MONTH IN REVIEW

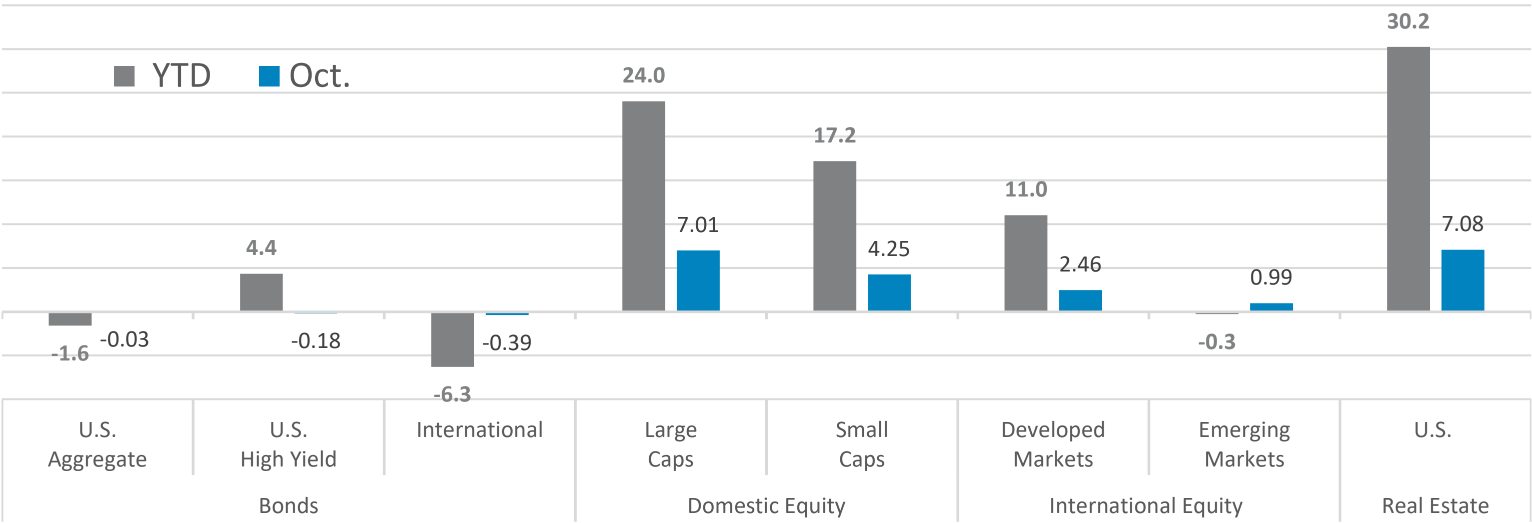
October 2021

Quick Takes

- **Risk take off again.** Equities warmed up as the weather cooled off. Risk assets were buoyed by the start of a strong earnings season, the S&P 500 had its best month since November of 2020 and most indices were in the green for October.
- **Yields rise with equities.** The FOMC meeting for October brought us one step closer to the tapering of assets and possibly accelerated the timeline for an interest rate hike. The yield on the 10-year rose a modest 6bps for the month, but the yield on the 2-year treasury spiked 22bps.
- **Rollercoaster ride for the Dollar.** The greenback had a volatile month for October. It spent the beginning of the month in a steady upward direction, before falling, and finally recovering on the last trading day of the month, ending slightly higher than where it started.
- **Supply chains, Labor Markets, and Inflation.** Supply chain bottlenecks, labor market constraints, and high inflation continue to weigh on economic growth. Company executives continue to site these issues on earnings call as the biggest headwinds to progress.

Asset Class Performance

Risk assets were able to recover September's losses and add to their already stellar YTD gains. The S&P 500 and Nasdaq finished the month at new highs. U.S. Real Estate claimed the crown for the month at +7.08%.



Source: Bloomberg, as of September 30, 2021. 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).

PRIME CAPITAL
WEALTH MANAGEMENT

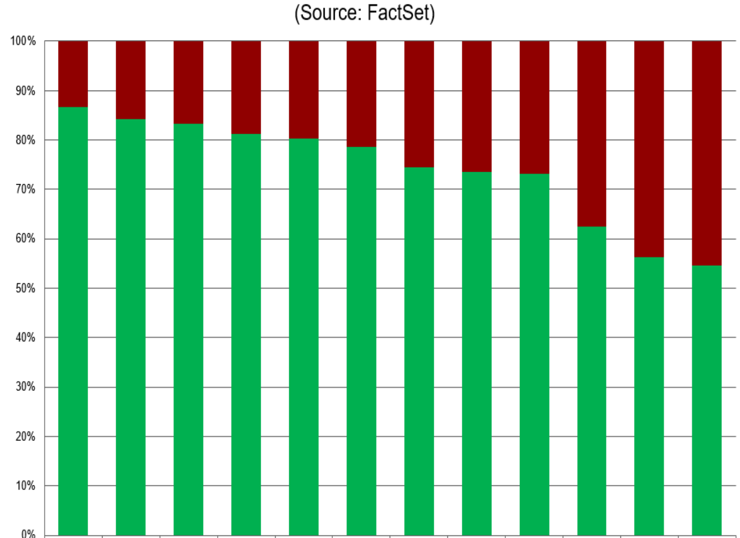
Stocks achieve record highs on strong earnings season

After September's gruesome month for equities, indices were able to reclaim their losses and climb to new highs on the back of a fantastic start to the Q3 earnings season. In the chart below, Factset reports that 75% of S&P 500 companies have beat revenue estimates, which is well above the 5-year average of 67%. Despite increased cost pressure from supply chain disruptions, labor market constraints, and high inflation, S&P 500 companies are reporting year-over-year earnings growth of 36.6%, the largest increase since Q2 of 2010 and the 3rd largest increase since FactSet began tracking data. With earnings acting as giant tailwind for equities, market participants were able to shake off a miss in GDP numbers, +2.0% versus expectations of +2.6%. The S&P 500 rose +6.91% for the month of October, but the Nasdaq was able to best it, up +7.27% for the month. Small Caps were more muted, but the Russell 2000 was still able to post a solid month, up +4.21%. International equities didn't fair quite as well as domestic equities for the month of October, the STOXX Europe 600 index was up +4.55% and the Nikkei-225 was down -1.90%.

S&P 500 Q3 Revenues Versus Estimates

75% of S&P 500 companies have beaten revenue estimates for Q3 to date, which is above the 5-year average of 67%.

S&P 500 Revenues Above, In-Line, Below Estimates: Q3 2021
(Source: FactSet)



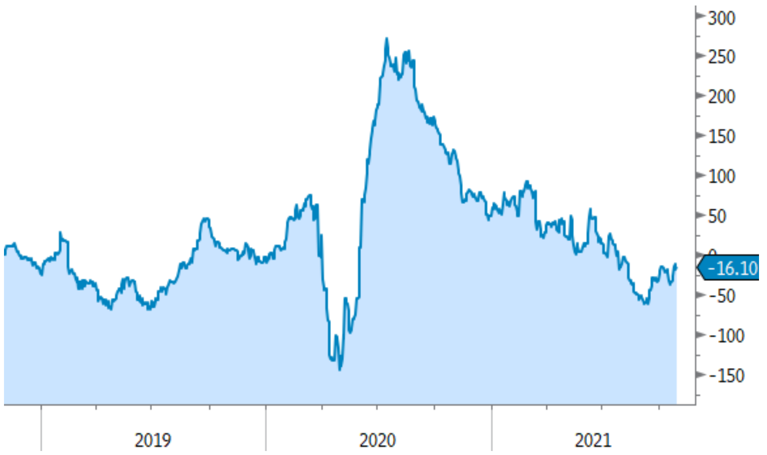
	Real Estate	Consumer Staples	Utilities	Health Care	Financials	Materials	S&P 500	Info. Technology	Industrials	Energy	Consumer Disc.	Comm. Services
Below	13%	16%	17%	19%	20%	21%	25%	26%	27%	38%	44%	45%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	87%	84%	83%	81%	80%	79%	75%	74%	73%	63%	56%	55%

Source: FactSet

While equities were able to shrug off the disappointing economic growth numbers last month, overall, economic data releases relative to consensus estimates have been in negative territory. As the chart below illustrates, the U.S. Citi Economic Surprise Index, a measure of all economic data releases versus their consensus estimates, appears to have bottomed out and recovered slightly, but remains below zero. Market participants are hopeful that continued progress on vaccinations, and thus a decline in Covid-19 cases, could spur consumers to return to spending in the fourth quarter of the year. Estimates for economic growth remain lofty for the last quarter of the year and the Fed is expected to announce a timeline to the tapering of asset purchases in November.

Economic Data Fizzles

U.S. Citi Economic Surprise Index



Source: Bloomberg

With the Fed tightening monetary policy, employment constraints, and continued supply chain difficulties, risk assets' tailwinds are starting to diminish. consumers and corporations are still in excellent financial condition, so while tailwinds are moderating, they have not disappeared entirely.

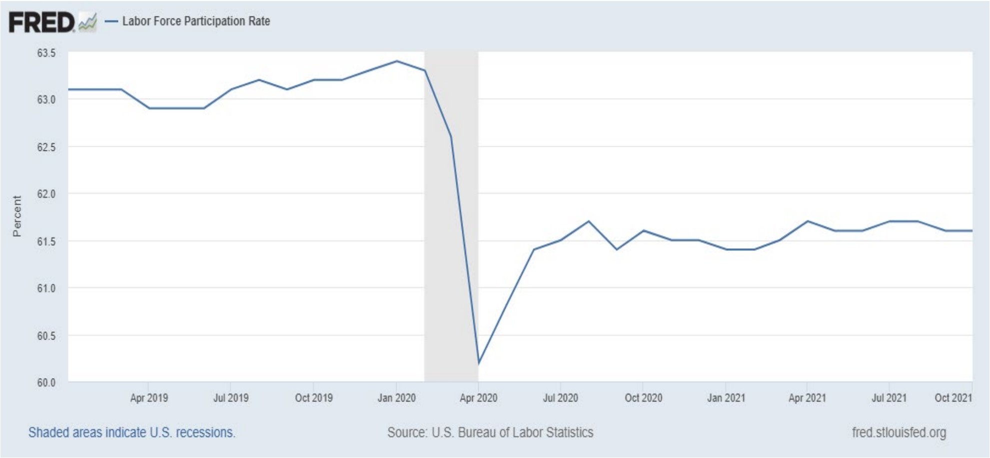
<u>Bottom Line</u>: Equities resumed their theme of setting new highs on the back of strong earnings and despite softer than expected economic growth for the month. While inflation, employment, supply chain disruptions, and the Fed tightening monetary policy all represent potential headwinds, these risks are known and likely already priced in. The path of least resistance for risk assets remains upward, but likely at slower pace and with more bouts of volatility.

Labor, Inflation, and the Fed on Repeat

Seemingly like a broken record, markets are continuing to keep a watchful eye on several key areas for risks that could moderate equities' rally. The first of these will be the Fed's announcement to tapering of asset purchases in the first week of November. The Fed is expected to announce details surrounding the timeline and methods for reducing monthly asset purchases. Thus far, the Fed has been extremely transparent surrounding their intentions and market participants have likely already priced this event in. Expectations are that the Fed will continue to use its broad and ambiguous language to allow for adjustments based on current economic conditions. If the Fed doesn't throw in any last-minute surprises, markets will likely shrug this event off. While the tapering announcement likely won't have any major short-term effects, any language surrounding future interest rate hikes may make some waves in markets. With inflation running well above original expectations and supply chain and labor market constraints limiting additional growth, markets have already priced in 2.5 interest rate hikes by early 2023. The Fed has remained adamant that full employment will need to reached before any liftoff in interest rates occur.

Labor Force Participation Flatlines in October

U.S. Labor Force Participation Rate



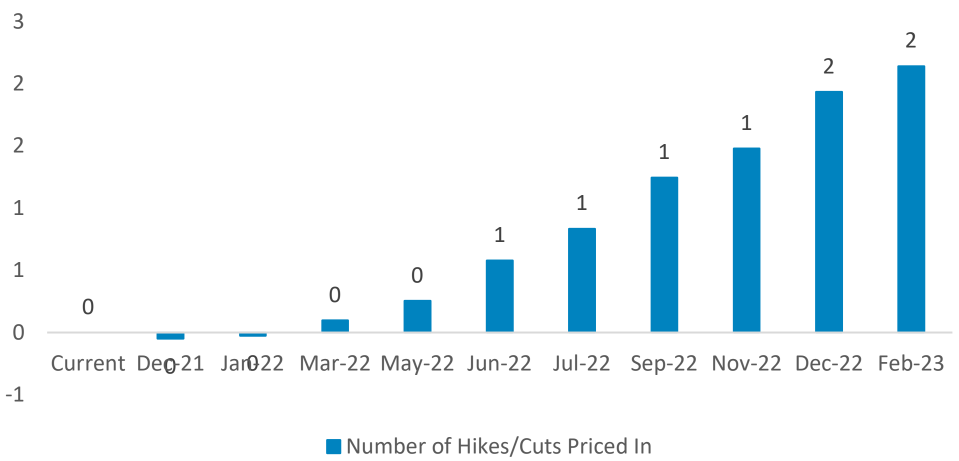
Source: U.S. Bureau of Labor Statistics, fred.stlouisfed.org

While high frequency employment data reporting was trending in the right direction for the month of October, labor force participation stumbled for the month, especially amongst women. This is likely a continued effect of the spread of the Covid-19 delta variant, as parents opt to delay returning to work to reduce childcare expense and exposure. As vaccinations continue to be distributed and regions lax their mandates, market participants will be looking for any signs of improvement in labor participation.

With the FDA announcing the approval of a vaccine for young children at the end of October, this may be the catalyst for reversing the trend, but its impact will likely take time to work into the data. If workers do begin to return to the workforce in a more meaningful way, this will also assist supply chain recovery, which were starting to show early signs of improvement at the end of the month. This could act as an additional catalyst for consumers to increase consumption during the upcoming holiday season with more goods and services available and lead risk assets to a Santa Clause rally.

Markets Have Priced in 2.5 Interest Rate Hikes by Early 2023

Probabilities of Interest Rate Hikes



Source: Bloomberg World Interest Rate Probabilities

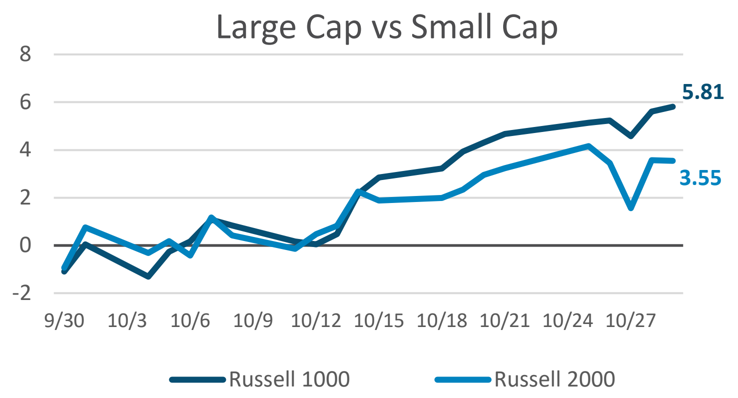
<u>Bottom Line</u>: Inflation, employment, supply chain constraints, and tightening monetary policy seem to be the main risks to markets in the future. While each of these act as headwinds, both individually and when combined with each other, the risks are known and likely already priced into markets. If inflation shows signs of moderating or if employment data begins to pick up, these will likely act as tailwinds to the market, but will also increase the likelihood of a sooner than anticipated hike in interest rates, which may temper additional upside for risk assets.

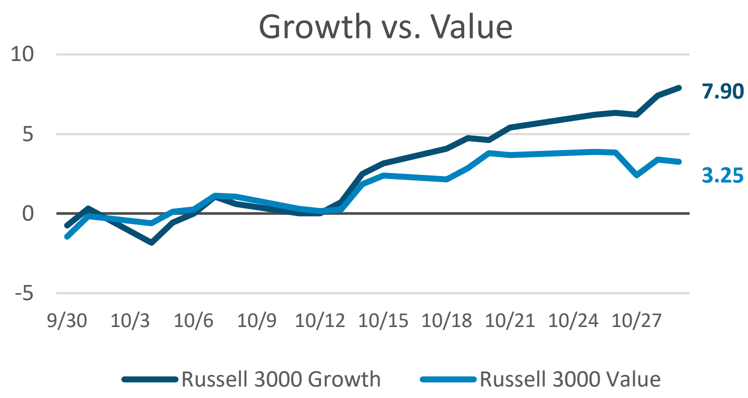
October 2021

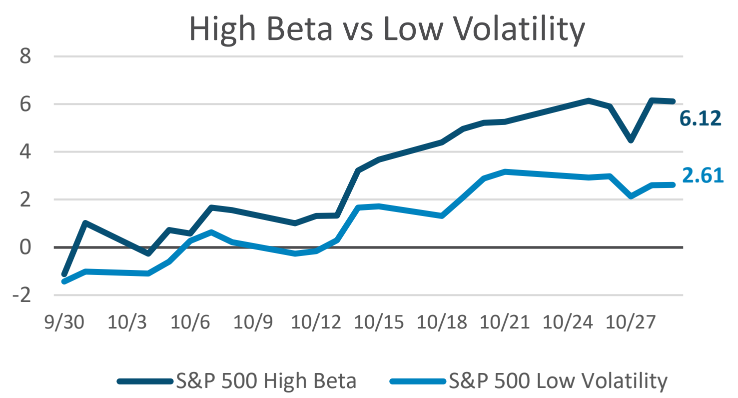
Equity Themes

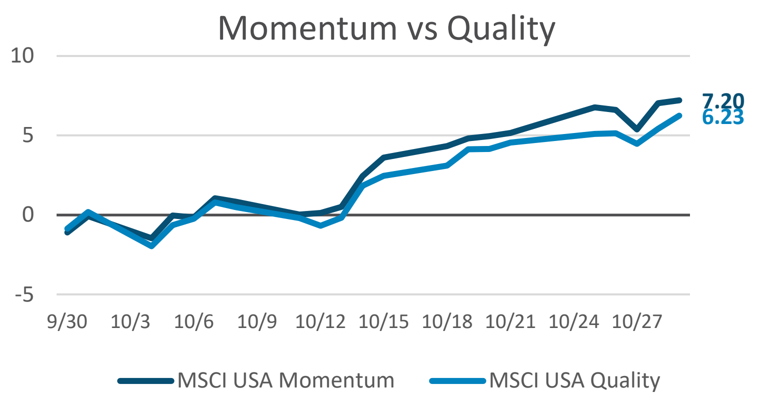
What Worked, What Didn't

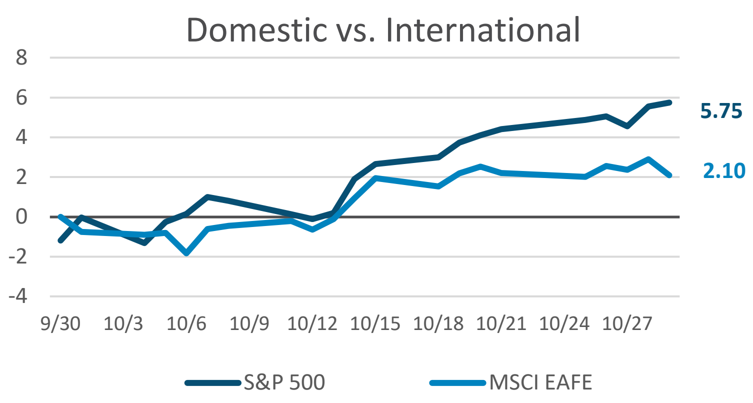
- **Growth over Value.** Growth style equities dominated value style equities for the month returning +7.90% versus value equities up +3.25%.
- **Momentum and Volatility Outperform.** Momentum was in better favor over quality, up +7.20% versus +6.23, and High Beta equities trumped low volatility, up +6.12% versus +2.61%.
- **International and Emerging Markets Lag.** International equities couldn't keep up with domestic equities, the international index was still up a modest +2.10% for the month. Developed international markets outperformed emerging markets by 92bps.

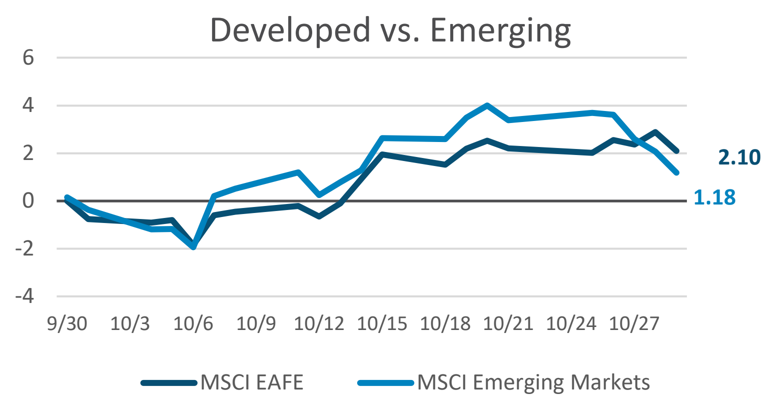












Source: Bloomberg.

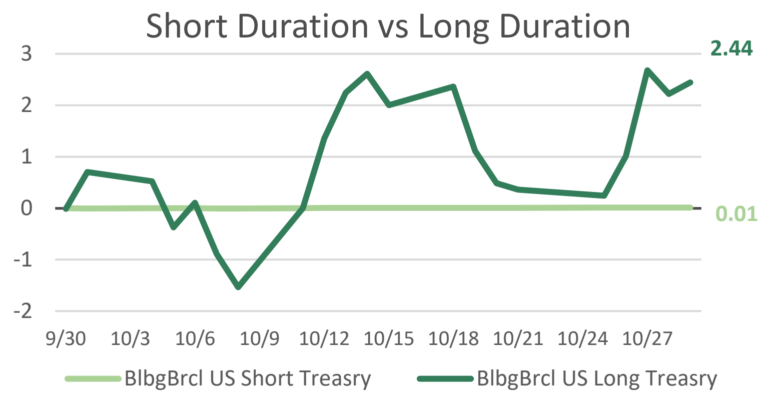
October 2021

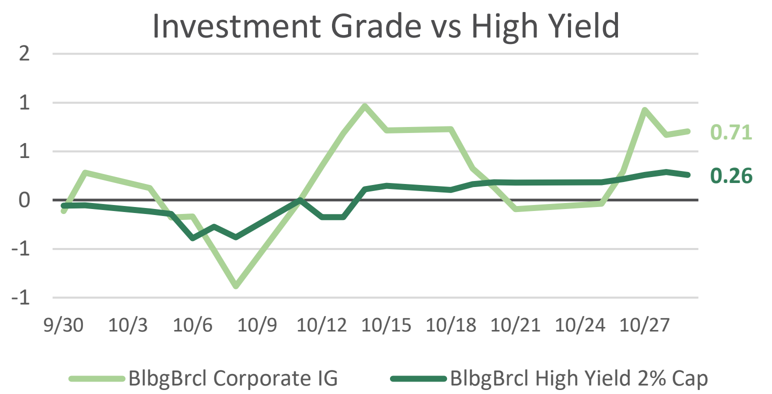
Bond Themes

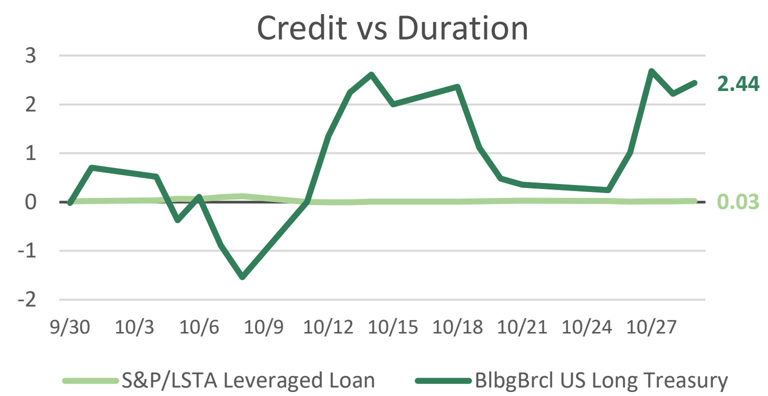
MONTH IN REVIEW

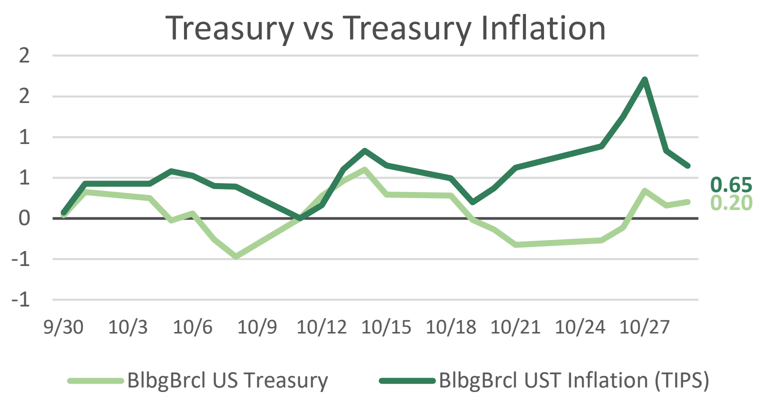
What Worked, What Didn't

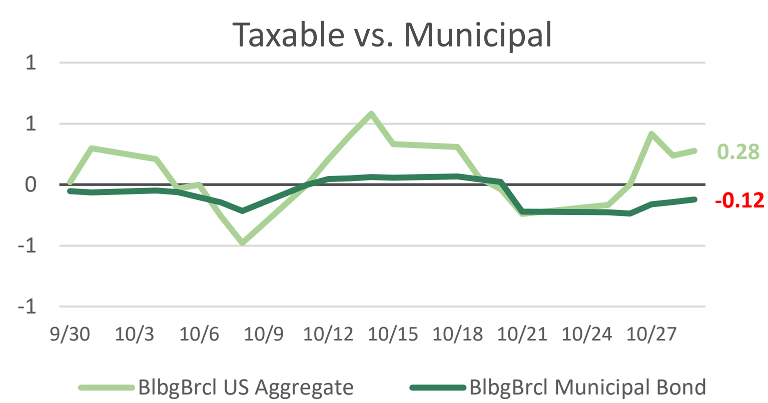
- **Go Long and High Quality.** With Short Duration U.S. Treasuries essentially flat for October, longer duration treasuries outperformed for the month, up +2.44% versus +0.01%. Corporate Investment Grade bonds outperformed lower quality bonds for October, up +0.71% versus +0.26%.
- **TIPS Outperform & Munis Falter.** With inflation still elevated, TIPS outperformed Treasuries by 45bps. Munis were the only bond sector in the red for the month, down slightly at -0.12% for October.
- **International Bonds Lag Domestic Bonds.** International bonds suffered as Covid-19 outbreak concerns began to weigh on investor's minds, the index remained positive for the month, up +0.15%, but lagged domestic bonds, up +0.28%.

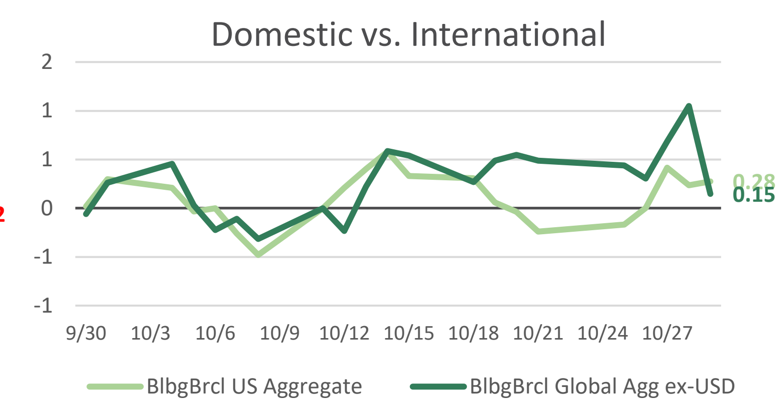












Source: Bloomberg.

October 2021

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.

Rank	Oct-01	Oct-04	Oct-05	Oct-06	Oct-07	Oct-08	Oct-11	Oct-12	Oct-13	Oct-14	Oct-15	Oct-18	Oct-19	Oct-20	Oct-21	Oct-22	Oct-25	Oct-26	Oct-28	Oct-29	Oct	YTD
High	SCV 1.82	IBD 0.16	LCG 1.28	RE 0.99	EM 1.95	EM 0.38	RE 0.27	RE 1.36	EM 1.39	MCG 1.85	EM 1.21	LCG 0.93	EM 1.33	RE 1.49	MCG 1.11	IEQ 0.60	SCG 1.09	RE 0.30	SCG 2.86	MCG 0.64	RE 8.12	RE 30.89
	MCV 1.52	USB -0.07	MCG 1.02	LCG 0.65	SCG 1.69	IEQ -0.01	USB -0.16	SCG 0.79	MCG 1.23	LCG 1.71	IEQ 0.83	MCG 0.88	LCV 0.78	SCV 0.94	LCG 0.75	RE 0.54	SCV 0.95	IEQ 0.20	SCV 2.69	LCG 0.52	LCG 6.94	SCV 28.22
	RE 1.41	SCV -0.13	LCV 0.71	MCG 0.54	SCV 1.34	IBD -0.01	EM -0.20	MCG 0.70	IEQ 0.99	MCV 1.69	LCG 0.81	RE 0.23	LCG 0.72	LCV 0.92	SCG 0.56	IBD 0.45	LCG 0.82	USB 0.18	MCG 1.31	SCG 0.13	MCG 6.46	MCV 25.26
	SCG 1.39	RE -0.20	EM 0.71	LCV 0.25	MCG 1.33	LCV -0.03	HYB -0.31	USB 0.37	SCG 0.73	LCV 1.58	LCV 0.62	MCV 0.08	SCG 0.64	MCV 0.92	RE 0.16	MCV 0.28	EM 0.52	LCG 0.15	MCV 1.28	USB -0.03	MCV 6.13	LCV 22.59
	LCV 1.30	HYB -0.35	IEQ 0.68	MCV 0.18	LCG 1.06	MCV -0.19	IEQ -0.32	SCV 0.34	LCG 0.72	SCG 1.49	60/40 0.29	SCG 0.03	IEQ 0.60	IEQ 0.35	SCV 0.01	LCV 0.22	MCG 0.36	HYB 0.02	EM 1.24	LCV -0.10	LCV 5.73	LCG 22.05
	LCG 1.07	MCV -0.45	MCV 0.66	USB 0.04	MCV 0.84	60/40 -0.20	60/40 -0.36	MCV 0.26	RE 0.70	RE 1.35	MCG 0.23	60/40 -0.02	MCV 0.50	IBD 0.34	MCV -0.04	USB 0.19	RE 0.32	60/40 0.02	LCG 0.98	SCV -0.17	SCV 4.42	MCG 16.48
	MCG 0.89	LCV -0.47	SCG 0.57	60/40 -0.04	LCV 0.80	USB -0.22	IBD -0.41	HYB 0.19	IBD 0.64	SCV 1.25	MCV 0.17	HYB -0.05	MCG 0.49	SCG 0.30	60/40 -0.11	60/40 0.14	MCV 0.20	IBD 0.02	RE 0.97	60/40 -0.25	SCG 4.03	IEQ 11.84
	60/40 0.59	60/40 -0.73	60/40 0.35	HYB -0.06	IEQ 0.78	SCV -0.25	MCV -0.50	60/40 0.17	60/40 0.57	IEQ 0.99	RE -0.02	USB -0.07	60/40 0.34	60/40 0.25	LCV -0.12	SCV -0.14	60/40 0.20	LCV -0.02	IEQ 0.91	HYB -0.26	EM 3.29	60/40 9.20
	USB 0.30	IEQ -1.05	SCV 0.26	SCG -0.40	60/40 0.53	HYB -0.30	SCV -0.53	IEQ 0.05	HYB 0.27	60/40 0.88	IBD -0.14	SCV -0.08	RE 0.22	MCG 0.17	USB -0.21	EM -0.21	LCV 0.19	MCV -0.32	LCV 0.86	MCV -0.35	IEQ 3.19	SCG 6.76
	IBD 0.27	EM -1.47	HYB -0.05	IBD -0.41	RE 0.18	LCG -0.43	MCG -0.59	LCG -0.03	USB 0.23	HYB 0.56	HYB -0.17	IBD -0.17	IBD 0.17	HYB 0.03	HYB -0.25	HYB -0.24	HYB 0.17	MCG -0.47	60/40 0.80	IEQ -0.58	60/40 2.90	HYB 2.72
	IEQ 0.24	SCG -1.70	USB -0.23	EM -0.56	IBD 0.02	MCG -0.86	LCG -0.62	LCV -0.14	MCV 0.20	IBD 0.48	SCV -0.22	EM -0.25	SCV 0.14	EM -0.02	IEQ -0.47	MCG -0.35	USB 0.10	EM -0.52	IBD 0.44	IBD -0.99	IBD -0.08	EM 1.15
	HYB 0.24	LCG -2.16	IBD -0.36	SCV -0.62	HYB 0.01	RE -0.87	SCG -0.63	IBD -0.24	SCV 0.16	EM 0.31	USB -0.24	LCV -0.28	HYB 0.07	USB -0.07	IBD -0.59	SCG -0.40	IEQ -0.20	SCG -0.60	USB 0.28	RE -1.01	HYB -0.22	USB -1.90
Low	EM -0.10	MCG -2.19	RE -0.57	IEQ -0.67	USB -0.28	SCG -1.17	LCV -0.81	EM -0.51	LCV 0.10	USB 0.19	SCG -0.35	IEQ -0.43	USB -0.29	LCG -0.13	EM -0.65	LCG -0.50	IBD -0.28	SCV -0.86	HYB 0.27	EM -1.45	USB -0.24	IBD -6.70

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 June 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.