MONTH IN REVIEW

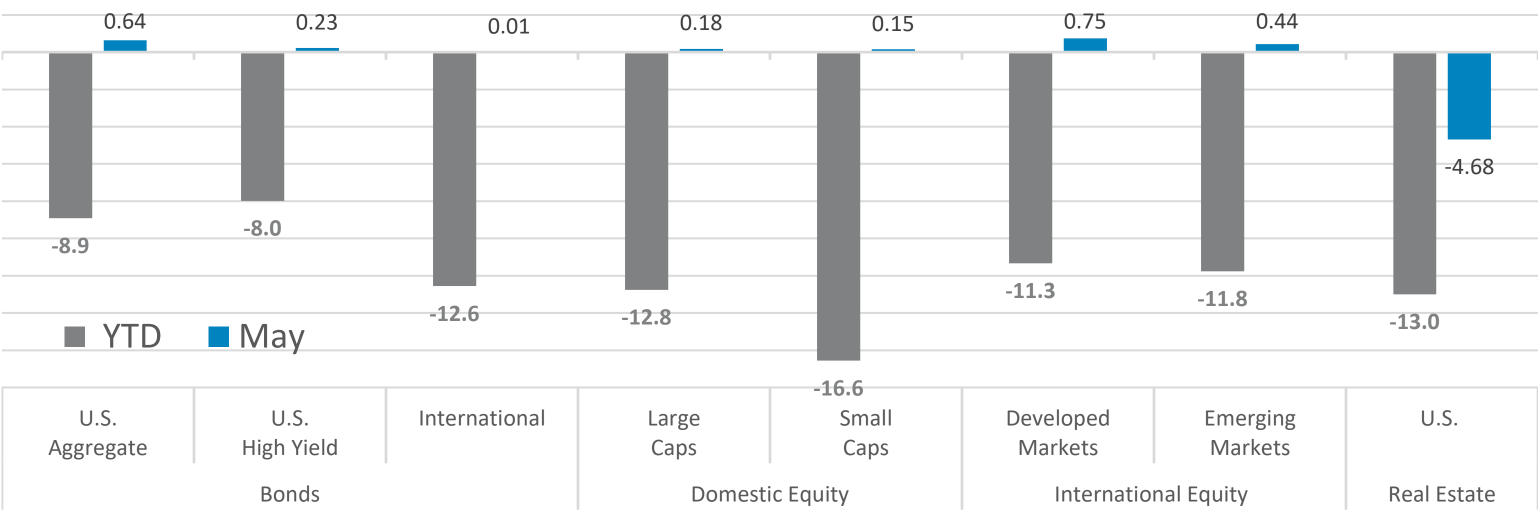
May 2022

Quick Takes

- **Risk Assets Post Positive Month.** Risk assets took a break from the intense year to date sell off, with almost all asset classes posting a positive month. Markets were still volatile for the month as market participants continue to price in a more hawkish Fed.
- **Will the Consumer Save the Economy?** With the Fed tightening monetary policy, recession fears have grown immensely. As businesses focus on reducing costs and their need to finance growth, it appears that the consumer will play an important role in determining if the US economy falls into a recession.
- **Dollar Retreats From Highs.** The dollar finally retreated from its recent peak after achieving levels not seen in over 20 years during the prior month.
- **Production, Labor Markets, and Inflation.** While manufacturing production remains strong, US Capacity Utilization came in above expectations of 78.6% at 79.0% for the previous month, but some higher frequency datapoints suggested that manufacturers are starting to slow the pace of production, which could have waterfall effects on the Labor Market and Inflation.

Asset Class Performance

May was a rollercoaster for risk assets with most starting the month on a sharp upward swing, only to fall almost immediately back into negative territory for the month. As the month went on, the volatility continued, but risk assets went on a final run towards the end of the month with almost all asset classes ending in the green for May.



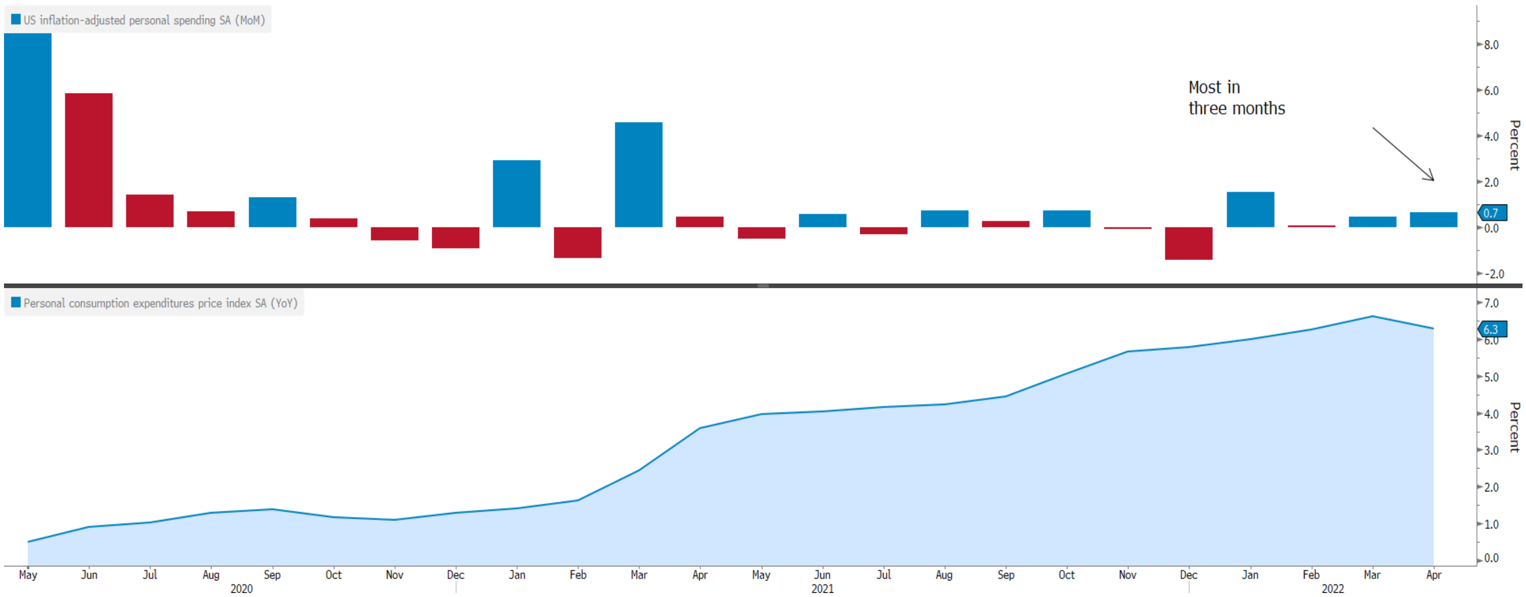
Source: Bloomberg, as of December 31, 2021. Asset-class performance is presented by using total returns for an index proxy that best represents the respective broad asset class. U.S. Bonds (Barclays U.S. Aggregate Bond TR), U.S. High Yield (Barclays U.S. HY 2% Issuer-Capped TR), International Bonds (Barclays 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

Consumers Return to Consuming

Consumers Shake Off Inflation and Ramp Up Spending

Inflation-Adjusted Personal Spending (MoM) and Personal Consumption Expenditures Price Index (YoY)



Source: Bureau of Economic Analysis, Bloomberg

Inflation, as measured by the Consumer Price Index (CPI), continued its trek higher, but at a slower pace than previous readings. On the year-over-year metric, CPI rose by +8.3%, which was much more moderated than the reading the month before of +8.5%. While one reading doesn't make a trend, this could be the initial signs of inflation beginning to moderate as the Fed ramps up their monetary tightening activities. The combination of the Fed's actions and the global effects of the war between Russia and Ukraine have battered US Consumer Confidence. The University of Michigan Consumer Sentiment Index fell to 58.4, approaching levels we haven't seen since the fallout of the Great Financial Crisis during 2009. Despite this dismal backdrop, US Consumers increased their rate of spending by the highest rate thus far for the year on an inflation-adjusted basis. Real Consumer spending rose by +0.7% for the May reading. To post this strong reading, it appears that consumers had to dip into their savings to fund their purchases with the Personal Savings Rate falling to 4.4%, also a level not seen since the Great Financial Crisis. While a falling savings rate may not initially sound like a positive, given the robustness of consumer balance sheets on the tail end of the global pandemic, it is likely that consumers' balance sheets have ample room to allow more spending versus savings over the short to intermediate term. This is especially encouraging given that the Fed has conducted their interest rate liftoff, with the intention of slowing economic growth back to a more sustainable level. The Fed has a difficult job of tempering economic growth, but not so much that it sends the US economy into a recession. If consumers continue to consume, this could act as a golden parachute for the Fed as they pump the brakes on economic production, but it will likely be akin to balancing on a tightrope as the Fed pursues the goldilocks economy of not too hot, but not too cold.

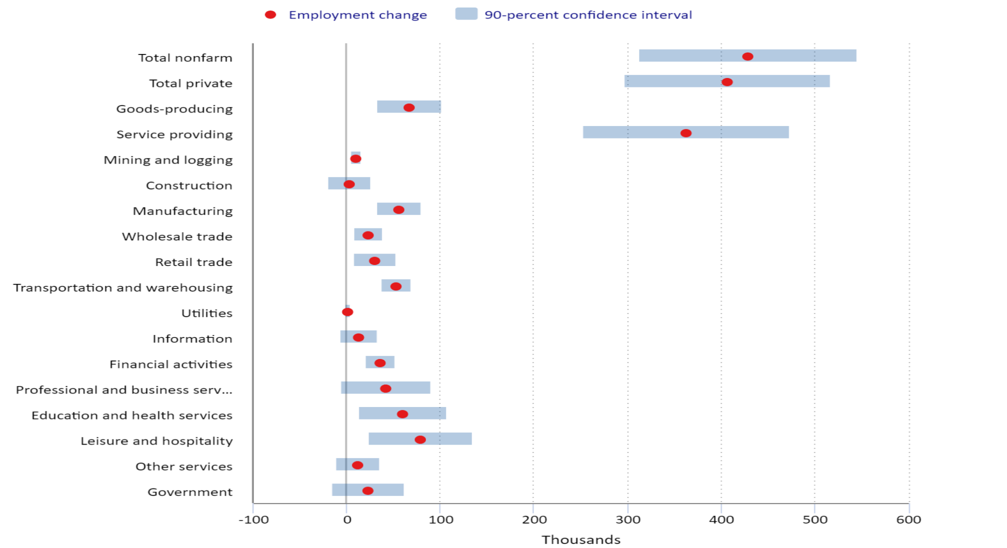
Bottom Line: Despite a challenging backdrop for the US economy, and the rest of the globe, brought about by rampant inflation, tight labor markets combined with low labor force participation, tightening monetary policy by the Federal Reserve, and geopolitical tensions, the US Consumer posted their strongest Real Personal Spending for the year at the May reading. As the Fed attempts to slow down the economy via interest rate rises, continued robust US consumer spending could act as a saving grace for the Fed as they attempt to wrangle inflation while keeping economic growth positive.

Labor Markets, Interest Rates, and Economic Production

As mentioned in the previous section, US consumers will play a major role in keeping US economic growth in the green for the intermediate term as the Fed tightens monetary policy via interest rate increases and the Fed's balance sheet runoff (letting bonds the Fed owns mature and not repurchasing new bonds). At the next Fed meeting, members are expected to increase interest rates by 50bps, bringing the upper band of the target rate to 1.50%. This action will increase the costs of borrowing money, and thus help to slowdown spending, which should help to curb inflation's rampant upward momentum. While the Fed has committed to being laser focused on reducing the increase in inflation, the Fed's official mandate has two aspects to it: "The monetary policy goals of the Federal Reserve are to foster economic conditions that achieve both stable prices and maximum sustainable employment" (source: Chicagofed.org). As illustrated in the chart below, the unemployment rate has fallen to approximately the same level as pre-pandemic and the Fed has called that "mission accomplished" on that portion of the mandate. Which is why the Fed has essentially shifted to a single mandate, at least for the short-term, by solely focusing on getting inflation under control. However, as the Fed continues to tighten monetary policy and thus curb economic growth to a more sustainable long-term level, this may spill over into the labor markets as companies reduce, if not eliminate, hiring programs. Recent economic data suggests that firms, especially on the manufacturing side of the economy, have begun to reduce the level of output, as well as the number of new employees they are expecting to hire. As illustrated in the chart above, goods and manufactures have reduced hiring, but service providers have begun to ramp up hiring. Again, consumer spending will play an important role in the coming months, especially if consumers transition their spending from goods to services, which should help to prop up the economy and reduce the chances of a Fed induced economic recession or if consumers defer spending in favor of saving, which may increase the likelihood of a recession.

Labor Markets Shift From Goods to Services

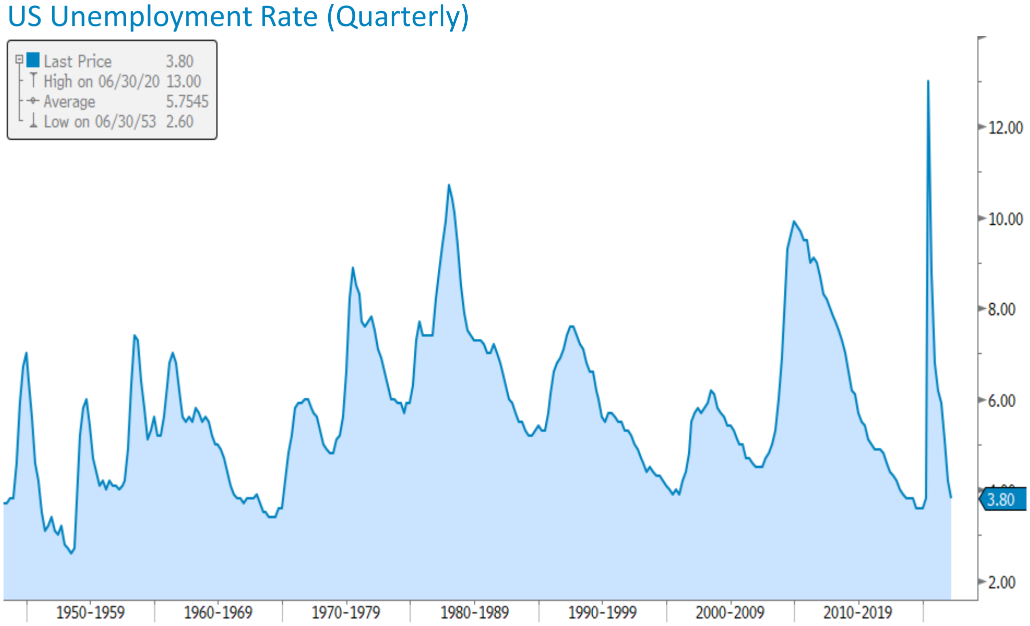
Seasonally Adjusted Employment Change by Industry as of April 2022



Source: Bureau of Labor Statistics, Bloomberg

Labor Markets Have All But Recovered

US Unemployment Rate (Quarterly)



Source: Bureau of Labor Statistics, Bloomberg

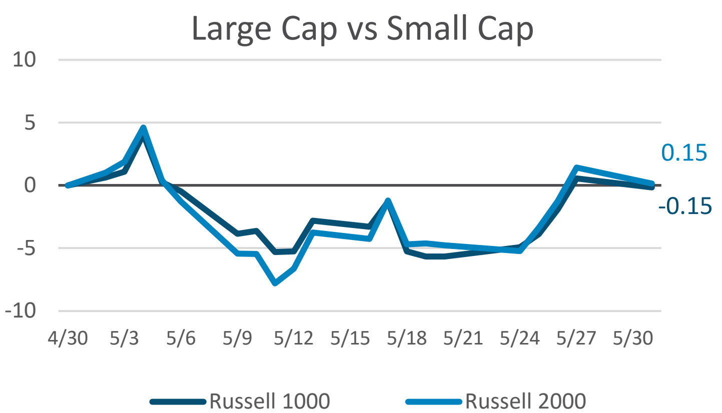
<u>Bottom Line</u>: The Fed's shift to a single mandate: getting inflation/prices under control is now in full swing with an expected 50bps rate hike during the June FOMC meeting. The Fed called "mission accomplished" on achieving a sustainable level of employment, but their actions employed to fight inflation may end up hurting the labor market and thus shifting their focus back to their official dual mandate of sustainable levels of inflation and employment. Ultimately, consumer spending may be the deciding factor on if the US economy will fall into a recession or not.

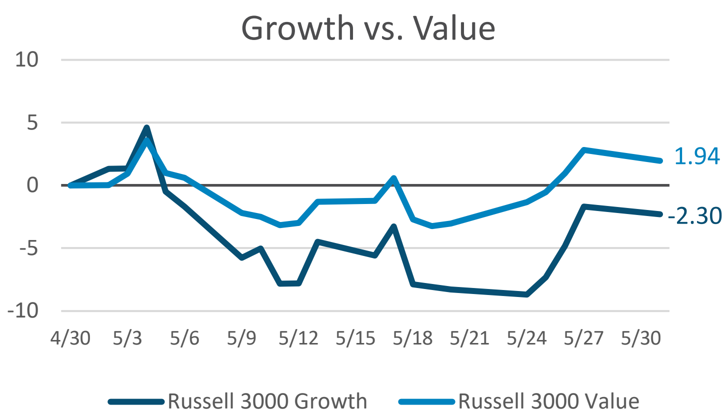
May 2022

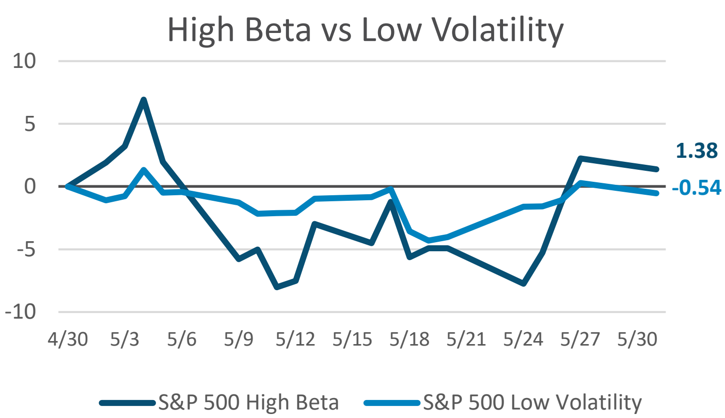
Equity Themes

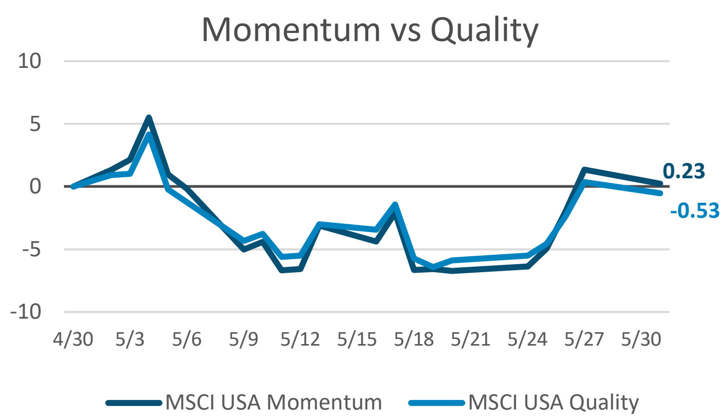
What Worked, What Didn’t

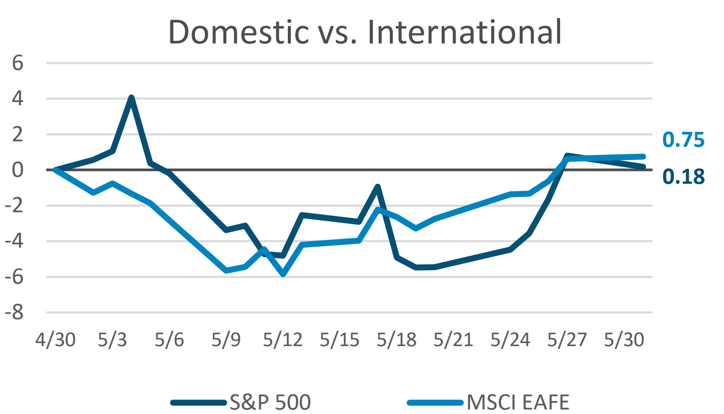
- **Small Over Large, Value Over Growth.** Small Cap equities bested Large Caps for the month of May and Value candidly outperformed Growth equities for the month, despite Growth having a strong run towards the end of the month.
- **High Beta and Momentum Beat Quality and Low Vol.** High Beta equities were true to their namesake for May, posting a volatile month, but posted a solid month of outperformance versus Low Vol. equities. Momentum and Quality traded in near lockstep for the month, but Momentum ended up on top for May.
- **International over Domestic, Developed over Emerging.** International Equities started the month in the red but rallied more than Domestic equities by the end of the month, despite both indices being positive for May. Emerging Markets also posted a strong month for May, but not quite as strong as Developed.

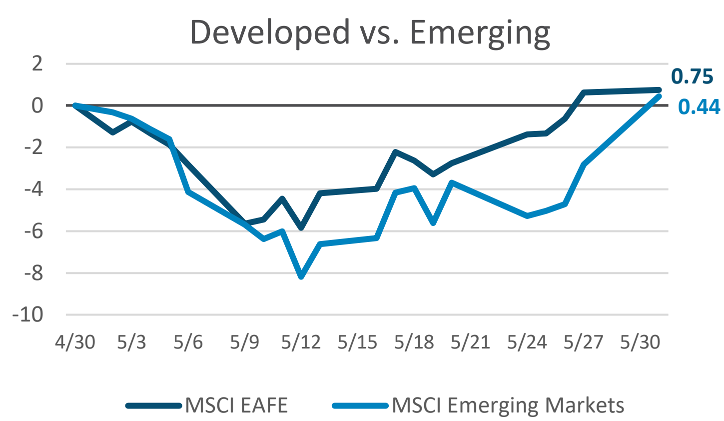












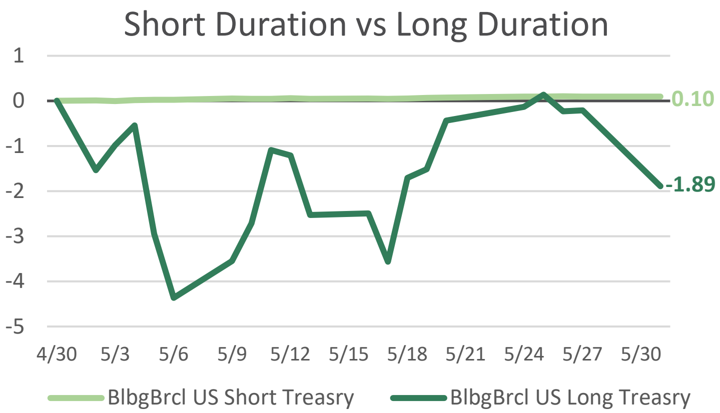
Source: Bloomberg.

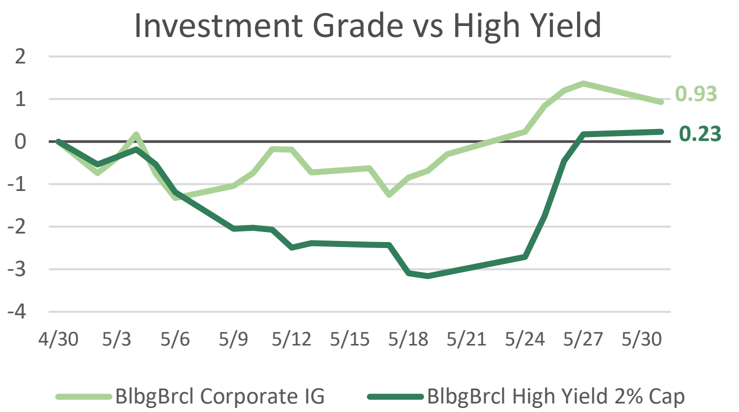
May 2022
Bond Themes

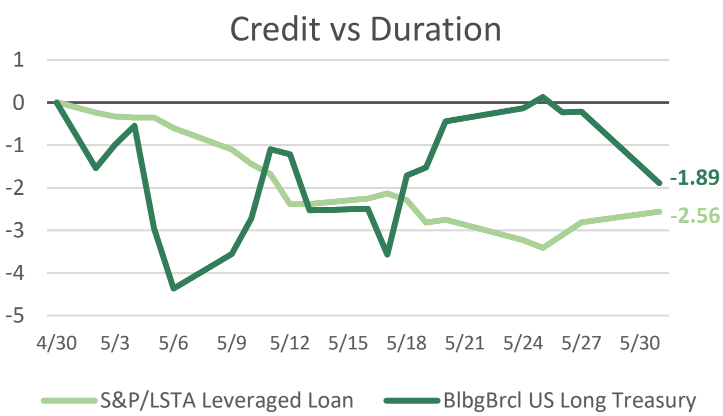
MONTH IN REVIEW

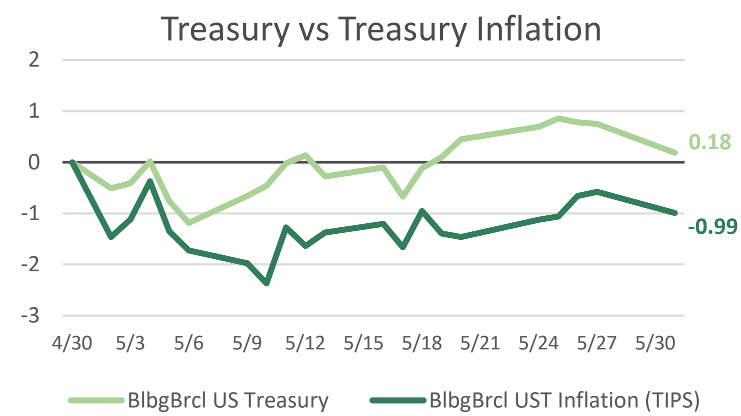
What Worked, What Didn’t

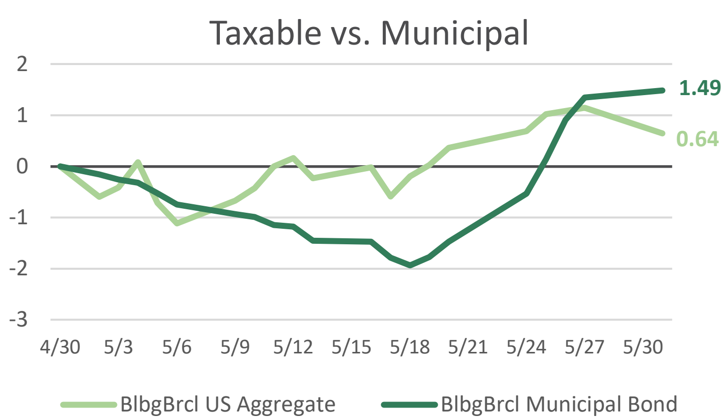
- **Short Over Long, Quality Over Yield.** Overall, bonds showed some mixed results for the month, but after a rough start to the year, some areas offered opportunity. The Short Duration theme continued by outperforming longer maturities and Investment Grade was able to outperform High Yield as investors mulled over recession risks.
- **Safety Beats Inflation for May.** With inflation still increasing, but at a slower pace, Treasuries outperformed their inflation adjusted peers.
- **Munis Outperform Taxables and Domestic Outperforms International.** Muni bonds offered some outperformance versus Taxable bonds and Domestic bonds outperformed their International peers.

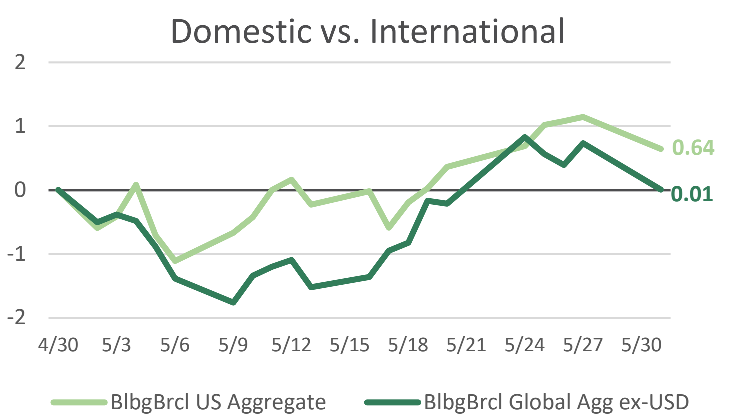












Source: Bloomberg.

May 2022

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.

	May-02	May-03	May-04	May-05	May-06	May-09	May-10	May-11	May-12	May-13	May-16	May-17	May-18	May-19	May-20	May-24	May-25	May-26	May-27	May-31	May	YTD	
High	SCG 1.79	RE 1.50	LCG 3.22	USB -0.99	LCV -0.28	USB 0.49	LCG 0.76	USB 0.37	SCG 1.98	MCG 4.49	IBD 0.24	SCG 3.32	USB 0.40	EM 1.59	RE 0.76	RE 0.96	MCG 2.11	MCG 3.00	MCG 3.45	EM 1.40	IEQ 2.00	LCV -4.60	High
	MCG 1.38	SCV 1.47	MCG 2.77	IBD -1.18	USB -0.42	IBD 0.10	IEQ 0.75	IBD 0.24	MCG 1.58	SCG 4.26	USB 0.22	SCV 2.95	HYB -0.82	MCG 1.40	IEQ 0.68	USB 0.77	SCG 2.03	LCG 2.64	LCG 3.33	LCG -0.54	LCV 1.98	MCV -6.02	
	LCG 1.31	MCV 1.10	SCG 2.71	HYB -1.77	HYB -0.56	HYB -1.06	HYB 0.57	RE -0.21	RE 0.72	LCG 3.54	SCV 0.19	EM 2.45	IBD -0.99	IBD 1.34	EM 0.41	IBD 0.73	SCV 1.91	SCG 2.56	SCG 3.12	IEQ -0.60	MCV 1.93	HYB -7.23	
	SCV 0.32	LCV 0.86	SCV 2.65	LCV -2.46	IBD -0.64	60/40 -1.98	MCG 0.54	IEQ -0.59	SCV 0.71	IEQ 2.78	IEQ 0.09	LCG 2.37	60/40 -1.92	IEQ 0.96	MCG 0.34	HYB 0.60	HYB 1.52	MCV 1.94	RE 2.68	60/40 -0.61	SCV 1.93	SCV -8.35	
	MCV 0.28	IEQ 0.74	MCV 2.64	60/40 -2.57	MCV -0.79	LCV -2.79	SCG 0.52	HYB -0.60	MCV 0.37	EM 2.77	LCV 0.08	MCV 2.32	IEQ -2.39	SCG 0.79	USB 0.30	LCV 0.10	LCG 1.41	SCV 1.88	SCV 2.30	USB -0.63	HYB 1.63	USB -8.74	
	LCV 0.04	EM 0.73	LCV 2.63	RE -2.61	60/40 -0.84	EM -2.88	EM 0.48	LCV -0.62	USB 0.18	RE 2.71	HYB -0.14	MCG 2.23	EM -2.40	HYB 0.67	LCV 0.26	IEQ -0.16	MCV 1.32	EM 1.56	MCV 2.21	IBD -0.77	IBD 1.01	IEQ -11.02	
	HYB 0.01	HYB 0.52	IEQ 1.75	MCV -2.95	IEQ -0.97	IEQ -3.02	USB 0.30	60/40 -0.69	LCV 0.15	MCV 2.43	60/40 -0.17	IEQ 1.86	RE -2.89	60/40 0.41	60/40 0.26	60/40 -0.22	RE 0.71	LCV 1.48	LCV 1.82	LCV -0.85	USB 0.76	60/40 -11.56	
	60/40 -0.06	60/40 0.47	60/40 1.64	IEQ -3.22	SCV -1.05	MCV -3.21	60/40 0.29	EM -0.70	60/40 0.08	SCV 2.03	MCV -0.26	LCV 1.73	SCV -3.11	USB 0.25	MCV -0.01	MCV -0.68	LCV 0.69	HYB 1.39	60/40 1.35	HYB -0.86	EM 0.61	EM -12.71	
	EM -0.14	SCG 0.26	IBD 1.29	SCV -3.36	LCG -1.13	SCV -3.48	IBD 0.14	MCV -1.08	HYB -0.04	LCV 1.74	EM -0.40	60/40 1.13	LCV -3.23	MCV -0.24	HYB -0.07	SCV -0.88	60/40 0.67	IEQ 1.10	IEQ 1.21	MCV -0.92	60/40 0.52	IBD -14.00	
	IEQ -0.25	USB 0.23	RE 1.10	EM -3.69	RE -1.29	LCG -4.08	MCV -0.27	SCV -1.60	LCG -0.13	60/40 1.60	RE -0.66	RE 1.11	MCV -3.47	RE -0.24	SCG -0.08	EM -1.74	EM 0.49	60/40 1.07	EM 1.15	SCV -1.04	SCG -1.83	RE -14.28	
	IBD -0.35	LCG 0.05	EM 1.08	LCG -4.84	EM -1.37	RE -4.24	LCV -0.31	LCG -2.88	IEQ -0.24	IBD 0.28	LCG -1.13	IBD 0.79	SCG -4.08	SCV -0.28	LCG -0.20	LCG -2.01	USB 0.42	IBD 0.23	HYB 0.89	RE -1.22	LCG -2.29	LCG -21.95	
	USB -0.54	MCG -0.29	HYB 1.02	MCG -4.87	SCG -2.27	SCG -5.08	SCV -0.45	MCG -3.03	EM -0.66	HYB 0.12	SCG -1.22	HYB -0.09	MCG -4.57	LCG -0.35	SCV -0.31	SCG -2.37	IEQ 0.03	RE 0.09	IBD 0.54	SCG -1.43	MCG -3.86	SCG -24.70	
Low	RE -2.47	IBD -0.31	USB 0.64	SCG -4.94	MCG -2.53	MCG -5.48	RE -1.94	SCG -3.54	IBD -0.86	USB -0.43	MCG -1.87	USB -0.55	LCG -4.76	LCV -0.60	IBD -0.36	MCG -2.79	IBD -0.37	USB -0.08	USB 0.16	MCG -1.61	RE -4.44	MCG -25.49	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 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.