MONTH IN REVIEW

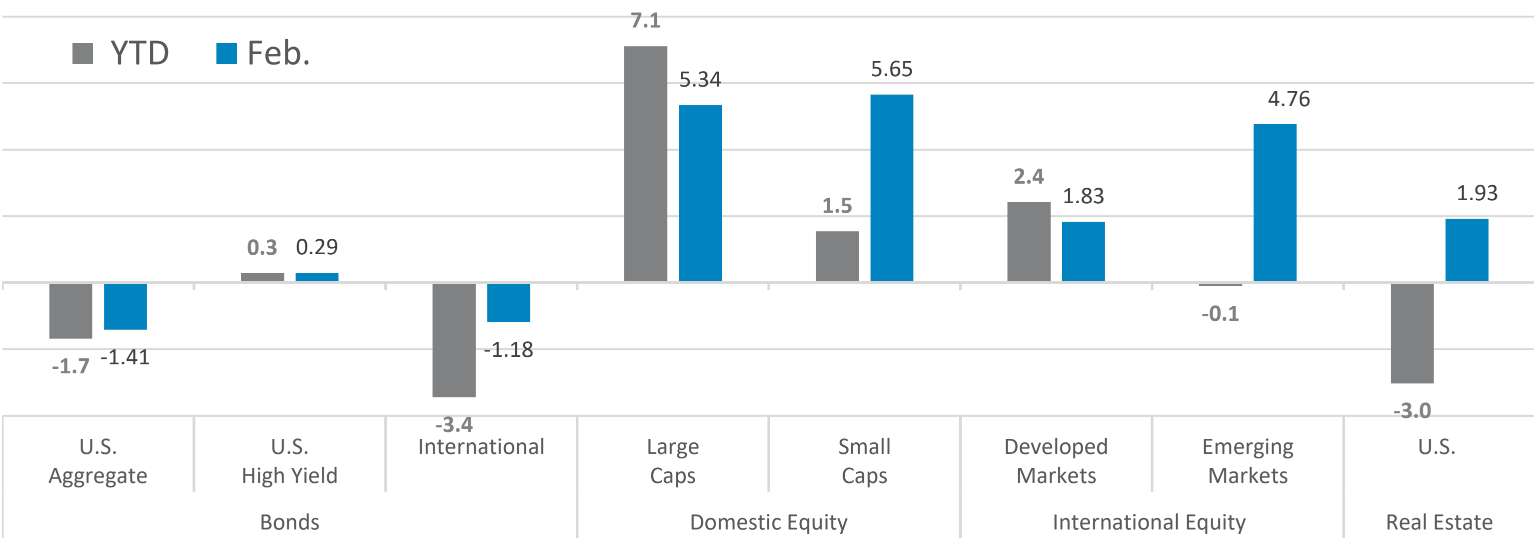
February 2024

Quick Takes

- **Risk Assets Recover.** Bolstered by high consumer sentiment, risk assets rebounded in February. Most asset classes posted strong gains, reversing January's losses incurred when investor risk tolerance waned.
- **Inflation Cools Further.** Inflation, measured by the Fed's preferred gauge (PCE Deflator), continued its downward trend, falling to 2.8% year-over-year in February from 2.9% in January. Despite this positive development, investors now anticipate the Fed delaying potential rate cuts until June.
- **Greenback Rally Pauses.** After nearly two months of gains to start the year, the US dollar (greenback) experienced a buying slowdown in late February. This shift coincides with revised expectations around future Federal Reserve interest rate cuts, which are now anticipated to occur later than initially projected.
- **Personal Spending and Labor Markets.** The 0.2% growth in February personal spending, meeting expectations, suggests potentially stable consumer confidence despite the January retail sales decline. Positive signs emerged from the February labor market with reports indicating job growth exceeding expectations and unemployment remaining steady.

Asset Class Performance

After a challenging start to 2024, risk assets experienced a recovery in February. Among them, small-cap stocks, emerging markets, and real estate saw the most significant rebounds, following a weak January. Large-cap stocks continued their strong performance, bringing their YTD figure to 7.1%.



Source: Bloomberg, as of February 29, 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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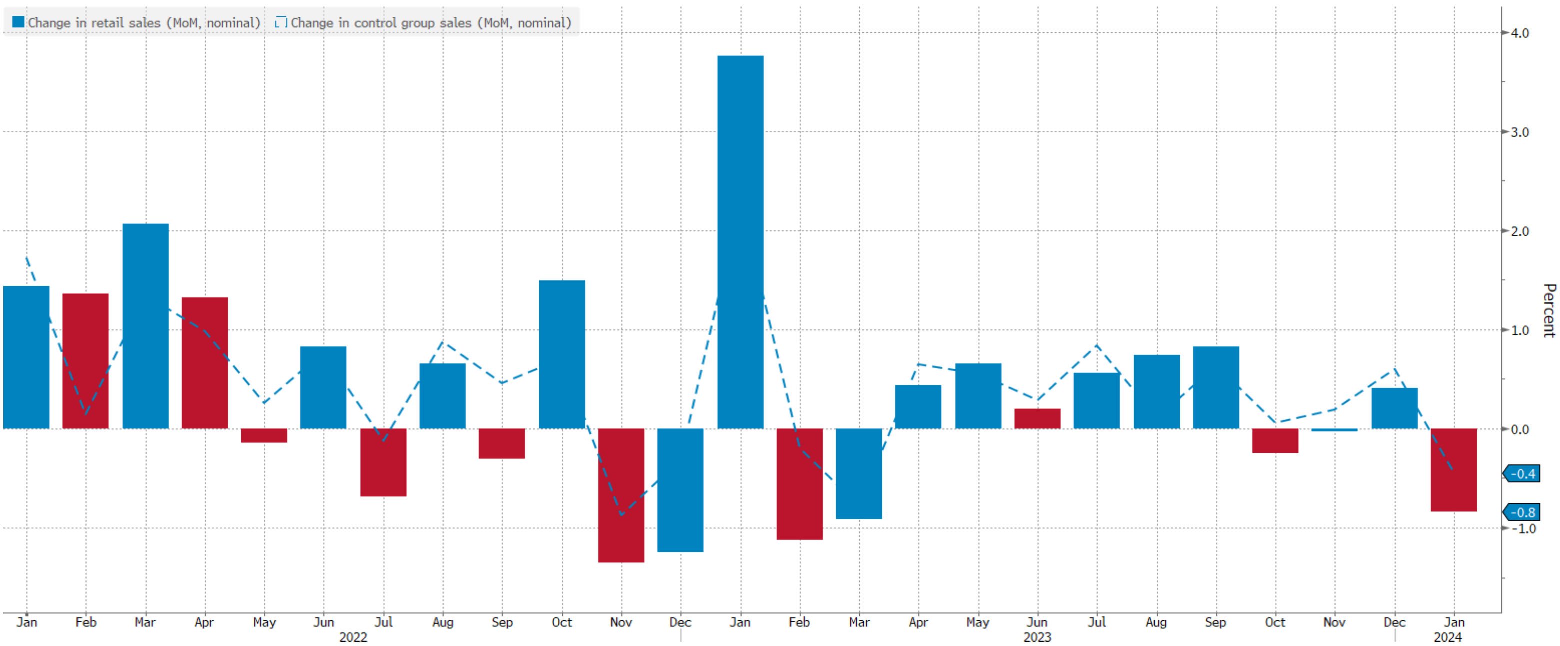
Markets & Macroeconomics

Consumer Spending Slows Down After Holiday Season

US Retail Sales Fall by Most in Nearly a Year

Change in Retail Sales Month-Over-Month



Source: US Commerce Department, Bloomberg

January retail sales dipped amidst mixed signals. Retail sales in January experienced a broader-than-expected decline of 0.8% compared to December, following a downward revision of the previous month's figures. This drop marks the most significant decrease in nearly a year, suggesting a potential pause in consumer spending following the robust holiday season. However, it's crucial to interpret this data within a broader economic context. While the retail sales report and a separate report showing a decline in US factory production could indicate a loss of momentum in January, they shouldn't be viewed as harbingers of a significant economic slowdown. Several factors suggest continued consumer resilience: a strong job market provides income stability and confidence, allowing them to maintain spending levels. Additionally, recent signs of easing inflation offer some relief to household budgets, potentially freeing up additional disposable income. Furthermore, the retail sales report doesn't capture the entirety of consumer spending. It primarily focuses on merchandise purchases, which represent a relatively limited portion of total consumer outlays. Additionally, various economists attribute the broad-based weakness in January to the severe winter weather that impacted parts of the US, potentially disrupting normal buying patterns. Analyzing the January retail sales data alongside other economic indicators, such as employment figures, inflation trends, and consumer confidence surveys, is crucial to gain a more comprehensive understanding of the current economic climate. This broader analysis helps to avoid drawing premature conclusions about the health of the economy based on a single data point.

Bottom Line: January retail sales experienced a steeper-than-expected 0.8% decline, marking the sharpest drop in nearly a year. This could signal a post-holiday spending pause but shouldn't be interpreted in isolation. While both retail sales and factory production data suggest a January slowdown, factors like a strong job market and easing inflation paint a picture of continued consumer resilience. It's important to remember that the retail report focuses primarily on merchandise purchases, which represent a limited portion of overall consumer spending. Additionally, some economists attribute the January weakness to severe winter weather that disrupted normal buying patterns. To gain a better understanding of the current economic climate, it's crucial to analyze the January retail sales data alongside other economic indicators, such as employment figures, inflation trends, and consumer confidence surveys. This broader analysis helps to avoid drawing premature conclusions about the health of the economy based on a single data point.

February 2024

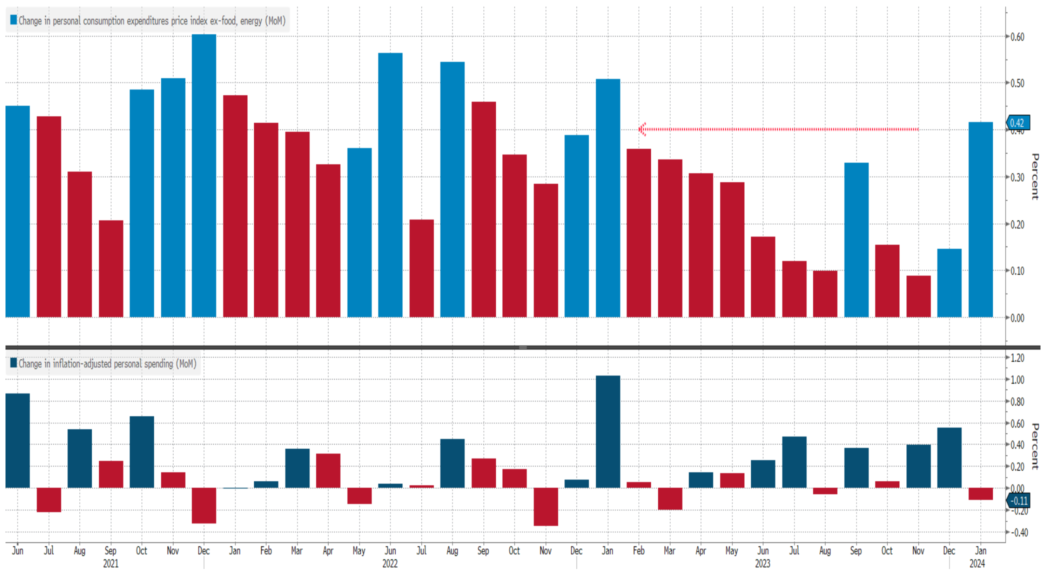
What’s Ahead

Inflation Growth, Moderating Personal Spending, and Fed Rate Cuts

Recent economic data presents a mixed picture for the Federal Reserve's monetary policy decisions in mid-2024. While inflation and consumer spending figures fall largely within expectations, a significant rise in service costs injects uncertainty into the equation. This service cost surge stems from businesses raising prices at the beginning of the year, though economists predict a moderation in these increases when February's data is released. The Fed closely monitors the Core PCE Price Index, its preferred inflation gauge, to achieve its target of 2% annual inflation. This index recently reported a +2.8% year-over-year increase, marking the smallest advance since March 2021 and aligning with forecasts. Additionally, it reflects a slight slowdown from the previous month's +2.9%. However, the month-over-month metric for the Core PCE Price Index jumped +0.4%, marking the highest since February 2023. To achieve its inflation target, the Fed requires sustained monthly inflation readings of around +0.2%. The recent rise in Super Core Inflation, reaching a +4.1% annualized rate over the past three months, coupled with increasing service costs, has dampened consumer spending among some price-sensitive individuals. This suggests a potential moderation in consumer spending in the early part of Q1 2024, following its significant contribution to economic growth in the final quarter of 2023. Notably, the slowdown in consumer spending appears concentrated in durable goods like motor vehicles, furniture, and other long-lasting household equipment. This trend could be attributed to various factors, including concerns about future economic stability, rising costs of essentials, or potential shifts in consumer preferences towards experiences over material possessions.

US Inflation Perked Up, While Spending Eased

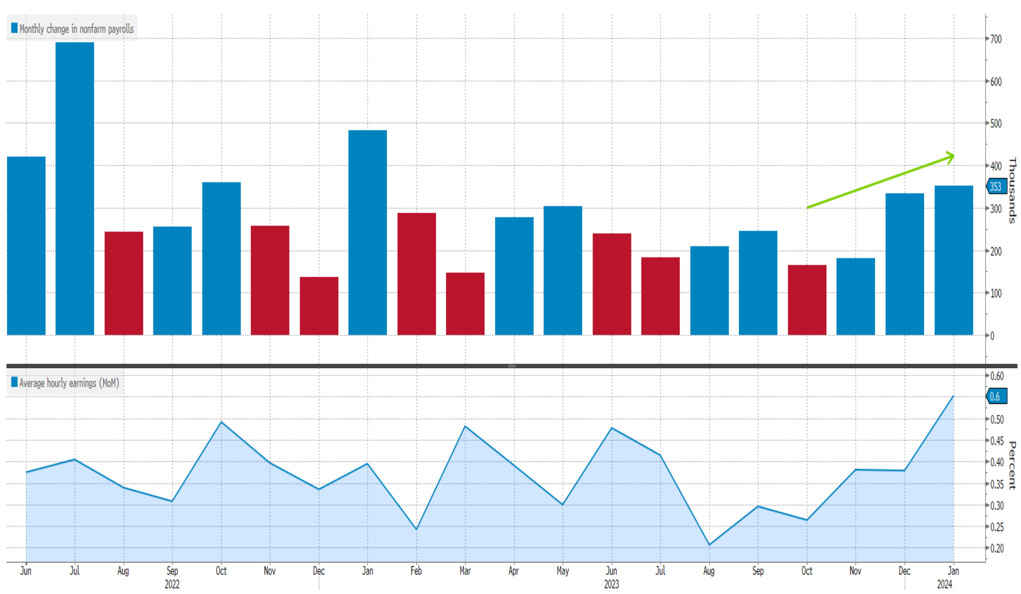
Change in Inflation-Adjusted Personal Spending Month-Over-Month



Source: Bureau of Economic Analysis, Bloomberg

US Payrolls Pick Up Steam Into The New Year, Wages Jump

Monthly Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics, Bloomberg

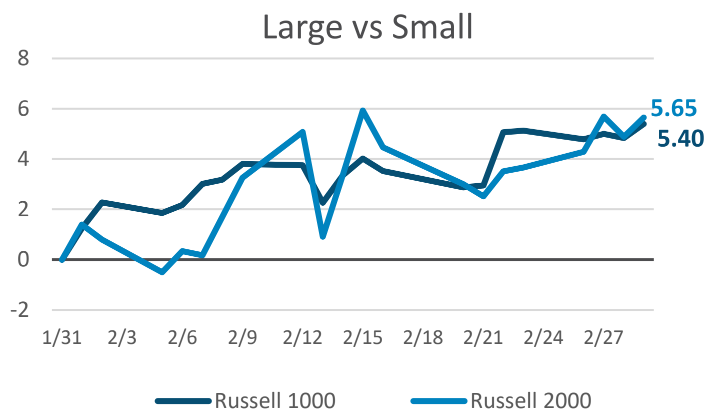
Bottom Line: Mixed economic signals cloud the timing of a potential mid-year Fed rate cut. While inflation and consumer spending remain within expectations, a significant rise in service costs raises concerns. The Fed's preferred inflation gauge, the Core PCE Price Index, showed a slight slowdown but still requires further moderation to reach the target of 2%. Rising Super Core Inflation and increasing service costs have dampened consumer spending, particularly in durable goods, suggesting a potential shift in consumer behavior or economic caution. This complex economic landscape necessitates careful consideration by the Fed as they determine the appropriate course of action for monetary policy, with potential implications for economic growth, inflation, and financial markets.

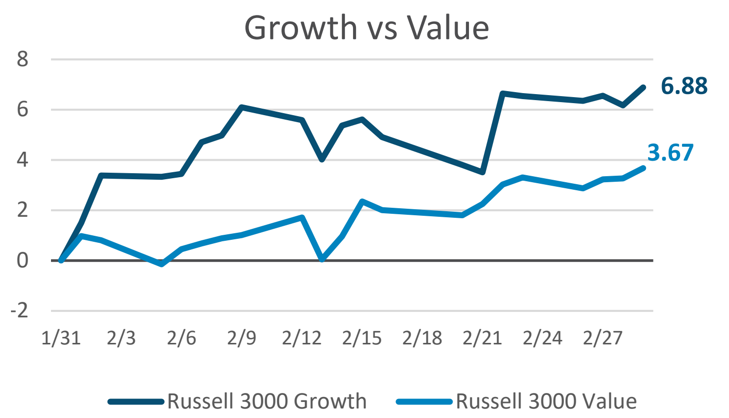
February 2024

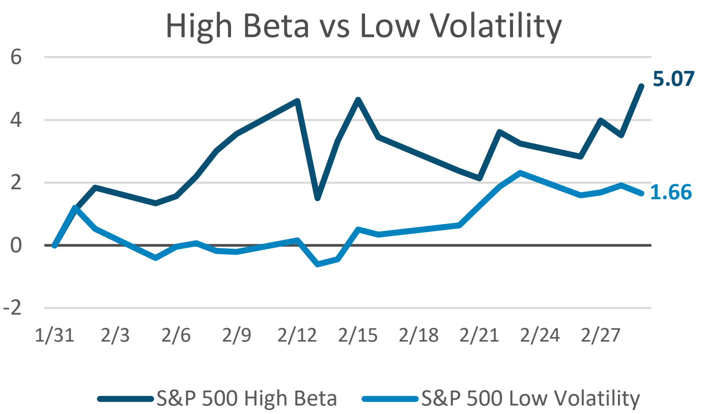
Equity Themes

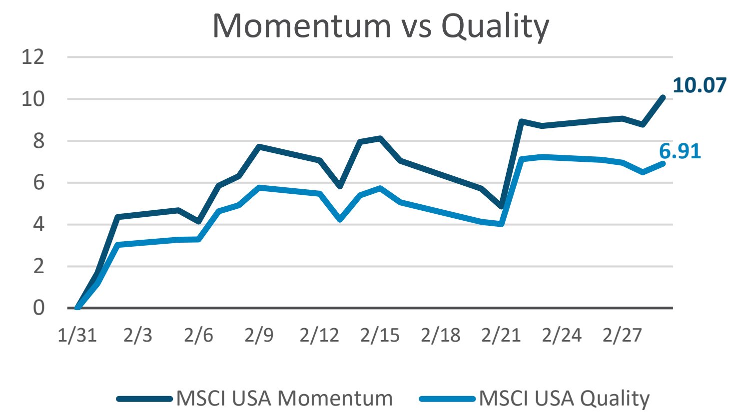
What Worked, What Didn't

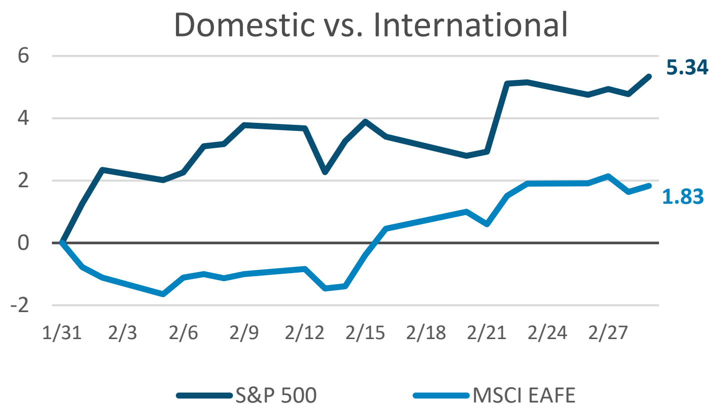
- **Small and Growth Take the Lead.** Both large and small-cap stocks excelled in February as earnings season neared its conclusion. Growth and Value styles also saw strong performance, with Growth leading the way.
- **High Beta and Momentum Shine.** Stocks with high sensitivity to market movements (High Beta) were largely positive in February, while low-volatility stocks saw only modest returns. Both Momentum and Quality factors performed well, but Momentum significantly outpaced Quality.
- **Domestic and Emerging Markets Rebound.** After a sluggish start to the year, both international equities and emerging markets delivered positive returns in February.

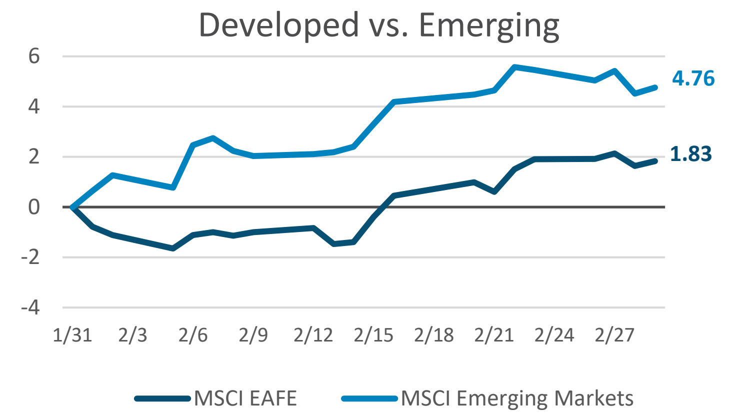










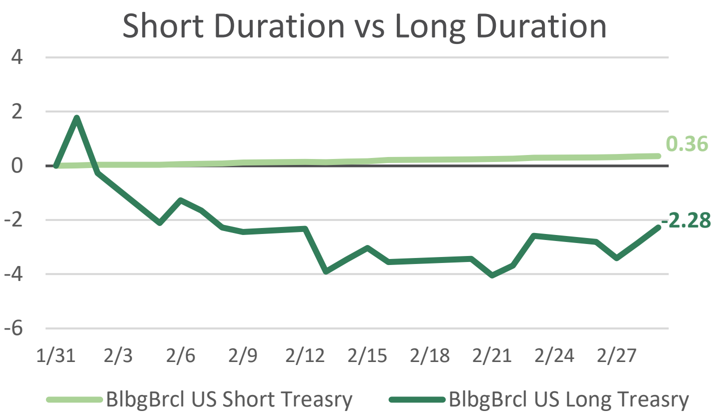


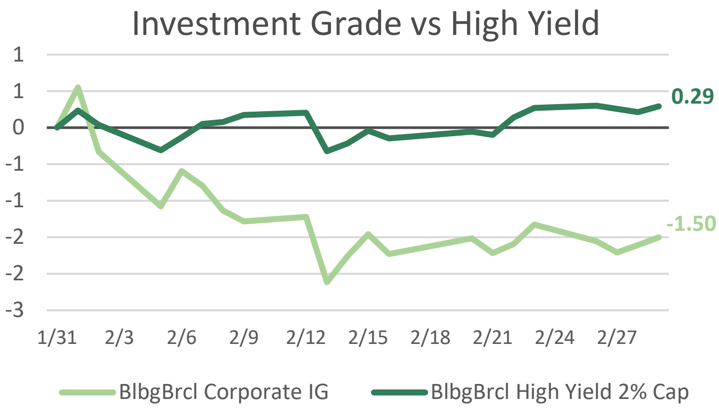
Source: Bloomberg.

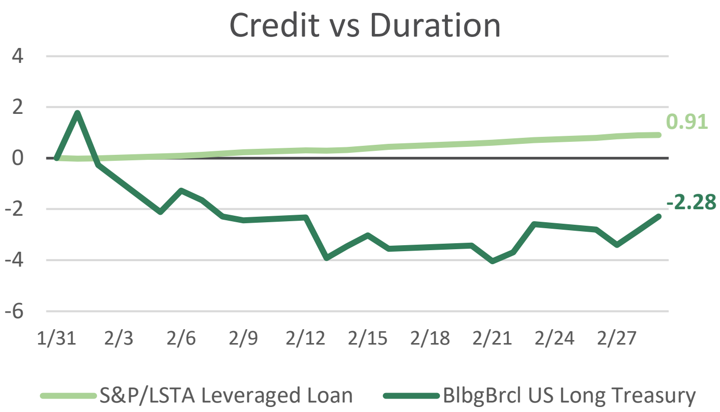
Bond Themes

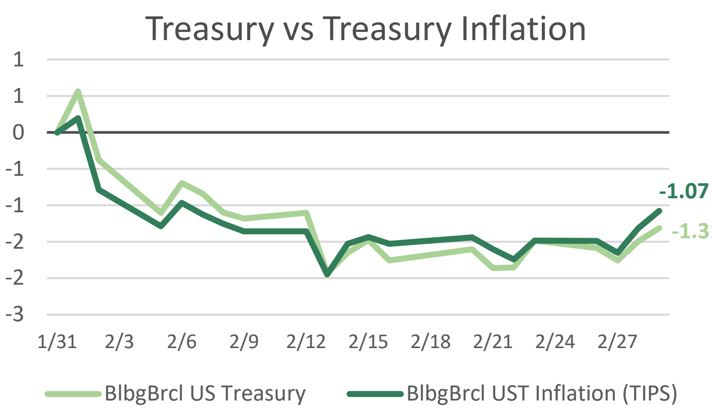
What Worked, What Didn't

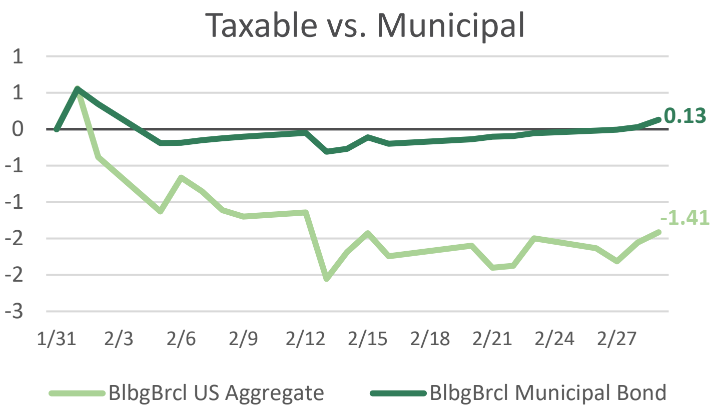
- **Short-term, high-yield bonds lead the pack.** These bonds continued their positive trend in February, benefiting from their lower sensitivity to interest rates compared to longer-maturing counterparts.
- **Credit and TIPS outperform long Treasuries.** Credit sectors saw modestly positive returns in February, while Treasury Inflation-Protected Securities (TIPS) experienced smaller losses compared to their nominal counterparts.
- **International bonds fare slightly better than domestic peers.** Both international and domestic bond markets faced challenges, with international bonds exhibiting slightly less negative returns.

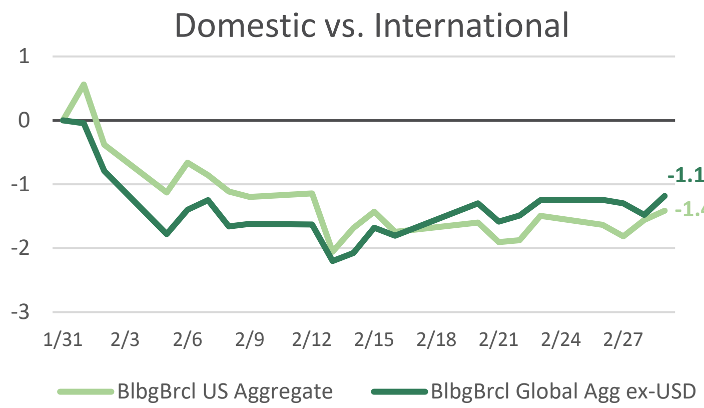












Source: Bloomberg.

February 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.

	Feb-01	Feb-02	Feb-05	Feb-06	Feb-07	Feb-08	Feb-09	Feb-12	Feb-13	Feb-14	Feb-15	Feb-16	Feb-20	Feb-21	Feb-22	Feb-23	Feb-26	Feb-27	Feb-28	Feb-29	Feb	YTD	
High	SCG 1.85	LCG 1.98	EM 0.13	EM 2.27	LCG 1.28	SCG 1.77	SCG 1.97	SCV 2.03	HYB -0.80	SCG 2.71	SCV 2.73	EM 0.48	IEQ 0.41	RE 0.74	LCG 3.04	MCG 0.40	SCG 1.07	SCG 1.65	RE 1.00	SCV 0.90	SCG 6.07	LCG 9.23	High
	RE 1.80	MCG 0.84	LCG -0.09	RE 1.38	MCG 1.01	SCV 1.32	SCV 1.19	SCG 1.60	USB -0.92	SCV 1.98	SCG 2.30	IEQ 0.16	IBD 0.35	LCV 0.46	MCG 1.77	USB 0.37	SCV 0.23	SCV 1.01	USB 0.20	RE 0.89	MCG 5.95	MCG 6.84	
	LCG 1.47	LCV -0.10	HYB -0.47	MCG 1.08	MCV 0.40	MCG 1.07	LCG 1.02	MCV 0.84	IBD -1.01	MCG 1.72	RE 2.25	LCV -0.28	HYB 0.21	MCV 0.25	SCG 1.72	MCV 0.35	MCG 0.11	MCV 0.62	MCG 0.14	MCV 0.59	LCG 5.08	SCG 4.67	
	MCG 1.43	MCV -0.22	IEQ -0.53	SCG 1.05	LCV 0.26	RE 0.69	MCG 0.50	EM 0.78	LCG -1.44	EM 1.43	MCV 1.45	60/40 -0.28	EM 0.15	EM 0.17	IEQ 1.13	LCV 0.27	IBD -0.10	MCG 0.32	LCV 0.05	MCG 0.57	MCV 3.39	LCV 3.64	
	MCV 1.30	EM -0.28	60/40 -0.70	SCV 0.75	HYB 0.17	MCV 0.43	EM 0.43	LCV 0.65	60/40 -1.44	MCV 1.25	LCV 1.31	HYB -0.30	USB 0.09	IEQ 0.08	EM 1.02	SCV 0.22	IEQ -0.14	LCV 0.28	MCV 0.03	LCG 0.53	EM 3.17	MCV 2.82	
	IEQ 0.99	SCG -0.34	MCG -0.72	60/40 0.69	60/40 0.15	LCG 0.18	IEQ 0.35	60/40 0.20	LCV -1.51	LCG 1.20	IEQ 1.13	IBD -0.31	60/40 -0.08	IBD 0.00	MCV 0.92	60/40 0.20	USB -0.22	IEQ 0.27	HYB -0.01	SCG 0.46	LCV 2.59	IEQ 2.52	
	EM 0.96	60/40 -0.36	USB -0.82	MCV 0.68	EM 0.13	LCV 0.14	60/40 0.30	IEQ 0.17	IEQ -1.54	IEQ 1.12	MCG 0.86	USB -0.32	LCV -0.13	SCV -0.06	60/40 0.85	IBD 0.17	LCG -0.22	EM 0.20	IBD -0.10	LCV 0.30	SCV 2.33	60/40 1.42	
	LCV 0.96	HYB -0.45	LCV -0.94	IEQ 0.62	RE -0.02	60/40 0.00	MCV 0.26	USB 0.02	MCG -1.67	60/40 0.93	60/40 0.77	MCG -0.51	RE -0.16	60/40 -0.06	LCV 0.80	IEQ 0.13	60/40 -0.23	RE 0.20	60/40 -0.17	60/40 0.27	IEQ 1.98	HYB 0.42	
	60/40 0.93	IEQ -0.79	IBD -1.03	LCV 0.60	SCG -0.02	HYB -0.05	HYB 0.21	IBD 0.00	EM -1.88	RE 0.91	IBD 0.73	MCV -0.59	MCV -0.32	HYB -0.18	HYB 0.48	RE 0.13	HYB -0.32	60/40 0.17	LCG -0.38	IEQ 0.26	60/40 1.20	EM -0.55	
	SCV 0.92	SCV -0.84	MCV -1.13	USB 0.52	IEQ -0.05	IEQ -0.17	IBD 0.10	RE -0.07	RE -2.03	LCV 0.81	EM 0.48	LCG -0.63	MCG -0.88	LCG -0.26	USB 0.08	SCG 0.10	MCV -0.34	LCG 0.13	IEQ -0.58	HYB 0.18	RE 0.33	SCV -1.50	
	HYB 0.57	USB -0.92	SCG -1.17	IBD 0.45	IBD -0.07	IBD -0.21	LCV 0.07	MCG -0.15	MCV -2.07	IBD 0.74	HYB 0.35	RE -1.07	LCG -1.00	USB -0.30	RE 0.07	HYB 0.06	EM -0.44	HYB 0.13	SCV -0.69	USB 0.16	HYB -0.27	USB -1.62	
	USB 0.57	IBD -0.96	SCV -1.50	HYB 0.36	USB -0.20	USB -0.31	RE 0.06	HYB -0.22	SCG -3.95	USB 0.44	USB 0.24	SCV -1.10	SCV -1.19	MCG -0.59	IBD 0.03	EM -0.05	LCV -0.46	IBD 0.00	SCG -0.73	EM 0.05	IBD -1.57	RE -3.07	
Low	IBD 0.49	RE -1.36	RE -2.03	LCG 0.12	SCV -0.33	EM -0.56	USB -0.03	LCG -0.47	SCV -4.15	HYB 0.39	LCG 0.17	SCG -1.55	SCG -1.54	SCG -0.93	SCV 0.03	LCG -0.11	RE -1.13	USB -0.13	EM -1.31	IBD -0.35	USB -2.03	IBD -3.50	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.