MONTH IN REVIEW

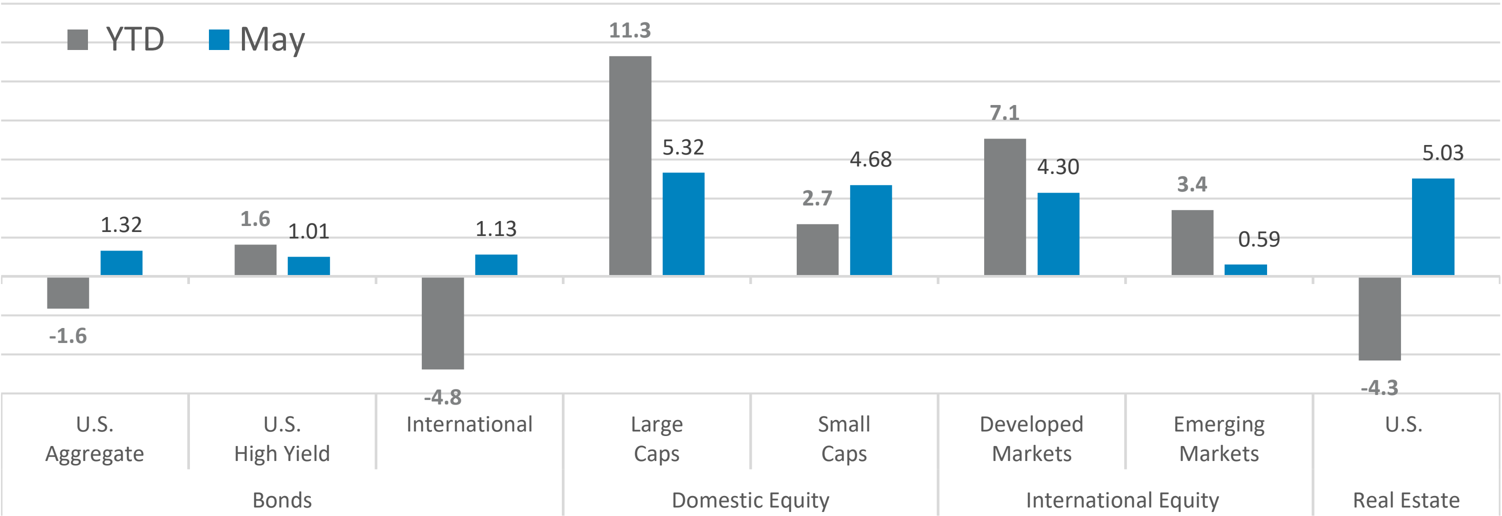
May 2024

Quick Takes

- **Risk Assets Rebounded In May.** After April's losses, all asset classes delivered positive returns, with strong performances from large cap stocks and developed and emerging markets. However, year-to-date, U.S. and international bonds, along with real estate, remain in negative territory.
- **Inflation Shows Signs of Cooling.** Core inflation showed promising signs of cooling, with declines in durable goods prices and moderations in health care and housing costs. Despite some lingering price pressures, recent trends indicate a gradual disinflation process, prompting the Fed to take a cautious stance and await more data before considering rate cuts.
- **The Dollar's First Decline of 2024.** Disappointing GDP data and mounting "debt cliff" worries triggered a decline in the U.S. dollar index, its first this year. Rising bond yields, as investors demanded higher returns to hold U.S. treasuries, further pressured the dollar. This benefitted precious metals, pushing their prices up.
- **Job Growth Surges, Unemployment Rises.** The May jobs report showed an increase of 339,000 jobs, with strong gains averaging 283,000 over the past three months. The unemployment rate rose to 3.7% from 3.4% in April. Average hourly earnings increased by 0.3% for the month, reflecting a 4.3% annual growth.

Asset Class Performance

Following a challenging month in April, risk asset classes exhibited a positive trend in May. All asset classes generated returns this month, with Large Cap stocks, Developed Markets, and Emerging Markets leading the performance. However, U.S. Aggregate Bonds, International Bonds, and Real Estate continue to lag year-to-date.



Source: Bloomberg, as of May 31, 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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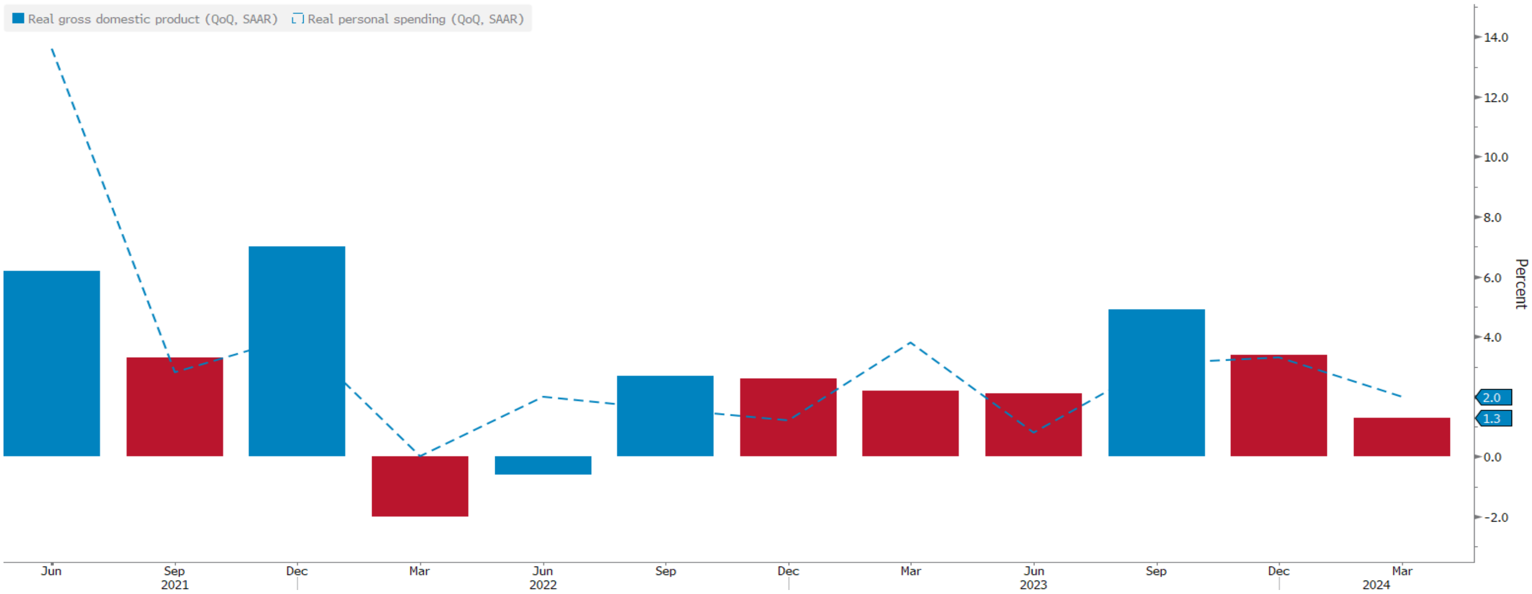
Markets & Macroeconomics

Cooling Inflation and Slower Growth Suggest Cautious Fed Approach

U.S. Economy Cooled in First Quarter

Revised data showed softer consumer spending, notably on vehicles



Source: Bureau of Economic Analysis, Bloomberg

In May 2024, the U.S. economy exhibited slower growth and inflation patterns. The GDP grew at an annual rate of 1.3% in the first quarter, down from an initial estimate of 1.6%, largely due to weaker consumer spending on goods, especially autos. This slowdown marks a significant loss of momentum compared to the previous year's performance, influenced by high interest rates, reduced pandemic-era savings, and slower income growth. Personal spending increased by 2.0%, a revision from the earlier estimate of 2.5%, while federal government spending decelerated and imports rose, leading to a negative impact on net exports for the first time in two years. Despite these challenges, stronger business and residential investments provided some offset. A crucial indicator of domestic demand, final sales to private domestic purchasers, increased by 2.8%, indicating underlying demand strength. Simultaneously, core inflation showed signs of cooling, with durable goods prices declining and moderations in health care and housing inflation. While annual inflation rates remained steady, the disinflation process appeared more pronounced in detailed metrics. Core PCE inflation displayed encouraging trends, with one- and three-month annualized rates dropping to 3.03% and 3.46%, respectively, and the six-month rate rising slightly to 3.18%. Supercore PCE, a key measure preferred by the Fed, fell to 0.26%, largely due to lower airfares. However, financial-services inflation saw a rise due to higher charges for portfolio management and advisory services. These developments may prompt the Fed to adopt a cautious stance, preferring to gather more data before considering rate cuts, despite the positive indicators from the April inflation report.

Bottom Line: In May 2024, the U.S. economy experienced slower growth with GDP rising by 1.3% in the first quarter, down from an initial estimate of 1.6%. This deceleration was primarily driven by weaker consumer spending on goods, particularly autos, and softer federal government spending, although stronger business and residential investments provided some offset. Meanwhile, core inflation showed signs of cooling, with declines in durable goods prices and moderations in health care and housing costs. Despite these positive disinflationary trends, some price pressures remain, particularly in financial services. As a result, the Fed may adopt a cautious approach, preferring to wait for more data to confirm that inflation is sustainably cooling before considering rate cuts, as recent trends present a mix of encouraging signs and ongoing challenges.

May 2024

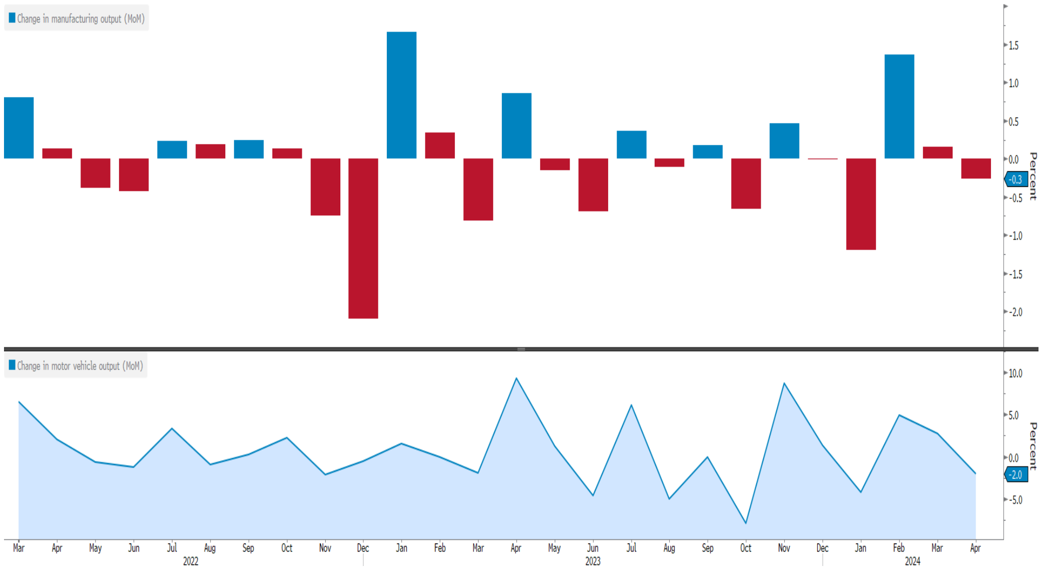
What's Ahead

Stagnant Industrial Production and Declining Home Sales

In May 2024, U.S. industrial production experienced stagnation, primarily due to a decline in manufacturing output. Production at factories, mines, and utilities remained unchanged from the previous month, with manufacturing output falling by 0.3%, notably impacted by a 2% drop in motor-vehicle production. Other sectors such as wood products, electrical equipment, and machinery also saw declines. While mining output was down, largely due to a slump in coal mining, utilities saw an uptick. Capacity utilization at factories fell to 76.9%, reflecting the ongoing challenges in the manufacturing sector, which is struggling with rising input costs and inconsistent demand. Despite progress in aligning stockpiles with demand, retail sales stagnated in April. Meanwhile, new home sales in the U.S. fell by 4.7% to a 634,000 annual pace as high prices and mortgage rates deterred buyers. Although underlying demand remains robust, affordability challenges continue to constrain purchases. Recent weeks saw some easing in mortgage rates, but the Federal Reserve has indicated that interest rates will remain high throughout the year. Homebuilders have been active in constructing new homes to address a shortage in the resale market, leading to the highest inventory levels since 2008. Despite the increased supply, the median sales price of a new home rose 3.9% from the previous year to $433,500. Sales declined in most regions except the Midwest, where purchases increased at the fastest rate in nearly three years.

U.S. Industrial Production Stagnated in April

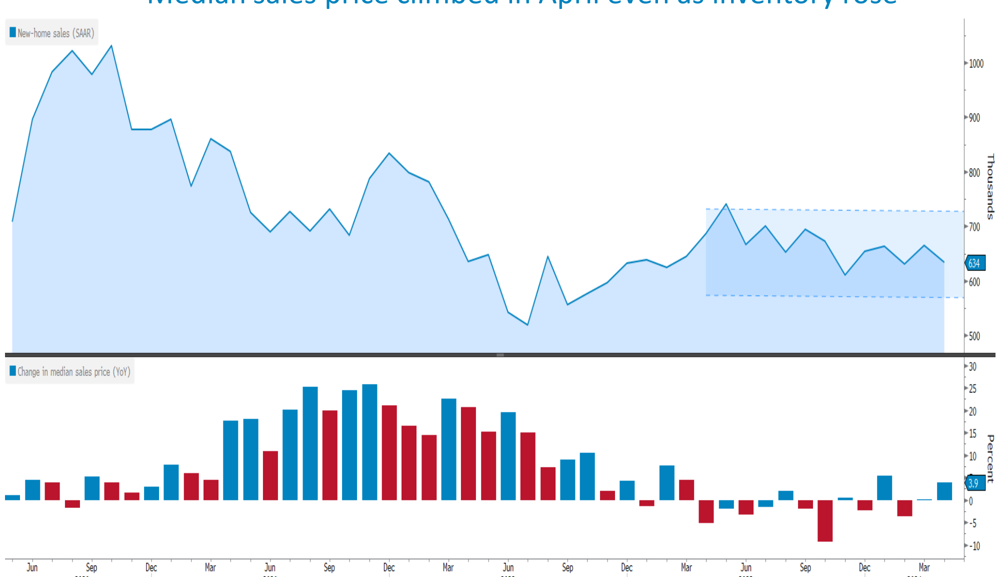
Production at factories alone fell 0.3%, held back by autos



Source: Federal Reserve, Bloomberg

U.S. New-Home Sales Moderate, But Stay Range-Bound

Median sales price climbed in April even as inventory rose



Source: Commerce Department, Bloomberg

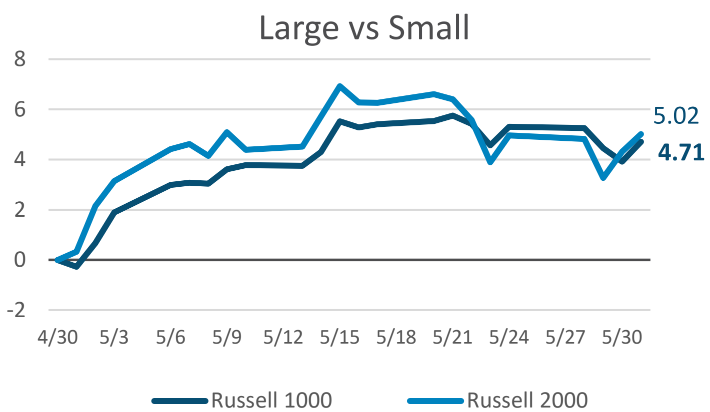
Bottom Line: In May 2024, U.S. industrial production stagnated, with manufacturing output falling due to a decline in motor-vehicle production and other sectors. Rising input costs and inconsistent demand continue to challenge the manufacturing sector. Meanwhile, new home sales dropped by 4.7%, hindered by high prices and mortgage rates, despite builders increasing supply to address shortages in the resale market. Despite these challenges, the median sales price of new homes rose by 3.9% from the previous year. Capacity utilization at factories fell to 76.9%, indicating a broader struggle within the industrial sector. Homebuilders have been actively constructing new homes to compensate for the limited resale market inventory.

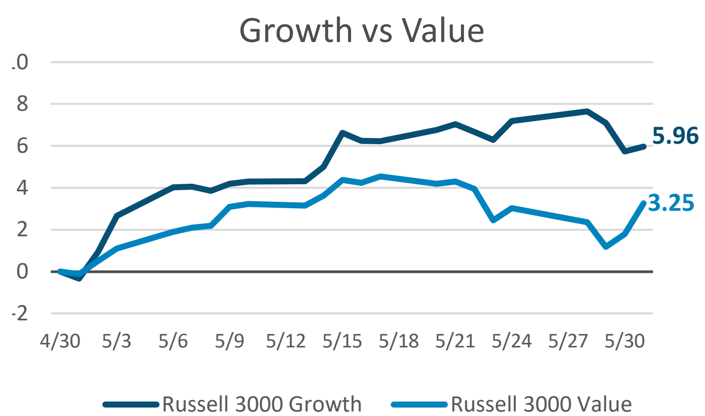
May 2024

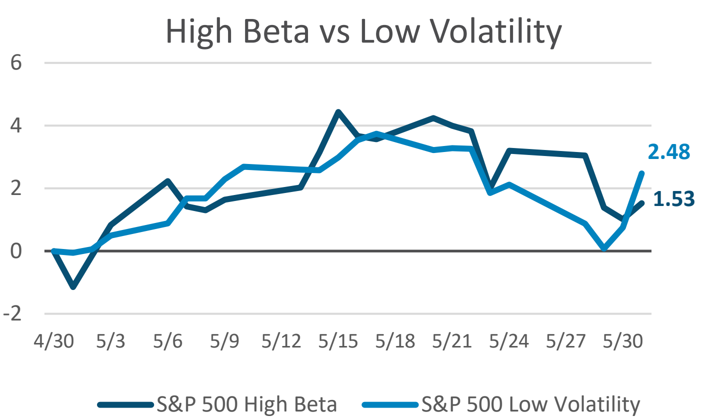
Equity Themes

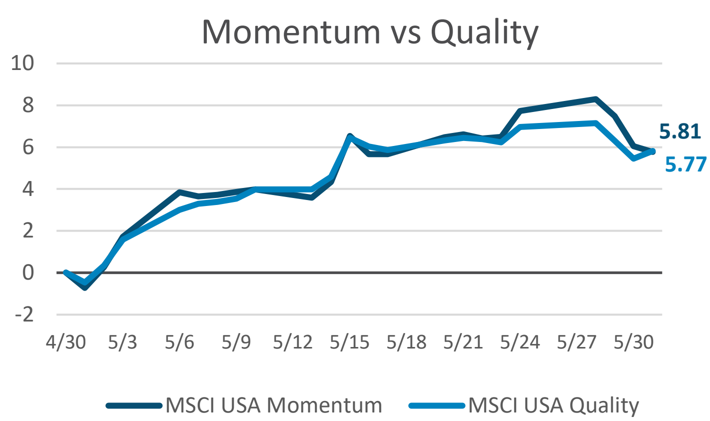
What Worked, What Didn't

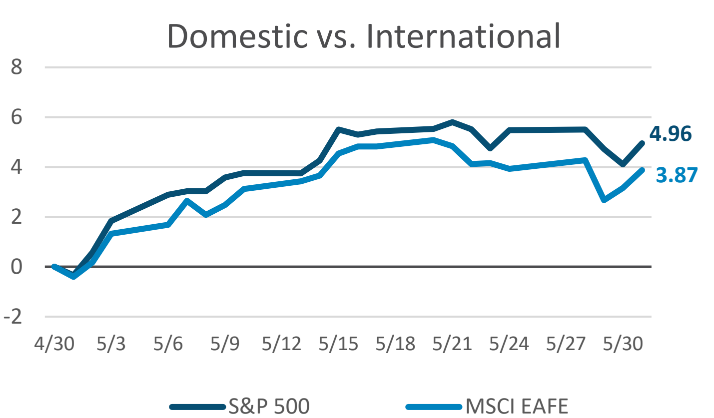
- **Large and Small Excel, Growth Outperforms Value.** Large and Small-cap stocks demonstrated significant returns compared to the previous month, maintaining alignment with each other. Growth stocks outperformed Value stocks, marking a strong performance for Growth investments.
- **Low Volatility Surpasses High Beta, Momentum and Quality Rebound.** Low Volatility stocks continued to outperform High Beta stocks throughout May. Momentum and Quality stocks also showed improvement, achieving significantly better performance compared to April, while remaining in alignment with each other.
- **Domestic Exceeds International, Developed Markets Excel.** Domestic Markets rebounded in May, surpassing International Markets. Developed Markets significantly outperformed Emerging Markets during the month.

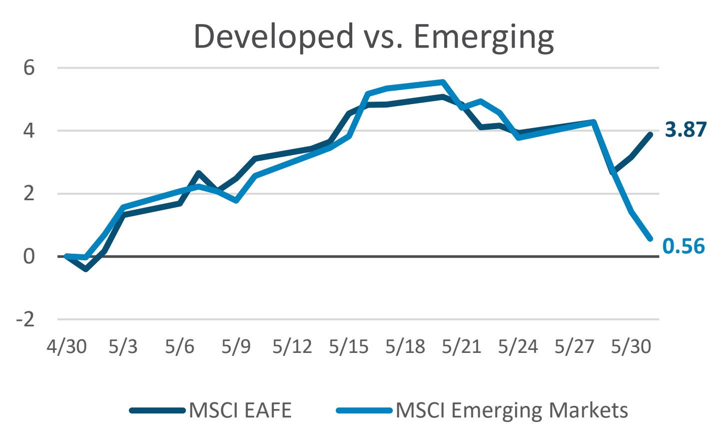












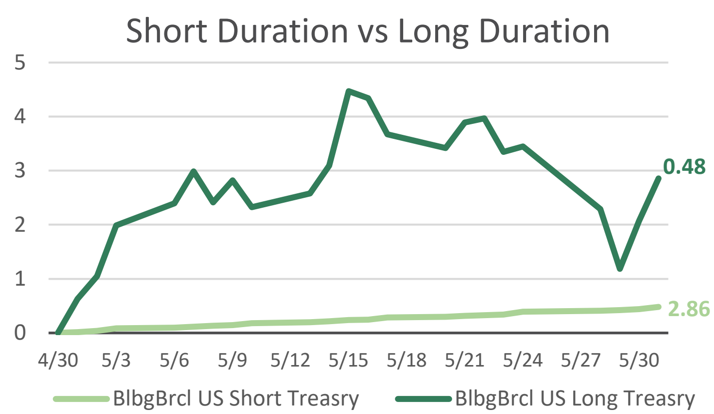
Source: Bloomberg.

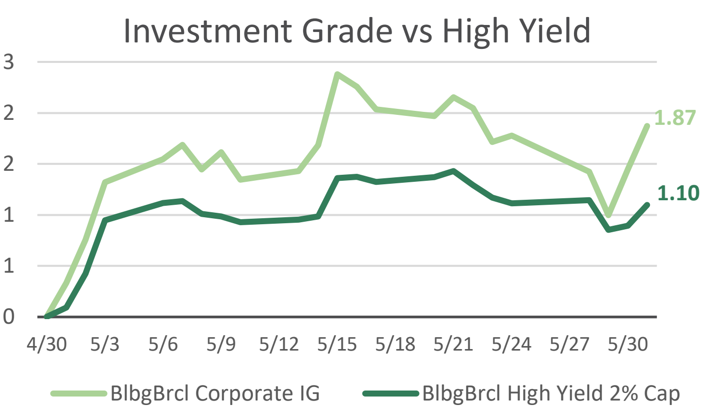
May 2024

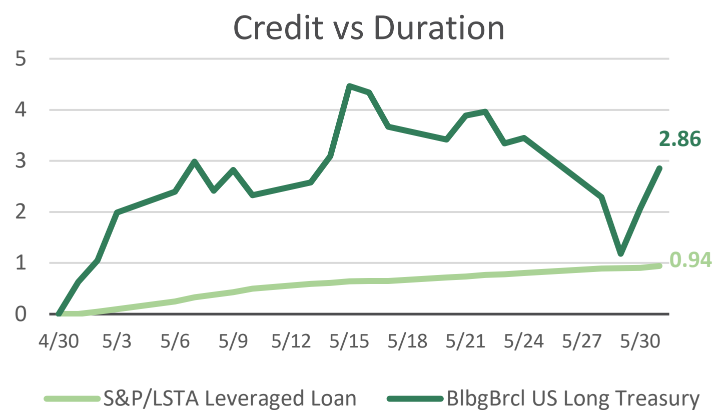
Bond Themes

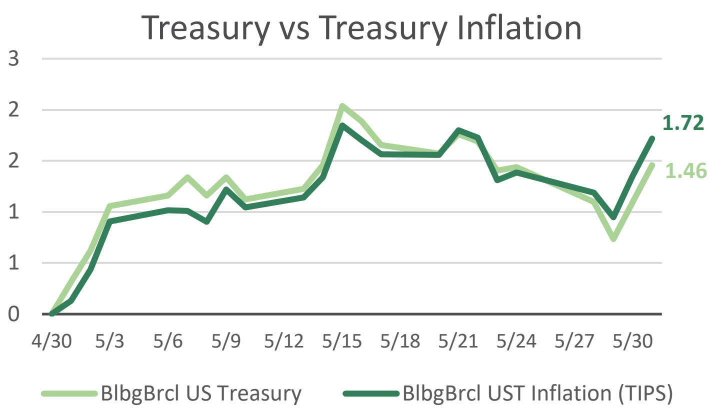
What Worked, What Didn't

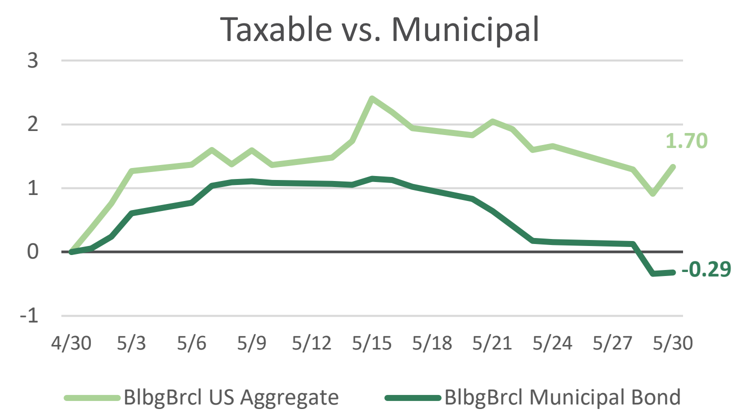
- **Long Duration and Corporate Bonds Rebound Past Their Counterparts.** Long Duration bonds experienced a significant rebound this month following a challenging April. Corporate Bonds had a particularly strong performance, surpassing High Yield Bonds.
- **Duration Has Strong Month, TIPS Continue to Outpace Treasuries.** Duration Bonds posted significantly improved returns compared to the previous month, while Credit remained stable. Treasuries slightly narrowed the gap with TIPS, but TIPS continued to maintain an advantage.
- **Taxables Take Back Lead, Domestic Widens Gap Between International.** Taxable Bonds outperformed Municipal Bonds in May, recovering from a lackluster April. Domestic Bonds widened their lead over International Bonds.

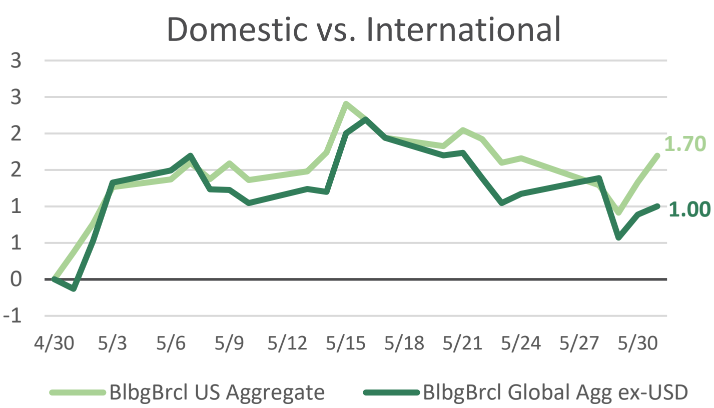












Source: Bloomberg.

May 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.

	May-01	May-02	May-03	May-06	May-07	May-08	May-09	May-10	May-13	May-14	May-15	May-16	May-17	May-20	May-21	May-22	May-23	May-24	May-28	May-29	May-30	May-31	May	YTD
High	HYB 0.52	EM 2.58	LCG 1.80	SCG 1.61	RE 0.89	LCV 0.10	RE 1.92	MCG 0.29	EM 0.75	SCG 1.14	SCG 1.70	EM 0.21	EM 0.44	SCG 0.83	IBD 0.24	USB -0.12	LCG -0.28	SCG 1.26	LCG 0.44	HYB -0.30	RE 1.46	RE 1.96	LCG 6.41	LCG 13.05
	SCV 0.52	SCV 2.04	IEQ 1.00	MCG 1.44	SCG 0.49	EM 0.02	SCV 1.15	EM 0.21	SCG 0.23	SCV 0.97	LCG 1.61	RE -0.08	IEQ 0.34	LCG 0.54	LCG 0.22	HYB -0.22	USB -0.28	MCV 0.98	SCG 0.06	USB -0.38	SCV 1.26	LCV 1.59	SCG 5.63	IEQ 7.74
	USB 0.35	SCG 1.91	SCG 0.99	LCG 1.31	IEQ 0.26	MCV -0.02	MCV 1.05	IEQ 0.19	RE 0.22	IEQ 0.75	RE 1.53	LCV -0.11	LCV 0.27	MCG 0.25	USB 0.19	LCV -0.31	HYB -0.35	MCG 0.97	IEQ -0.04	LCG -0.46	IEQ 0.84	MCV 1.27	IEQ 5.29	LCV 7.67
	IBD 0.34	IEQ 1.35	EM 0.90	MCV 1.11	LCV 0.23	IEQ -0.11	LCV 0.90	LCV 0.15	IBD 0.09	RE 0.74	MCG 1.49	USB -0.11	SCV 0.21	IEQ 0.07	LCV 0.15	EM -0.32	IBD -0.38	SCV 0.84	IBD -0.07	IBD -0.86	MCV 0.83	SCV 1.17	RE 4.78	MCV 6.25
	RE 0.15	RE 1.33	SCV 0.87	SCV 0.93	USB 0.21	LCG -0.14	IEQ 0.77	LCG 0.13	SCV 0.07	MCV 0.60	IBD 1.17	HYB -0.23	MCV 0.21	MCV 0.06	RE 0.03	MCG -0.33	IEQ -0.51	IEQ 0.82	EM -0.14	60/40 -0.90	SCG 0.63	IEQ 0.96	SCV 4.04	SCG 4.65
	EM 0.10	LCG 1.23	IBD 0.84	LCV 0.78	MCV 0.16	SCV -0.17	MCG 0.71	60/40 -0.03	60/40 0.06	MCG 0.58	EM 1.07	60/40 -0.26	MCG 0.11	HYB 0.05	60/40 0.01	LCG -0.37	60/40 -0.67	LCG 0.81	60/40 -0.29	RE -0.93	IBD 0.56	60/40 0.55	MCV 3.71	MCG 4.14
	60/40 0.07	60/40 0.97	60/40 0.81	IEQ 0.68	60/40 0.12	60/40 -0.18	SCG 0.70	MCV -0.10	LCG 0.06	EM 0.54	IEQ 1.06	MCG -0.31	60/40 0.03	60/40 -0.03	MCV -0.02	60/40 -0.44	EM -0.74	IBD 0.59	SCV -0.35	MCG -0.99	LCV 0.54	HYB 0.35	LCV 3.46	EM 3.93
	MCG 0.02	MCV 0.82	MCV 0.80	60/40 0.53	HYB 0.01	USB -0.21	60/40 0.52	HYB -0.16	USB 0.05	LCG 0.51	60/40 0.98	LCG -0.31	HYB 0.01	USB -0.09	SCV -0.04	IBD -0.58	MCG -1.27	LCV 0.56	HYB -0.40	LCV -1.13	USB 0.47	SCG 0.33	60/40 3.13	60/40 3.61
	MCV -0.08	MCG 0.66	RE 0.76	RE 0.25	SCV -0.01	HYB -0.23	EM 0.31	RE -0.19	IEQ 0.00	60/40 0.48	MCV 0.88	SCV -0.35	RE 0.01	IBD -0.19	HYB -0.08	MCV -0.63	SCG -1.38	60/40 0.51	USB -0.47	SCG -1.31	HYB 0.41	USB 0.32	EM 1.85	HYB 1.77
	LCV -0.16	HYB 0.62	LCV 0.59	IBD 0.12	IBD -0.02	IBD -0.28	LCG 0.31	USB -0.21	HYB -0.03	LCV 0.41	LCV 0.76	IBD -0.46	LCG -0.02	SCV -0.33	IEQ -0.16	SCG -0.75	MCV -1.44	HYB 0.35	RE -0.61	MCV -1.32	60/40 0.33	LCG 0.26	IBD 1.54	SCV 0.72
	IEQ -0.22	IBD 0.53	MCG 0.54	HYB 0.12	LCG -0.05	MCG -0.66	IBD 0.26	IBD -0.29	MCV -0.06	IBD 0.36	SCV 0.71	IEQ -0.54	IBD -0.07	LCV -0.35	SCG -0.22	SCV -0.85	LCV -1.44	EM 0.28	LCV -0.63	EM -1.49	EM -0.28	MCG 0.21	USB 1.31	USB -1.58
	SCG -0.30	LCV 0.51	USB 0.51	EM 0.09	MCG -0.34	RE -0.76	USB 0.19	SCV -0.61	LCV -0.11	USB 0.27	USB 0.66	MCV -0.70	SCG -0.11	EM -0.37	MCG -0.43	RE -0.92	SCV -1.85	USB 0.11	MCV -0.78	IEQ -1.58	MCG -0.56	IBD 0.00	MCG 1.13	IBD -2.51
Low	LCG -0.36	USB 0.45	HYB 0.42	USB 0.07	EM -0.56	SCG -0.84	HYB 0.03	SCG -0.76	MCG -0.34	HYB 0.16	HYB 0.58	SCG -0.94	USB -0.32	RE -0.70	EM -0.62	IEQ -0.94	RE -2.14	RE 0.01	MCG -0.86	SCV -1.58	LCG -1.32	EM -0.97	HYB 1.10	RE -4.83

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: Sources from this commentary derives from 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.