MONTH IN REVIEW

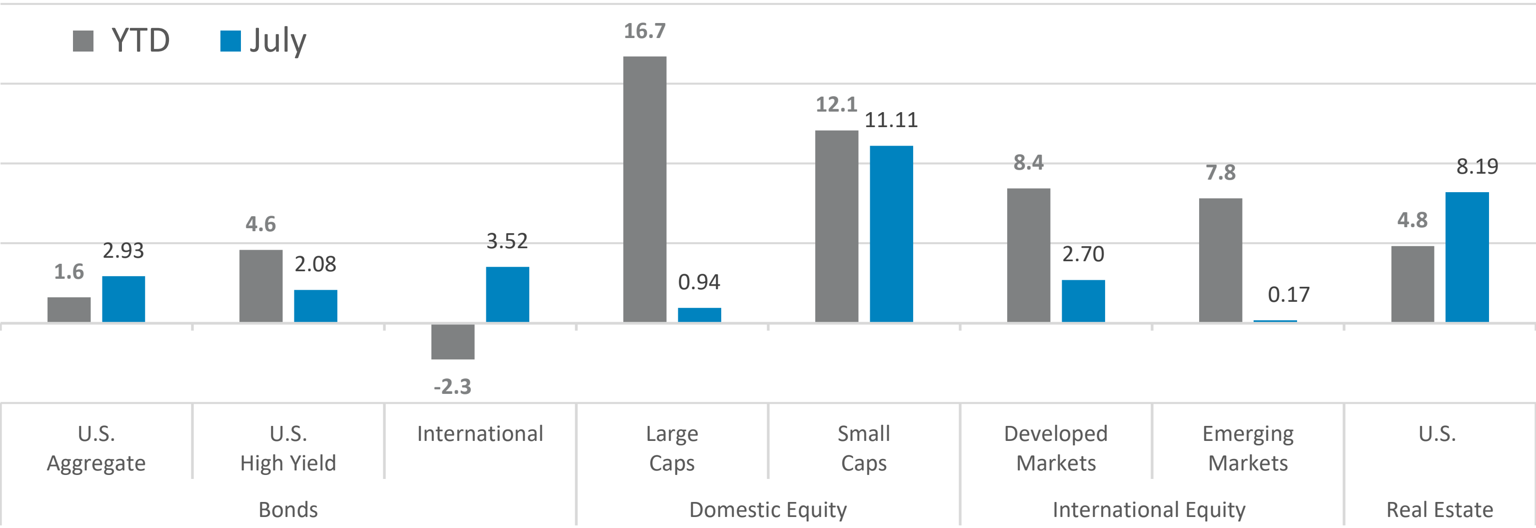
Prime Capital FINANCIAL

Quick Takes

- **Risk Assets Push Higher.** As the summer reaches its peak, so too are risk assets nearing a climax. The market rallied for the month, but Large Cap equities were dethroned for July as Small Caps made a stellar run for the month. Most major asset classes were positive for July.
- **Disinflation Continues.** Inflation, as measured by the CPI, showed promising signs of easing. The metric came in below expectations of +3.1% on the year-over-year calculation, landing at 3.0%. The Fed's preferred metric of PCE, landed in-line with expectations of +2.5% on the year-over-year metric.
- **Dollar Declines.** As inflation pressures continued to show signs of easing, markets began to more aggressively price in a potential cut in interest rates, which led to the dollar declining against other major currencies for the month of July.
- **Personal Spending and Labor Markets.** Labor Markets showed signs of weakness with the Unemployment Rate bumping up to +4.1% in the July reading. With Labor Markets softening, it's of little surprise that Personal Income landed below market expectations while Personal Spending came in-line with survey estimates for the month of July.

Asset Class Performance

Large Caps lost some momentum in the month of July, dethroned by Small Caps, as markets began rotating beyond the Magnificent 7, but were still slightly positive for the month. Most major asset classes were in the green for July and the Year-To-Date figure, the exception being International Bonds as they have struggled against the rising dollar.



Source: Bloomberg, as of December 31, 2023. 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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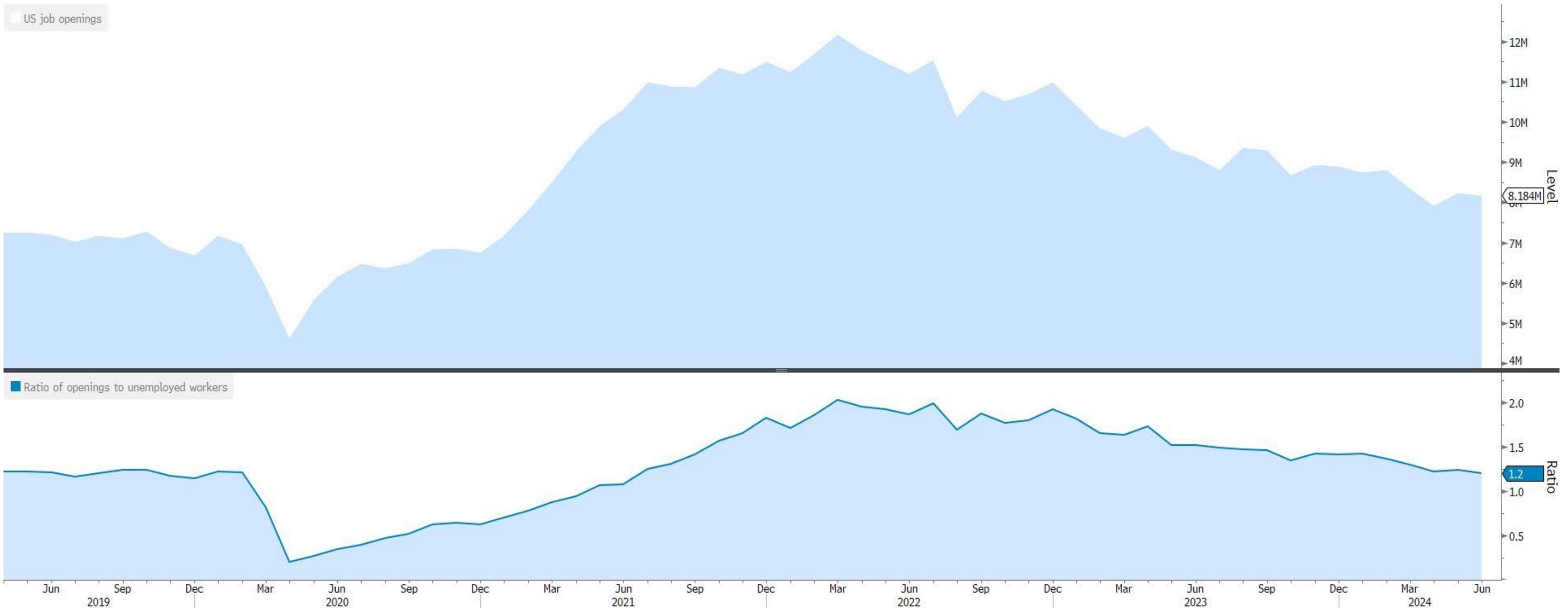
July 2024

Markets & Macroeconomics

Cracks In the Jobs Market

Labor Markets Softening With Inflation

Number of Job Openings (Top), Ratio of Openings to Unemployed Workers (Bottom)



Source: Bureau of Labor Statistics, Bloomberg

While the weather in the month of July continued to heat up, Labor Markets showed signs of cooling off. The number of Job Openings fell to 8.18 million, down slightly from the previous month's figure of 8.34 million. While this was still above most survey estimates, the decline in openings lowered the ratio of Job Openings to Unemployed Workers to 1.2. With Labor Markets nearing a balance between available positions and laborers, the upward pressure on Wage Growth should continue to show signs of softening. The downstream effects of this should impact Consumer Spending and ultimately work its way into Inflation metrics. All of the aforementioned data points have showed signs of consistently cooling over the summer months. With the softening of economic data points, the case for the Fed to begin their easing of monetary policy gains momentum. With Consumers already being strapped with the recent impact of higher inflation and now losing the momentum of increasing Wage Growth, it's very likely that we will see the Consumer continue to cutback their spending to ease the pressure on their wallets. While ultimately good for Disinflation to continue, Consumer Spending has been the champion of the US economy recently, almost single handedly keeping GDP growth in positive territory. Now with the Consumer likely to exit stage left, market participants are beginning to show signs of concern that the Fed has held monetary policy too tight for too long. Markets steadily increased their probability of rate cuts coming sooner rather than later, with some rumors even beginning to circulate that the Fed might convene an emergency meeting to cut rates before their regularly scheduled meeting in September.

Bottom Line: With Inflation continuing down the softening pathway, a multitude of other data points also cooled off in the peak of Summer. Labor Markets were one of the softening data points with the ratio of Job Openings to Unemployed Workers falling to 1.2, nearing a balance in the jobs market. With Unemployment ticking up, this decreased pressure on Wage Growth, which ultimately meant that Consumers had less excess cash to spend in the summer months. The positive downstream effect is that this should continue to relieve upward price pressure and bodes well for continued Disinflation. The negative side of this data reading is that the Consumer has propped up the US economy, keeping growth modestly positive. Many market participants are becoming concerned that the Fed has tightened monetary policy too much for too long and have more aggressively begun pricing in interest rate cuts sooner rather than later.

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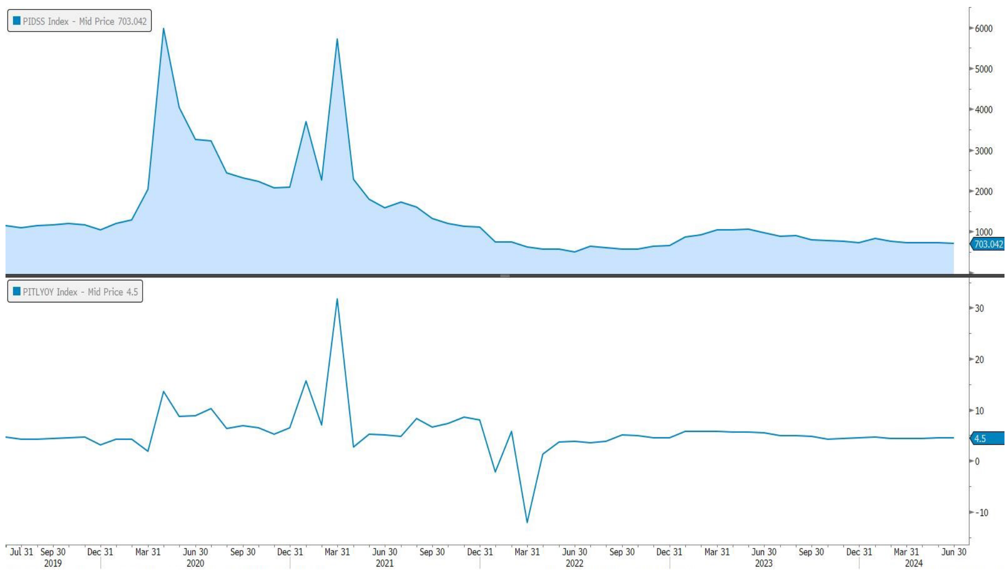
What's Ahead

Despite Weakness in Economic Data, GDP Remains Robust

While many economic data points are showing some initial signs of cooling, US GDP for the second quarter landed above expectations of +2.0%, coming in at +2.8%. This robustness in the headline figure was mainly driven by a large increase in Personal Consumption Expenditures from the first quarter metric of +0.98%, landing at a whopping +1.57% for the second quarter. Now, the large increase could be an effect of seasonality as families hit the road for summer vacations now that kids are out of school. Some of this excess spending is likely to taper off as the summer nears its end in the month of August, but some last-minute back to school shopping may give a temporary boost to economic production. Regardless, Consumers are likely fatigued from their recent robust spending habits with Personal Savings showing signs of flatlining, exacerbated by Wage Growth also showing similar signs. As mentioned in the previous section, stagnating Wage Growth is likely an effect of the recent cooling in the Labor Markets. Market participant expectations are for continued softening in the labor markets in the coming months, which will likely lead to continued decelerating wage growth in the final months of the year. This should bode well for less upward pressure on inflation and embolden the evidence that the Fed can kick off their slackening of monetary policy before year end, but it may not be good news for the consumer. While inflation is cooling, prices are still high and combined with stagnating wage growth, consumers are likely to feel even more pressure on their already strained wallets. According to the Federal Reserve Bank of San Francisco, excess savings accumulated during the initial rounds of stimulus during the global pandemic were all used up by March of this year. Without that safety net and stagnating wage growth, the consumer is likely to make rapid lifestyle adjustments in the coming months.

Excess Personal Savings Are All Gone, Wage Growth Stagnating

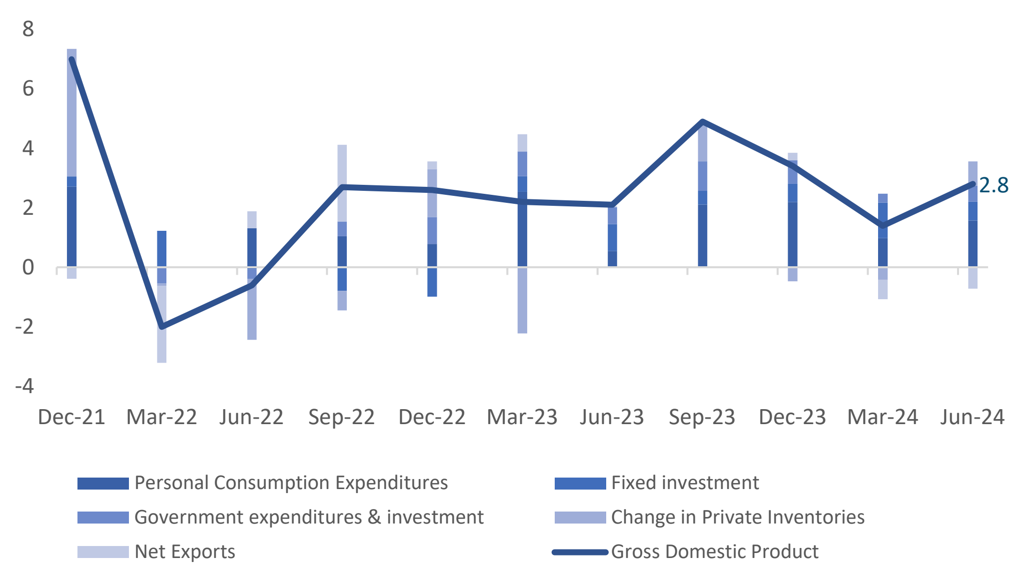
Personal Savings Index (Top), Personal Income YoY (Bottom)



Source: Bureau of Economic Analysis, Bloomberg

GDP Ticks Higher In the Second Quarter of the Year

Contributions to US GDP QoQ



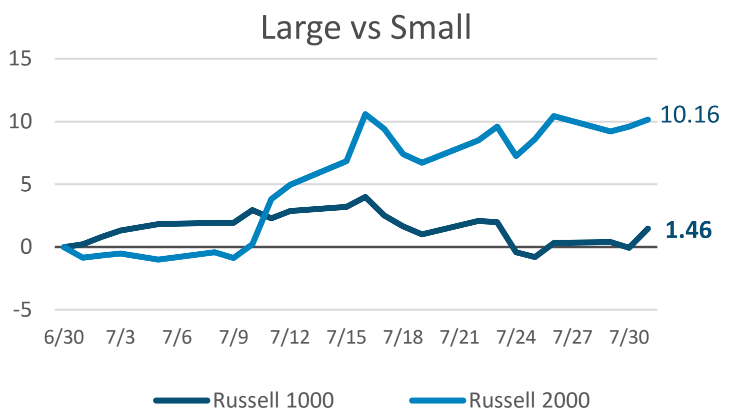
Source: Bureau of Economic Analysis, Bloomberg

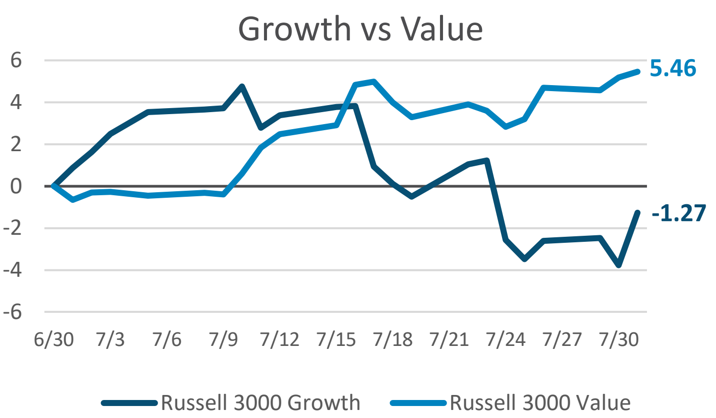
<u>Bottom Line</u>: GDP ignored all signs of a slowdown in activity, coming in well above market expectations of +2.0%, at +2.8% for the second quarter of the year. Most of the surprise was due to continued robust Consumer Spending. However, with Labor Markets showing increasing signs of moderating, bringing with it stagnating Wage Growth, and the estimation that all of the excess savings accumulated during the global pandemic being used up since March of this year, it's likely that the consumer will need to reign in spending in the coming months. While this isn't great news for consumers or the economy as a whole, this does bode well for the Fed to begin slackening monetary policy in the coming months, likely providing relief to all.

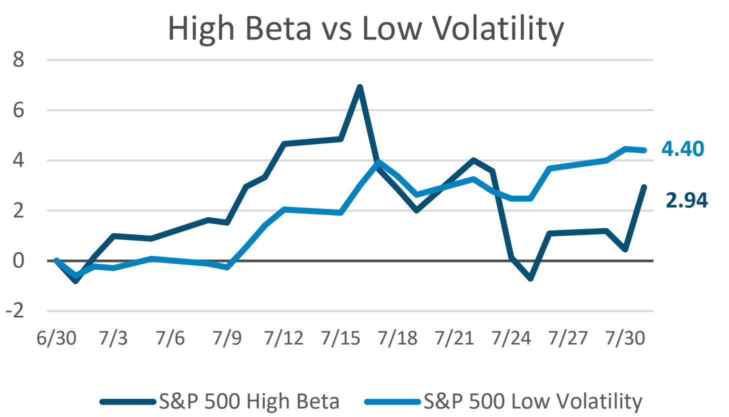
Equity Themes

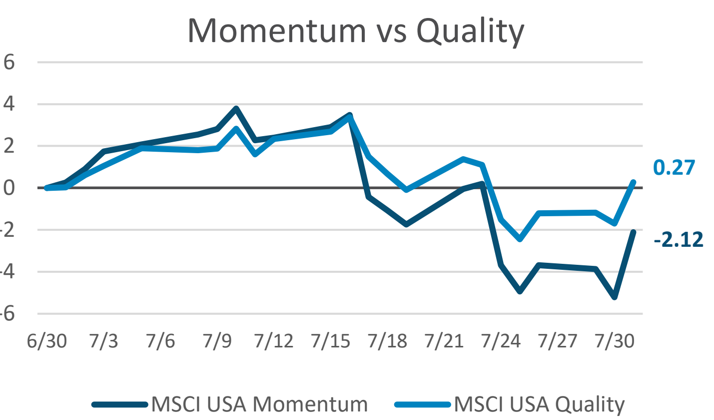
What Worked, What Didn't

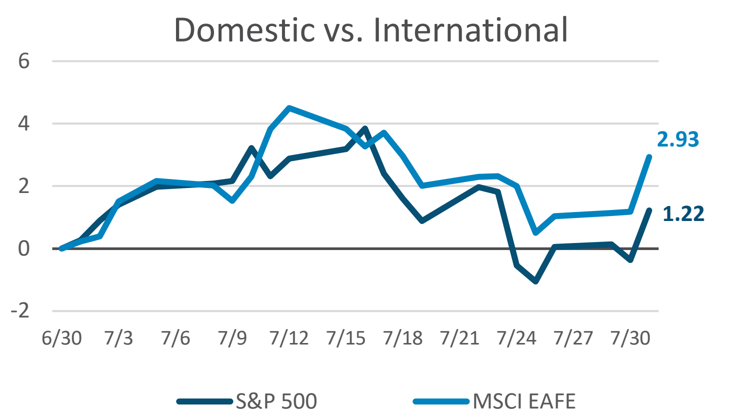
- **Small Crushed Large, Value Lags Growth.** Market participants rotated aggressively into Small Cap equities throughout July while Large Cap stocks were modestly positive. Similarly, Growth struggled in July while Value styled equities posted a strong month.
- **Low Vol and Quality Outperform.** High Beta equities posted a respectable gain for the month but couldn't best their Low Vol peers. Quality posted a minimally positive return for July while Momentum was deep into the red.
- **International Over Domestic, Developed Over Emerging.** The weakening dollar helped buoy International equities over Domestic equities for the month, while Emerging markets were only minimally in the green for July, underperforming their Developed peers.

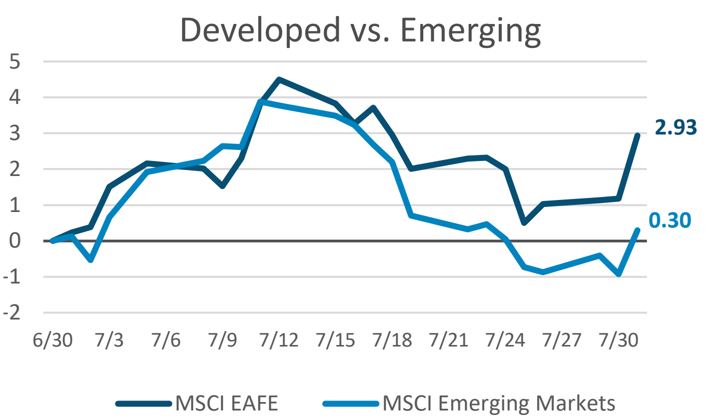












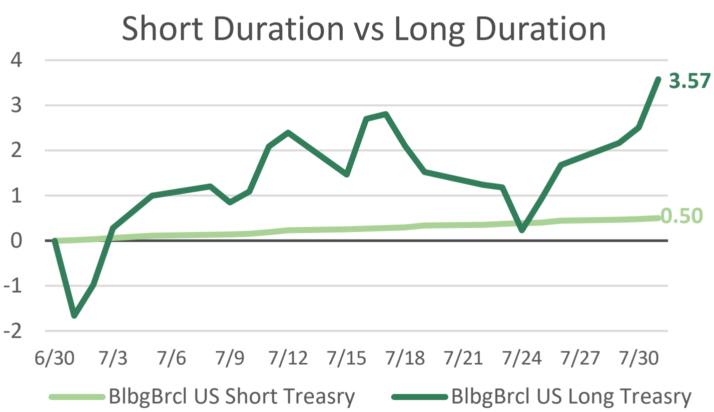
Source: Bloomberg.

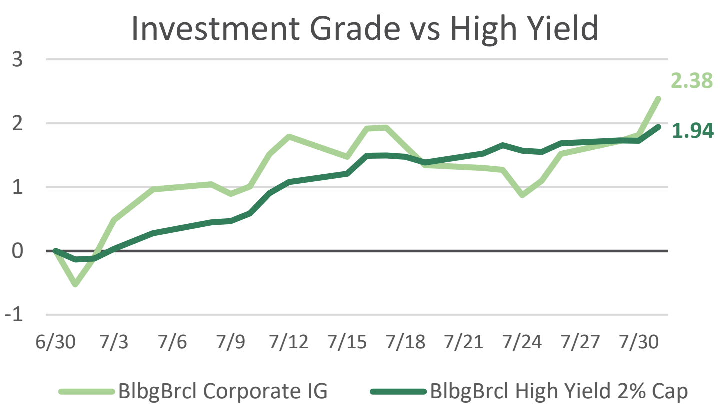
July 2024

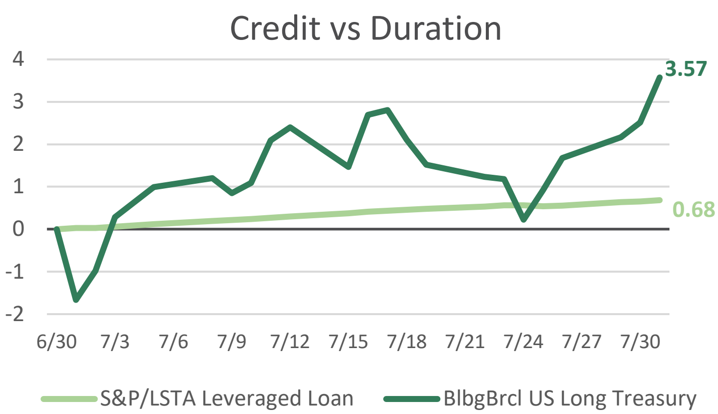
Bond Themes

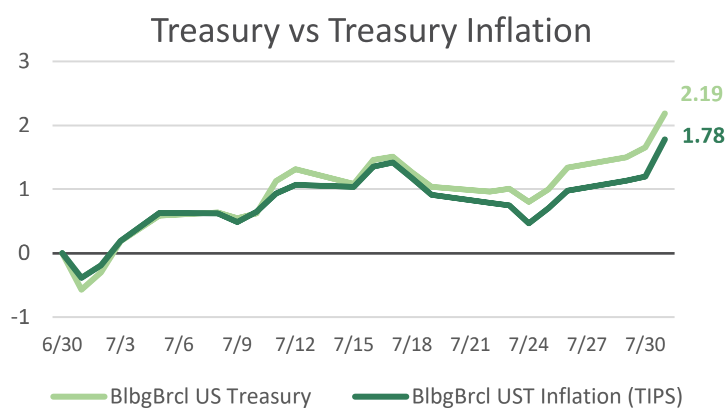
What Worked, What Didn't

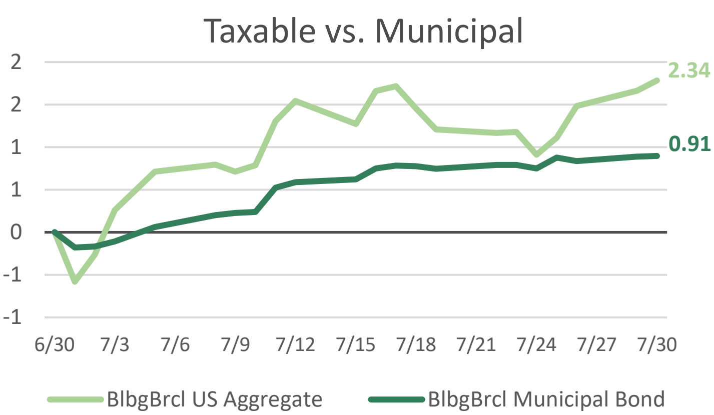
- **Long Duration and High Quality Outperform.** Long Duration Treasuries posted a strong July, outperforming Short Duration by over 300bps. Investment Grade topped their lower quality High Yield peers but both were solidly into the green for the month.
- **Duration Tops Credit and TIPS Underperform.** Long Duration outperformed Credit while Treasuries modestly outperformed TIPS for July.
- **Taxables and International Outperform.** Munis underperformed their Taxable Aggregate peers, while International bonds outperformed their US peers, mostly due to the weakening dollar.

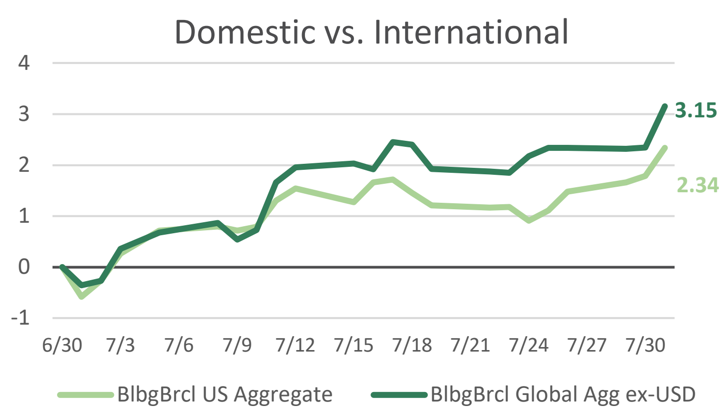












Source: Bloomberg.

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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.

	Jul-01	Jul-02	Jul-03	Jul-05	Jul-08	Jul-09	Jul-10	Jul-11	Jul-12	Jul-15	Jul-16	Jul-17	Jul-18	Jul-19	Jul-22	Jul-23	Jul-24	Jul-25	Jul-26	Jul-29	Jul-30	Jul-31	Jul	YTD	
High	LCG 0.94	IBD 1.20	EM 1.47	LCG 1.02	SCV 0.73	EM 0.41	IEQ 1.41	SCV 3.97	SCG 1.25	SCG 1.93	SCV 3.72	RE 0.65	HYB -0.20	MCG 0.03	SCG 1.62	SCV 1.18	IBD 0.06	SCV 1.46	SCG 1.74	RE 0.64	RE 0.68	LCG 2.65	SCV 13.44	LCG 18.44	High
	EM 0.23	LCG 0.83	IEQ 1.14	IEQ 0.67	SCG 0.69	LCG 0.13	SCV 1.24	SCG 3.22	MCG 1.23	SCV 1.81	SCG 3.05	LCV 0.22	IBD -0.27	HYB -0.08	LCG 1.57	SCG 1.05	USB -0.31	SCG 0.74	RE 1.69	LCG 0.18	MCV 0.61	EM 2.19	SCG 8.94	SCG 12.89	
	IEQ 0.18	MCG 0.48	LCG 0.87	IBD 0.51	RE 0.35	LCV -0.02	LCG 1.01	RE 2.76	IEQ 1.07	RE 0.46	MCV 2.00	IBD 0.15	USB -0.27	IBD -0.14	SCV 1.49	LCG 0.13	HYB -0.32	MCV 0.56	SCV 1.65	USB 0.16	LCV 0.58	IEQ 1.41	RE 8.63	LCV 11.91	
	IBD 0.14	60/40 0.42	60/40 0.58	USB 0.50	MCV 0.28	RE -0.02	LCV 0.95	MCV 1.95	MCV 0.98	MCG 0.39	LCV 1.72	USB 0.07	MCV -0.70	USB -0.20	MCG 1.20	HYB 0.01	LCV -0.69	MCG 0.47	MCV 1.61	MCV 0.09	SCV 0.57	60/40 0.95	MCV 7.07	SCV 11.11	
	HYB -0.02	LCV 0.39	USB 0.54	EM 0.41	MCG 0.15	USB -0.09	MCV 0.94	LCV 1.10	SCV 0.92	LCV 0.36	MCG 1.49	SCV -0.04	60/40 -0.71	RE -0.20	IEQ 1.06	MCG 0.01	60/40 -1.18	LCV 0.40	LCV 1.39	MCG -0.02	IEQ 0.23	MCG 0.93	LCV 5.79	MCV 10.75	
	60/40 -0.20	SCV 0.39	MCG 0.38	60/40 0.41	LCG 0.12	HYB -0.12	SCG 0.85	MCG 0.78	RE 0.84	MCV 0.32	RE 1.23	HYB -0.12	RE -0.75	60/40 -0.43	MCV 1.03	USB -0.01	IEQ -1.26	USB 0.28	IEQ 1.28	LCV -0.04	USB 0.10	SCG 0.54	USB 2.97	IEQ 8.53	
	USB -0.53	RE 0.38	HYB 0.35	HYB 0.30	LCV 0.12	60/40 -0.14	RE 0.77	IBD 0.60	LCV 0.64	LCG 0.30	60/40 0.75	MCV -0.38	LCG -0.78	SCG -0.46	RE 0.97	RE -0.13	MCV -1.31	HYB 0.01	EM 1.03	60/40 -0.08	SCG 0.09	USB 0.54	60/40 2.97	EM 7.55	
	MCG -0.54	MCV 0.33	MCV 0.10	RE 0.29	USB 0.03	MCV -0.22	60/40 0.67	EM 0.59	60/40 0.62	HYB 0.01	EM 0.57	IEQ -0.53	EM -0.94	SCV -0.59	EM 0.84	IBD -0.16	EM -1.45	60/40 -0.05	60/40 0.86	HYB -0.09	HYB 0.05	SCV 0.46	IBD 2.67	60/40 7.12	
	LCV -0.64	USB 0.33	LCV 0.01	MCG 0.28	EM 0.02	IBD -0.34	EM 0.57	60/40 0.53	LCG 0.58	IBD -0.12	IEQ 0.48	60/40 -0.57	LCV -0.96	LCG -0.61	60/40 0.64	60/40 -0.17	RE -1.59	IBD -0.10	LCG 0.84	IBD -0.23	60/40 0.01	IBD 0.38	IEQ 2.41	MCG 6.45	
	SCG -0.72	EM 0.30	SCG -0.03	SCG 0.08	60/40 0.00	SCV -0.37	MCG 0.45	USB 0.51	IBD 0.51	60/40 -0.16	USB 0.41	EM -1.63	IEQ -0.99	IEQ -0.61	LCV 0.53	MCV -0.36	SCV -1.80	RE -0.34	MCG 0.46	EM -0.33	IBD -0.04	HYB 0.36	HYB 2.37	HYB 4.67	
	SCV -0.90	HYB 0.27	SCV -0.04	LCV -0.15	HYB -0.03	IEQ -0.40	IBD 0.36	HYB 0.36	EM 0.41	USB -0.35	HYB 0.38	SCG -1.79	MCG -1.38	LCV -0.66	HYB 0.37	LCV -0.40	SCG -2.34	EM -0.40	USB 0.36	IEQ -0.44	MCG -0.26	MCV 0.27	MCG 1.12	RE 4.35	
	RE -0.92	IEQ 0.24	RE -0.05	MCV -0.44	IBD -0.07	SCG -0.54	HYB 0.23	IEQ 0.29	USB 0.28	IEQ -0.88	IBD 0.27	MCG -2.26	SCV -1.85	MCV -0.73	USB -0.04	IEQ -0.56	MCG -2.88	IEQ -0.63	HYB 0.32	SCG -0.98	EM -0.45	LCV 0.21	EM 0.61	USB 1.69	
Low	MCV -1.00	SCG 0.22	IBD -0.16	SCV -0.93	IEQ -0.50	MCG -0.69	USB 0.10	LCG -2.12	HYB 0.26	EM -1.06	LCG -0.13	LCG -2.83	SCG -2.13	EM -0.97	IBD -0.07	EM -0.88	LCG -3.80	LCG -1.02	IBD 0.30	SCV -1.10	LCG -1.38	RE -0.26	LCG -2.65	IBD -0.30	Low

Legend

60/40 Allocation (60/40)	Large Growth (LCG)	Mid Growth (MCG)	Small Growth (SCG)	Intl Equity (IEQ)	U.S. Bonds (USB)	Intl Bonds (IBD)
	Large Value (LCV)	Mid Value (MCV)	Small Value (SCV)	Emg Markets (EM)	High Yield Bond (HYB)	Real Estate (RE)

Source: Sources for this newsletter derived 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 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.