MONTH IN REVIEW

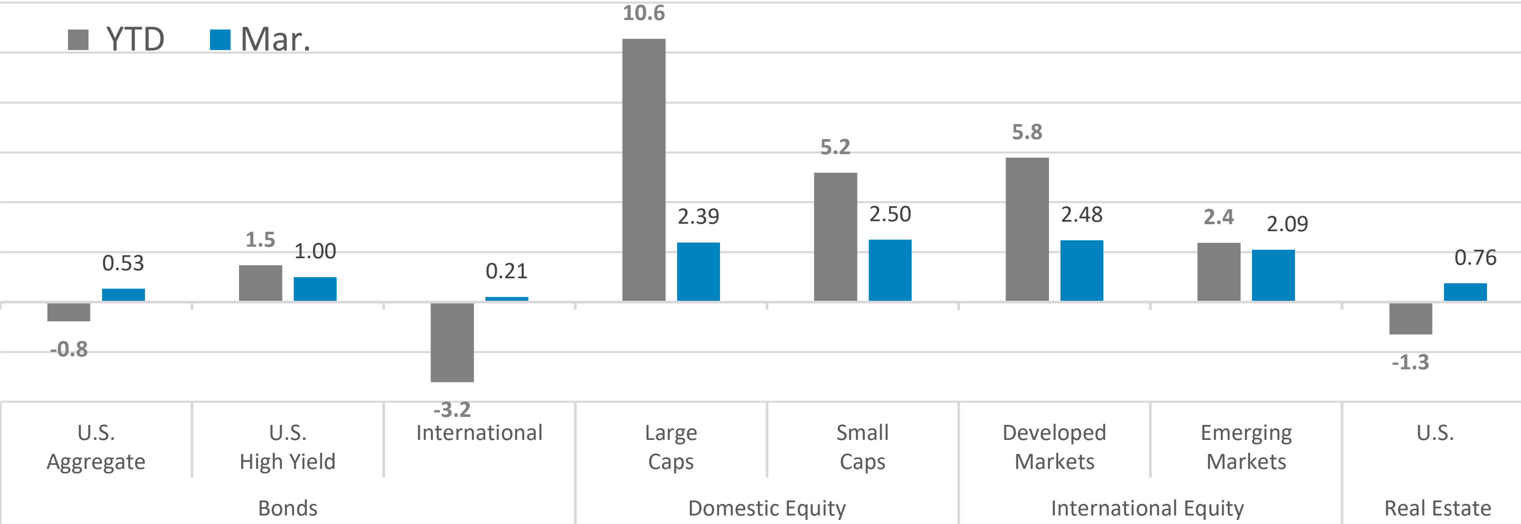
March 2024

Quick Takes

- **Risk Assets Extended Their Upward Climb.** All asset classes listed notched positive gains in March, helping pull year-to-date (YTD) figures for Real Estate, U.S. Aggregate Bonds, and International Bonds closer to positive territory.
- **Inflation Eases in February.** The Fed's preferred inflation gauge, the PCE Deflator, saw a welcome slowdown in February, rising just 0.3% after a stronger January increase. This tamer reading contrasts with other inflation measures, which had suggested intensifying price pressures earlier in 2024.
- **The Dollar Rallied Behind Poor Inflation Data.** Disappointing inflation data triggered a rally in the dollar. This data strengthens the argument for the U.S. central bank to maintain current short-term interest rates, postponing any potential cuts.
- **Labor Markets and Unemployment Rate.** February's strong jobs report hides a weaker market. Unemployment rose despite gains in just a few industries. Analysts see this as a trend, predicting a possible rate cut by the Fed in May to stimulate the economy. This could signal a slowdown for the economy.

Asset Class Performance

While Risk Asset Classes saw returns moderate in March compared to February, they maintained their positive trajectory following a sluggish start to the year. Leading the pack in March were Small Caps, Large Caps, and both Developed and Emerging Markets. Real Estate and the U.S. Aggregate Bond Market continued their ascent towards positive territory for the year on the back of a strong March performance.



Source: Bloomberg, as of March 31, 2024. 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

March 2024

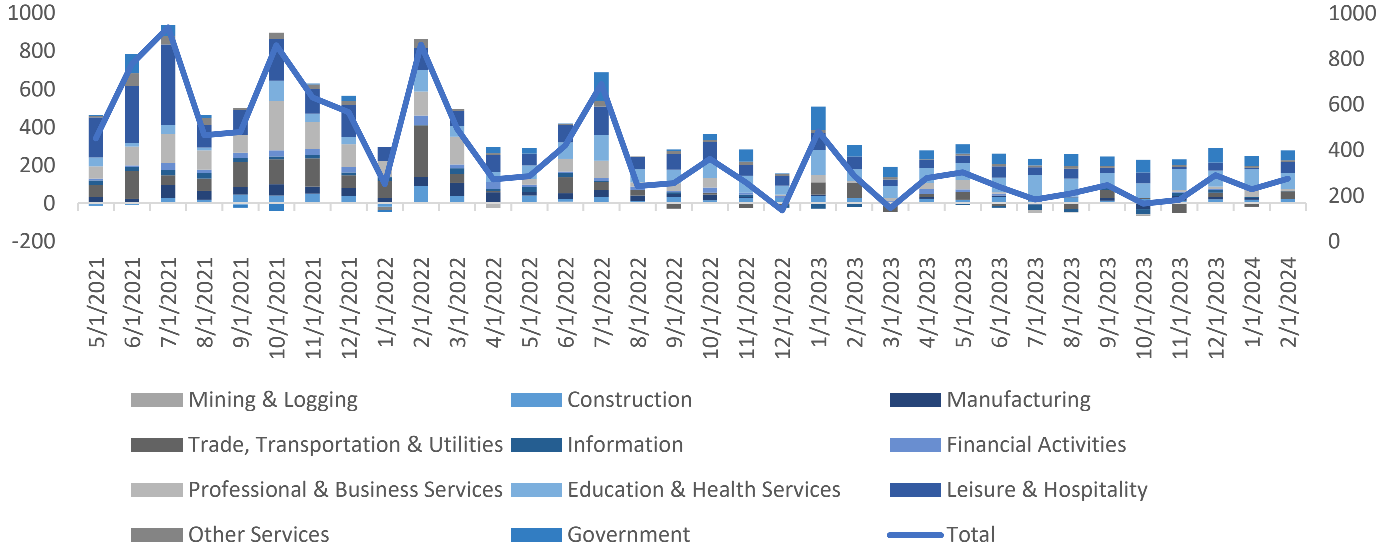
Markets & Macroeconomics

MONTH IN REVIEW

Jump in Unemployment Rate Shows Labor Market Cooling

Nonfarm Payrolls Increase Along With Unemployment Rate

Job gains were condensed to just a few industries



Source: Bureau of Labor Statistics, Bloomberg

February's headline jobs report initially looked positive but revealed a different story with a closer look. While the headline number suggested strong hiring, the gains were concentrated in just a few industries. More importantly, the unemployment rate rose unexpectedly. This increase aligns with other indicators, like the household employment survey, which point to a looser labor market than previously thought. Analysts believe the February report provides a more accurate picture and expect future data to reflect this. The jump in unemployment is particularly concerning because it's driven by layoffs, even with a growing number of job seekers. This aligns with the lower "quits rate" from the January JOLTS report, indicating employees are staying put and companies are hiring less. Additionally, a reliable model predicts a sharper rise in unemployment due to weaker wage growth, a sign of less worker bargaining power. While the model might overestimate the increase, it suggests unemployment will likely climb higher than the Fed's year-end projection of 4.1%. Other indicators like rising claims and job-cut announcements further support this view of a cooling labor market. Given the unexpected cool-down in the labor market, analysts predict the Fed might cut interest rates sooner than anticipated. They expect a cut in May, as opposed to the current market expectation of June. The Fed has historically reacted quickly to negative labor market data, and this shift in perspective could influence their policy decisions. An earlier rate cut could be implemented to stimulate the economy.

Bottom Line: February's jobs report surprised with the strong headline hiding the truth. The report showed gains in just a few industries, and a rise in the unemployment rate. This aligns with a looser market than previously thought. Analysts believe this is a more accurate picture and expect future data to confirm it. The unemployment rise is troubling, especially with more job seekers. This aligns with a lower "quits rate" - fewer are leaving jobs, leading to less hiring. A reliable model predicts a steeper rise in unemployment, supported by other indicators. The Fed, known to react quickly to labor market changes, might cut rates sooner than expected, possibly May instead of June, to stimulate the economy.

March 2024

What's Ahead

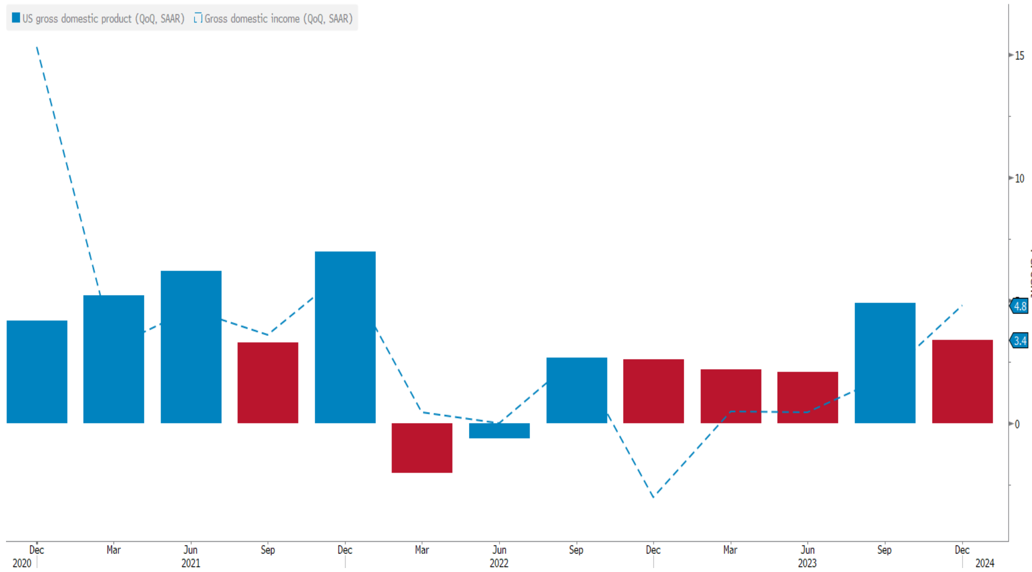
MONTH IN REVIEW

Inflation Cooling, Fed Rate Cuts, and Economic Activity

There's mixed news on the state of the economy from the Federal Reserve. On the positive side, inflation is showing signs of cooling. The core personal consumption expenditures price index, a key measure the Fed tracks, rose just 0.3% last month after a larger increase in January. This tamer inflation, along with a significant rise in wages, led to a rebound in consumer spending. However, the Fed isn't ready to declare victory just yet. They'd like to see more consistent evidence that inflation is on a sustained downward trend before considering an interest rate cut. Fed Chair Jerome Powell echoed this sentiment, indicating the recent figures were expected and there's no need to rush on rate cuts. The central bank will have additional economic data, including more PCE reports, consumer and producer price information, and employment figures before their next meeting at the end of April. Meanwhile, the broader US economy appears to be on solid footing. The government's two main gauges of economic activity, Gross Domestic Product (GDP) and Gross Domestic Income (GDI), both showed strong growth in the last quarter. This indicates the economy is still expanding at a healthy pace. Notably, the gap between GDP and GDI, which had been widening in recent quarters, narrowed significantly. This is important because the National Bureau of Economic Research, the group that officially dates recessions, considers the average of these two figures when determining turning points in the business cycle. The combined growth rate for GDP and GDI in the fourth quarter was the highest in two years, offering a more optimistic outlook for the US economy.

Key Gauges of US Economic Activity Expand at Firm Pace

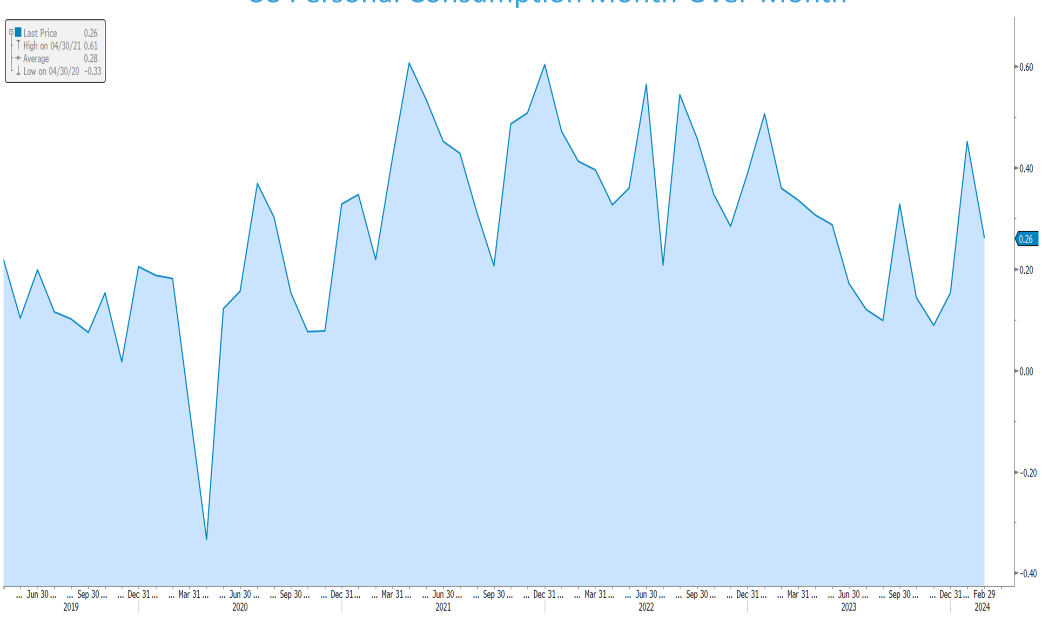
US GDP showed solid growth and GDI rose by most in two years



Source: Bureau of Economic Analysis, Bloomberg

Consumer Spending Exceeded All Estimates

US Personal Consumption Month-Over-Month



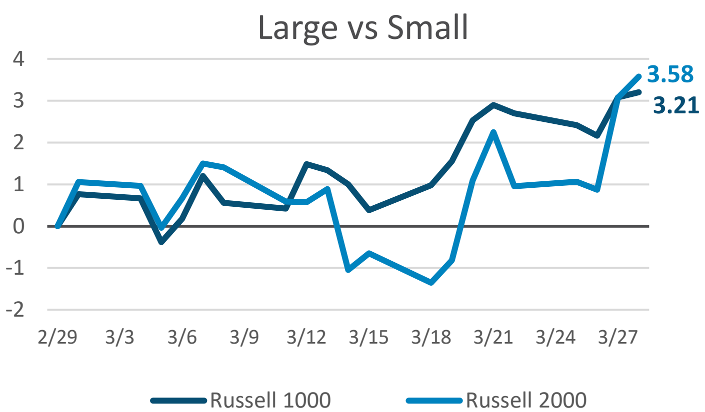
Source: Bureau of Economic Analysis, Bloomberg

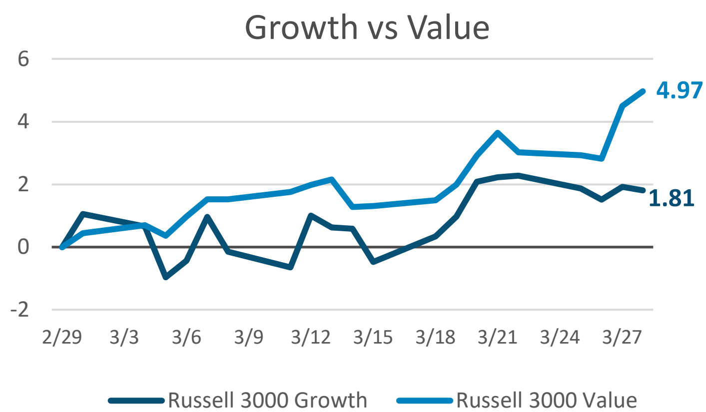
Bottom Line: The Federal Reserve is facing a complex economic picture. While there's positive news with inflation showing signs of decline, particularly in core spending prices, it's not enough for them to consider lowering interest rates just yet. They're looking for a clearer trend of sustained inflation reduction. However, the broader US economy seems to be on strong footing. Recent data shows significant growth in both GDP and GDI, indicating the economy is expanding at a healthy rate. Additionally, a narrowing gap between these two figures, which is important for gauging recessions, points towards a more optimistic outlook for the US.

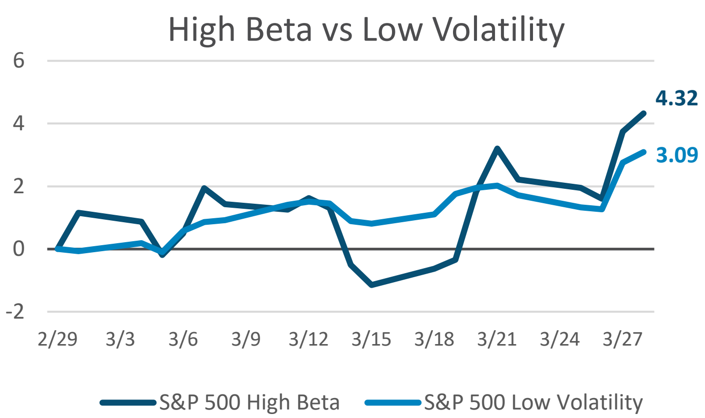
Equity Themes

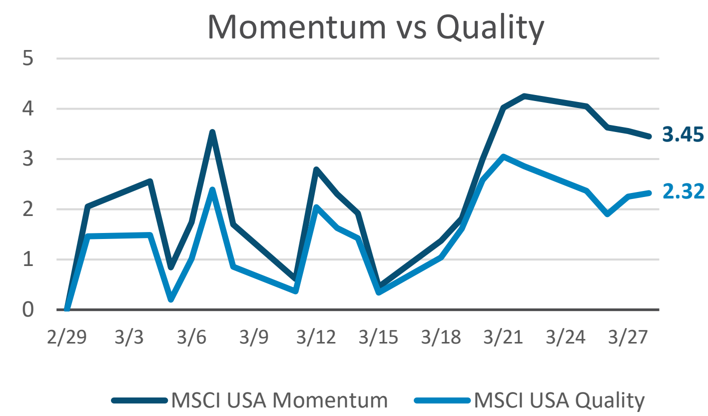
What Worked, What Didn't

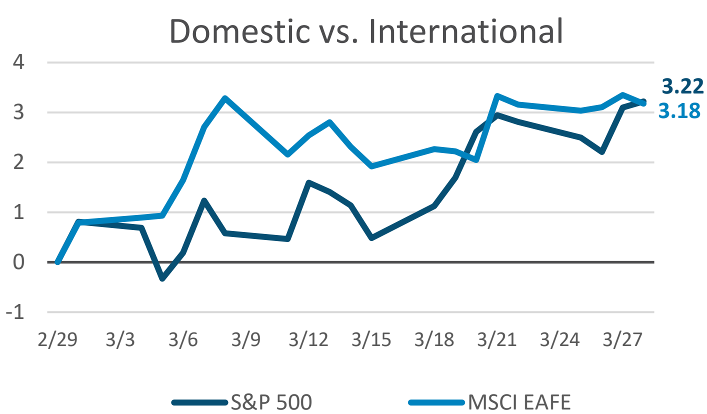
- **Small Over Large, Value Over Growth.** While Large-Cap and Small-Cap stocks performed similarly in March, Small-Caps managed a narrow lead. Value investing continued its upward trajectory, while Growth stocks saw a slowdown compared to February's performance.
- **High Beta Maintains Lead, Momentum and Quality Cool Slightly.** After another strong month, High Beta remains the top performer. While both Momentum and Quality factors delivered positive returns in March, their performance dipped compared to the prior month's strength.
- **Domestic Over International, Developed Over Emerging Markets.** Developed markets and domestic equities outperformed their emerging market counterparts in March, leading the pack with slightly stronger returns.

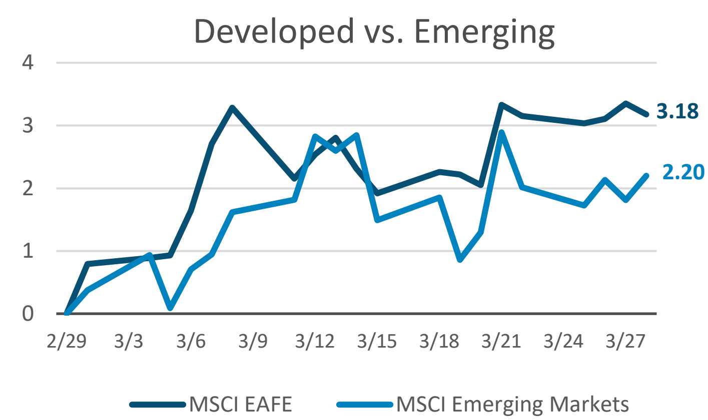












Source: Bloomberg.

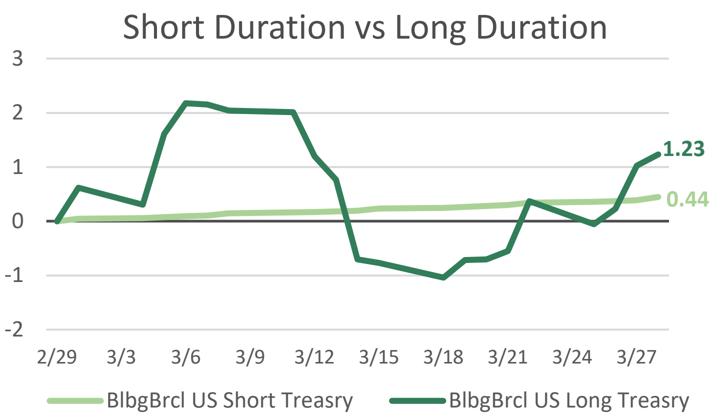
March 2024

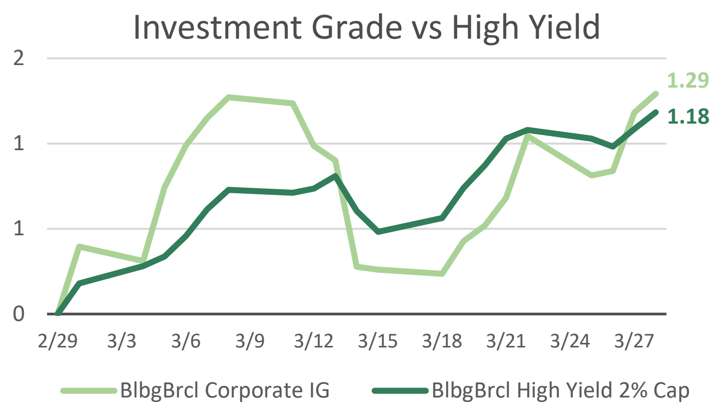
Bond Themes

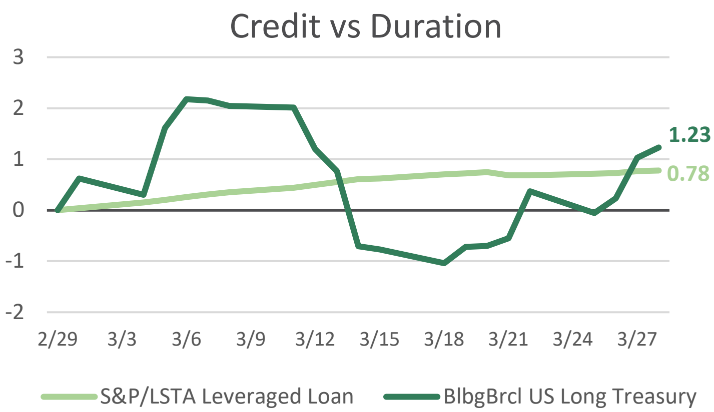
MONTH IN REVIEW

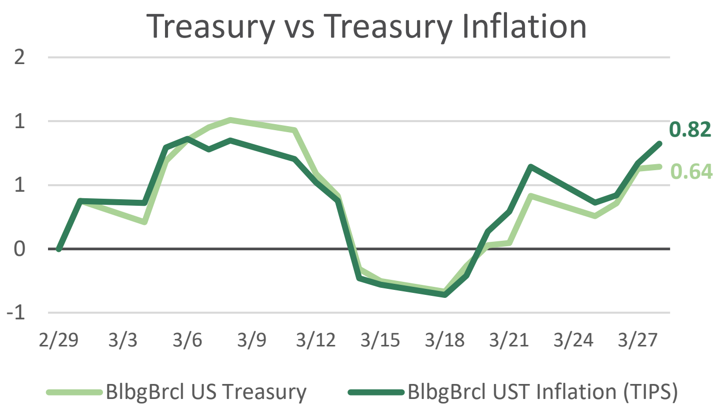
What Worked, What Didn’t

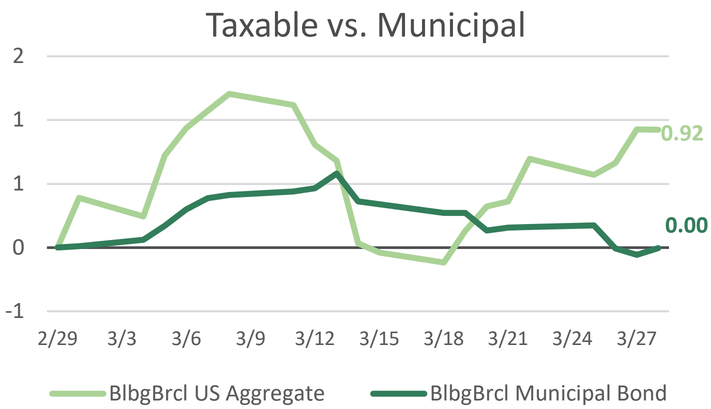
- **Both Short Duration and Investment Grade bonds outperformed in March.** Short Duration results tracked close to February's but lagged overall Duration. Investment Grade Bonds rebounded after a weak February.
- **TIPS and Duration Stage a Comeback, Outpacing Credit.** After a February slump, Duration recovered significantly. Meanwhile, TIPS and Treasuries delivered similar returns, with TIPS edging slightly ahead.
- **Taxables Beat Municipals, Domestic Edges International.** After a sluggish February, both Taxable Bonds and Domestic Bonds rebounded in March.

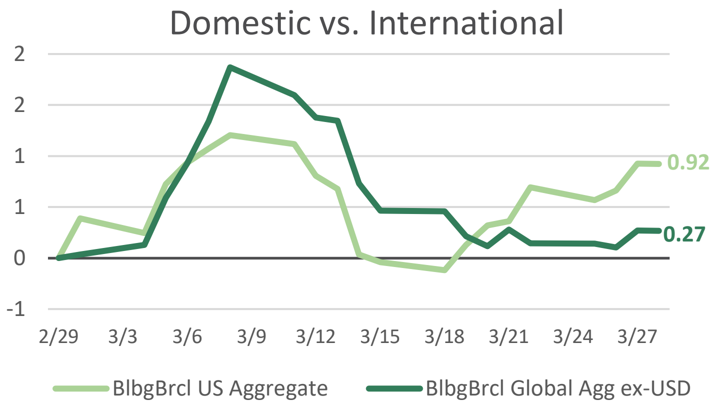












Source: Bloomberg.

March 2024

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.

	Mar-01	Mar-04	Mar-05	Mar-06	Mar-07	Mar-08	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-25	Mar-26	Mar-27	Mar-28	Mar	YTD	
High	SCG 1.36	RE 0.97	USB 0.54	EM 1.45	LCG 1.35	RE 1.12	LCV 0.30	LCG 1.69	SCG 0.41	LCG 0.07	SCV 0.54	LCG 0.87	SCV 0.84	SCV 2.20	SCV 1.22	USB 0.32	SCG 0.25	MCG 0.21	RE 2.52	RE 0.72	LCV 4.50	LCG 11.32	High
	EM 1.23	SCG 0.43	IBD 0.14	IEQ 1.18	IEQ 1.18	IBD 0.20	EM 0.22	EM 1.10	SCV 0.23	HYB -0.48	MCV 0.12	MCG 0.24	LCG 0.65	SCG 1.65	SCG 1.10	LCG 0.09	SCV 0.12	IEQ 0.11	SCV 2.48	SCV 0.61	MCV 4.44	MCG 9.38	
	LCG 1.21	MCV 0.37	HYB -0.08	MCG 1.02	MCG 1.02	SCV 0.15	MCV 0.01	IEQ 0.80	LCV 0.17	EM -0.51	IBD 0.07	HYB 0.23	MCG 0.60	MCV 1.22	MCV 0.86	HYB -0.10	IBD 0.10	IBD 0.10	SCG 1.94	EM 0.37	SCV 3.43	LCV 8.86	
	RE 1.08	LCV 0.33	IEQ -0.18	SCG 1.02	IBD 0.89	USB 0.09	HYB -0.01	MCG 0.72	MCV 0.08	USB -0.63	IEQ 0.04	LCV 0.21	MCV 0.55	EM 1.13	RE 0.69	IBD -0.10	EM 0.07	USB 0.10	MCV 1.68	MCV 0.35	IEQ 2.38	MCV 8.11	
	IEQ 0.97	IBD 0.24	SCV -0.24	MCV 0.64	MCV 0.88	HYB 0.03	USB -0.11	60/40 0.38	HYB 0.04	IBD -0.68	USB -0.01	EM 0.17	LCV 0.48	LCG 1.11	LCV 0.65	60/40 -0.20	MCV 0.01	60/40 -0.01	LCV 1.65	LCV 0.32	MCG 1.81	SCG 7.50	
	60/40 0.75	MCG 0.19	60/40 -0.27	60/40 0.61	SCG 0.87	LCV -0.01	60/40 -0.21	SCG 0.29	IEQ 0.01	60/40 -0.68	LCV -0.04	60/40 0.07	HYB 0.40	IEQ 1.06	MCG 0.61	IEQ -0.21	LCV -0.12	MCV -0.02	MCG 0.88	MCG 0.03	60/40 1.61	IEQ 5.99	
	SCV 0.72	HYB -0.03	LCV -0.34	LCV 0.58	SCV 0.73	EM -0.10	MCG -0.32	MCV 0.25	IBD -0.03	IEQ -0.73	HYB -0.06	MCV 0.06	60/40 0.27	MCG 1.06	60/40 0.18	LCV -0.56	HYB -0.15	SCG -0.04	60/40 0.72	SCG 0.01	EM 1.48	60/40 3.85	
	MCV 0.68	60/40 -0.09	MCV -0.55	LCG 0.54	60/40 0.67	60/40 -0.15	IBD -0.41	LCV 0.24	MCG -0.05	LCV -0.79	SCG -0.08	IEQ -0.03	SCG 0.26	LCV 0.88	EM 0.12	MCG -0.62	60/40 -0.16	EM -0.07	IEQ 0.60	60/40 -0.02	SCG 1.33	SCV 2.61	
	IBD 0.65	EM -0.22	EM -0.89	SCV 0.44	EM 0.62	MCV -0.23	LCG -0.45	IBD 0.20	60/40 -0.10	MCG -0.79	RE -0.11	RE -0.08	USB 0.25	60/40 0.77	LCG 0.09	EM -0.70	USB -0.18	LCV -0.07	HYB 0.53	USB -0.12	RE 0.76	EM 2.16	
	MCG 0.56	USB -0.25	RE -1.16	IBD 0.31	LCV 0.54	SCG -0.26	SCV -0.47	HYB 0.09	USB -0.18	MCV -1.10	60/40 -0.17	USB -0.10	IEQ 0.18	IBD 0.65	USB 0.07	MCV -0.78	IEQ -0.21	HYB -0.12	LCG 0.41	HYB -0.22	HYB 0.71	HYB 1.51	
	LCV 0.52	IEQ -0.26	MCG -1.33	RE 0.30	USB 0.21	IEQ -0.33	RE -0.47	RE -0.24	EM -0.31	RE -1.56	MCG -0.59	IBD -0.17	RE 0.09	RE 0.61	IEQ -0.05	SCG -1.16	MCG -0.23	LCG -0.35	USB 0.33	IEQ -0.22	LCG 0.70	USB -0.74	
	USB 0.48	LCG -0.41	LCG -1.59	HYB 0.25	RE 0.21	MCG -0.80	IEQ -0.57	USB -0.25	LCG -0.40	SCG -1.79	EM -0.61	SCV -0.52	IBD -0.07	HYB 0.34	HYB -0.05	RE -1.32	LCG -0.39	SCV -0.38	EM 0.17	LCG -0.26	IBD 0.59	RE -1.28	
Low	HYB 0.37	SCV -0.65	SCG -1.69	USB 0.15	HYB 0.12	LCG -1.14	SCG -1.04	SCV -0.45	RE -0.51	SCV -1.87	LCG -1.14	SCG -0.75	EM -0.49	USB 0.21	IBD -0.68	SCV -1.51	RE -0.46	RE -0.48	IBD 0.14	IBD -0.31	USB 0.42	IBD -2.31	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.