MONTH IN REVIEW

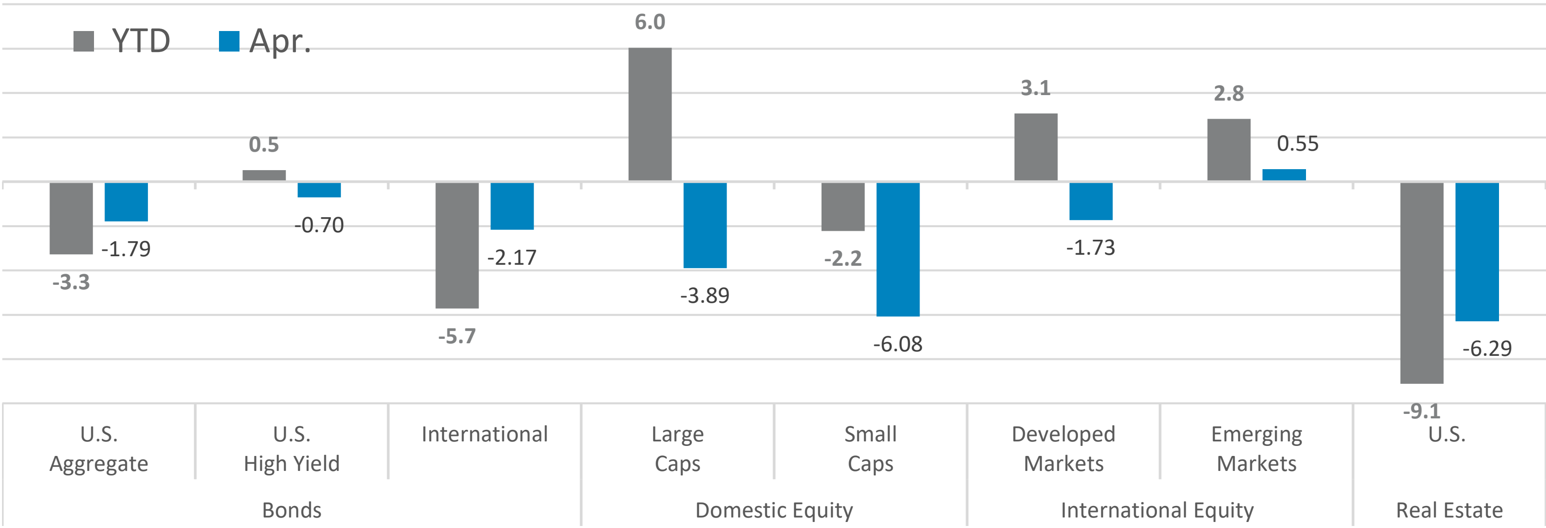
April 2024

Quick Takes

- **Risk Assets Had a Challenging Month.** Almost all asset classes saw a decrease in April except for Emerging Markets which posted a positive return. YTD figures took a hit this month after posting positive returns for most asset classes in March
- **Inflation Surges in April.** Last quarter, the U.S. saw economic growth decline and inflation surge, disrupting the previously optimistic outlook; GDP grew at 1.6%, lower than expected, personal spending rose slower at 2.5%, and the widening trade deficit significantly impacted growth, leading the Fed keeping interest rates unchanged
- **The Dollar Lagged After Mixed Economic Data.** The U.S. dollar weakened, except against the yen, due to unexpected economic slowdown and inflation acceleration, potentially complicating the Federal Reserve's interest rate plans.
- **Labor Costs Increase in Q1.** Recent Bureau of Labor Statistics data indicates a notable Q1 increase in U.S. labor costs, surpassing forecasts. The 1.2% rise in the Employment Cost Index highlights persistent wage pressures driving inflation. Policymakers grapple with managing inflation amid high interest rates and no immediate plans for reduction.

Asset Class Performance

In April, Risk Asset Classes faced challenges, with all except Emerging Markets registering losses. Particularly noteworthy were the declines in Small Caps and Real Estate, which experienced significant downturns, resulting in YTD metrics shifting into negative territory. Despite the downturn, Developed Markets and Large Caps managed to maintain their positive YTD performance for the month.



Source: Bloomberg, as of April 30, 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).

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April 2024

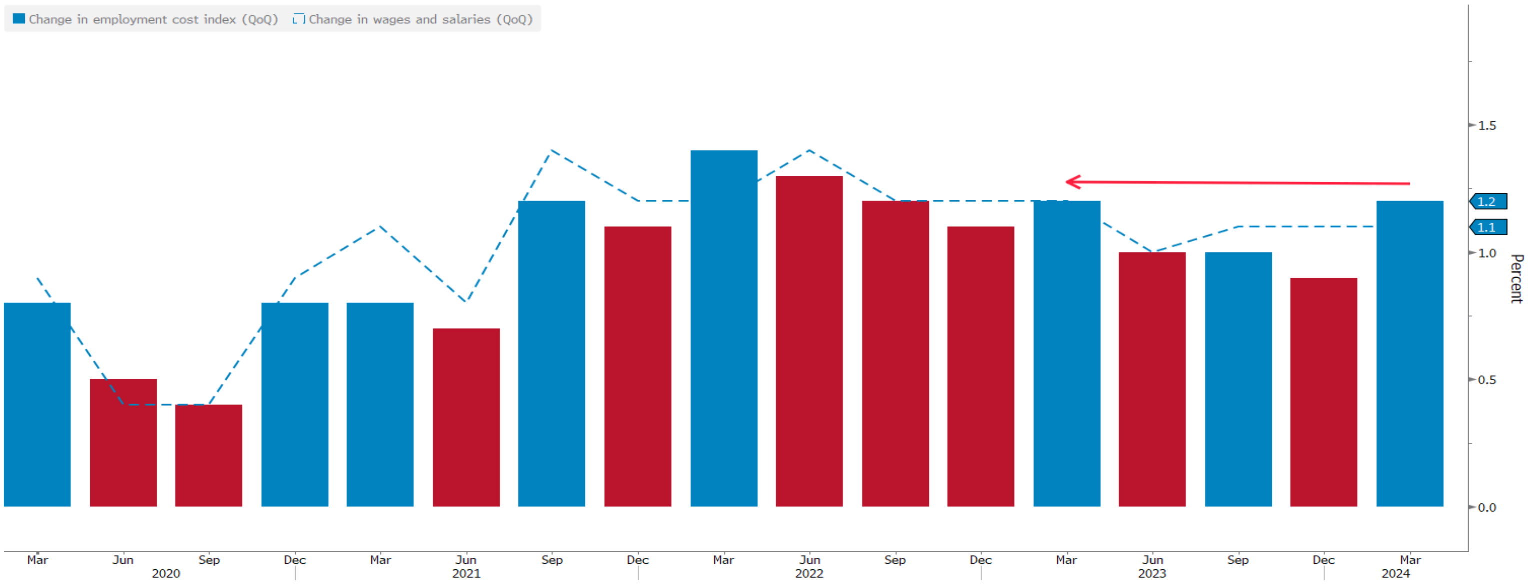
Markets & Macroeconomics

MONTH IN REVIEW

Rise in Employment Costs Keeps Rate Hike Chances Low

U.S. Employment Costs Rise by Most in a Year

Fed's preferred wage metric accelerated in the first quarter



Source: Bureau of Labor Statistics, Bloomberg

The latest data from the Bureau of Labor Statistics reveals a notable uptick in U.S. labor costs during the first quarter, surpassing earlier projections. The Employment Cost Index (ECI), a key metric monitored by the Federal Reserve, rose by 1.2%, marking its most significant increase in a year. This surge underscores persistent wage pressures contributing to ongoing inflationary trends. The unexpected acceleration in labor costs has elicited varied market responses, with stock-index futures declining, Treasury yields climbing, and the dollar strengthening. These figures may intensify concerns among Fed policymakers regarding their efforts to rein in inflation, especially as they maintain interest rates at a two-decade high with no immediate plans for reduction. The rise in employment costs was widespread across sectors, with notable increases observed in public administration, hospitals, and manufacturing. Year-over-year, the ECI surged by 4.2%, consistent with the previous quarter's annual increase. Additionally, the implications of this upward trend in labor costs extend beyond immediate market reactions, potentially influencing broader economic policies and corporate strategies. Policymakers and businesses alike may find themselves navigating heightened pressures to manage expenses and maintain competitiveness in a climate of escalating wage dynamics. In response, companies might explore strategies such as productivity improvements, workforce optimization, or adjustments in pricing strategies to mitigate the impact of rising labor costs on profitability and competitiveness.

Bottom Line: Recent data from the Bureau of Labor Statistics shows a significant increase in U.S. labor costs during the first quarter, exceeding expectations. The Employment Cost Index (ECI) rose by 1.2%, highlighting persistent wage pressures contributing to inflationary trends. This surge has triggered diverse market reactions, including declines in stock-index futures and increases in Treasury yields and the dollar's strength. The upward trend in labor costs poses challenges for policymakers aiming to control inflation, especially with interest rates remaining high and no immediate plans for reduction.

April 2024

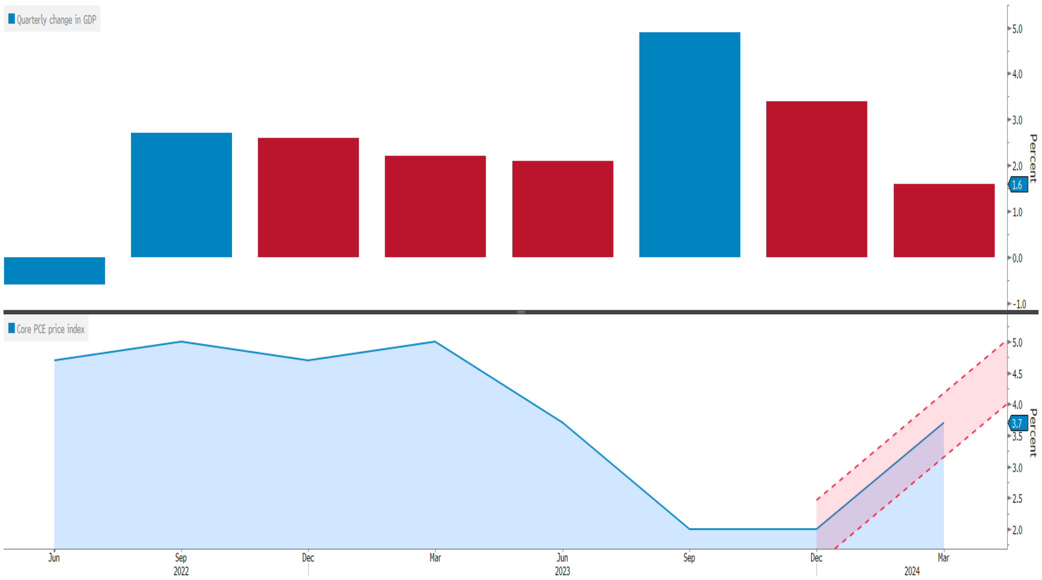
MONTH IN REVIEW

What's Ahead

Inflation Accelerating and Caution Surrounding Rate Cuts

U.S. Growth Slows Sharply While Inflation Accelerates

Pickup in core price gauge pushes out expected timing of Fed rate cuts

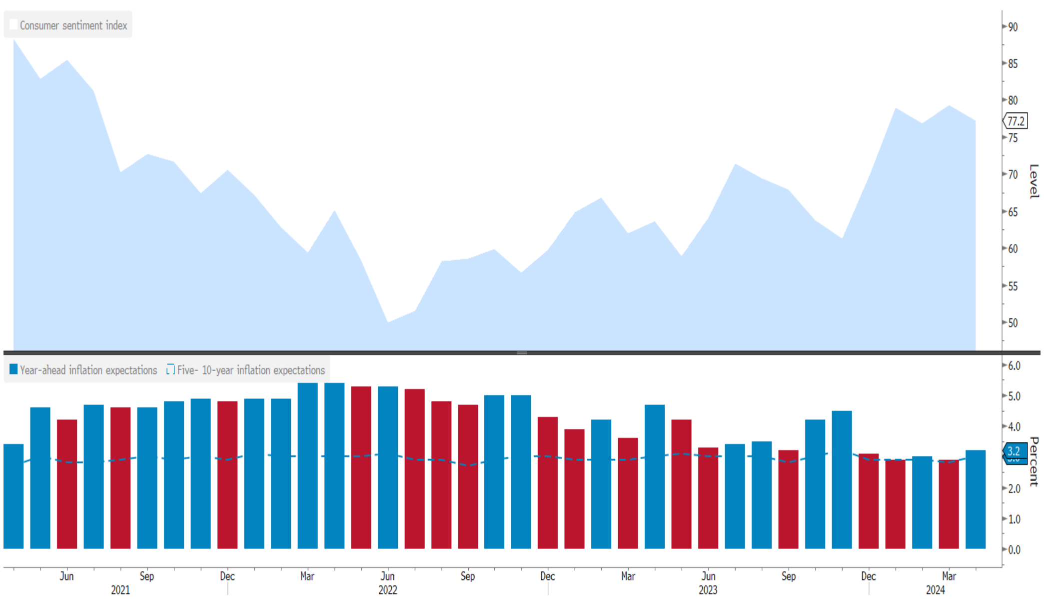


Source: Bureau of Economic Analysis, Bloomberg

Last quarter, the U.S. witnessed a decline in economic growth to nearly a two-year low, coinciding with a surge in inflation levels, disrupting the trend of robust demand and subdued price increases that had fostered optimism for a smooth transition. According to the initial government estimate, the Gross Domestic Product (GDP) grew at an annualized rate of 1.6%, falling short of all economists' predictions. Notably, personal spending, the primary driver of economic growth, increased at a slower pace of 2.5% compared to forecasts. The trade deficit widened significantly, exerting the largest drag on growth since 2022. Additionally, a key measure of underlying inflation rose by 3.7%, surpassing expectations and marking the first quarterly acceleration in a year, as indicated by the Bureau of Economic Analysis report. The above figures underscore a significant loss of momentum at the onset of 2024 following a surprisingly robust economic performance in the previous year. In response to the inflationary pressures, the Federal Reserve opted to maintain interest rates at a two-decade high and signaled a cautious approach towards any rate cuts anytime soon. In April, U.S. consumer sentiment declined, reflecting gloomier perceptions of personal finances and the overall economy amid rising inflation expectations. The University of Michigan's final April index dropped to 77.2 from 79.4 in March, slightly below the median estimate in a Bloomberg survey, which projected a steadier reading of 77.9. Consumers anticipate a 3.2% increase in prices over the next year, the highest since November and up from the 2.9% forecasted in March. Furthermore, they foresee a 3% rise in costs over the next five to 10 years, reaching a five-month peak. The figures below underscore the impact of persistent price pressures and elevated borrowing costs on consumers.

U.S. Consumer Sentiment Falls as Inflation Expectations Pick Up

Higher prices continued to take a toll on sentiment in April



Source: University of Michigan, Bloomberg

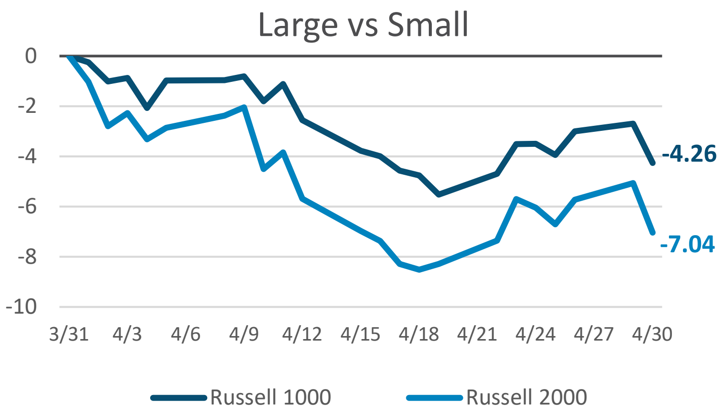
Bottom Line: Last quarter, the U.S. experienced a decline in economic growth alongside a surge in inflation, disrupting the previously optimistic outlook for a smooth transition; GDP grew at a rate of 1.6%, lower than anticipated, personal spending increased at a slower pace of 2.5%, and the widening trade deficit exerted a significant negative impact on growth, prompting the Federal Reserve to maintain interest rates at a two-decade high.

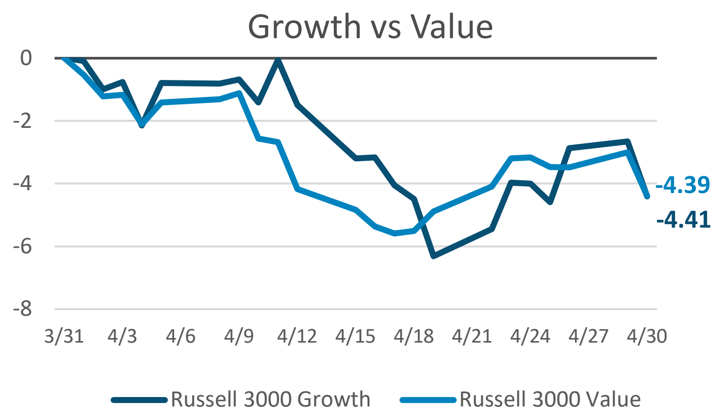
April 2024

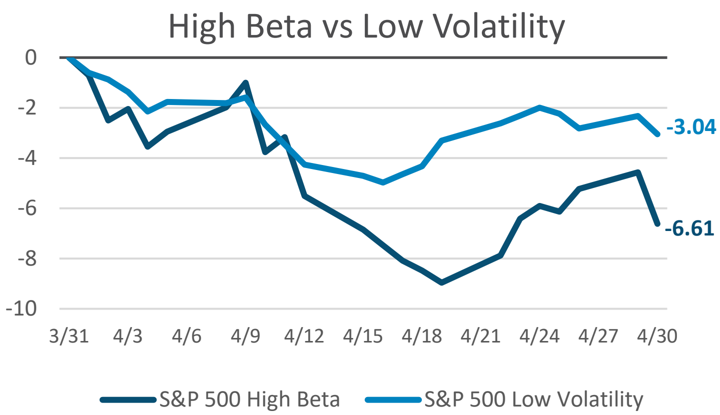
Equity Themes

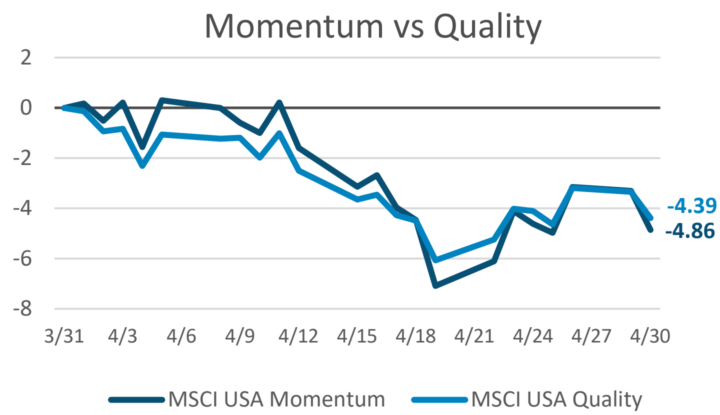
What Worked, What Didn't

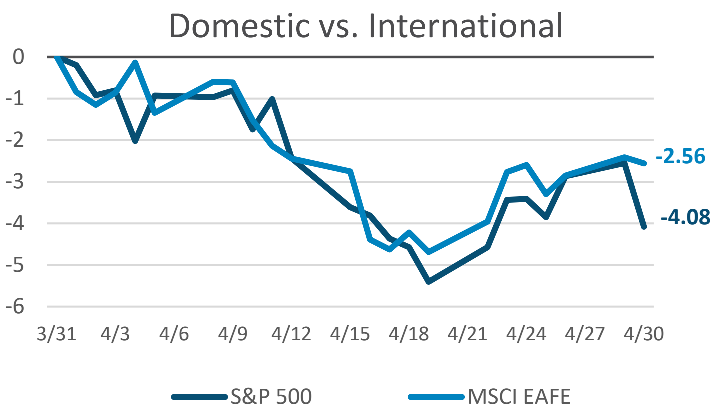
- **Large Outperforms Small, Growth and Value Aligned.** Although Large-Cap and Small-Cap Stocks showed similar performance in March, Small-Caps faced more challenges in April than Large-Caps. Both Value and Growth stocks experienced declines but remained closely aligned with each other.
- **Low Volatility Surpasses High Beta, Momentum and Quality Significantly Decline.** Following a challenging April, low volatility takes the lead over High Beta, reversing a trend of trailing behind for a couple of months. Momentum and Quality experienced considerable decreases but remained largely consistent with each other.
- **International Outperforms Domestic, Emerging Markets Excel.** In April, International Markets outperformed Domestic Markets, with Emerging Markets showing slightly positive returns amidst negative returns across nearly every other asset class.

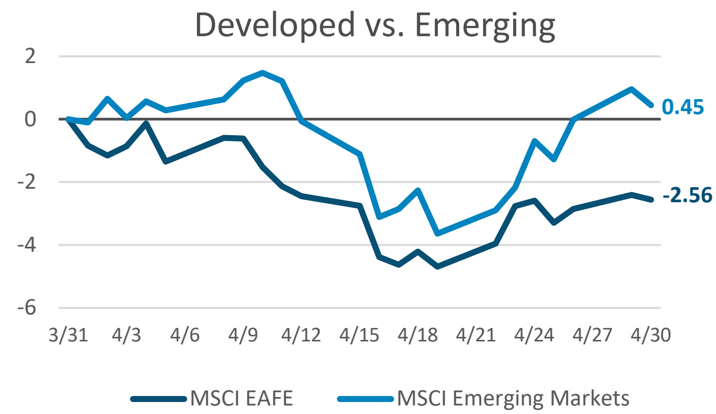










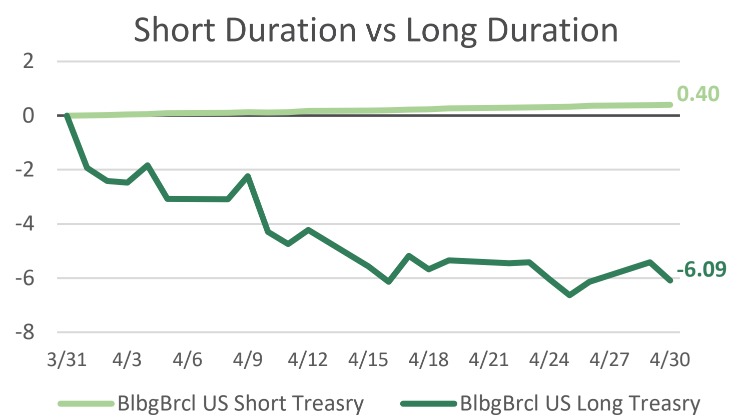


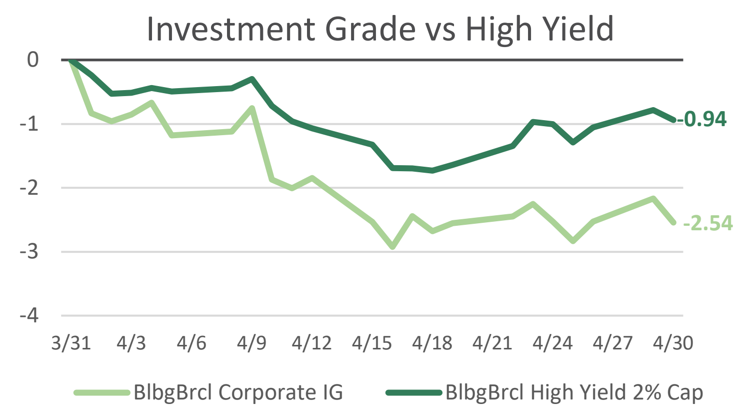
Source: Bloomberg.

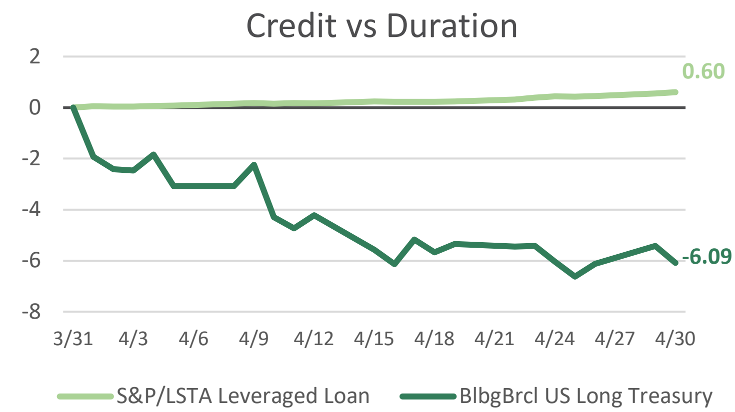
Bond Themes

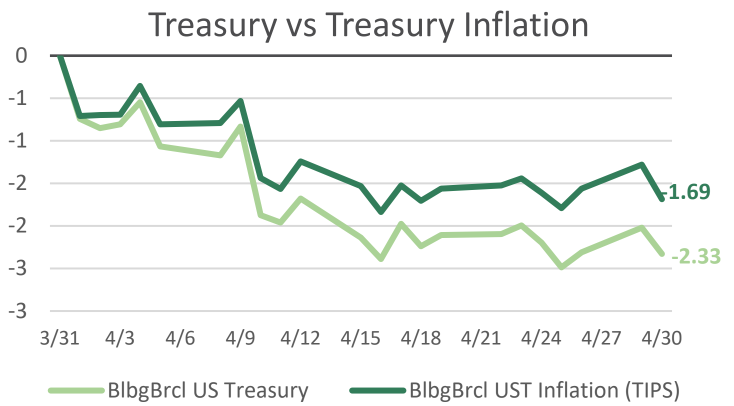
What Worked, What Didn't

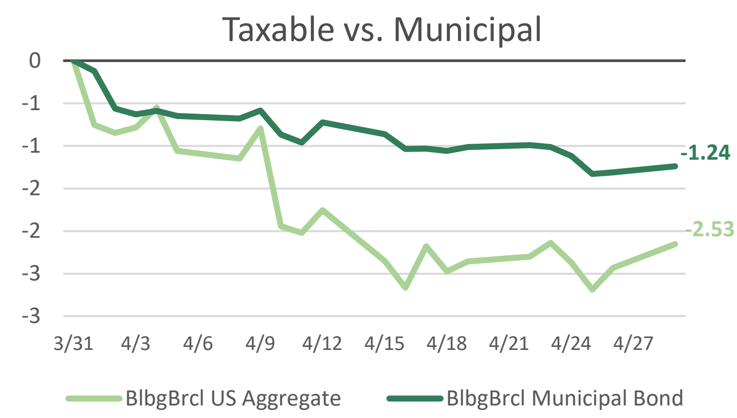
- **Short Duration and High Yield Bonds Outperform Their Counterparts.** Short Duration bonds-maintained positivity in April, contrasting with a notable decrease in Long Duration bonds. High Yield Bonds surpassed Investment Grade Bonds after closely tracking them last month.
- **Credit Outperforms Duration, TIPS Continue to Outpace Treasuries.** Credit remains positive, whereas duration faced challenges in April. TIPS slightly widen their lead over treasuries after closely tracking each other in March.
- **Municipals Outperform Taxables, Domestic and International Bonds Maintain Proximity.** In April, both Taxable and Municipal Bonds experienced declines, with Municipal bonds showing slightly better resilience. Domestic and International Bonds faced challenges during the month but maintained a close correlation.

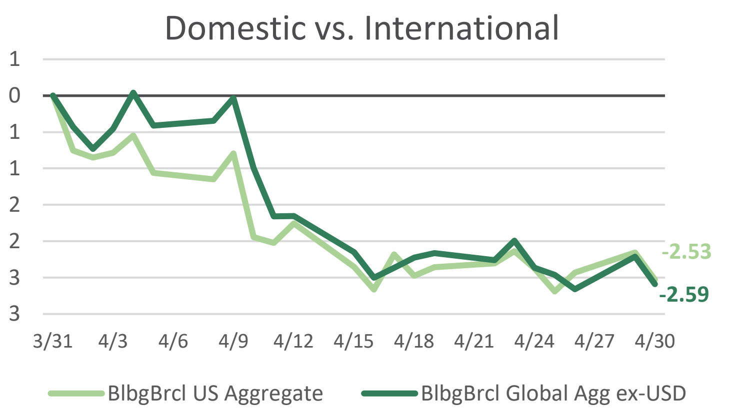












Source: Bloomberg.

April 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.

	Apr-01	Apr-02	Apr-03	Apr-04	Apr-05	Apr-08	Apr-09	Apr-10
High	EM 0.17	EM 0.32	IBD 0.69	USB 0.24	LCG 1.38	RE 1.12	RE 1.20	LCG -0.73
	LCG -0.06	IBD 0.14	SCV 0.65	IBD -0.03	MCG 1.20	EM 0.65	EM 0.67	HYB -0.88
	IBD -0.37	USB -0.07	SCG 0.65	HYB -0.08	MCV 0.78	SCV 0.56	SCV 0.51	USB -1.20
	HYB -0.41	HYB -0.17	IEQ 0.56	EM -0.36	LCV 0.69	SCG 0.51	IBD 0.48	MCG -1.27
	IEQ -0.43	60/40 -0.47	MCV 0.45	60/40 -0.51	RE 0.44	IEQ 0.49	USB 0.34	IEQ -1.32
	LCV -0.49	LCV -0.63	LCG 0.27	RE -0.71	SCG 0.41	MCV 0.46	60/40 0.28	EM -1.36
	60/40 -0.52	IEQ -0.70	60/40 0.25	SCV -0.80	SCV 0.41	MCG 0.33	SCG 0.26	60/40 -1.38
	MCG -0.62	LCG -0.87	MCG 0.19	IEQ -0.86	IEQ 0.32	HYB 0.23	MCG 0.24	LCV -1.43
	USB -0.72	MCV -0.90	RE 0.13	LCV -0.98	60/40 0.24	60/40 0.21	MCV 0.23	IBD -1.43
	MCV -0.74	MCG -1.23	LCV 0.09	MCV -1.12	EM 0.22	LCV 0.15	HYB 0.21	MCV -1.89
	SCG -0.78	RE -1.24	HYB 0.08	MCG -1.23	IBD 0.00	LCG 0.01	LCV 0.16	SCG -2.23
	SCV -1.10	SCV -1.69	EM 0.07	SCG -1.29	HYB -0.09	USB -0.09	LCG 0.10	SCV -3.12
Low	RE -1.65	SCG -1.98	USB 0.06	LCG -1.40	USB -0.49	IBD -0.14	IEQ -0.01	RE -4.06

	Apr-11	Apr-12	Apr-15	Apr-16	Apr-17	Apr-18	Apr-19
High	LCG 1.43	USB 0.19	IEQ -0.30	SCG 0.08	IBD 0.67	EM 0.40	SCV 0.99
	SCG 0.77	HYB -0.05	HYB -0.58	LCG 0.00	USB 0.46	SCV 0.21	LCV 0.58
	SCV 0.67	IBD -0.63	IBD -0.58	MCG -0.14	HYB 0.13	LCV 0.10	RE 0.48
	EM 0.61	60/40 -0.96	USB -0.60	USB -0.28	IEQ 0.07	HYB 0.08	MCV 0.29
	MCG 0.35	RE -1.06	EM -0.64	HYB -0.33	60/40 -0.03	RE -0.04	HYB 0.18
	IEQ 0.27	LCG -1.41	LCV -0.70	IBD -0.51	EM -0.08	MCV -0.09	IBD 0.18
	60/40 0.25	SCV -1.45	60/40 -0.79	LCV -0.54	LCV -0.18	60/40 -0.19	USB 0.11
	RE 0.12	MCV -1.51	MCV -1.10	60/40 -0.54	MCV -0.29	IEQ -0.28	IEQ 0.04
	USB 0.02	LCV -1.54	SCV -1.18	MCV -0.69	RE -0.67	USB -0.28	60/40 -0.11
	HYB -0.09	IEQ -1.62	MCG -1.53	SCV -0.87	LCG -0.85	IBD -0.32	EM -0.40
	MCV -0.14	MCG -1.74	RE -1.63	IEQ -0.99	SCV -0.86	SCG -0.44	SCG -0.67
	LCV -0.14	SCG -2.10	LCG -1.69	EM -1.32	MCG -0.92	MCG -0.49	MCG -0.75
Low	IBD -0.17	EM -2.29	SCG -1.69	RE -1.49	SCG -1.28	LCG -0.54	LCG -1.96

	Apr-22	Apr-23	Apr-24	Apr-25	Apr-26	Apr-29	Apr-30	Apr	YTD
High	SCV 1.17	MCG 1.80	EM 0.35	EM 0.22	LCG 1.84	RE 1.06	USB -0.41	EM -0.39	LCG 6.63
	IEQ 1.17	SCG 1.79	RE 0.31	IBD 0.07	SCG 1.29	SCG 1.05	HYB -0.73	HYB -0.95	LCV 4.23
	EM 1.08	SCV 1.49	MCV 0.09	MCG -0.03	EM 1.15	EM 0.97	IBD -0.87	IBD -1.69	MCG 2.96
	SCG 1.07	LCG 1.48	LCG 0.02	MCV -0.15	IEQ 0.80	MCV 0.64	60/40 -1.11	USB -1.76	IEQ 2.55
	LCG 1.00	IEQ 1.09	LCV -0.02	HYB -0.21	SCV 0.64	SCV 0.60	IEQ -1.27	60/40 -2.82	MCV 2.53
	MCV 0.98	LCV 0.98	MCG -0.13	LCV -0.24	60/40 0.57	LCV 0.46	LCV -1.35	IEQ -2.83	EM 1.94
	MCG 0.96	MCV 0.89	60/40 -0.13	USB -0.28	MCG 0.48	MCG 0.45	EM -1.40	LCV -3.78	60/40 0.37
	LCV 0.84	RE 0.85	IEQ -0.19	60/40 -0.30	IBD 0.35	60/40 0.42	MCV -1.57	LCG -4.16	HYB 0.14
	RE 0.81	EM 0.82	HYB -0.22	IEQ -0.46	HYB 0.31	IEQ 0.38	LCG -1.70	MCV -4.45	SCG -0.63
	60/40 0.67	60/40 0.81	USB -0.26	SCG -0.56	USB 0.22	USB 0.30	RE -1.81	SCV -5.11	USB -3.20
	HYB 0.55	IBD 0.56	SCV -0.30	RE -0.60	MCV 0.17	HYB 0.30	MCG -1.85	MCG -5.28	SCV -3.70
	IBD 0.21	HYB 0.41	SCG -0.44	LCG -0.63	RE 0.16	LCG 0.13	SCV -1.98	RE -6.58	IBD -4.32
Low	USB 0.06	USB 0.21	IBD -0.45	SCV -0.73	LCV -0.09	IBD 0.10	SCG -2.12	SCG -6.84	RE -9.30

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: Sources from this commentary derives from 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.

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