



# SUMMIT FINANCIAL

## Summit Snapshot: Week of December 21<sup>st</sup>, 2020

### Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	0.2%	1.7%	3.0%	14.8%	12.5%	10.4%	1.6%	19.7%	37.3%
U.S. Mid-Cap	1.0%	2.1%	4.1%	19.0%	19.6%	20.5%	3.7%	16.8%	37.3%
U.S. Small-Cap	1.3%	3.1%	4.7%	32.1%	31.0%	30.0%	3.7%	19.6%	35.0%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	1.3%	10.7%	16.9%
NASDAQ Composite	3.1%	14.4%	43.4%
International Developed	2.0%	15.1%	7.0%
Emerging Markets	0.9%	17.4%	16.1%
U.S. Aggregate Bond	-0.1%	0.3%	7.1%
U.S. Municipals	0.1%	1.7%	5.1%
Corporate High Yield	0.3%	5.8%	6.5%

Source: Morningstar, see 'Disclaimer' for details

### U.S. Equity Markets

- Major indices touched new high levels last week as ongoing negotiations continued amongst Congressional leaders to pass another economic relief package. In addition, encouraging developments related to both the Pfizer-BioNTech and Moderna vaccine candidates boosted overall investor sentiment.
- The S&P 500 sectors were led by technology stocks while energy lagged significantly, falling more than 4%, even though reports indicated strong demand for oil out of China and India.
- Tesla, set to join the S&P 500 Index on Monday the 21<sup>st</sup>, paved the way for several mutual funds and ETFs to adjust their composition to accurately track the index on Monday. With a market-cap near \$650 billion, it will instantly become the sixth largest company in the index once added. That also means material costs were realized to make room for the new auto manufacturing behemoth.
- Represented by their respective Russell indices, small-cap stocks bested their large-cap counterparts and continued a streak of several weeks of outperformance. Amazingly the YTD performance gap between small- and large-cap stocks has vanished because of this. Growth dominated value for the week, while the YTD performance delta between these styles persists.

### International Equity Markets

- Most international developed countries advanced indicative of the 2% rise of the MSCI EAFE Index. In fact, both European and Japanese equities were supported by three factors: vaccine optimism, impressive PMI data in critical economies, and positive stimulus package progress in the U.S.
- Emerging markets were positive but less so compared to developed markets. The largest component of the index, Chinese equities, rose despite the U.S. announcement it is steering clear from the nation's top chipmaker (Semiconductor Manufacturing Int'l Corp.) for security reasons.

## Credit Markets (perspectives from our partners at Piton Investment Management)

- The yield on the 10-year is trading around 0.92%, staying in the upper bound of the 0.88%-0.95% weekly range.
- The Fed's statement from Wednesday's FOMC meeting highlighted that asset purchases will continue until "substantial" progress is made. Overall, the Fed remains cautious on the near-term outlook, holding the target benchmark unchanged at 0.25% to keep interest rates low.
- The corporate spread for the iShares iBoxx Investment Grade Corporate Bond ETF, LQD, was approximately -7 bps tighter this week.
- Month-to-date corporate bonds have once more outperformed government sectors. The U.S. credit index is down 9 bps in December compared to government bonds at -0.42% month-to-date.
- For the municipal bond market, it was a quiet primary issuance week although trading picked up this week. Institutional investors offered \$3.7 billion to the secondary market from "bid wanted" lists. That was up over 20% from last week.
- Municipal fund inflows continued with \$915mm for the week ending 12/16.
- **Expanded fixed income commentary from Piton can be found using this [link](#).**

## U.S. Economic Data/News

- After several months of back-and-forth negotiations between both political parties, signs indicate a new package is imminent. The new deal amounts to about \$900 billion and includes \$600 direct payments to individuals and a separate \$300 per week unemployment stipend. After a brief speedbump to limit the Federal Reserve's lending ability during the pandemic was resolved, the Senate and House of Representatives are expected to vote on Monday.
- In vaccine news, December 14<sup>th</sup> marked the rollout of the Pfizer-BioNTech vaccine in the U.S. to frontline workers. Then on late Friday, the FDA authorized the Moderna vaccine for emergency use in the U.S., which essentially doubled the domestic vaccine quantity available for distribution by year-end. These positive events face an uphill battle as cases in the U.S. continue to rise, with populous southern California reporting the highest number of concentrated cases despite the enforcement of lockdowns and strict mask-wearing compliance in public.
- Initial weekly jobless claims through December 12<sup>th</sup> also unexpectedly rose for the second straight week to 885,000, the highest level since early September. However, continuing claims fell to about 5.5 million Americans through December 5<sup>th</sup> which is evidence the employment market is still fighting to recover to its pre-pandemic levels.

## International Economic Data/News

- As Europe deals with continuing concerns of a no-deal Brexit, it also must manage conflicting COVID-19 situations. After French President Emmanuel Macron contracted the disease and began his quarantine, other world leaders he previously met with also isolated to be safe. Germany, the U.K., and the Netherlands all announced new strict lockdown measures over the coming weeks. Italy is considering imposing additional restrictions over Christmas to curtail anymore infections.
- Japan lowered its GDP growth forecast for the year through March 2021 to a 5% contraction from its previous 4.5% contraction considering new COVID-19 cases and expected economic restrictions.

The healthcare system's capacity is being tested with hospital beds and ICUs filling up with people in dire need. The country has contracted with Pfizer for half of its population to be vaccinated.

- Even though the U.S. recently highlighted Chinese powerhouse SMIC (see above) as being a threat to national security, demand for Chinese assets has remained strong. Data released last week hinted that November industrial output, fixed asset investment, and retail sales grew significantly from one-year ago.

### Odds and Ends

- Jupiter and Saturn will appear to touch in the night sky, being visible so close together and visible during the hour after sunset for a few days before and after the winter solstice on December 21<sup>st</sup>. Weather permitting, they should be able to be seen with handheld binoculars and will only appear as off centered but still touching. The last time this occurred was 800 years ago, evidence of how truly rare of an occurrence it is.
- Many fitness clubs, mostly the private non-franchised kinds, either were previously pushed to the brink of bankruptcy or are close to it. To make ends meet, many of them got creative and set up group classes or fitness equipment to be maintained outdoors when possible in parking lots, oversized ballrooms to allow for social distancing, or even virtually broadcast to members. Nobody knows what the future severity of the pandemic will be, but some fitness studios have already figured out how to conduct their business in unique fashions.
- When considering precious metals most investors focus their attention on gold and silver, but the more common aluminum can be an option. Arguably considered not a true "precious" metal, it is trading near its highest level in almost two years fueled by spiking demand levels of raw materials as well as new U.S. sanctions on a leading producer which could limit its future supply. It is used in more products than initially thought, most associated with electric vehicles, and has surged over 40% from its all-time low price in May. For the year it has gained more than 13%.

### Resource of the week:

- Portfolio management is a multilayered, complex topic that involves many different factors and approaches yielding varying results. With that said, using a diversified, balanced portfolio allocation is a popular and effective style used by investors for decades. This episode of *We Study Billionaires* features a conversation with Alex Shahidi and Damien Bissierier of Evoke Advisors to discuss balanced portfolio allocation tactics used by billionaires like Ray Dalio of Bridgewater Associates. Damien used to work for Dalio at the largest hedge fund in the world with more than \$160 billion under management, while Alex has over 20 years of experience managing money for clients. After years of extensive research, Alex and Damien have concluded that a portfolio based on risk parity is the optimal structure for any investor. If you are curious about why a portfolio focused on risk management makes sense, then give this episode a listen.
- **Podcast link:** <https://www.theinvestorspodcast.com/episodes/tip328-balanced-portfolio-allocation-with-damien-bissierier-alex-shahidi/>

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 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 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.

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