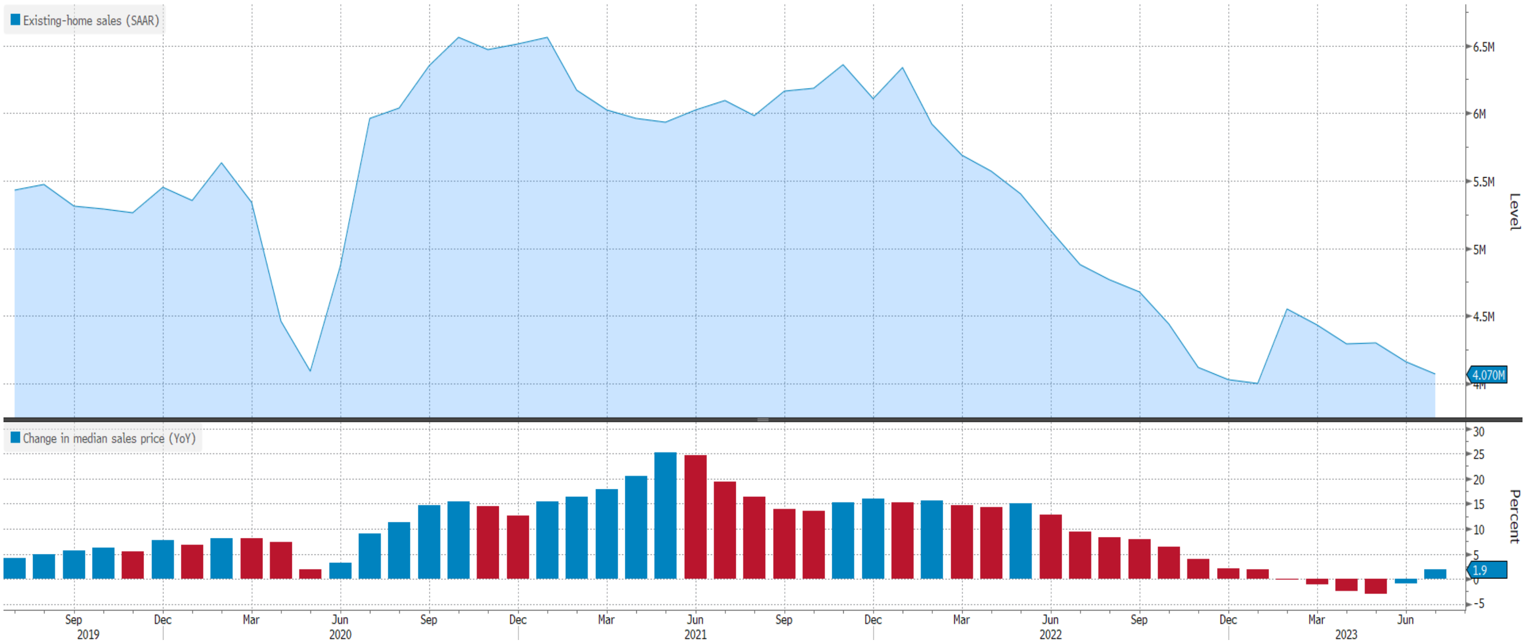
Home Sales Slide as Mortgage Rates Spike

Existing Home Sales Continue Tumbling, Prices Tick Up

Existing Home Sales MoM (Top), Chaing in Median Sales Price YoY (Bottom)



Source: National Association of Realtors, Bloomberg

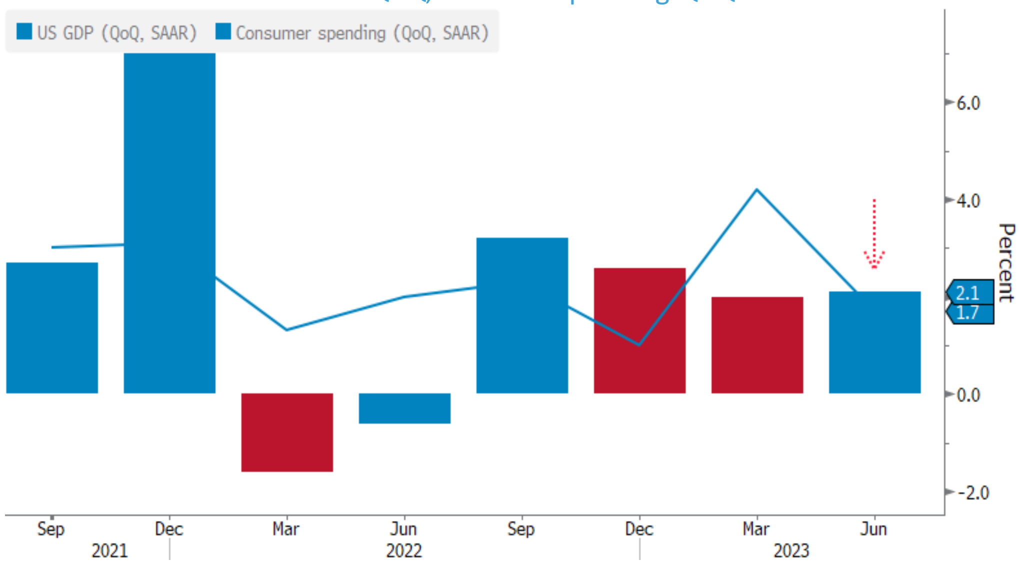
With all the drama surrounding interest rates this year, it should come as no surprise that mortgage rates have skyrocketed during the Fed's tightening campaign in their battle against high inflation levels. Towards the end of August, average 30-year fixed rates for mortgages hit its highest level in over two decades at 7.31%. With mortgage rates at this level, homeowners have been reluctant to list their homes on the market, leading to a steep decline in inventory. With inventory being low, Existing Home Sales at the end of summer were close to levels at the start of the year. There was a modest bump in home sales in Spring surrounding the regional banking crisis started by the collapse of Silicon Valley Bank and the subsequent drop in interest rates as market participants feared that the effects would reverberate across financial markets. While activity in the housing market has been declining, prices have modestly bumped up as the summer winds down. With prices increasing and inventory of existing home sales remaining depressed, the housing market is very unfavorable for potential home buyers and when considering the added burden of sky-high mortgage rates, the situation becomes even more abysmal for home buyers. While the situation for Existing Home Sales appears dire, home builders have benefited from the lack of existing supply, as evidenced by the sharp increase in the August reading of New Home Sales coming in at an annualized rate of +4.4%, the highest level in over 12-months. Additionally, with the low supply of existing homes and new homes filling some of the demand, prices have increased with the median new home price coming in at $437,700, which was up substantially from the prior reading of $416,700. With existing home prices bumping up and new home prices rising right along with them combined with elevated interest rates on mortgages, home buyers are in a tough spot even with inflation showing some recent signs of moderating over the past several months.

<u>Bottom Line</u>: With inflation showing signs of moderating in recent months, many consumers are hopeful that some of the pressure on their wallets will begin to ease. Home buyers haven't seen that moderation in prices though, with existing home inventories remaining at depressed levels, leading to moderately increasing prices for existing homes that do have a for sale sign in the yard. Additionally, home builders are benefitting from the lack of existing supply with new homes commanding a hefty median price of $436,700 in the August reading of New Home Sales. Further to the detriment of home searchers, the average fixed rate for mortgages hit a fresh high of 7.31% at the end of August.

Economic Production Revised Lower Despite Strong Consumer Spending

QoQ GDP Revised Lower, Consumer Spending Remains Strong

GDP QoQ, Personal Spending QoQ

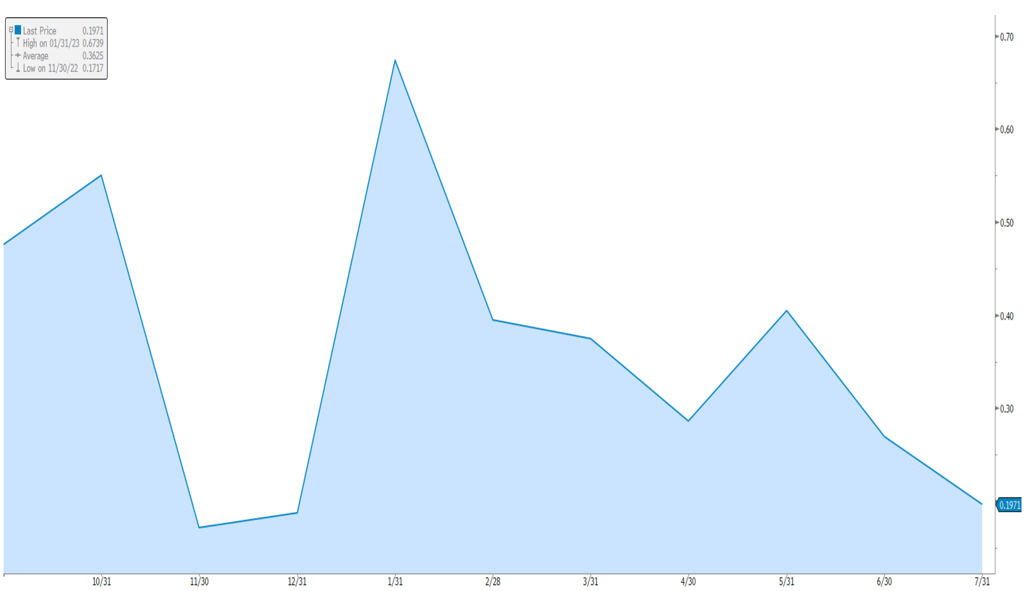


Source: Bureau of Economic Analysis, Bloomberg

After the initial reading of GDP for the second quarter coming in red hot at +2.4% during the July reading, the first revision, released in the month of August, moved second quarter economic production materially lower to +2.1%. The downward revision was primarily driven by lower than estimated business investment as well as a drop in corporate profit margins announced during earnings season. While business investment and profits missed the mark, Consumer Spending, as measured by Personal Consumption, for the second quarter remained resilient at +1.7%, just missing the estimates of +1.8%. While the Personal Consumption reading came in strong, some market participants may discount its resiliency as a large portion of consumption was based on "Barbenheimer" (i.e., the Oppenheimer and Barbie movies) and the Taylor Swift and Beyonce concert tours that will wind down with the summer months. Another factor staying top of minds for market participants is the steadily declining rate of Personal Income. For the August reading, Personal Income missed expectations of +0.3% on the month-over-month metric, landing at +0.2%. Even if the healthy bump in Consumer Spending is temporary, it appears that Consumers are heavily dipping into savings or in some cases, dipping into balances on credit cards or other expensive short-term financing solutions. With savings dwindling and balances on credit cards quickly expanding, it does not appear that consumers will be able to sustain an elevated level of spending in the coming months. While inflation has shown signs of moderating in recent months, consumers are still feeling the effects on their wallets, but a slowdown in spending should aid the Fed on their path to tame inflation back to long-term target levels. However, with business investment and profits showing signs of deteriorating, combined with the potential of slowing consumer spending in coming months, the Fed will have their work cut out for them to ensure that they do not over tighten monetary policy and send the US economy into a recessionary period.

Personal Income Moves Lower, Outpaced by Consumer Spending

US Personal Income MoM



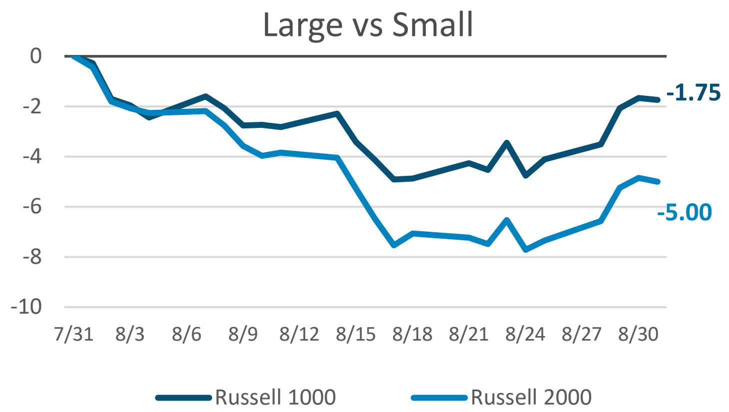
Source: Bureau of Economic Analysis, Bloomberg

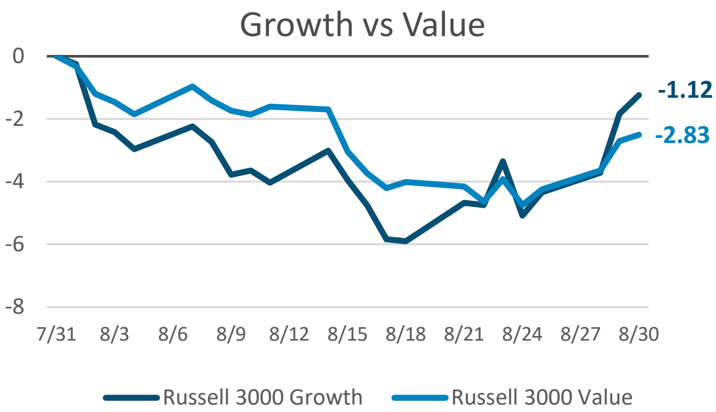
<u>Bottom Line</u>: GDP for the second quarter was revised materially lower on the back of softer than expected business investment and deteriorating corporate profit margins. Consumers maintained a healthy level of spending during this same period, however much of the consumption can be attributable to temporary spending on seasonal entertainment events like blockbuster movie titles and headline concert events that will wind down with the summer months. Additionally, consumers have had to dip into savings or access short-term financing facilities, like credit card balances, to achieve their resilient spending, which will not be sustainable especially given the decline in Personal Income over the recent months. This potential slowdown in consumer spending combined with deteriorating business activity could prove troublesome.

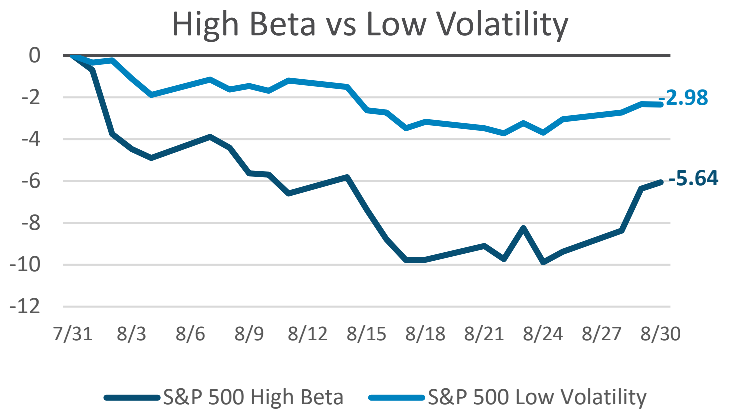
Equity Themes

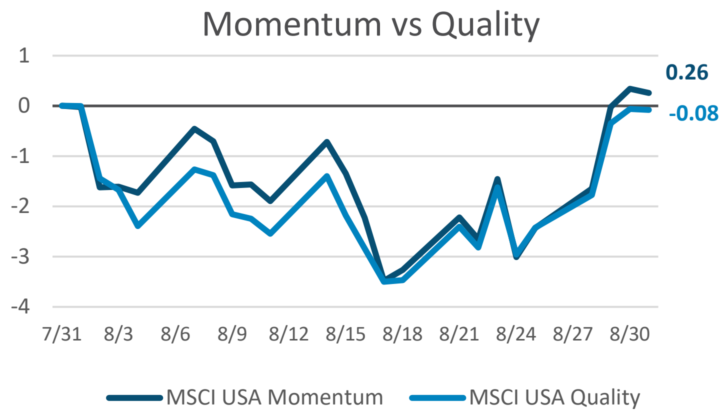
What Worked, What Didn't

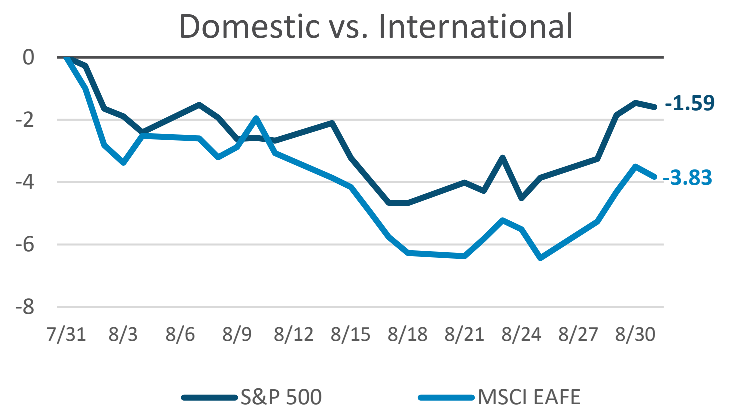
- **Large Over Small, Growth Over Value.** Small Cap equities had a steep correction for the month of August, while their Large Cap peers offered some downside protection. Value Styled equities struggled for the month, leading to Growth Styled equities modestly outperforming for August, but both were in the red for the month.
- **Low Vol and Momentum Outperform.** High Beta equities had a rough end to their summer, significantly trailing their Low Vol peers and the Momentum factor was in favor for the month, slightly outperforming the Quality factor for August.
- **Domestic over International, Developed over Emerging.** Domestic Equities modestly outperformed International Equities while Emerging Markets continued to trail their Developed Markets peers.

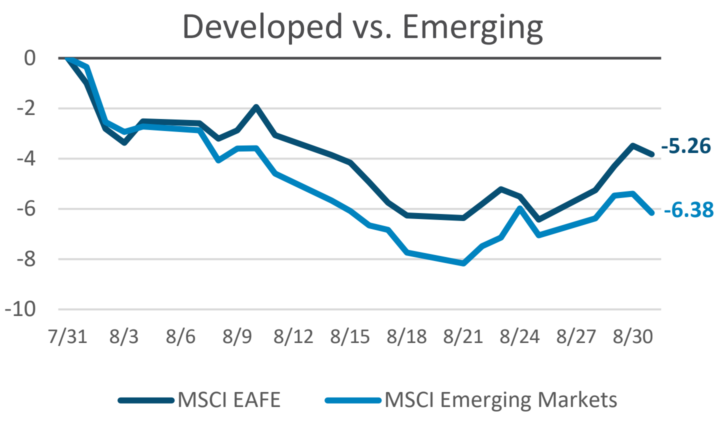












Source: Bloomberg.

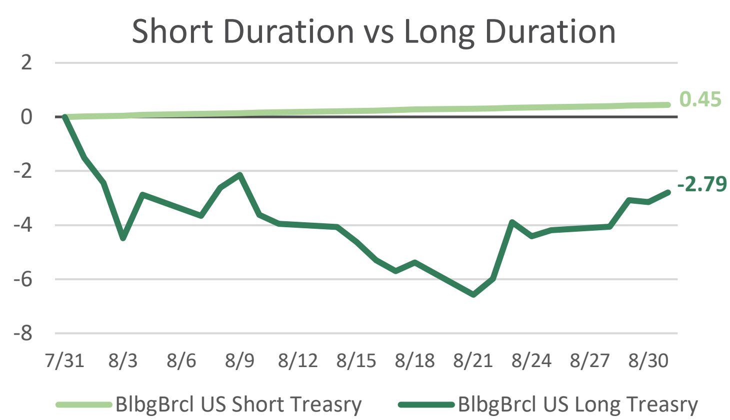
August 2023

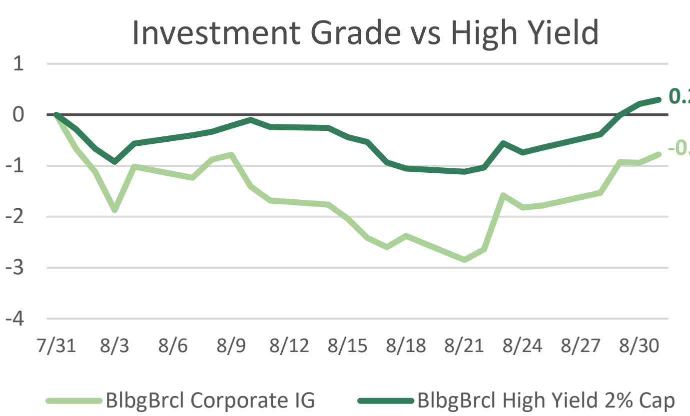
Bond Themes

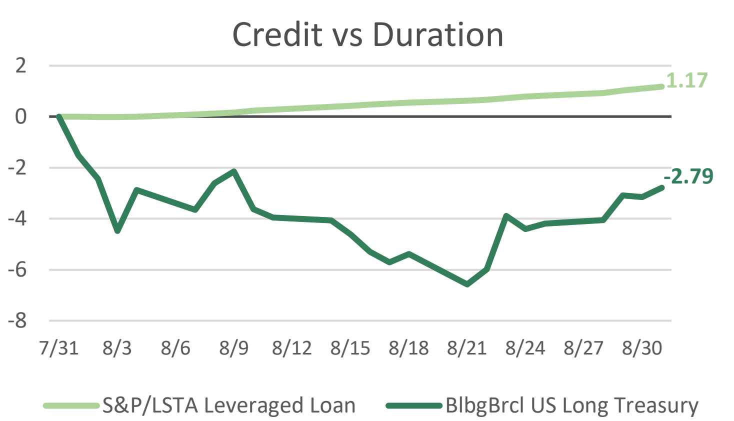
MONTH IN REVIEW

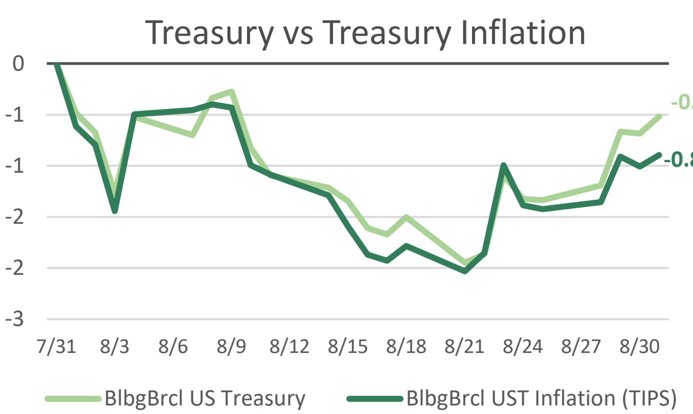
What Worked, What Didn't

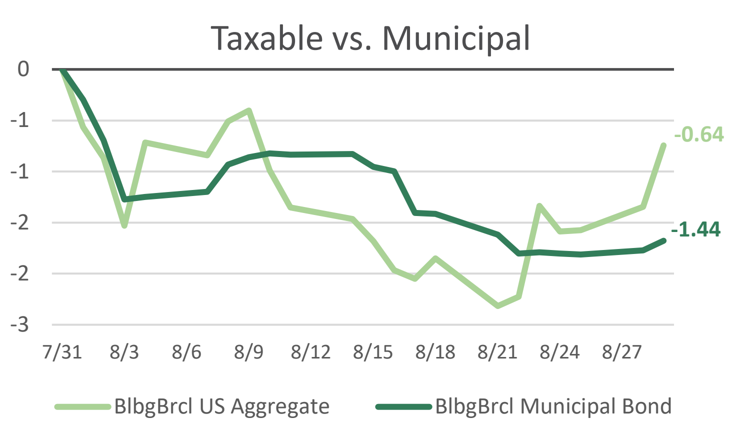
- **Short Duration and High Yield Outperform.** Continuing right where last month left off, Shorter Duration fixed income outperformed their longer duration peers and lower quality bonds outperformed their Investment Grade peers.
- **Credit Beat Duration and TIPS Underperform.** TIPS lagged for the month with the Fed's preferred Inflation metric landing in line with expectations and Leveraged Loans posted a solid margin of outperformance for August with Duration lagging.
- **Munis and International Underperform.** Munis lagged their taxable peers for the month and International Bonds trailed their domestic peers for August.

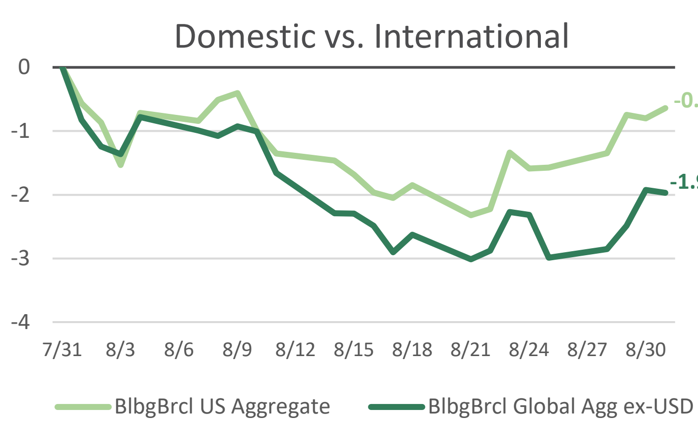












Source: Bloomberg.

August 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.

	Aug-01	Aug-02	Aug-03	Aug-04	Aug-07	Aug-08	Aug-09	Aug-10	Aug-11	Aug-14	Aug-15	Aug-16	Aug-17	Aug-18	Aug-21	Aug-22	Aug-23	Aug-24	Aug-25	Aug-28	Aug-29	Aug-30	Aug-31	Aug	YTD
High	IBD -0.11	IBD -0.21	EM 0.40	USB 0.82	RE 1.21	USB 0.24	EM 0.25	IEQ 0.43	LCV 0.28	LCG 1.09	USB -0.27	USB -0.24	EM 0.23	SCG 0.64	LCG 1.35	RE 0.33	RE 1.61	USB -0.23	MCG 0.81	IEQ 1.05	LCG 1.93	SCG 0.70	USB 0.14	HYB 0.68	LCG 32.07
	RE -0.19	USB -0.24	SCV -0.15	HYB 0.59	LCV 0.90	HYB 0.21	USB 0.07	EM 0.15	SCV 0.22	MCG 0.61	HYB -0.32	HYB -0.31	IBD 0.18	MCG 0.39	IEQ 0.37	SCG 0.12	EM 1.59	EM -0.38	LCG 0.80	SCV 1.02	MCG 1.63	MCG 0.68	LCG 0.12	USB 0.03	MCG 15.38
	LCG -0.28	HYB -0.43	IBD -0.21	IBD 0.56	IEQ 0.85	IBD -0.10	RE 0.05	LCG 0.14	RE 0.20	SCG 0.15	IBD -0.40	IBD -0.56	USB -0.10	SCV 0.34	MCG 0.25	USB 0.11	LCG 1.47	RE -0.43	IEQ 0.67	EM 0.98	SCG 1.59	LCG 0.65	HYB -0.07	LCG -0.68	SCG 12.59
	SCV -0.32	RE -0.58	MCG -0.23	IEQ 0.28	MCV 0.80	60/40 -0.33	HYB 0.01	MCG 0.09	SCG 0.13	HYB -0.01	60/40 -0.83	60/40 -0.63	HYB -0.42	IBD 0.32	EM 0.23	HYB 0.05	MCG 1.21	HYB -0.55	LCV 0.60	RE 0.84	EM 1.27	MCV 0.41	MCG -0.08	IBD -1.04	IEQ 10.99
	LCV -0.34	LCV -0.84	IEQ -0.28	60/40 0.19	LCG 0.73	LCV -0.45	IBD 0.00	HYB -0.03	MCV -0.02	60/40 -0.05	LCG -0.95	LCV -0.69	LCV -0.46	MCV 0.28	SCG 0.15	MCG -0.01	IEQ 1.09	IBD -0.56	SCG 0.60	MCV 0.80	SCV 1.26	RE 0.37	SCV -0.14	60/40 -1.70	60/40 8.29
	MCV -0.36	MCV -1.07	LCG -0.28	SCV 0.05	MCG 0.65	SCV -0.45	IEQ -0.03	LCV -0.12	HYB -0.15	LCV -0.07	SCG -0.96	MCV -0.79	60/40 -0.48	RE 0.24	60/40 0.01	LCG -0.08	60/40 1.07	60/40 -0.83	HYB 0.42	LCG 0.70	IEQ 1.24	LCV 0.26	SCG -0.17	LCV -2.37	HYB 5.85
	HYB -0.49	60/40 -1.07	HYB -0.32	EM -0.12	60/40 0.41	LCG -0.48	60/40 -0.16	60/40 -0.15	MCG -0.18	USB -0.07	MCG -1.06	IEQ -0.82	SCV -0.69	USB 0.22	HYB -0.03	60/40 -0.10	SCG 1.06	LCV -0.89	60/40 0.33	MCG 0.61	MCV 1.21	SCV 0.15	IBD -0.18	IEQ -2.72	MCV 5.82
	MCG -0.52	SCV -1.10	LCV -0.33	MCV -0.32	SCV 0.39	MCV -0.59	LCV -0.30	IBD -0.21	USB -0.31	MCV -0.13	EM -1.14	LCG -0.83	RE -0.69	LCV 0.18	MCV -0.10	IBD -0.18	SCV 1.03	MCV -0.95	MCV 0.30	LCV 0.60	RE 1.21	60/40 0.12	60/40 -0.19	MCG -2.83	LCV 5.81
	SCG -0.56	SCG -1.71	SCG -0.34	LCV -0.36	HYB 0.19	IEQ -0.60	MCG -0.38	SCG -0.26	60/40 -0.38	IBD -0.14	RE -1.19	MCG -0.90	IEQ -0.71	60/40 0.10	LCV -0.15	IEQ -0.19	USB 0.96	SCV -0.97	RE 0.18	SCG 0.60	60/40 1.07	IBD 0.11	MCV -0.23	RE -2.89	SCV 4.87
	USB -0.66	MCG -1.73	MCV -0.36	SCG -0.41	USB 0.02	RE -0.67	MCV -0.41	MCV -0.27	LCG -0.42	IEQ -0.44	IEQ -1.24	EM -0.90	MCV -0.92	HYB 0.07	IBD -0.28	EM -0.21	MCV 0.96	IEQ -1.37	SCV 0.14	60/40 0.60	LCV 0.95	HYB -0.04	LCV -0.37	MCV -3.27	EM 4.16
	60/40 -0.66	IEQ -1.86	60/40 -0.38	LCG -0.48	IBD -0.03	SCG -0.69	SCV -0.54	RE -0.38	IEQ -0.67	EM -0.48	LCV -1.33	RE -1.14	LCG -1.09	IEQ 0.00	SCV -0.46	MCV -0.44	HYB 0.81	MCG -1.47	EM 0.10	HYB 0.38	IBD 0.78	USB -0.04	IEQ -0.39	SCV -4.46	IBD 3.79
	IEQ -1.25	LCG -1.94	USB -0.67	RE -0.76	EM -0.15	EM -1.21	LCG -1.04	USB -0.65	IBD -0.84	SCV -0.54	MCV -1.42	SCV -1.14	SCG -1.57	LCG -0.13	USB -0.50	LCV -0.47	IBD 0.75	SCG -1.51	IBD -0.04	USB 0.22	USB 0.65	IEQ -0.06	RE -0.57	SCG -4.73	RE 2.42
Low	EM -1.26	EM -2.39	RE -1.10	MCG -0.80	SCG -0.35	MCG -1.27	SCG -1.11	SCV -0.69	EM -1.47	RE -0.70	SCV -1.56	SCG -1.40	MCG -1.61	EM -0.67	RE -0.88	SCV -0.69	LCV 0.70	LCG -1.84	USB -0.06	IBD 0.21	HYB 0.63	EM -0.33	EM -1.24	EM -5.43	USB 1.60

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. 080223006 - MAH

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