Investment Newsletter

AUGUST 2020

Overview

The global equity markets surged during August, once again led by U.S. stocks. As businesses and schools continued to reopen, investors seemed to look past the upswing in new COVID-19 cases and mixed economic data. Steady monetary support from the Federal Reserve and the promise of additional fiscal spending supported equities as well as cyclical commodities. Fixed income returns for the month were lackluster with low yields compounded by price declines in long-term and lower quality bonds. Historically low interest rates have made equities more attractive relative to fixed income by increasing the value of future earnings and lowering the return offered by bonds.

However, the equity markets are poised to be disappointed if efforts to conquer the coronavirus pandemic and accommodative government policy falls short. There has been considerable optimism that an effective vaccine for COVID-19 will soon be available and that new treatments will mitigate the long-term health effects of the virus. The upcoming U.S. election is widely expected to usher in a period of extreme uncertainty and ongoing tensions with China could once again roil the stock markets. We recommend that investors remain well diversified with a mix of growth, defensive, and low volatility assets that are in line with their target allocations.

Equity Markets

- The technology, health care, and cyclical consumer sectors outperformed for the month. The energy sector continued to sharply lag.
- Growth stocks, particularly in the U.S. technology sector, are supported by favorable earnings growth but are expensive relative to other sectors.
- Market volatility expectations, as measured by the CBOE Volatility Index (VIX), remained above average, but hovered in the 20 to 25 range.

Fixed Income Markets

- The Fed announced they would be implementing a more flexible approach that would allow inflation to exceed the current 2% target. This raised expectations for interest rates and inflation over the long term. Inflation sensitive investments such as TIPs benefited but long-term bond prices declined.
- Credit concerns remain elevated in the municipal and corporate bond markets for some issuers. Overall, higher yielding bonds have outperformed Treasuries and high-quality credit-sensitive bonds in recent months.

The Economy

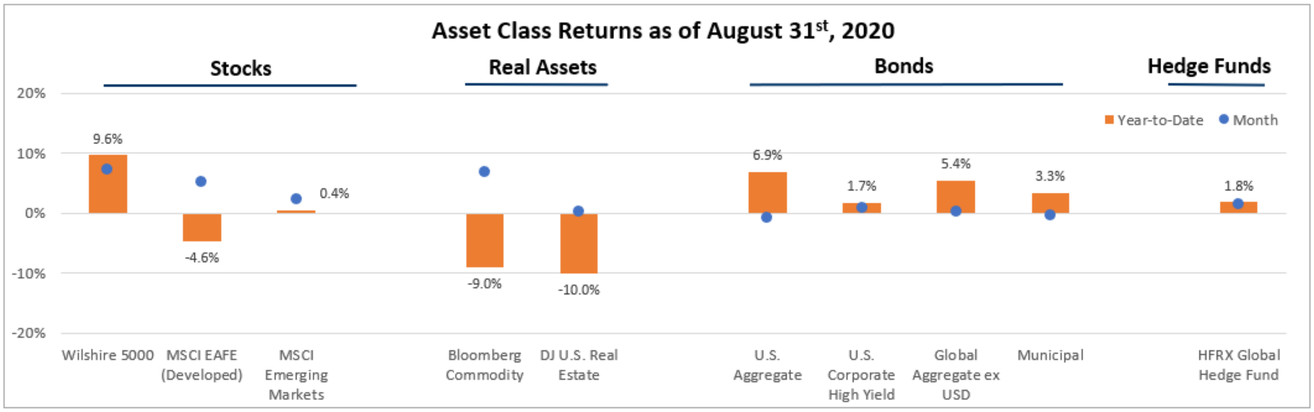
- Global economic growth is expected to sharply rebound in the third quarter. U.S. economic activity, as measured by the Institute for Supply Management (ISM) Indexes, has now expanded for three months. The Atlanta Fed GDP Estimate for third-quarter annualized growth is 28.5%. Economic growth is expected to rebound sooner and be more robust outside the U.S.
- The U.S. dollar continued to weaken. This should be positive for U.S. companies that can benefit from more competitive exports.
- Employment data was better than predicted but unemployment remains elevated. U.S. consumers are being conservative and saving more. Consumer sentiment has weakened which could dampen the domestic economic rebound.
- Oil prices rallied due to a reduction in supply and a favorable outlook for global economic recovery. Other cyclical commodities such as copper also gained.

SUMMIT FINANCIAL

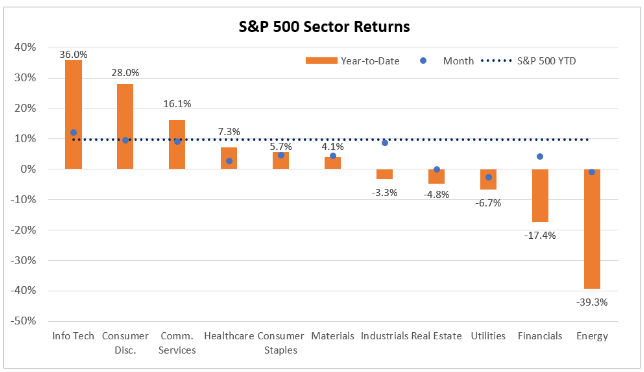
09092020-984

Authored by: Noreen Brown, CFA®, Director of Portfolio Management; Craig Amico, CFA®, CIPM®, Senior Investment Analyst; Steven Melnick, CFA®, Senior Investment Analyst

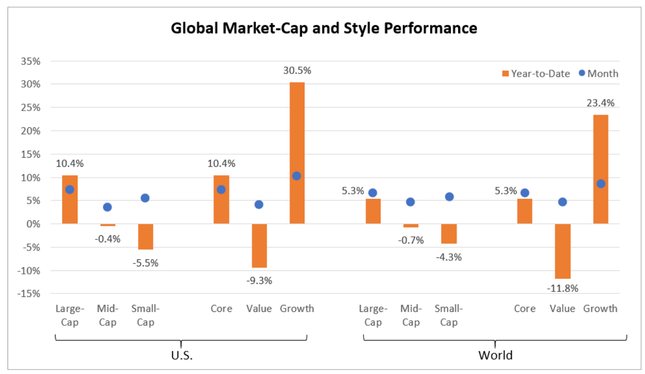
MARKET DATA



Morningstar®, bond indices from Bloomberg Barclays

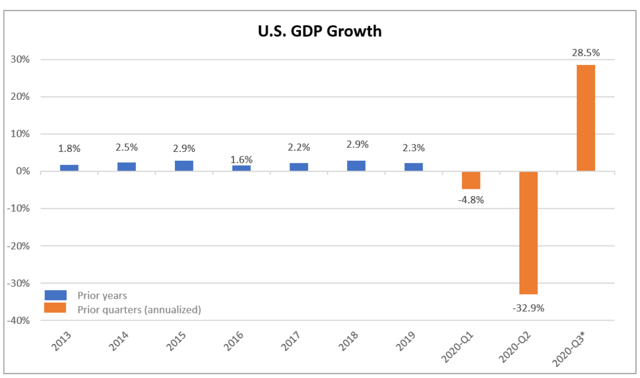


Bloomberg

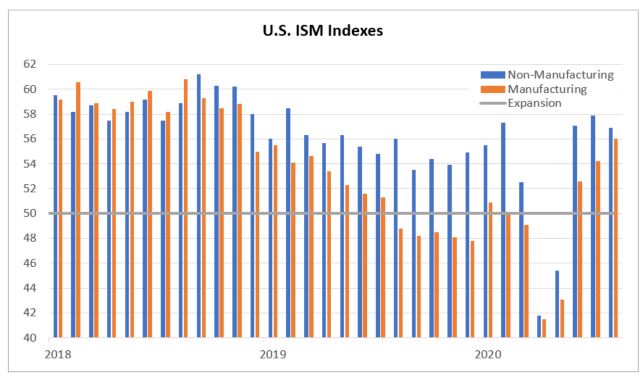


Bloomberg; U.S. indices from Russell and World indices from MSCI

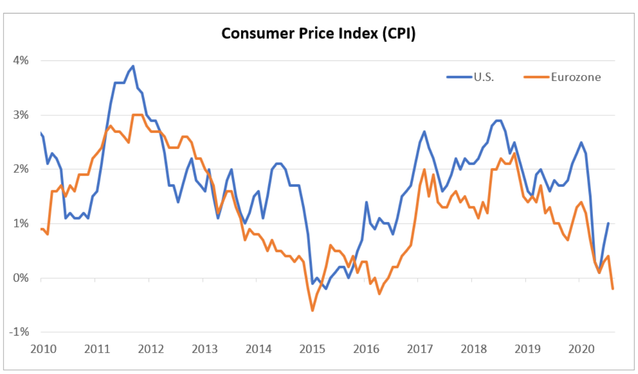
ECONOMIC DATA



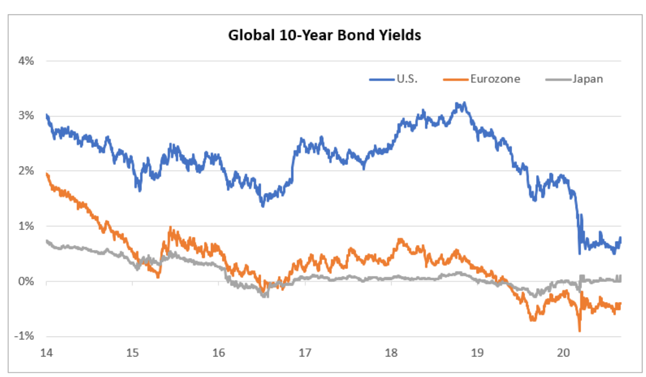
*U.S. Department of Commerce, *Atlanta Fed GDP Now estimate*



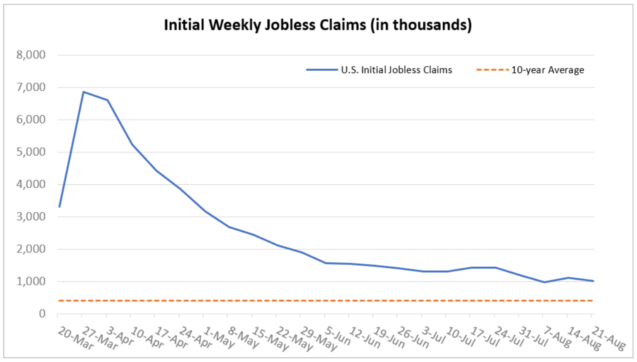
Institute for Supply Management



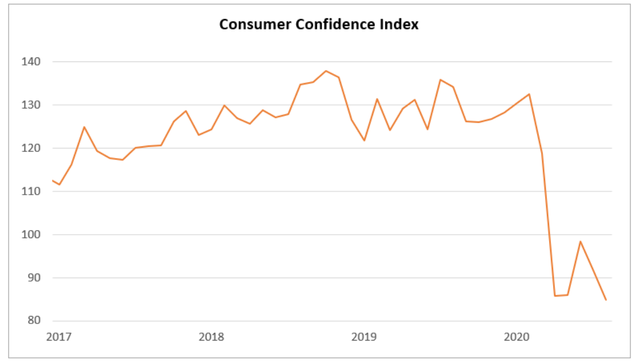
U.S. Bureau of Labor Statistics



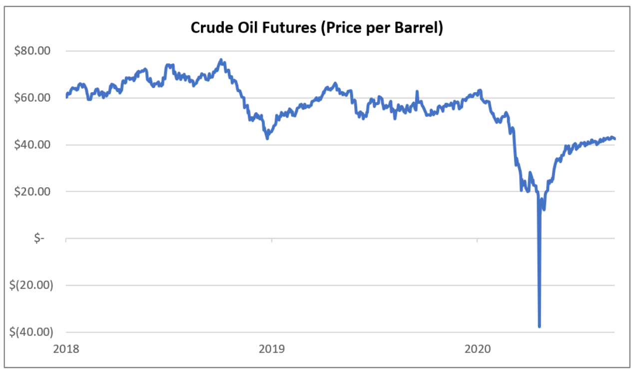
Bloomberg



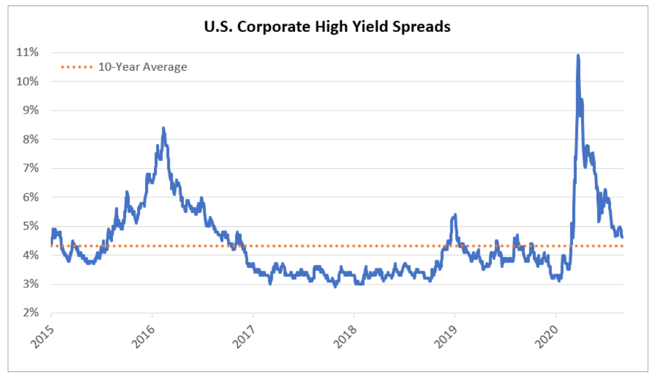
U.S. Department of Labor



Conference Board



Bloomberg



Bloomberg

DISCLAIMER

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 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 Emerging Markets Index is a free float-adjusted market capitalization index designed to measure the equity market performance of emerging markets; the Bloomberg Commodity Index measures the performance of an unleveraged, long-only investment in commodity futures that is broadly diversified and primarily liquidity weighted; the HFRI Fund of Funds Composite Index is an equally-weighted benchmark composed of over 400 domestic and offshore constituent funds having at least $50 million under management or having been actively trading for at least 12 months; 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. 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.