MONTH IN REVIEW

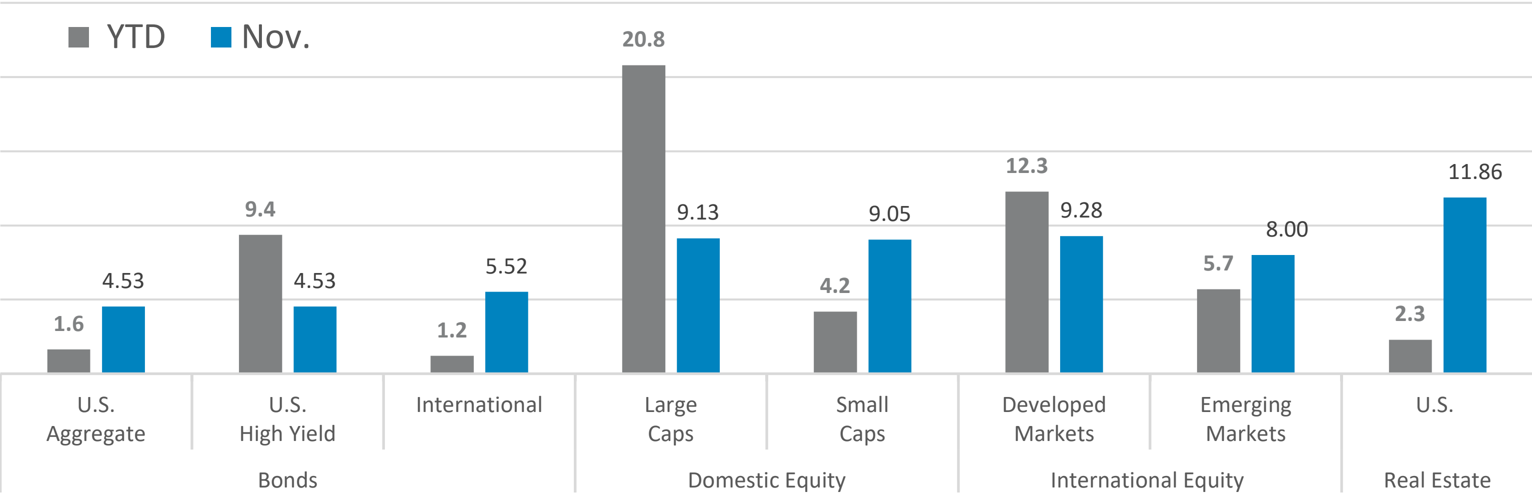
November 2023

Quick Takes

- **Risk Assets Snap Losing Streak.** Market participants went full risk on for November with almost all major asset classes healthily in the green for the month.
- **Inflation Declines.** Inflation, as measured by the Consumer Price Index ("CPI"), came in slightly below market estimates of +3.3%, landing at +3.2% for October. Similarly, the Fed's preferred metric, PCE Deflator, came in softer than expectations of +3.1%, coming in for October at +3.0%. The softening of inflation metrics led to bond yields, especially longer duration, to tumble in the month of November.
- **Greenback Goes Down.** The dollar spent the majority of the month in a steady state of decline versus other major currencies as domestic bond yields fell across the yield curve.
- **Economic Production and Employment.** The first revision of third-quarter economic production came in stronger than expected, landing at +5.2% versus expectations of +5.0% and well above second-quarter figures of +2.1%. High-frequency employment data readings continued to suggest that the labor markets are showing more signs of softening. Additionally, Personal Income figures for October landed in line with market expectations of +0.2%.

Asset Class Performance

Risk Assets took off for November with almost all asset classes posting strong returns for the month. Domestic Real Estate equities led the pack, posting an +11.86% return for the month. International equities modestly outperformed their Domestic equity peers, while Emerging Markets were somewhat left behind in the rally, but still healthy in the green for November.



Source: Bloomberg, as of December 31, 2022. 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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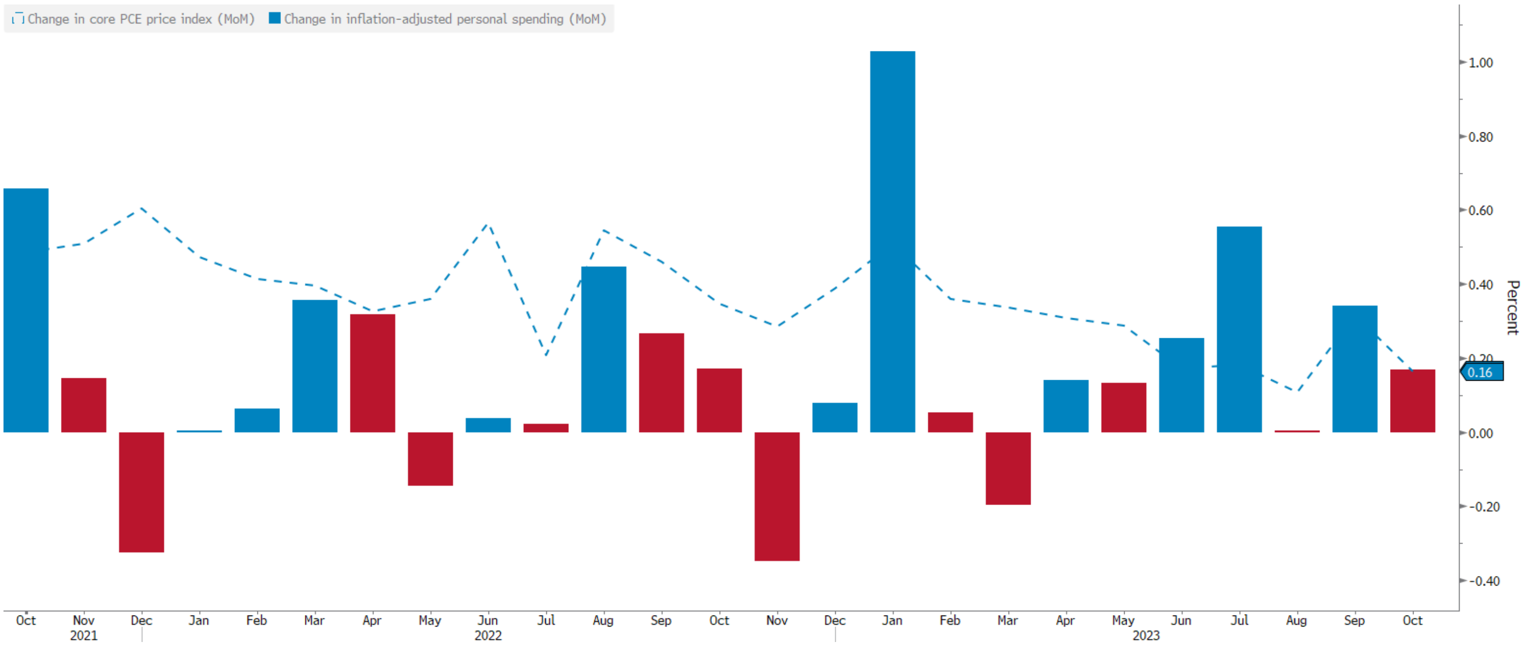
November 2023

Markets & Macroeconomics

Personal Spending Tapers With Inflation Softening

Consumer Spending Softens With Inflation

Change in Core PCE Price Index (MoM), Chang in Inflation-Adjusted Personal Spending (MoM)



Source: Bureau of Economic Analysis, Bloomberg

The consumer has been the hero for the year so far, with their robust spending habits keeping the US economy afloat on the back of the Fed's monetary tightening campaign to subdue inflation. After September's gangbuster reading, however, the month of October came in at a much more modest level. While consumers have been propping up the US economy, this could be a "bad news is good news" scenario. Decelerating consumer demand paired with the current restrictive levels of monetary policy, could be enough of a push to get inflation levels back to the Fed's long-term target rate of +2.0%. Adding fuel to this fire, the Core Personal Consumption Expenditures ("PCE") price index landed at +3.5% on the year-over-year metric, showing that the Fed is making progress at taming inflation. With inflation metrics and spending metrics showing signs of softening, this was likely the catalyst for bond yields tumbling in November, which led to a rally in not only the bond market but equity markets as well. Market participants were originally pricing in rate cuts to begin in late 2024 or early 2025, now that timeline has been moved up to the second quarter of next year. While the optimism for risk assets is encouraging, it's possible that consumers shored up their spending in anticipation of the upcoming holiday season, so we may see a temporary bump in spending levels through the end of the year. While the possibility of a sooner than originally anticipated slackening of monetary policy is leading to exuberance in risk assets, it might be premature as there is no guarantee that a soft-landing scenario will play out. While softer consumer spending bodes well on the inflation front, it does not bode well for economic production with consumer spending being one of the only areas that is keeping domestic GDP in the green so far. It remains to be seen if the Fed will be able to thread the needle and prevent the US from entering a recessionary period while getting inflation back down to its long-term targeted rate.

Bottom Line: Market participants cheered positive economic data readings of continued softening in inflation metrics as well as softening consumer spending. This led market participants to price in a slackening of monetary policy earlier than originally anticipated, which fueled a healthy rally in risk assets for the month of November. While the news in the month of November supported the narrative that the Fed is well on its way to taming rampant inflation, the threat of a hard landing still looms over the US economy, leading some market participants to preach caution over optimism with many believing that risk asset valuations are reaching overbought levels in some areas of the market.

November 2023

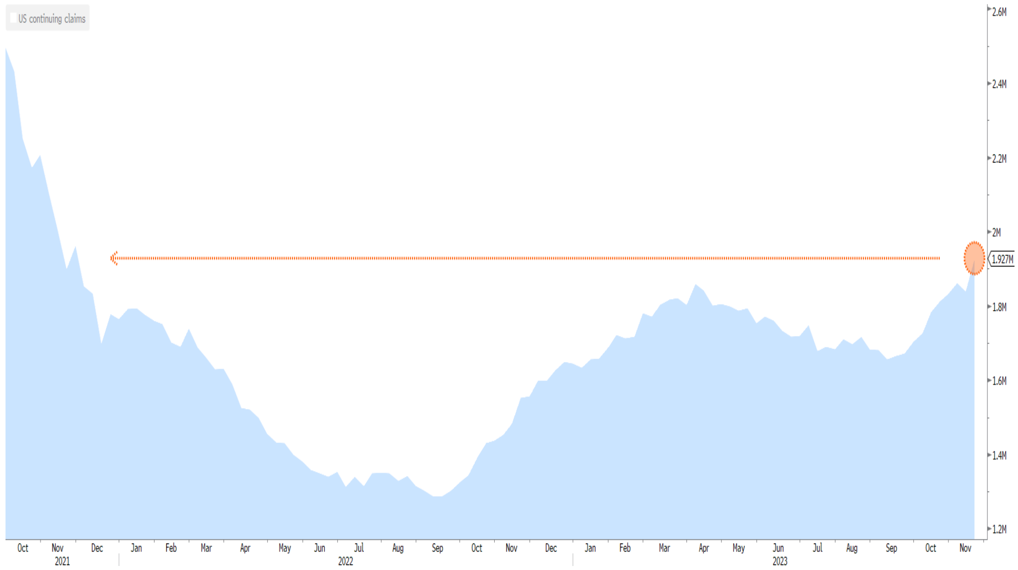
What's Ahead

Stress in the Labor Markets & Consumer Households

As mentioned in the previous section, consumer spending has kept the US economy afloat thus far, and with GDP still in the green, Labor Markets have remained incredibly resilient despite the Fed's extreme monetary tightening campaign, but cracks are starting to appear in the system. The Unemployment Rate bumped up to 3.9% in October, coming in above expectations of 3.8%. High-frequency data reporting suggests that this trend might have more pain to come in future data readings. As shown in the chart on the right, weekly Continuing Claims for jobless benefits reached its highest level since November of 2021. This suggests that those out of a job are having difficulties securing new employment. With Labor Markets showing signs of slackening, Personal Income levels are starting to show signs of moderating as well, with the October reading landing in line with market expectations of +0.2%, down from the previous reading of +0.3%. With Personal Income showing signs of softening, this may suggest that the fallout in Consumer Spending might be heading lower in the future. Additionally, consumers are feeling the pain of high-interest rates. As illustrated in the chart below, Personal Interest Payments as a Percentage of Disposable Personal Income ("DPI") have hit levels not seen since the Great Financial Crisis. With consumers bearing a higher burden of financing costs combined with Personal Income increasing at a slower rate, this suggests that sustained levels of robust spending are likely in the rearview mirror. As mentioned on the previous page, Consumers may have one last hurrah of spending for the upcoming holiday season, but that is likely to be a temporary blip in the data. Putting everything together, this further supports that upward inflation pressure should continue to see further signs of softening but adds risk to the possibility of a hard landing with consumers almost singlehandedly supporting US economic growth thus far.

Employment Shows Signs of Stress

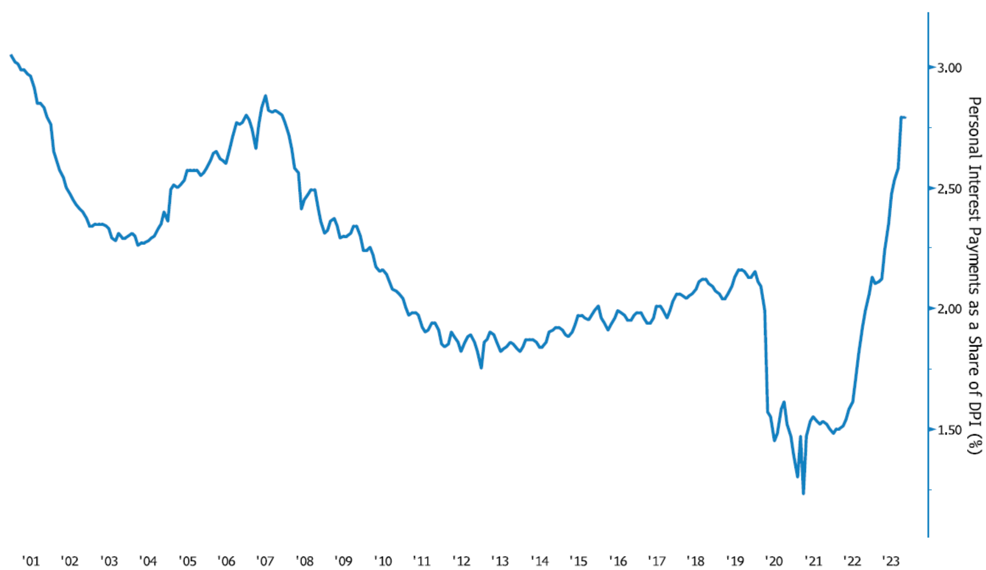
US Continuing Claims, Weekly



Source: US Labor Department, Bloomberg

High-Interest Rates Hit Consumer Wallets

Personal Interest Payments as a Percentage of Disposable Personal Income ("DPI")



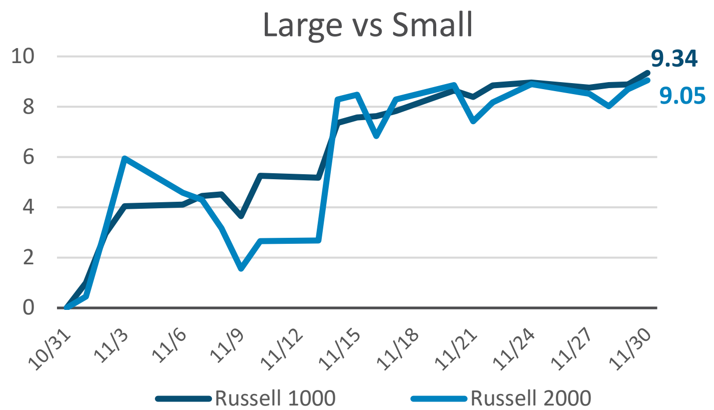
Source: Bureau of Economic Analysis, Bloomberg

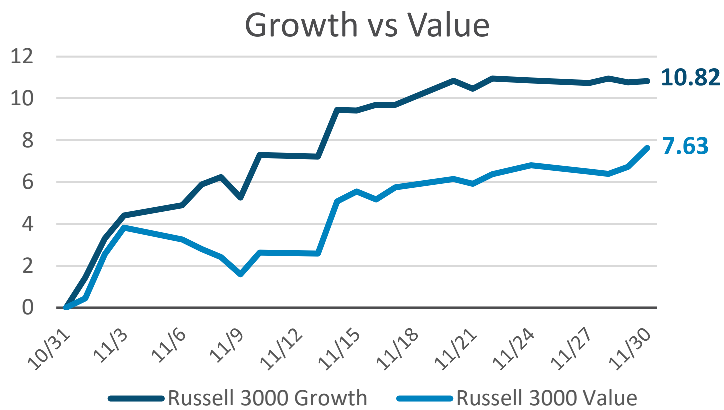
<u>Bottom Line</u>: Labor Markets are showing signs of softening with the Unemployment Rate bumping up in the month of October and weekly Continuing Claims for jobless benefits hitting their highest level in two years. With Labor Markets showing signs of stress, Personal Income levels are also showing signs of softening, which suggests that high levels of Consumer Spending are likely behind us. So far, the consumer has kept the US economy afloat during the Fed's tightening of monetary policy and if consumers are not able to maintain that support in the coming months, a hard landing scenario cannot be ruled out.

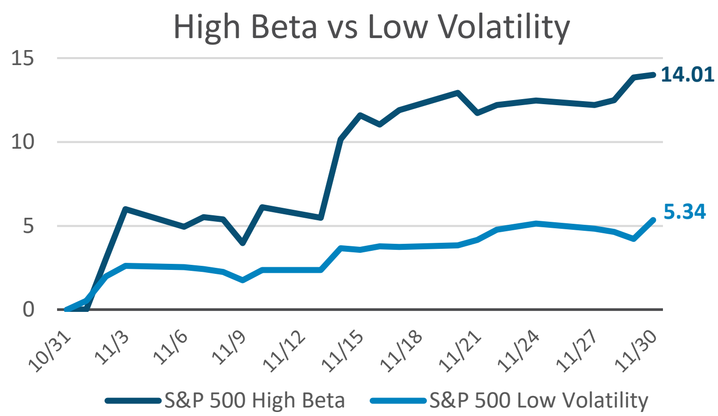
Equity Themes

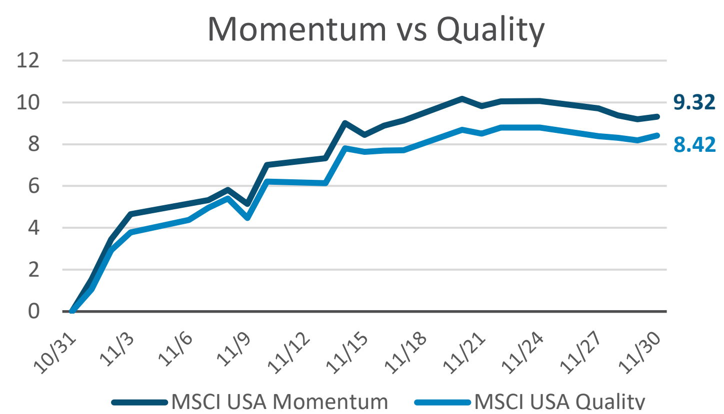
What Worked, What Didn't

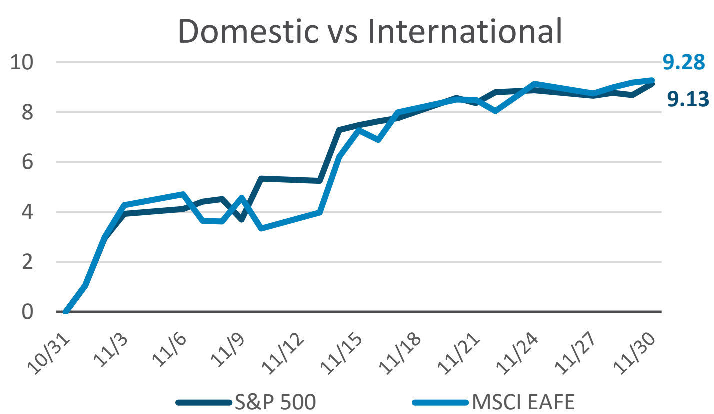
- **Large Over Small, Growth Over Value.** Large and Small Cap equities both had a strong month for November, but Large Caps posted a slight margin of outperformance. Growth Equities had a much larger margin of outperformance versus their Value styled peers.
- **High Beta Crushes Low Vol, Momentum Beats Quality.** High Beta equities decimated their Low Vol peers for the month of November, while Momentum posted a respectable margin of outperformance versus their Quality factor peers.
- **International Over Domestic, Developed Over Emerging.** International equities posted a small margin of outperformance versus Domestic equities, but a larger margin over Emerging Markets.

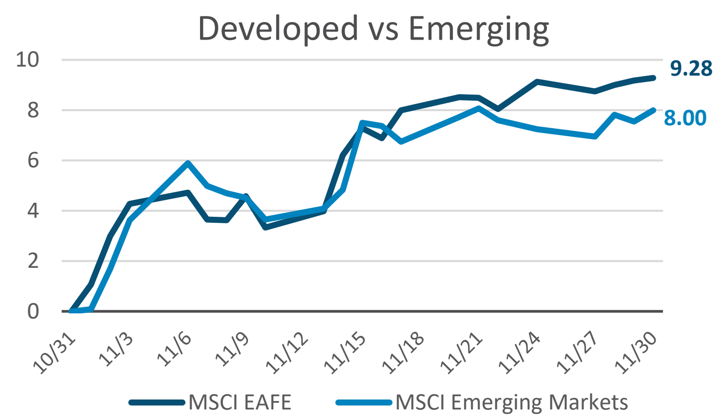












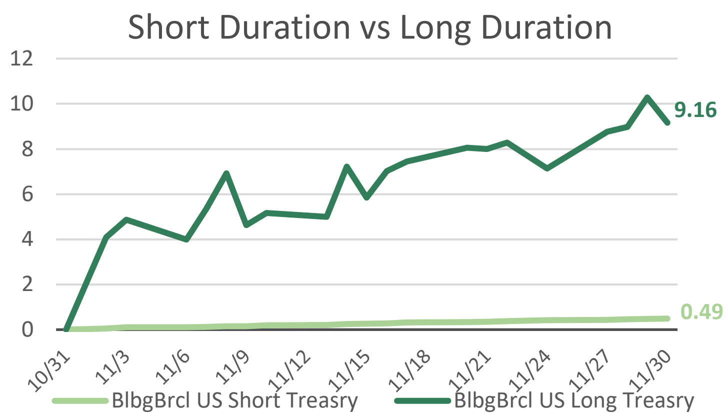
Source: Bloomberg.

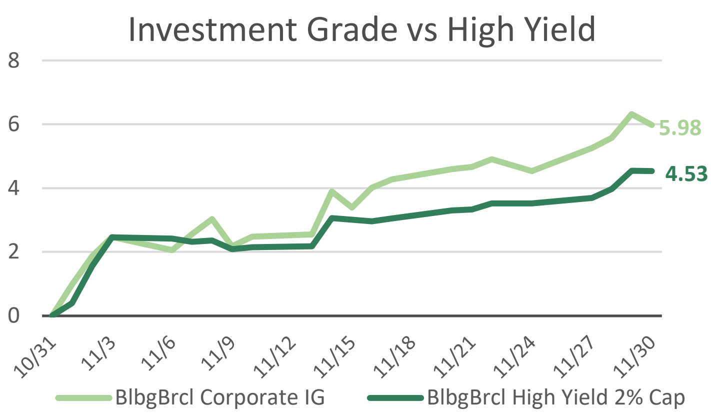
November 2023

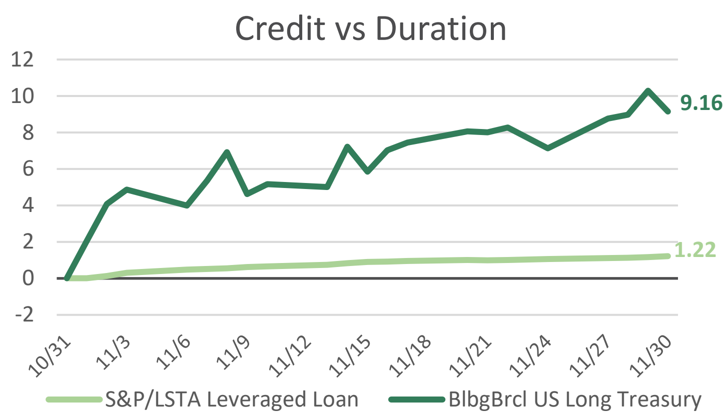
Bond Themes

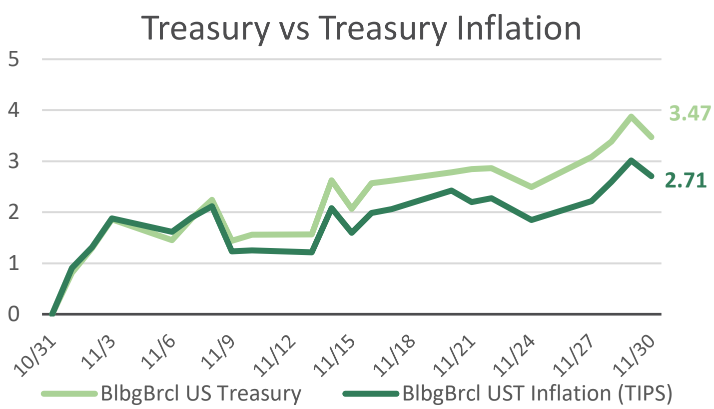
What Worked, What Didn't

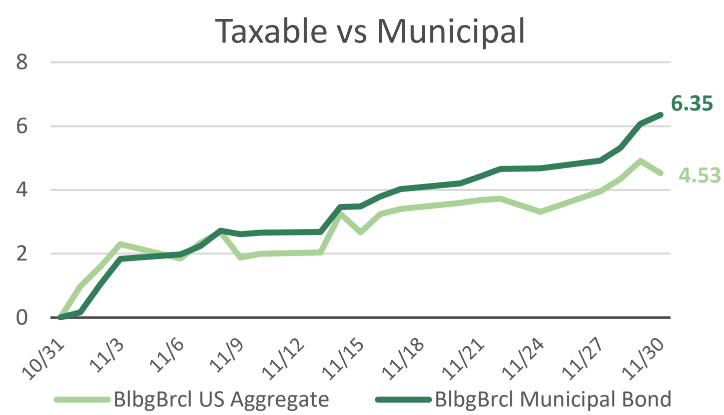
- **Long Duration and Quality Outperform.** Long Duration Treasuries came roaring back in the month of November, crushing their Short Duration peers. Investment Grade outperformed their lower-quality peers, but both posted solid returns for the month.
- **Duration Crushes Credit and TIPS Lag.** With Long Duration's gangbuster month, it's of little surprise that Credit trailed. TIPS offered a modest return for the month but ultimately lagged their Treasury peers.
- **Munis and International Outperform.** Munis and International bonds gave some modest levels of outperformance versus their Aggregate peers for November.

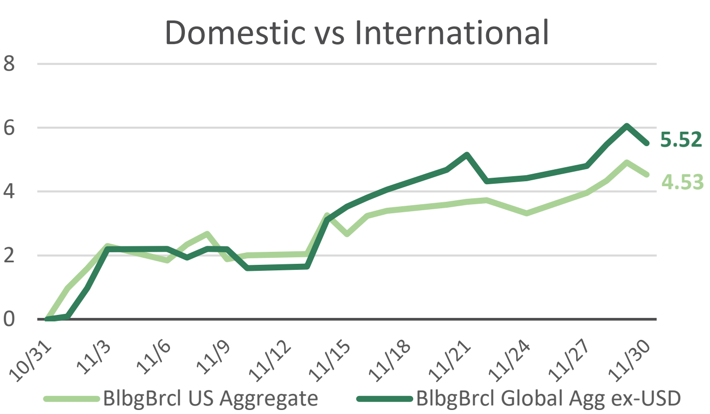












Source: Bloomberg.

November 2023

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.

	Nov-01	Nov-02	Nov-03	Nov-06	Nov-07	Nov-08	Nov-09	Nov-10	Nov-13	Nov-14	Nov-15	Nov-16	Nov-17	Nov-20	Nov-21	Nov-22	Nov-24	Nov-27	Nov-28	Nov-29	Nov-30	Nov	YTD	
High	LCG 1.56	SCV 3.24	SCG 2.79	EM 0.81	MCG 1.00	RE 0.49	IEQ -0.01	LCG 1.93	IEQ 0.26	SCV 5.65	EM 0.84	IBD 0.89	SCV 1.52	EM 1.24	IBD 0.28	SCG 0.72	IEQ 0.76	IBD 1.05	EM 0.84	MCG 0.76	LCV 0.86	MCG 11.90	LCG 36.53	High
	USB 1.10	RE 3.15	SCV 2.70	LCG 0.58	LCG 0.95	LCG 0.41	IBD -0.36	MCG 1.26	IBD 0.22	RE 5.38	LCV 0.53	USB 0.55	IEQ 1.35	LCG 1.05	HYB 0.13	SCV 0.63	SCG 0.65	USB 0.57	RE 0.59	RE 0.73	MCV 0.77	RE 11.54	MCG 16.85	
	HYB 0.95	MCG 2.34	MCG 2.40	60/40 -0.38	USB 0.53	IBD 0.36	HYB -0.62	SCG 1.26	SCG 0.14	SCG 5.20	MCV 0.43	LCG 0.27	SCG 1.30	MCG 0.89	USB 0.10	MCG 0.50	SCV 0.53	RE 0.36	IBD 0.52	SCG 0.58	RE 0.76	LCG 9.27	IEQ 12.37	
	IEQ 0.94	MCV 2.31	RE 2.30	HYB -0.40	SCG 0.21	USB 0.34	60/40 -0.73	MCV 1.21	MCG 0.11	MCV 3.48	SCV 0.33	HYB 0.13	MCV 0.72	RE 0.78	MCG -0.08	LCG 0.46	MCV 0.50	HYB 0.15	HYB 0.44	SCV 0.55	MCG 0.48	SCG 8.78	60/40 9.16	
	EM 0.93	IEQ 2.04	EM 2.04	LCV -0.48	IBD 0.11	HYB 0.05	LCV -0.80	LCV 1.04	60/40 0.00	MCG 3.16	RE 0.28	60/40 0.02	MCG 0.71	SCG 0.76	LCV -0.14	LCV 0.43	MCG 0.41	60/40 0.09	USB 0.44	MCV 0.55	SCG 0.36	MCV 8.76	HYB 8.09	
	60/40 0.90	SCG 2.01	MCV 1.86	USB -0.50	60/40 0.09	60/40 0.02	USB -0.84	RE 0.99	SCV 0.00	EM 2.66	MCG 0.21	IEQ -0.07	LCV 0.51	60/40 0.44	60/40 -0.19	MCV 0.42	RE 0.36	LCG -0.12	60/40 0.24	HYB 0.54	SCV 0.35	SCV 8.32	IBD 6.07	
	SCV 0.71	LCV 2.00	IBD 1.19	IEQ -0.50	HYB 0.01	MCG -0.12	LCG -0.88	SCV 0.81	USB -0.01	IEQ 2.55	SCG 0.09	RE -0.11	60/40 0.49	IEQ 0.38	LCG -0.30	RE 0.38	LCV 0.34	MCG -0.15	LCG 0.23	USB 0.49	EM 0.20	IEQ 7.21	SCG 5.87	
	RE 0.68	LCG 1.82	60/40 1.19	IBD -0.68	EM -0.18	IEQ -0.13	MCV -0.89	EM 0.71	EM -0.03	IBD 2.37	LCG 0.00	LCV -0.33	IBD 0.25	LCV 0.36	IEQ -0.39	IEQ 0.24	IBD 0.21	MCV -0.19	IEQ 0.03	LCV 0.30	LCG 0.04	LCV 7.04	LCV 5.50	
	MCV 0.65	EM 1.75	LCV 1.17	MCG -0.68	MCV -0.25	MCV -0.30	EM -0.94	60/40 0.69	LCV -0.04	60/40 2.25	60/40 -0.13	MCG -0.42	HYB 0.23	MCV 0.35	MCV -0.41	60/40 0.20	60/40 0.10	SCG -0.23	LCV -0.08	60/40 0.29	60/40 0.04	EM 6.80	EM 5.20	
	LCV 0.48	60/40 1.55	IEQ 1.06	MCV -0.90	LCV -0.46	LCV -0.31	MCG -1.14	HYB 0.49	HYB -0.09	LCV 2.20	IEQ -0.15	MCV -0.61	USB 0.20	SCV 0.27	RE -0.49	HYB 0.17	EM 0.05	LCV -0.24	MCV -0.16	IEQ 0.21	IEQ -0.08	60/40 6.43	MCV 4.45	
	SCG 0.30	HYB 1.13	HYB 0.98	SCG -1.14	IEQ -0.61	EM -0.67	SCV -1.50	IEQ 0.45	LCG -0.11	LCG 1.99	HYB -0.32	EM -0.96	EM 0.13	USB 0.16	EM -0.63	USB 0.09	HYB -0.11	SCV -0.33	MCG -0.24	IBD 0.17	HYB -0.18	IBD 5.59	RE 2.70	
	MCG 0.24	IBD 1.06	LCG 0.96	RE -1.32	SCV -0.80	SCV -1.06	SCG -1.54	USB 0.23	MCV -0.35	USB 1.26	USB -0.62	SCG -1.50	LCG -0.03	HYB 0.11	SCG -1.21	EM -0.20	LCG -0.12	IEQ -0.34	SCV -0.25	LCG -0.20	USB -0.33	HYB 3.90	SCV 1.91	
Low	IBD 0.19	USB 0.60	USB 0.61	SCV -1.33	RE -0.87	SCG -1.14	RE -1.58	IBD -0.04	RE -0.82	HYB 1.01	IBD -1.05	SCV -1.71	RE -0.20	IBD 0.04	SCV -1.30	IBD -0.52	USB -0.46	EM -0.40	SCG -0.60	EM -0.58	IBD -0.55	USB 3.45	USB 1.89	Low

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. 080223006 - MAH