



MONTH IN REVIEW



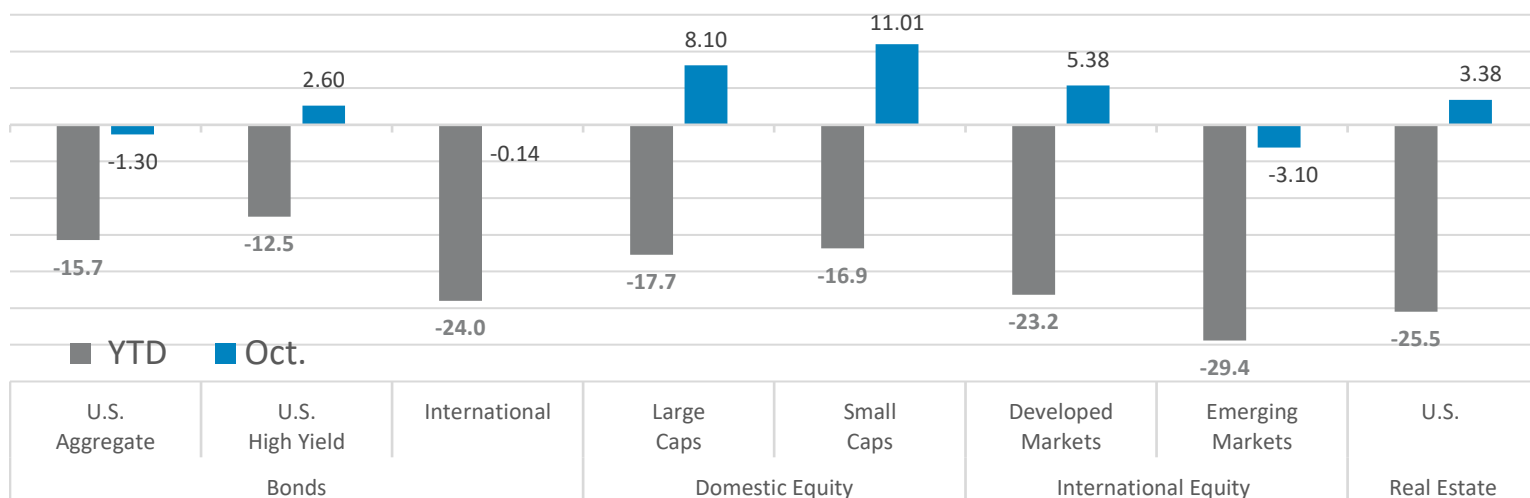
October 2022

Quick Takes

- **Risk Assets Post a Green Month.** Much to market participants' joy, risk assets rallied through the month of October, but remain deeply negative for the year.
- **GDP Goes Up, Unemployment Goes Down.** Despite the Fed tightening monetary policy, GDP for the third quarter of the year increased but the Unemployment Rate decreased in the US. The Fed needs to slacken the labor market in order to get wage growth under control, which should ultimately lead to getting inflation down to their target level.
- **Greenback Softens Slightly.** Year to date, the dollar has been on a steady grind higher, which has hurt companies that draw revenue sources from overseas and foreign central banks alike. For the month of October, the dollar spent the first half of the month climbing before stalling out into a steady decline, but ultimately finished the month higher than its lows.
- **Inflation and Housing.** Inflation came in above expectations yet again for the month of October, but some of this may be due to time delays in the data calculation methodologies. Housing Starts declined by more than expected, but Existing Home Sales came in above expectations.

Asset Class Performance

Markets shrugged off higher than expected CPI numbers on the back of an upward surprise in US GDP growth. A majority domestic risk assets were positive for the month, while International Developed Equities were slightly negative and Emerging Markets struggled for October on the back of geopolitical concerns and tensions.



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).



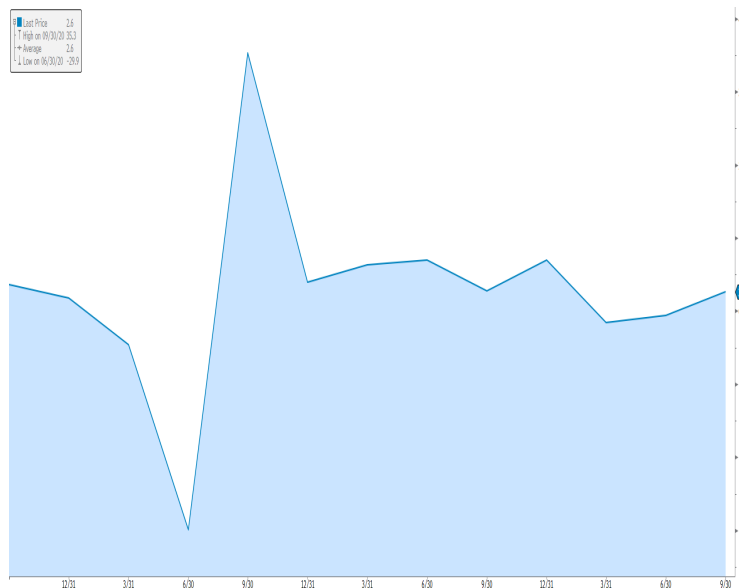


Labor Markets and Economy Ignore Monetary Tightening

With the recent tightening of monetary policy conducted by the Fed, market participants were largely expecting to see the effects start to impact the economy and labor markets more broadly. However, both the labor market and the economy seemed to shrug off the tightening of financial conditions with the Job Openings and Labor Turnover Survey (JOLTS), a measure for how many open positions are available in the US, ticked up after decreasing the past several readings. While a low unemployment rate is typically good for an economy, the low unemployment rate combined with runaway inflation could bring about a recipe of disaster. As employers compete for laborers, they typically must increase wages to retain and attract talented workers. As consumers see these increased wages hit their bank accounts, they typically consume more goods and services. As consumers consume more, this will ultimately feedback into inflation numbers and prevent the Fed's action from having the desired outcome, cool inflation back to a more sustainable long-term rate while at the same time preventing the US economy from entering a deep economic recession. As illustrated in the chart to the right, it appears that some of this wage pressure has worked its way through economic activity with GDP moving modestly upward after contracting

GDP Ticks Up, Ignoring Fed Tightening

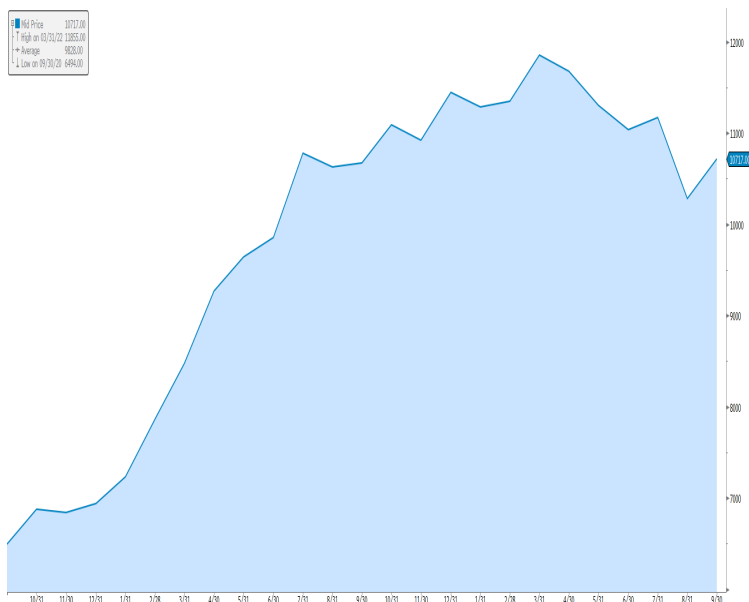
Change in US GDP QoQ, Annualized



Source: Bureau of Economic Analysis, Bloomberg

Labor Market Tightens Despite Fed Action

US Job Openings and Labor Turnover Survey



Source: Bureau of Labor Statistics, Bloomberg

for several of the previous readings. While this doesn't bode well for future inflation readings and its potential impact on what Fed policy implications might be, it's very likely that the way the data is calculated for these readings that this is time lag and already enacted monetary tightening, especially those actions that have been taken in the past month or two, might not fully reflect in the most recent readings. While the Fed is fully aware that time lags in the data readings exist, it's much harder for the Fed and market participants to quantify and interpret what these time lags are. This dynamic increases the risk that the Fed will be too restrictive in their fight against inflation and might potentially send the US economy into a recessionary period.

Bottom Line: Despite recent actions taken by the Fed to tame the US economy and labor markets, GDP ticked upward, and labor markets remain tight. Tight labor markets are putting upward pressure on wages, which is adding additional pressure on inflation. There is likely a time delay in the data releases and the full effects of the actions taken by the Fed thus far likely haven't worked their way through the system, but this adds to the risk that the Fed may overtighten and send the US economy into a recession.

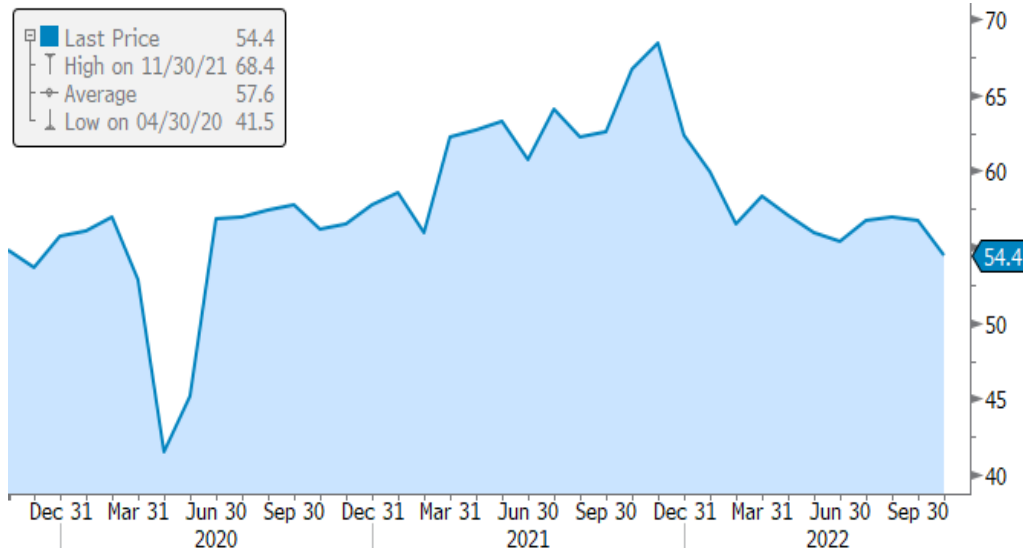


Will the Fed Send the US Into a Recession?

With the Fed fully committing to achieving long-term price stability, i.e., getting inflation back down to their approximate 2.00% target level, the question that market participants are asking themselves is if the Fed can thread the needle to achieve taming inflation while preventing the US economy from stalling out and dipping into a recessionary period. As illustrated in the chart below, the Conference Board Leading Index, a combination of various economic indicators that typically signals if the economy is advancing or declining before the official numbers are published, has been volatile this year but dipped negative for the October reading. Combined with high frequency regional manufacturers' reports that are starting to show signs that goods production activity is stagnating, if not decreasing. While goods prices are still impacting inflation, this decrease in production activity and the Leading Index might be a sign that economic activity is beginning to cool down, which is a necessary effect that the Fed is trying to achieve in order to wrangle inflation back down to sustainable levels. As mentioned in the previous section, employment is an area

Services PMI Continues To Decline

ISM Services PMI Daily



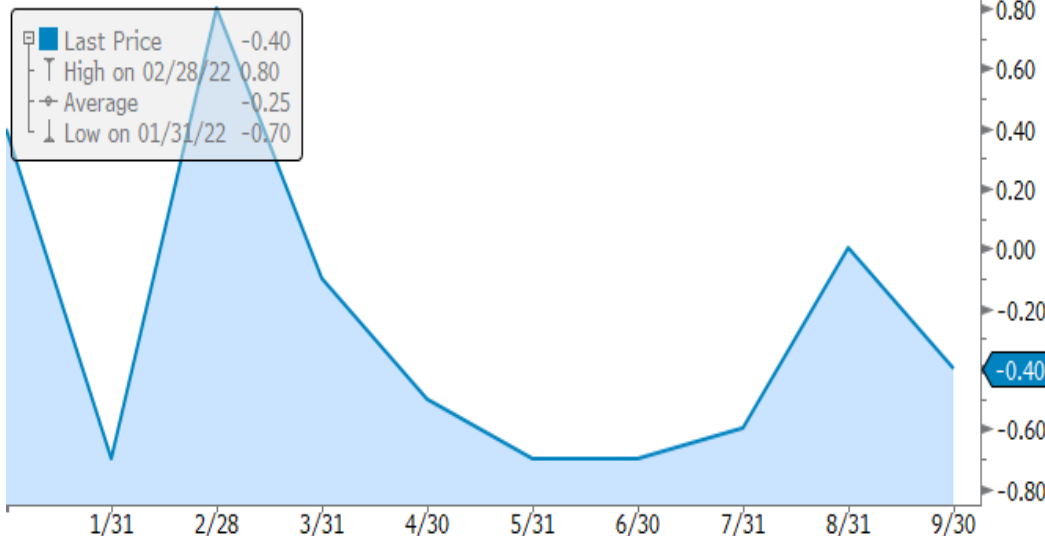
Source: Institute for Supply Management, Bloomberg

that also needs to cool in order to help slow the economy down from the red-hot pace it was previously running during the pandemic. With goods production showing signs of moderating, it's likely that producers will slow hiring or possibly even began to implement layoffs in the near future. Another component that likely needs to cool in order to help

stabilize inflation is the service sector. In the chart above, the ISM Services PMI has been in a steady decline year-to-date and recently increased the rate it is declining but remains healthily above the expansion level of 50. As the Fed continues to combat inflation, it is likely that both services and goods production will continue to decline and this should eventually work its way into slackening the labor market, thus taming wage growth, and eventually cool inflation. The Fed has little room for error to continue to tighten financial conditions to accomplish all of this while keeping economic activity positive.

Conference Board Leading Index Turns Negative

Conference Board US Leading Index MoM



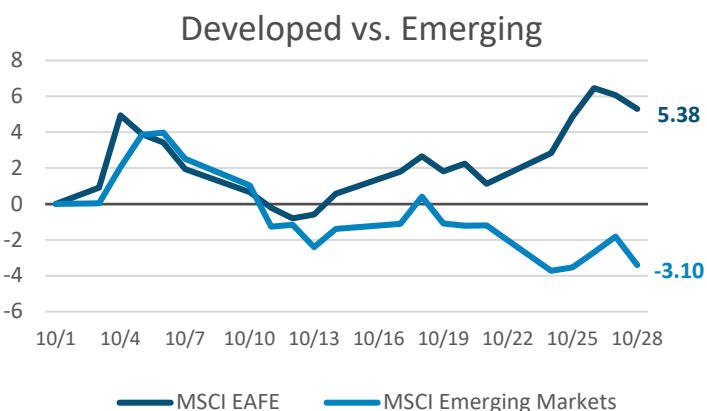
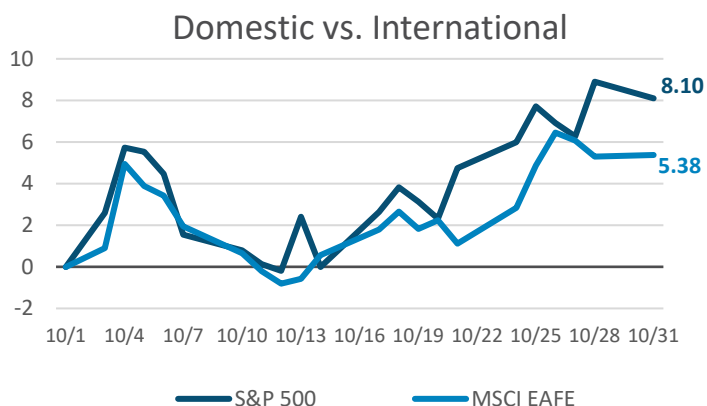
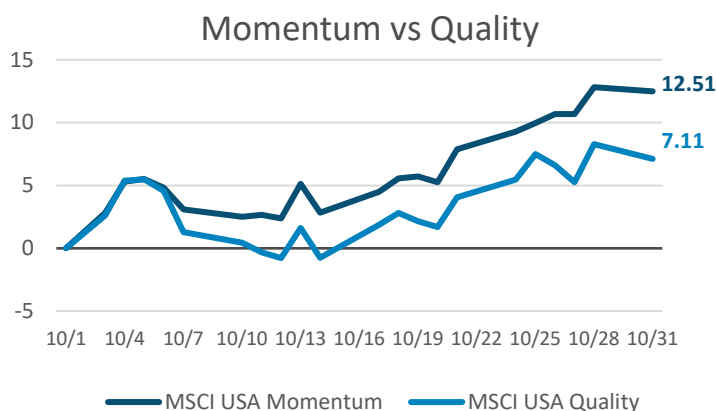
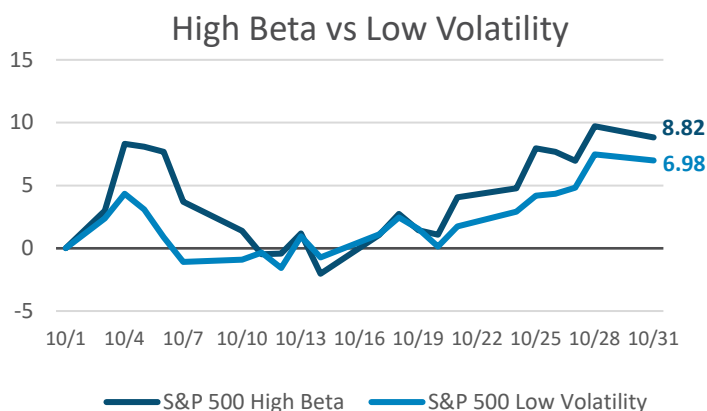
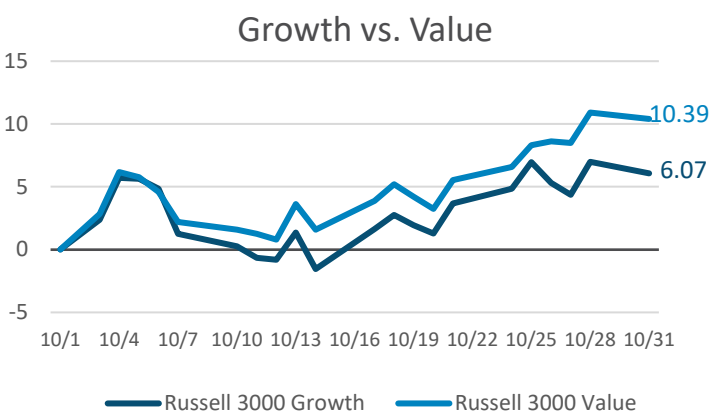
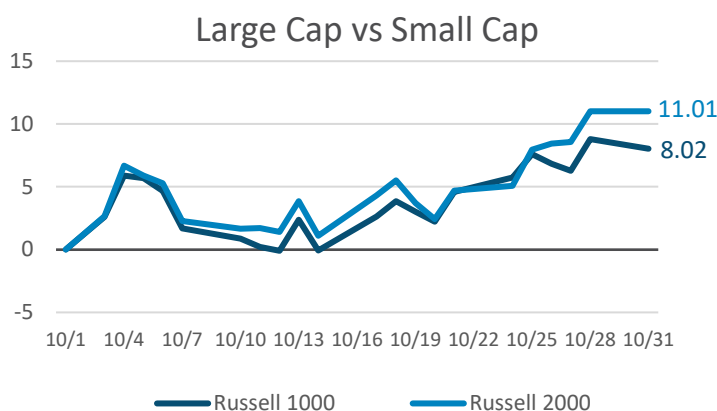
Source: Conference Board, Bloomberg

Bottom Line: With both goods production and services showing signs of cooling, it appears that the Fed's monetary tightening policy actions are beginning to work their way through the economy. While activity is showing signs of cooling, the labor markets have not shown similar signs, but this might be due to a time lag in the data calculations. This leads to a perilous dynamic that the Fed must navigate to tame inflation while at the same time preventing the economy from contracting into a recessionary period.



What Worked, What Didn't

- Small Over Large, Value Over Growth.** While both were on a tear for the month of October, Small Cap equities posted a sizable margin of outperformance over their Large Cap peers and Value styled equities outperformed their Growth peers.
- High Beta and Momentum Win the Month.** For the month of October, it paid to be in more Volatile names with High Beta outperforming Low Vol equities and Momentum beat out Quality equities.
- Domestic over International, Developed over Emerging.** Domestic equities posted a decent margin of outperformance versus their International peers, but both had a strong October. Developed International equities posted a wide margin of outperformance versus Emerging Markets due to geopolitical concerns.

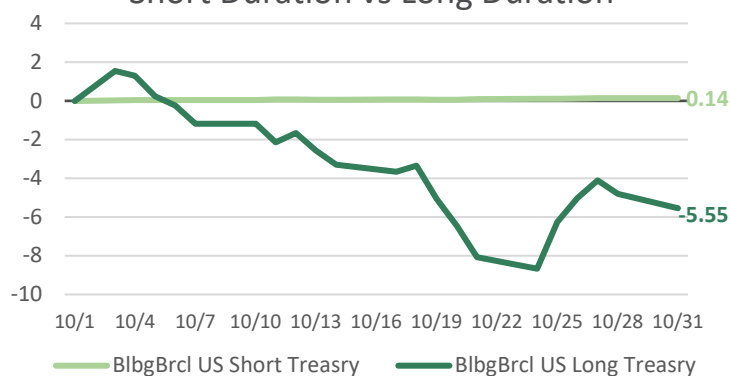




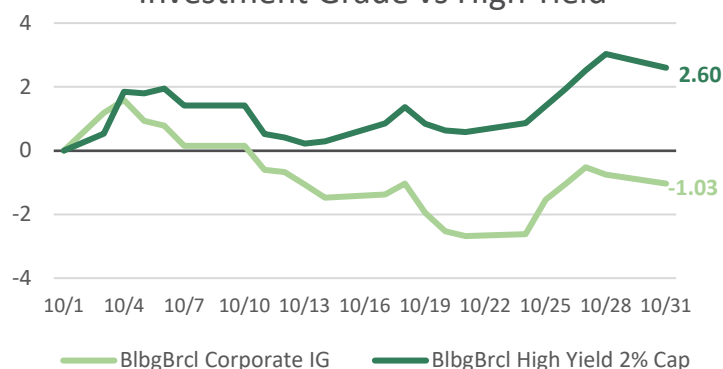
What Worked, What Didn't

- **Short Duration and Low Quality Outperform.** Longer Duration instruments suffered for the month of October and High Yield bonds candidly outperform their Investment Grade peers.
- **Credit and TIPS Post Solid Month.** With inflation coming in above expectations, TIPS outperform for the month of October as does Credit, while Long Duration Treasuries and Aggregate Treasuries post a loss.
- **Munis Offer Downside Protection and International Outperforms.** Munis offered a modest level of downside protection as compared to Aggregate Bonds and International Bonds, while still negative, also outperformed Domestic Aggregate Bonds for the month of October.

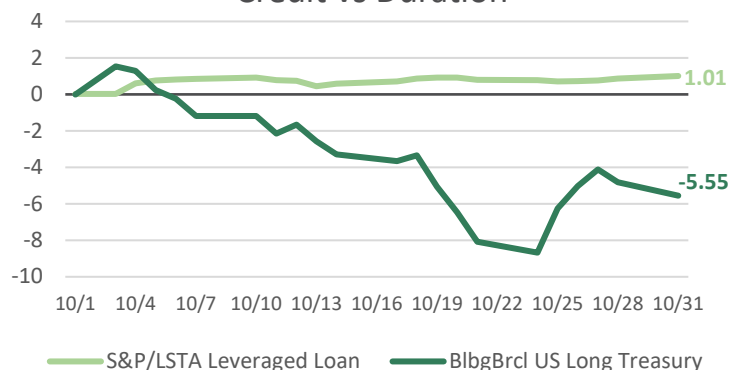
Short Duration vs Long Duration



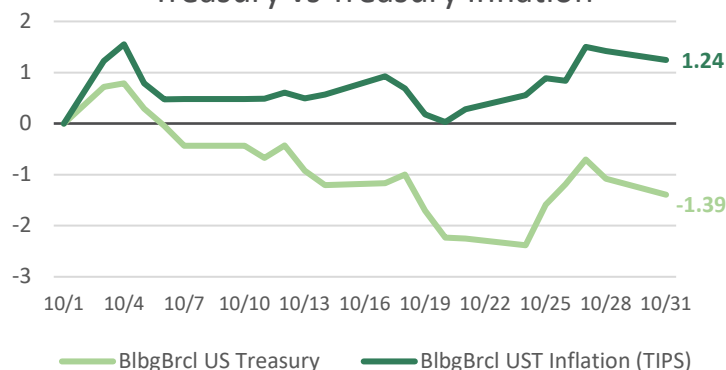
Investment Grade vs High Yield



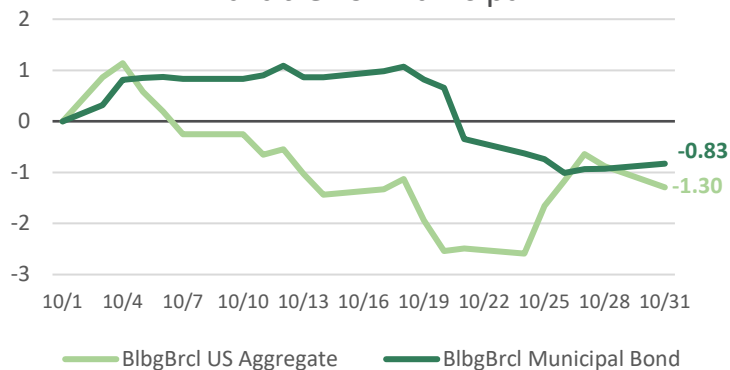
Credit vs Duration



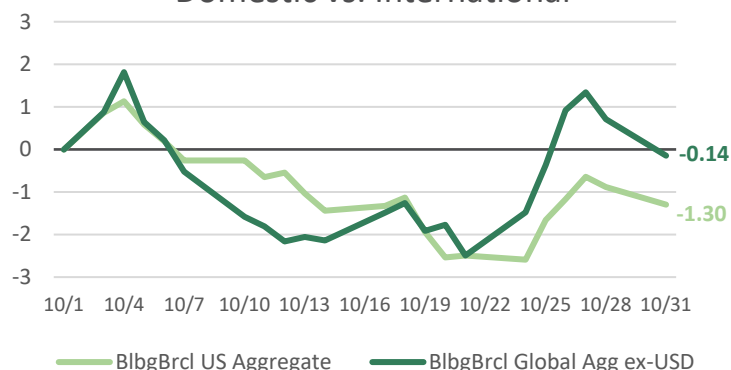
Treasury vs Treasury Inflation



Taxable vs. Municipal



Domestic vs. International



October 2022 Asset Class Performance

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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.

	Oct-03	Oct-04	Oct-05	Oct-06	Oct-07	Oct-10	Oct-11	Oct-12	Oct-13	Oct-14	Oct-17	Oct-18	Oct-19	Oct-20	Oct-21	Oct-24	Oct-25	Oct-26	Oct-27	Oct-28	Oct-31	Oct	YTD
High	MCG 2.91	IEQ 4.01	EM 0.05	HYB -0.30	USB -0.53	SCV -0.33	RE 1.11	HYB 0.17	LCV 2.78	HYB -0.32	RE 3.69	LCV 1.62	LCG -0.69	EM 0.64	LCG 2.43	LCG 1.17	RE 3.98	IBD 1.69	HYB 0.74	LCG 2.36	SCG 0.19	SCV 1.14	LCV -9.47
	MCV 2.81	SCV 3.92	LCG -0.06	USB -0.39	IBD -0.80	USB -0.45	SCV 0.39	EM 0.12	SCV 2.77	IBD -0.53	SCG 3.40	MCG 1.58	USB -0.86	IBD 0.06	SCV 2.24	LCV 1.03	SCG 3.05	EM 1.64	USB 0.51	SCV 2.26	SCV 0.14	LCV 0.53	SCV -11.25
	SCG 2.78	MCG 3.89	MCG -0.24	MCG -0.41	HYB -1.22	MCV -0.50	HYB 0.31	USB 0.08	MCV 2.29	USB -0.55	LCG 3.15	LCV 1.33	LCV -0.92	IEQ -0.23	LCV 2.22	IBD 0.96	MCG 2.68	IEQ 0.94	SCV 0.46	RE 2.22	RE -0.12	SCG -0.29	HYB -12.41
	LCV 2.75	SCG 3.80	LCV -0.35	SCG -0.41	IEQ -1.59	IEQ -0.56	USB 0.06	IBD 0.04	LCG 2.20	60/40 -1.44	MCG 3.15	SCG 1.21	HYB -0.96	RE -0.47	SCG 2.10	MCV 0.88	SCV 2.40	SCG 0.52	MCV 0.24	SCG 2.20	EM -0.29	HYB -0.51	MCV -13.00
	SCV 2.51	MCV 3.78	HYB -0.39	EM -0.60	60/40 -1.67	LCV -0.62	IBD -0.12	LCG -0.14	SCG 2.14	IEQ -1.49	SCV 2.93	SCV 1.15	IBD -0.98	60/40 -0.52	MCV 2.10	MCG 0.81	MCV 2.23	SCV 0.45	RE 0.18	LCV 2.15	MCV -0.31	MCV -1.13	USB -15.48
	LCG 2.37	EM 3.27	SCG -0.52	SCV -0.69	EM -2.09	60/40 -0.74	MCV -0.23	60/40 -0.16	IEQ 2.06	EM -1.50	EM 2.75	LCG 1.13	60/40 -1.14	HYB -0.55	MCG 2.05	SCV 0.57	IEQ 2.21	USB 0.44	MCV 0.10	MCV 2.11	MCV -0.33	MCV -1.32	60/40 -19.41
	IEQ 1.98	LCV 3.16	USB -0.52	LCG -0.72	LCV -2.23	SCG -0.79	SCG -0.27	SCV -0.20	RE 1.63	LCV -1.84	IEQ 2.46	RE 1.13	IEQ -1.23	USB -0.61	IEQ 1.81	SCG 0.13	LCG 1.95	60/40 0.40	LCV -0.12	MCG 1.83	USB -0.34	IEQ -3.87	SCG -22.40
	RE 1.87	LCG 3.13	60/40 -0.63	60/40 -0.92	RE -2.35	LCG -0.98	LCV -0.41	MCG -0.30	MCG 1.50	SCV -2.23	MCV 2.37	IEQ 0.71	MCV -1.47	LCG -0.69	EM 1.53	HYB 0.07	60/40 1.63	LCV 0.32	60/40 -0.12	IEQ 1.00	LCV -0.49	60/40 -4.27	IEQ -22.92
	60/40 1.73	60/40 2.40	MCV -0.78	MCV -1.08	MCV -2.37	IBD -1.01	60/40 -0.43	IEQ -0.32	60/40 1.13	MCV -2.46	LCV 2.15	HYB 0.70	SCV -1.55	SCG -0.89	60/40 1.32	60/40 0.05	LCV 1.56	HYB 0.27	IBD -0.31	60/40 0.83	60/40 -0.57	IBD -4.49	MCV -26.17
	EM 1.63	IBD 2.29	SCV -0.95	LCV -1.13	SCV -2.48	RE -1.12	LCG -0.98	SCG -0.46	IBD 0.49	RE -2.56	60/40 1.82	60/40 0.68	MCV -1.74	MCV -0.89	IBD 1.09	IEQ 0.02	IBD 1.11	RE 0.20	SCG -0.31	HYB 0.77	LCG -0.87	LCG -4.50	IBD -26.29
	HYB 1.30	HYB 2.15	IEQ -1.06	IBD -1.61	MCG -3.14	HYB -1.22	MCG -1.03	LCV -0.47	EM 0.29	LCG -2.77	IBD 1.43	IBD 0.24	EM -1.82	LCV -0.94	HYB 0.96	RE -0.08	USB 0.98	MCV 0.18	EM -0.78	USB -0.25	IEQ -0.94	USB -5.37	RE -26.33
	IBD 1.00	RE 1.94	IBD -1.93	IEQ -1.75	SCG -3.30	MCG -1.36	IEQ -1.10	MCV -0.72	HYB 0.22	MCG -2.90	HYB 1.23	USB 0.17	SCG -1.96	MCV -1.39	RE 0.69	USB -0.14	HYB 0.97	MCG -0.14	LCG -0.83	EM -0.61	IBD -0.97	RE -9.93	LCG -26.74
Low	USB 0.81	USB 0.27	RE -2.00	RE -2.82	LCG -3.45	EM -1.40	EM -1.59	RE -1.13	USB -0.31	SCG -3.09	USB 0.21	EM 0.03	RE -2.49	SCV -1.44	USB 0.15	EM -3.80	EM 0.83	LCG -1.70	IEQ -0.94	IBD -0.66	HYB -1.50	EM -13.29	EM -29.40

Legend

60/40 Allocation (60/40)	Large Growth (LCG)	Mid Growth (MCG)	Small Growth (SCG)	Intl Equity (IEQ)	U.S. Bonds (USB)	Intl Bonds (IBD)
	Large Value (LCV)	Mid Value (MCV)	Small Value (SCV)	Emg Markets (EM)	High Yield Bond (HYB)	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. 110422006 MKS

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