MONTH IN REVIEW

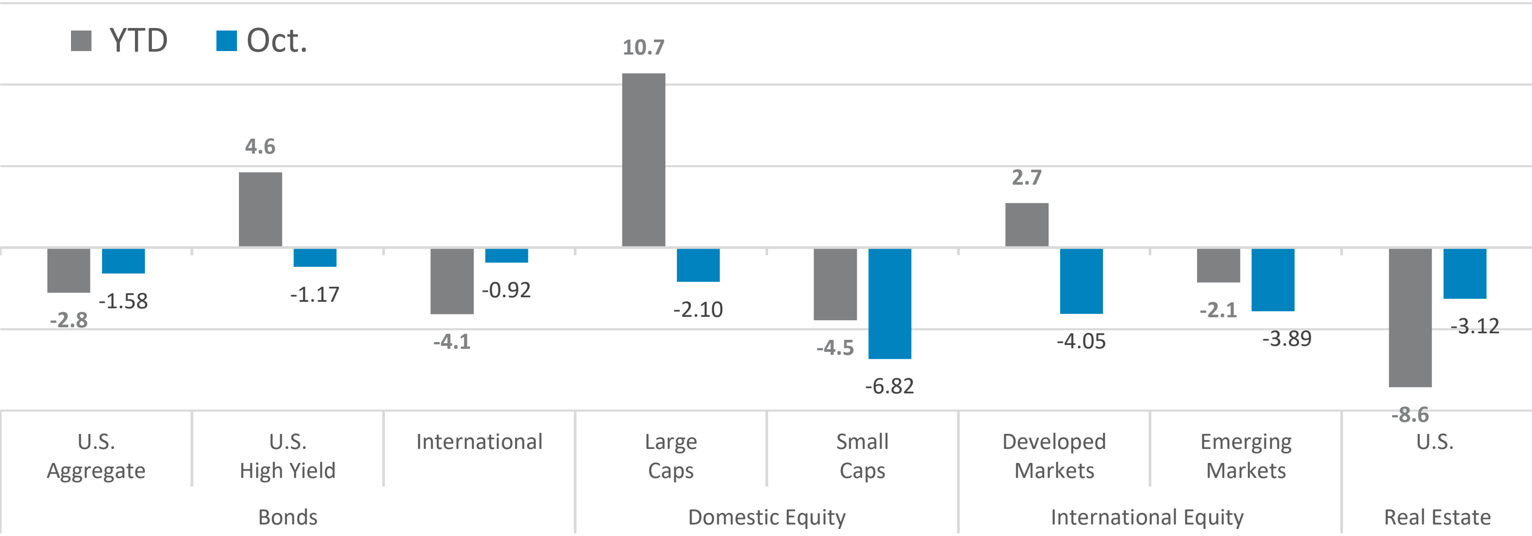
October 2023

Quick Takes

- **Scary October for Risk Assets.** Risk assets were spooked into negative territory for the month of October with almost all asset classes in the red for the month.
- **Inflation Stays Steady.** Inflation, as measured by the Consumer Price Index ("CPI"), came in slightly above market estimates of +3.6%, landing at +3.7% for the month of September, which was in line with the previous reading. While slightly above expectations, market participants mostly shook off the surprise and paid greater attention to Fed speak for the month of October.
- **Greenback Volatility.** The dollar had a rollercoaster ride for the month of October but ended the month off its low point. Regardless of the month end resiliency, the dollar ended down for the month versus other major currencies.
- **Economic Production and Consumers.** The first reading of third quarter economic production came in stronger than expected, landing at +4.9% versus expectations of +4.5% and well above second quarter figures of +2.1%. Consumer Spending drove a lot of the surprise in third quarter GDP numbers but questions surrounding the sustainability of the spending levels are top of mind for market participants.

Asset Class Performance

Risk Assets struggled for the month of October with almost all asset classes posting a negative monthly return. Small Caps led the way down as market participants went risk off and International Bonds gave some downside protection but were still down almost a percent for the month.



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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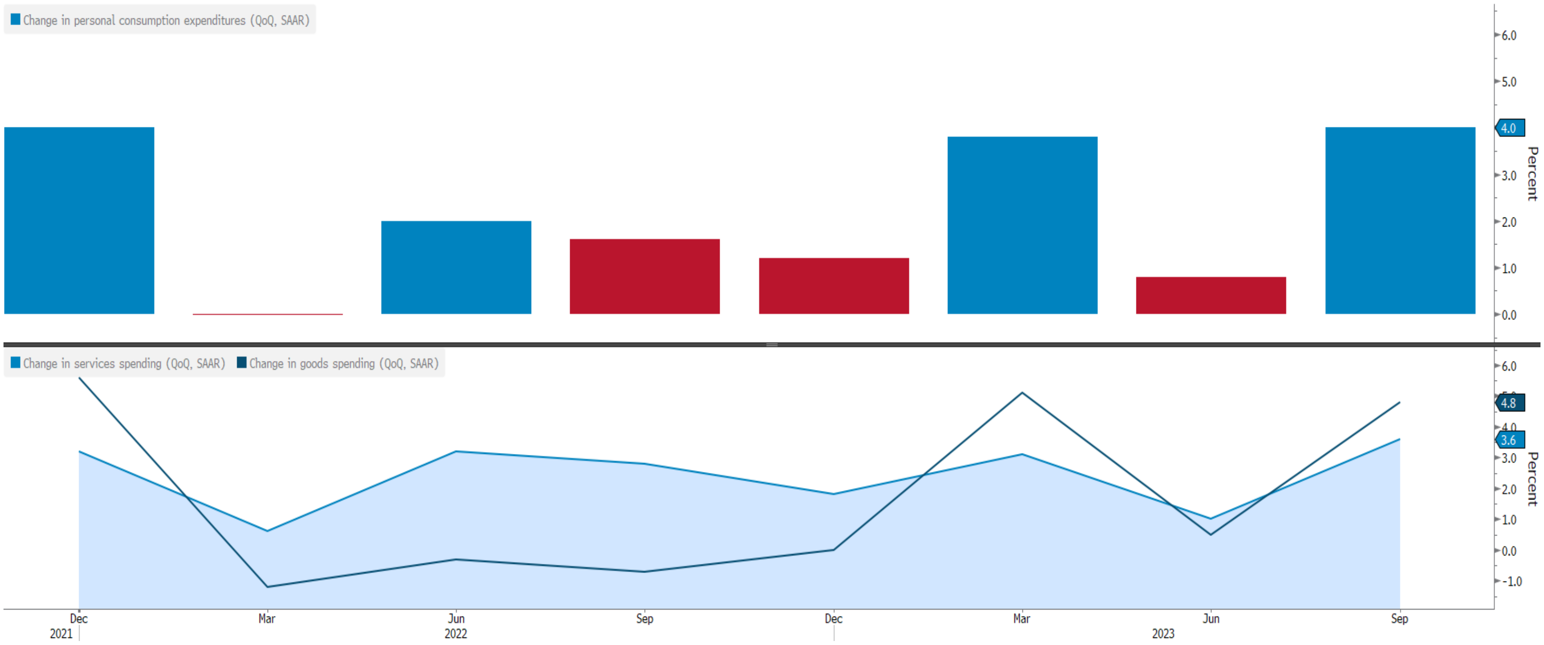
Consumer Spending Continues to Prop Up The Economy

Consumer Spending Increased at Fastest Pace in Two Years

Change in Personal Consumption (QoQ) (Top), Chang in Goods & Services Spending (QoQ)



Source: Bureau of Economic Analysis, Bloomberg

There has been no shortage of warning signs going off in financial and economic data readings for the year, consumers seem to be completely unaware. The initial reading for third quarter Personal Consumption Expenditures came in red hot at +4.0%. While some of this reading was due to temporary major events at the end of the summer like the Oppenheimer movie and Taylor Swift and Beyonce's concert tours, it appears that consumers were also buying physical goods as well as services. Both metrics were up from the second quarter's reading, with Services Spending increasing at a +3.6% and Goods Spending at +4.8%. With many market participants aware that these figures may have been skewed by the temporary spending on the major events at the end of the summer, market participants largely shook off the slightly higher than expected reading of inflation metrics for the month of September. On a similar note, with GDP coming in robustly for the third quarter at +4.9% on the initial reading, market participants likely chalked this up to the temporary spending on the aforementioned major events, back to school shopping, or last-minute end of summer vacations. With all the positive news seeming to be ignored by market participants, Fed Speak seemed to take center stage for the month of October. The general consensus from Fed members seemed to indicate that a pause in rate hikes will occur for the November meeting but left the door open for one more hike for 2023 or possibly even into the new year. Many members made comments stating that progress seems to be made after the rapid tightening in financial conditions, but the Fed is hesitant to declare victory at this point. This rhetoric sent bond yields soaring for the latter half of the month across the yield curve as evidenced by the yield on the Generic US Treasury 10-year coming dangerously close to 5.0% level.

Bottom Line: Market participants largely shook off some of the positive economic readings for the month of October like Consumer Spending remaining strong across both goods and services as well as GDP coming in at a very robust pace for the third quarter, paying more attention to the Fed speak throughout the month and its effect on the bond market. With yields showing upward momentum across the curve at the end of the month on the back of Fed members recent rhetoric, many market participants became concerned with the impact that high borrowing costs may have on future economic growth prospects, and this seems to be the main catalyst for risk assets posting a negative month for October.

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October 2023

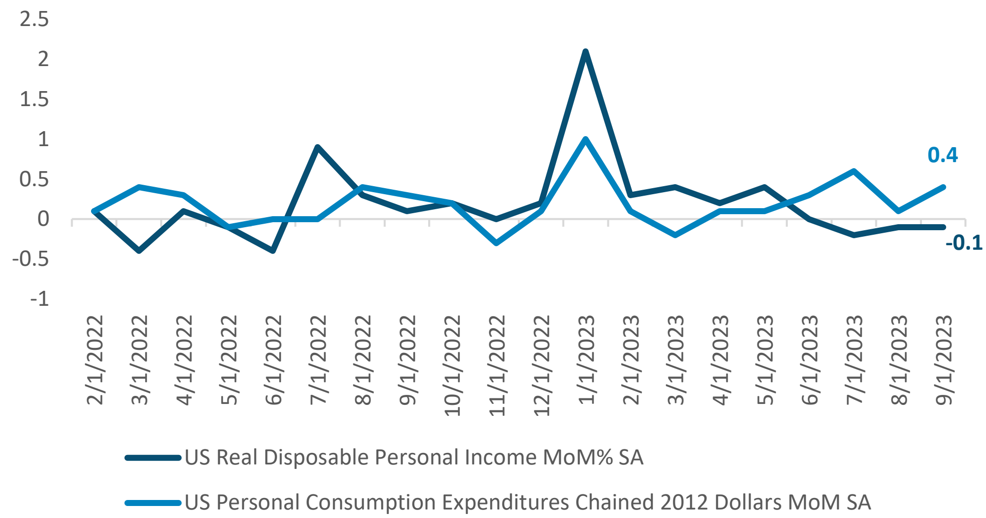
What's Ahead

How Sustainable is Consumer Spending?

As mentioned in the previous section, Consumers seem to be completely unaware that the economy has pumped the brakes as a result of the Fed's rapid increase in tightening financial conditions. Consumers have so far propped up the economy with their resilient and robust spending habits. After the unprecedented level of stimulus by the government during the pandemic, this red-hot level of expenditures hasn't had a widespread effect, but many market participants are asking how long these levels can be sustained? Consumers exited the pandemic period in excellent financial shape with personal balance sheets appearing to be in pristine positioning. Now, as inflation and tighter credit conditions have wreaked havoc on consumer wallets, things aren't looking nearly as encouraging. As illustrated in the chart below, Personal Savings as a percentage of Disposable Personal Income has fallen dramatically over the course of the year. Additionally, it appears that the Fed's tightening campaign may be working its way to impacting the labor market. As the chart on the right side of page shows, Personal Consumption Expenditures have remained fairly resilient through the course of the year, and even ticked up over the past couple of months, but Real Disposable Income has shown signs of decreasing throughout the latter half of the year. This likely means that employers are cutting back hiring plans or even cutting back current workforces. Since there is less competition for both current and prospective workers, the increase in compensation from employers has been decelerating. While the Fed was purposely trying to engineer this exact situation to help cool off the upward pressure on inflation, it appears that consumers will likely not be able to continue their robust spending levels as savings levels dwindle and are not able to be replenished be increasing wage rates.

Slackening Personal Income vs. Growing Expenditures

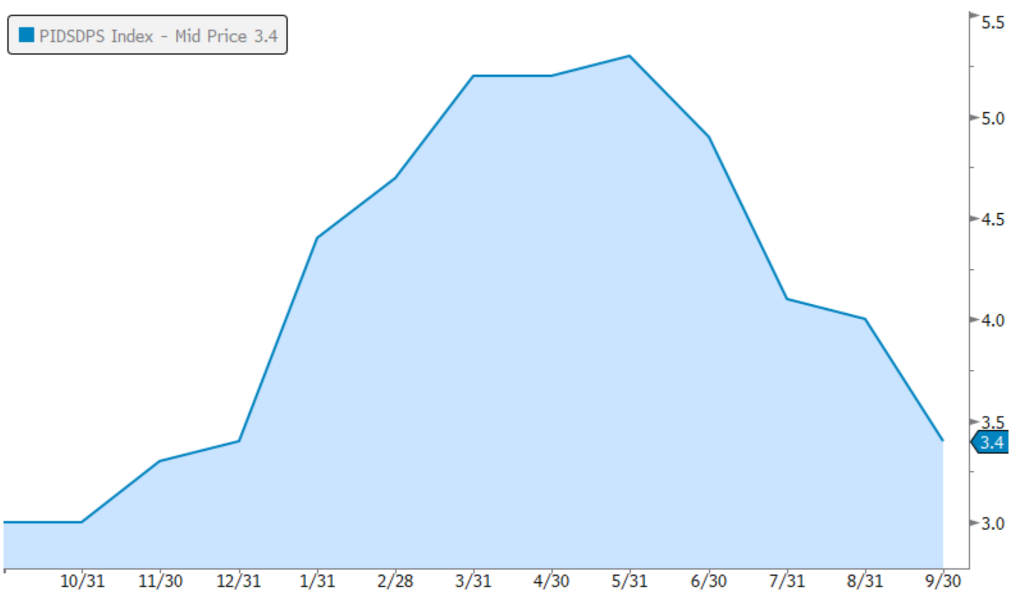
US Real Disposable Personal Income & Personal Consumption Expenditures MoM



Source: Bureau of Economic Analysis, Bloomberg

High Levels of Spending Eat Into Savings

US Personal Savings as % of Disposable Personal Income MoM



Source: Bureau of Economic Analysis, Bloomberg

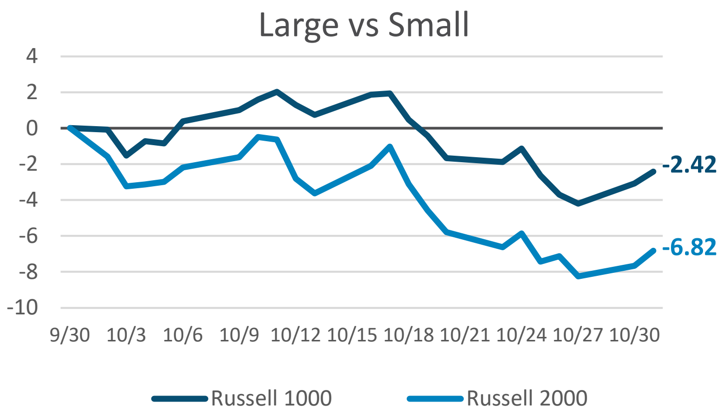
<u>Bottom Line</u>: While consumer spending has propped up the economy throughout the Fed's tightening cycle so far, it appears that savings levels have dramatically dwindled as a result of this robust and resilient spending. Additionally, as Personal Income has recently shown signs of softening, it appears that savings will not be replenished at the same rate as they are being depleted. As savings dwindles it's logical to hypothesize that Consumer Spending will likely not remain at the recent reported levels. While this may mean that the Fed will not have to tighten financial conditions further to tame inflation, it may also lead to the economy dipping into recessionary territory as the consumer curbs their expenditure appetite.

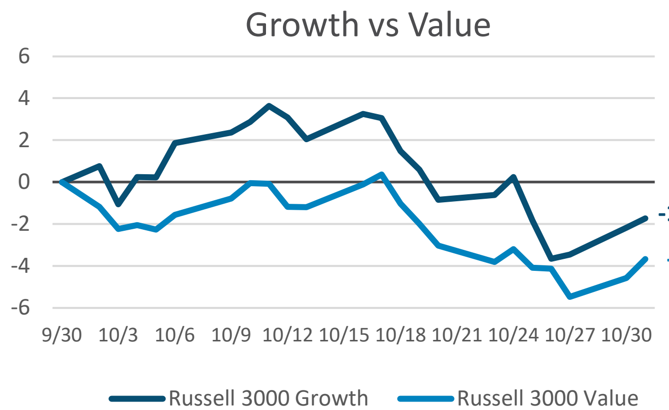
October 2023

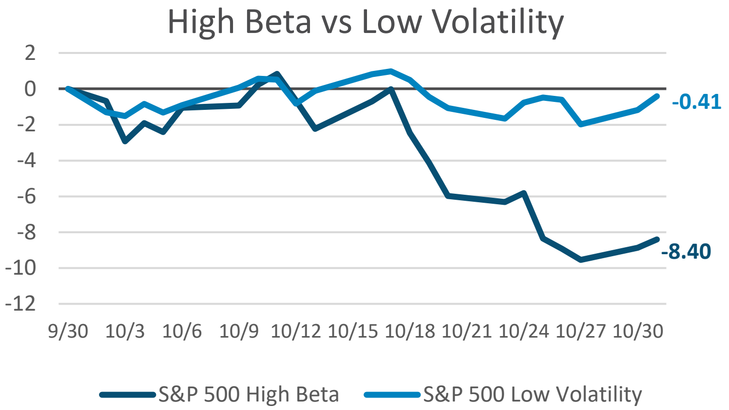
Equity Themes

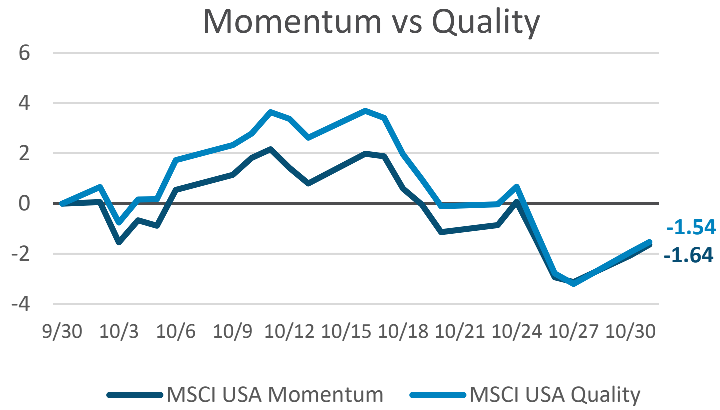
What Worked, What Didn't

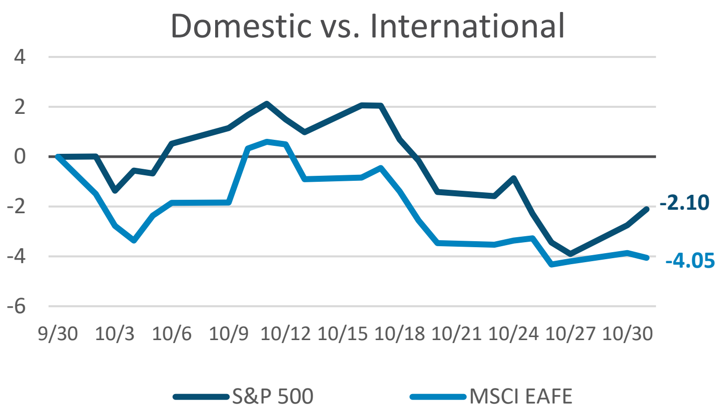
- **Large Over Small, Growth Over Value.** Large and Small Cap equities were in the red for October, but Large Caps gave some downside protection. Similarly, Growth styled equities were down less than their Value styled peers for the month.
- **Low Vol and Quality Outperform.** High Beta equities were under extreme pressure for the month, while Quality factor equities slightly outperformed their Momentum factor peers.
- **Domestic over International, Emerging over Developed.** Domestic Equities gave some downside protection versus their International peers, and Emerging Markets gave modest downside protection versus Developed markets, but all were well into the red for the month.

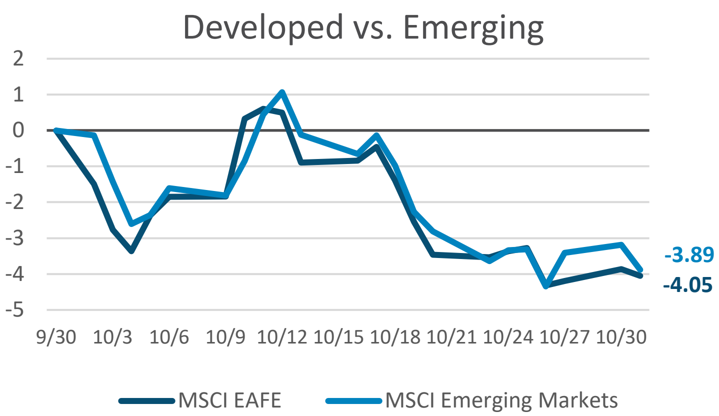










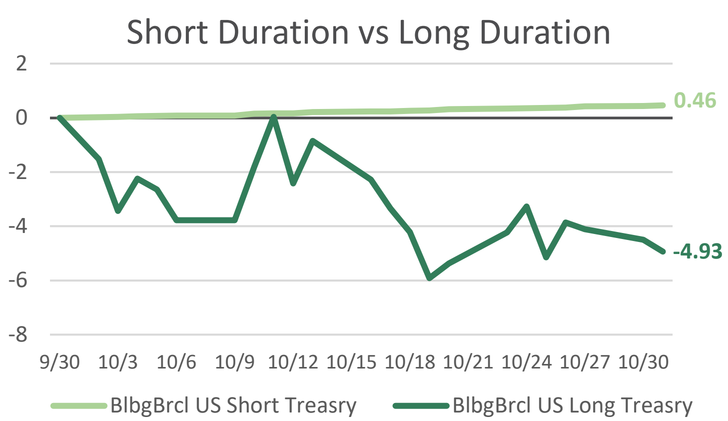


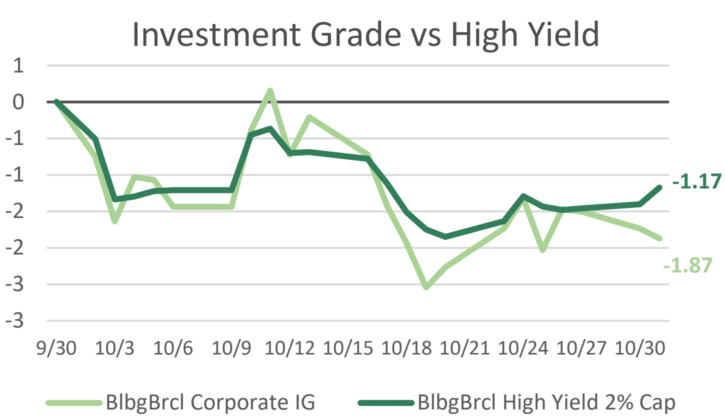
Source: Bloomberg.

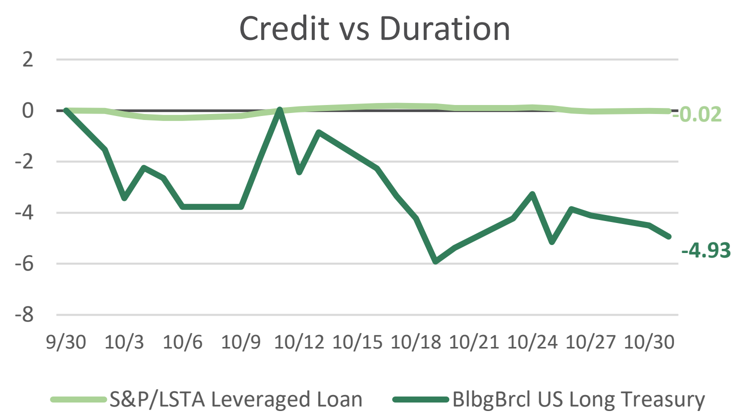
Bond Themes

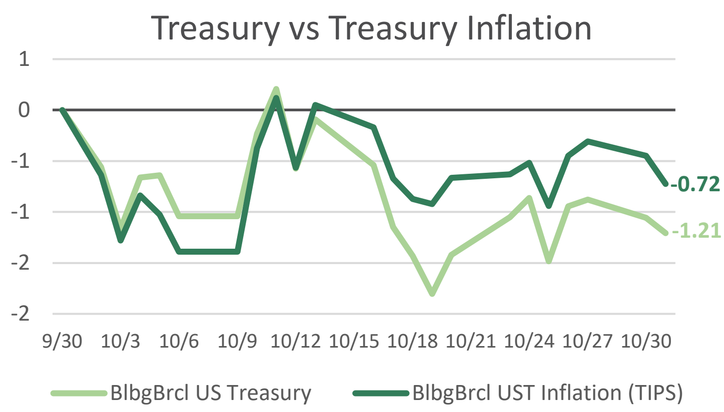
What Worked, What Didn’t

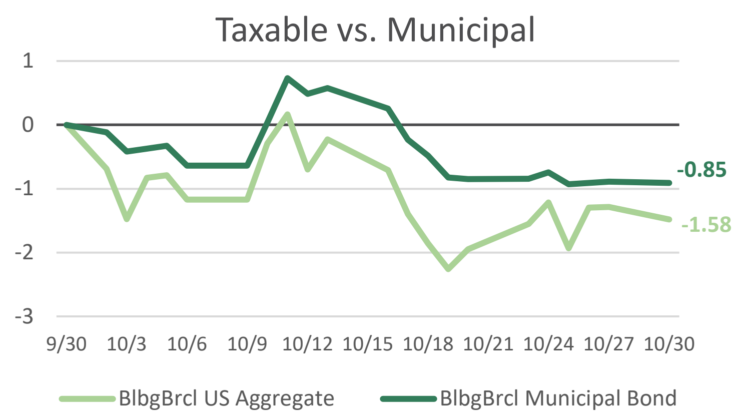
- **Short Duration and High Yield Outperform.** Treasuries came under pressure for the month of October, especially long duration. Short Duration was modestly positive and High Yield gave some downside protection versus their Investment Grade peers, but both were in the red for the month.
- **Credit Beat Duration and TIPS Protect.** As mentioned above, Long Duration treasuries underperformed for October while Credit was only slightly negative. TIPS gave some downside protection for October but was still negative for the month.
- **Munis and International Outperform.** Munis and International bonds gave some downside protection versus their taxable and domestic peers respectively for the month but were in the red for October.

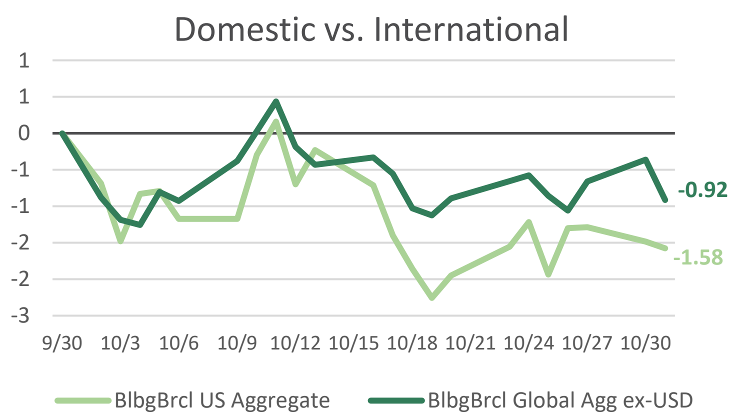












Source: Bloomberg.

October 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.

	Oct-02	Oct-03	Oct-04	Oct-05	Oct-06	Oct-09	Oct-10	Oct-11	Oct-12	Oct-13	Oct-16	Oct-17	Oct-18	Oct-19	Oct-20	Oct-23	Oct-24	Oct-25	Oct-26	Oct-27	Oct-30	Oct-31	Oct	YTD	
High	LCG 0.85	IBD -0.52	LCG 1.37	IEQ 0.88	LCG 1.65	RE 1.28	EM 1.43	RE 1.85	LCG -0.50	USB 0.43	SCG 1.69	SCV 1.22	USB -0.47	IBD 0.33	USB 0.36	IBD 0.92	EM 1.28	IBD -0.15	RE 1.98	IBD 0.55	LCG 1.41	RE 1.85	IBD 1.06	LCG 23.04	High
	IBD -0.38	USB -0.78	RE 1.09	RE 0.76	MCG 1.52	USB 1.04	IEQ 1.37	LCG 0.81	HYB -0.53	IBD 0.26	SCV 1.48	SCG 1.02	HYB -0.48	HYB -0.36	HYB 0.21	HYB 0.40	RE 1.19	HYB -0.54	SCV 0.69	LCG 0.21	IEQ 1.28	SCG 1.05	HYB -1.04	MCG 4.17	
	EM -0.50	HYB -1.02	MCG 0.93	IBD 0.59	EM 1.45	MCV 0.80	SCG 1.17	EM 0.63	IEQ -0.83	LCV -0.01	MCV 1.31	MCV 0.82	IBD -0.52	USB -0.38	IBD 0.19	USB 0.39	SCG 1.17	IEQ -0.72	USB 0.67	USB -0.03	EM 1.04	LCV 0.92	LCG -1.46	IEQ 3.84	
	MCG -0.54	LCV -1.08	USB 0.70	EM 0.38	SCG 1.20	LCV 0.78	SCV 1.07	MCV 0.52	USB -0.86	HYB -0.08	MCG 1.31	MCG 0.66	60/40 -1.21	EM -0.59	60/40 -0.54	LCG 0.26	LCG 0.90	USB -0.74	HYB 0.35	EM -0.08	LCV 0.97	MCV 0.88	USB -1.57	HYB 3.05	
	HYB -0.60	60/40 -1.17	MCV 0.66	SCV 0.25	IEQ 1.11	SCV 0.77	MCG 0.97	IBD 0.48	60/40 -0.99	RE -0.10	RE 1.15	LCV 0.42	LCV -1.34	60/40 -0.73	RE -0.65	IEQ 0.08	MCG 0.78	LCV -0.86	MCV 0.31	HYB -0.12	SCV 0.74	MCG 0.80	60/40 -2.51	60/40 1.56	
	USB -0.69	IEQ -1.25	IBD 0.56	60/40 0.23	MCV 0.87	HYB 0.74	MCV 0.82	USB 0.46	LCV -1.03	60/40 -0.23	LCG 1.14	IEQ 0.06	LCG -1.50	LCG -0.83	IEQ -0.89	60/40 0.03	MCV 0.72	60/40 -1.05	60/40 -0.11	IEQ -0.30	IBD 0.66	SCV 0.76	IEQ -2.90	IBD 0.26	
	60/40 -0.78	EM -1.32	60/40 0.53	HYB 0.10	LCV 0.75	IBD 0.70	LCV 0.76	60/40 0.43	EM -1.12	EM -0.37	LCV 1.09	60/40 -0.15	EM -1.52	IEQ -0.89	LCV -1.04	EM -0.08	LCV 0.63	SCV -1.17	LCV -0.12	60/40 -0.34	MCV 0.64	LCG 0.39	EM -3.29	LCV -1.91	
	LCV -1.12	MCV -1.39	HYB 0.51	USB 0.06	SCV 0.59	MCG 0.70	60/40 0.57	IEQ 0.42	IBD -1.28	MCV -0.40	EM 0.74	LCG -0.25	IEQ -1.74	LCV -0.98	EM -1.21	MCG -0.40	60/40 0.59	EM -1.32	SCG -0.16	MCG -0.68	60/40 0.58	IEQ 0.36	LCV -3.56	EM -2.40	
	SCG -1.21	SCV -1.56	LCV 0.19	LCG 0.01	60/40 0.56	60/40 0.57	LCG 0.48	SCV 0.19	RE -1.56	MCG -0.68	IEQ 0.73	EM -0.26	MCG -1.93	MCG -1.11	MCV -1.22	LCV -0.79	IEQ 0.57	MCV -1.37	IBD -0.22	SCG -1.02	RE 0.46	60/40 0.28	RE -3.60	USB -2.58	
	IEQ -1.47	SCG -1.72	IEQ 0.18	SCG -0.05	RE 0.21	LCG 0.49	RE 0.32	MCG 0.15	MCV -1.57	SCV -0.81	60/40 0.45	RE -0.28	SCV -2.08	SCV -1.43	SCV -1.25	SCG -0.80	HYB 0.51	LCG -2.08	EM -0.49	MCV -1.25	MCG 0.40	HYB 0.26	MCV -5.01	SCG -2.97	
	MCV -1.52	LCG -1.79	SCG 0.14	MCG -0.17	HYB 0.14	SCG 0.37	IBD 0.11	HYB -0.01	MCG -1.60	SCG -0.92	IBD 0.11	IBD -0.40	MCV -2.13	MCV -1.49	SCG -1.31	MCV -0.81	SCV 0.45	SCG -2.14	MCG -0.71	SCV -1.34	SCG 0.37	USB -0.07	MCG -5.10	MCV -4.58	
	SCV -1.81	MCG -1.79	SCV -0.03	MCV -0.19	IBD -0.15	IEQ -0.15	HYB -0.03	LCV -0.09	SCV -1.91	IEQ -0.93	HYB -0.03	HYB -0.47	SCG -2.17	SCG -1.55	MCG -1.37	SCV -0.90	USB 0.36	RE -2.19	IEQ -0.72	LCV -1.39	HYB 0.03	IBD -0.47	SCV -6.01	SCV -6.58	
Low	RE -1.84	RE -1.94	EM -0.30	LCV -0.22	USB -0.39	EM -0.48	USB -0.10	SCG -0.57	SCG -2.35	LCG -0.97	USB -0.56	USB -0.72	RE -2.18	RE -2.39	LCG -1.41	RE -0.95	IBD -0.29	MCG -2.34	LCG -1.94	RE -1.49	USB -0.24	EM -0.57	SCG -7.66	RE -8.55	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

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