MONTH IN REVIEW

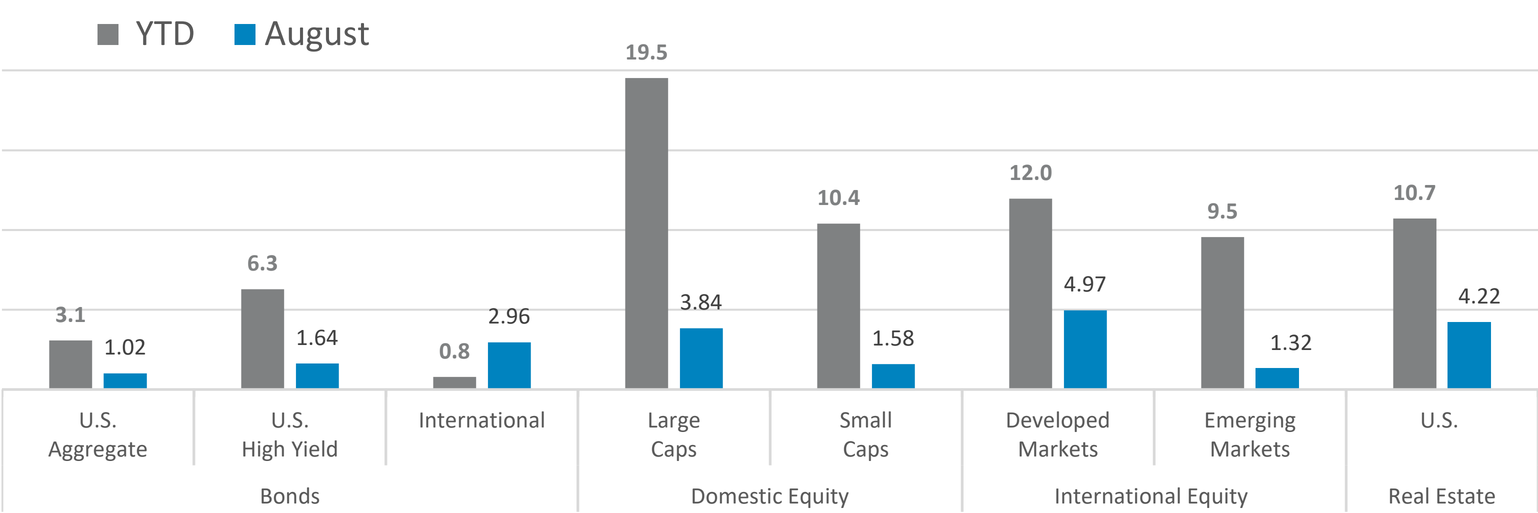
Prime Capital FINANCIAL

Quick Takes

- **A Comeback for Equities.** The stock market did not like the start of August, but the indices ended the month higher after early declines. The first week of August saw the S&P 500 decline by over 4% and the Nasdaq decline over 5%. Both indices ended the month higher though finishing up over 3.5% each.
- **The Road to 2%.** As interest rates remain high and the labor market normalizes, inflation continues to decline. In July, the Consumer Price Index (CPI) fell to 2.9%. Meanwhile, the Fed's preferred inflation gage, the Core Personal Consumption Expenditure (PCE) Index fell slightly from 2.8% to 2.7%.
- **Dollar Declines Continue.** As potential Fed rate cuts in September remain in focus while other central banks around the world are holding rates where they are or are raising them, the U.S. dollar continues to slip. The Bank of Japan raised rates at the end of July and August saw Fed Chair Powell change his tune on interest rate cuts for the first time since 2022.
- **Income and Jobs.** The U.S. saw unemployment rise in July as job creation slowed. Unemployment rose to 4.3% from 4.1% as the change in nonfarm payrolls came in at 114k, below the expected 175k and much lower than the previous month's level of 206k.

Asset Class Performance

Large Caps had a strong August relative to Small Caps, reversing last month's pattern. Developed International equities outperformed the U.S. market during the month amid both actual and anticipated changes in monetary policy. Asset classes across the board saw gains in the month of August including both fixed-income and equities.



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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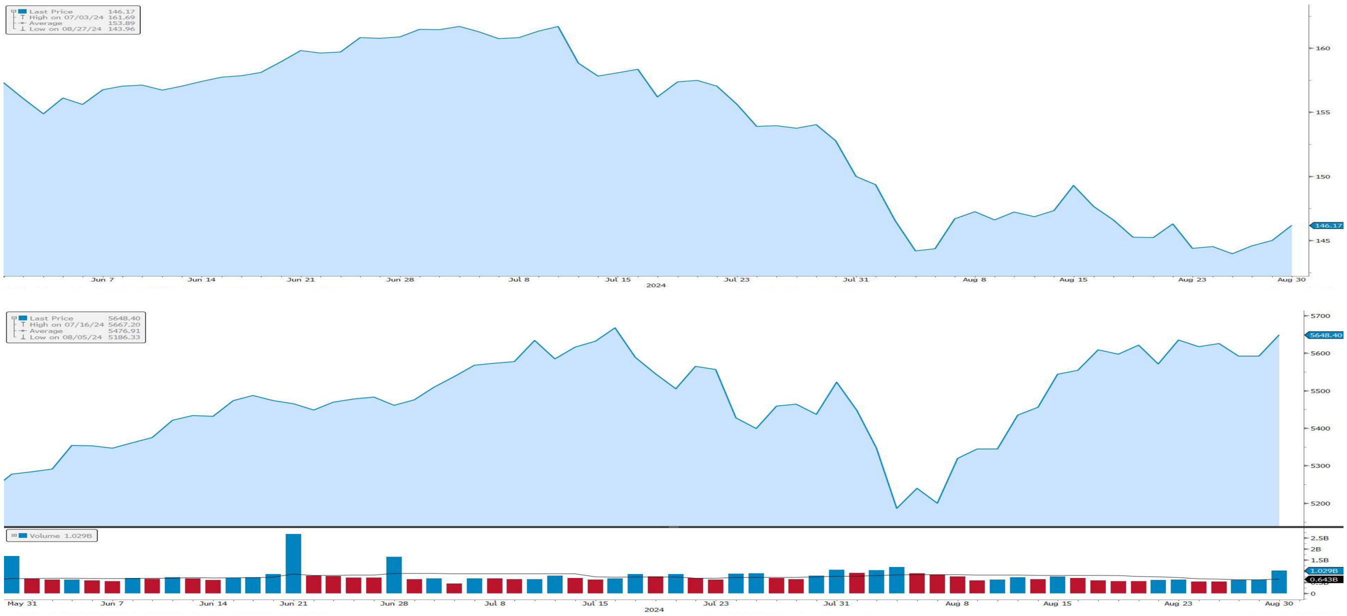
August 2024

Markets & Macroeconomics

U.S. Tech Stocks and the Unwind of the Yen Carry Trade

The Yen Rises Against the Dollar on Policy Differences

JPY to USD (Top), S&P 500 Index (Bottom)



Source: Bloomberg

With institutional investors unwinding their positions in the Yen carry trade at the beginning of August, large U.S. technology stocks dragged the indexes lower in the first week of the month. This trade involved borrowing in Japanese Yen at low interest rates because of the Bank of Japan's ultraloose monetary policy and using the borrowed funds to buy U.S. technology stocks, especially AI highfliers like Nvidia, Microsoft, and Google. This trade became less attractive after the Bank of Japan raised interest rates at the end of July and interest rate cuts by the U.S. Federal Reserve seemed increasingly likely amid weakening jobs data. As a result, institutional investors began selling their U.S. stock holdings to buy Yen and repay their borrowings. This led to a rocky first week of August for stock markets globally. Among the U.S. indices, the S&P 500 declined by over 4% while the Nasdaq declined by over 5%. Nvidia, Microsoft, and Alphabet were among the largest underperformers in the S&P 500 falling 9.5%, 4.5%, and 6.8% respectively. In the second half of August, weak economic data, investor concerns about the return potential on substantial AI-related capital expenditure, and stretched valuations hit mega-cap technology stocks again. As companies reported their quarterly earnings results, analysts increasingly scrutinized the amount companies were investing in AI and the productivity gains that would result. This, combined with elevated investor expectations, resulted in strong earnings results and guidance raises by Nvidia failing to lift stocks. In the second half of August, Nvidia declined by nearly 3% even after reporting better than expected earnings and revenue and raising their forecasts for the current fiscal year. Meanwhile, stocks in sectors like consumer staples and health care outperformed the S&P 500 and the Nasdaq in the second half of August with Walmart especially performing well after earnings.

Bottom Line: With price pressures easing, the labor market loosening, stock valuations high, and stock market indices concentrated in high-growth, mega-cap technology stocks, investors have become more cautious. The high valuations of large technology companies started to moderate in August as investors reset their expectations around companies' ability to outperform analysts' forecasts going forward. Optimism about interest rate cuts have been reinforced by Fed commentary. Investors are also looking to sectors beyond technology which have seen less of an increase in valuations over the last 18 to 24 months for new opportunities and diversification. Rate cuts and sector performance will continue to be in focus in September.

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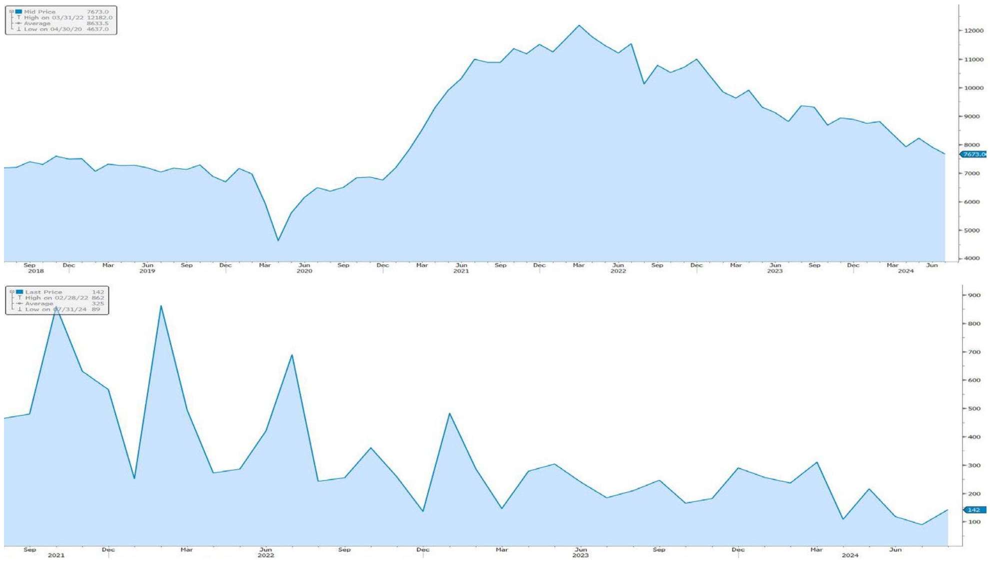
What's Ahead

Powell takes a more dovish stance on rates as labor market normalizes.

Job Openings and in Nonfarm Payrolls Additions are Declining

Job openings in the US have been steadily declining since March 2022

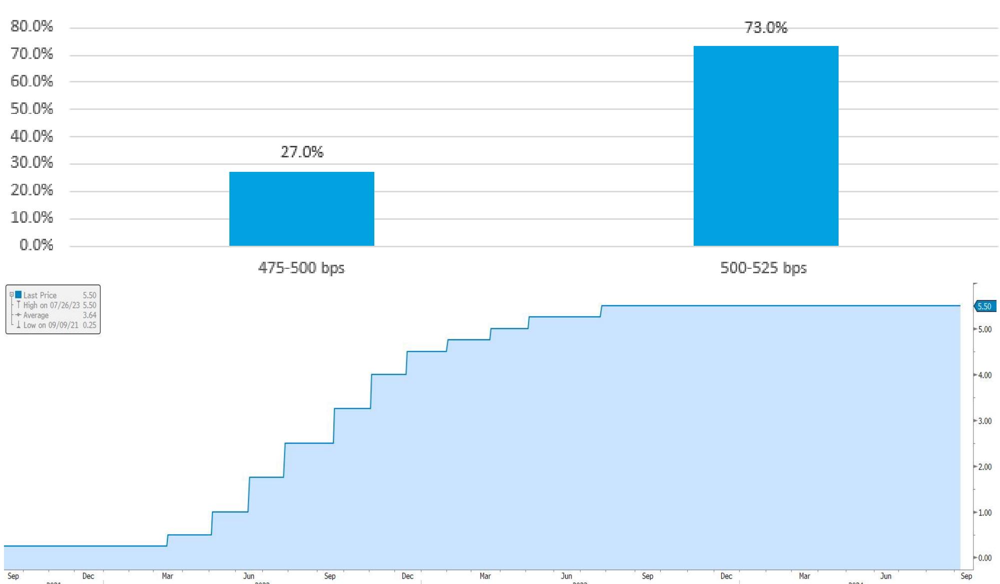


Source: Bloomberg

While inflation is still above the Fed's target at 2.9% based on CPI data, Chairman Jerome Powell emphasized the need for the central bank to begin a policy-focus shift in the coming months during his speech in Jackson Hole, Wyoming, on August 23. Powell took the opportunity to speak to the economic and financial community to signal that after nearly three years of tightening monetary policy amid decades-high price increases coming out of the COVID-19 pandemic that the focus of the FOMC will be shifting to a more balanced approach that will focus less on achieving disinflation and more on managing the labor market. The announced change comes after a significant decline in inflation from its post-pandemic highs and some evidence of cooling in the U.S. jobs market in recent weeks and months. While Powell did not articulate concerns about a broad slowdown or mass layoffs being in motion, he did express the need to pay greater attention to the downside risks to the economy relative to the risks of price increases given their moderation over the last 18 to 24 months. Investors largely took this message as a sign that interest rate cuts in the near term are likely, although Powell did not provide specifics on the timing and degree of these cuts. With this message to the public and with unemployment rising in August to 4.3%, a loosening of monetary policy to maintain a strong labor market seems nearly inevitable. Other labor market data such as the change in nonfarm payrolls and the number of job openings have indicated that inflationary pressures have significantly subsided. In July, the U.S. added 114k jobs compared to estimates of 175k followed by 142k additions in August compared to an expected addition of 165k. Job openings in July also missed expectations coming in at 7.7 million versus forecasts of 8.1 million.

Futures Traders Expect a Rate Cut In September

A 25bp cut is the most likely scenario



Source: CME, Bloomberg

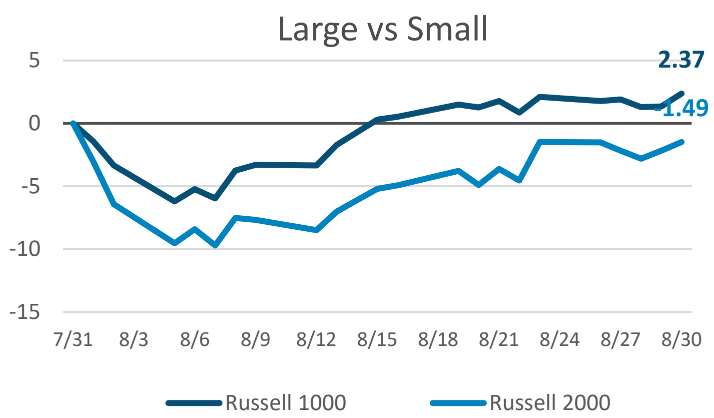
<u>Bottom Line</u>: The recent signs of softening in the U.S. labor market combined with a significant drop in inflation over the last year and a half have prompted the Fed to begin a policy shift away from keeping interest rates high with the goal of restoring price stability to the economy. With fewer job openings, increased labor supply relative to these openings, and a slowdown in the rate of job creation, the Fed recognizes that there is a greater risk of a demand slowdown than there was prior. While the risk of a serious downturn remains slim, the Fed will look to loosen policy going forward to prevent this case from becoming more likely. Investors now see an interest rate cut in September as most probable with a 25bp cut being the most likely scenario.

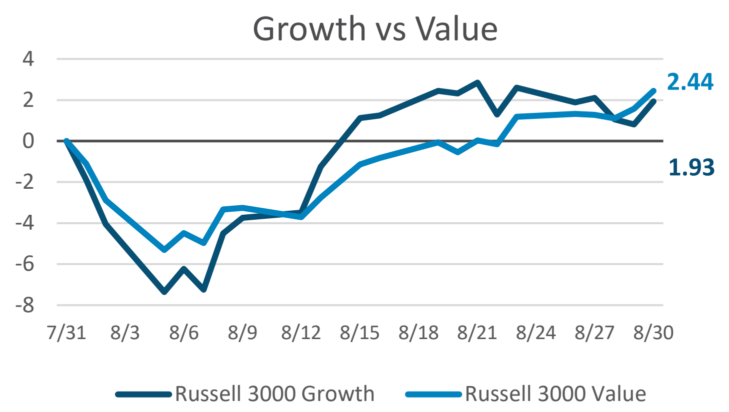
August 2024

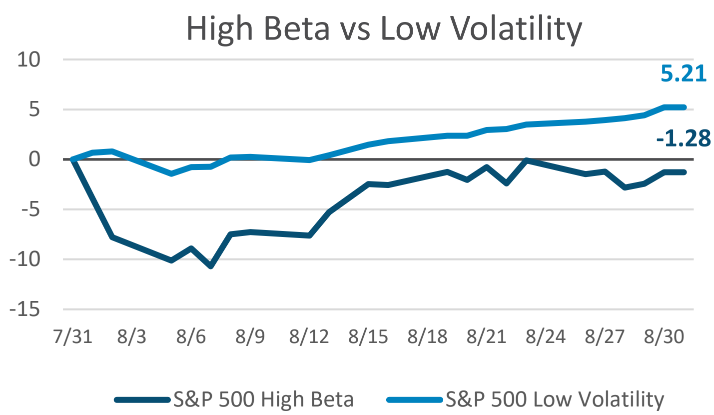
Equity Themes

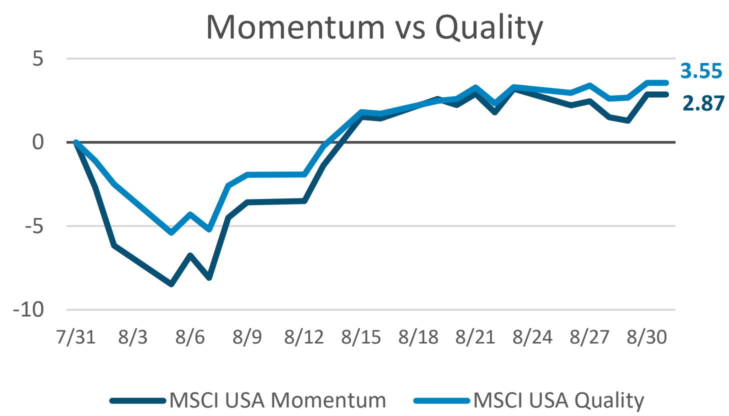
What Worked, What Didn't

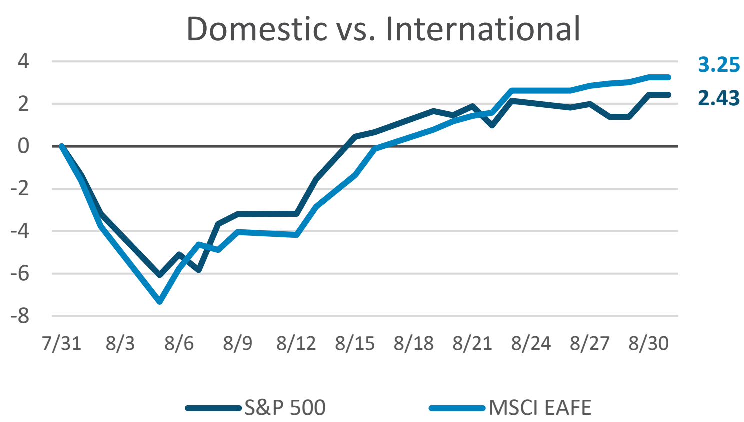
- **Large Outperformed Small, Value Over Growth.** Market participants moved into large-cap value stocks more so than small-cap or growth in August as large-cap tech experienced volatility.
- **Low Vol and Quality Outperform.** Low volatility significantly outperformed high beta in August as investors sought strong fundamentals. Meanwhile, quality continued to outperform momentum in August, echoing July's market behavior. Momentum and quality were both showed respectably gains for the month.
- **International Over Domestic, Emerging Over Developed.** The weakening dollar boosted International equities once again over Domestic equities in August, while Developed equities considerably outperformed Emerging markets.

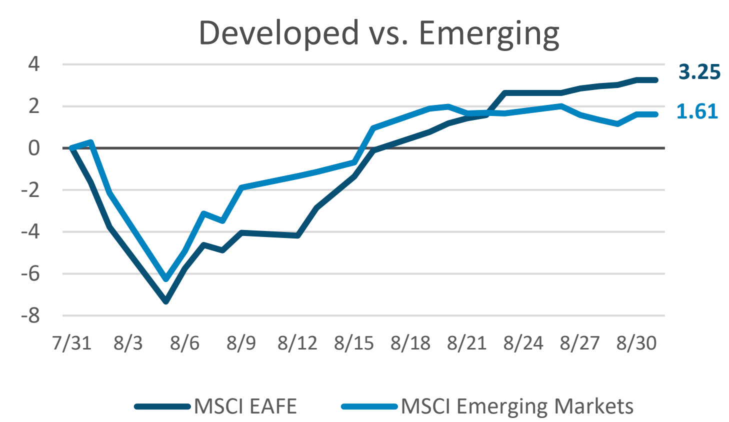












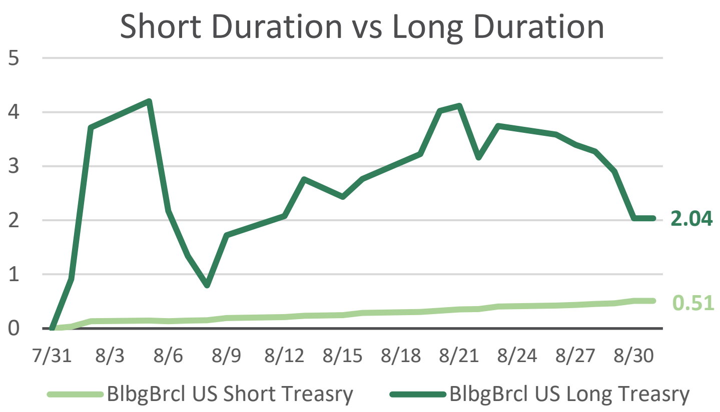
Source: Bloomberg.

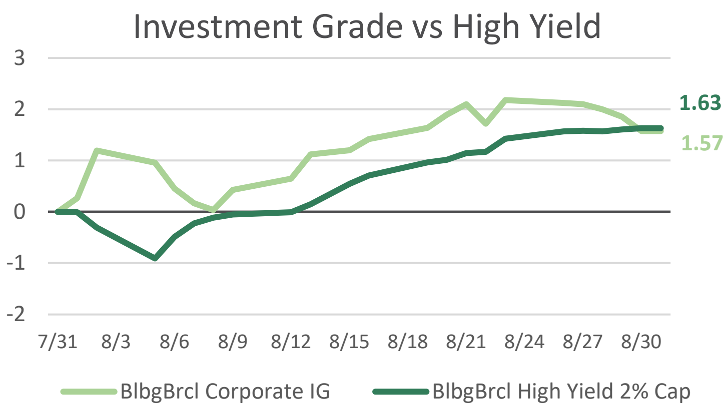
August 2024

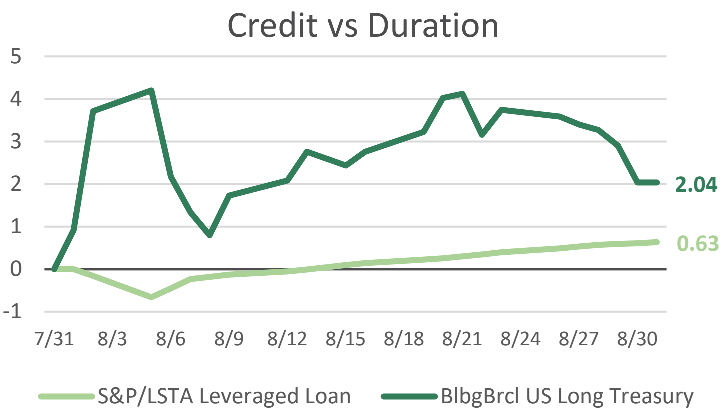
Bond Themes

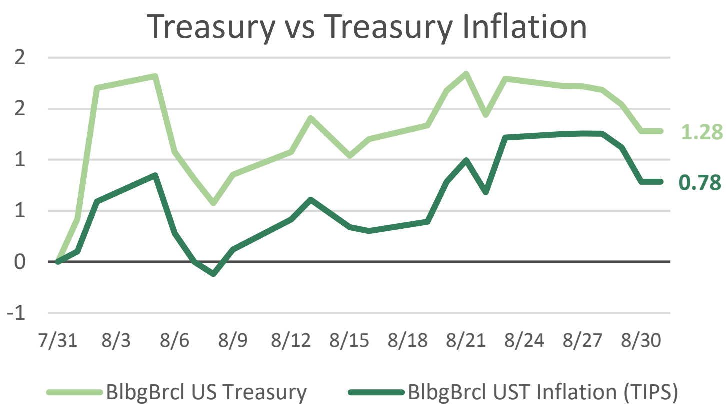
What Worked, What Didn’t

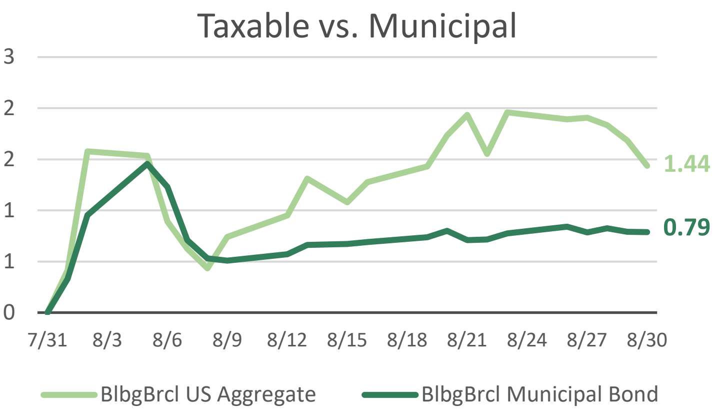
- **Long Duration Outperforms While Quality and High Yield Are Nearly Even.** Long Duration Treasuries performed well in August, beating Short Duration by over 150bps. Investment Grade and High Yield were essentially tied for the month with High Yield outperforming Investment Grade by just 6bps.
- **Duration Tops Credit and TIPS Underperform.** In August, Long Duration considerably outperformed Credit while Treasuries outperformed TIPS by 50 bps in August.
- **Taxables and International Outperform.** Munis underperformed their Taxable Aggregate peers, while International bonds outperformed their U.S. peers, mostly due to the weakening dollar again in August.

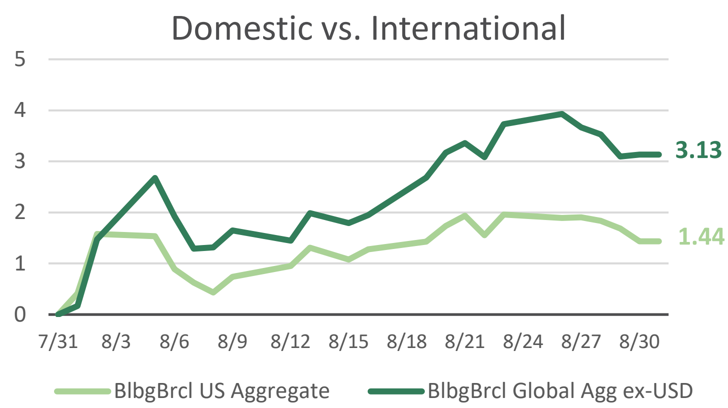












Source: Bloomberg.

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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.

	Aug-01	Aug-02	Aug-05	Aug-06	Aug-07	Aug-08	Aug-09	Aug-12	Aug-13	Aug-15	Aug-16	Aug-19	Aug-20	Aug-21	Aug-22	Aug-23	Aug-26	Aug-27	Aug-28	Aug-29	Aug-30	Aug	YTD
High	RE 1.15	IBD 1.27	IBD -0.04	RE 2.09	EM 0.62	MCG 3.28	LCG 0.89	EM 0.33	LCG 2.29	SCG 2.64	EM 1.17	SCG 1.29	IBD 0.46	SCG 1.48	RE 0.38	SCV 3.44	SCV 0.13	IEQ 0.46	HYB -0.05	SCG 0.81	LCG 1.02	IEQ 6.07	LCG 20.84
	USB 0.42	USB 1.12	USB -0.08	MCG 1.43	IEQ 0.48	LCG 2.99	EM 0.55	LCG 0.30	MCG 1.78	SCV 2.51	IEQ 0.55	LCG 1.25	USB 0.30	MCG 1.34	HYB -0.13	SCG 2.77	LCV 0.13	RE 0.22	USB -0.09	SCV 0.62	RE 1.01	MCG 4.64	LCV 14.92
	HYB -0.22	RE 0.09	HYB -0.62	SCG 1.41	HYB 0.19	SCG 2.65	RE 0.45	USB 0.17	IEQ 1.72	LCG 2.11	SCV 0.49	IEQ 1.22	RE -0.02	SCV 1.04	MCV -0.23	RE 2.14	SCG 0.00	LCG 0.21	LCV -0.18	LCV 0.52	LCV 0.84	RE 4.20	MCV 12.85
	IBD -0.27	HYB -0.33	60/40 -1.64	LCG 1.31	IBD -0.08	EM 2.27	IBD 0.44	HYB 0.06	SCV 1.62	MCG 1.87	IBD 0.43	SCV 1.14	HYB -0.09	IEQ 0.93	LCV -0.23	IEQ 1.83	MCV -0.01	EM 0.14	SCV -0.29	MCG 0.51	MCV 0.74	LCG 3.92	IEQ 12.07
	60/40 -1.01	60/40 -0.70	IEQ -2.18	SCV 0.97	60/40 -0.26	SCV 1.95	IEQ 0.39	60/40 -0.06	SCG 1.60	MCV 1.39	60/40 0.37	EM 0.97	LCG -0.12	MCV 0.92	USB -0.41	EM 1.67	USB -0.09	60/40 0.10	MCV -0.30	MCV 0.43	SCG 0.63	LCV 3.78	SCG 11.64
	LCV -1.05	EM -1.42	MCG -2.20	MCV 0.95	USB -0.30	MCV 1.81	60/40 0.36	IEQ -0.09	MCV 1.14	LCV 1.25	HYB 0.32	MCG 0.94	60/40 -0.16	60/40 0.53	IEQ -0.59	MCV 1.56	RE -0.15	HYB 0.06	IEQ -0.35	IEQ 0.38	MCG 0.63	MCV 3.19	RE 9.99
	MCV -1.25	IEQ -1.57	LCV -2.41	LCV 0.84	LCV -0.42	LCV 1.70	USB 0.35	IBD -0.24	EM 1.11	IEQ 1.22	MCG 0.29	MCV 0.83	IEQ -0.31	LCV 0.53	60/40 -0.59	MCG 1.41	HYB -0.20	MCG 0.04	RE -0.35	60/40 0.11	SCV 0.54	60/40 3.10	60/40 9.32
	EM -1.75	LCV -1.71	MCV -2.42	EM 0.57	MCV -0.70	IEQ 1.68	MCG 0.29	MCG -0.33	60/40 1.10	EM 1.11	LCV 0.29	RE 0.76	LCV -0.42	IBD 0.49	SCV -0.62	LCV 1.29	IBD -0.26	USB 0.03	60/40 -0.38	HYB 0.10	60/40 0.25	IBD 2.83	MCG 9.14
	LCG -1.81	MCV -1.98	RE -2.83	HYB 0.38	SCV -0.81	60/40 1.23	SCG 0.21	LCV -0.43	LCV 0.97	60/40 0.72	MCV 0.25	LCV 0.76	MCV -0.57	LCG 0.42	IBD -0.66	60/40 1.21	60/40 -0.27	LCV 0.02	EM -0.62	EM 0.05	EM 0.21	EM 2.77	SCV 8.86
	MCG -2.03	LCG -2.15	EM -2.84	60/40 0.33	RE -0.88	RE 1.06	MCV 0.16	SCG -0.55	IBD 0.84	HYB 0.09	USB 0.24	60/40 0.70	EM -0.78	EM 0.39	MCG -0.90	LCG 1.15	IEQ -0.45	IBD 0.00	IBD -0.82	IBD 0.00	IEQ 0.16	SCG 2.06	EM 8.61
	IEQ -2.65	MCG -2.32	SCG -3.03	IEQ 0.17	MCG -1.10	HYB 0.41	LCV 0.10	MCV -0.62	RE 0.77	RE -0.30	LCG 0.13	IBD 0.57	MCG -0.84	RE 0.35	SCG -1.10	IBD 1.06	MCG -0.64	MCV -0.15	SCG -0.96	USB -0.13	HYB 0.01	HYB 1.77	HYB 6.29
	SCV -3.09	SCV -3.42	LCG -3.52	IBD -0.08	LCG -1.11	IBD 0.00	HYB -0.01	RE -0.68	HYB 0.46	IBD -0.33	SCG 0.11	HYB 0.16	SCG -1.01	HYB 0.23	EM -1.24	HYB 0.53	LCG -0.65	SCG -0.61	LCG -0.97	LCG -0.32	USB -0.24	SCV 1.09	USB 3.18
Low	SCG -3.10	SCG -3.64	SCV -3.61	USB -0.60	SCG -1.66	USB -0.15	SCV -0.49	SCV -1.10	USB 0.40	USB -0.42	RE 0.03	USB 0.11	SCV -1.27	USB 0.19	LCG -1.46	USB 0.46	EM -0.84	SCV -0.89	MCG -1.11	RE -0.33	IBD -0.43	USB 1.04	IBD 2.24

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 for this market commentary 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 Financial. The performance of those funds August 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