MONTH IN REVIEW

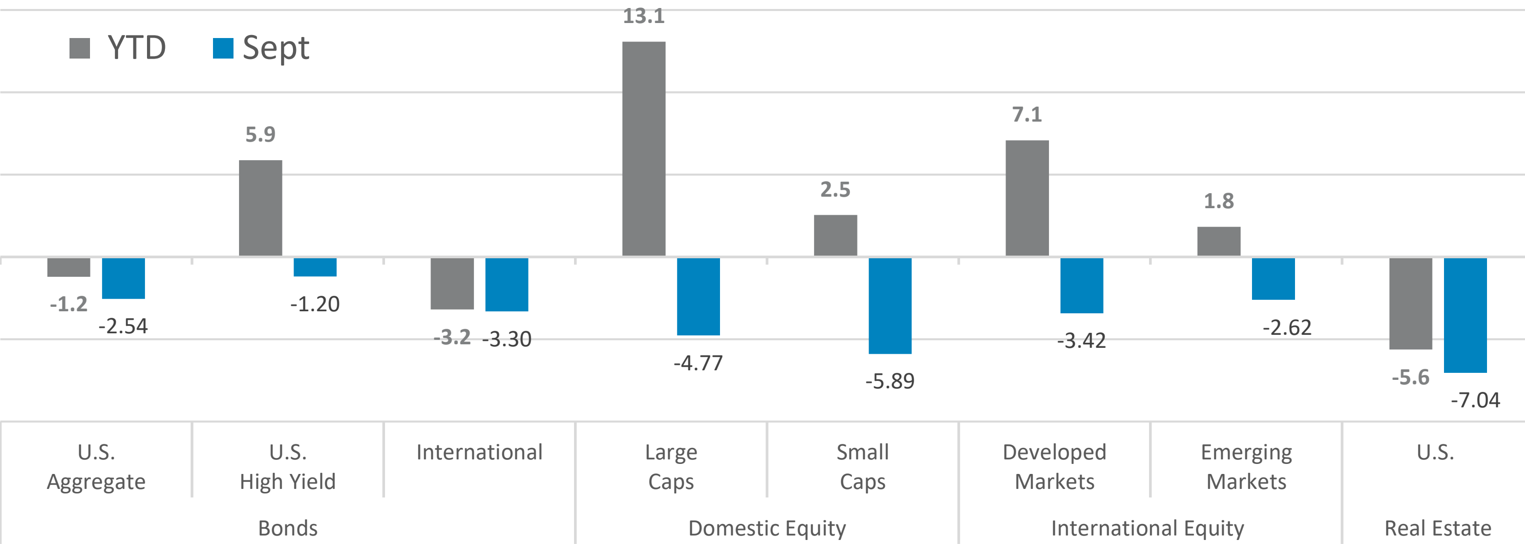
September 2023

Quick Takes

- **Risk Assets Fall Into Autumn.** Risk assets started the fall giving back some of their year-to-date gains as market participants priced in higher interest rates for longer.
- **Inflation Bumps Up.** Inflation, as measured by the Consumer Price Index (“CPI”), came in slightly above market estimates of +3.6%, landing at +3.7% for the month of August. Despite this hotter than expected reading, the FOMC kept rates steady, but rhetoric took on a decisively hawkish tone. This tone caused market participants to extend their forecasts for rate cuts further into the future.
- **King Greenback.** The dollar spent the month of September in a steady ascent on the back of the assumption that the Fed will achieve engineering a soft landing for the US economy.
- **Economic Production Unrevised, Consumers Taper Spending.** The final revision to US GDP for the second quarter came in below market estimations of +2.2%, coming in unchanged at +2.1%. A contributor to this miss in production estimation was Consumer Spending being revised lower from +1.7% to +0.8% for the second quarter of the year as consumers’ wallets continue to feel the pressure of inflation.

Asset Class Performance

Risk Assets cooled off with the weather as the season transitioned from Summer to Fall. Almost all major asset classes posted a decline for the month of September, many of which are now in the red for the year thus far. Domestic Large Cap equities are still clinging to a double-digit year-to-date gain after their major run-up early in year.



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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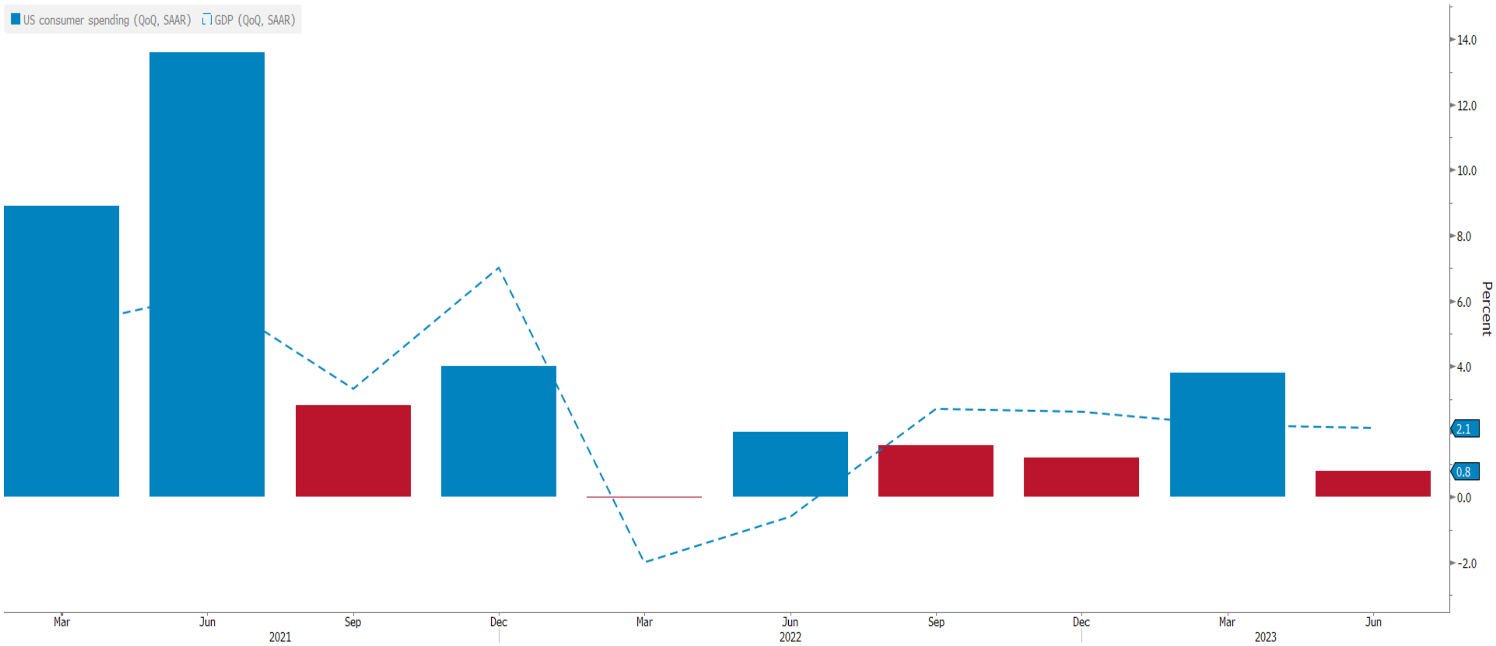
Despite Cooling Inflation, Consumer Spending Under Pressure

Consumer Spending for Q2 Cut in Half

US Consumer spending QoQ, US GDP QoQ



Source: Bureau of Economic Analysis, Bloomberg

While inflation came in slightly hotter than expected for the month of September, it has spent the majority of the year increasing at a slower pace, i.e., disinflation. The bump in inflation reading for September was largely due to an increase in the price at gas pumps as oil advanced on the back of supply constraints around the globe. Despite the easing pressure in inflation, Consumers are feeling the pain as their wallets continue to be battered by broadly increasing prices post pandemic and subsequent government intervention. Consumers exited the pandemic with balance sheets in pristine condition, flush with government stimulus and steadily advancing wage growth. A wealthy consumer has long been thought to be the saving grace from the Fed's unprecedented tightening in monetary conditions as they battle entrenched inflation. Consumer Spending is the main driver of the US Economy and so far, has remained resilient despite the burden of rampant inflation and tightening financial conditions. While resilient, Consumers are not immune to the effects of higher prices and interest rates, as evidenced by the revision in second quarter Consumer Spending being nearly cut in half from +1.7% to 0.8%. It appears that consumers have steadily worked their way through the stimulus provided by the government throughout the pandemic and have possibly dipped into savings or tapped lines of credit via credit cards. With the main driver of the US economy showing signs of moderating, the soft landing scenario may be put into jeopardy. Despite this tapering in Consumer Spending, the Fed's rhetoric made many market participants rework their base case scenarios, incorporating interest rates being at elevated levels for a longer period of time. While only time will tell if the Fed is using rhetoric to guide markets where they believe it needs to be to win the battle against inflation or if their actions will line up with their public speaking. Regardless, if consumers aren't able to offset monetary tightening, this could have broad sweeping ramifications for the future state of the US economy.

<u>Bottom Line</u>: Inflation bumped up modestly for the September reading of CPI, but this was mostly due to increase in fuel prices due to tight supply in the oil markets. While this might be temporary, Consumer Spending for the second quarter was revised significantly lower, putting the revised number at +0.8% versus the original estimate of +1.7%. Additionally, recent Fed rhetoric has indicated that monetary policy loosening might be further off than market participants anticipated. Combining tighter monetary policy history with the possibility of lower consumer spending could put the scenario of a soft landing in jeopardy.

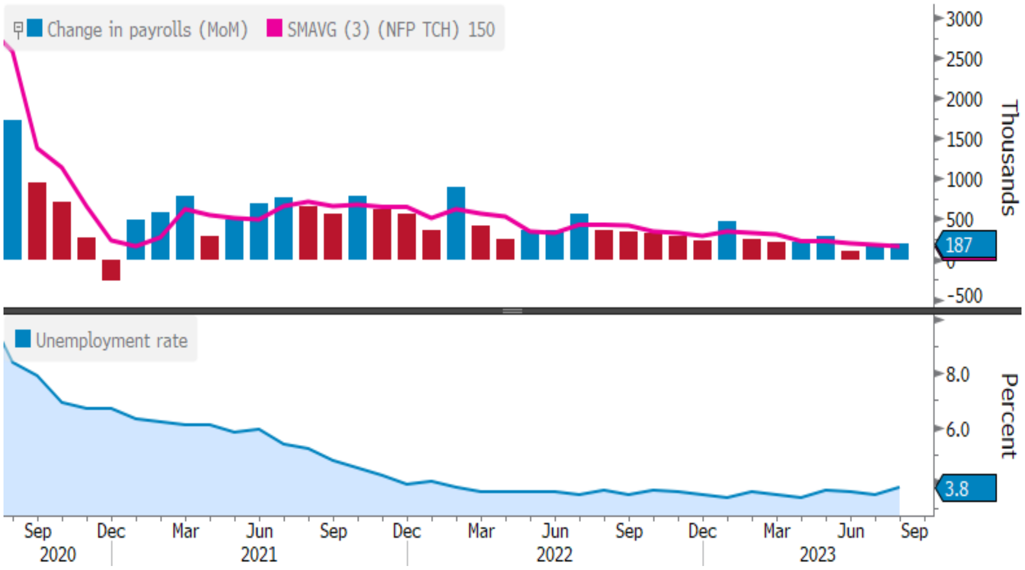
What's Ahead

Labor Markets Resilient, but Wage Growth Shows Signs of Cooling

As previously mentioned, Consumer Spending showed signs of stagnating as the combination of effects from inflation to tighter monetary conditions continued to impact consumer wallets. Further putting consumers under pressure, Wage Growth, as measured by the month-over-month change of the US Average Hourly Earnings All Employees Index, has also showed signs of stagnating over the summer months. Despite wages slowing their pace of advancement, Labor Markets have remained resilient with an increase in the Change in Payrolls for the final months of the summer. It's possible that if employers are looking to continue to increase staff, Wage Growth may begin to tick up. This divergence between Wage Growth and Employment may be a temporary lag due to data collection methodologies or there may be enough slack in the labor markets that a marginal increase could be absorbed. If this bump up in Payrolls continues through the end of the year, it is more than likely that Wage Growth will begin to expand again, giving consumers some breathing room against higher prices. While inflation has shown material signs of moderating in recent months, the damage has likely been done. Additionally, if Wage Growth does return to an expansionary period, this could fuel inflation to reverse its recent moderating trend. If this were to happen in the coming months, the Fed would be in the difficult position of making up lost ground in their battle against entrenched inflation. The committee members would need to determine if additional interest rate hikes would be needed to make up lost progress or possibly extend the timeline even further down the road for switching gears and beginning interest rate cuts or a reduction in the pace in the balance sheet tapering process. Regardless, the recent data surrounding Labor Markets and consumers has threatened the base case scenario of the Fed engineering a soft landing and has likely increased market participant's probability of a recession soon.

Employment Remains Rock Solid Through End of Summer

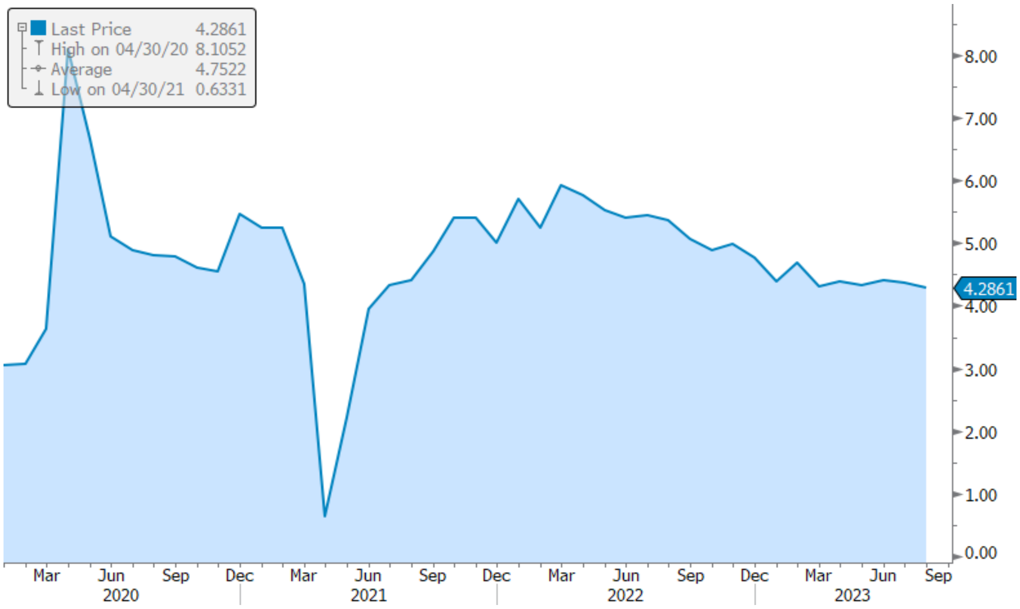
Change in Payrolls MoM (Top), Unemployment Rate (Bottom)



Source: Bureau of Labor Statistics, Bloomberg

Wage Growth Cools Despite Resilient Labor Markets

MoM US Average Hourly Earnings All Employees Index



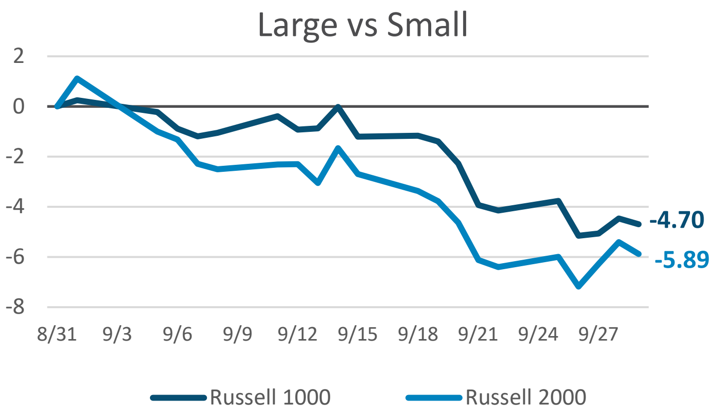
Source: Bureau of Labor Statistics, Bloomberg

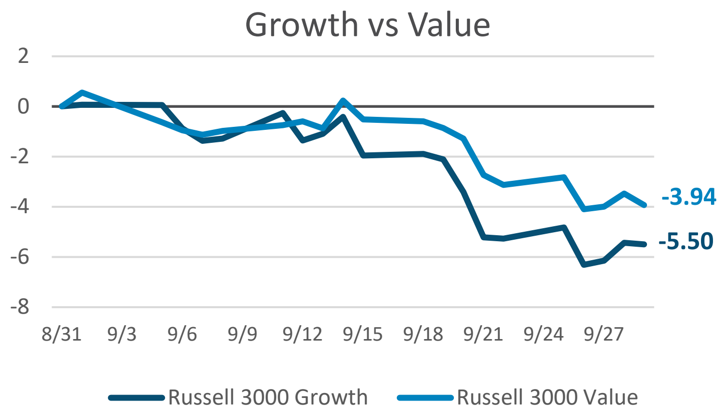
<u>Bottom Line</u>: Labor Markets returned to a rock-solid state of expansion despite the Fed's actions of monetary tightening to slam the brakes on the US economy to tame rampant inflation. While Labor Markets have shown resiliency, Wage Growth has shown signs of moderating. On the back of lower Consumer Spending and the hope that the consumer will be able to offset some of the impact of the Fed's tightening campaign to help soften the blow on the overall economy, the scenario of a soft landing being achieved is in jeopardy. Recent data has likely increased market participant's probability of an impending stagnation in the US economy.

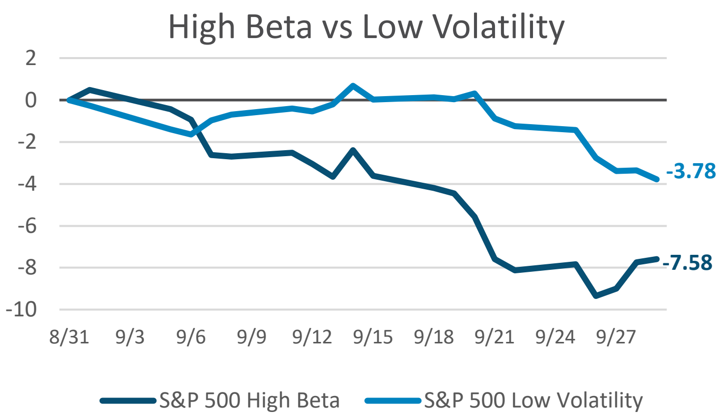
Equity Themes

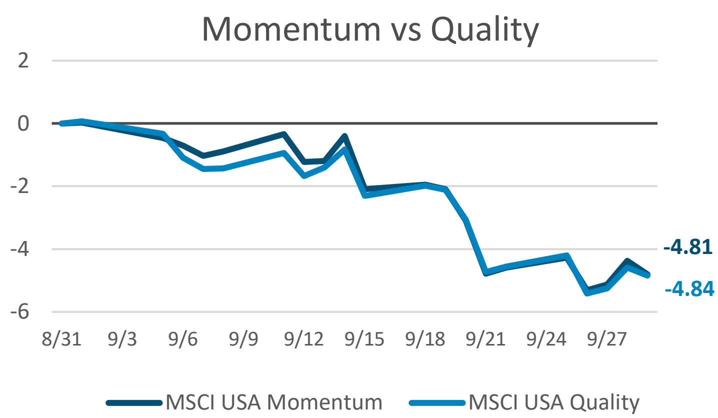
What Worked, What Didn't

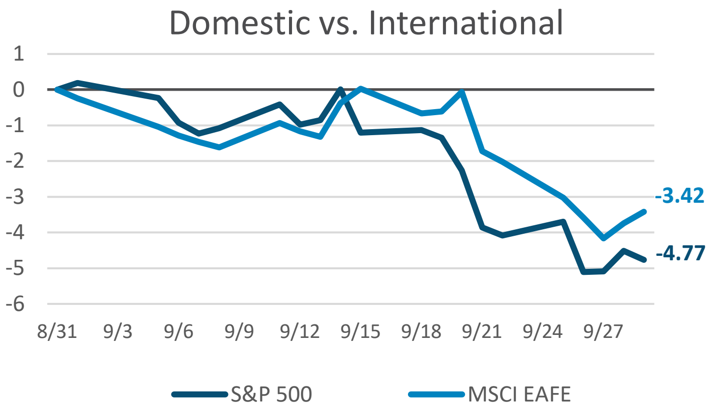
- **Large Over Small, Value Over Growth.** Large and Small Cap equities were in the red for September, but Large Caps gave some downside protection. Similarly, Value styled equities were down less than their Growth styled peers for the month.
- **Low Vol and Momentum Outperform.** High Beta equities were under pressure for the month, while Momentum equities slightly outperformed their Quality peers, but the difference was minimal for the month.
- **Domestic over International, Developed over Emerging.** Domestic Equities modestly outperformed International Equities while Emerging Markets continued to trail their Developed Markets peers.

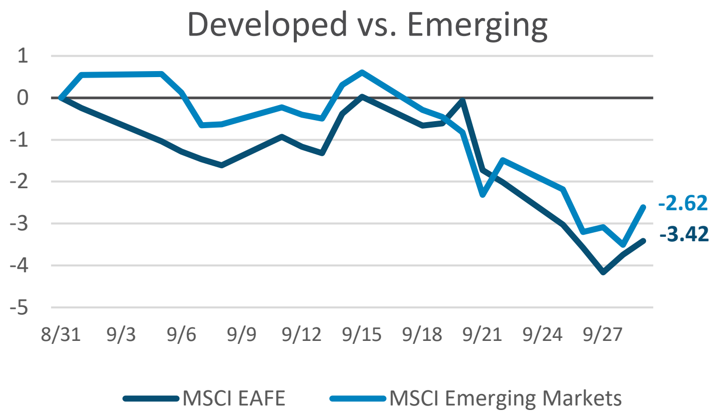










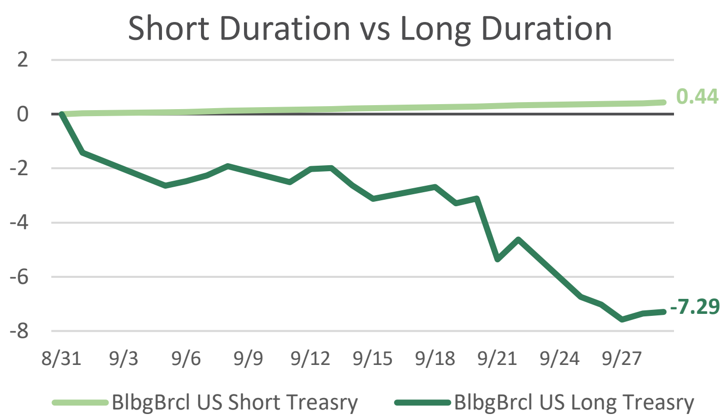


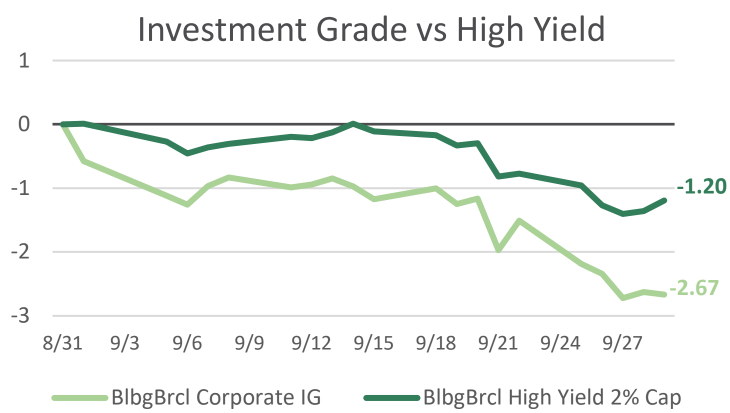
Source: Bloomberg.

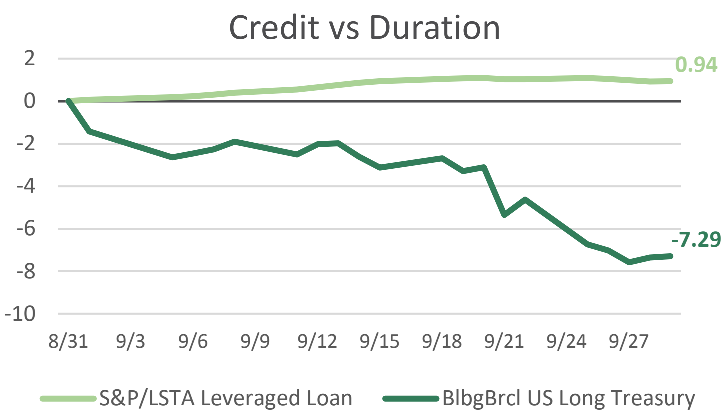
Bond Themes

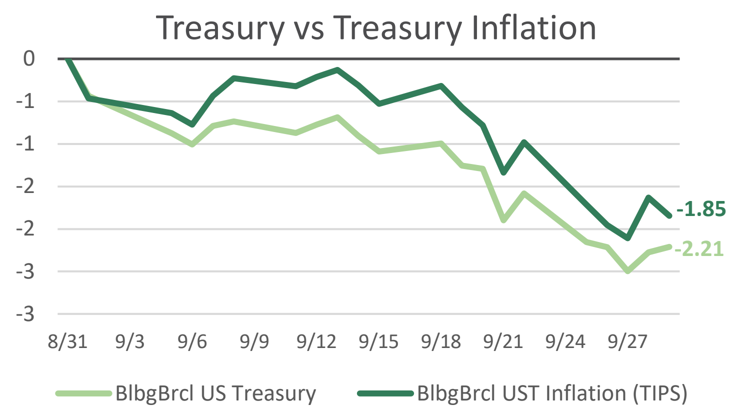
What Worked, What Didn't

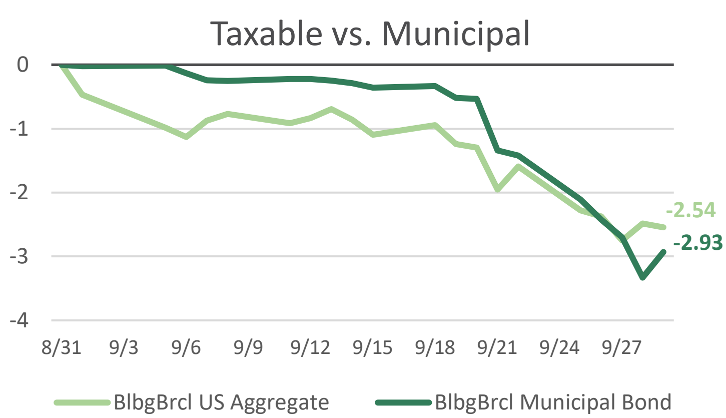
- **Short Duration and High Yield Outperform.** Treasuries came under pressure for the month of September, especially long duration. Short Duration was modestly positive and High Yield gave some downside protection versus their Investment Grade peers, but both were in the red for the month.
- **Credit Beat Duration and TIPS Protect.** As mentioned above, Long Duration treasuries underperformed for September while Credit was modestly in the green. TIPS gave some downside protection for September but was still negative for the month.
- **Munis and International Underperform.** Munis lagged their taxable peers for the month and International Bonds trailed their domestic peers for September.

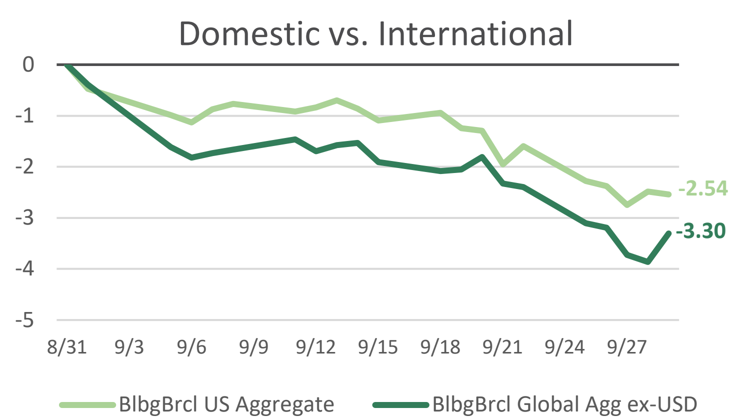












Source: Bloomberg.

September 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.

	Sep-01	Sep-05	Sep-06	Sep-07	Sep-08	Sep-11	Sep-12	Sep-13	Sep-14	Sep-15	Sep-18	Sep-19	Sep-20	Sep-21	Sep-22	Sep-25	Sep-26	Sep-27	Sep-28	Sep-29	Sep	YTD	
High	SCV 1.36	LCG 0.08	SCG -0.05	RE 0.65	EM 0.21	EM 1.24	SCV 0.14	LCG 0.31	RE 1.86	IBD 0.04	USB 0.15	IEQ 0.08	RE 0.11	IBD -0.18	EM 1.18	SCV 0.70	USB -0.13	SCG 1.00	SCG 0.99	RE 0.33	HYB -0.94	LCG 24.86	High
	EM 1.17	USB -0.54	USB -0.09	HYB 0.34	LCV 0.11	LCG 1.08	LCV 0.13	HYB 0.27	SCV 1.71	IEQ -0.22	LCG 0.08	IBD -0.09	USB -0.05	USB -0.68	USB 0.42	LCG 0.52	IBD -0.40	SCV 0.89	RE 0.99	EM 0.08	USB -2.56	MCG 9.77	
	SCG 0.86	HYB -0.65	MCG -0.19	USB 0.31	IBD 0.09	IEQ 1.04	RE 0.12	USB 0.15	IEQ 1.32	USB -0.23	HYB 0.07	LCG -0.18	HYB -0.08	HYB -0.71	HYB 0.18	MCG 0.37	HYB -0.43	MCG 0.83	MCG 0.96	LCG -0.09	60/40 -5.37	IEQ 6.94	
	MCG 0.76	60/40 -0.78	RE -0.20	IBD 0.00	USB 0.05	IBD 0.59	USB 0.03	60/40 -0.11	MCV 1.24	HYB -0.37	LCV -0.09	60/40 -0.23	IBD -0.18	60/40 -1.32	60/40 0.12	MCV 0.35	60/40 -0.91	MCV 0.29	SCV 0.85	USB -0.10	IBD -5.41	SCG 5.08	
	MCV 0.66	EM -0.81	IEQ -0.21	LCV -0.07	LCG 0.05	MCG 0.45	MCV 0.01	EM -0.13	LCV 1.14	EM -0.38	60/40 -0.10	MCV -0.23	IEQ -0.24	SCV -1.37	IEQ 0.09	LCV 0.29	SCG -1.07	LCG 0.17	MCV 0.82	HYB -0.15	LCG -6.11	60/40 4.17	
	LCV 0.55	IEQ -0.87	MCV -0.24	60/40 -0.13	MCV 0.05	60/40 0.44	HYB -0.16	IBD -0.14	SCG 1.11	60/40 -0.52	IBD -0.13	LCV -0.25	60/40 -0.36	LCV -1.48	MCG -0.06	SCG 0.29	MCG -1.17	EM 0.16	IEQ 0.82	60/40 -0.18	LCV -6.16	HYB 4.14	
	HYB 0.19	IBD -0.89	HYB -0.24	IEQ -0.33	60/40 -0.02	LCV 0.24	SCG -0.19	LCV -0.27	EM 0.67	RE -0.53	EM -0.13	SCV -0.27	LCV -0.38	IEQ -1.66	LCG -0.11	HYB -0.14	LCV -1.26	LCV 0.02	LCG 0.74	IBD -0.22	IEQ -6.27	LCV 1.71	
	RE 0.06	MCG -0.91	IBD -0.25	LCG -0.38	SCV -0.04	SCG 0.24	60/40 -0.22	IEQ -0.31	LCG 0.66	LCV -0.74	MCV -0.17	USB -0.29	EM -0.41	SCG -1.69	IBD -0.11	RE -0.19	IEQ -1.29	60/40 -0.10	60/40 0.56	MCG -0.26	MCG -7.55	EM 0.92	
	60/40 0.05	LCV -1.15	60/40 -0.30	MCV -0.45	HYB -0.04	SCV 0.19	EM -0.31	MCG -0.40	60/40 0.59	MCV -0.82	MCG -0.26	HYB -0.31	MCV -0.47	EM -1.73	SCG -0.24	60/40 -0.26	EM -1.41	HYB -0.14	LCV 0.51	MCV -0.28	MCV -8.18	MCV 0.46	
	LCG 0.03	RE -1.24	LCV -0.33	MCG -0.48	IEQ -0.14	HYB 0.17	IBD -0.32	MCV -0.68	MCG 0.51	SCV -0.97	IEQ -0.35	MCG -0.31	MCG -0.64	MCV -1.80	MCV -0.40	EM -0.44	SCV -1.47	IEQ -0.19	HYB 0.48	IEQ -0.29	EM -8.38	SCV -0.60	
	IEQ -0.06	MCV -1.65	EM -0.56	SCV -0.83	SCG -0.48	MCV 0.11	IEQ -0.41	SCV -0.69	HYB 0.12	MCG -1.16	SCG -0.47	RE -0.45	SCV -0.90	LCG -1.84	SCV -0.42	IEQ -0.44	MCV -1.48	USB -0.35	IBD 0.35	SCV -0.43	SCV -9.45	IBD -0.79	
	USB -0.52	SCG -1.85	SCV -0.60	SCG -1.06	RE -0.51	RE 0.00	MCG -0.41	SCG -0.72	USB -0.14	SCG -1.28	SCV -0.78	SCG -0.52	SCG -1.02	MCG -2.03	LCV -0.43	IBD -0.66	LCG -1.59	RE -0.72	USB 0.30	LCV -0.47	RE -10.05	USB -1.03	
Low	IBD -0.75	SCV -2.33	LCG -1.02	EM -1.18	MCG -0.55	USB -0.11	LCG -1.13	RE -1.07	IBD -0.39	LCG -1.56	RE -0.78	EM -0.59	LCG -1.38	RE -3.53	RE -0.61	USB -0.79	RE -1.82	IBD -0.86	EM 0.26	SCG -0.68	SCG -11.08	RE -5.13	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. 080223006 - MAH

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