MONTH IN REVIEW

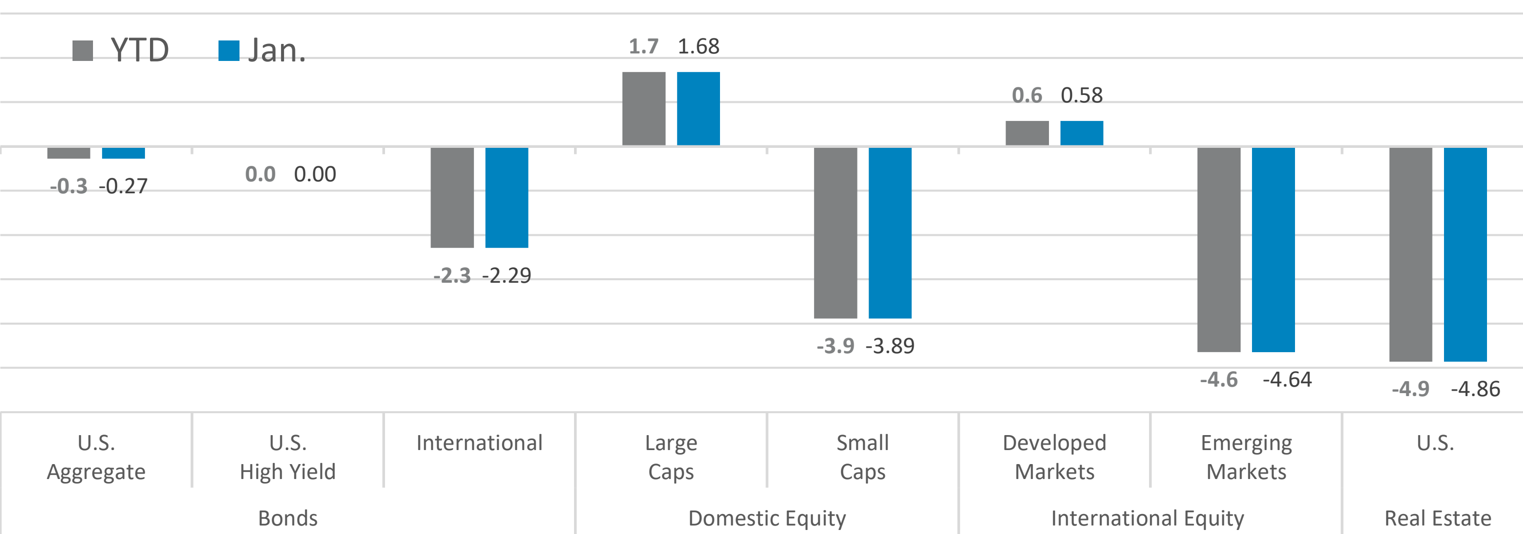
January 2024

Quick Takes

- **Risk Assets Mixed Start.** Market participants went slightly risk-off for the start of the year with Large Cap equities, both domestic and international, posting positive performance while most other risk asset classes were in the red for the month.
- **Inflation Continued Softening.** Inflation, as measured by the Fed's preferred metric of PCE Deflator, dipped below the +3.0% mark, coming in at +2.9% on the year-over-year metric. Despite this encouraging news, Fedspeak led most market participants to adjust future rate cut expectations to later than anticipated at last year's end.
- **Greenback Strengths in January.** The dollar spiked against other major currencies mid-month as market participants adjusted future rate expectations. It ended off its highs for the month but was still well above levels at the end of last year.
- **Personal Spending and Labor Markets.** Personal Spending came in hotter than expected for the month of December, landing at +0.5% versus expectations of +0.3%. Labor Markets continued on their resilient streak with the Job Openings and Labor Turnover Survey, "JOLTS", coming in above expectations of 8.75 million open positions, landing at a little over 9 million. The JOLTS report also showed that fewer workers quit into year end.

Asset Class Performance

Risk Assets posted a mixed start to the year with Large Caps and International Developed Markets posting positive results, whereas most other risk assets were in the negative for January. Domestic Real Estate and Emerging Market equities were the biggest losers for the month, but Small Cap equities weren't far behind them.



Source: Bloomberg, as of December 31, 2023. 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).

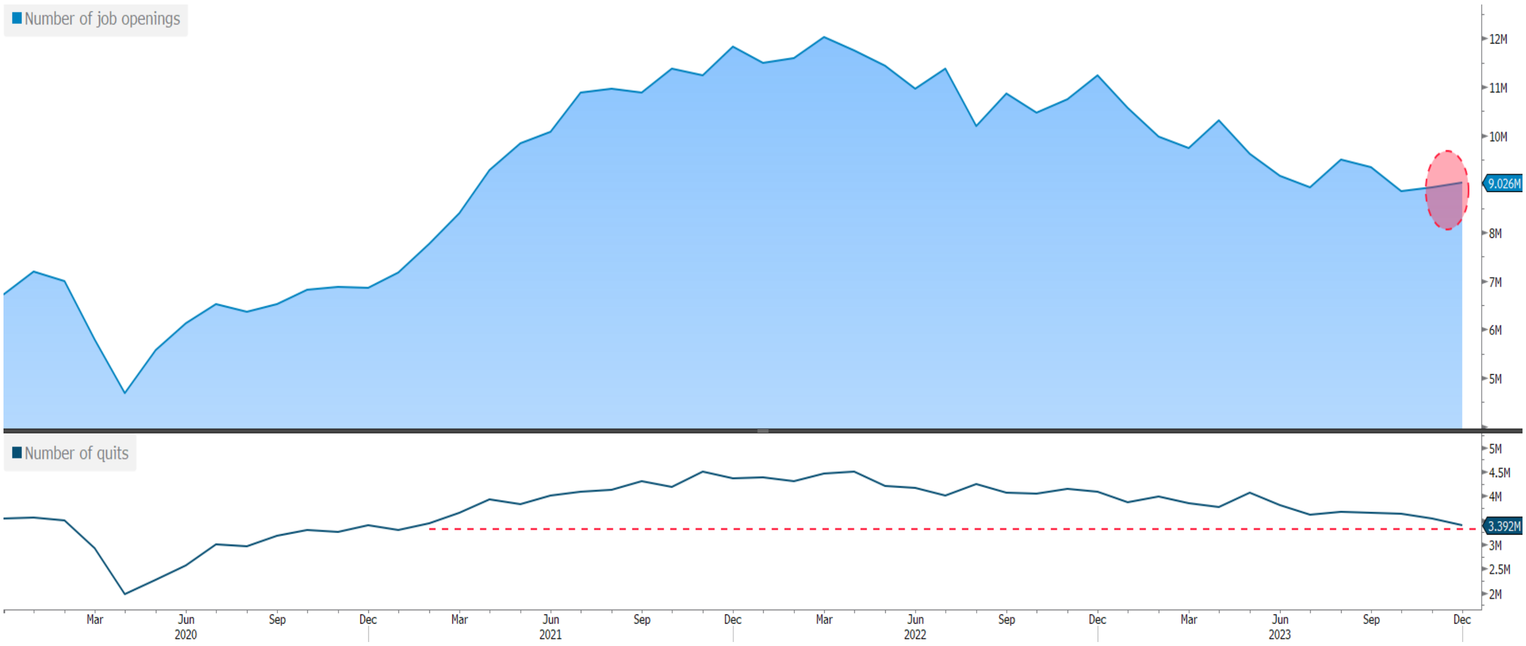
January 2024

Markets & Macroeconomics

Strong Labor Markets Into Year End

Resilient Labor Markets, Quit Rate Drops

Numb of Job Openings (Top), Number of Quits (Bottom)



Source: Bureau of Labor Statistics, Bloomberg

The Job Openings and Labor Turnover Survey ("JOLTS"), a measure of employers searching for workers in the United States, finished last year on a strong note with open positions coming in at 9.03 million, above expectations of 8.75 million. Typically, the Fed operates under a dual mandate to keep inflation at sustainable levels and employment at high levels. The strength in the Labor Markets post-pandemic has enabled the Fed to take a break from focusing on the Labor Markets to solely devote resources to taming inflation. Strong Labor Markets have led employers to compete for workers. Many employers have complained of employees jumping ship to greener pastures and ultimately higher wages post-pandemic. However, the JOLTS report also contains the Number of Quits, which has shown steady moderation over the past several months. This suggests that employees may not be as confident that the grass is truly greener on the other side of the fence. With this rollover in the Quit Rate over the past several months, wage growth has moderated and if the trend continues should continue to moderate even further. Moderating wage growth should further alleviate upward inflation pressure. While jobs are still aplenty and employees are quitting at a slower rate, an area of concern is layoffs. While wage growth is moderating, the damage has been done to corporations, with the higher post-pandemic employee cost Impacting operating and ultimately profit margins. Throughout 2023, corporations were busy with finding ways to reduce costs and keep margins at healthy levels with activity showing signs of moderating. With earnings season picking up at the end of January, multiple companies have already announced plans to reduce their workforce due to the higher employment cost. If this trend continues, it could jeopardize a soft-landing scenario and force the Fed to resume its dual mandate.

Bottom Line: Labor markets finished the year on a strong note with the JOLTS coming in above expectations of 8.75 million, at 9.03 million. The number of employees quitting their current jobs also moderated into the last year-end, suggesting that the Labor Market may shift into employers' favor rather than employees' in the coming months. While there are plenty of jobs available, layoffs are also ticking up as corporations attempt to rein costs in and ultimately keep margins at healthy levels. If this trend continues or shows signs of accelerating, the Fed may need to devote more attention to employment, ultimately returning to its dual mandate of keeping inflation and employment at long-term sustainable levels.

January 2024

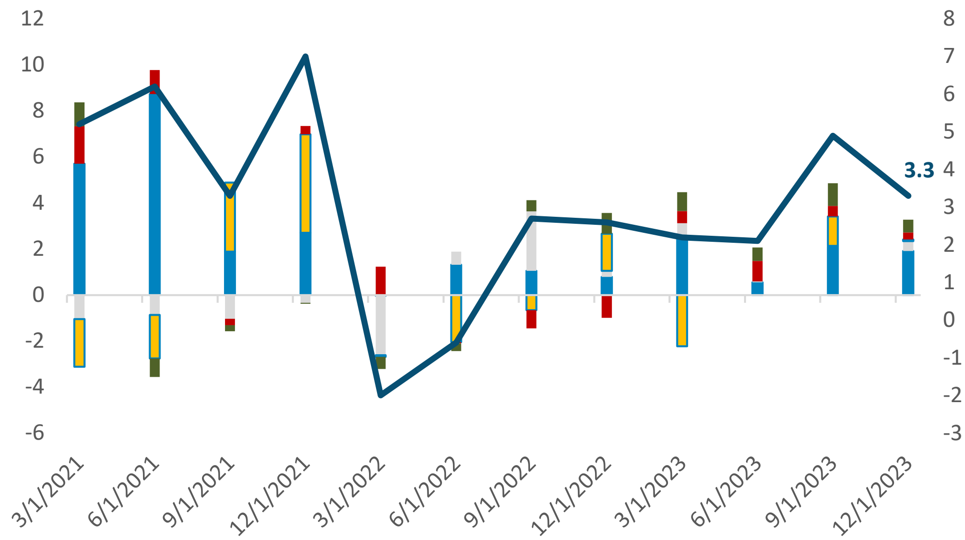
What's Ahead

Personal Expenditure, Economic Growth, and the Fed

The month of January had plenty of positive economic news released. The Fed's preferred inflation metric of PCE Core Deflator came in below market expectations of +3.0%, landing at +2.9% on the year-over-year metric. Additionally, US GDP came in well above consensus expectations of +2.0% for the fourth quarter of the year, landing at +3.3%. This is the first cut of GDP data, so it's possible that there could be downward revisions in the coming months, regardless it appears that a soft-landing scenario is still in the cards. As was the case with most of the GDP readings throughout 2023, the consumer was the star of the show yet again. US Personal Spending exceeded market expectations of +0.5% for December, coming in at a robust +0.7%. While it's likely the holiday season had an impact on this data reading, market participants were likely already pricing that into expectations and consumers still managed to exceed expectations. Again, this bodes well for a soft-landing outcome. With inflation coming in softer than expected and GDP numbers exceeding initial estimates on the back of strong consumer spending, there wasn't a lot for market participants to be disappointed with, but one area of concern led back to the consumer. Consumers are maintaining robust spending habits, but the same cannot be said about their saving habits. Personal Savings retracted to 3.7% in December, down from the previous reading of 4.1% and well below the pre-pandemic savings rate of 6.3%. Some of the decrease in savings could also be due to the holiday season splurge but combined with Personal Income moderating in December to +0.3%, down from the +0.4% reading in November, may lead many market participants to question how much longer the consumer can prop up the US economy.

US GDP Surprised to the Upside

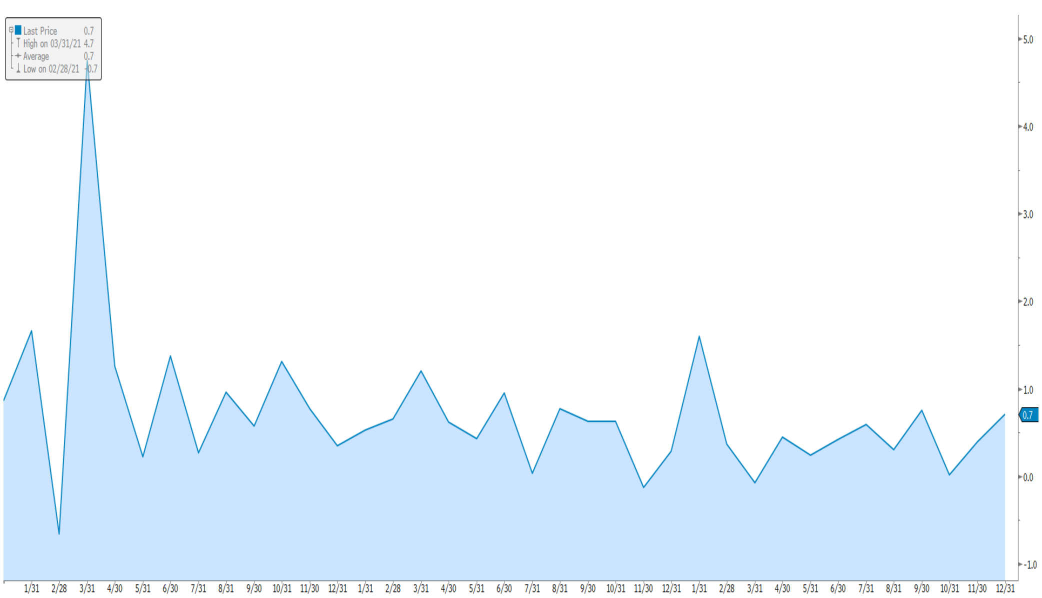
GDP US Chained Dollars Quarter-Over-Quarter



Source: Bureau of Economic Analysis, Bloomberg

Personal Consumption Remained Robust Through Year End

US Personal Expenditure Month-Over-Month



Source: Bureau of Economic Analysis, Bloomberg

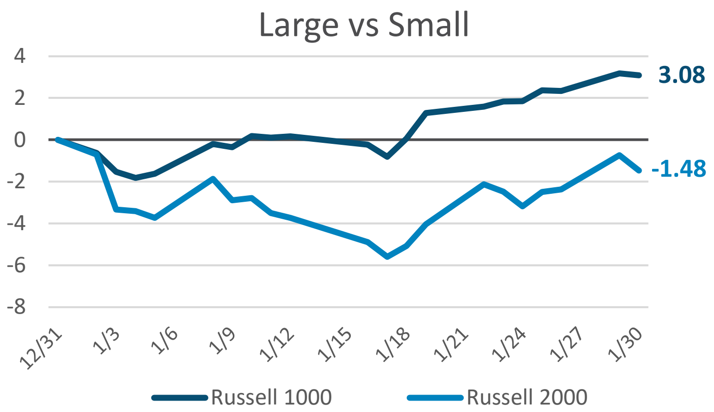
<u>Bottom Line</u>: January was jam-packed with positive economic news with the Fed's preferred inflation metric, PCE Core Deflator, coming in below consensus expectations and US GDP coming in above market expectations, fueled mainly by continued robust Consumer Spending. While all of this increased the likelihood of the Fed engineering a soft-landing scenario, there are some cracks under the surface. Personal Spending remained robust but Personal Savings continued to dip lower, combined with moderating Personal Income, this could mean that consumers may have to start moderating their spending habits in the coming months. Consumers have almost single-handedly kept the US economy out of a recession during the Fed's campaign against stubborn inflation.

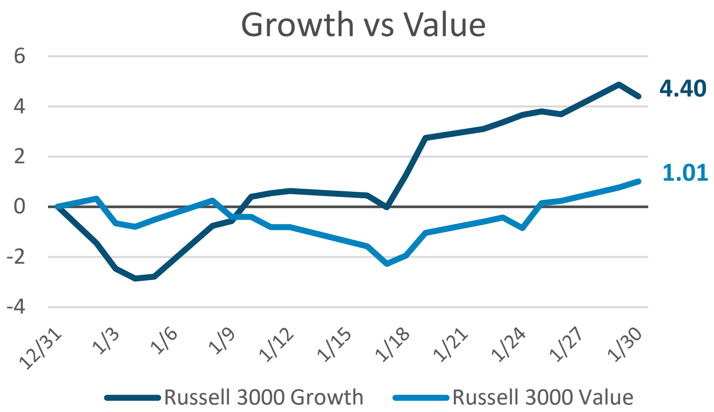
January 2024

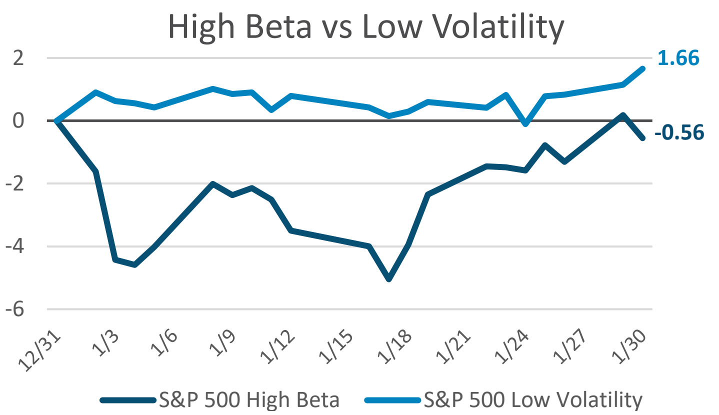
Equity Themes

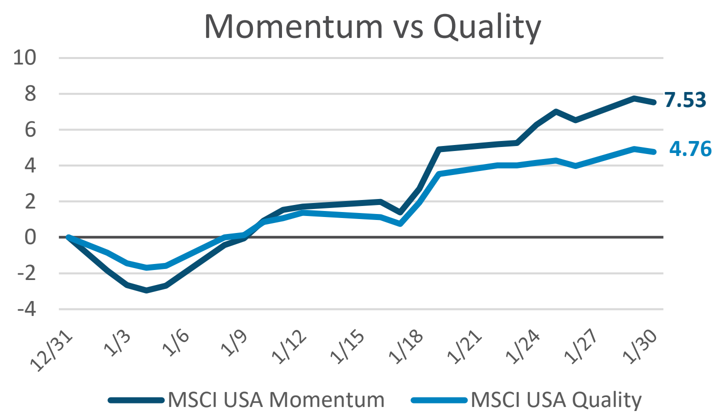
What Worked, What Didn't

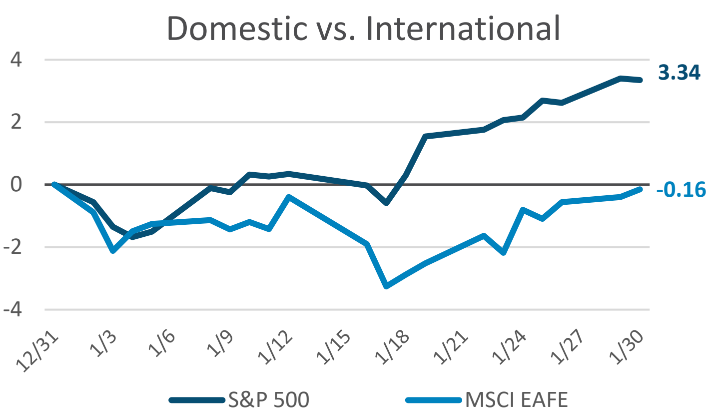
- **Large Over Small, Growth Over Value.** Small Caps struggled for the first month of the year, but Large Caps posted a strong month heading into earnings season. Growth-styled equities posted a strong month as well, while Value styled equities were more modest but positive for the month.
- **Low Vol and Momentum Outperform.** High Beta equities were slightly negative for January while Low Vol posted a decent start to the year. Momentum and Quality both had a solid January, but Momentum posted a strong margin of outperformance relative to Quality.
- **Domestic Over International, Developed Over Emerging.** International equities were slightly negative for January, but Emerging Markets started the year on the wrong foot, falling over 4%.

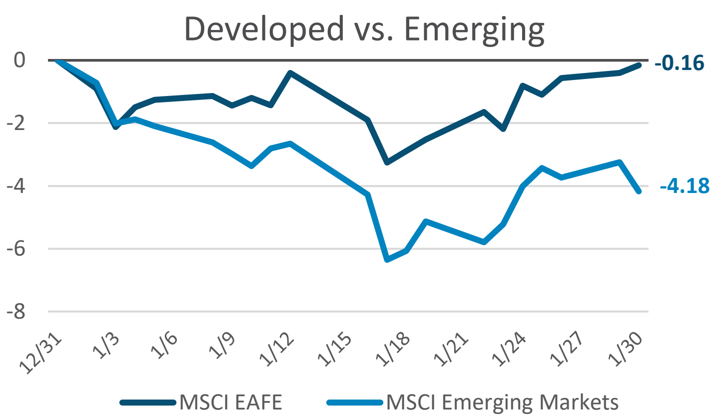












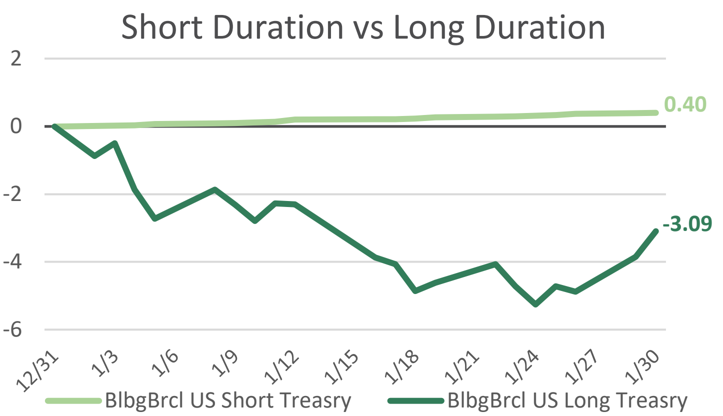
Source: Bloomberg.

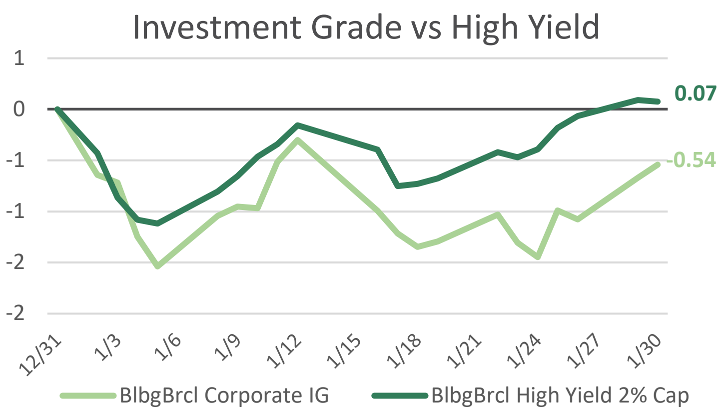
January 2024

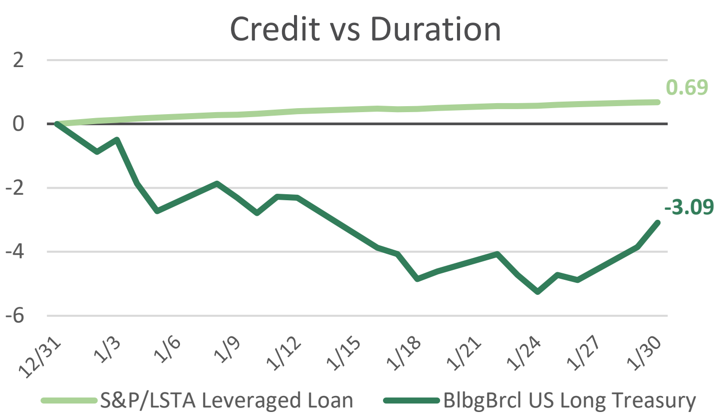
Bond Themes

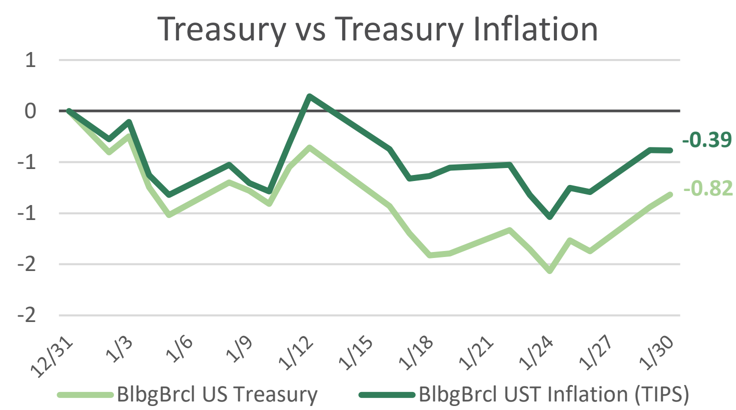
What Worked, What Didn’t

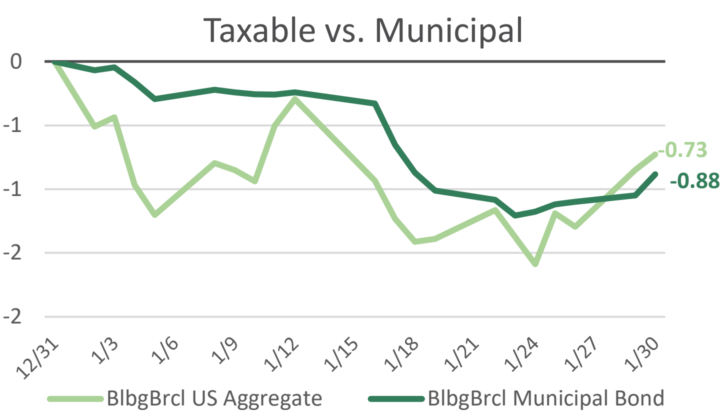
- **Short Duration and High Yield Outperform.** Long Duration Treasuries pulled back for the month of January as future rate cut expectations re-racked. Investment Grade bonds were slightly negative for the month while their High Yield peers were slightly positive.
- **Credit and TIPS Outperform.** Credit posted a modestly positive January versus Long Duration Treasuries selling off. TIPS were negative for January but less so than their Nominal peers.
- **Taxables and Domestic Outperform.** Taxables outperformed Munis for January but the margin was minimal. International Bonds struggled for the month, underperforming Domestic but both were in the red for the first month of the year.

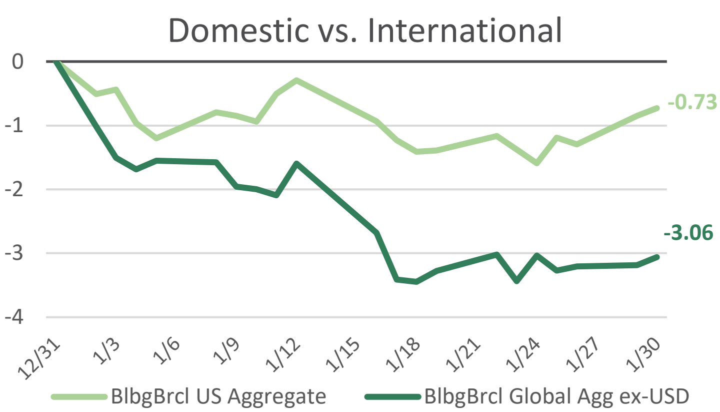












Source: Bloomberg.

January 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.

	Jan-02	Jan-03	Jan-04	Jan-05	Jan-08	Jan-09	Jan-10	Jan-11	Jan-12	Jan-16	Jan-17	Jan-18	Jan-19	Jan-22	Jan-23	Jan-24	Jan-25	Jan-26	Jan-29	Jan-30	Jan-31	Jan	YTD
High	RE 0.89	USB 0.05	MCG 0.24	MCV 0.37	SCG 2.46	LCG 0.29	LCG 1.03	IBD 0.58	RE 0.65	LCG -0.14	USB -0.27	LCG 1.35	LCG 1.43	SCG 2.10	EM 0.87	EM 1.12	RE 1.31	IEQ 0.44	SCG 2.20	LCV 0.30	USB 0.46	LCG 2.44	LCG 2.44
	LCV 0.35	HYB -0.27	IEQ 0.23	LCV 0.30	LCG 2.05	HYB 0.16	IEQ 0.65	USB 0.57	IEQ 0.41	MCG -0.55	IBD -0.34	MCG 1.14	RE 1.11	SCV 2.05	LCG 0.25	IEQ 0.76	MCV 1.06	SCV 0.19	SCV 1.30	USB 0.19	IBD -0.21	HYB 0.12	HYB 0.12
	MCV -0.21	EM -0.55	SCG 0.02	EM 0.13	MCG 1.89	MCG 0.05	MCG 0.40	EM 0.41	EM 0.36	HYB -0.63	HYB -0.43	IEQ 0.89	SCV 1.08	MCG 1.17	LCV 0.19	LCG 0.38	LCV 1.02	IBD 0.17	MCG 1.29	IBD 0.14	HYB -0.28	LCV 0.06	LCV 0.06
	SCV -0.33	IBD -0.57	MCV -0.06	LCG 0.12	RE 1.44	USB -0.02	60/40 0.19	HYB 0.32	USB 0.18	RE -0.70	LCG -0.46	EM 0.82	EM 1.05	MCV 0.75	60/40 -0.10	IBD 0.38	SCV 1.00	EM 0.08	LCG 1.06	60/40 -0.11	IEQ -0.50	USB -0.15	USB -0.15
	HYB -0.34	60/40 -0.72	LCV -0.15	HYB 0.08	SCV 1.42	IBD -0.37	HYB 0.18	60/40 0.15	60/40 0.17	LCV -0.72	MCG -0.60	SCV 0.80	SCG 0.93	RE 0.52	HYB -0.12	60/40 0.03	HYB 0.77	MCV 0.07	MCV 0.75	HYB -0.13	EM -0.54	IEQ -0.45	IEQ -0.45
	USB -0.47	IEQ -0.75	RE -0.18	IEQ 0.07	MCV 1.11	60/40 -0.39	SCV 0.15	LCG 0.14	LCG 0.11	USB -0.75	60/40 -0.66	MCV 0.50	LCV 0.87	LCV 0.38	SCG -0.14	HYB -0.05	SCG 0.66	LCV 0.05	RE 0.69	IEQ -0.13	60/40 -0.58	MCG -0.57	MCG -0.57
	60/40 -0.68	LCV -0.90	60/40 -0.21	60/40 -0.02	IEQ 1.07	LCV -0.58	IBD 0.14	MCG 0.09	HYB 0.10	MCV -0.77	LCV -0.66	SCG 0.49	MCV 0.87	LCG 0.32	MCV -0.15	USB -0.22	MCG 0.53	60/40 0.04	IEQ 0.59	MCV -0.17	RE -0.94	60/40 -0.71	60/40 -0.71
	SCG -0.94	LCG -0.98	SCV -0.24	MCG -0.08	60/40 0.90	MCV -0.61	MCV 0.13	IEQ -0.01	IBD -0.03	SCG -0.80	SCG -0.73	60/40 0.45	MCG 0.86	IEQ 0.31	MCG -0.21	LCV -0.42	60/40 0.48	HYB -0.08	60/40 0.56	MCG -0.32	LCV -1.05	MCV -1.82	MCV -1.82
	IBD -1.00	MCV -1.75	EM -0.33	IBD -0.14	LCV 0.73	RE -0.69	RE 0.08	LCV -0.37	LCV -0.04	60/40 -1.02	SCV -0.86	LCV 0.33	60/40 0.52	60/40 0.31	USB -0.24	MCG -0.63	USB 0.45	USB -0.11	LCV 0.49	LCG -0.40	MCV -1.42	IBD -2.44	IBD -2.44
	IEQ -1.11	MCG -2.08	HYB -0.39	RE -0.22	IBD 0.61	SCG -0.79	SCG 0.04	MCV -0.43	SCV -0.11	SCV -1.62	IEQ -0.95	IBD 0.31	IBD 0.31	USB 0.18	IEQ -0.28	MCV -0.70	IEQ 0.28	LCG -0.12	USB 0.40	SCV -0.62	MCG -1.75	SCG -3.11	SCG -3.11
	EM -1.17	RE -2.39	USB -0.40	SCV -0.23	HYB 0.56	IEQ -0.89	LCV -0.02	SCG -0.75	MCV -0.14	IBD -1.62	MCV -0.98	HYB 0.21	IEQ 0.23	IBD 0.17	IBD -0.51	SCV -0.73	EM 0.13	SCG -0.12	HYB 0.22	EM -0.80	SCG -2.03	EM -4.53	EM -4.53
	LCG -1.48	SCV -2.53	IBD -0.41	USB -0.23	USB 0.38	SCV -1.27	USB -0.19	SCV -0.78	MCG -0.15	IEQ -1.68	EM -1.49	USB -0.09	HYB 0.17	HYB 0.08	SCV -0.55	SCG -0.89	LCG 0.13	MCG -0.17	EM 0.05	RE -0.96	LCG -2.12	SCV -4.63	SCV -4.63
Low	MCG -1.59	SCG -2.84	LCG -0.45	SCG -0.51	EM 0.28	EM -1.42	EM -0.23	RE -0.89	SCG -0.25	EM -2.42	RE -1.79	RE -0.67	USB 0.02	EM -0.89	RE -0.61	RE -1.46	IBD 0.00	RE -0.32	IBD -0.03	SCG -1.11	SCV -2.71	RE -5.10	RE -5.10

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. 080223006 - MAH