MONTH IN REVIEW

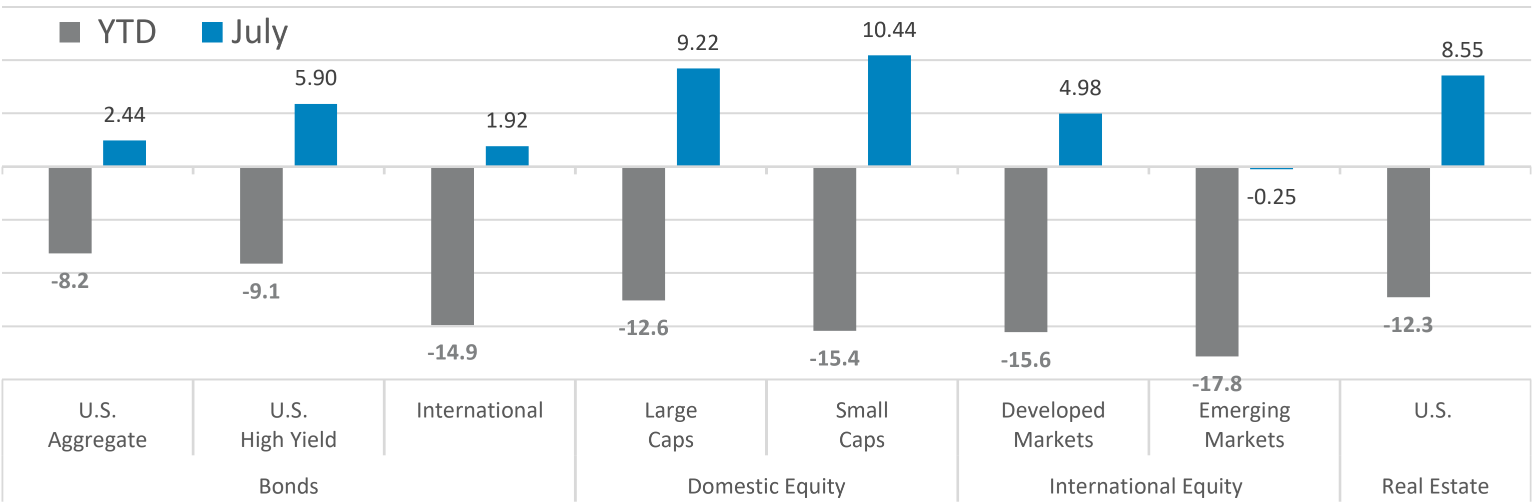
July 2022

Quick Takes

- **Risk Assets Catch a Bid.** Risk assets reversed their year-to-date downward spiral for the month of July, almost all asset classes were in the green and then some.
- **Markets Shrug Off Rate Hike.** The Fed conducted another supersized 75bps hike in interest rates during their July meeting, but risk assets seemed pleased with the move and Chairman Powell's comments after the meeting. Powell hinted that the rates might be at, or at least very close to, neutral.
- **Greenback Resumes Grind Higher.** Like the previous month, the dollar spent the first half of the month climbing upward but lost steam around the mid-month point, finally settling a little higher than it started the month.
- **Labor Markets and Inflation.** While markets reversed their downward trend for the month, Inflation did not reverse its grind higher with CPI hitting the highest level in more than 40 years. As the inflation keeps climbing and the Fed has raised rates to combat this, labor markets have begun to show signs of loosening with jobless claims ebbing up. (source: Bureau of Labor Statistics)

Asset Class Performance

Market participants went risk on almost across the board and in a big way for the month of July. Equities were up close to 10% for the month and bonds posted a solid month as well. International Developed equities were positive too, but Emerging Markets were left behind for the month, down slightly at -0.25%.



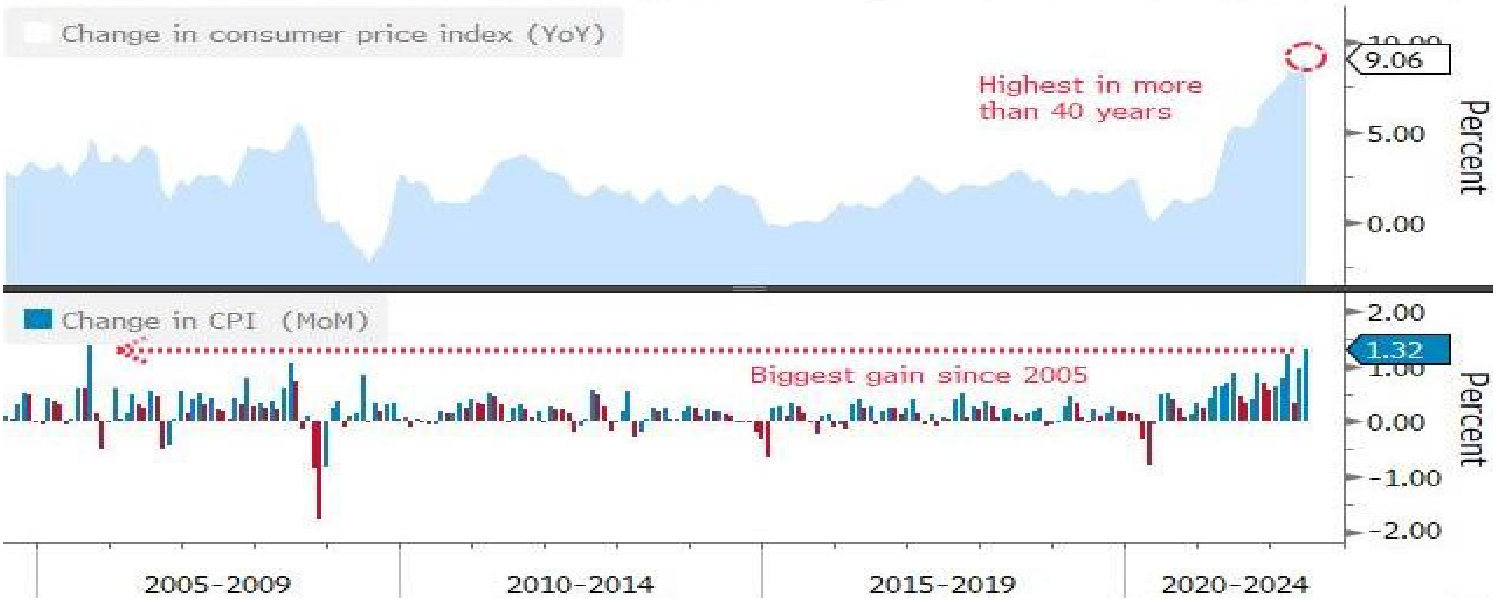
Source: Bloomberg, as of December 31, 2021. Asset-class performance is presented by using total returns for an index proxy that best represents the respective broad asset class. U.S. Bonds (Barclays U.S. Aggregate Bond TR), U.S. High Yield (Barclays U.S. HY 2% Issuer-Capped TR), International Bonds (Barclays 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).

QUALIFIED PLAN ADVISORS

Inflation Keeps Climbing, so the FOMC Keeps Raising

Inflation Hits Four Decade High in July

Change in Consumer Price Index Year over Year (top) and Month over Month (bottom)



Source: Bureau of Labor statistics, Bloomberg

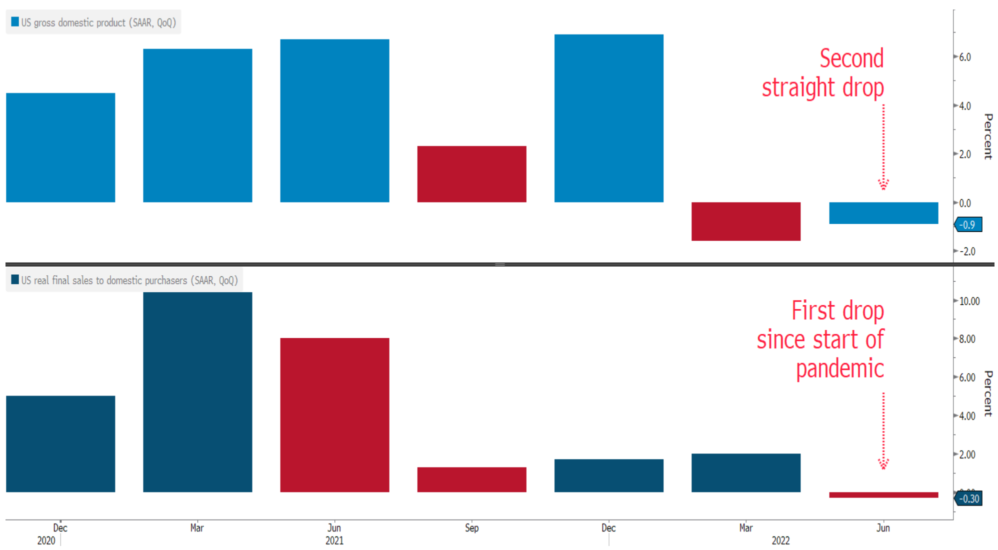
Much to market participants' chagrin, inflation continued its grind higher. Inflation, as measured by the Consumer Price Index, posted its biggest year-over-year change in over 40 years, up +9.06%. On the month-over-month change, CPI rose +1.32%, which the chart above highlights that this represents the biggest change since 2005. While most market participants were expecting a period of inflation ticking above the approximate 2% the US was seeing pre-pandemic, most were expecting inflation to subside to a much lower number and were also expecting it to happen much quicker. With inflation running hot and sticky thus far this year, the FOMC has responded by jacking up interest rates with larger than normal increases in the interest rates. The FOMC determined that another hefty 75bps increase was warranted given inflations persistence. This brings the Fed's target band range to 2.0%-2.25%. Typically, increases in interest rates are negative for risk assets because additional growth that needs to be financed via debt becomes more expensive which then hurts bottom lines for companies. This isn't limited to corporations; consumers also feel the pain of debt becoming more expensive and will often need to make lifestyle adjustments to ensure they can continue to pay their mortgage, car loan payment, or any purchases that were financed via debt facilities. This will thus impact future purchases and should ultimately help to slow down the economy and hopefully inflation with it. While it appears that the Fed is taking the right steps with the markets cheering on their decision, it will still take time for the full effects of these to work their way through the economic system. This highlights the tightrope walk that the Fed is engaged in with slowing the economy just enough to keep it growing at an acceptable but not overheated level, while preventing overreactions in monetary tightening to ensure that growth doesn't contract for a sustained period.

Bottom Line: With inflation hitting its highest level in four decades, the Fed conducted another larger than usual increase in interest rates of 75bps, bringing their target band range to 2.0%-2.25%. Tightening financial conditions in this manner should help to cool the economy back to a more sustainable level of expansion while also bringing inflation back down to less oppressive levels. The difficulty in this act is to cool the economy just enough, but not so much that it sends the US economy (and possibly other economies across the globe) into a recessionary period.

Are Labor Markets Starting to Show Some Slack?

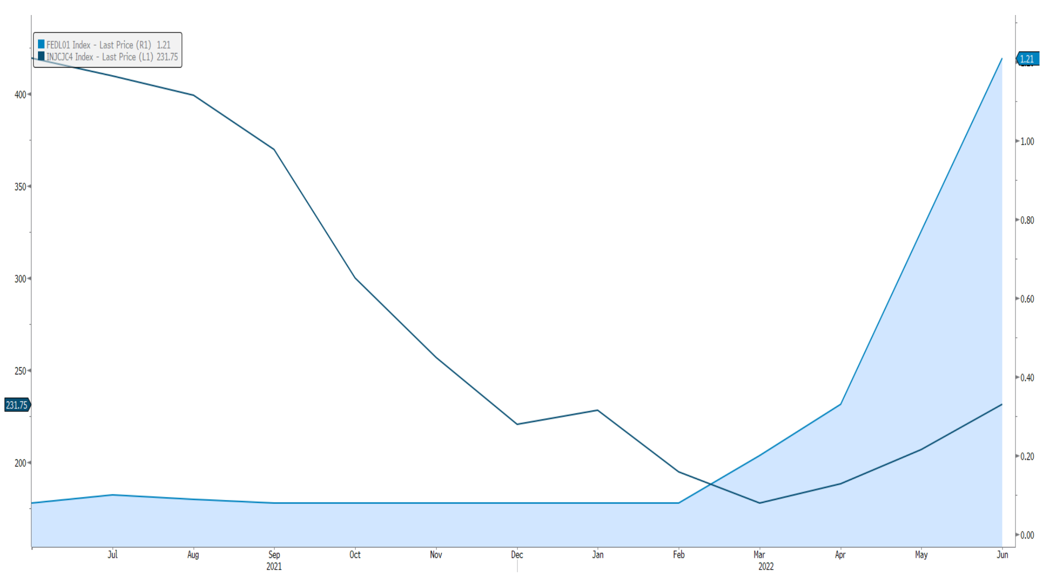
As highlighted in the previous section, the FOMC continued their tightening of monetary policy via interest rate hikes and their balance sheet runoff. Most market participants have interest rates top of mind as inflation continues to run hotter than ever. As the Fed pumps the breaks on the economy, market participants will likely keep a close watch on the spillover into the labor markets. After the unprecedented stimulus issued by governments around the globe, jobs were easy to find for anyone searching for work. Now, with the Fed conducting supersized interest rate hikes, the labor market has started to show some early signs of slackening. As illustrated in the chart below, as the Fed Funds Rate (interest rates) have climbed upwards, jobless claims have also begun to tick upward as well. Additionally, several public companies have announced plans to cut workforce along with their earnings report for the second quarter of the year. These announcements are coming hot on the heels of the second quarter in a row of a contraction in GDP, although this most recent announcement was less of a decline than the previous announcement. Despite this, consensus estimates were expecting an increase of +0.4% for the reading, far missing the actual of -0.9%. When digging into the data, final sales to domestic purchasers, which removes the trade and inventory components of GDP calculation methodology, fell by -0.3%, the first decline since the start of the global pandemic. This metric is a proxy for how consumers are consuming and this drop in the numbers illustrates how rampant inflation is trickling down to consumer decision making. With this drop in economic production being the second quarter in a row of contraction, the US economy is in a technical recession, only saved by the tight, but possibly slackening, labor market and the low rate of unemployment. Market participants will keep a close eye on the effects of tightening monetary policy as the Fed's actions reverberate across the economy.

Despite Increasing Jobless Claims, There Are Still Plenty of Jobs
Unemployed Persons (millions) vs. JOLTS



Source: Bureau of Economic Analysis, Bloomberg

Jobless Claims Move Up with Interest Rates
Fed Funds Rate (Continuous) vs. Monthly Jobless Claims



Source: Bureau of Labor Statistics, Bloomberg

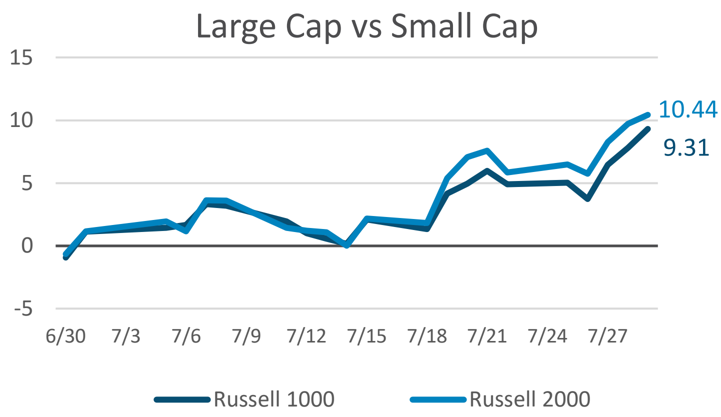
<u>Bottom Line</u>: Labor markets might be showing the initial signs of slackening as the Fed continues to tighten monetary policy. Jobless claims appear to have bottomed shortly after interest rate hikes were initiated and are likely to continue to tick up as the effects of their policy work its way through the economic system. Corporations reporting earnings results have already begun to announce reductions in workforce in tandem with their quarterly results. Market participants will keep a close eye on labor markets as the US economy has already checked the box of an economic recession with two quarters in a row of GDP contraction, the only saving grace is the tight labor market.

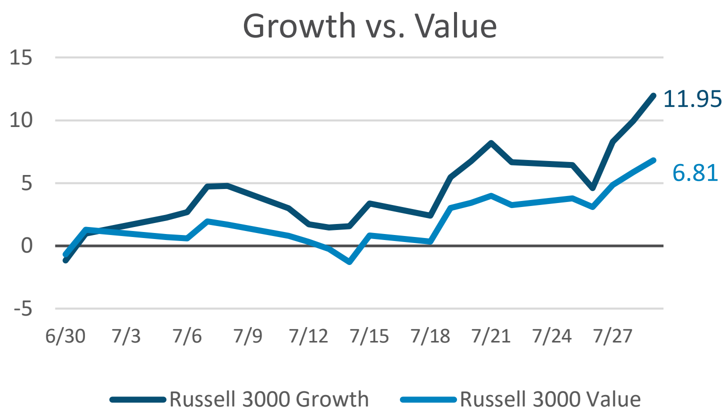
July 2022

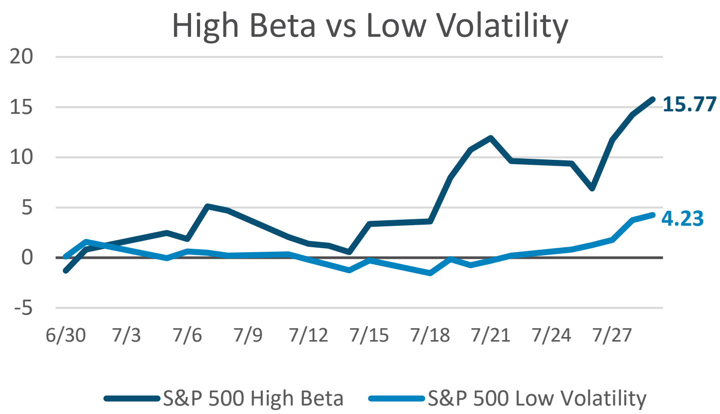
Equity Themes

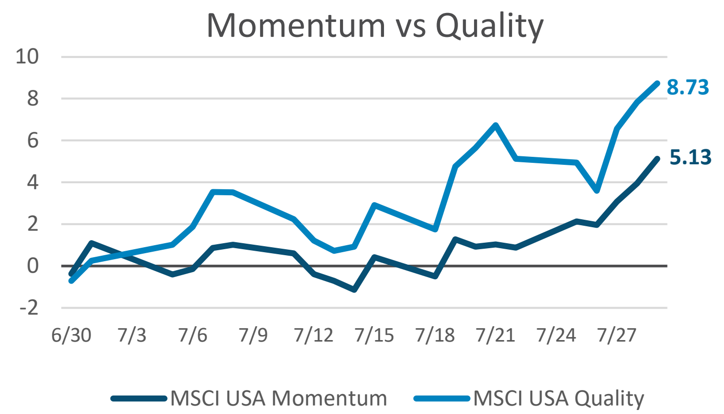
What Worked, What Didn't

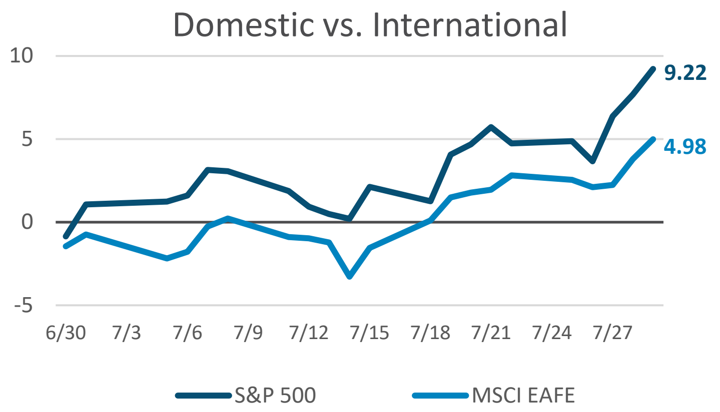
- **Small over Large and Growth over Value.** Closely tracking each other throughout the month, especially the first half, Small Cap equities bested Large Cap equities by a decent sized margin. Growth nearly doubled Value style equities for the month of July as market participants went risk on.
- **High Beta Crushes Low Vol, Quality beats Momentum.** High Beta equities crushed Low Volatility equities for the month of July, outperforming by over +11.5%. Momentum equities weren't as lucky, trailing their higher Quality peers, but still healthily in the green for July.
- **Domestic over International, Developed over Emerging.** Domestic equities outperformed their International peers by a healthy margin, but Developed International equities posted a wide margin over Emerging Markets, which were one of the few asset classes in the red for the month.

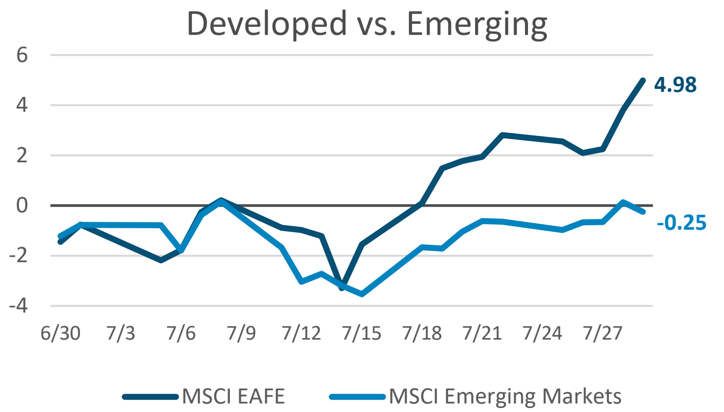












Source: Bloomberg.

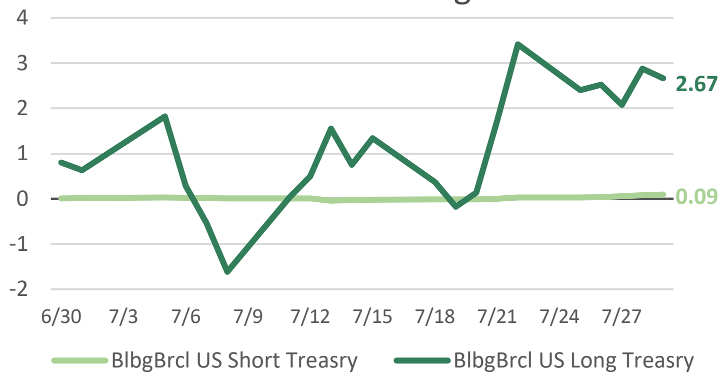
July 2022
Bond Themes

MONTH IN REVIEW

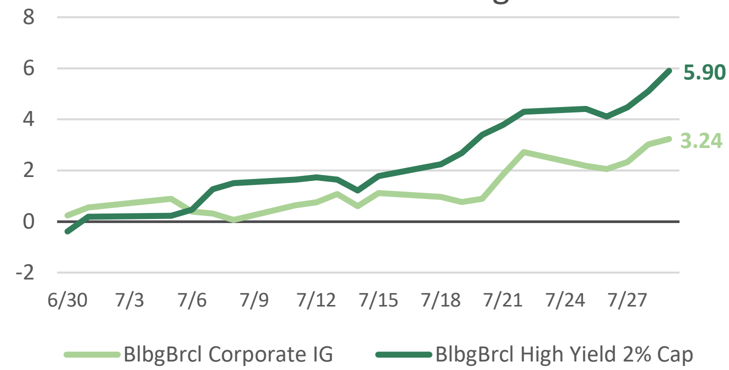
What Worked, What Didn't

- **Go Long and Low Quality.** Longer Dated bonds candidly outperformed their shorter duration peers for the month of July. With market participants going risk on for the month of July and High Yield easily outperformed their higher quality Investment Grade peers.
- **Inflation Adjusted Outperforms, Duration Beat Credit.** TIPS posted a strong month for July, up +4.35% and Longer Dated Treasuries outperformed Credit.
- **Munis Outperform Taxables and Domestic Outperforms International.** Munis posted a decent margin on Corporates and Domestic bonds posted outperformance against International bonds.

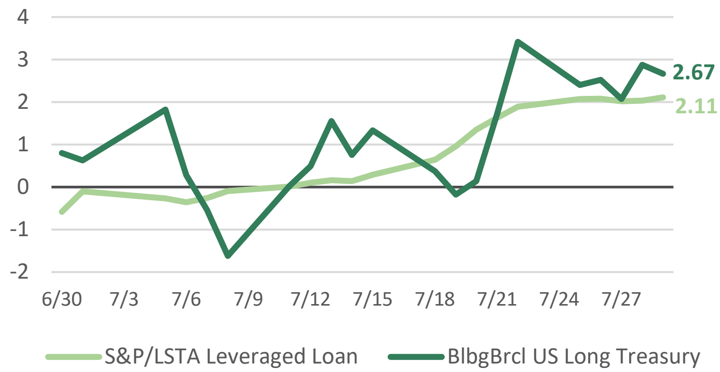
Short Duration vs Long Duration



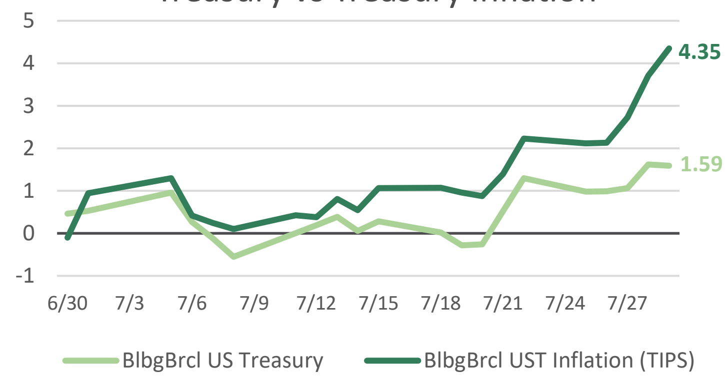
Investment Grade vs High Yield



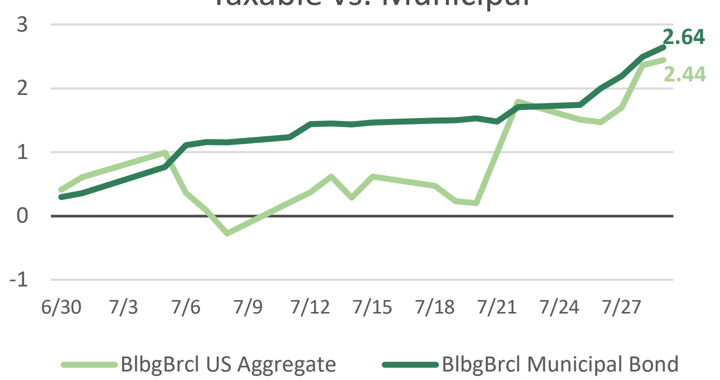
Credit vs Duration



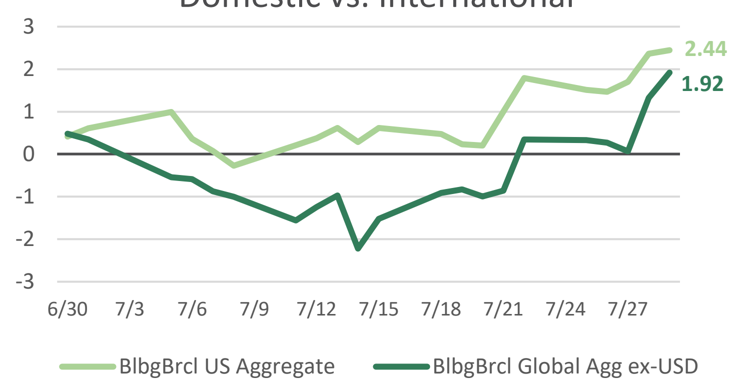
Treasury vs Treasury Inflation



Taxable vs. Municipal



Domestic vs. International



Source: Bloomberg.

July 2022
Asset Class Performance

MONTH IN REVIEW

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.

	Jul-01	Jul-05	Jul-06	Jul-07	Jul-08	Jul-11	Jul-12	Jul-13	Jul-14	Jul-15	Jul-18	Jul-19	Jul-20	Jul-21	Jul-22	Jul-25	Jul-26	Jul-27	Jul-28	Jul-29	Jul	YTD	
High	RE 1.88	MCG 1.44	LCG 0.48	SCG 3.00	SCG 0.22	USB 0.46	HYB 0.40	USB 0.36	LCG 0.18	SCV 2.14	EM 0.70	SCG 3.70	MCG 1.84	LCG 1.40	IBD 1.04	IEQ 0.77	RE 0.06	LCG 3.57	RE 3.32	LCG 1.90	MCG 12.23	LCV -7.20	High
	SCV 1.45	LCG 1.28	IEQ 0.08	MCG 2.49	IBD 0.22	RE -0.19	IBD 0.22	SCG 0.06	HYB -0.19	MCG 2.13	IBD 0.54	SCV 3.39	SCG 1.81	MCG 1.33	USB 0.78	SCV 0.77	USB -0.02	MCG 3.31	MCG 2.19	IEQ 1.39	LCG 12.10	USB -7.88	
	MCV 1.44	SCG 1.21	RE -0.01	EM 2.01	IEQ 0.11	HYB -0.56	SCV 0.19	IBD 0.00	USB -0.35	LCV 2.12	IEQ 0.41	MCG 3.34	SCV 1.27	HYB 1.18	RE 0.60	IBD 0.67	SCV -0.45	SCG 2.45	LCG 1.60	MCV 1.04	SCG 11.29	HYB -7.99	
	MCG 1.41	SCV 0.27	LCV -0.09	LCG 1.90	HYB 0.08	IBD -0.69	USB 0.14	IEQ -0.05	60/40 -0.71	MCV 1.97	SCV -0.02	LCG 2.94	LCG 1.15	EM 1.14	HYB -0.13	MCV 0.51	MCV -0.65	IEQ 2.37	MCV 1.55	MCG 0.99	SCV 9.62	MCV -9.15	
	LCV 1.25	USB 0.19	MCV -0.24	SCV 1.75	LCG 0.07	LCV -0.81	IEQ -0.02	60/40 -0.07	SCG -0.88	SCG 1.96	60/40 -0.20	MCV 2.86	MCV 0.60	IEQ 1.03	60/40 -0.17	LCV 0.44	LCV -0.69	SCV 2.14	SCG 1.54	LCV 0.89	RE 8.86	SCV -9.48	
	LCG 1.06	HYB -0.09	60/40 -0.28	HYB 1.63	EM 0.00	60/40 -0.85	60/40 -0.22	HYB -0.11	MCG -0.90	LCG 1.76	MCV -0.23	IEQ 2.73	HYB 0.44	60/40 0.91	IEQ -0.25	SCG 0.40	HYB -0.70	EM 1.86	SCV 1.17	SCG 0.75	MCV 8.66	60/40 -12.41	
	HYB 0.95	60/40 -0.32	MCG -0.29	MCV 1.59	SCV -0.11	MCV -0.94	MCV -0.22	EM -0.23	EM -0.90	RE 1.70	USB -0.32	LCV 2.61	LCV 0.34	SCG 0.89	LCV -0.61	EM 0.36	60/40 -0.76	MCV 1.70	HYB 1.02	60/40 0.67	HYB 6.69	RE -13.11	
	SCG 0.89	MCV -0.41	HYB -0.38	IEQ 1.52	60/40 -0.14	IEQ -1.62	EM -0.38	SCV -0.30	IBD -0.91	IEQ 1.59	MCG -0.38	RE 2.58	60/40 0.15	RE 0.87	MCV -0.68	RE 0.15	EM -0.78	LCV 1.69	60/40 0.98	IBD 0.63	LCV 6.59	IEQ -14.58	
	USB 0.83	RE -0.42	IBD -0.47	LCV 1.31	LCV -0.25	LCG -1.67	RE -0.51	LCG -0.32	RE -0.98	HYB 1.27	LCV -0.49	60/40 1.69	IBD -0.04	USB 0.84	EM -1.00	60/40 0.14	SCG -0.84	60/40 1.60	LCV 0.98	SCV 0.62	60/40 5.51	IBD -16.76	
	60/40 0.76	LCV -0.59	SCG -0.53	60/40 1.00	MCG -0.30	SCV -1.70	LCV -0.52	MCG -0.39	LCV -1.02	60/40 1.23	SCG -0.58	EM 1.65	USB -0.07	MCV 0.58	SCV -1.26	HYB -0.03	IBD -1.12	HYB 1.10	USB 0.72	RE 0.58	IEQ 5.17	EM -17.49	
	IBD 0.36	EM -0.78	EM -0.61	RE 0.17	USB -0.37	MCG -1.76	SCG -0.71	RE -0.42	MCV -1.11	IBD 0.88	RE -0.81	HYB 1.32	RE -0.30	LCV 0.55	LCG -1.34	MCG -0.24	IEQ -1.39	IBD 0.89	IBD 0.63	HYB 0.30	USB 2.54	LCG -19.52	
	IEQ 0.24	IBD -1.28	USB -0.67	IBD -0.14	MCV -0.46	SCG -2.44	LCG -1.23	MCV -0.45	SCV -1.18	EM 0.52	LCG -0.95	IBD 0.72	EM -0.43	IBD 0.32	MCG -1.57	LCG -0.29	MCG -1.54	RE 0.84	IEQ 0.51	USB 0.01	IBD 2.46	SCG -21.49	
Low	EM -0.62	IEQ -2.14	SCV -0.89	USB -0.23	RE -0.49	EM -2.67	MCG -1.29	LCV -0.61	IEQ -1.40	USB 0.39	HYB -0.97	USB -0.14	IEQ -0.66	SCV 0.13	SCG -1.94	USB -0.37	LCG -1.80	USB 0.35	EM 0.43	EM -0.47	EM -0.35	MCG -22.65	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 may 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.