MONTH IN REVIEW

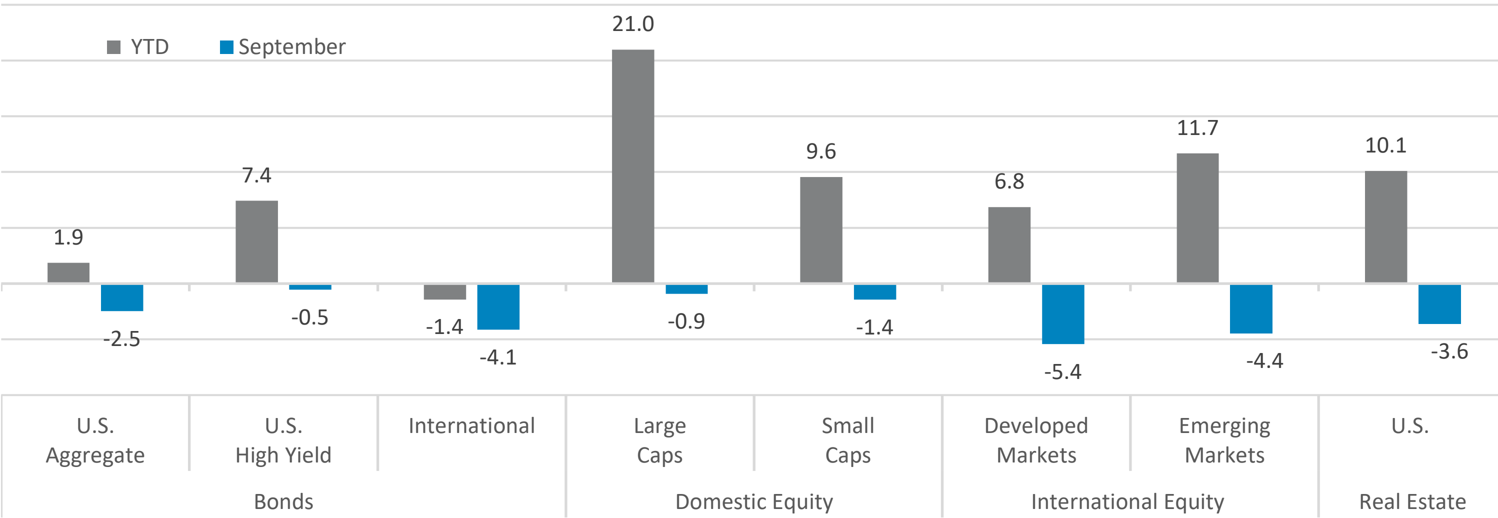
Prime Capital FINANCIAL

Quick Takes

- **Mixed Markets.** October was more eventful for stocks than September due to a flurry of earnings reports from major companies. The S&P 500 rose in the first half of the month amid strong bank earnings but erased all the gains on the final day of October on disappointing earnings forecasts.
- **Inflation and Interest Rates.** The 10Y treasury yield rose significantly in October from under 3.8% at the beginning of the month to nearly 4.3% by the end of the month. Meanwhile, the Consumer Price Index rose more than expected YoY, increasing 2.4% versus the forecasted 2.3%.
- **Tech Selloff.** Technology stocks including Microsoft, Meta, and Apple sold off amid concerns about high AI infrastructure and product development costs and disappointing forecasts for Q4. Apple reported weak China results and missed analysts' expectations on services revenue while Meta indicated more capital expenditure on AI infrastructure ahead.
- **Geopolitics.** Conflict continued to rage in the Middle East in October as Israel remains at war with Iran, Hamas, and Hezbollah. The conflict escalated during the month after Iran fired missiles into Israel on October 1 and Israel retaliated hitting Iranian military targets later in the month.

Asset Class Performance

Large Caps had a good October relative to Small Caps, continuing September's pattern. International equities underperformed the U.S. market during the month amid conflict in the Middle East and geopolitical tensions. Asset classes across the board ended the month lower including both fixed-income and equities.



Source: Bloomberg, as of October 31, 2024. 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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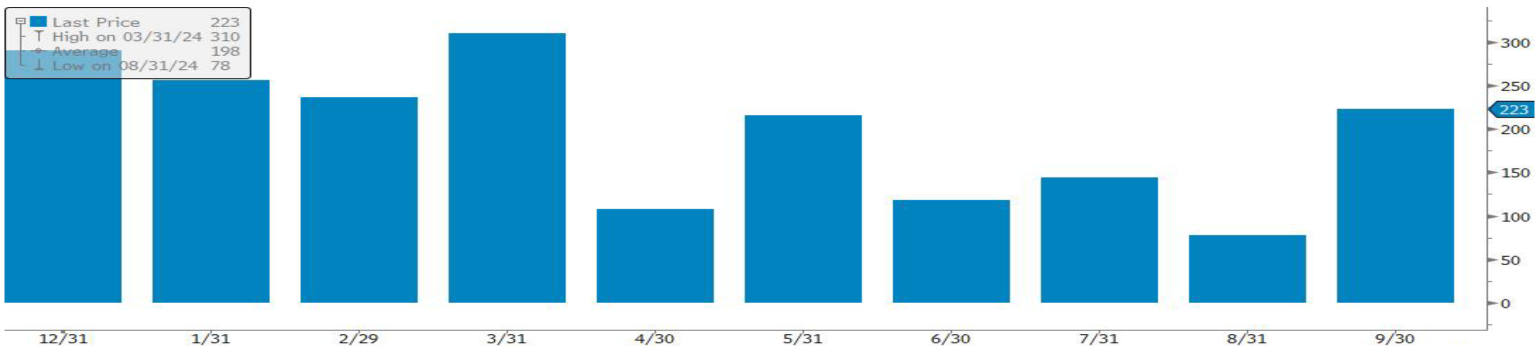
October 2024

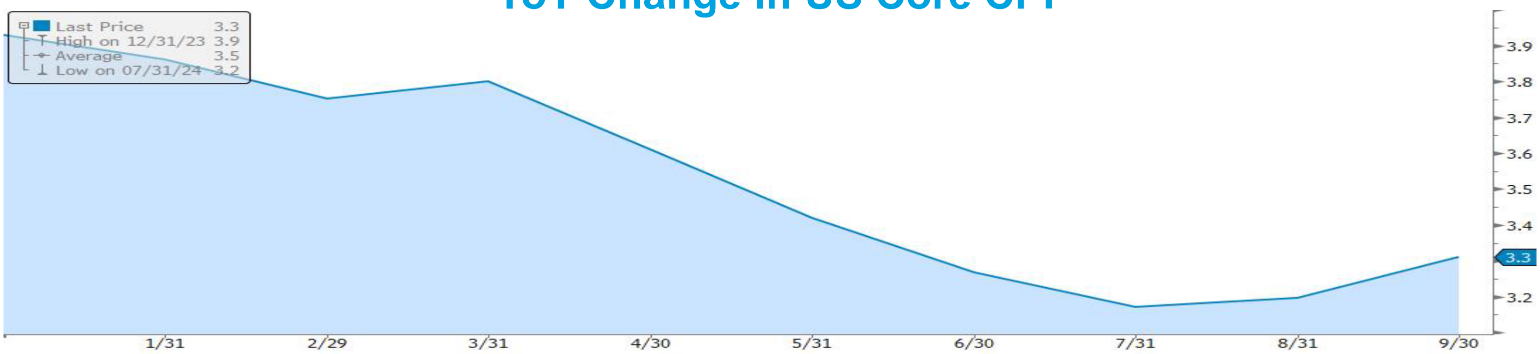
Markets & Macroeconomics

Economic Activity Remains Strong in October

MoM Changes in Nonfarm Payrolls in the US



YoY Change in US Core CPI



Source: Bloomberg

The economy continued to show signs of strength in October as job growth came in significantly above expectations for September and general economic activity continued to expand. Nonfarm payrolls increased in September by 254k versus the expected increase of 150k. The unemployment rate also fell from 4.2% to 4.1% during the month, indicating that hiring remains strong despite unemployment rising year-to-date. Overall economic activity also continued to grow during the month as indicated by the S&P Global Composite PMI which was 54.3 for the month of October. Anything above a 50 indicates expansion while a reading below 50 indicates contraction. US economic growth has been driven by services growth. Manufacturing, by contrast, continued to see contraction in activity as production was constrained by labor strikes and two hurricanes. Inflation meanwhile remained slightly stickier than expected with inflation readings coming in slightly higher than forecasts. Personal Consumption Expenditures excluding food and energy (Core PCE) was up 2.7% YoY in September versus the expected YoY increase of 2.6%. This also was shown in the CPI numbers as September's YoY change in the CPI was 2.4% versus the expected 2.3% jump. Despite the slightly higher reported figures, inflation remains much lower than it was at the beginning of the year. The housing market showed mixed signals this past month as mortgage rates remain high despite a 50bps rate cut by the FOMC in September. The 30-year mortgage rate rose from 6.7% at the beginning of the month to nearly 7.3% by the end of the month. New home sales for September came in above expectations at 738k versus the forecast of 720k, but existing home sales came in at 3.84M versus the expected number of 3.88M for the same month. The next FOMC meeting is on November 7, for which interest rate futures markets have priced in a 25bps cut as the most likely scenario. Companies and investors will also be watching the outcome of the US presidential election on November 5 closely.

Bottom Line: With inflation coming in higher than expected and economic activity remaining strong, the Fed is unlikely to cut rates by 50bps in November. A 25bps cut amid high interest rates and mortgage rates, slower job growth, and a YTD increase in unemployment remains the most likely decision at the FOMC meeting on November 7. The FOMC will also likely take into account the recent weakness in manufacturing and look to lower rates to boost the sector.

October 2024

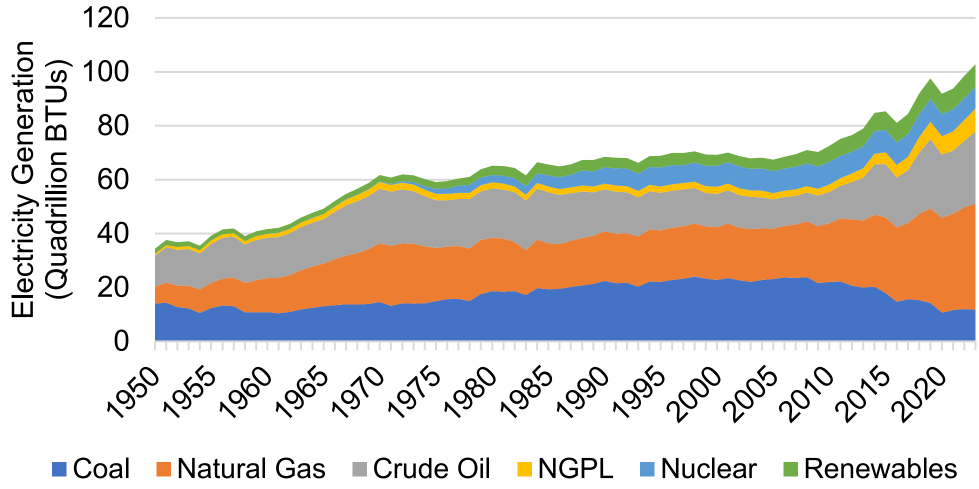
What's Ahead

How is Big Tech powering the AI revolution?

The AI revolution is old news to investors by now. Nvidia's stock price has climbed over 900% in the last two years because of its release of their various Graphics Processing Units (GPUs) and Data Processing Units (DPUs) for usage in AI, data analytics, machine learning, graphics computing, and other data-intensive functions. Their most notable competitor, AMD, has also released CPUs for many of these applications. Since these new technologies have become available, the largest cloud service providers like Microsoft, Google, Meta, and Amazon's Amazon Web Services (AWS) have invested tens of billions of dollars into Nvidia's hardware to include it in data centers to run their newly developed generative AI models. Amazon has even developed their own AI chips to reduce reliance on Nvidia's. All of this new technology infrastructure, in addition to being very expensive, has also created a new issue: Where will all of the power to run these data centers come from? Some estimates indicate that electric utilities will need to increase their own capital expenditure by ~40% over the next few years to expand the power grid enough to accommodate this new demand. In their most recent earnings call CEO John Ketchum of NextEra Energy, an electric power utility in Florida, stated that power demand growth could grow at six times the rate in the next 20 years as it did in the previous 20 and that additional data center demand alone will drive power demand growth of ~22% annually through 2030. Constellation Energy, another electric utility, has entered into a power purchase agreement (PPA) with Microsoft to power its data centers and it is recommissioning a nuclear plant at Three Mile Island to do it. The site, which will be renamed Crane Clean Energy Center, is expected to be up and running in 2028. Google for its part announced that it had entered into an agreement with Kairos Power to purchase nuclear power for its data centers from Kairos's small modular reactors (SMRs), a newer and smaller form of nuclear power plant still in development. This agreement is the first of its kind for SMRs. All of this additional power demand has contributed to utility stocks, which have traditionally been lower-margin defensive investments, outperforming all other sectors of the S&P 500 YTD, including technology stocks. Constellation Energy and Vistra Corporation have been the best performers with both up over 125% year-to-date as of the end of October. Nvidia by comparison is up ~174% while Microsoft is up just under 10%.

US Energy Production by Major Sources

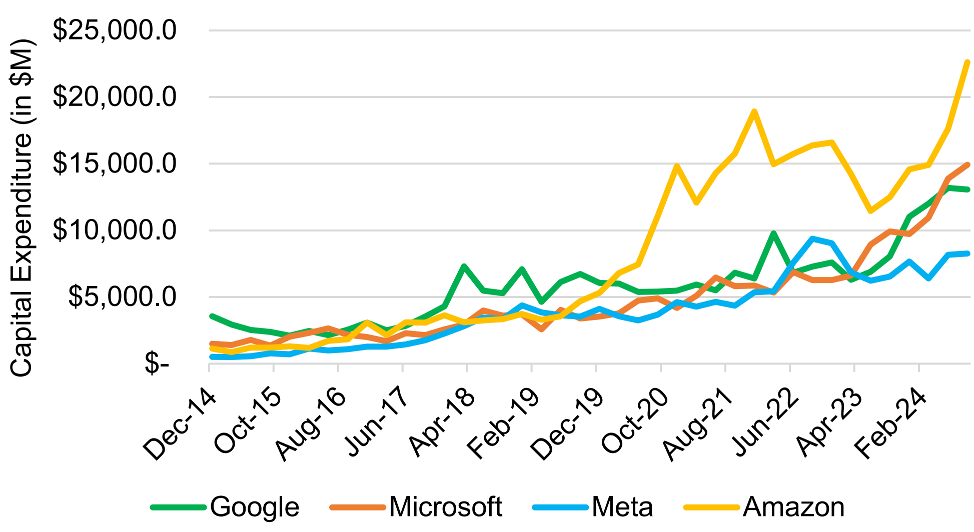
US Energy Production has Increased Sharply with the Growth of Big Tech



Source: US Energy Information Administration

AI Hyperscaler Quarterly CapEx has Increased Sharply

Google, Microsoft, Meta, and Amazon spent ~$58.8B on CapEx in Q3 2024



Source: Bloomberg

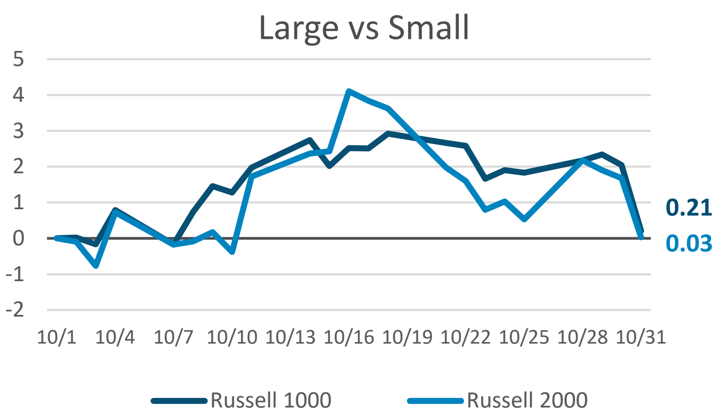
<u>Bottom Line</u>: The continued demand for AI compute is leading to higher demand for electricity and a boom in utilities stocks, which are generally a more defensive sector of the market.

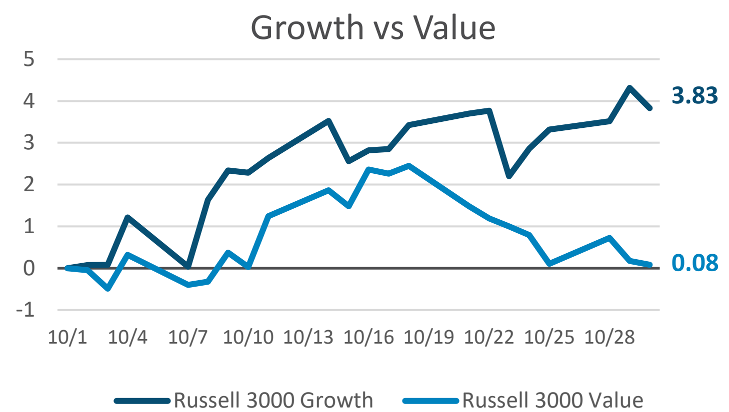
October 2024

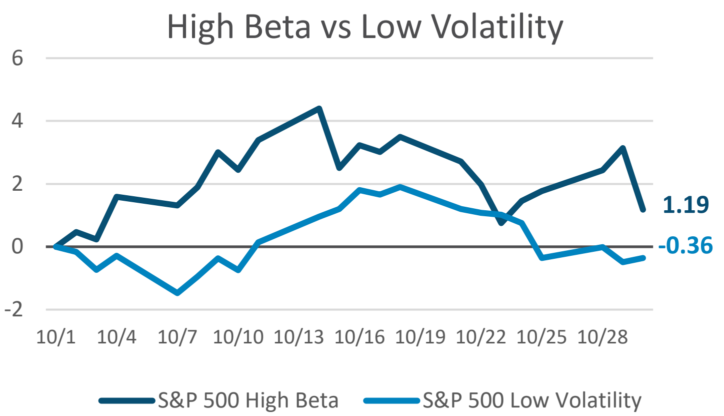
Equity Themes

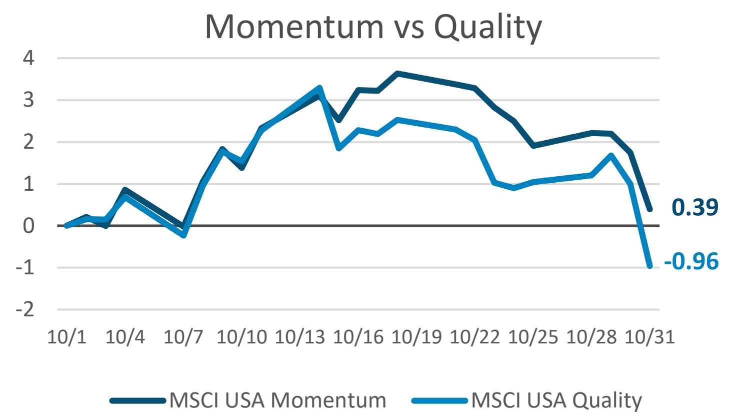
What Worked, What Didn't

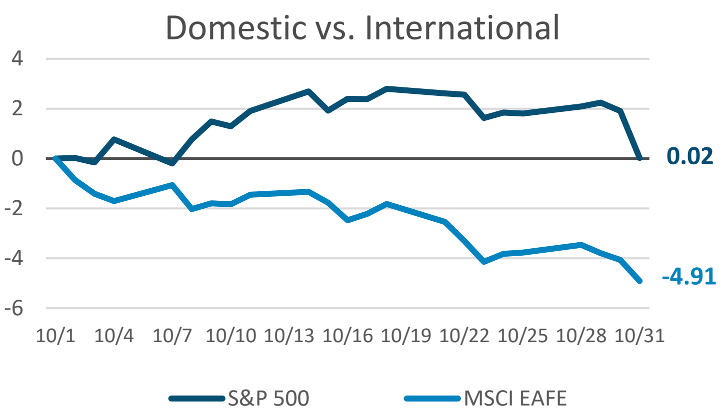
- **Large Outperformed Small while Growth Significantly Outperformed Value.** Market participants moved into large-cap growth stocks in October more so than small-cap or value, but the margin between small and large was just 18 bps versus a 375 bps difference between growth and value.
- **High Vol and Momentum Outperform.** High Beta outperformed Low Volatility in October as investors sought growth. Momentum outperformed quality in October, similar to September's market behavior, but by a smaller margin.
- **Domestic Over International, Emerging Over Developed.** Domestic equities vastly outperformed international equities in October amid geopolitical tension and conflict in the middle east despite uncertainty about the US election.

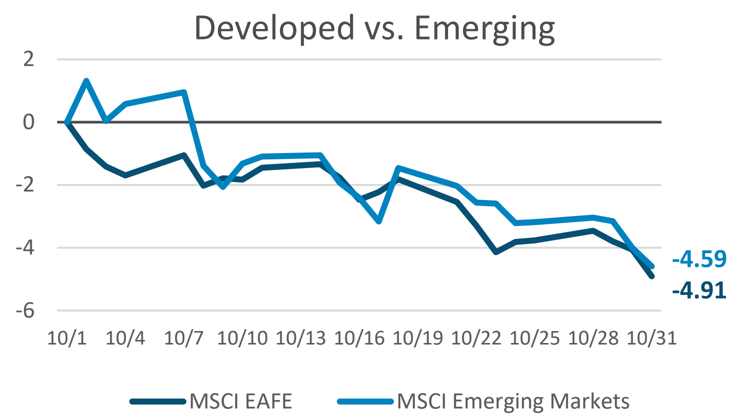












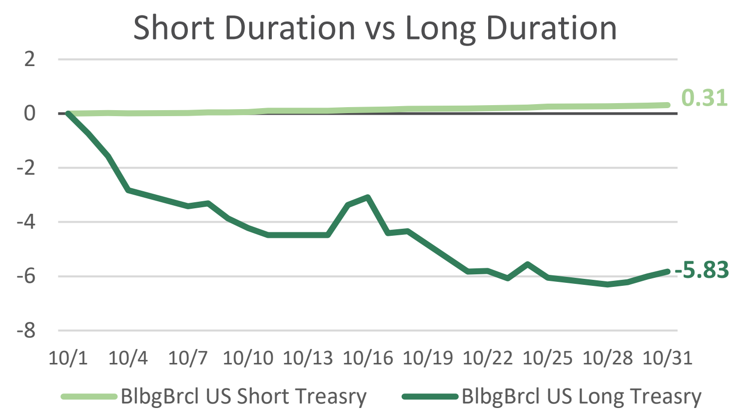
Source: Bloomberg.

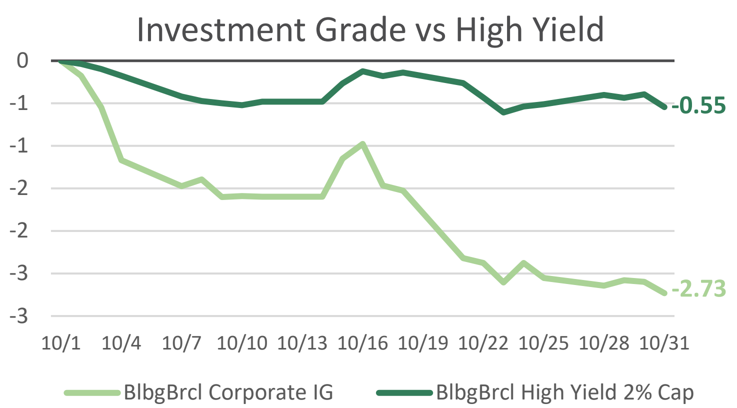
October 2024

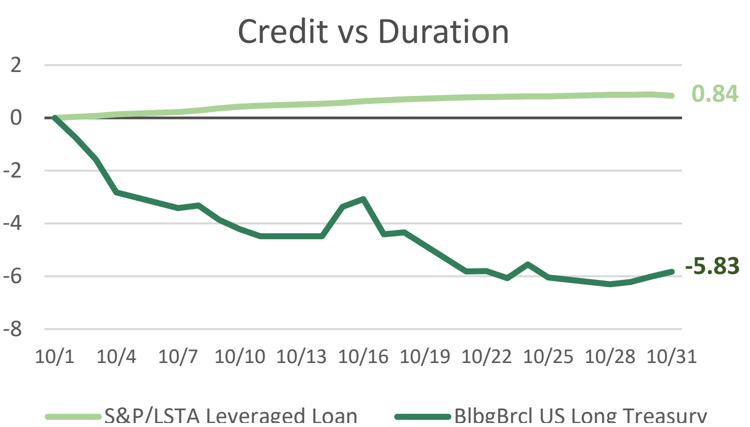
Bond Themes

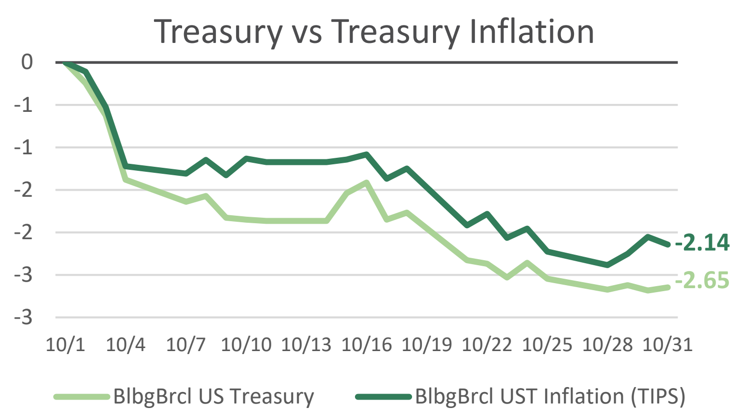
What Worked, What Didn't

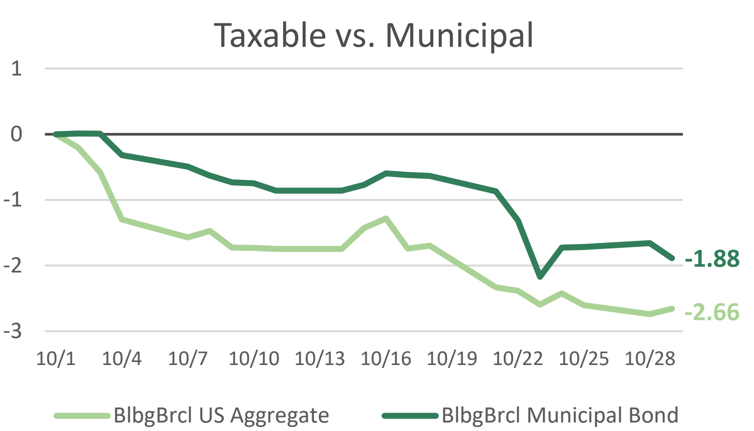
- **Long Duration and Investment Grade Outperform.** Long Duration Treasuries performed very poorly in October, underperforming Short Duration by over 600 bps amid concerns about the election. High Yield also struggled in October losing to Investment Grade by over 200 bps.
- **Duration Tops Credit while TIPS Outperforms.** In October, Long Duration considerably underperformed Credit while TIPS outperformed Treasuries by 51 bps, more than they did in September.
- **Munis and International Outperform.** Tax-exempt Municipal bonds outperformed Taxable Aggregate, while U.S. bonds outperformed their International peers in October.

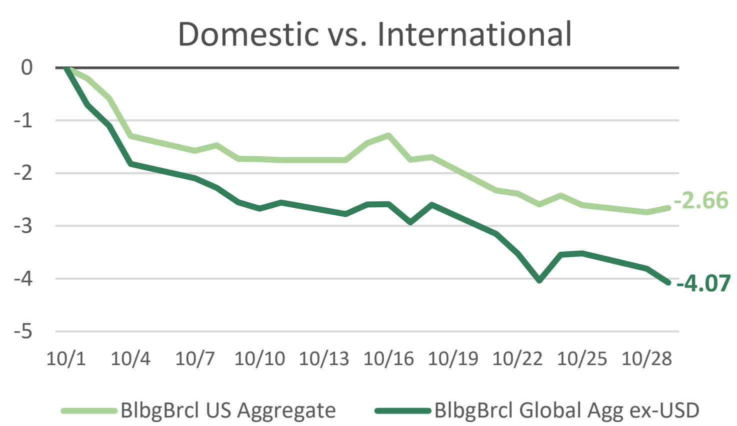












Source: Bloomberg.

October 2024

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.

	Oct-01	Oct-02	Oct-03	Oct-04	Oct-07	Oct-08	Oct-09	Oct-10	Oct-11	Oct-14	Oct-15	Oct-16	Oct-17	Oct-18	Oct-21	Oct-22	Oct-23	Oct-24	Oct-25	Oct-28	Oct-29	Oct-30	Oct-31	Oct	YTD
High	EM 0.72	EM 1.97	LCG 0.05	SCG 1.68	EM 0.83	LCG 1.62	MCG 1.02	EM 0.20	SCG 2.21	LCG 0.94	RE 1.18	SCV 1.78	LCG 0.13	EM 0.99	LCG 0.36	RE 0.11	RE 0.90	LCG 0.68	LCG 0.40	SCV 1.71	LCG 0.83	RE 0.48	IBD 0.10	MCG 4.15	LCG 27.53
	USB 0.26	MCG 0.46	MCG -0.08	SCV 1.26	IBD -0.27	MCG 0.85	LCV 0.71	IBD 0.07	SCV 1.94	SCG 0.78	USB 0.40	SCG 1.64	IEQ 0.01	RE 0.74	HYB -0.40	LCG 0.09	IBD -0.07	MCG 0.61	MCG 0.17	SCG 1.58	MCG 0.42	MCV 0.14	USB -0.02	LCG 4.02	MCG 16.45
	HYB -0.05	SCG 0.17	HYB -0.24	MCG 1.21	USB -0.34	SCG 0.47	LCG 0.70	LCG -0.02	MCG 1.53	MCV 0.69	SCV 0.18	RE 1.03	MCV -0.07	IEQ 0.68	MCG -0.43	USB 0.02	LCV -0.19	IEQ 0.56	EM -0.09	MCV 0.82	USB 0.11	SCV 0.08	HYB -0.28	SCG 1.82	LCV 16.04
	IBD -0.16	LCG 0.08	USB -0.41	LCG 1.09	HYB -0.43	HYB 0.24	MCV 0.57	HYB -0.05	MCV 1.19	MCG 0.67	IBD 0.06	LCV 0.79	LCV -0.11	IBD 0.60	USB -0.69	HYB -0.14	USB -0.25	IBD 0.45	HYB -0.10	IEQ 0.80	HYB 0.03	USB -0.10	IEQ -0.61	SCV 1.53	MCV 14.68
	60/40 -0.32	60/40 0.02	LCV -0.42	EM 0.92	60/40 -0.48	RE 0.23	SCV 0.37	USB -0.06	LCV 1.13	LCV 0.66	HYB -0.03	EM 0.77	SCV -0.15	LCG 0.54	EM -0.70	IBD -0.17	MCV -0.26	HYB 0.29	SCG -0.10	MCG 0.69	60/40 -0.07	LCV -0.12	EM -0.65	MCV 0.37	SCG 13.67
	LCV -0.39	HYB 0.01	IBD -0.45	LCV 0.73	IEQ -0.56	IBD 0.20	SCG 0.25	IEQ -0.12	RE 1.12	RE 0.66	MCV -0.10	MCV 0.67	HYB -0.15	MCG 0.49	60/40 -0.77	60/40 -0.21	HYB -0.30	SCV 0.29	USB -0.20	LCV 0.60	SCG -0.18	IBD -0.13	60/40 -0.76	LCV 0.04	EM 12.04
	RE -0.60	LCV -0.01	SCV -0.52	MCV 0.73	LCV -0.68	USB 0.17	60/40 0.08	60/40 -0.13	EM 0.72	SCV 0.63	SCG -0.18	MCG 0.58	EM -0.15	60/40 0.38	LCV -0.90	EM -0.22	60/40 -0.54	60/40 0.28	60/40 -0.24	EM 0.44	IBD -0.20	HYB -0.18	LCV -0.77	HYB -0.64	RE 11.29
	MCV -0.60	MCV -0.18	60/40 -0.53	IEQ 0.58	MCV -0.72	LCV 0.11	RE 0.07	MCG -0.14	60/40 0.53	IEQ 0.29	LCV -0.40	60/40 0.39	MCG -0.20	MCV 0.31	IBD -0.90	SCV -0.29	SCV -0.56	RE 0.25	IEQ -0.34	60/40 0.37	EM -0.31	60/40 -0.30	MCV -1.10	RE -1.23	60/40 9.61
	IEQ -0.74	IEQ -0.20	MCV -0.53	60/40 0.24	SCV -0.75	60/40 0.09	IEQ 0.02	LCV -0.33	IEQ 0.51	60/40 0.25	60/40 -0.46	IEQ 0.26	60/40 -0.22	LCV 0.24	MCV -1.04	LCV -0.31	EM -0.59	USB 0.19	IBD -0.42	IBD 0.37	IEQ -0.36	LCG -0.45	SCV -1.52	60/40 -1.32	SCV 8.88
	MCG -0.76	USB -0.21	SCG -0.92	HYB -0.11	MCG -0.81	MCV 0.05	HYB -0.06	MCV -0.44	HYB 0.26	HYB 0.05	MCG -0.79	HYB 0.18	IBD -0.30	HYB 0.24	SCG -1.04	MCV -0.55	MCG -0.82	SCG 0.18	MCV -0.59	RE 0.26	MCV -0.43	SCG -0.51	MCG -1.58	USB -2.76	IEQ 7.65
	SCG -1.31	SCV -0.32	IEQ -0.93	IBD -0.55	RE -0.87	IEQ -0.16	USB -0.26	SCV -0.52	LCG 0.20	USB -0.09	LCG -0.95	USB 0.13	SCG -0.44	USB 0.07	IEQ -1.18	IEQ -0.57	IEQ -1.01	MCV 0.16	LCV -0.67	HYB 0.25	SCV -0.44	IEQ -0.65	RE -1.70	IBD -2.79	HYB 7.35
	LCG -1.37	RE -0.34	RE -0.99	RE -0.56	SCG -0.95	SCV -0.25	IBD -0.50	SCG -0.74	IBD 0.07	IBD -0.30	IEQ -1.66	LCG 0.09	USB -0.49	SCV -0.06	RE -2.00	MCG -0.62	SCG -1.09	EM -0.15	SCV -0.68	LCG 0.23	LCV -0.55	MCG -0.69	SCG -1.73	EM -3.14	USB 1.94
Low	SCV -1.46	IBD -0.39	EM -1.19	USB -0.65	LCG -1.08	EM -2.47	EM -0.54	RE -0.80	USB 0.03	EM -0.41	EM -2.12	IBD 0.00	RE -0.77	SCG -0.29	SCV -2.10	SCG -0.62	LCG -1.52	LCV -0.22	RE -0.95	USB -0.16	RE -0.93	EM -0.97	LCG -2.90	IEQ -3.98	IBD 0.92

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: Sources for this market commentary derived from 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 Financial. The performance of those funds October 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

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