MONTH IN REVIEW

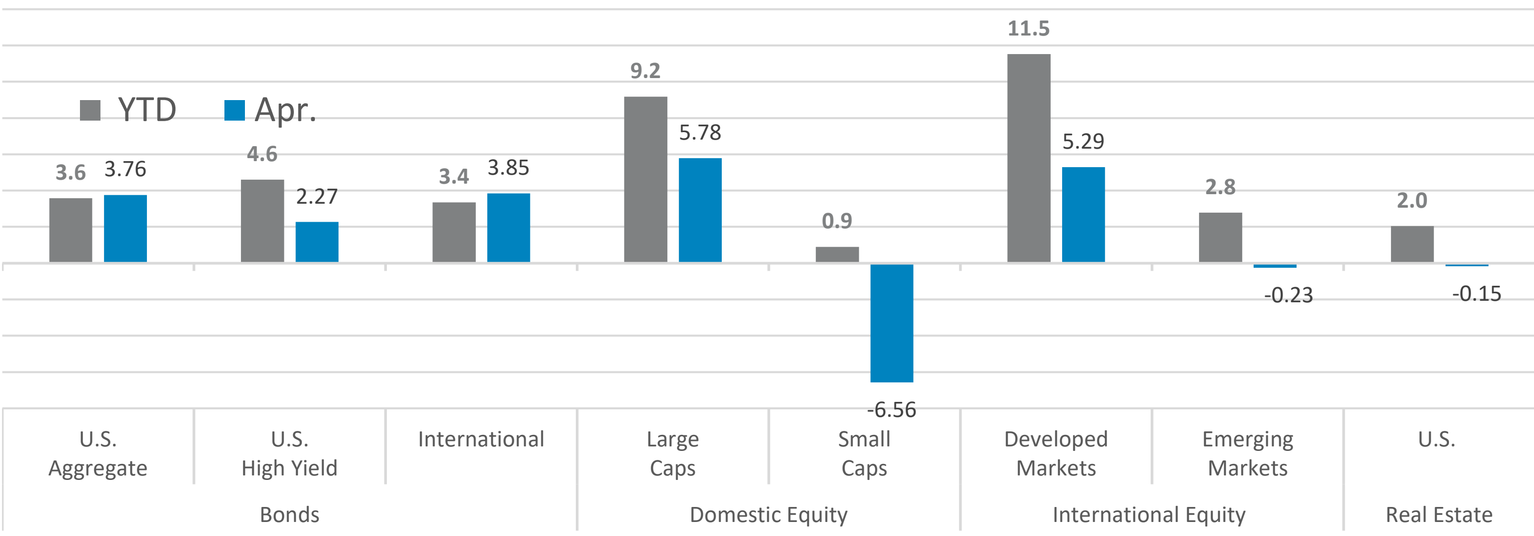
April 2023

Quick Takes

- **Risk Assets Mostly In the Green.** Risk assets had a bumpy ride for the month of April but finished largely positive. Small Caps were the exception to that, dropping -6.56% for the month, but clinging to a slightly positive year-to-date gain.
- **Mixed Inflation Data.** Several inflation metrics, like CPI, showed some signs of cooling at the headline reading but some of the underlying data suggests that prices are remaining stubbornly high in key areas. Core PCE, the Fed's preferred metric, came in above expectations for the month.
- **Dollar Takes a Rollercoaster Ride.** The dollar had a bumpy month, posting lower highs before bottoming out about halfway through the month. From there, it recovered during the second half of the month but ultimately finished lower for April.
- **Labor Markets and Economic Production.** Unemployment ticked down to 3.5%, missing expectations of 3.6%, but the JOLTS came in below expectations for the month of February. Disappointing to the downside, initial GDP numbers came in well below expectations, which reignited recession fears amongst market participants.

Asset Class Performance

It wasn't a smooth ride for the month of April, but most risk assets finished in the green for the month of April. Small Cap equities, Emerging Markets, and Real Estate were the exception to this. With stress in the banking system still reverberating, market participants will be eagerly awaiting the FOMC Rate Decision in early May.



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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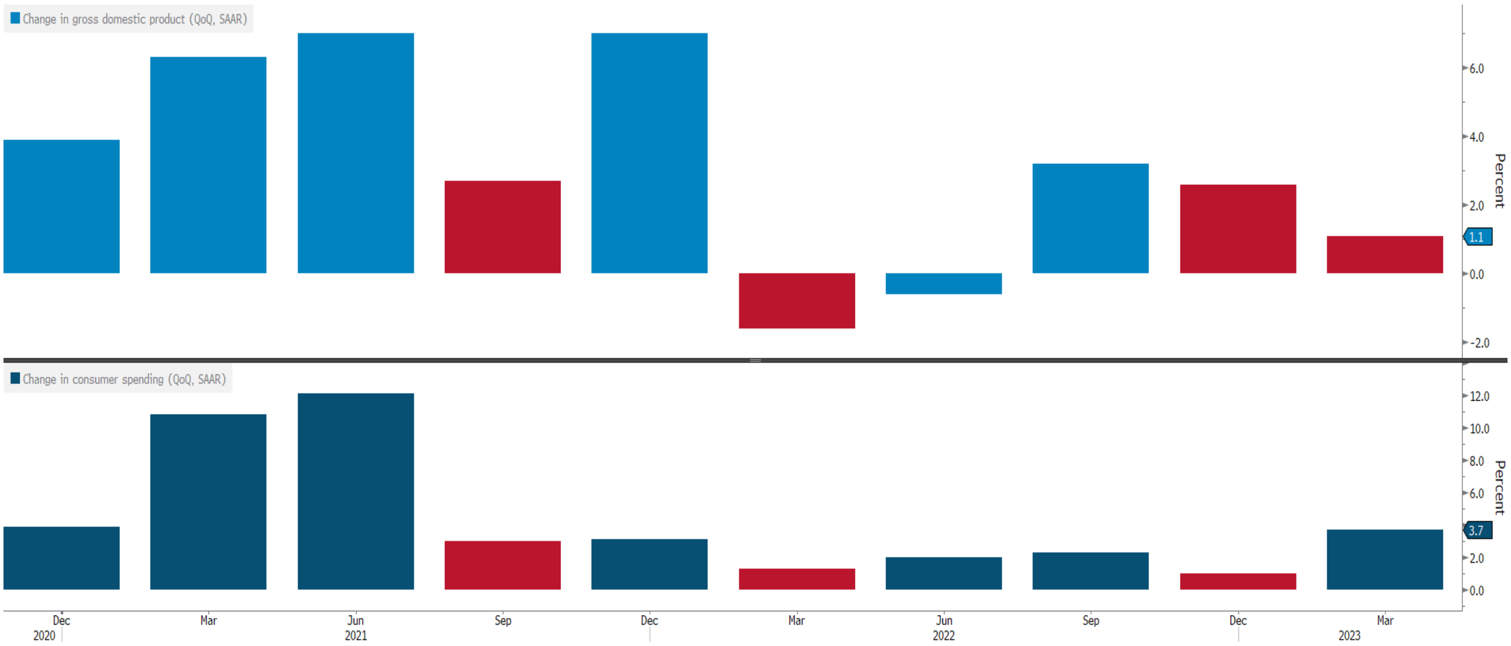
Markets & Macroeconomics

Consumers Shake Off Slowing Economy

Initial GDP Misses Estimates Despite Strong Consumer Spending

Change in Gross Domestic Product QoQ (top) and Consumer Spending QoQ (bottom)



Source: Bureau of Economic Analysis, Bloomberg

Initial estimates for first quarter economic production, as measured by Gross Domestic Product ("GDP"), missed estimates of +1.9%, landing at +1.1%. Digging into some of the underlying inputs in the GDP calculation, corporations have substantially cut investment in both projects as well as inventories. This should come as no surprise to market participants as this was the desired outcome from the Fed rapidly increasing interest rates. With business investment showing material signs of decline, eventually this should alleviate some of the pressure on prices, i.e., inflation. Looking at businesses in isolation, everything appears to be going according to the Fed's plan, but when zoomed out, it appears that consumers have curbed spending as businesses have. In the lower chart above, it's illustrated that consumers increased their spending in the first quarter of the year. While the metric came in slightly below estimates of +4.0%, at 3.7%, increases were across the board in both goods and services, including a bump up in motor vehicle spending. With interest rates retreating from their recent highs due to volatility in the banking sector, it's possible that consumers jumped at the opportunity of relatively cheaper financing. With consumer spending maintaining a level of resiliency, it's of little surprise that the Fed's preferred inflation metric, Core PCE Deflator, came in hotter than expected at +4.9% versus +4.7% for the first quarter of the year. Hotter than expected inflation data would all but lead market participants to anticipate an increase in interest rates at the May FOMC meeting, but the full impact of the stress in the banking sector likely hasn't made it full cycle just yet, so this could lead to the FOMC to pause their monetary tightening to focus on stability. At the end of April, the market was pricing in a 25bp increase in interest rates in May and then assumed that the Fed will pause their hiking cycle. Market participants will likely be eagerly awaiting the FOMC's decision but will have plenty to chew on with earnings season fully underway.

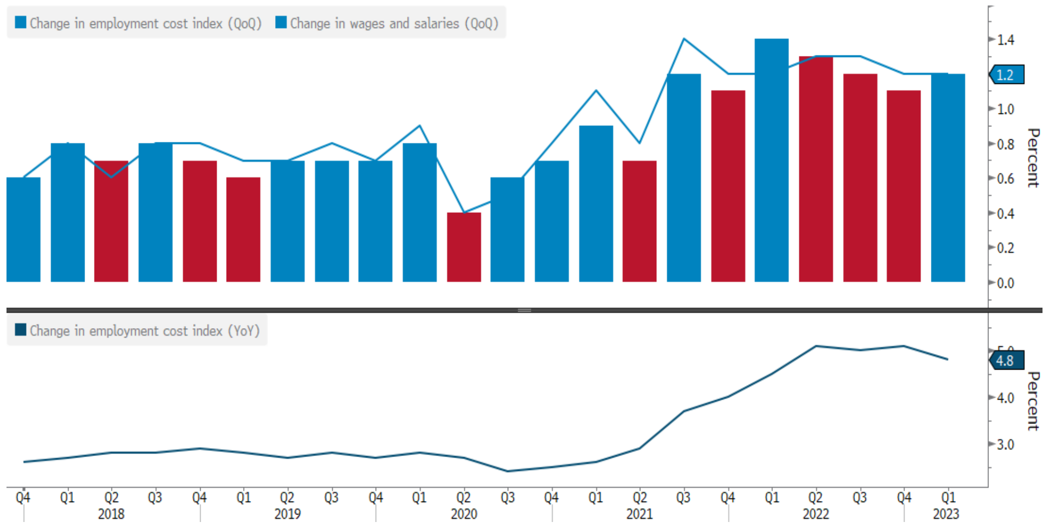
Bottom Line: The economy showed more signs of slowing down with GDP coming in softer than expected. Despite this slowdown in economic production, Consumer Spending remained resilient for the first quarter of the year, which ultimately led to the Fed's preferred inflation metric, Core PCE, coming in hotter than expected. While the full impact of the stress within the banking sector is still working its way through the system, the market was pricing in a 25bp increase in interest rates at the May FOMC meeting and then assumes that the Fed will pause their interest rate hiking cycle.

What's Ahead

Earnings Growth Show Signs of Decline, Labor Costs Go Higher

Cost of Labor Jumps Up In First Quarter of the Year

Change in Employment Cost Index QoQ (top), and YoY (bottom)

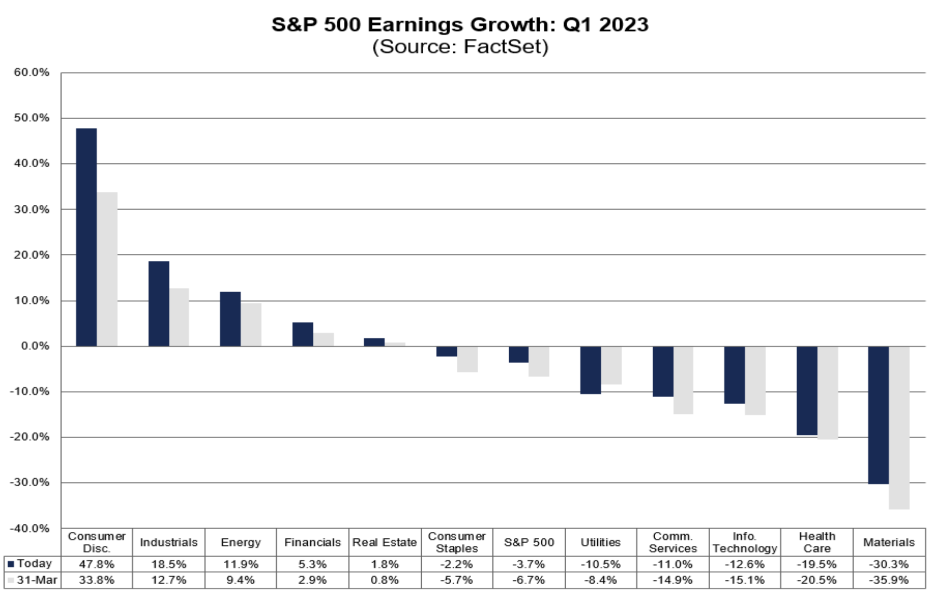


Source: Bureau of Labor Statistics, Bloomberg

At the end of April, approximately 53% of S&P 500 constituents had reported earnings results for the first quarter of 2023. As mentioned in the previous section, GDP came in below consensus expectations, so it's of little surprise that so far, S&P 500 constituents have reported declining earnings growth of -3.7% on a year-over-year basis. Assuming this trend continues into the second half of earnings season, this will be the second quarter in a row of negative earnings growth for the S&P 500 on a year-over-year basis. Also mentioned in the previous section, GDP came in softer than expected due to slowing investment from corporations but was partially offset by robust Consumer Spending. So, if businesses are cutting costs on capital projects but consumers are still spending, why is earnings growth declining? One explanation for the decline in earnings growth could be that the cost of employment jumped up in the first quarter of the year. The Change in Employment Cost Index rose by +1.2% quarter-over-quarter, which was greater than median estimates of +1.1%. This represents the seventh quarter in a row that Employ Costs have had a 1% increase or more, which extended the record-breaking streak dating back to 1996. While the quarter-over-quarter result on Employment Costs came in hotter than expected, as shown in the lower chart above, it appears that the year-over-year metric is beginning to turnover despite the first quarter reading. Collaborating this theme, it appears that job openings are also starting to decline on the back of corporations announcing hiring freezes as well as layoffs. With GDP slowing, the final holdout for the economy has been the labor markets. If this recent trend of softening labor markets begins to show substantial signs of accelerating, this should lead to a deceleration of inflation, which is what the single-minded Fed has been prioritizing with their tightening cycle. The Fed will likely want to see sustained slack in the labor markets before officially declaring victory over rampant inflation. With the FOMC assumed to increase interest rates by 25bps in May and then enter a sustained pause period, softening labor markets could be the catalyst that turns this pause into the end of the tightening cycle.

Earnings Growth Stumble Into First Quarter of 2023

S&P 500 Earnings Growth Year-Over-Year



Source: FactSet

<u>Bottom Line</u>: With a slight majority of S&P 500 constituents reporting declining earnings growth for the second quarter of the year and GDP accelerating at a slower pace than expected, it appears that the Fed's tightening of monetary policy is making an impact on the economy. While labor markets remain tight with Employment Costs still landing hotter than expected, it appears that that tightness is accelerating at a slower pace. This deceleration should eventually work its way into inflation and could be the catalyst that the Fed needs to see before not only pausing their monetary tightening cycle but possibly signal the end of the cycle.

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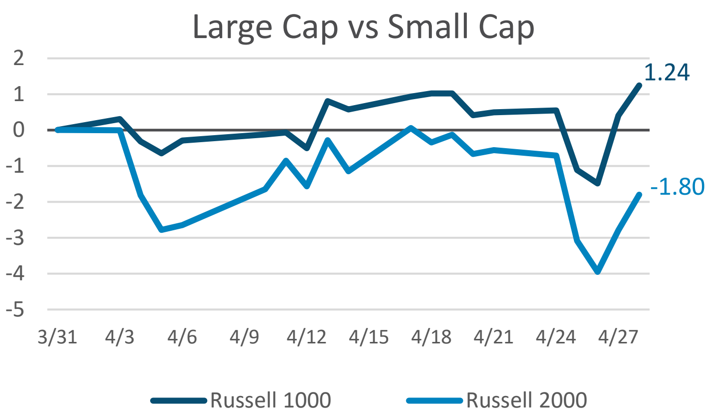
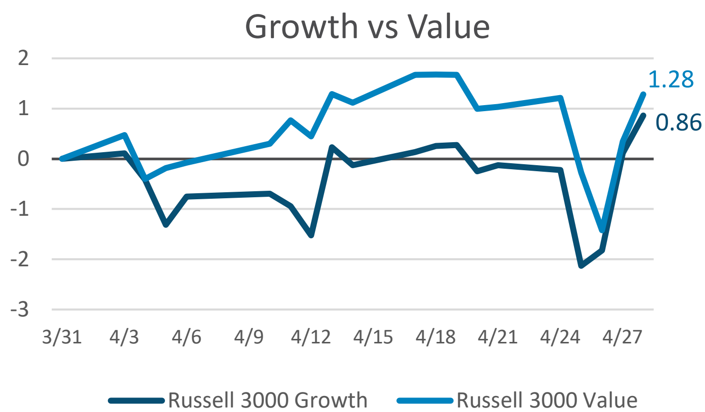
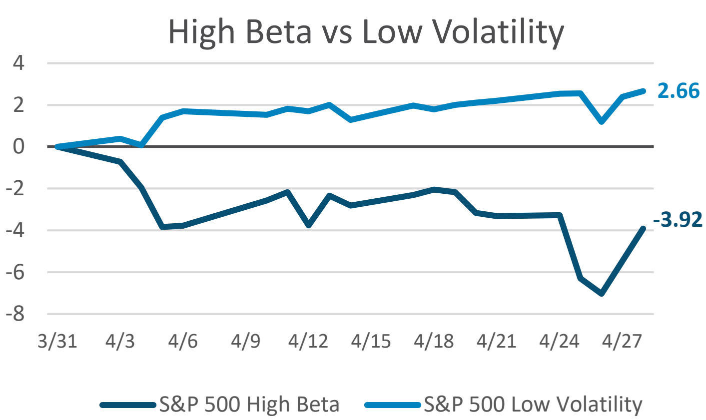
Equity Themes

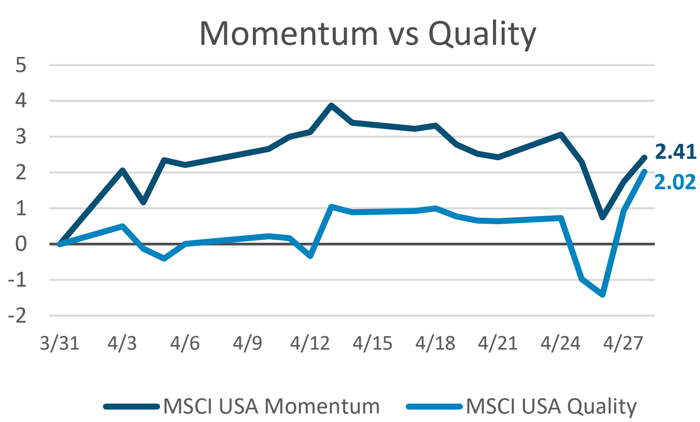
What Worked, What Didn't

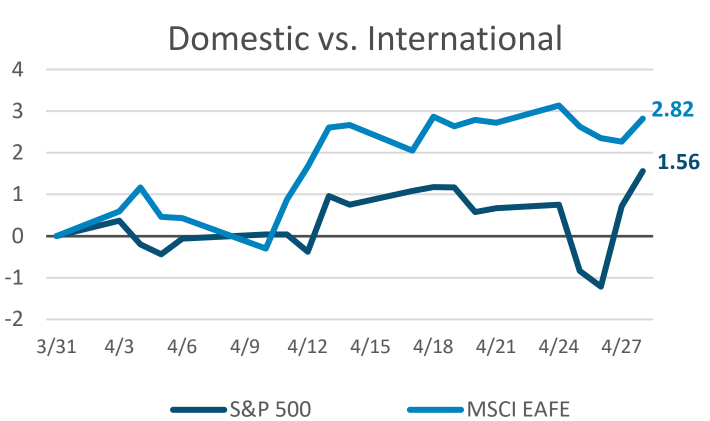
- **Large Over Small, Value Over Growth.** Small Cap equities struggled throughout the month of April, especially compared to their Large Cap peers which posted a last-minute comeback for the month. Value styled equities modestly outperformed their Growth peers, but both were positive for the month.
- **Low Vol and Momentum Outperform.** Low Volatility equites crushed their High Beta peers for the month and Momentum posted a reasonable margin of outperformance versus Quality factor peers, but both were in the green for April.
- **International Over Domestic, Developed over Emerging.** International equities posted a fairly wide margin of outperformance versus Domestic equities, also beating out Emerging Markets equities for April, which were modestly in the red for the month.

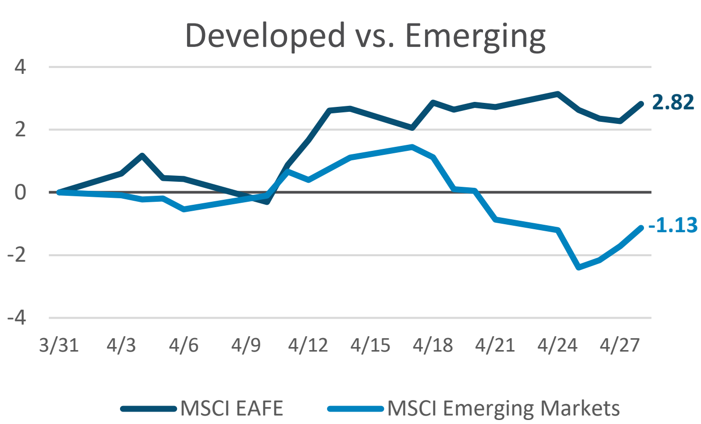












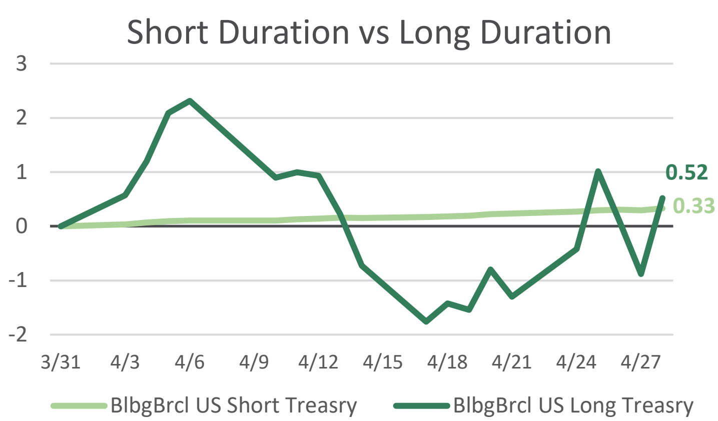
Source: Bloomberg.

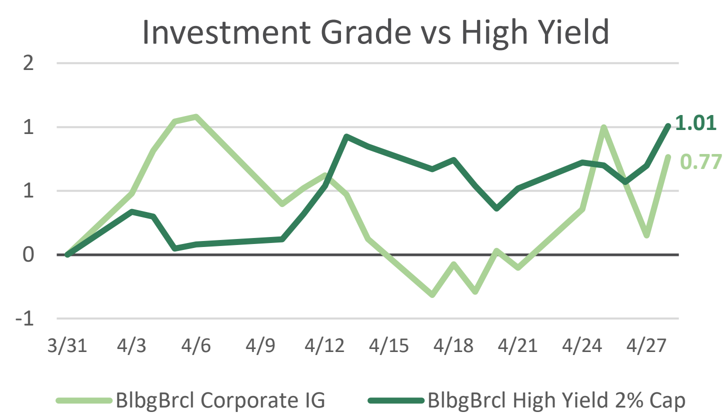
April 2023

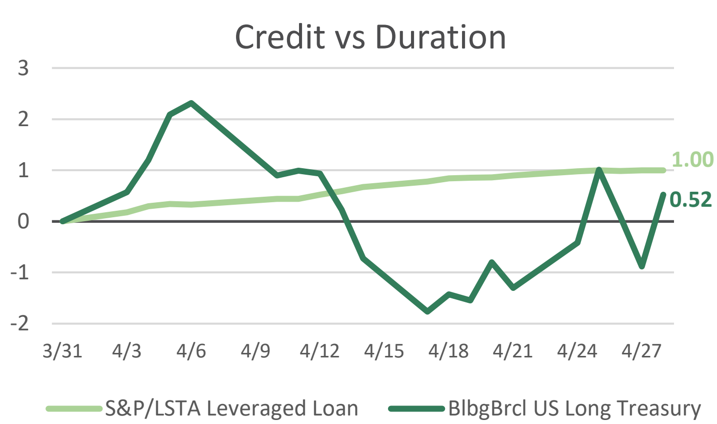
Bond Themes

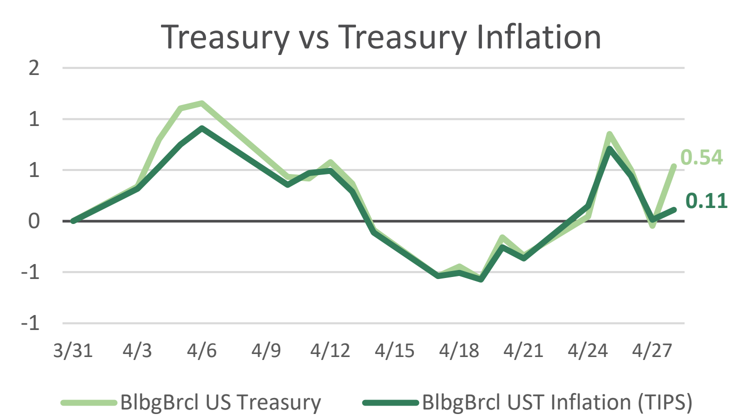
What Worked, What Didn't

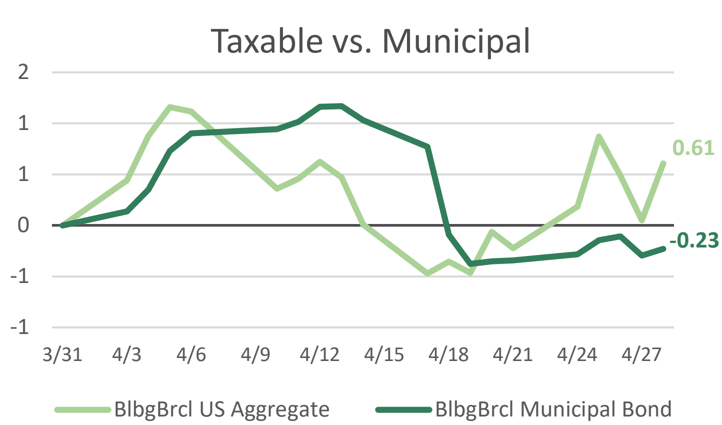
- **Long Duration and Lower Quality Outperform.** Longer Dated bonds marginally outperformed their shorter duration peers for the month of April. Market participants were in a modest risk on mode for the month with High Yield outperforming Investment Grade by a modest margin.
- **Credit Beat Duration and TIPS Underperform.** TIPS underperformed for the month of April with mixed inflation metric releases throughout the month. Credit posted a decent margin of outperformance versus Long Date bonds but both were positive for the month.
- **Munis and International Stumble.** Munis were one of the few fixed income asset classes that posted a negative month for April. International bonds, while positive, underperformed Domestic peers.

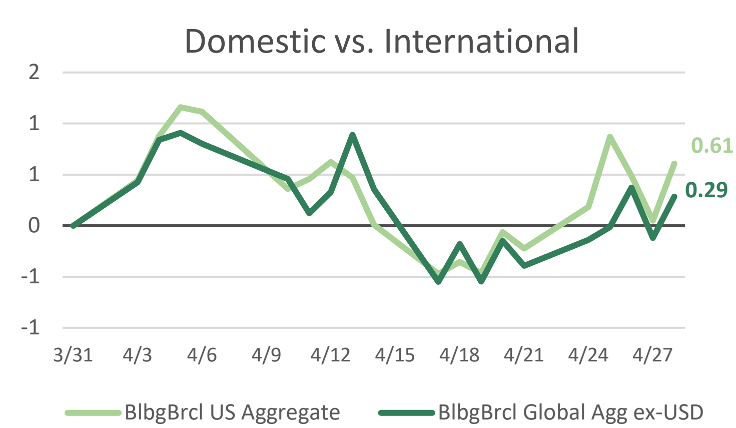












Source: Bloomberg.

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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.

	Apr-03	Apr-04	Apr-05	Apr-06	Apr-10	Apr-11	Apr-12	Apr-13	Apr-14	Apr-17	Apr-18	Apr-19	Apr-20	Apr-21	Apr-24	Apr-25	Apr-26	Apr-27	Apr-28	Apr	YTD	
High	IEQ 0.80	IBD 0.59	USB 0.34	RE 0.61	SCG 1.19	SCG 0.86	IEQ 0.64	LCG 1.79	LCV -0.10	RE 2.17	IEQ 0.55	RE 0.50	USB 0.46	IBD 0.52	USB 0.39	USB 0.62	EM 0.58	RE 2.46	RE 1.19	IEQ 2.94	LCG 15.46	High
	IBD 0.65	USB 0.37	LCV 0.28	LCG 0.60	MCG 0.89	MCV 0.83	IBD 0.42	SCG 1.41	HYB -0.19	SCV 1.22	IBD 0.25	SCV 0.46	IBD 0.14	IEQ 0.51	HYB 0.28	IBD 0.10	LCG 0.34	LCG 2.04	MCV 1.03	IBD 1.67	IEQ 12.16	
	LCV 0.55	IEQ 0.01	MCV -0.21	IEQ 0.47	SCV 0.88	SCV 0.70	USB 0.12	EM 1.37	LCG -0.33	SCG 1.22	MCG 0.22	MCV 0.18	IEQ 0.00	SCG 0.39	IEQ 0.26	HYB -0.16	IBD 0.12	LCV 1.76	IBD 0.98	LCV 1.56	MCG 7.52	
	USB 0.43	EM 0.00	IBD -0.28	HYB 0.44	MCV 0.79	EM 0.61	HYB -0.03	IEQ 1.28	MCG -0.37	MCV 0.75	60/40 0.15	LCG 0.08	60/40 -0.08	HYB 0.31	LCV 0.20	60/40 -0.82	IEQ -0.07	MCV 1.68	LCV 0.96	LCG 1.02	60/40 6.26	
	60/40 0.36	RE -0.07	60/40 -0.30	EM 0.41	RE 0.49	MCG 0.59	60/40 -0.05	MCG 1.19	IEQ -0.41	MCG 0.53	USB 0.14	IBD 0.04	HYB -0.09	RE 0.20	60/40 0.15	RE -1.06	60/40 -0.30	SCV 1.53	SCG 0.91	RE 0.92	IBD 4.98	
	SCG 0.30	60/40 -0.16	RE -0.55	IBD 0.24	LCV 0.35	RE 0.53	LCV -0.29	SCV 1.15	60/40 -0.45	LCV 0.48	LCG 0.10	LCV -0.01	EM -0.15	MCG 0.20	MCG 0.06	IEQ -1.40	USB -0.37	EM 1.35	MCG 0.90	60/40 0.89	SCG 4.73	
	EM 0.20	HYB -0.29	HYB -0.56	SCV 0.22	EM 0.10	LCV 0.44	MCG -0.44	LCV 0.81	MCV -0.48	EM 0.43	HYB 0.07	USB -0.15	SCG -0.36	LCG 0.08	MCV 0.02	LCV -1.41	HYB -0.39	IEQ 1.25	SCV 0.86	USB 0.57	HYB 3.94	
	LCG 0.14	LCG -0.40	SCV -0.62	60/40 0.22	LCG 0.02	IEQ 0.33	RE -0.49	60/40 0.75	IBD -0.48	LCG 0.19	LCV 0.04	60/40 -0.17	MCG -0.45	LCV 0.06	LCG -0.08	MCV -1.66	MCG -0.55	MCG 1.22	LCG 0.74	HYB 0.20	USB 3.82	
	MCG 0.00	LCV -0.80	IEQ -0.69	LCV 0.11	IEQ -0.07	60/40 0.25	MCV -0.54	HYB 0.68	USB -0.49	60/40 0.03	MCV -0.02	SCG -0.18	MCV -0.46	60/40 0.04	SCG -0.10	LCG -1.87	RE -0.78	SCG 1.00	60/40 0.57	MCV 0.03	EM 3.25	
	MCV -0.04	MCG -1.02	EM -0.78	MCV 0.08	HYB -0.09	HYB 0.21	LCG -0.58	IBD 0.59	EM -0.53	IEQ -0.18	SCG -0.11	IEQ -0.31	LCG -0.53	MCV -0.08	SCV -0.16	EM -1.88	SCG -0.91	60/40 0.83	EM 0.51	EM -0.84	LCV 2.50	
	HYB -0.08	MCV -1.35	LCG -0.90	SCG 0.07	60/40 -0.10	IBD 0.11	SCG -0.68	MCV 0.56	SCG -0.71	HYB -0.27	EM -0.13	MCG -0.38	LCV -0.68	SCV -0.13	EM -0.23	SCV -2.42	SCV -0.96	HYB 0.33	USB 0.51	SCG -1.16	RE 2.35	
	SCV -0.12	SCG -1.74	SCG -1.21	MCG 0.00	USB -0.69	USB 0.06	EM -0.71	USB -0.04	SCV -1.05	USB -0.50	RE -0.19	HYB -0.40	SCV -0.71	USB -0.17	IBD -0.28	SCG -2.43	MCV -1.00	IBD -0.30	HYB 0.43	MCG -1.44	MCV 1.34	
Low	RE -0.79	SCV -1.93	MCG -1.41	USB -0.09	IBD -0.94	LCG -0.35	SCV -0.71	RE -0.28	RE -1.61	IBD -0.80	SCV -0.67	EM -1.00	RE -1.02	EM -0.94	RE -0.28	MCG -2.53	LCV -1.15	USB -0.36	IEQ -0.04	SCV -2.53	SCV -3.17	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. 050323008 MKS