MONTH IN REVIEW

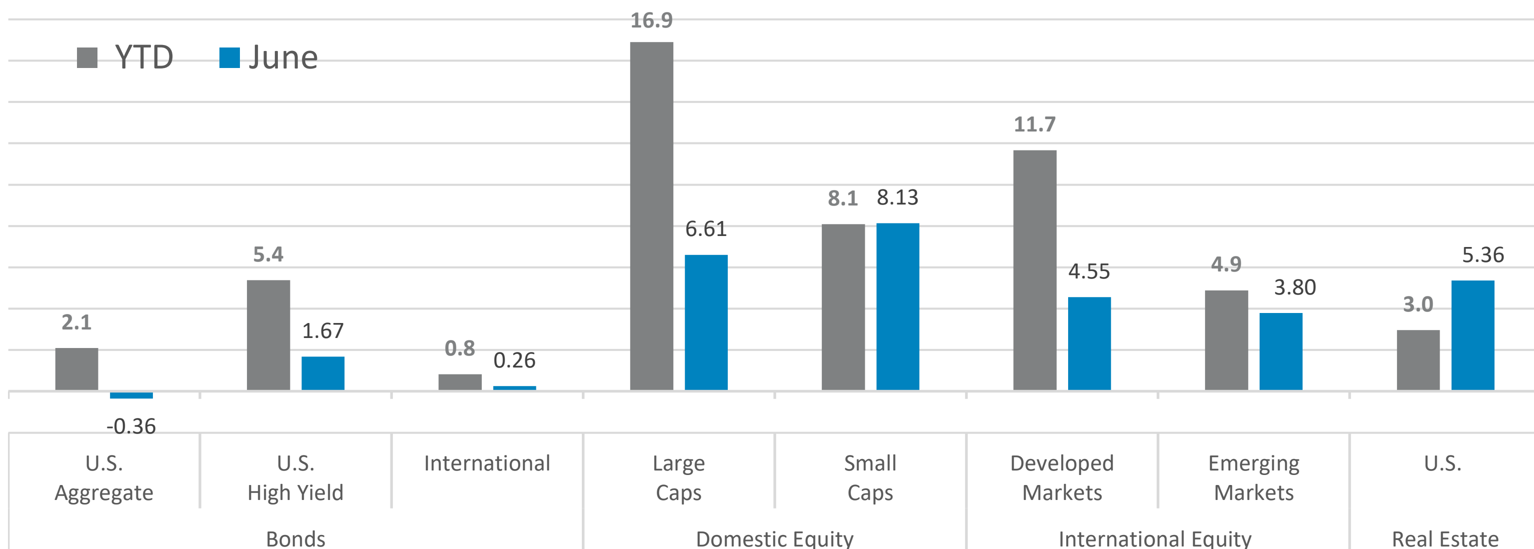
June 2023

Quick Takes

- **Risk Assets Scream Ahead.** Risk assets took off for the month of June, with almost all major indices ending well into the green and locking in a healthy first half of the year return.
- **Cooling Inflation Data.** Inflation, as measured by the Fed's preferred data point of PCE Deflator, continued to show signs that inflation is increasing at a slower rate, i.e., disinflation. Despite this positive sign on the battlefront for taming inflation, Fed speak took on a hawkish team after the June FOMC meeting.
- **Dollar Loses Steam.** The greenback spent the majority of the month in a steady state of decline as market participants initially priced in a pause, if not all out stop, to interest rate hikes. After the Fed's hawkish tone post the FOMC meeting, the dollar regained some ground from its low point but ended the month lower than the start of the month.
- **Labor Markets, Economic Production, and Personal Spending.** The Unemployment Rate ticked up to 3.7% for the June reading and GDP for the first quarter was revised sharply higher, but signs of stress are lingering with Consumer Spending showing signs of softening.

Asset Class Performance

June turned out to be a stellar month for risk assets with domestic and international markets locking in a healthy return for not only the month but also the first half of the year as market participants began to price in a higher probability of a soft landing on the back of several positive economic data readings.



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).

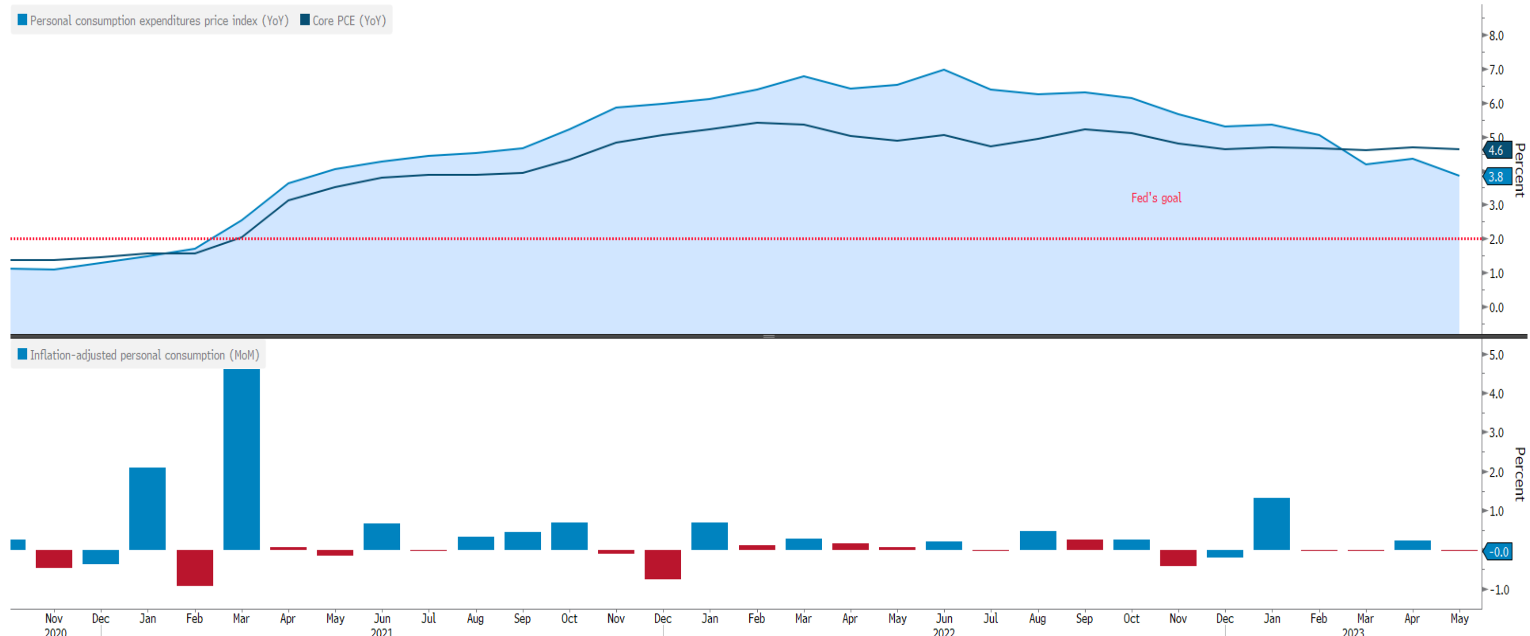
June 2023

Markets & Macroeconomics

Inflation Continues to Ease, but the Fight Isn't Over Yet

Inflation Eases as Consumer Spending Softens

YoY Personal Consumption Expenditures, Core PCE (Top), Infl-Adj. Personal Consumption (MoM)



Source: Bureau of Economic Analysis, Bloomberg

Inflation continued to show signs of softening as the June reading of PCE Core Deflator, the Fed's preferred metric for measuring inflation, came in softer than expectations of +4.7%, landing at +4.6%. Compared to 06/30/2022 when PCE reached its recent maximum level of +7.0% on the year-over-year metric, progress has certainly been made on battling entrenched inflation. While this progress is encouraging, the war is far from over with the Fed maintaining that it will tighten monetary policy until its long-term target of +2.0% is reached. The process of getting inflation from +7.0% to 4.0%, which it appears to be trending in that direction, will be one battle, but many market participants believe that the road from +4.0% down to +2.0% will be very different. Time will tell what actions the Fed will take to achieve this acceptable level of inflation, but just as important, if not more so, are the downstream effects these methods will have on the economy. As illustrated in the chart above, the Fed's rapid increase in policy rate has begun to impact the US consumer. Personal Consumption Expenditures have been steadily increasing at a declining pace since the start of the year. Additionally, on an inflation-adjusted basis, Personal Consumption has effectively been flat since the first month of the year, with the exception of April where there was a healthy bump up. Market participants have long speculated that the consumer could be the key to a soft landing, i.e., no economic recession. If the consumer accelerates their cut back in expenditures in the coming months, this could lead to a harder landing than what the Fed has been shooting for. Additionally, Chairman Powell's tone after the Fed's meeting in June took on a hawkish tone with the Chairman stating that additional rate hikes could be coming later this year.

Bottom Line: Inflation, as measured by the PCE Core Deflator came in softer than expected at the June data reading. It appears that inflation is increasing at a slower pace, which is what the Fed has been shooting for with their rapid tightening of monetary policy. While inflation has been slowing, it appears that consumers are starting to feel the downstream effects of this tighter monetary policy with Consumer Expenditures also showing signs of increasing at a slower pace and when adjusted for inflation, Personal Consumption has been flat for most of the year. Consumers have long been speculated as the path to a soft landing and their spending behavior will remain top of mind for market participants as the Fed continues to battle inflation back to their targeted level of +2.0%.

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June 2023

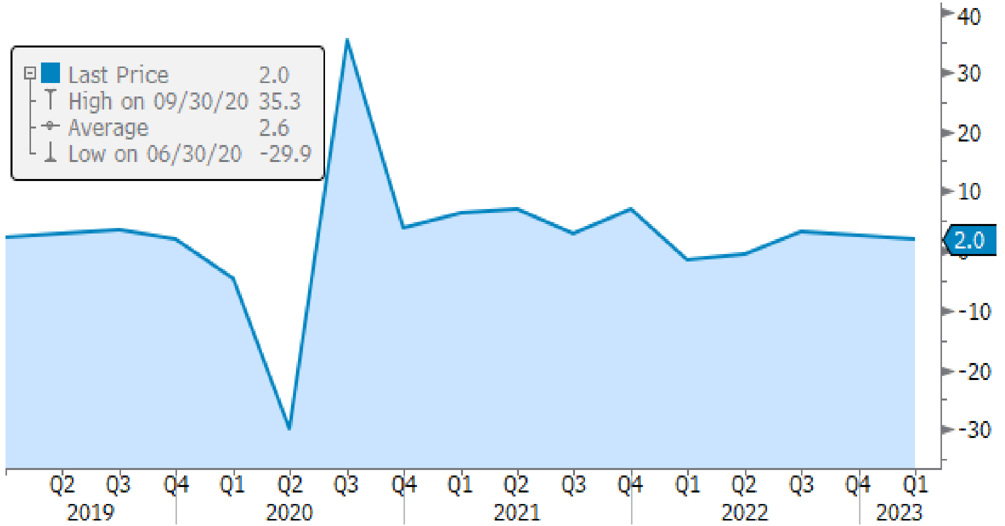
What's Ahead

Economic Production Gets Revised Even Higher, Employment In Focus

With the third revision to first quarter GDP numbers coming in sharply higher to +2.0% on the quarter-over-quarter metric, versus the previous estimate of +1.3% and survey estimates of +1.4%, market participants began to breathe a sigh of relief and began optimistically pricing in a higher probability of a soft landing, despite the Fed's rapid increase in policy interest rates and hawkish tone at the June FOMC meeting. Risk assets rallied through the end of the month on the back of this new perspective. Additionally, at the beginning of June, the Unemployment reading for the month of May showed a modest uptick in the unemployment rate to 3.7% versus expectations of 3.5% and well above the previous reading of 3.4%. The labor markets have been one of the last areas of holdout, remaining well below the Fed's year end forecast of 4.5%. While a higher unemployment rate may, and typically is, sound like an adverse scenario, the Fed is attempting to slowdown the economic system to ultimately tame rampant inflation. As the economy slows, labor markets will usually slacken as employers delay new hires or begin to layoff current employees. As job postings decrease and layoffs increase, this typically leads to less household wage growth, which then should lead to less household expenditure. Finally, once these effects begin to impact consumer spending habits, this should lead to disinflation, i.e., inflation increasing at a declining rate. As mentioned in the previous section, we are starting to see consumer spending soften as households feel the effects of not only high inflation but general stress in the financial system. As shown in the lower chart, the Kansas City Financial Stress Index, which tracks overall conditions in the financial industry, as the unemployment rate ticked up, so to has the stress index. Given the Fed's rapid increase in interest rates and the waterfall effects that has had on the financial system, i.e., bank collapses in the first half of the year and tighter lending standards from financial institutions, it's no surprise that stress levels have increased. Looking out to the road ahead, labor markets will remain top of mind for market participants as they price in probabilities of a possible soft or hard landing as the Fed continues its war on inflation.

GDP for First Quarter Revised Sharply Higher

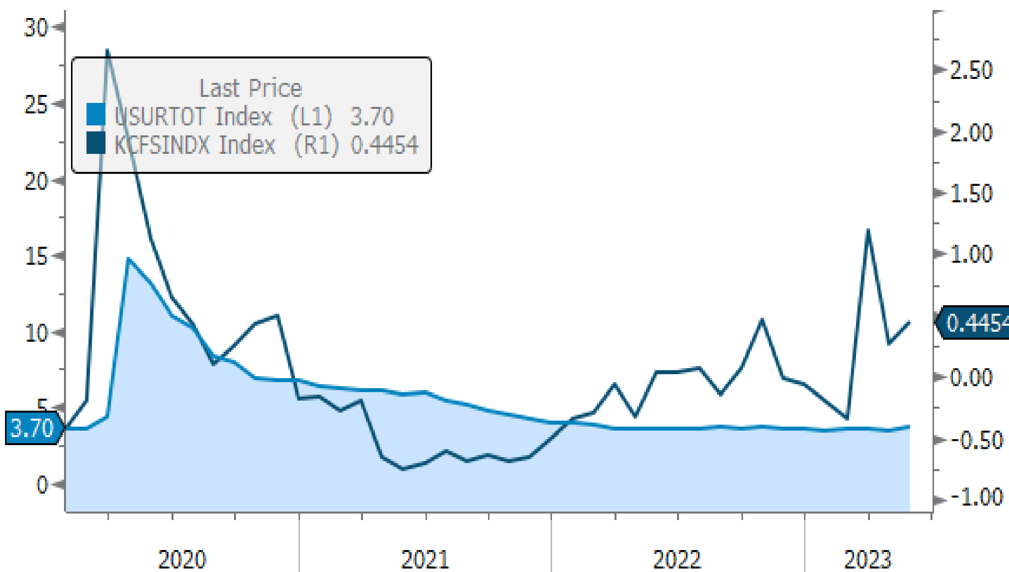
GDP Annualized (QoQ)



Source: Bureau of Economic Analysis, Bloomberg

As Unemployment Creeps up, So Does Financial Stress

Unemployment Rate and Kansas City Financial Stress Index



Source: Bureau of Labor Statistics, Fed. Res. Bank of Kansas City, Bloomberg

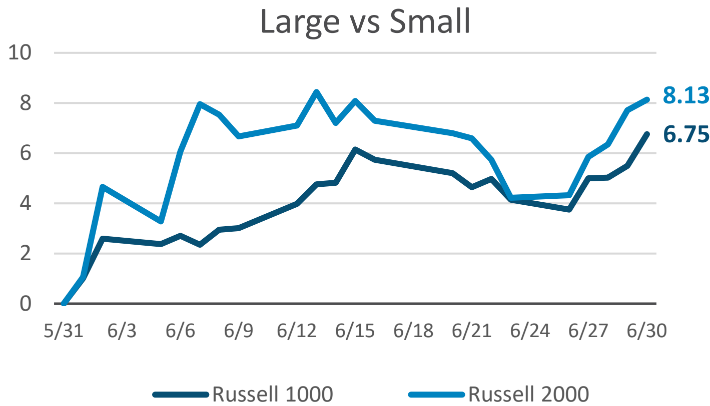
Bottom Line: Labor markets are starting to show signs of slackening but remain well above the Fed's forecasted year end target levels. If unemployment continues to trend closer to the Fed's forecasted level, it's likely that consumers will feel more and more of the stress that's in financial markets, and ultimately impact consumer spending habits. While this should help battle inflation, it will also impact economic growth in a negative way. This could increase the probability of a recession in the near future despite many market participants pricing in an increased probability of a soft landing on the back of upward first quarter GDP revisions.

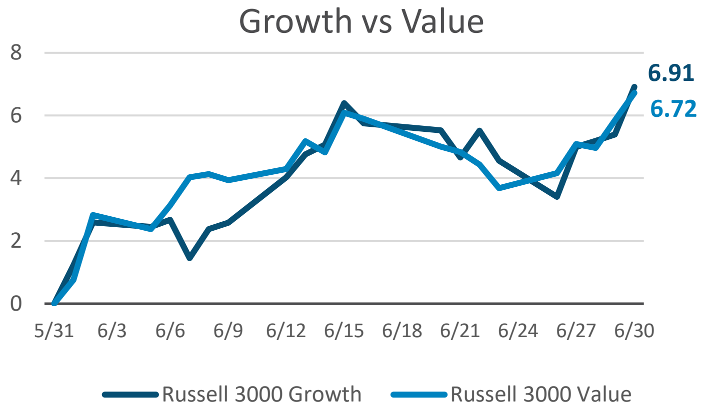
June 2023

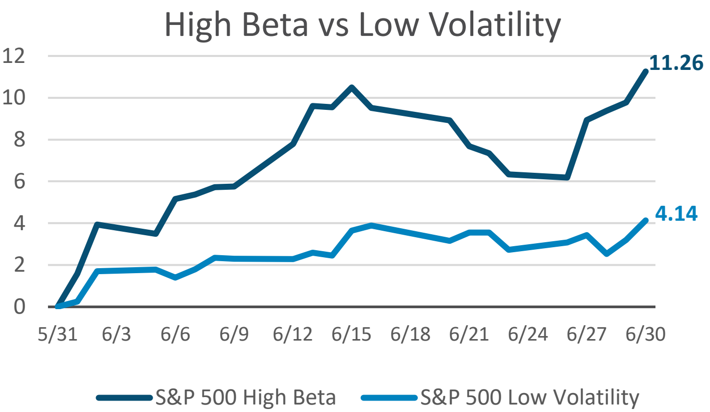
Equity Themes

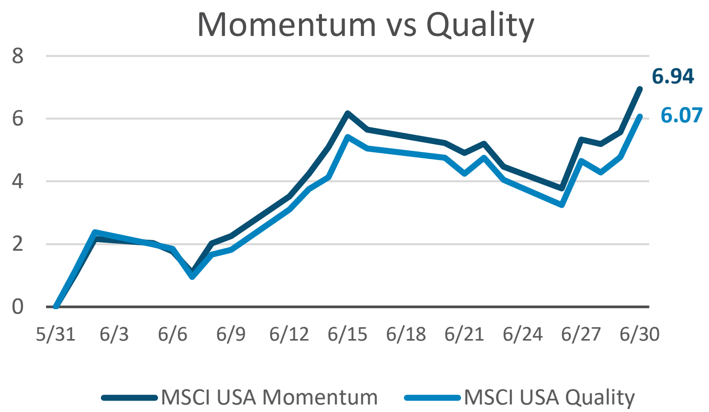
What Worked, What Didn't

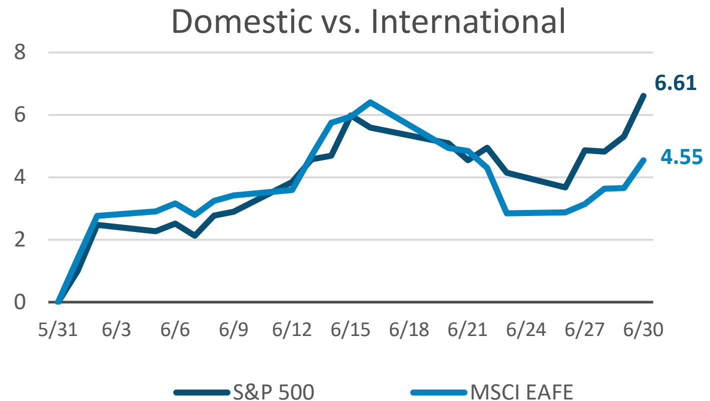
- **Small Over Large, Growth Over Value.** Small Cap equities posted a strong month for June, outperforming their Large Cap Peers. Both Growth and Value styled equities had sizable returns but Growth slightly outperformed Value.
- **High Beta and Momentum Outperform.** Low Volatility equities had a solid month, but the High Beta factor was in favor for June with an +11.26% return. Momentum and Quality were both easily in the green for June, but Momentum posted a respectable margin of outperformance versus Quality.
- **Domestic over International, Developed over Emerging.** Domestic Equities posted a fairly wide margin of outperformance versus Developed International Peers, but both were well into the green for the month. Emerging Markets also had a good month but slightly underperformed their Developed peers.

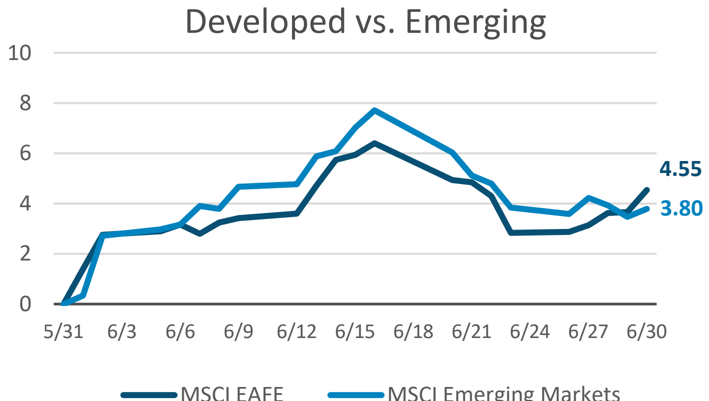












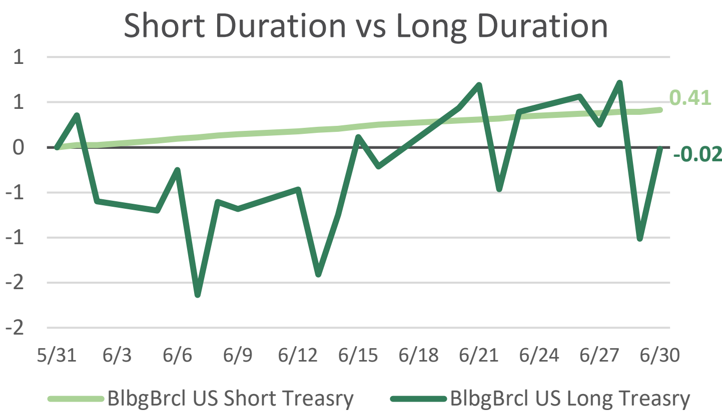
Source: Bloomberg.

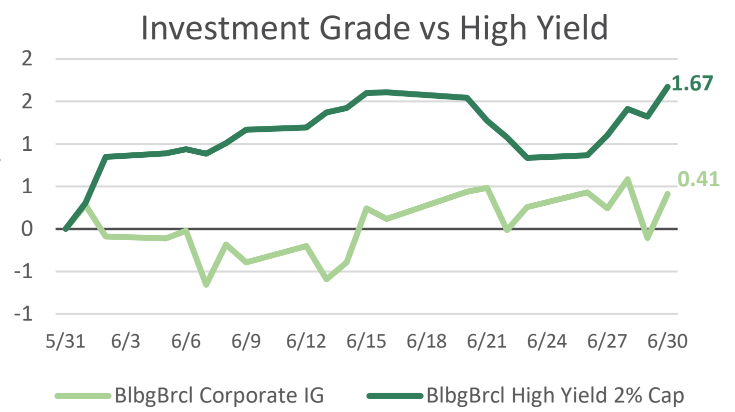
June 2023

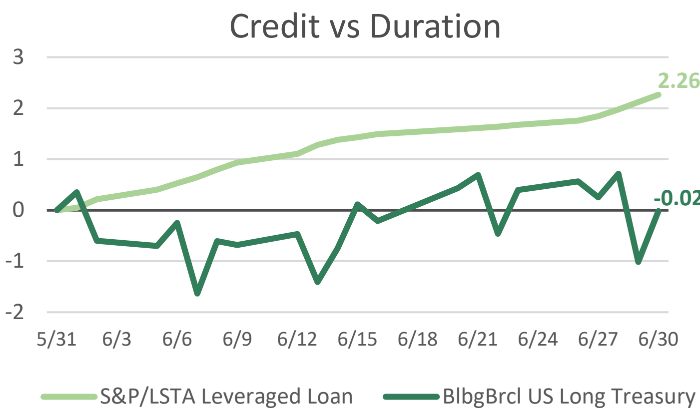
Bond Themes

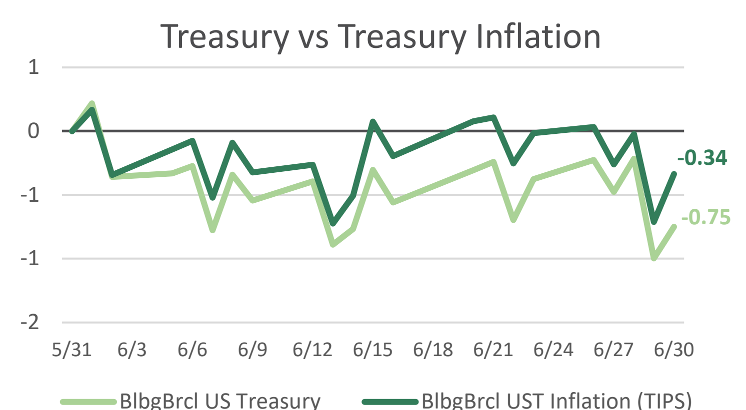
What Worked, What Didn't

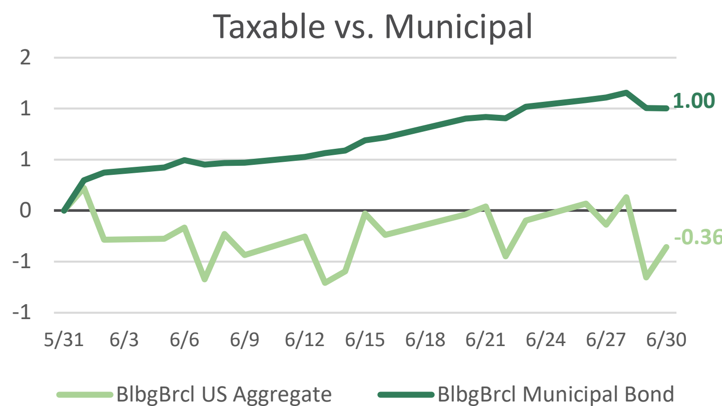
- **Short Duration and High Yield Outperform.** Long Duration bonds had a bumpy June on the back of the Fed's hawkish tone, on the flip side, this buoyed Short Duration bonds for the month and High Yield was a benefactor of better than expected economic news.
- **Credit Beat Duration and TIPS Underperform.** TIPS lagged for the month with softer Inflation numbers and Leveraged Loans posted a wide margin of outperformance for June.
- **Munis Outperform and International Underperform.** Munis posted a respectable month versus the Aggregate Bond Index for the month of June but International underperformed their domestic peers.

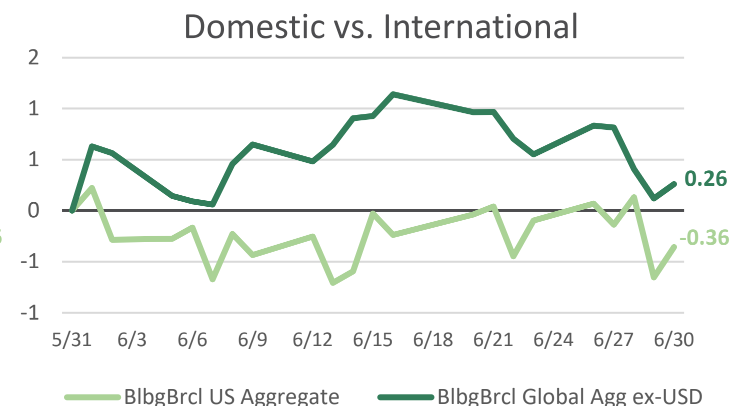












Source: Bloomberg.

June 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.

	Jun-01	Jun-02	Jun-05	Jun-06	Jun-07	Jun-08	Jun-09	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-20	Jun-21	Jun-22	Jun-23	Jun-26	Jun-27	Jun-28	Jun-29	Jun-30	Jun	YTD	
High	EM 1.78	SCV 4.09	USB -0.01	SCV 3.02	SCV 2.35	IBD 1.08	EM 0.45	LCG 1.43	SCG 1.18	EM 0.74	LCG 1.29	IBD -0.02	USB 0.18	IBD 0.26	LCG 0.88	USB 0.30	RE 2.27	LCG 1.54	SCG 0.66	SCV 1.39	LCG 1.45	MCV 7.87	LCG 28.92	High
	IEQ 1.49	SCG 3.06	EM -0.03	SCG 2.39	RE 1.56	IEQ 1.06	LCG 0.35	MCG 1.26	MCV 1.13	IBD 0.54	LCV 1.25	RE -0.03	IBD 0.05	USB 0.16	MCG -0.16	HYB -0.17	MCV 0.79	MCV 1.53	HYB 0.58	SCG 1.10	IEQ 1.23	SCG 7.00	MCG 15.88	
	LCG 1.13	MCV 2.71	HYB -0.08	MCV 1.20	SCG 1.46	LCG 0.93	HYB 0.03	SCG 0.69	SCV 1.12	RE 0.51	MCG 1.23	LCV -0.17	LCG -0.17	IEQ 0.15	HYB -0.30	IBD -0.32	LCV 0.44	SCV 1.51	MCG 0.56	RE 1.01	MCG 1.13	SCV 6.82	SCG 13.52	
	SCG 1.13	RE 2.24	MCG -0.09	EM 0.89	MCV 1.34	EM 0.71	60/40 -0.12	IEQ 0.43	MCG 1.08	LCG 0.37	MCV 1.07	MCV -0.18	HYB -0.27	MCV -0.06	EM -0.35	LCV -0.64	SCV 0.41	SCG 1.42	SCV 0.30	MCV 0.84	LCV 0.84	MCG 6.52	IEQ 12.49	
	MCG 1.09	LCV 1.88	LCG -0.10	RE 0.86	LCV 0.83	HYB 0.63	LCV -0.12	60/40 0.42	EM 1.00	IEQ 0.37	IEQ 1.06	IEQ -0.22	SCG -0.32	SCG -0.08	LCV -0.35	60/40 -0.65	IBD 0.35	MCG 1.42	USB 0.30	LCV 0.79	EM 0.79	LCV 5.79	60/40 8.35	
	SCV 0.96	MCG 1.82	60/40 -0.27	IEQ 0.83	60/40 -0.28	60/40 0.57	MCG -0.15	MCV 0.41	IEQ 0.95	60/40 0.13	EM 0.94	HYB -0.25	60/40 -0.55	60/40 -0.11	IBD -0.37	LCG -0.92	EM 0.33	RE 1.20	LCG 0.19	MCG 0.44	MCV 0.79	RE 5.67	EM 5.20	
	60/40 0.85	EM 1.72	IBD -0.29	LCV 0.61	MCG -0.38	USB 0.53	IEQ -0.17	LCV 0.34	LCV 0.82	USB 0.09	60/40 0.93	60/40 -0.30	SCV -0.65	LCV -0.19	60/40 -0.38	MCV -0.97	MCG 0.15	EM 1.02	RE 0.15	LCG 0.10	SCG 0.75	LCG 5.46	MCV 5.16	
	LCV 0.79	IEQ 1.30	LCV -0.35	60/40 0.54	EM -0.43	MCG 0.38	IBD -0.18	IBD 0.29	RE 0.74	HYB 0.04	IBD 0.89	USB -0.31	MCG -0.78	HYB -0.25	USB -0.52	MCG -1.03	60/40 0.15	IEQ 0.87	60/40 0.13	60/40 -0.13	60/40 0.74	IEQ 2.96	LCV 5.05	
	MCV 0.68	LCG 1.24	MCV -0.51	MCG 0.48	IBD -0.43	LCV 0.11	USB -0.23	SCV 0.23	LCG 0.63	MCG -0.18	SCV 0.84	EM -0.34	LCV -0.84	SCV -0.37	SCG -0.57	RE -1.27	IEQ 0.13	LCV 0.83	IEQ 0.07	IEQ -0.14	IBD 0.67	60/40 2.76	HYB 4.48	
	HYB 0.60	60/40 0.89	IEQ -0.58	IBD 0.34	USB -0.53	MCV -0.16	MCV -0.29	EM 0.20	60/40 0.39	LCV -0.30	SCG 0.81	MCG -0.42	MCV -0.92	MCG -0.37	MCV -0.61	SCV -1.35	USB 0.12	60/40 0.65	MCV -0.07	HYB -0.27	RE 0.50	EM 2.58	RE 3.86	
	IBD 0.52	HYB 0.51	RE -0.67	HYB 0.16	HYB -0.55	SCG -0.17	RE -0.61	USB 0.17	HYB 0.12	MCV -0.37	USB 0.70	LCG -0.60	RE -1.05	RE -0.44	IEQ -0.62	EM -1.46	HYB 0.05	HYB 0.34	LCV -0.09	EM -0.53	HYB 0.48	HYB 1.17	IBD 3.20	
	USB 0.30	USB -0.53	SCG -1.13	USB 0.12	IEQ -0.86	RE -0.52	SCG -0.71	RE 0.12	IBD -0.36	SCG -1.09	RE 0.53	SCG -0.70	IEQ -1.32	EM -0.47	SCV -1.07	IEQ -1.55	SCG -0.18	IBD 0.28	IBD -0.28	USB -0.77	USB 0.24	IBD 0.92	SCV 2.53	
Low	RE 0.06	IBD -0.73	SCV -1.61	LCG 0.06	LCG -1.30	SCV -0.65	SCV -0.87	HYB -0.11	USB -0.47	SCV -1.14	HYB 0.48	SCV -0.75	EM -1.96	LCG -0.91	RE -1.47	SCG -1.64	LCG -1.08	USB -0.19	EM -0.60	IBD -0.84	SCV 0.04	USB -0.67	USB 2.26	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. 070523015 MKS

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