



Investment Update for the week of May 4th, 2020

- **Global Markets: Equity and bond markets finished the week mixed as investors remained skeptical over the state of the recovery**
 - Large-cap **U.S. Equities** mostly finished the week little changed in either direction. For reference, the S&P 500 Index fell 20 basis points (-0.2%) over the period. For a change of pace, small- and mid-caps both outperformed large-caps, with each segment rounding out its best monthly performance since 1987. Also, in contrast to recent months, the energy (3.0%) and materials (1.9%) sectors were amongst the best performers backed by hopes for more normalized demand. Utilities (-4.0%) and healthcare (-2.6%) sectors were the bottom performers, although their year-to-date results are more favorable. A rebound in the aforementioned sectors contributed to the slight outperformance of value over growth for the week.
 - **International Equities** generally outperformed domestic market counterparts. European markets responded positively to the news that many eurozone countries would be lifting lockdown restrictions in the coming weeks. Japanese markets also rose, although to a lesser extent. Emerging markets posted strong gains, with the MSCI EM Index rising 4.3% over the week, helped by China's continued reopening efforts.
 - **Credit Markets** were also mixed as most yields rose modestly over the period. The Federal Reserve Policy Committee met last week and agreed to keep rates at near 0% until the economy recovers to closer to its employment and inflation goals. There was heavy issuance in the corporate market last week, as companies sought to shore up balance sheets ahead of rough roads ahead. The level of issuance was met with strong demand as investors are still starved for yield. The municipal market was modestly negative and it underperformed treasuries. Concerns around the impact of lost revenues for municipalities and politically motivated headlines has added pressure to this area of the market.
- **Economic Data/News: Potential advancements on the medical front are overshadowed by bleak economic data and rising U.S. tensions with China**
 - **U.S.:** Positive news surrounding Gilead's clinical trial of its drug Remdesivir against the coronavirus helped boost sentiment earlier in the week. More specifically, Remdesivir was shown to diminish the time to recovery. An Oxford University team also has shown promising results for a potential vaccine which could be ready for the public as soon as this September. While medical progress on mitigation efforts is promising, the economic toll of the shutdown efforts appears bleak. An additional 3.84 million Americans filed for unemployment last week, bringing the trailing 6-week total to more than 30 million or nearly 20% of the U.S. working population. Rising unemployment and higher uncertainty has directly impacted consumer spending. The figure fell by 7.5%, the largest decline on record over the past 60 years. Adding insult to injury, tensions are again on the

rise between the U.S. and China. President Trump acknowledged the potential for imposing new sanctions on China for its lack of its cooperation during the pandemic. Secretary of State, Mike Pompeo also recently stated that there is evidence supporting that the coronavirus originated from a Chinese lab.

- **International:** In Europe, the ECB left its policy rate at a record low of -0.5%. It also committed to inject additional liquidity into markets through the purchase of over €1 trillion of bonds among other measures. Similar to the Fed, the ECB has continually reaffirmed its commitment to doing whatever necessary within its power to support the eurozone economy and citizens. It might be necessary, as Eurozone GDP shrunk at a record rate of 3.8% over the first quarter, ahead of the 3.5% consensus forecast. In Asia, the Bank of Japan also committed to additional easing measures, including the removal of a previously implied quota on government bond purchases and a tripling of corporate and commercial paper purchases. In China, life continues its progress towards normality, as additional quarantine restrictions are relaxed. Perhaps an indication of other how countries might progress, China's PMIs so far indicate a slow but steady recovery.
- **Odds and Ends: J. Crew files for Chapter 11, Berkshire sells airline stocks, and utility investors take note**
 - **J. Crew** was already in tough shape before the coronavirus hit based on the online headwinds to traditional retail. The global pandemic has since pushed them over the edge and they filed for bankruptcy protection on Monday morning. The retailer has already announced that it reached an agreement with its lenders to restructure its debt and convert \$1.65 billion of existing debt into equity. The company also secured an additional \$400 million financing facility from a consortium of existing hedge funds lenders. The funding should help the company reopen its stores once lockdown measures subside.
 - The **Berkshire Hathaway** annual meeting took a new virtual form this year. While there were many interesting takeaways, one of the more notable ones was that the holding company sold much its stock in airline companies. While Buffett reiterated his faith in 'betting on America,' he noted you have to be careful how you bet. He also commented that the coronavirus changed the business in a dramatic way and pointed out industry's notoriously high level of fixed costs. Also notable was the absence of Buffett's legendary sidekick, Charlie Munger. Despite his absence and age of 96, Buffett noted that "Charlie is in fine shape and will be back next year."
 - Utility stocks have seen their valuations expand over the past decade as 'safe' yield was hard to come by. Despite a reputation for steady demand, many utilities are facing two new challenges amidst the current backdrop. First, demand has fallen off for many businesses and industrial customers. Second, an increasing number of businesses and households stopped or might stop paying their bills as they face financial hardship. Unpaid bills are increasing at rates between 20% and 100% compared to a year ago, according to a survey from the National Energy Assistance Directors Association.
- **Resource of the week:** The recent snapback in equity markets amidst disappointing economic data has left many scratching their heads. Among the headscratchers is Chris Bloomstran, the founder and

CIO of value-oriented investing firm Semper Augustus Partners. This episode of *Invest Like the Best* is worth a listen for Chris' current perspective on the public equity market, why it will be hard for the market to deliver great returns for the next decade relative to the last, and where current opportunities may lie. Please feel free to submit suggested resources to smelnick@sfr1.com.

- **Podcast link:** <http://investorfieldguide.com/chris-bloomstran-update-on-public-markets/>
- **Spotify link:** <https://open.spotify.com/episode/0BhulcLjxaqVmtOS7WAIQF>

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

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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.