MONTH IN REVIEW

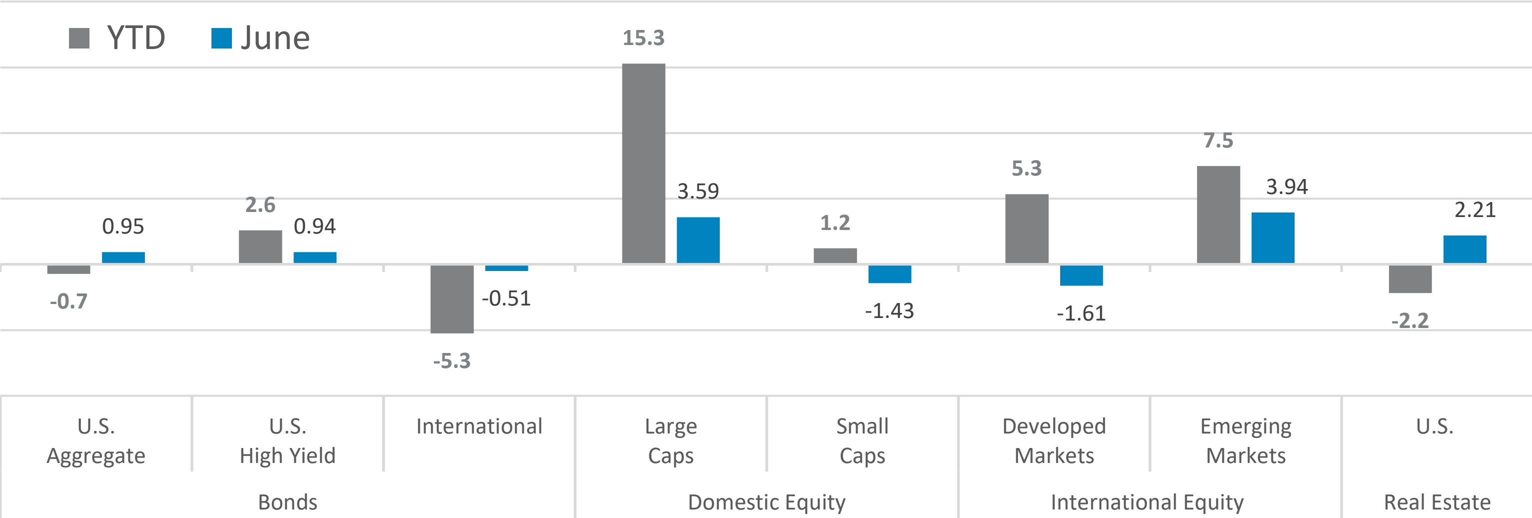
June 2024

Quick Takes

- **Risk Assets Drift Up.** For the month of June, risk assets saw some upward momentum, especially in Large Caps and Emerging Markets, but International Equities and Small Caps had a tougher go for the month.
- **Inflation Continued Softening.** Inflation, as measured by the Fed's preferred metric of PCE Deflator, showed some promising signs of price pressures easing. While encouraging, Fed rhetoric suggests that they will be patient before transitioning to a looser monetary policy.
- **King Dollar.** The dollar climbed sharply higher throughout the month of June, especially as other Central Banks eased their respective tightening of monetary policies, leaving the USD as one of the globe's higher-yielding currencies.
- **Personal Spending and Labor Markets.** Personal Spending showed robust signs in the June reading for the month of May and Labor Markets showed continued resiliency but might be nearing an inflection point. With Labor Markets continuing to show signs of strength, it's of little surprise that Wages posted a respectable uptick in the June data reading.

Asset Class Performance

Large Caps continued their melt up for the month of June, with Emerging Markets being the only major asset class to outperform. Other major asset classes posted a more modest return, save for Small Caps and Developed International Equities which were in the red for the month.



Source: Bloomberg, as of December 31, 2023. 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

June 2024

Markets & Macroeconomics

Ease In Inflation Buoys Support for Rate Cut

MONTH IN REVIEW

Core PCE Cools, but Consumer Spending Heats Up

Number of Job Openings (Top), Number of Quits (Bottom)

Source: Bureau of Economic Analysis, Bloomberg

Like the incoming Summer weather, Consumer Spending showed signs of heating up for the month of May. Some of this increase may be a seasonal effect due to increased travel as the school year winds down, but the bump up in May was an encouraging sign after April's lackluster data. Thus far, Consumers have been the hero of the U.S. Economy, and arguably the Global Economy, throughout the Fed's tightening cycle as they battle entrenched inflation back to their long-term target range. While Consumer Spending showed signs of warming up, Inflation, as measured by the Fed's preferred metric of Core PCE, landed in line with market expectations of +0.1% for May. The headline data release gets rounded to 1 decimal point but on an unrounded basis, the metric was up +0.08%. This was the smallest advance since November 2020. With inflation showing continuing signs of easing as the year goes on, this could lead to a path for the Fed to start loosening monetary policy via their first interest rate cut since the tightening cycle began. Possibly even more encouraging, combining easing Inflation with the recovery in Consumer Spending also opens the doorway to the Fed accomplishing what many market participants thought was impossible by successfully taming Inflation while preventing the U.S. Economy from entering a recessionary period. Putting all of this together, the May Economic data readings came out largely positive, but by no means does one reading make a trend. The Fed has reiterated multiple times in its collective rhetoric that members intend to be patient and look for sustained trends Inflation is showing persistent signs of cooling off before they begin to ease financial conditions.

<u>Bottom Line</u>: The Fed's preferred Inflation metric for the month of May showed one of the smallest increases since November 2020. This positive reading buoys support for a rate cut later this year and that it may come sooner than some market participants were expecting. While the May data reading was positive, it is likely not enough to completely solidify the case to ease financial conditions and the continued Fed rhetoric leans more towards patience from the members until they have seen sustained signs from the data that inflation has been wrestled into submission. While Inflation painted a possible picture of the economy slowing, Consumer Spending, ticked up in the month of May. If Consumer Spending remains robust throughout the Summer months while Inflation shows continued easing pressure, the Fed may be able to accomplish what many market participants thought was near impossible; getting inflation back to their target range without sending the U.S. into a recession.

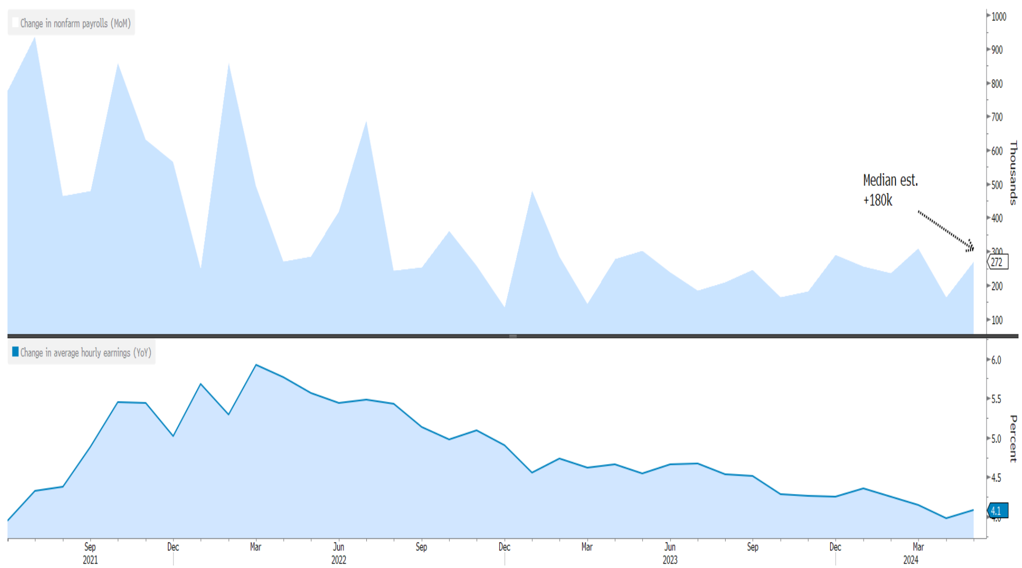
What's Ahead

Labor Market Resiliency Puts Upward Pressure on Wage Growth

As mentioned on the previous page, Inflation and Consumer Spending data readings for the month of May spurred market participants to reset their thinking on when the Fed may begin to loosen monetary policy, but not all of the month's economic data readings advocated for a quicker timeline. Labor Markets showed resiliency as we head into the summer months. Change in Nonfarm Payrolls advanced by +272k, which was well above consensus estimates of +180k for the month of May. With the Labor Market's robustness, wages have also seen upward pressure with the Change in Average Hourly Earnings up +4.1% on the year-over-year metric for the month of May. With tightness in the Labor Market continuing and Wages advancing upward, this could impact the recent rate of deceleration seen in Inflation metrics as employees have additional earnings to spend. On the flip side, it bodes well for a potential persistency in Consumer Spending, which has thus far kept the U.S. Economy afloat with higher prices and tighter monetary standards. With the mixed signals the Labor Markets sent to market participants for the month, rate cut expectations seemed to constantly change throughout the month of June. The Fed's rhetoric has strongly advocated for patience and consistency in data showing that the timing for rate cuts is appropriate. One such data point that may lead to some comfort is the ratio of Job Openings Per Unemployed Worker, which fell to 1.2 with May's strong addition numbers. This level hasn't been seen since the start of the pandemic and may suggest that the Labor Markets are beginning to cool off as high prices impact employers and employees alike.

Robust Job Growth Pushes Wages Up

Change in nonfarm payrolls (MoM, top), Change in avg. hourly earnings (YoY)

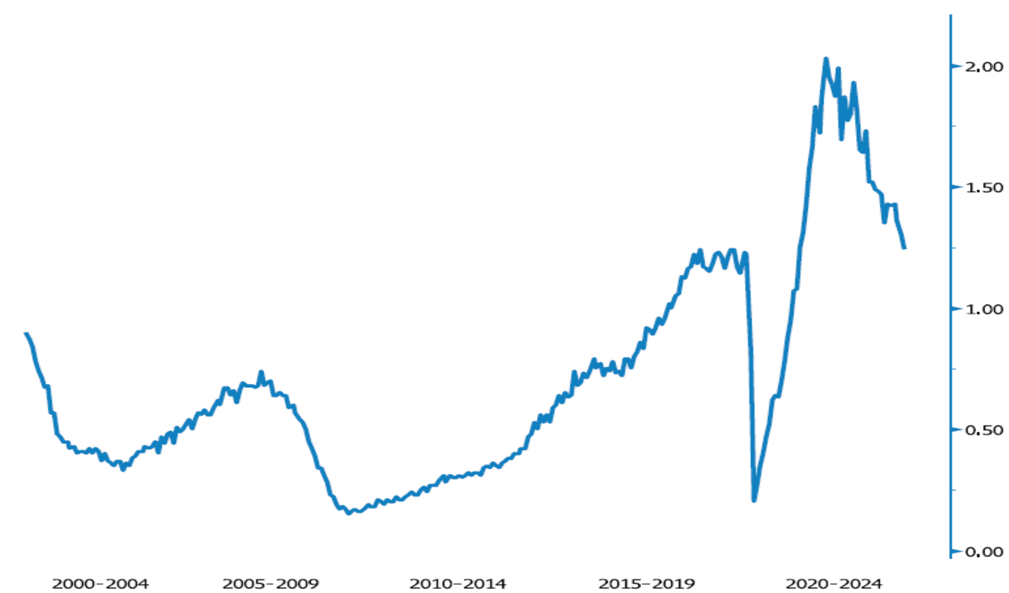


Source: Bureau of Economic Analysis, Bloomberg

<u>**Bottom Line**</u>**: Labor Markets showed a persistence in their tightness with Nonfarm Payrolls blowing past their consensus estimates of +180k, coming in for the month of May at +272k. With this persistent tightness in the Jobs Market, wages experienced a strong advance with the Change in Average Hourly Earnings jumping up +4.1% on the year-over-year metric for May. With more cash to spend, this could place continued upward pressure on inflation, and thus push the timeline out for the Fed's first interest rate cut since the tightening cycle began. However, the ratio of Job Openings per Unemployed Workers fell to its lowest level since the beginning of the pandemic, coming in at 1.2. This could suggest that Labor Markets are nearing an inflection point and may begin to slacken. With data releases posting mixed signals, the Fed's timeline is still very much so in flux.**

Job Growth Surprises to the Upside, Labor Markets Near Balance

Job Openings Per Unemployed Worker

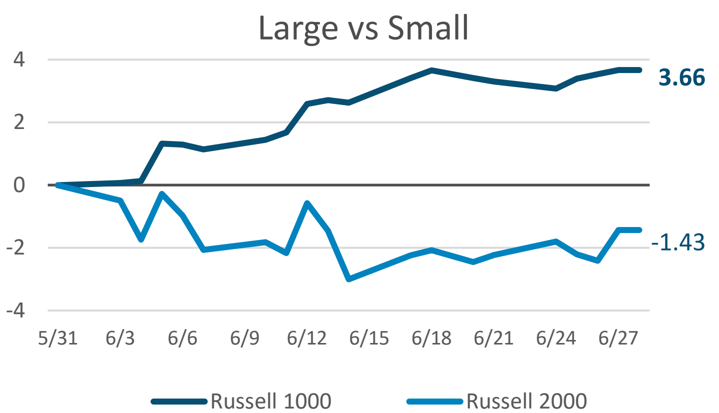


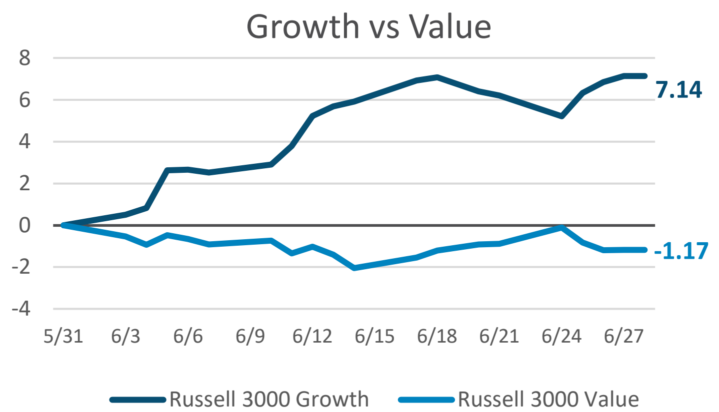
Source: Bureau of Labor Statistics, Bloomberg

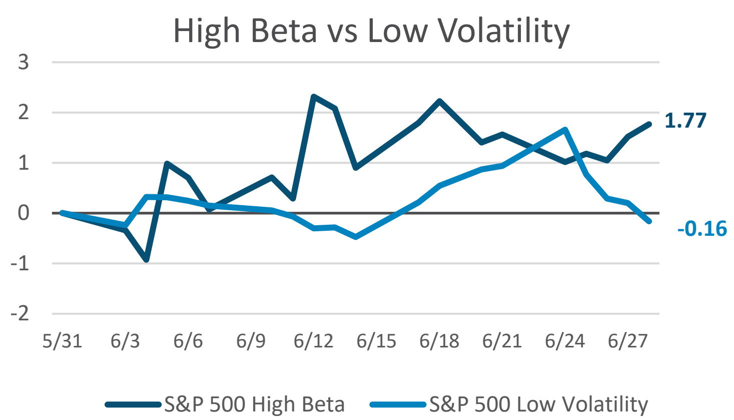
Equity Themes

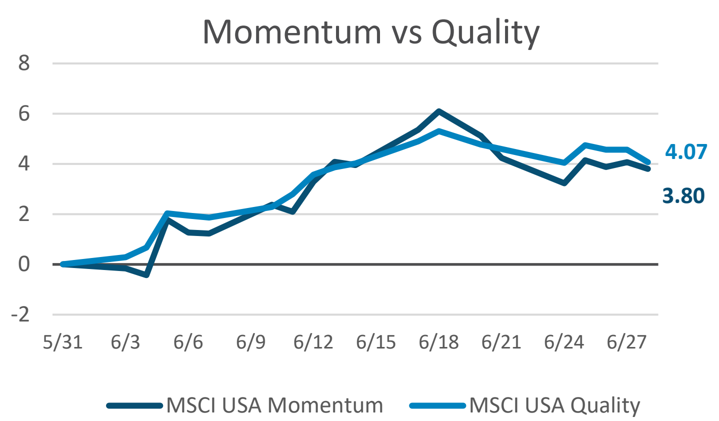
What Worked, What Didn't

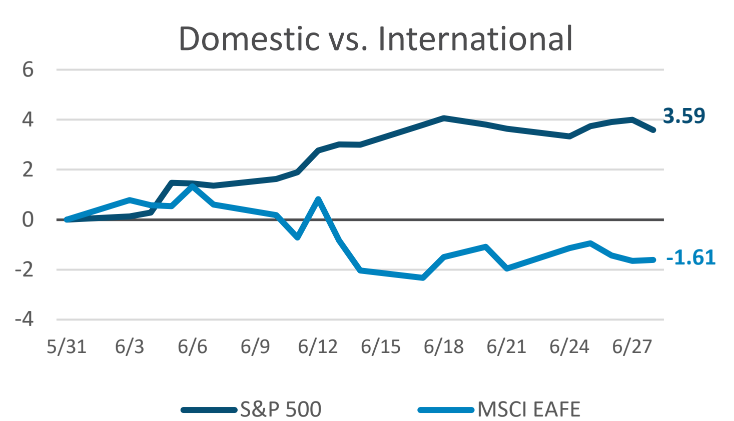
- **Large Over Small, Growth Over Value.** Small Caps struggled for the month of June, but Large Caps took off, further increasing their astounding year-to-date gain. Similarly, Value fell even further behind their Growth Style peers for the month.
- **High Beta and Quality Outperform.** High Beta equities posted a respectable gain for the month of June, while their Low Vol peers were slightly negative. Quality posted a small margin of outperformance versus the Momentum factor for the month.
- **Domestic Over International, Emerging Over Developed.** International equities were in the red for the month of June, while Emerging Markets and Domestic equities posted largely positive figures.

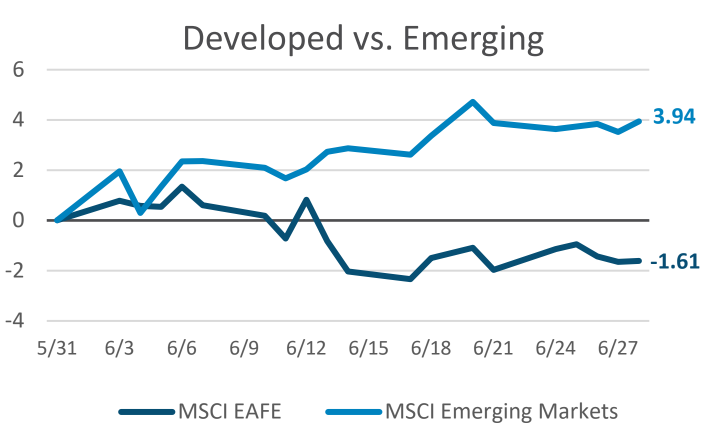










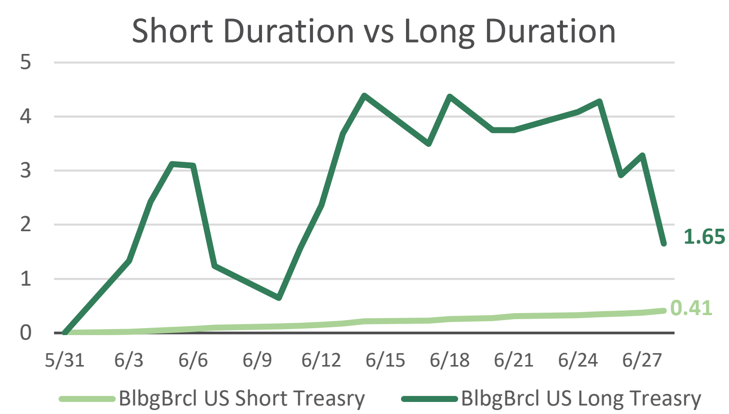


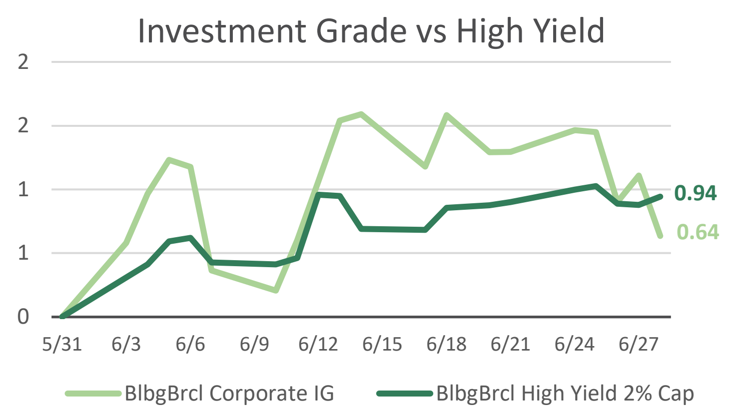
Source: Bloomberg.

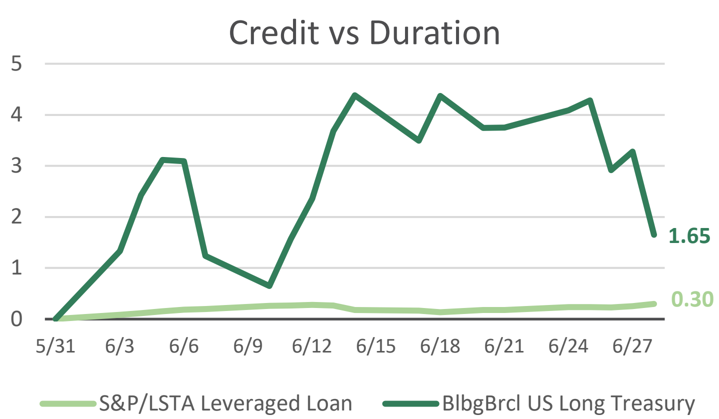
Bond Themes

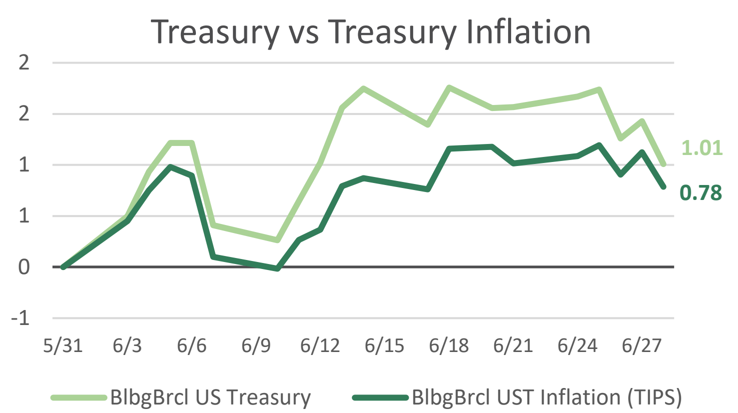
What Worked, What Didn't

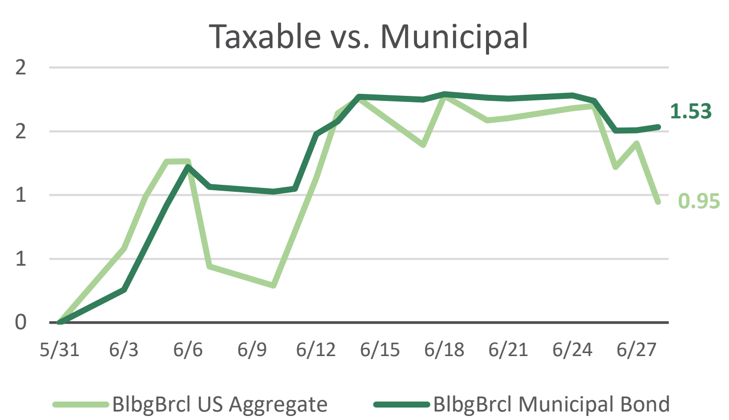
- **Long Duration and High Yield Outperform.** Long Duration Treasuries posted a decent month as interest rate expectations were volatile for the month. High Yield posted a modest margin of outperformance versus their higher quality Investment Grade peers.
- **Credit and TIPS Underperform.** Credit posted a modestly positive month but Duration was king for the month. With Inflation hinting at signs of moderation, TIPS modestly underperformed for June.
- **Munis and Domestic Outperform.** Munis posted a decent margin of outperformance for the month of June and Domestic Bonds had a solid margin of outperformance versus their International peers, who were slightly in the red for the month.

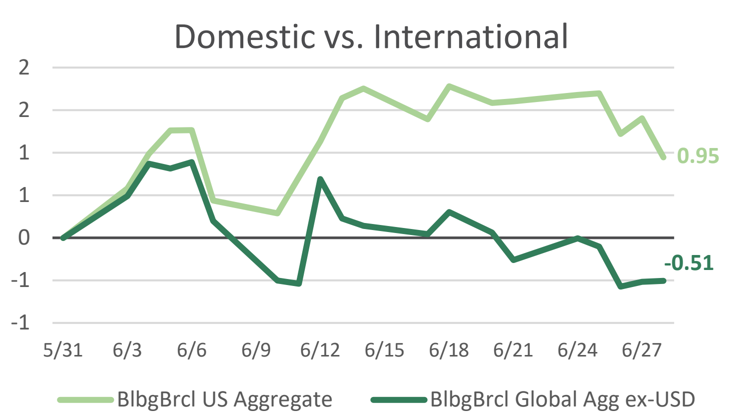












Source: Bloomberg.

Asset Class Performance

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.

	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14	Jun-17	Jun-18	Jun-20	Jun-21	Jun-24	Jun-25	Jun-26	Jun-27	Jun-28	Jun	YTD
High	EM 1.05	RE 0.89	SCG 1.99	EM 0.50	LCG -0.13	MCG 0.79	LCG 0.91	SCG 1.58	RE 0.59	LCG 0.34	IBD 1.05	EM 0.92	LCV 0.29	RE 0.41	SCV 0.85	LCG 1.12	LCG 0.53	SCG 1.37	SCV 0.95	LCG 6.06	LCG 20.53
	IBD 0.84	USB 0.36	LCG 1.76	IEQ 0.34	LCV -0.20	SCG 0.67	USB 0.34	SCV 1.49	USB 0.50	EM 0.12	LCG 0.98	IEQ 0.40	IEQ 0.06	MCG 0.35	LCV 0.83	IEQ 0.24	SCV -0.12	RE 0.85	RE 0.77	MCG 2.31	EM 6.65
	USB 0.60	LCG 0.32	EM 1.61	RE 0.16	HYB -0.26	EM 0.59	HYB 0.13	LCG 1.31	LCG 0.49	USB 0.10	SCG 0.79	LCV 0.39	MCV -0.02	SCG 0.33	MCV 0.80	HYB 0.13	EM -0.21	SCV 0.63	MCV 0.31	RE 2.16	LCV 6.46
	LCG 0.53	IBD 0.02	MCG 1.41	IBD 0.14	MCG -0.44	MCV 0.51	MCG 0.09	IEQ 1.18	HYB -0.01	RE -0.08	SCV 0.79	SCG 0.37	HYB -0.06	SCV 0.15	IEQ 0.80	SCG 0.06	HYB -0.22	MCG 0.42	EM 0.19	EM 1.55	MCG 5.85
	HYB 0.31	HYB -0.05	SCV 1.09	LCG 0.14	MCV -0.56	LCG 0.39	IBD -0.09	MCG 1.16	IBD -0.14	60/40 -0.36	MCG 0.78	USB 0.36	60/40 -0.16	HYB 0.12	RE 0.60	USB -0.01	MCG -0.26	IBD 0.28	IEQ 0.12	60/40 0.41	IEQ 5.79
	IEQ 0.28	60/40 -0.09	MCV 0.87	60/40 0.05	60/40 -0.78	RE 0.28	60/40 -0.14	EM 1.00	60/40 -0.19	HYB -0.39	EM 0.64	MCG 0.34	EM -0.16	IBD 0.03	IBD 0.42	60/40 -0.02	RE -0.29	MCV 0.24	LCV 0.09	USB 0.28	MCV 4.49
	60/40 0.27	IEQ -0.12	60/40 0.71	USB 0.03	RE -0.80	LCV 0.26	RE -0.28	MCV 0.90	EM -0.24	MCG -0.47	MCV 0.61	60/40 0.33	USB -0.17	USB 0.01	60/40 0.23	IBD -0.07	SCG -0.34	LCG 0.22	IBD 0.02	HYB 0.17	SCG 4.37
	RE -0.28	MCG -0.20	IEQ 0.70	LCV -0.16	USB -0.88	60/40 0.15	SCG -0.28	RE 0.86	LCV -0.34	LCV -0.56	LCV 0.53	HYB 0.31	SCV -0.22	LCV -0.01	USB 0.08	MCG -0.13	60/40 -0.36	60/40 0.20	60/40 -0.15	SCG 0.05	60/40 4.34
	SCG -0.32	LCV -0.40	LCV 0.46	HYB -0.17	IEQ -1.08	HYB 0.09	EM -0.33	IBD 0.86	MCV -0.54	IBD -0.73	IEQ 0.40	RE 0.29	RE -0.26	MCV -0.04	EM 0.00	EM -0.23	LCV -0.42	USB 0.16	MCG -0.15	LCV -0.48	HYB 2.26
	SCV -0.57	MCV -0.73	HYB 0.32	MCG -0.19	SCV -1.09	IBD 0.07	SCV -0.44	60/40 0.81	MCG -0.77	MCV -0.97	60/40 0.29	MCV 0.26	MCG -0.32	60/40 -0.13	SCG -0.02	SCV -0.68	USB -0.45	HYB 0.12	SCG -0.18	MCV -0.84	USB -0.71
	LCV -0.65	SCG -1.31	USB 0.31	MCV -0.50	EM -1.13	SCV -0.01	MCV -0.54	USB 0.47	SCG -0.78	IEQ -1.11	HYB 0.06	LCG 0.18	IBD -0.45	LCG -0.22	MCG -0.09	LCV -0.73	MCV -0.52	IEQ 0.08	HYB -0.25	SCV -1.30	SCV -1.16
	MCG -0.65	EM -1.40	IBD -0.09	SCV -0.55	SCG -1.15	IEQ -0.07	LCV -0.66	HYB 0.40	SCV -1.05	SCG -1.49	RE -0.36	SCV -0.01	LCG -0.68	EM -0.35	HYB -0.10	MCV -0.89	IBD -0.59	EM 0.07	USB -0.49	IBD -1.36	IBD -3.03
Low	MCV -0.83	SCV -1.49	RE -0.24	SCG -0.78	IBD -1.65	USB -0.08	IEQ -1.12	LCV 0.17	IEQ -1.43	SCV -1.54	USB -0.36	IBD -0.41	SCG -0.69	IEQ -0.70	LCG -0.98	RE -1.21	IEQ -0.74	LCV 0.02	LCG -0.74	IEQ -2.09	RE -3.04

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