MONTH IN REVIEW

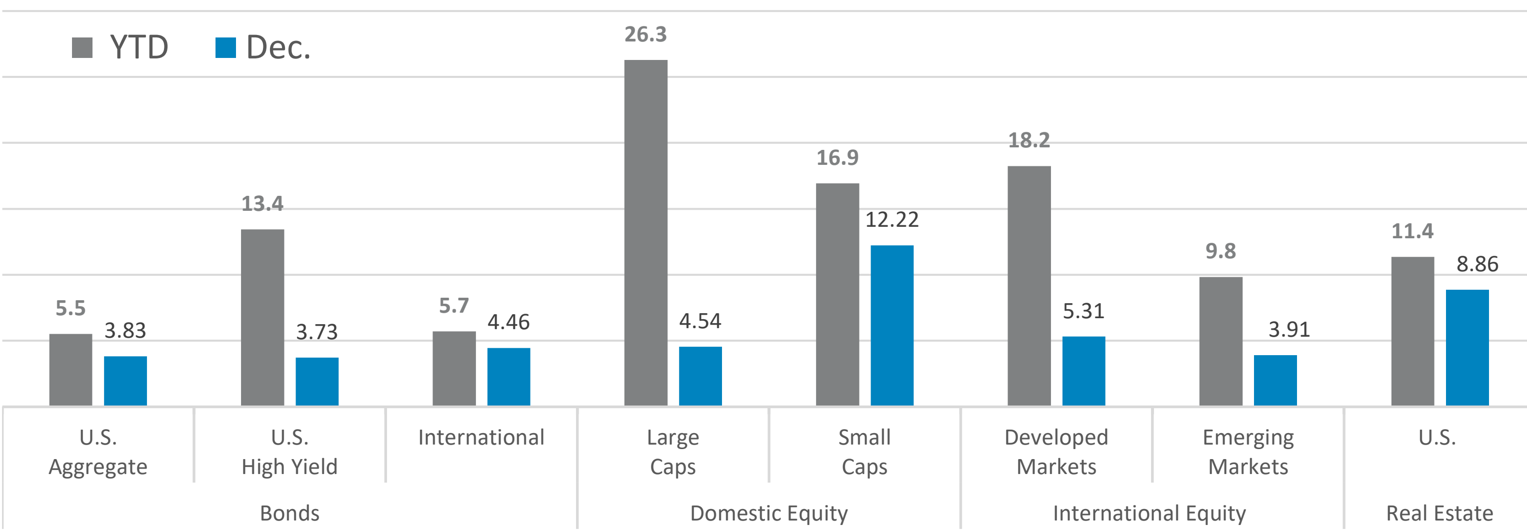
December 2023

Quick Takes

- **Risk Assets Melt Up.** Market participants continued right where November left off with almost all major asset classes continuing to melt up for the month of December, locking in a gain for 2023 across the board.
- **Inflation Continued Softening.** Inflation, as measured by the Fed's preferred metric of PCE Deflator, continued to show signs of softening through the month of November, landing at +2.6% versus estimates of +2.8% on the year-over-year metric.
- **Greenback Softens With Inflation.** The dollar was largely in a state of decline against other major currencies for the month of December with market participants pricing in future rate cuts.
- **Personal Consumption and Labor Markets.** Personal Consumption for the third quarter was revised lower from +3.6% to +3.1%. Labor Markets gave off mixed signals with the Job Openings and Labor Turnover Survey "JOLTS" coming in below expectations of 9.3 million, at 8.7 million for the month of October, but the Unemployment Rate for November came in below expectations of 3.9%, coming in at 3.7%.

Asset Class Performance

Risk Assets posted a strong December with Small Cap equities posting over a +12% increase for the month. With a solid December in the books, most major risk asset classes solidified a respectable year-to-date return well into the green, led by Large Cap equities posting over a 26% return for 2023.



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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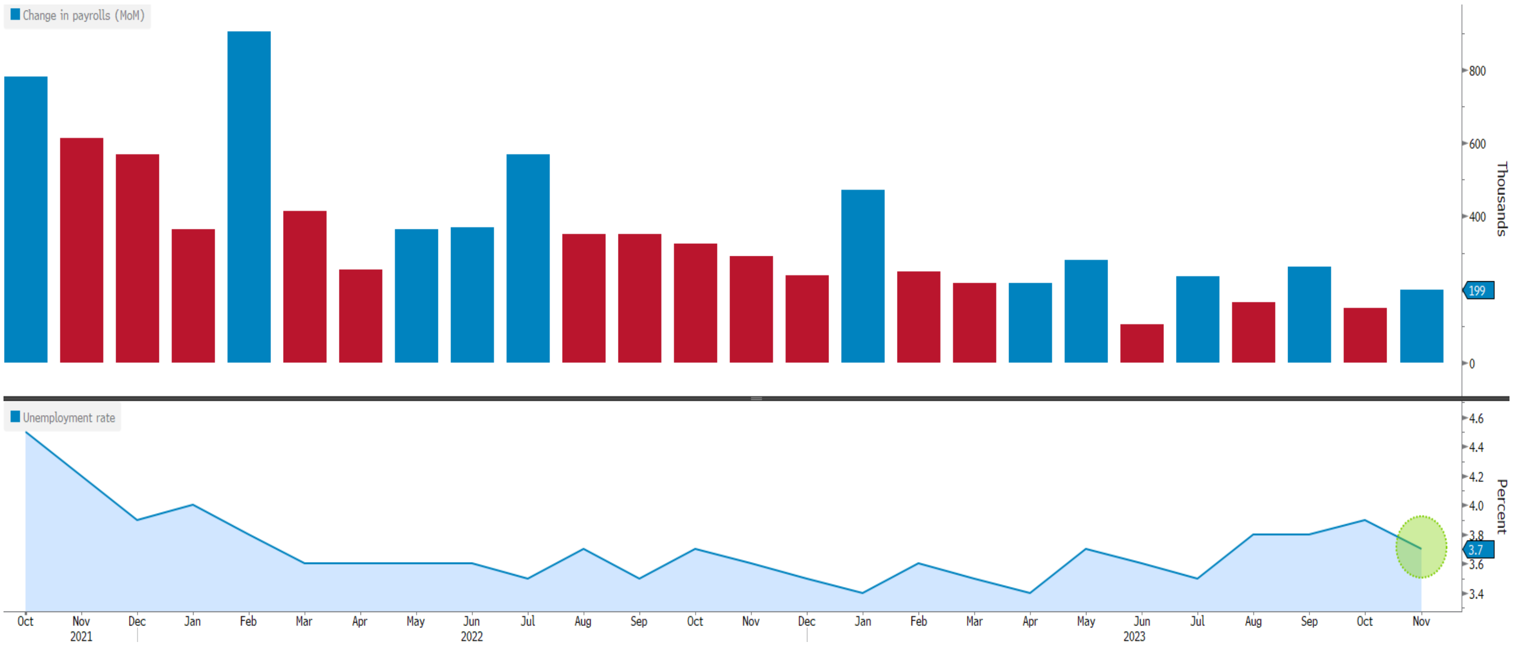
Markets & Macroeconomics

Mixed Signals from the Labor Markets

Unexpected Labor Market Resiliency

Change in Payrolls (MoM)(Top), Unemployment Rate (MoM)(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, showed signs of softening in the December reading for the month of October, coming in below expectations of 9.3 million at 8.73 million. A more recent measure of Labor Markets showed a surprise strengthening with the US economy adding +199,000 jobs in the month of November above market expectations of 185,000, which led to the Unemployment rate falling to 3.7%. Digging into the underlying data, a piece of the increase was due to the resolution of the United Auto Workers strike, additionally, areas of increase included health care, leisure and hospitality, and government hiring. Surprisingly, despite heading into the holiday rush season, retail was one of the categories that showed a decline in the data reading. In most scenarios, a strong labor market is something that many market participants would cheer on, however, with the Fed continuing the path of attempting to tame demand and ultimately inflation, a strong labor market typically leads to strong wage growth. With compensation for employees continuing to show signs of strength, this will likely lead to Consumer Spending remaining resilient. So far, consumers have been the hero throughout the Fed's tightening campaign with their spending habits preventing the US economy from slipping into a contractionary period. However, despite the recent resiliency in wage growth, consumers might be showing signs of spending fatigue with official data releases surrounding Consumer Spending data coming in softer than expected recently. This softening of spending habits may be temporary cutbacks in anticipation of the upcoming holiday season or consumers could be feeling the pressure of higher prices impacting their savings accounts and short-term credit facilities. With how important consumers are to the US economy, market participants will likely keep a close eye on spending habits in the coming months.

Bottom Line: Labor markets showed surprising resiliency into the final month of the year with the Unemployment Rate falling to 3.7% after the US economy added 199,000 jobs in the month of November. With the labor markets strengthening through the month of November, it's of little surprise that Wage Growth was strong as well. Typically, when Wage Growth is strong, this leads to strong Consumer Spending. Consumers have been in spending mode for the majority of the year but might be showing signs of fatigue with official government data releases surrounding Consumer Spending coming in softer than expected recently.

December 2023

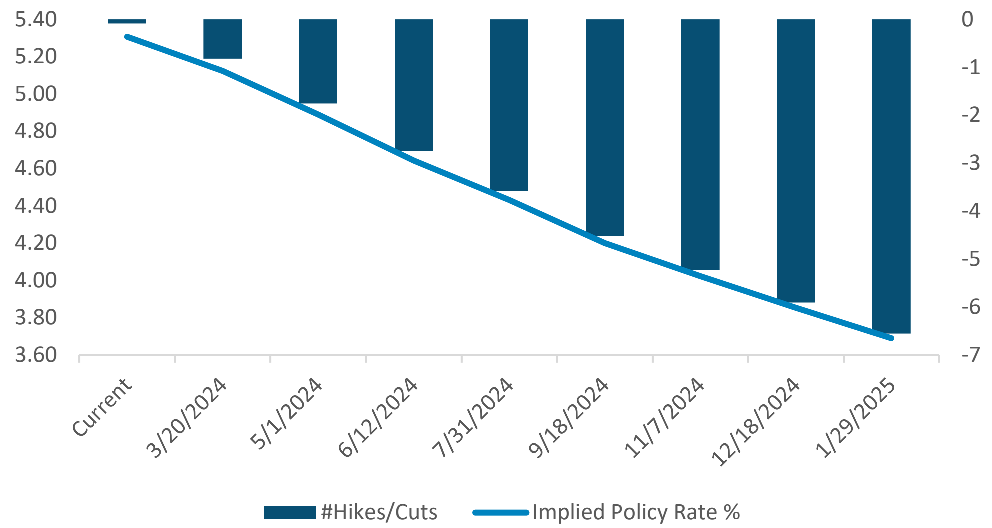
What's Ahead

Fed and the Consumer Will Remain Key Topics in 2024

With positive news surrounding softening inflation metrics in recent data readings, especially the Fed's preferred metric of PCE Deflator coming in below expectations of +2.8% at +2.6% year-over-year at the December data reading, market participants have quickly shifted future expectations that the Fed has achieved sufficiently tight monetary policy to tame inflation back to its +2.0% goal and will transition to loosening monetary policy in 2024. A measure of market expectations for future interest rates, the Implied Overnight Rate, shows that market participants are pricing in six rate cuts between January 2024 and January 2025 for a total reduction of over -150bps. This expectation of future policy easing was a major contributor to the equity and bond markets rallying through the end of the year. While many market participants were caught up in this improving outlook, many others were arguing caution on the possibly over-optimistic expectations. As mentioned in the previous section, Consumer Spending, which has almost single-handedly kept the US economy out of a recessionary period, is showing signs of fatigue. As illustrated in the chart below, Personal Consumption has shown signs of softening while Revolving Credit, i.e., credit card balances, is nearing all-time highs of approximately $1.3 trillion. Additionally, Credit Card Delinquencies have been increasing since the summer months, which suggests that consumers may be nearing, or even over, peak capacity to continue robust spending. If the consumers continue to curb back spending levels in the coming months, especially before the Fed has officially shifted gears from monetary policy tightening to loosening, the US economy may not be out of the woods just yet for a recessionary period. Market participants will likely be keeping a close eye on any Fed commentary and Consumer Spending data alike in the coming months.

Aggressive Rate Cutting Priced Into Markets

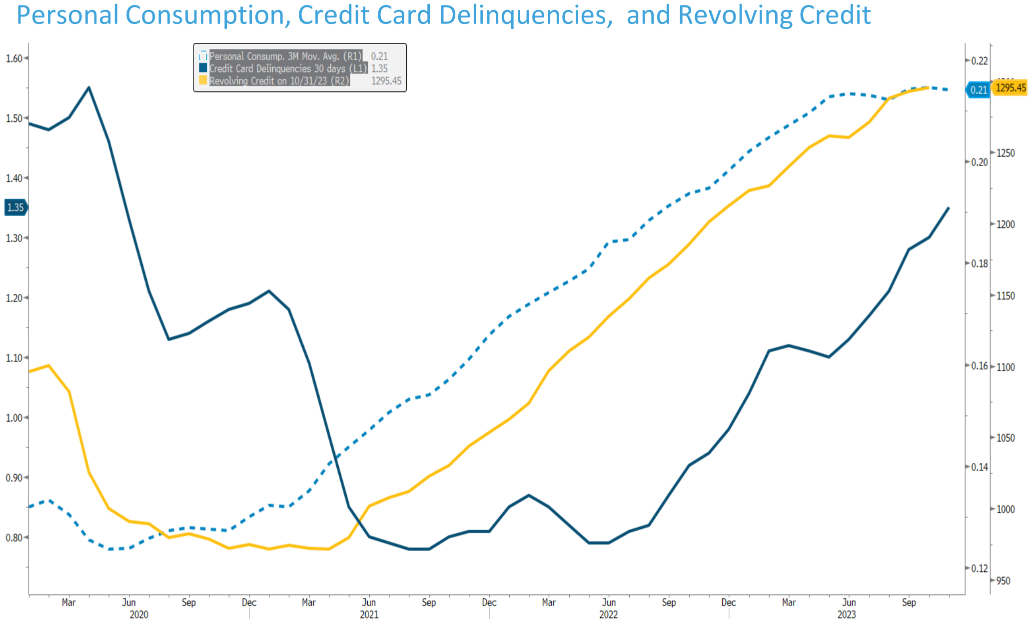
Implied Overnight Rate & Number of Rate Hikes/Cuts



Source: Bloomberg

Consumers Might Be Tapped Out

Personal Consumption, Credit Card Delinquencies, and Revolving Credit



Source: Bureau of Economic Analysis, Amex, BofA, Capital One, Chase Citibank, Discover, Federal Reserve, Bloomberg

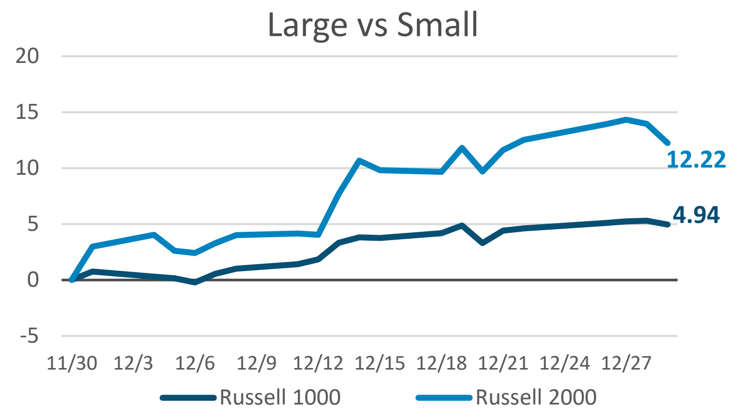
<u>Bottom Line</u>: On the back of positive economic data releases throughout December, markets began to aggressively price in future rate cuts over the coming 12 months. This optimistic outlook led some market participants to suggest caution into the new year, as soon economic data releases weren't as positive as others. For example, Consumer Spending has recently shown signs of softening, combined with Credit Card balances near all-time highs combined with rapidly increasing Credit Card Delinquencies. If consumer spending habits materially change in the coming months, the US economy may not be out of the threat of a possible recessionary scenario.

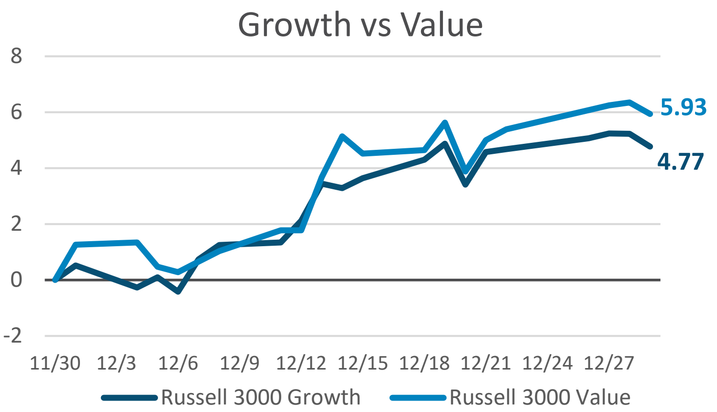
December 2023

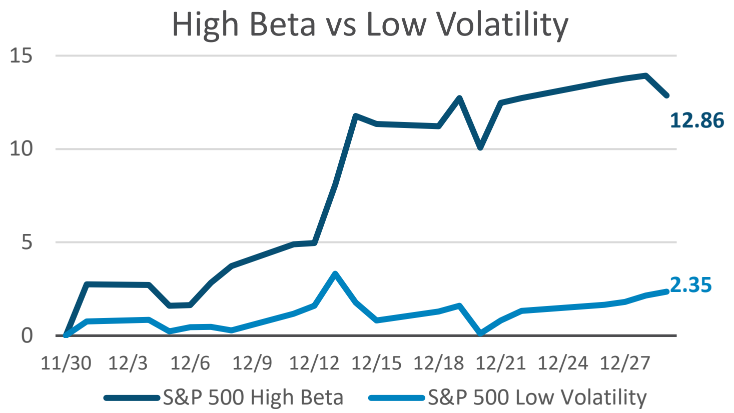
Equity Themes

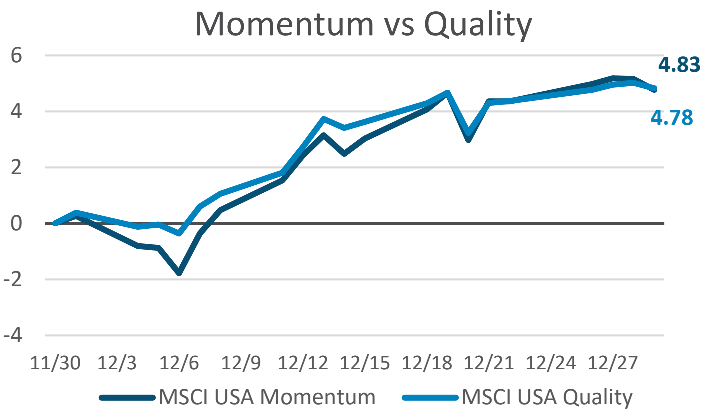
What Worked, What Didn't

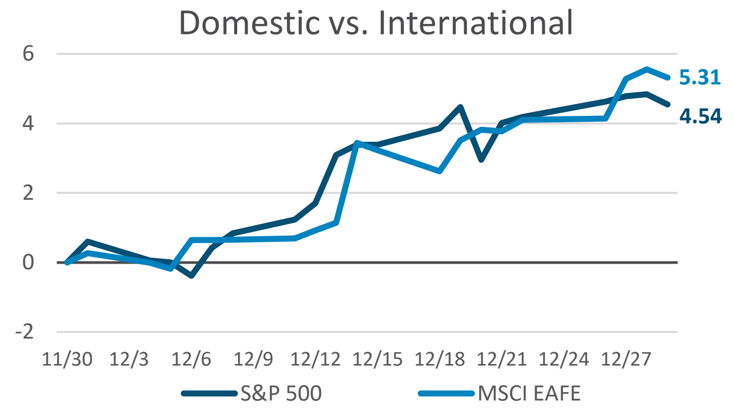
- **Small Over Large, Value Over Growth.** Large and Small Cap equities both had a strong month for December, but Small Cap equities took flight. Similarly, Value-styled equities posted a decent margin of outperformance against Growth-styled equities, but both were well into the green for December.
- **High Beta Crushes Low Vol, Momentum Over Quality.** High Beta equities decimated their Low Vol peers for the month of December, while Momentum had a very small margin of outperformance versus their Quality factor peers.
- **International Over Domestic, Developed Over Emerging.** International equities posted a modest margin of outperformance versus Domestic equities, but a larger margin over Emerging Markets.

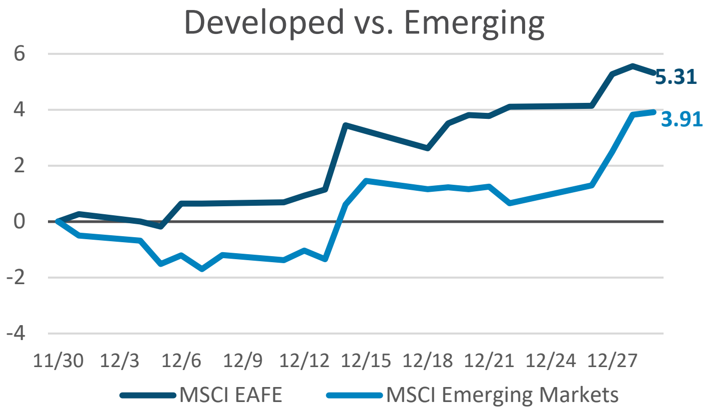












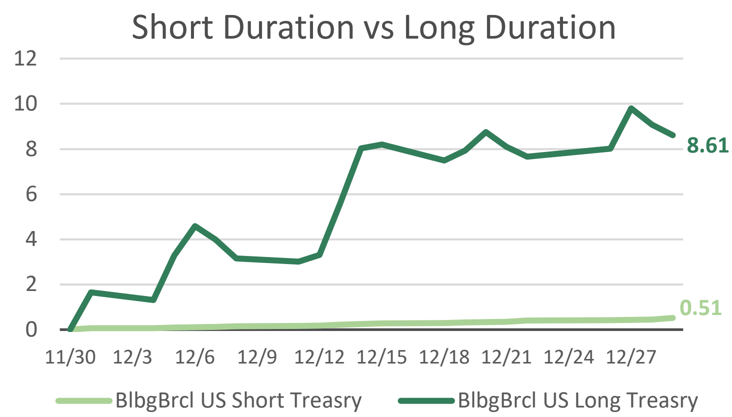
Source: Bloomberg.

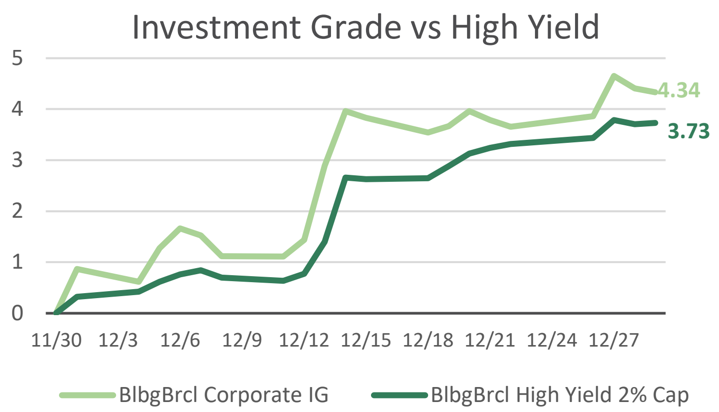
December 2023

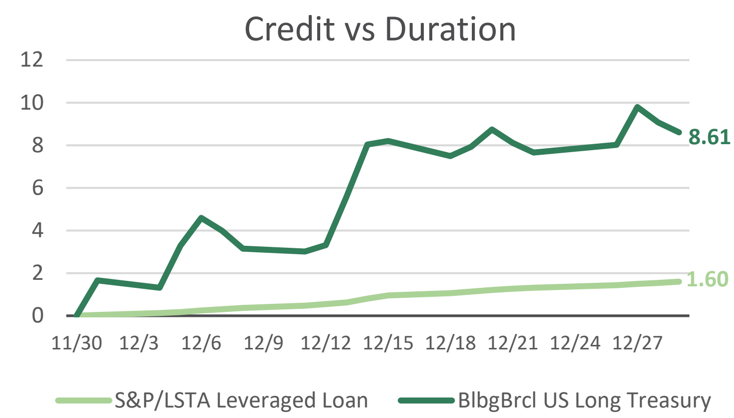
Bond Themes

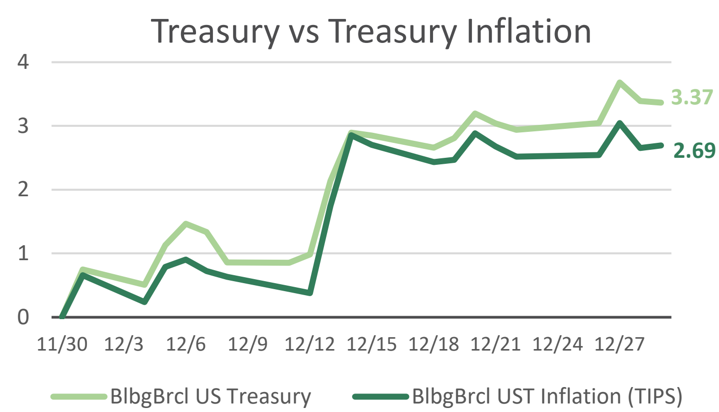
What Worked, What Didn't

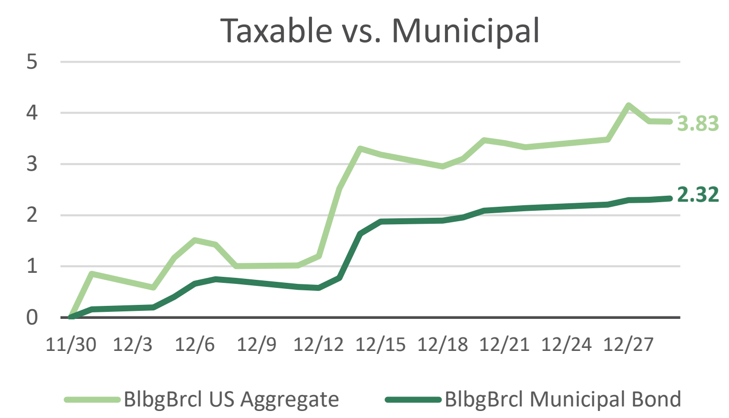
- **Long Duration and Quality Outperform.** Long Duration Treasuries posted a second month in a row of strong outperformance versus their Short Duration peers and Investment Grade bonds modestly outperformed their lower quality High Yield peers.
- **Duration Crushes Credit and TIPS Lag.** With Long Duration's gangbuster month, it's of little surprise that Credit trailed significantly. TIPS offered a modest return for the month but ultimately lagged their Treasury peers.
- **Taxables and International Outperform.** Munis posted a positive month but below their Aggregate peers and International bonds slightly outperformed domestic Aggregate peers for December.

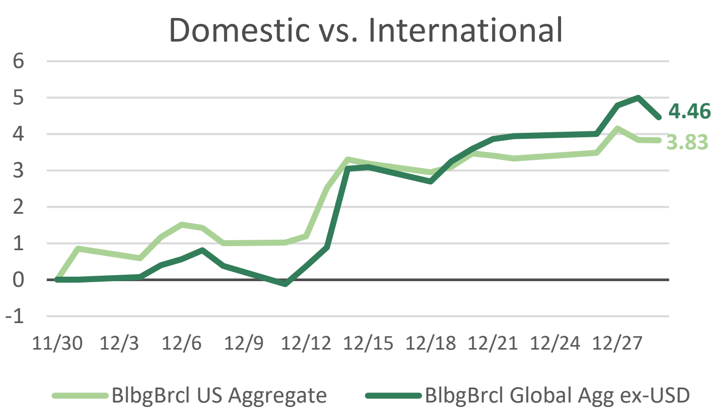












Source: Bloomberg.

December 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.

	Dec-01	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-26	Dec-27	Dec-28	Dec-29	Dec	YTD	
High	SCV 3.27	SCV 1.11	USB 0.66	IEQ 0.30	LCG 1.18	SCG 0.75	MCG 1.00	LCG 0.78	SCV 3.92	SCV 2.84	LCG 0.33	LCG 0.66	SCV 2.08	USB 0.37	SCG 1.94	SCG 1.01	SCV 1.33	IBD 0.87	EM 0.78	IEQ 0.11	SCG 9.08	LCG 42.60	High
	SCG 2.63	SCG 1.01	LCG 0.50	USB 0.26	SCV 1.05	SCV 0.62	LCV 0.79	MCG 0.68	RE 3.73	RE 2.76	HYB -0.22	MCG 0.31	SCG 1.82	HYB 0.01	EM 1.88	SCV 0.72	SCG 1.28	USB 0.64	RE 0.55	EM -0.05	SCV 8.87	MCG 25.71	
	RE 2.34	RE 0.60	HYB 0.09	IBD 0.21	SCG 0.57	LCG 0.50	MCV 0.74	IBD 0.63	SCG 3.16	SCG 2.43	USB -0.23	IEQ 0.24	MCV 1.08	IBD -0.17	SCV 1.63	MCG 0.52	EM 0.79	SCG 0.63	MCV 0.16	USB -0.19	RE 6.49	SCG 18.52	
	MCG 1.92	MCV 0.23	60/40 -0.09	MCV 0.04	MCV 0.54	MCV 0.43	EM 0.59	SCG 0.31	MCV 2.41	MCV 1.96	MCG -0.33	LCV 0.10	LCV 0.90	60/40 -0.75	IEQ 1.62	IBD 0.40	RE 0.76	EM 0.58	LCV 0.15	LCV -0.27	MCV 5.77	IEQ 18.40	
	MCV 1.86	LCV 0.03	IBD -0.24	60/40 0.02	EM 0.49	LCV 0.40	SCG 0.32	USB 0.30	MCG 1.86	EM 1.46	IBD -0.37	HYB 0.07	MCG 0.85	IEQ -1.00	MCG 1.49	LCV 0.39	MCG 0.69	IEQ 0.53	LCG 0.03	60/40 -0.31	MCG 5.56	60/40 14.68	
	LCV 1.10	MCG -0.02	IEQ -0.36	HYB 0.01	IEQ 0.48	MCG 0.40	60/40 0.27	60/40 0.27	LCV 1.75	LCV 1.39	60/40 -0.46	60/40 0.06	EM 0.85	LCG -1.28	MCV 1.22	MCV 0.39	MCV 0.69	RE 0.52	MCG 0.00	LCG -0.34	LCV 4.40	SCV 14.57	
	IEQ 1.05	IBD -0.24	RE -0.61	EM -0.13	IBD 0.42	IEQ 0.30	IEQ 0.25	HYB 0.22	60/40 1.57	IBD 1.12	EM -0.60	MCV 0.06	IBD 0.85	RE -1.29	LCV 1.02	RE 0.33	LCV 0.57	60/40 0.46	60/40 -0.07	HYB -0.39	IEQ 4.27	MCV 12.54	
	60/40 1.03	HYB -0.25	EM -0.61	SCV -0.19	60/40 0.38	60/40 -0.04	RE 0.23	IEQ 0.18	HYB 1.53	MCG 1.10	LCV -0.63	SCG 0.02	IEQ 0.85	LCV -1.66	LCG 1.01	IEQ 0.09	IEQ 0.46	HYB 0.41	USB -0.22	MCG -0.63	LCG 4.05	RE 11.93	
	USB 0.88	60/40 -0.37	LCV -0.79	LCV -0.20	MCG 0.34	HYB -0.20	IBD 0.14	RE 0.07	IEQ 1.46	60/40 0.98	SCG -0.63	EM -0.05	RE 0.67	MCV -1.68	RE 0.95	60/40 0.09	60/40 0.44	MCG 0.18	IEQ -0.27	MCV -0.67	60/40 3.98	HYB 11.53	
	HYB 0.82	USB -0.38	MCG -0.80	SCG -0.24	RE 0.34	RE -0.21	LCG 0.12	EM 0.03	IBD 1.38	USB 0.81	SCV -0.89	IBD -0.11	60/40 0.62	SCV -1.74	60/40 0.88	LCG 0.08	LCG 0.35	MCV 0.16	SCV -0.30	IBD -0.76	IBD 3.59	LCV 11.36	
	IBD 0.45	IEQ -0.78	MCV -1.08	MCG -0.31	LCV 0.29	EM -0.43	SCV 0.01	LCV -0.01	USB 1.26	IEQ 0.74	MCV -0.91	SCV -0.11	LCG 0.46	EM -1.77	IBD 0.54	HYB -0.12	USB 0.20	LCV 0.15	HYB -0.32	RE -1.14	EM 3.16	IBD 10.37	
	EM 0.43	LCG -0.85	SCG -1.20	RE -0.44	HYB 0.17	USB -0.50	USB 0.01	MCV -0.06	LCG 1.20	HYB 0.44	IEQ -0.97	RE -0.15	HYB 0.29	MCG -1.86	HYB 0.45	USB -0.13	HYB 0.19	LCG 0.09	IBD -0.36	SCV -1.52	USB 2.79	EM 8.99	
Low	LCG 0.38	EM -1.13	SCV -1.49	LCG -0.60	USB 0.03	IBD -0.90	HYB -0.07	SCV -0.43	EM 0.99	LCG -0.22	RE -1.25	USB -0.20	USB 0.12	SCG -2.21	USB -0.01	EM -0.48	IBD 0.17	SCV 0.06	SCG -0.50	SCG -1.58	HYB 2.34	USB 5.65	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. 080223006 - MAH

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