Investment Update for the week of April 20th, 2020

- **Global Markets: Stocks finished their second week in a row of gains driven by reopening hopes**

    - **U.S. Equities** rose over the week with the S&P 500 Index ending the period up just over 3%. Remarkably, the S&P is now up nearly 30% from the low reached on March 23rd, bringing the year-to-date decline to 10.5%. This compares to a year-to-date decline of over 30% through the low. Despite the impressive rebound, many are questioning if the rally in risk-assets accurately reflects the underlying deteriorating economic and corporate fundamentals. There was an unusually high level of dispersion amongst the underlying sectors last week, with a nearly 12% delta between the best (consumer discretionary: +7.9%) and worst (financials: -4.0%) performers. Other notable outperforming sectors included healthcare (+6.2%) and IT (+4.8%) while additional laggards included real estate (-2.7%) and materials (-2.1%). As measured by the respective Russell indices, growth exceeded value while large-cap exceed small-cap. Similar trends have persisted so far this year.

    - **International Equities** were positive but generally lagged domestic counterparties. Within non-U.S. markets, the MSCI Emerging Markets Index exceeded the developed markets, MSCI EAFE Index by a small margin. Most non-U.S. markets also lagged U.S. indices so far in 2020.

    - **Credit Markets** rose as yields fell modestly while most credit spreads tightened. Yields backed up on the heels of disappointing economic data. Demand for core areas of the bond market, such as municipals, has improved as anecdotally evidenced by a large general obligation issuance by California which was upsized and repriced at lower yields. The investment grade market also saw increased demand, particularly from overseas buyers amidst a backdrop of sparse yield.

- **Economic Data/News: Hopes of containment/reopening boosts sentiment while most economic data disappoints**

    - **U.S.:** A slowing of coronavirus infection rates and hospitalizations in some of the hardest-hit domestic areas have helped improved sentiment as did greater talk of gradually reopening the economy. Despite rising sentiment, much of the economic and corporate data has been disappointing. According to a FactSet poll, analysts expect overall S&P 500 earnings to decline just under 15%. Financial institutions, in particular, appear to be in a tight spot as several major banks saw first-quarter profits fall well over 50%, based on compressed net interest margins (NIMs) and higher expected default rates. Outside of corporate earnings, retail sales fell 8.7% in March, the biggest decline on record and worse than most estimates. Beneath the surface, the fall in sales reflects more dire results for discretionary parts of the economy, such as apparel. These areas were partially offset by a rise in sales of consumer staples such as health and personal care items. Food and beverage sales also rose by more than 25%. Another 5.2 million Americans filed for unemployment last week, bringing the total over the last four weeks to over 22 million.

    - **International:** In Europe, some countries are extending lockdowns while others are debating if now is the time to reopen. For instance, France expects to reopen schools on May 11th while the U.K. lockdown is expected to span another several weeks. Elsewhere in Europe, stimulus measures have been enacted that are similar to the U.S. Notably, the Eurozone agreed on a loan-based rescue deal of 500 billion Euros to support businesses. The ECB also remains committed to doing whatever it takes to support a recovery. In Asia, the biggest surprise came as China's first quarter GDP realized its first decline of 6.8%. Other economic data coming out of both developed and emerging Asia was largely within or below expectations.

- **Odds and Ends: P&G's profits surge, short sellers unite, and Neiman Marcus is on the brink of bankruptcy**

  - While many companies are struggling to figure out how to survive this challenging period, a select few have benefitted. One example is **Procter & Gamble**, as shoppers rushed to stock up on products within many of their core focus areas (medicine, cleaning surprises, etc.). P&G reported their biggest U.S. sales jump in decades of around 10%, although this was somewhat offset by sales declines in China. While much of the increased demand could be viewed as short-term, P&G believes that consumption of products like laundry detergent, dishwashing soap and cold medicine will persist after the pandemic passes as consumers might place a greater emphasis on health and hygiene.

  - The recent stock market rally has contributed to short sellers reviving bets against the broad market and especially towards certain industries – such as hospitality and travel. According to the WSJ, bets against the SPDR S&P 500 Trust (SPY), the biggest ETF to track the index, rose to $68.1 billion – the highest level since 2016. That's up from closer to $41 billion at the start of the year. Short interest in travel-related companies, such as Carnival, Marriott, and Wynn Resorts, has also risen of late as their shares have dramatically recovered amidst questionable forward outlooks.

  - **Neiman Marcus Group** is one of the first of the major department stores expected to throw in the towel during the coronavirus economic fallout. Importantly, other factors are at play as Neiman Marcus has a considerable debt load and caters to the high-end luxury market with its nameplate stores in addition to Bergdorf Goodman. Despite likely filing for bankruptcy protection this week, the company is also in the final stages of negotiating an emergency loan with creditors which could sustain operations throughout bankruptcy proceedings. The company has already furloughed many of its 14,000 employees.

- **Resource of the week:** For those that need a break from coronavirus news, this episode of *How I Built This* sits down with the founders of the salad chain - Sweetgreen. Sweetgreen founders Nicolas Jammet and Jonathan Neman met at Georgetown University in 2003 and quickly bonded over their frustration at the lack of healthy food on campus. Despite a rocky start, the brand has quickly grown to have over 100 locations in the northeast and mid-Atlantic and has some the most impressive ordering technology and infrastructure in the industry. To hear their story and how they are combating the current environment, give this episode a listen. Please feel free to submit suggested resources to smelnick@sfr1.com.

  - **NPR Link**: https://www.npr.org/2020/04/10/831678631/sweetgreen-nicolas-jammet-and-jonathan-neman
  - **Spotify link**: https://open.spotify.com/episode/1CifpKnJSumRhUhZOOjQKS

Sources: The WSJ, T. Rowe Price Global Markets Weekly Update, Reuters

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This commentary was written by Craig Amico, CFA®, CIPM®, Senior Investment Analyst, Noreen Brown, CFA®, Director of Portfolio Management and Steven Melnick, CFA®, Senior Investment Analyst at Summit Financial, LLC., an SEC Registered Investment Adviser ("Summit"), headquartered at 4 Campus Drive, Parsippany, NJ 07054, Tel. 973-285-3600. It is provided for your information and guidance and is not intended as specific advice and does not constitute an offer to sell securities. Summit is an investment adviser and offers asset management and financial planning services. Indices are unmanaged and cannot be invested into directly. The Wilshire 5000 Total Market Index measures the performance of all U.S.-headquartered equity securities with readily available price data. The Standard & Poor's 500 Index (S&P 500) is an unmanaged group of securities considered to be representative of the stock market. The Russell 2000 Index is a market-cap weighted index comprised of the smallest 2,000 companies within the Russell 3000 Index, a larger market-cap index made up of the largest 3,000 publicly traded companies in the U.S., nearly 98% of the investable U.S. stock market. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI Europe Index captures large- and mid-cap representation across 15 Developed Markets countries in Europe, covering approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe. The MSCI Emerging Markets (EM) Index captures large- and mid-cap representation across 26 Emerging Markets countries, covering approximately 85% of the free float-adjusted market capitalization in each country. The MSCI Japan Index captures large- and mid-cap representation of the Japanese market, covering approximately 85% of the free float-adjusted market capitalization in Japan. The Bloomberg Barclays U.S. Aggregate Bond Index is a market capitalization-weighted index comprising Treasury securities, Government agency bonds, mortgage backed bonds, corporate bonds, and some foreign bonds traded in the U.S. The Bloomberg Barclays Global Aggregate Ex U.S. Index measures the performance of global investment grade fixed-rate debt markets that excludes USD-denominated securities. The Bloomberg Barclays Municipal Bond Index covers the U.S. dollar-denominated long-term tax-exempt bond market. Created by the Chicago Board Options Exchange (CBOE), the Volatility Index, or VIX, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. Data in this newsletter is obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timelines or accuracy of this information. Consult your financial professional before making any investment decision. Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against a loss.