MONTH IN REVIEW

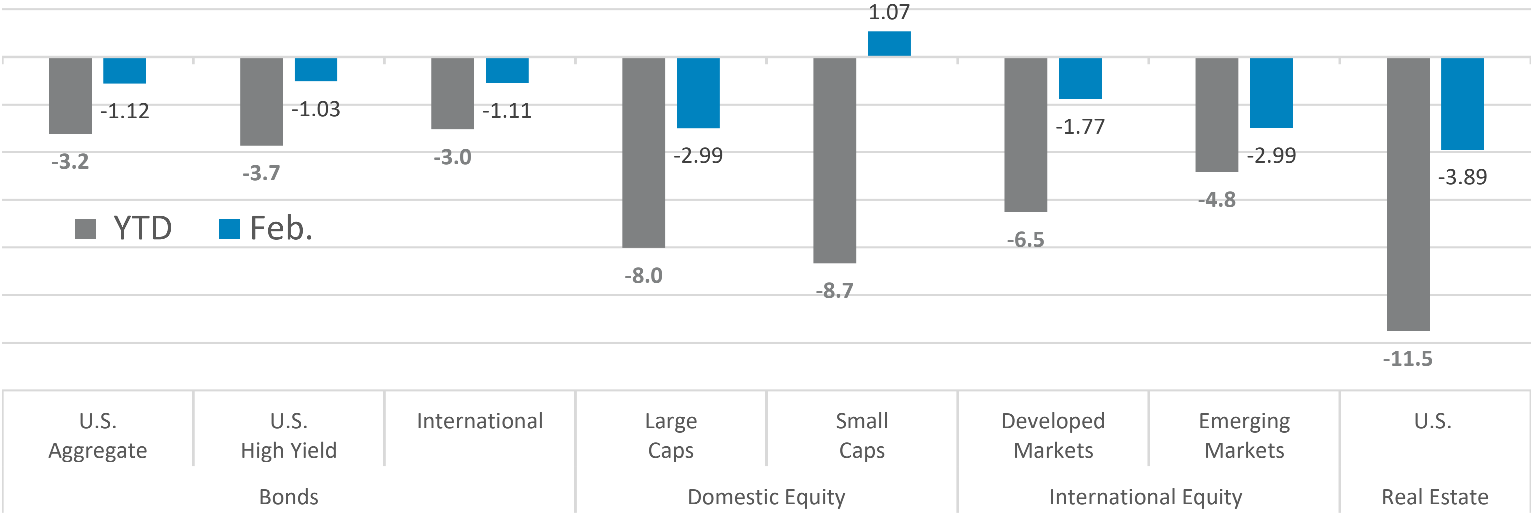
February 2022

Quick Takes

- **Russia Invades Ukraine, Markets Stumble.** With risk assets now fighting on two fronts-persistent inflation and a conflict between Russia and Ukraine-nearly all asset classes posted a negative month for the month of February.
- **Yields Post a Volatile Month.** With expectations for the initial liftoff in interest rates to occur next month and heavy flows into haven assets during the month, yields on Treasury bonds went for a rollercoaster ride for the month of February, but ultimately ended the month higher.
- **Greenback Soars as a Haven Currency.** The dollar caught a bid for the month as market participants priced in higher fed funds rate in the US, but also on the premise of being a haven currency as the Russian Ruble plummeted.
- **Supply chains, Labor Markets, and Inflation.** Yet again, inflation came in at levels not seen since the 1980s, but PPI may have shown the initial signs of rolling over during the month. Labor markets remain extremely tight, bolstering the Fed's hawkish tone and supply chains continue to exert upward pressure on inflation.

Asset Class Performance

Markets deepened their year to date sell off as Russia invaded Ukraine and governments and businesses alike sanctioned or shunned the Russian economy. Domestic Small Cap equities were the only asset class in the green for the month and all asset classes are in the red for the year so far.



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

February 2022
Markets & Macroeconomics

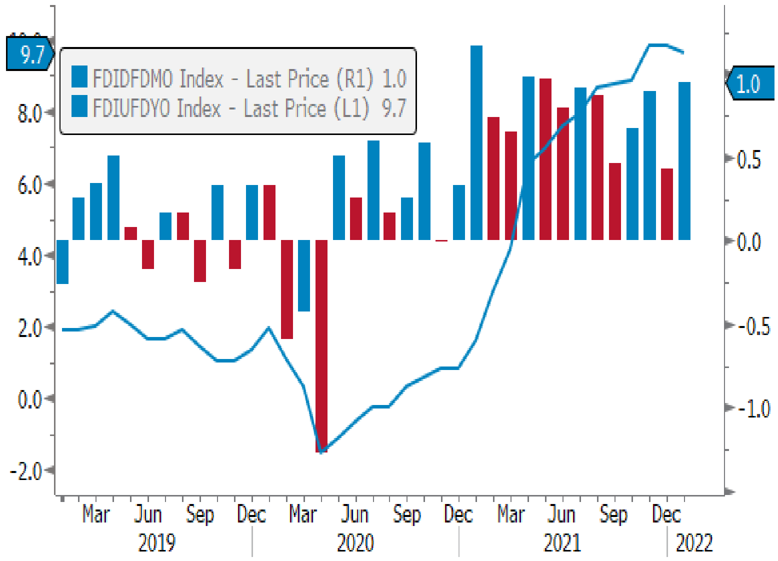
MONTH IN REVIEW

Inflation Continues Running Red Hot

Throughout the month, Fed members continued their rhetoric to make combatting inflation a top priority. This narrative only increased as the Consumer Price Index (CPI) for the month came in at an astounding +7.5% on a year over year basis for the previous month. Even after excluding the volatile components of Food and Energy prices, so called Core CPI was still up +6.0% on a year over year basis, which represents the largest increase the US has seen since 1982. With inflation increasing at such an alarming rate, this all but guarantees that the Fed will initiate an increase in the Fed Funds Rate at the March meeting. Given inflation's persistence on moving higher and higher, the door is open to an initial +50bps increase in interest rates versus the previously assumed +25bps hike. This persistent inflation reading has also added some fuel to the fire for more frequent increases in interest rates to cool down the economy. Several major asset management shops increased their predicted number of interest rate hikes, with some seeing the possibility of seven increases through the year. While the Fed appears to be playing catchup with getting consumers' prices under control, input prices for producers, as measured by the Producer Price Index (PPI), may have shown the initial signs of rolling over during the month. While the month over month reading came in at double the pace expected, +1.0% versus consensus of +0.5%, the year over year measure fell from its peak achieved early in the fourth quarter of last year. If producers can get control of their input costs, this could alleviate some of the upward pressure on inflation and call for a more measured and gradual tightening of monetary policy from the central bank rather than the accelerate pace that some market participants are now calling for.

Are Input Prices Rolling Over?

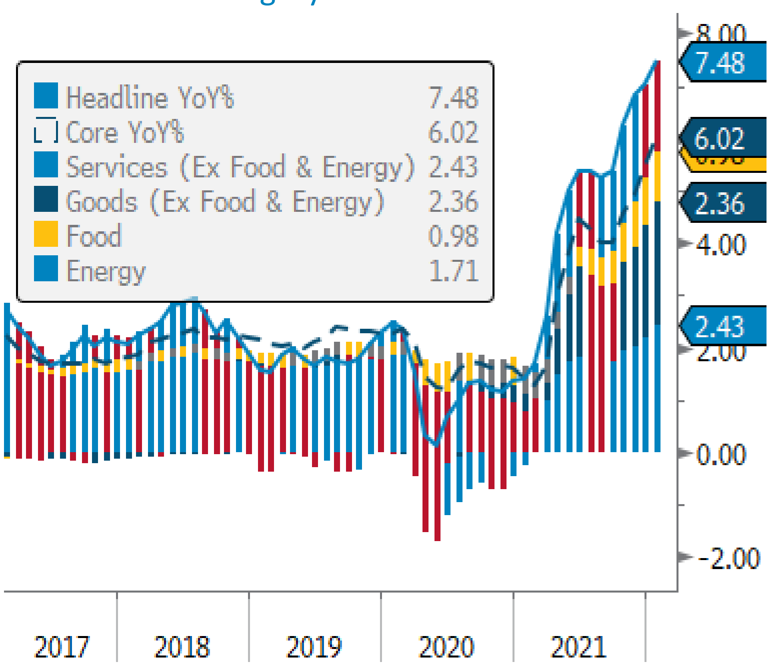
Producer Price Index (PPI) Month over Month vs. Year over Year



Source: Bureau of Labor Statistics, Bloomberg

Consumer Prices Show No Signs of Slowing

CPI YoY and Category Contribution



Source: Bureau of Labor Statistics, Bloomberg

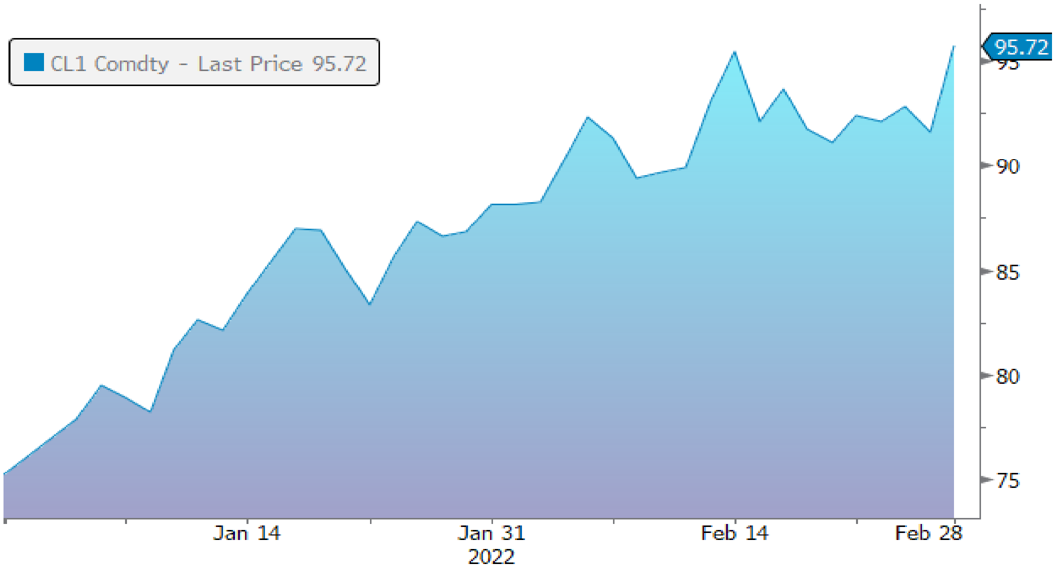
<u>Bottom Line</u>: Economic data releases for the month of February continued to show persistent inflation, ever tight labor markets, and improving, but still snarled supply chains. Producers showed a modicum of relief in their rising input costs, but prices remain elevated. Putting all the data together, it seems to be all but guaranteed that the Fed will raise interest rates by +25bps during the central bank's March meeting, and the door is open for a +50bps hike in March. Additionally, the red-hot data readings are beginning to add ammunition to the case for more frequent rises in interest rates for the rest of the year.

Russia-Ukraine Conflict

As the month came to an end, tensions between Russia and Ukraine escalated into a full-blown conflict. While both the Russian and Ukrainian economies are relatively small contributors to overall global GDP, Russia exports a substantial chunk of energy resources (mainly oil and natural gas), and Ukraine is a significant contributor to global agriculture production. With NATO countries condemning Russia's actions via economic sanctions and businesses across the globe shunning Russia, it appears that the Russian economy will be significantly hampered in the future. Sanctions have been broad sweeping thus far, but NATO countries have been hesitant to directly sanction the energy sector due to already high energy prices' contribution to the red-hot inflation the globe is currently facing. Regardless, energy prices have spiked in response to the perceived supply shock the globe will likely face due to the conflict. Given Russia and Ukraine's relatively small trade activity with the US, the domestic impact will likely be limited to the energy sector, European, especially the German economy may see a more far-reaching impact. While the situation is very fluid and quickly evolving, it does not appear to have materially altered the Fed's anticipated timeline of increasing interest rates in March. With interest rates already at rock bottom levels, the Fed has a limited set of tools to keep the domestic economy afloat if the situation further devolves and economic impacts are felt more broadly across sectors. While the Fed's current arsenal is limited, the conflict has likely reduced the probability of a +50bps rate hike in March in favor of the previously assumed +25bps hike. With inflation readings as high as they are and employment remaining robust despite the economic impact of higher commodity prices, it appears that the Fed will continue the path to a tighter monetary policy.

Energy Prices Skyrocket

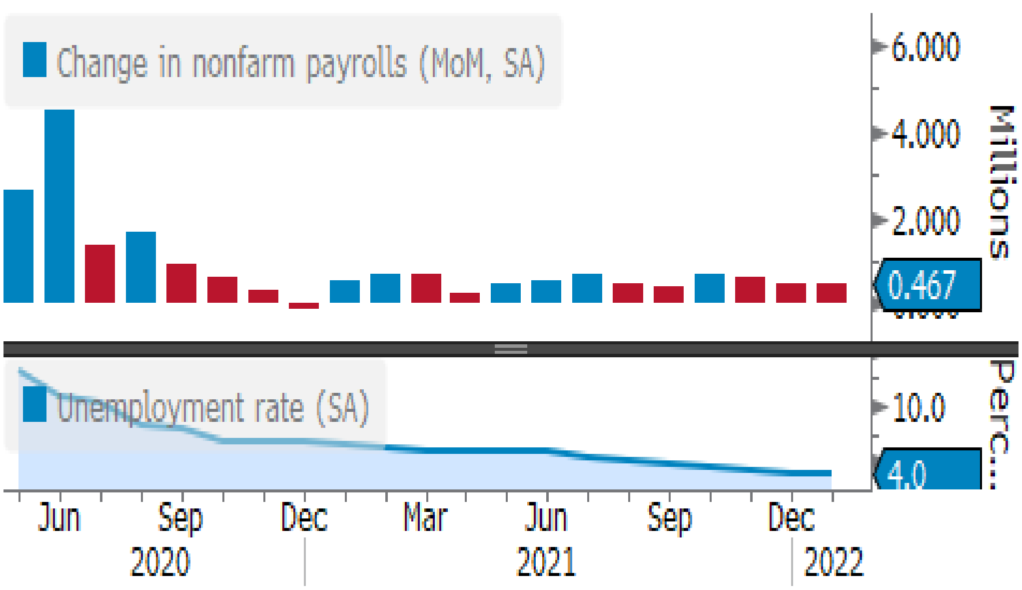
Year to Date Price Change in WTI Generic 1st Future Commodity



Source: Bloomberg

Labor Markets Remain Tight

Change in nonfarm payrolls (Top), Unemployment Rate (Bottom)



Source: Bureau of Labor Statistics, Bloomberg

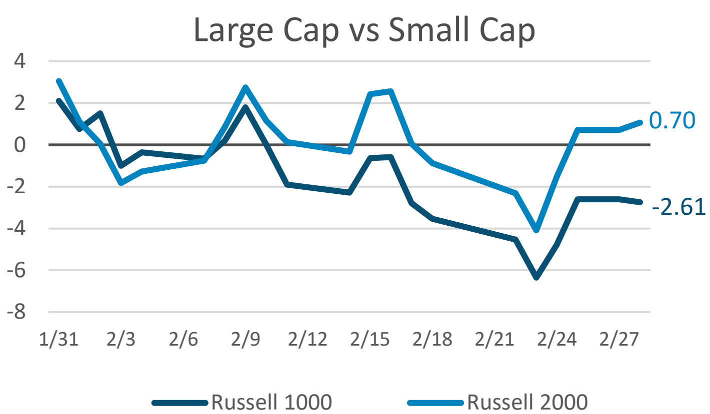
<u>Bottom Line</u>: With tensions between Russia and Ukraine evolving into a military conflict, energy and other commodity prices spiked during the month. The domestic impact due to the conflict will likely remain limited, but commodity prices could stay elevated for the foreseeable future. European economies will likely see a greater impact, and this could dampen global economic growth for the year. Regardless, the effects of the conflict do not seem to have deterred the Federal Reserve's timeline for monetary tightening and market participants are still expecting interest rate liftoffs to occur in March, albeit now seems that a +25bps hike is more likely than a +50bps hike.

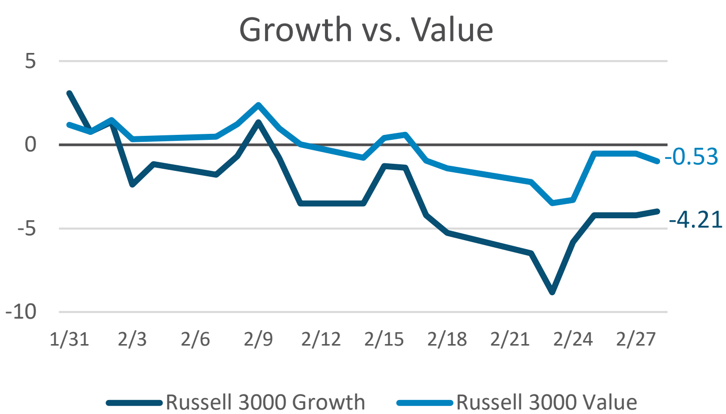
February 2022

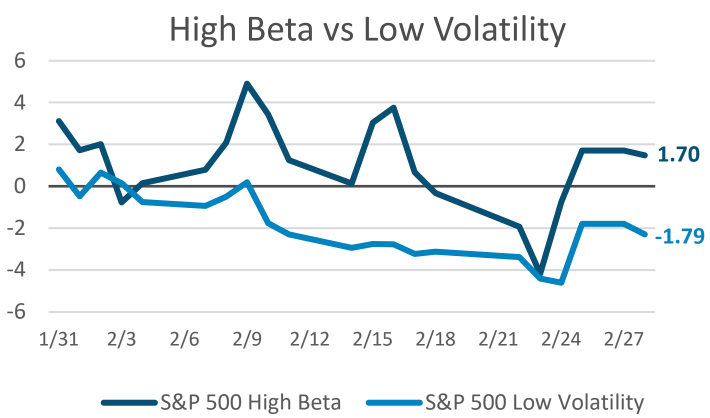
Equity Themes

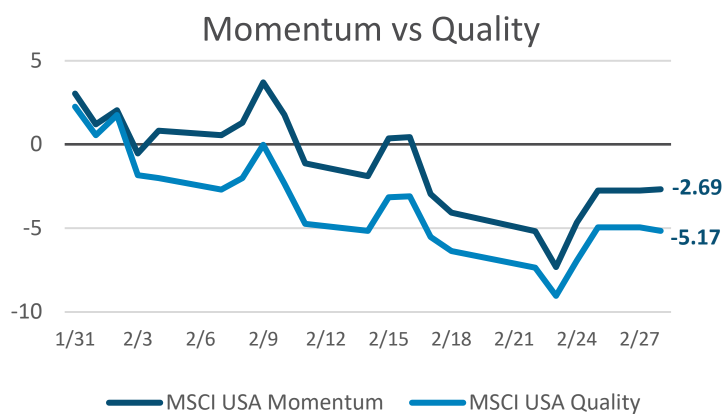
What Worked, What Didn't

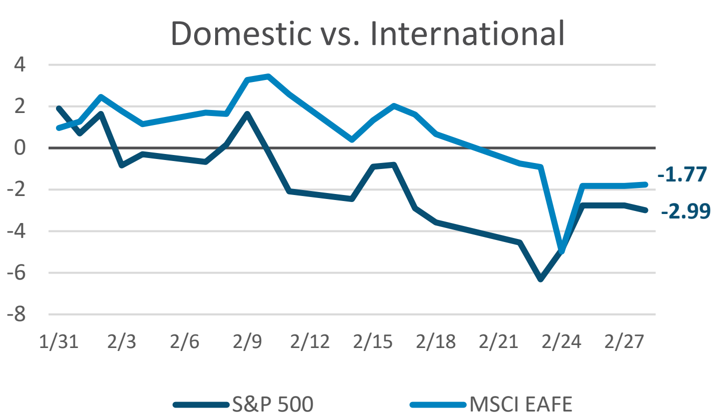
- **Small over Large, Value over Growth.** Small Cap equities bested Large Cap equities for the month by a wide margin and Growth equities trailed Value equities for the second month in a row.
- **Quality and Low Volatility Underperform.** Despite the market moving into risk off mode, Quality equities and Low Volatility equities underperformed their respective High Beta and Momentum equities.
- **Domestic Equities Outperform and Emerging Markets Tumble.** Domestic equities outperformed International equities as market participants priced in the impact to economies due to the Russia-Ukraine conflict. Additionally, Emerging Markets sold of nearly double Developed International markets due to Russia's economic status as an Emerging Market.

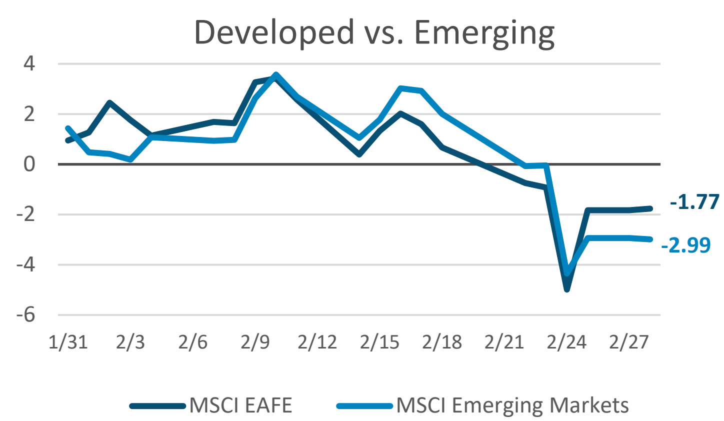










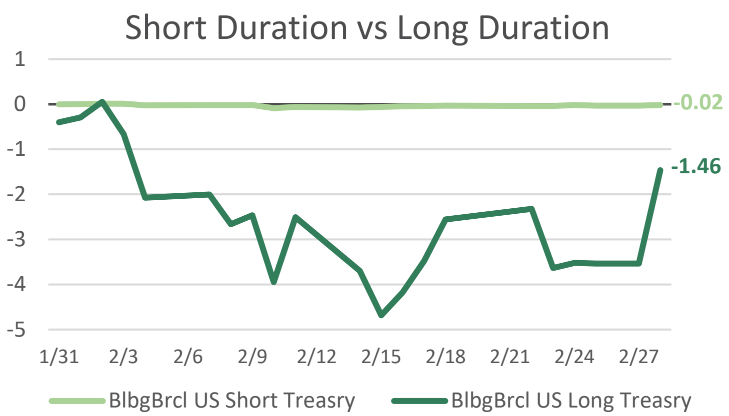


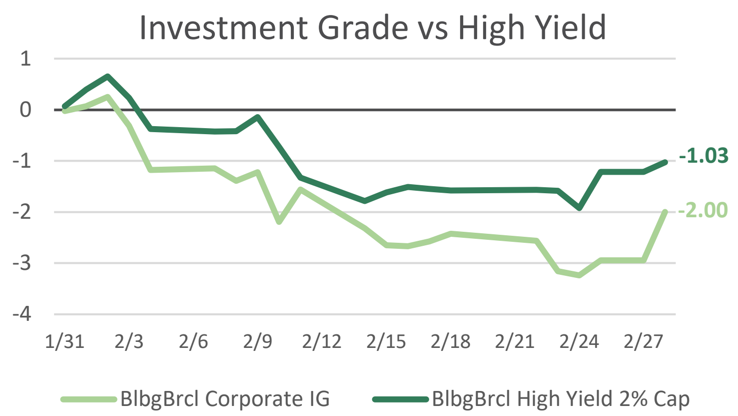
Source: Bloomberg.

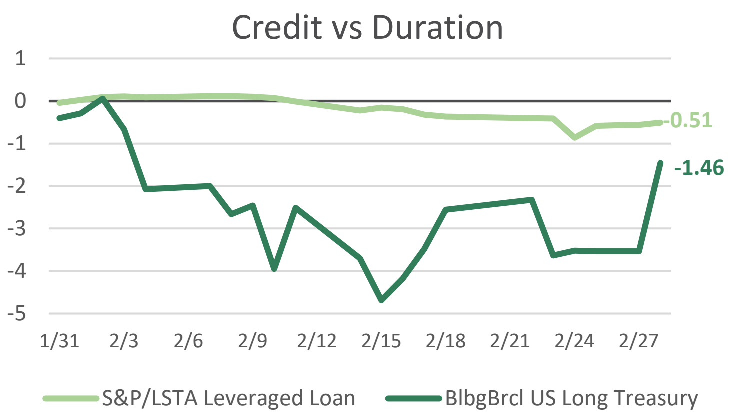
February 2022
Bond Themes

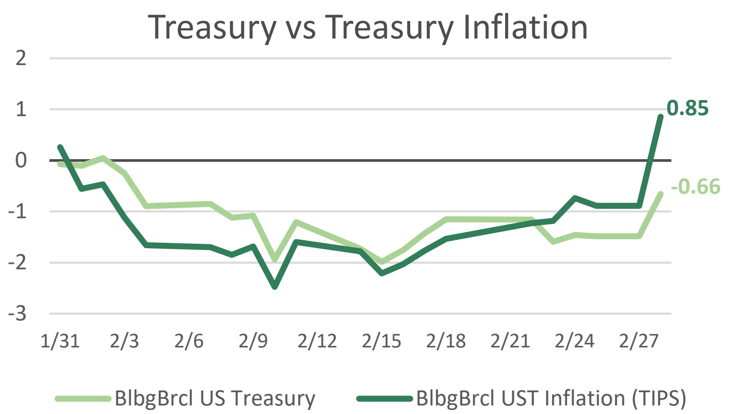
What Worked, What Didn’t

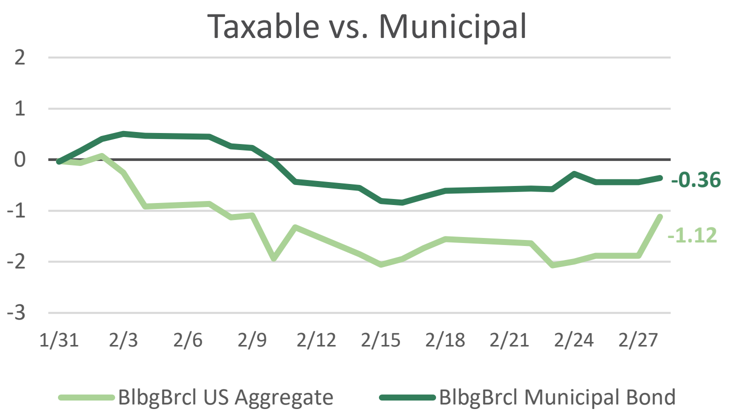
- **Short Duration and Higher Quality Bonds Outperform.** As the situation between Russia and Ukraine escalated, shorter duration and Investment Grade bonds outperformed their respective longer dated and lower quality peers.
- **TIPS and Munis Outperform.** With inflation readings coming in hotter than ever, inflation protected bonds outperformed their nominal peers and Munis sold off less than their corporate peers.
- **International versus Domestic.** International bonds outperformed Domestic bonds for a majority of the month, but both ended at approximately the same level.

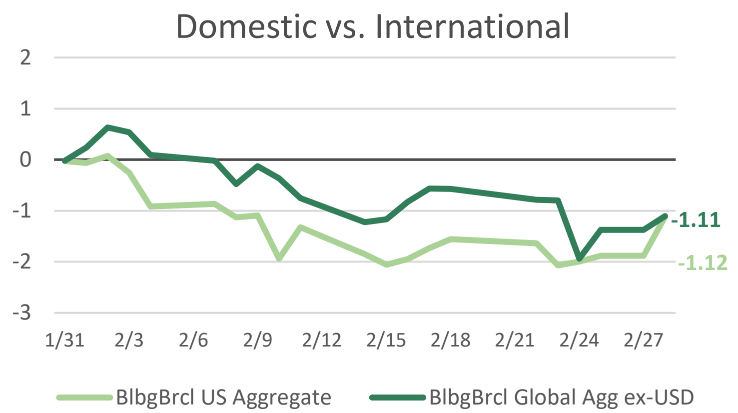












Source: Bloomberg.

February 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.

	Feb-01	Feb-02	Feb-03	Feb-04	Feb-07	Feb-08	Feb-09	Feb-10	Feb-11	Feb-14	Feb-15	Feb-16	Feb-17	Feb-18	Feb-22	Feb-23	Feb-24	Feb-25	Feb-28	Feb	YTD	
High	SCG 1.32	RE 1.39	IBD -0.06	MCG 1.40	SCG 0.54	SCG 1.98	MCG 2.98	EM -0.66	USB 0.66	LCG 0.07	SCG 3.24	EM 0.73	USB 0.21	USB 0.21	USB -0.11	HYB -0.18	MCG 4.25	MCV 2.93	USB 0.72	SCV 1.54	USB -3.12	High
	MCG 1.05	LCV 0.81	USB -0.40	LCG 1.21	SCV 0.26	SCV 1.39	SCG 2.57	IBD -0.66	IBD -0.26	HYB -0.17	MCG 2.65	HYB 0.56	IBD -0.01	HYB 0.15	HYB -0.23	IBD -0.18	SCG 4.07	LCV 2.84	SCG 0.46	SCG 0.55	HYB -3.49	
	IEQ 0.95	IEQ 0.74	HYB -0.90	SCG 0.95	IEQ 0.17	MCG 1.21	RE 2.29	USB -0.92	HYB -0.35	SCG -0.23	SCV 2.27	IBD 0.44	HYB -0.42	IBD -0.09	RE -0.51	USB -0.45	LCG 3.23	IEQ 2.50	IBD 0.29	MCV -0.46	LCV -3.54	
	MCV 0.93	LCG 0.69	EM -1.06	SCV 0.27	MCV 0.14	MCV 1.07	LCG 1.97	SCV -1.21	SCV -0.41	SCV -0.45	LCG 2.26	IEQ 0.38	60/40 -1.11	60/40 -0.36	IBD -0.63	IEQ -0.82	RE 1.77	SCV 2.47	MCG 0.25	HYB -0.86	EM -4.34	
	SCV 0.91	MCV 0.61	LCV -1.07	EM 0.25	LCV 0.10	LCG 1.04	IEQ 1.62	60/40 -1.25	60/40 -0.83	60/40 -0.56	EM 2.17	SCV 0.38	RE -1.12	MCV -0.38	60/40 -0.77	60/40 -1.05	SCV 1.48	RE 2.41	LCG 0.23	USB -1.15	SCV -4.40	
	LCG 0.78	IBD 0.39	RE -1.26	IEQ 0.24	USB 0.09	EM 0.97	EM 1.57	IEQ -1.27	MCV -0.94	USB -0.58	IEQ 1.84	RE 0.33	EM -1.16	IEQ -0.42	LCV -0.84	EM -1.17	HYB 0.71	MCG 2.08	SCV 0.23	LCV -1.20	MCV -4.84	
	LCV 0.73	60/40 0.35	60/40 -1.29	LCV 0.03	MCG 0.03	LCV 0.68	MCV 1.53	HYB -1.32	RE -1.04	IEQ -0.65	MCV 1.65	MCV 0.31	LCV -1.55	LCV -0.44	MCV -1.09	LCV -1.24	MCV 0.67	SCG 1.97	HYB 0.07	MCG -1.24	IBD -4.84	
	EM 0.61	HYB 0.15	MCV -1.40	MCV 0.02	60/40 -0.01	IEQ 0.51	SCV 1.22	LCV -1.34	LCV -1.09	MCG -0.66	LCV 1.15	60/40 0.23	IEQ -1.61	RE -0.52	IEQ -1.17	SCV -1.42	60/40 0.36	EM 1.85	60/40 -0.27	IBD -1.92	60/40 -5.98	
	60/40 0.50	USB 0.11	SCV -1.43	60/40 -0.01	HYB -0.07	60/40 0.37	LCV 1.13	MCG -1.54	IEQ -1.51	EM -0.70	60/40 1.11	LCV 0.18	SCV -1.77	SCV -0.57	LCG -1.33	MCV -1.58	USB 0.18	LCG 1.69	MCV -0.44	60/40 -2.10	IEQ -6.94	
	HYB 0.40	EM -0.16	IEQ -1.58	HYB -0.39	IBD -0.09	HYB -0.11	60/40 1.10	MCV -1.56	EM -1.52	LCV -0.76	RE 0.76	USB 0.12	MCV -1.86	EM -1.00	SCV -1.33	RE -1.76	LCV 0.13	60/40 1.48	LCV -0.53	IEQ -3.43	RE -12.44	
	IBD 0.29	MCG -0.23	SCG -2.51	USB -0.63	RE -0.17	IBD -0.12	HYB 0.53	SCG -1.73	SCG -1.83	IBD -0.78	IBD 0.36	LCG -0.05	LCG -2.88	LCG -1.08	MCG -1.40	SCG -2.39	IBD -0.94	HYB 0.57	EM -1.31	LCG -4.16	LCG -12.48	
	USB -0.03	SCV -0.61	MCG -2.90	IBD -0.80	EM -0.21	USB -0.31	IBD 0.45	LCG -2.03	MCG -2.54	RE -0.93	HYB 0.17	SCG -0.20	SCG -3.14	SCG -1.38	EM -1.42	LCG -2.44	IEQ -1.34	IBD 0.51	RE -1.65	EM -4.32	SCG -12.94	
Low	RE -0.55	SCG -1.30	LCG -3.66	RE -0.92	LCG -0.68	RE -0.52	USB 0.06	RE -2.50	LCG -2.93	MCV -0.94	USB -0.16	MCG -0.22	MCG -3.22	MCG -1.43	SCG -1.46	MCG -2.60	EM -2.06	USB 0.10	IEQ -1.90	RE -4.59	MCG -14.01	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.