Summit Snapshot: Week Of August 31st, 2020

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	2.7%	3.3%	3.8%	9.2%	13.7%	18.1%	-8.6%	10.5%	29.7%
U.S. Mid-Cap	2.7%	2.4%	1.8%	10.0%	10.2%	10.6%	-9.9%	0.1%	15.2%
U.S. Small-Cap	2.5%	1.7%	0.9%	9.4%	9.7%	10.0%	-16.3%	-4.5%	6.6%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	3.3%	13.5%	10.0%
International Developed	1.7%	7.6%	-4.6%
Emerging Markets	2.8%	13.4%	2.3%
U.S. Aggregate Bond	-0.5%	0.4%	6.6%
U.S. Municipals	-0.3%	1.2%	3.3%
Corporate High Yield	0.8%	5.6%	1.6%

Source: Morningstar, see 'Disclaimer' for sources

U.S. Equity Markets

- Equities increased again last week setting fresh new record highs sparked by more positive news centered around plasma treatments and vaccines. The S&P 500 Index closed out the week above the 3,500 level for the first time ever as volume was notably light due to it being late summer.
- A similar trend this year, large-cap stocks prevailed over both mid-caps and small-caps again as the large-cap growth style outpaced the large-cap value style. Large-cap growth was once again led by the strong returns of the mega-cap technology and communication services companies. Interestingly value beat growth within both mid- and small-cap stocks.
- All sectors except for utilities rose for the week led by strong returns north of 4% from information technology, communication services, and even financial stocks. However, financials remain underwater by more than 16% for the year though.

International Equity Markets

- Both international developed and emerging markets stocks rose, while the former trailed the latter in absolute returns (+1.7% vs +2.8%) as represented by their respective MSCI indices. Europe is dealing with what seems to be the start of a second wave of new cases in several countries including France, Spain, and Italy. Meanwhile Japanese stocks were mostly flat to slightly up as the nation ponders the future of their economy given that Prime Minister Shinzo Abe resigned due to his declining health. Abe instilled various economic policies aimed at expanding the economy.
- Emerging market equities were largely led by compelling returns from Chinese stocks. The MSCI China Index rose 4% in USD terms, as Alibaba and Baidu produced strong returns. For the year thus far, Chinese A shares have risen about 10% compared to a similar return by the S&P 500 Index. That makes Chinese equities among the strongest performing stocks in the global stock markets.

Credit Markets (Perspectives from our partners at Piton Investment Management)

- The yield curve steepened for another week led by the long-end, as the 30-year yield reached 1.51% in the week. The yield on the 10-year that finished last week at 0.63%, became cheaper this week closing in around 0.72%.
- The spread comparing corporate bonds to Treasuries was approximately flat this week. However, the dovish tone from Fed Chairman Jerome Powell on Thursday's summit should help corporate bond spreads tighten-in. Due to the low-rate environment, companies are issuing debt skewed towards the longer end of the curve. Year-to-date issuance is at an all-time record $1.377 trillion.
- A combination of yield fatigue and a jump in issuance resulted in higher municipal yields for the week with the curve steepening 7bps. As we move into September, negative seasonality will be a factor as redemptions typically slow, resulting in upward pressure on yields. Municipal funds saw their 16th straight week of inflows adding $1 billion for the week ending Wednesday, down from $1.8 billion the week prior.
- **Expanded fixed income commentary from Piton can be found at the following link**: https://pitonim.com/education-and-insights/weekly-fixed-income-views-from-august-28-2020

U.S. Economic Data/News

- As mentioned earlier, Fed Chair Powell delivered a virtual speech on Thursday which addressed the central bank's new monetary policy approach to handle inflation. He stated the Fed will be able to tolerate a larger range of inflation targets which should hopefully pave the way for the U.S. economy to achieve a full recovery over the long term. Essentially, instead of targeting a very specific target inflation like in the past, now the Fed will consider the historical inflation level and duration before making any unwarranted monetary policy changes.
- The initial weekly jobless claims fell by almost 100,000 and tallied in at a hair over 1 million for the week ending August 22nd. Continuing claims, delayed by an additional week, fell by a fraction as well and totaled 14.5 million Americans who are receiving some type of unemployment assistance. Although these figures continue to decline, they still represent a highly stressed labor market.

International Economic Data/News

- Germany's coalition agreed to fund an additional €10 billion to a program that will keep company's workers on their books until at least year-end. This news came soon after its gross domestic product contracted at a quarterly rate of 9.7%. France's Prime Minister Jean Castex plans to announce a €100 billion recovery plan on September 3rd which will support small- and mid-sized companies in conjunction with various new tax cuts.
- In Asia, Japan is optimistic their expansive fiscal policy will continue with a new Prime Minister since a shift to a tighter policy could inflict harm to the fragile economy. The yield on the 10-year Japanese government bond rose to 0.059%, its highest level since the pandemic's beginning economic effects that took place in March.
- The yield on China's sovereign 10-year bond increased for the week indicative of their strengthening economy. Also, industrial profits spiked nearly 20% in July compared to July from a year ago, although cumulative profits remain at a negative level year-to-date despite the continued economic recovery and growth.

Sustainable Spotlight (Perspectives from our partners at Seeds): Does FAANG really belong in an ESG portfolio?

- ESG advocates and detractors alike continue to question the inclusion of large cap tech giants in funds that incorporate ESG metrics in the investment process. While more tech-focused firms can have lower environmental risk exposures by nature, these companies continue to face controversies over data privacy, labor issues, and unfair monopolistic practices.
- Meanwhile, many ESG funds have attributed strong performance to overweighting these large cap tech stocks, especially during the COVID-19 crisis. For the year ending July 27, eight of the top 10 performing large cap US funds that incorporate ESG metrics included Apple, Amazon, or Microsoft as their largest holding, according to Morningstar. Meanwhile, those 10 funds had about 12% concentration in the FAANG stocks (Facebook, Amazon, Apple, Netflix, and Alphabet).
- Facebook, for example, which continues to draw criticism over data privacy and misinformation controversies, ranks among the top 10 holdings of one of the largest "socially aware" mutual funds as well as another $7.9 billion "social index" fund.
- As Wolfgang Kuhn, Director of financial sector strategies at ShareAction, a responsible investment charity, explained, "The man on the street would definitely be surprised about those companies' inclusion in ESG funds."

Resource of the week:

- As a previous recipient of the Morningstar U.S. Allocation Fund of the Year Award in 2013, Steve Romick is a confident, diligent, and patient portfolio manager. He knows how to strategically invest for the long-term and maintain conviction to follow a particular investment style. This episode of *The Long View* interviews Steve, a current portfolio manager at First Pacific Advisors, more commonly known as FPA. He believes in and speaks to maintaining an appropriate risk/reward balance especially in unprecedented times like these, given all the ramifications COVID-19 has inflicted on the economy. If you have some spare time, enjoy this thought-provoking conversation.

- **Podcast link**: https://the-long-view.simplecast.com/episodes/steve-romick

Sources: The WSJ, T. Rowe Price Global Markets Weekly Update, Piton Investment Management, Seeds Investor

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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 Sustainable Spotlight portion of this report is written and provided by Seeds Investor LLC ("Seeds"). Seeds is an SEC Registered Investment Advisor which is not affiliated with Summit. The market return chart returns are represented by the following indices: large cap value by Russell 1000 Value TR Index, large cap blend by Russell 1000 TR Index, large cap growth by Russell 1000 Growth TR Index, mid cap value by Russell Mid Cap Value TR Index, mid cap blend by Russell Mid Cap TR Index, mid cap growth by Russell Mid Cap Growth TR Index, small cap value by Russell 2000 Value TR Index, small cap blend by Russell 2000 TR Index, and small cap growth by Russell 2000 Growth TR Index, international developed by the MSCI EAFE NR USD Index, Emerging Markets by the MSCI EM NR USD Index, U.S. Aggregate Bond by the BBgBarc US Agg Bond TR USD Index, U.S. Municipals by the BBgBarc Municipal TR USD Index, and Corporate High Yield by the BBgBarc US Corporate High Yield TR USD Index. 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 timeliness 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.