MONTH IN REVIEW

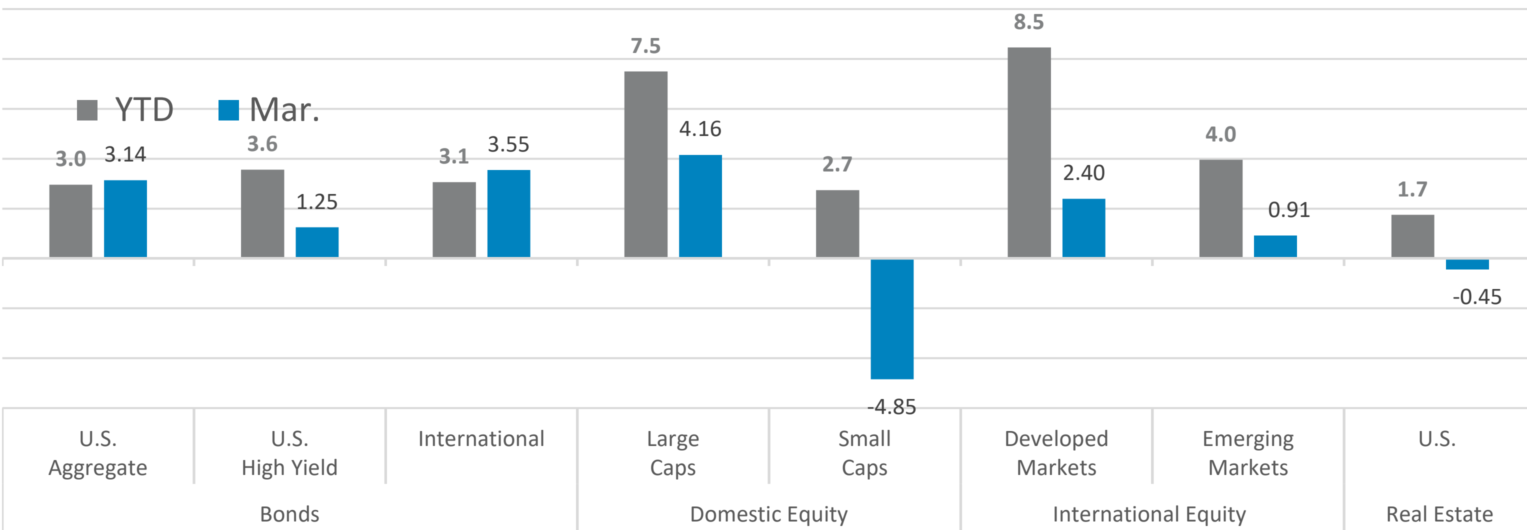
March 2023

Quick Takes

- **First Quarter Has Volatile End.** Risk assets went on a roller coaster ride for the final month of the quarter with the collapse of multiple banks across the globe.
- **Fed Shakes Off Banking Woes, Increase Rates.** The Fed implemented increased interest rates by 25bps during the FOMC's March meeting despite the concerns in the financial services sector. While commentary seemed to leave room for further hikes, market participants began pricing in interest rate cuts as early as later this year. With market interest rates retreating, there was a flurry of real estate activity.
- **Greenback Stumbles.** With market interest rates tumbling during the month of March, the dollar was dragged down with them. This led to International markets posting respectable results for the month, despite concerns of contagion from the global banking sector.
- **Labor Markets and Inflation.** While inflation metrics came largely in-line with market expectations, the FOMC expressed concerns with how persistently strong the labor market has remained throughout their tightening cycle. The FOMC also expects tighter lending standards from creditors and expect this to have a similar impact as a hike in interest rates.

Asset Class Performance

Markets were volatile for the month of March with concerns of fallout from several banks collapsing around the globe. While governments stepped in to stabilize the financial services sector, there was a general flight to safety leading to interest rates falling, bonds performing well, and growth styled equities also posting a strong month of performance.



Source: Bloomberg, as of December 31, 2021. 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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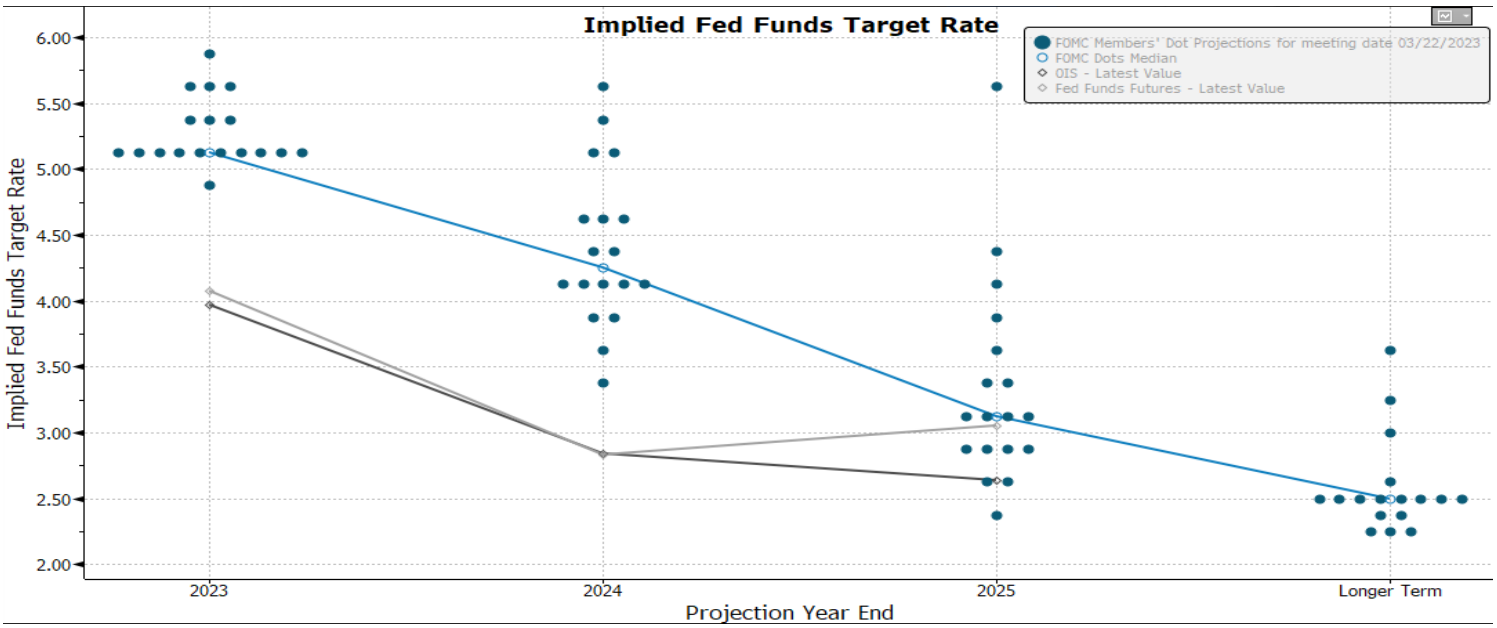
Markets Fall Out of Sync With Fed

FOMC Prioritizes Inflation Over Banking Concerns

Implied Fed Funds Target Rate



Source: US Federal Reserve, Bloomberg

The month of March gave market participants a flashback to the Great Financial Crisis as several banks collapsed, both domestically and abroad. To alleviate a risk of contagion spreading across the global financial system, governments across the globe stepped in to stabilize the sector, with the FDIC guaranteeing all deposits, even those above the $250,000 maximum, and the Swiss government brokering a sale of Credit Suisse to rival UBS. As market participants were still digesting the risks to the financial sector and the government intervention, the FOMC voted to increase interest rates by 25bps during their March meeting. Regardless of the turmoil in the banking sector, the Fed remained concrete in their fight against inflation with commentary hinting at the possibility of more rate hikes in the future but will be heavily dependent on macroeconomic data readings as well as the continued development within the banking sector. Despite these comments, the bond market diverged from FOMC members' dot plot, an estimate of where the FOMC see future interest rates, and began to price in rate cuts, not hikes, starting later this year. This divergence illustrates that the market seems to be pricing in more risk than the FOMC is currently seeing and ultimately appears that a majority of market participants are anticipating a recession in the near future. As a result, market participants believe the Fed will be forced to abandon the fight against inflation and begin to stimulate the economy back towards expansion. Because of this viewpoint, interest rates plummeted throughout the month of March.

Bottom Line: Despite the stress in the financial services sector throughout the month of March, the FOMC increased interest rates during their March meeting. While guidance left the door open for more rate hikes in the future, market participants began to price in rate cuts as early as later this year. This means that market participants are anticipating a recession very soon and thus the FOMC will be forced to pivot in their fight against inflation to stimulate the economy to a sufficient level of output to reduce the effects of a contraction in economic production.

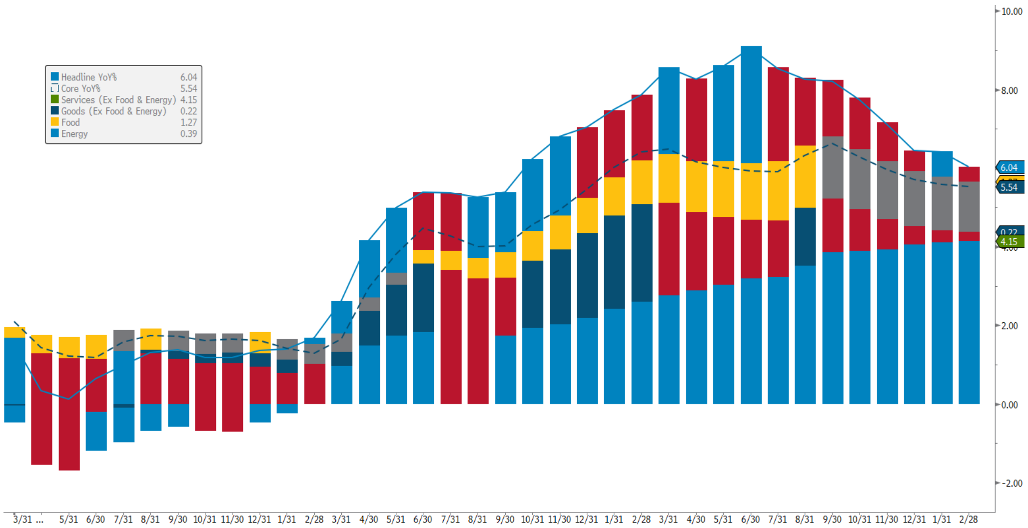
March 2023

What's Ahead

Inflation Meets Expectations, Home Sales Soar

Inflation Continues to Moderate

US Consumer Price Index (CPI) YoY



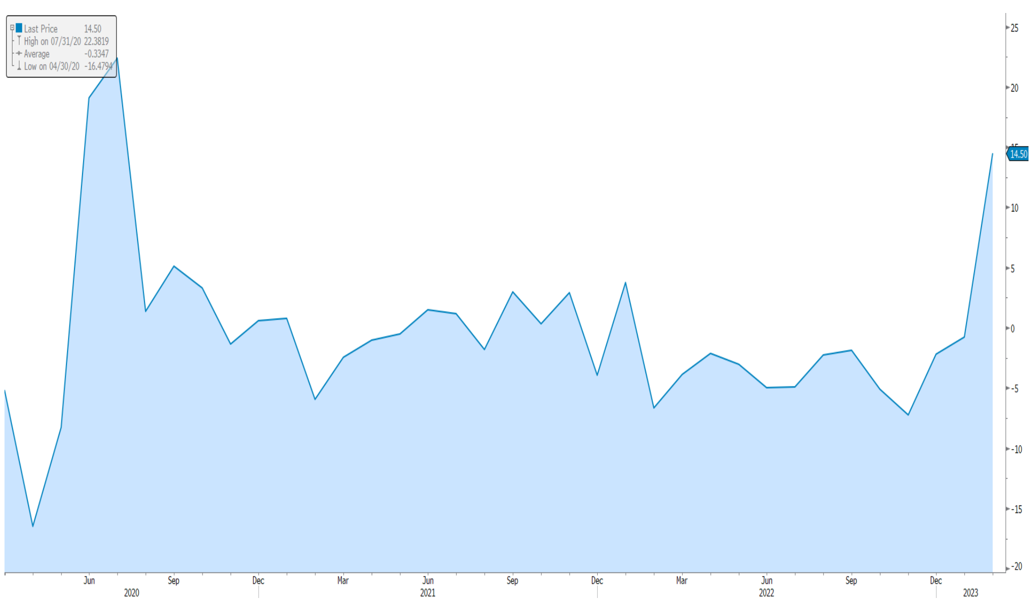
Source: Bureau of Labor Statistics, Bloomberg

As illustrated in the chart on right hand side, Inflation, as measured by the Consumer Price Index ("CPI"), came in at consensus expectations of +6.0% on the headline year-over-year metric. While encouraging that inflation isn't coming in above expectations, inflation is still running well above the Fed's target range and as mentioned in the previous section, the FOMC continued to prioritize fighting inflation rather than succumb to concerns of stress in the financial services sector and raised interest rates by 25bps during the March meeting. Despite this increase in target bands, market participants began to price more risk into the bond market and interest rates spent most of the month declining. With interest rates falling, so too did the average rate on mortgage financing. According to Bankrate.com, the average rate of 30-year financing reached its peak for the year on March 8th of 7.13%, which was still below the recent peak of 7.35% in November of last year and fell to 6.81% by the end of March. With this decline in mortgage rates, there was quick flurry of activity in the residential real estate sector of the market. For a majority of the first quarter of the year, Existing Home Sales were in a general state of decline until the end of March, when they skyrocketed up to +14.5% as illustrated in the lower chart. While this flurry of activity came as a surprise to market participants, there is a consensus that it will not last due to tighter lending standards by mortgage issuers. As a spillover effect from profitability concerns with banks, especially smaller regional banks which account for the majority of mortgage issuance in the US, banks will likely tighten their standards for lending which could lead to a slow down in not only residential but also commercial real estate markets. Chairman Powell went so far as to estimate that the tighter lending standards could synthetically act as if the Fed increased interest rates yet again.

<u>Bottom Line</u>: Inflation metrics largely landed in line with expectations and the FOMC increased interest rates by 25bps, but market interest rates plummeted over concerns in the banking sector. As a spillover from those challengers with banks, it's estimated that lending standards will tighten which could cause a slowdown in the real estate market. While this should help with inflation metrics, it could also damage property owners' balance sheets if prices begin to fall.

Interest Rates Plummet, Home Sales Skyrocket

US Existing Home Sales MoM



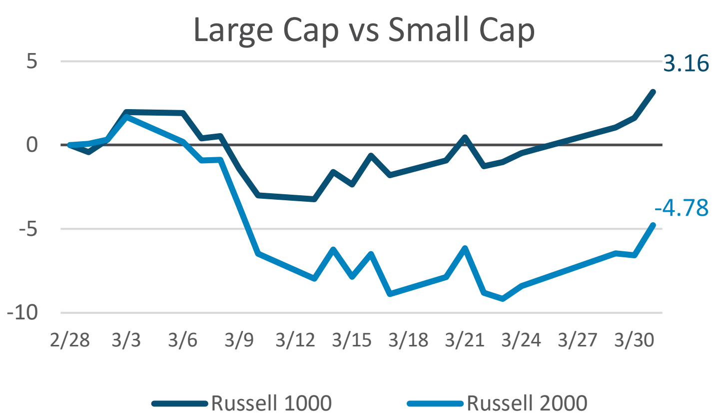
Source: National Assoc. of Realtors, Bloomberg

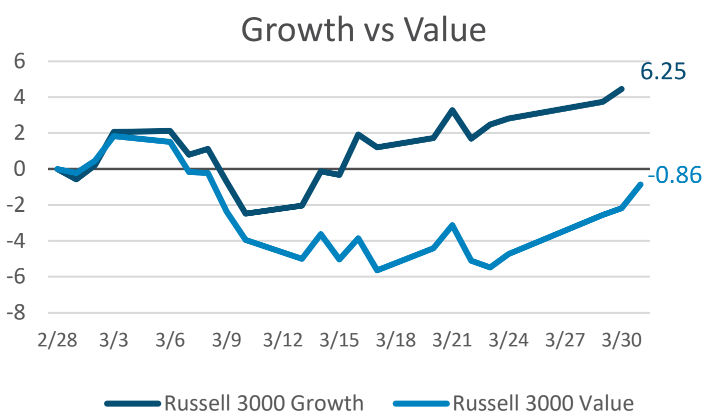
March 2023

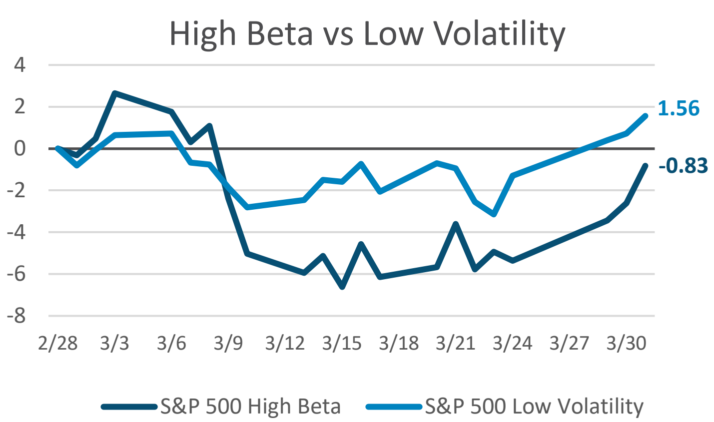
Equity Themes

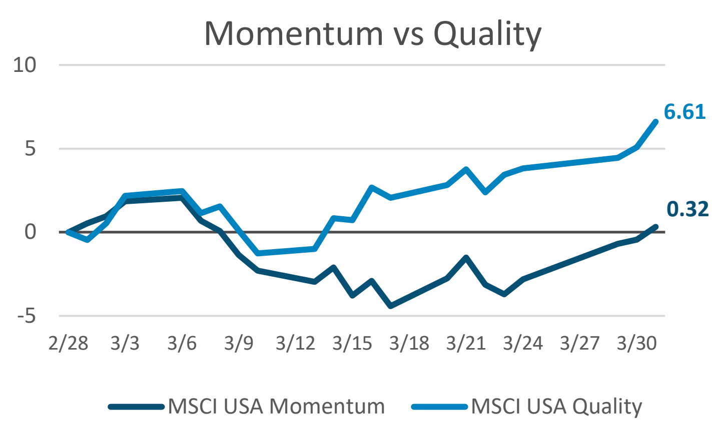
What Worked, What Didn’t

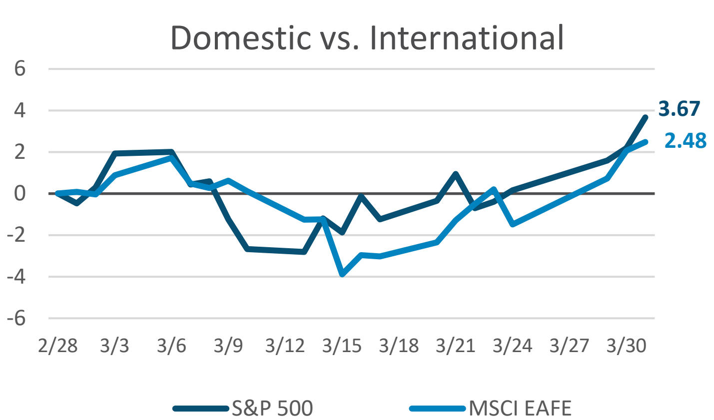
- **Large over Small and Growth over Value.** Small Caps struggled during the volatile month of March and Value significantly underperformed their Growth styled peers as interest rates tumbled.
- **Low Vol beats High Beta, Quality crushes Momentum.** Low Vol equities were an area of safety for investors during the month of March, candidly outperforming High Beta peers, on a similar note, Quality posted a massive margin of outperformance versus Momentum style equities as market participants shifted positioning on the back of concerns in the global financial system.
- **Domestic over International, Emerging over Developed.** Domestic equities posted a reasonable margin of outperformance versus Developed International equities. Emerging Markets were able to post a modest margin of outperformance versus Developed International equities.

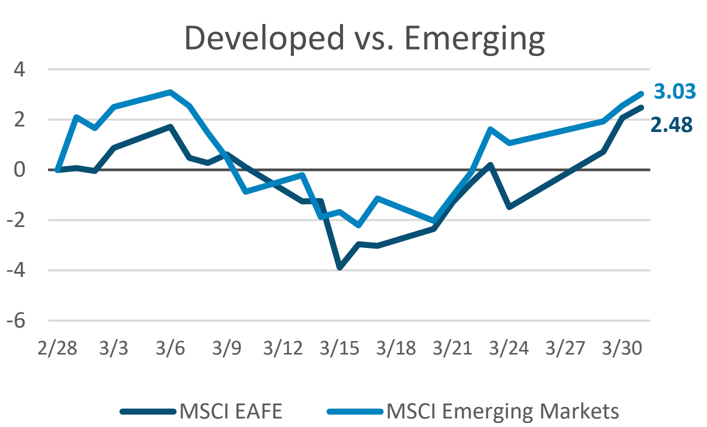












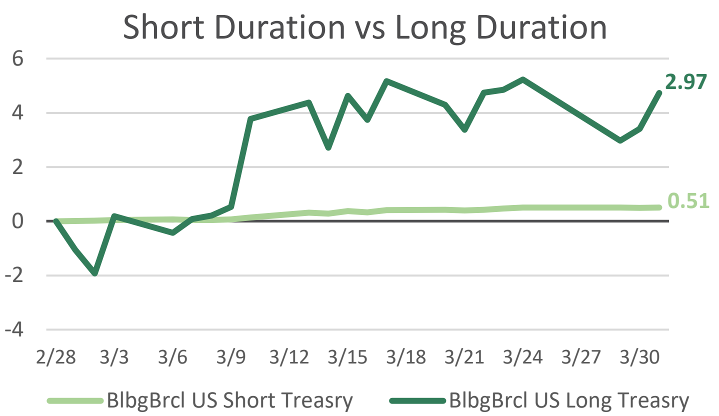
Source: Bloomberg.

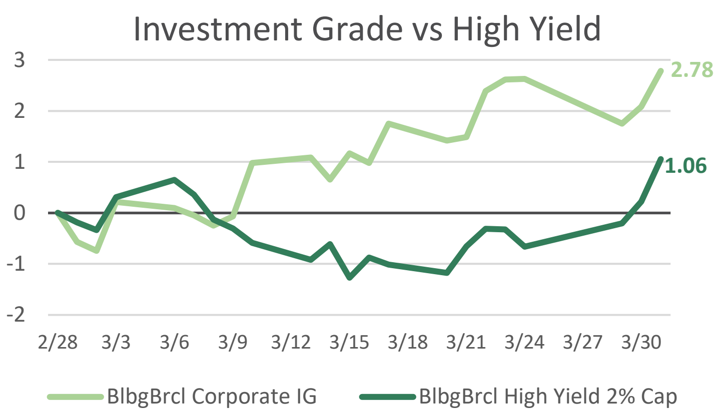
March 2023

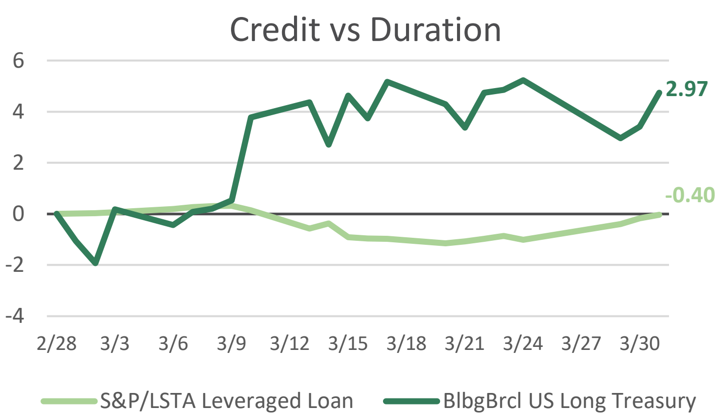
Bond Themes

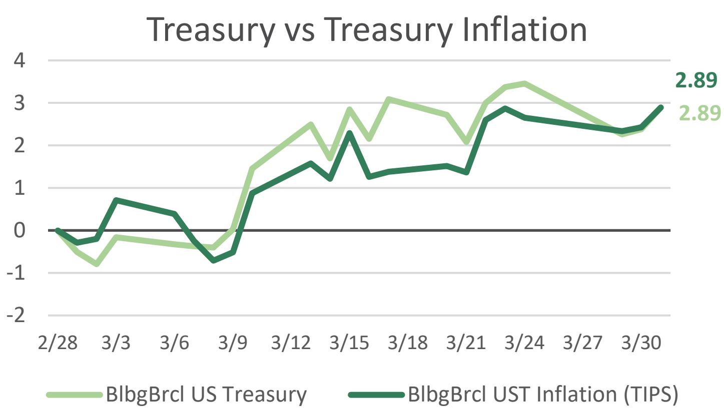
What Worked, What Didn't

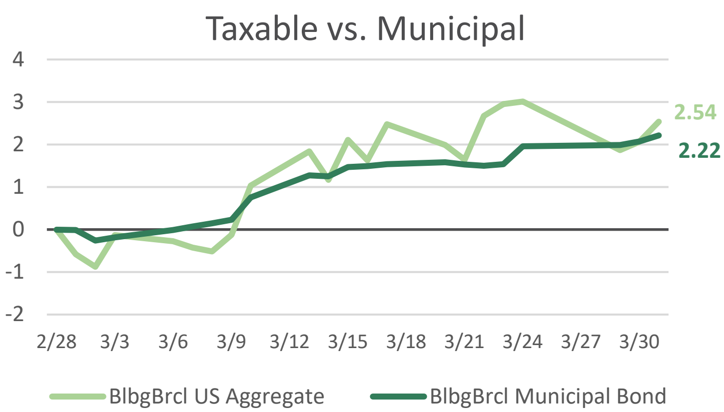
- **Long Duration and High Quality Outperform.** With interest rates plummeting on the back of stress in the financial services sector, Long Duration outperformed Short Duration bonds and Investment Grade posted a solid margin of outperformance versus High Yield as investors looked for safety.
- **Duration Beats Credit, TIPS Match Nominal .** TIPS exactly matched the performance of Treasuries for the month of March and Duration beat Credit as market participants hid from volatility in Treasuries.
- **Taxables Outperform Munis, International Over Domestic.** Taxable bonds posted a modest margin of outperformance versus Munis and International bonds posted a solid margin on Domestic bonds.

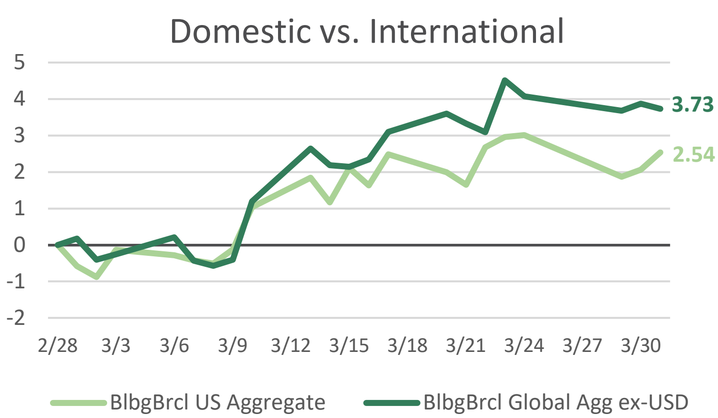












Source: Bloomberg.

March 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.

	Mar-01	Mar-02	Mar-03	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-29	Mar-31	Mar	YTD
High	EM 2.14	MCG 1.20	LCG 1.85	LCG 0.16	USB -0.13	RE 1.18	IBD 0.59	USB 1.17	IBD 1.42	SCG 2.13	USB 1.00	LCG 2.27	IBD 1.12	IEQ 1.56	SCV 2.06	IBD 1.07	EM 1.39	RE 2.49	RE 2.24	RE 2.10	LCG 7.42	LCG 14.30
	IEQ 0.53	RE 1.19	RE 1.63	IBD 0.11	HYB -0.71	IEQ 0.55	USB 0.36	IBD 0.84	RE 1.39	LCG 1.94	LCG -0.12	MCG 1.62	USB 0.63	MCV 1.51	MCG 1.86	USB 0.96	LCG 0.78	SCV 1.14	MCG 1.58	MCG 1.94	IBD 4.52	MCG 9.09
	SCG 0.41	LCG 0.80	MCG 1.58	HYB 0.00	SCG -0.96	EM 0.41	HYB -0.56	HYB 0.01	USB 0.80	SCV 1.66	RE -0.18	IEQ 1.55	HYB -0.60	LCV 1.33	SCG 1.75	EM 0.39	USB 0.24	MCV 0.99	MCV 1.56	SCG 1.92	USB 3.23	IEQ 8.96
	IBD 0.04	LCV 0.70	SCG 1.56	LCV -0.21	IBD -1.06	LCG 0.34	IEQ -0.73	EM -0.53	LCG 0.58	MCG 1.66	HYB -0.33	EM 1.53	EM -0.61	SCG 1.26	LCG 1.51	HYB 0.09	MCG 0.14	LCV 0.81	LCG 1.53	SCV 1.79	IEQ 2.58	SCG 5.96
	60/40 -0.06	MCV 0.67	IEQ 1.46	USB -0.25	60/40 -1.08	MCG 0.33	60/40 -0.93	60/40 -0.59	EM 0.16	MCV 1.51	60/40 -0.82	SCG 1.46	60/40 -0.61	IBD 1.16	IEQ 1.51	IEQ -0.35	60/40 0.12	SCG 0.59	LCV 1.36	LCG 1.62	60/40 2.28	60/40 5.31
	MCG -0.08	EM 0.36	LCV 1.38	IEQ -0.25	MCG -1.18	IBD 0.26	LCG -1.75	IEQ -1.07	60/40 0.02	LCV 1.47	IBD -1.12	SCV 1.30	LCG -0.62	RE 1.13	MCV 1.48	60/40 -0.44	IEQ 0.01	LCG 0.38	HYB 1.25	MCV 1.60	HYB 2.27	EM 4.12
	MCV -0.15	SCG 0.29	MCV 1.34	60/40 -0.27	SCV -1.28	60/40 0.17	LCV -2.11	LCV -1.56	MCG -0.28	IEQ 1.33	LCV -1.41	MCV 1.25	IEQ -1.19	MCG 1.11	LCV 1.32	LCG -1.47	SCG -0.07	60/40 0.20	IEQ 1.21	LCV 1.24	MCG 1.45	HYB 3.73
	LCV -0.20	60/40 0.26	SCV 1.25	EM -0.35	LCG -1.30	MCV 0.11	EM -2.21	LCG -1.73	HYB -0.54	RE 1.00	MCG -1.50	LCV 1.19	MCG -1.67	SCV 1.00	HYB 1.09	LCV -1.99	IBD -0.28	USB 0.17	SCG 1.16	HYB 1.08	EM 1.05	IBD 3.26
	SCV -0.21	IEQ 0.20	60/40 1.18	RE -0.40	MCV -1.63	SCV 0.10	MCG -2.26	SCV -2.64	IEQ -0.68	HYB 0.73	SCV -1.56	60/40 0.81	LCV -1.81	60/40 0.60	EM 0.90	MCG -2.11	HYB -0.39	MCG -0.02	SCV 0.99	60/40 0.85	LCV -0.31	USB 3.23
	HYB -0.28	SCV 0.19	HYB 1.03	MCG -0.69	IEQ -1.67	SCG -0.01	RE -2.32	MCG -2.68	SCG -0.94	60/40 0.64	EM -1.71	HYB 0.65	MCV -2.08	LCG 0.50	60/40 0.80	MCV -2.56	LCV -0.40	HYB -0.20	60/40 0.87	IEQ 0.51	RE -0.58	RE 1.42
	USB -0.57	HYB 0.12	EM 0.89	MCV -0.77	EM -1.68	LCV -0.04	MCV -2.41	MCV -2.69	LCV -1.03	EM 0.05	SCG -1.83	RE 0.02	SCG -2.23	EM 0.37	IBD 0.43	SCG -2.69	MCV -0.58	EM -0.26	EM 0.28	USB 0.48	SCG -2.87	MCV 1.31
	LCG -0.60	USB -0.21	USB 0.79	SCG -1.37	LCV -1.71	USB -0.10	SCG -2.50	SCG -3.17	MCV -1.75	USB -0.59	MCV -1.98	IBD -0.09	RE -2.24	HYB -0.27	USB -0.30	SCV -3.06	RE -0.59	IEQ -0.30	IBD 0.21	IBD 0.18	MCV -2.97	LCV 0.93
Low	RE -1.37	IBD -0.35	IBD 0.51	SCV -1.58	RE -2.35	HYB -0.47	SCV -3.08	RE -3.29	SCV -2.27	IBD -0.82	IEQ -3.10	USB -0.39	SCV -3.01	USB -0.40	RE -0.57	RE -3.48	SCV -0.81	IBD -0.74	USB 0.12	EM -0.13	SCV -7.11	SCV -0.66

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. Approved 040423014 MKS