



Investment Update for the week of May 18th, 2020

- **Global Markets: Equity markets fell once quick recovery hopes faded while bond markets largely rose with the Federal Reserve's support**
 - **U.S. Equities** ended the week down across all market-cap sizes and styles. For reference, the S&P 500 Index fell -2.20% over the period. This decline followed some shrinking hopes that the U.S. economy would experience a rapid recovery, reminiscent of a V-shape. Instead, dismal economic data and continued warnings of widespread weakness left a foul taste in the mouths of investors. This was particularly notable on Wednesday when Federal Reserve Chair Jerome Powell officially warned the country of "lasting damage to the productive capacity of the economy". Following this, stocks fell and the S&P 500 hit its lowest level in three weeks. Within sectors, the health care (+0.9%), consumer discretionary (-1.6%), and consumer staples (-1.4%) areas fared the best while energy (-7.1%) and real estate (-7.2%) lagged after fears surfaced again that real estate lease payments may encounter a challenging time. As measured by their respective Russell indices, large-cap stocks (-2.3%) beat their small-cap counterparts (-5.4%). The growth style dominated value headlined by a shocking weekly decline in the Russell 2000 Value Index of -8.6%.
 - **International Equities** broadly declined, but some areas were not as severe as others. In Europe, stocks fell following pronounced fears of an elongated recession and even a possible second wave of coronavirus infections. Developed markets lagged most emerging markets indicated from the MSCI EAFE Index fell -3.2% while the MSCI EM Index only fell a meager -1.1%. The relatively strong emerging markets performance is symbolic of improving economic situations throughout most of Asia. Remarkably, China has seemingly eradicated all virus-related concerns and some economic functions have returned to beat expectations. This is despite small clusters of new infections that were reported in Wuhan but are not considered to pose any credible threat to the nation.
 - **Credit Markets** had mostly small modest gains after U.S. Treasury yields fell on the backs of weak economic reports and bond purchases by the Federal Reserve. The 10-year yield ended at 0.64%. In fixed income bond sectors, municipals advanced for the week led by the high-quality issuers over the high-yielding competitors. The corporate bond market was supported by the Fed's purchases of exchange-traded funds, acting as the backstop to any liquidity concerns raised by investors. These "supportive" actions by the Fed also came at a time when it said it would not be cutting Treasury interest rates to below 0%. As widely expected, some previous investment-grade companies were downgraded to high-yield (junk) status. In fact, the volume of "fallen angels" already in 2020 is \$153 billion which has already surpassed the record of \$150 billion set in 2009.
- **Economic Data/News: Further stimulus package talks sputter in the U.S. and are approved in Europe amidst woeful economic figures**
 - **U.S.:** Despite the central bank hinting of additional stimulus measures, initially focused on a new \$3 trillion package, the idea did not make much progress as President Trump rejected it immediately. Additionally, it is reported that Senate Republicans were considering imposing

sanctions on China after the country's supposed lack of cooperation early on when the coronavirus crisis was emerging. Politics aside, the Commerce Department reported that retail sales excluding the automobile sector plunged by 16% in the month of April, by far the biggest monthly decline on record. Behind this sales' figure decline were lower prices in energy, transportation, and apparel costs counteracted by the highest price increases in groceries since 1974. In other words, consumers are spending much less discretionary income overall, and their decreased expenditures are strongly directed at grocery food or other consumer discretionary goods. Another 3 million Americans filed for initial jobless claims in the week prior, down slightly from the previous week of about 3.2 million claims. The running 8-week total now tallies in at more than 36 million Americans.

- **International:** Eurozone nations almost all reported GDP contractions throughout the first quarter. Among the noteworthy country results were France (-5.8%), Spain (-5.2%), Italy (-4.7%), and Germany (-2.2%). In a much-needed positive spin, Italy finally approved a relatively small economic stimulus package worth €55 billion, intended to provide tax breaks and grants for businesses and households in dire need. Japanese companies' bankruptcies increased in April that affected mostly small companies in the food and tourism sectors, following the strict social-distancing enforcements. Most analysts expect this figure to rise significantly. In China, there were a few bright spots including industrial production and auto sales that beat expectations although the broader economic picture points to a slow, gradual, uneven recovery, arguably W-shaped.
- **Odds and Ends: Virus vaccines continue fast-track development for usage, sporting events in the new reality of no fans, and a very slow reopening awaits the hard-hit auto industry**
 - At least 100 verified vaccines have been reported to be in development globally, and eight of these have already started clinical trial testing in humans. Some companies, like **Moderna (MRNA)** and **Pfizer (PFE)**, are focused on proprietary vaccine manufacturing while others, like **Johnson & Johnson (JNJ)** and **Sanofi (SNY)**, are building capacity to make hundreds of millions of doses of whichever vaccine is approved. All these efforts are aligned to push for a distribution to the public as early as this fall in the U.S. There is no guarantee this goal will be met as vaccines typically take years to come to market, but firms are laser-focused on this initiative for the foreseeable future.
 - Sports are slowly starting to reemerge following social distancing measures, preventing fans from being present at any games, matches, or events. Baseball in Asia has resumed with cardboard-cutouts placed in the seats to represent the missing fans. Other venues following suit include the UFC, NASCAR, and even professional wrestling. A genuine concern that everyone is wondering is whether the lack of fans with all their real, engaging enthusiasm and energy may lead to a different sports experience for the casual home-observer (all of us during these times). Nobody knows for sure what the public reaction will be yet, but as any big sports fan will attest to – watching other people take part in any sort of live competition is a welcome addition to many homes.
 - After letting go of many manufacturing plants' employees, some auto companies are looking to rehire a few of those employees back, but only a very few initially. Most employers in the auto-industry are expecting a slow, arduous rebuilding process as auto demand looks to build once again once consumers begin to adapt to the "new normal" commute awaiting them. **General Motors (GM)**, **Ford Motor Co (F)** and **Fiat Chrysler Automobiles (FCAU)** plan to reopen U.S. factories this week after finalizing necessary safety standards. Interestingly, since many manufacturers based in

the U.S. source parts and materials from other countries, the virus outbreaks in those countries is vitally important. All auto companies are embracing the fact that manufacturing and sales will not resume to pre-pandemic levels for a long time, dependent on increased demand.

- **Resource of the week:** As we all maneuver our day-to-day and the changes that come with it, business owners are also figuring out how to make the most of their situations. This episode of *How I Built This with Guy Raz* features a conversation with Stewart Butterfield, the co-founder of Slack, an online communication platform – pivotal in the work-from-home environment. Guy also interviews Steve Holmes, the co-founder of Springfree Trampoline, who is managing the large increase in demand for backyard trampolines. Each conversation is uniquely interesting and focuses on two of the shining spots during the pandemic. Please feel free to submit suggested resources to smelnick@sfr1.com.
 - **Spotify:**
<https://open.spotify.com/episode/3TgP8VgdrYyxCqIJ9mli9i?si=yHNFsoJAT9qGtwfEB0ZhWA>

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

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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.