SUMMIT FINANCIAL

Summit Snapshot: Week of December 28th, 2020

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-0.1%	0.0%	0.0%	14.8%	12.5%	10.4%	1.5%	19.7%	37.3%
U.S. Mid-Cap	0.3%	0.3%	0.3%	19.4%	19.9%	20.8%	4.1%	17.1%	37.7%
U.S. Small-Cap	1.1%	1.7%	2.3%	33.6%	33.3%	33.0%	4.8%	21.7%	38.1%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-0.1%	10.5%	16.7%
NASDAQ Composite	0.4%	14.9%	44.0%
International Developed	-0.6%	14.4%	6.3%
Emerging Markets	-1.0%	16.2%	14.9%
U.S. Aggregate Bond	0.1%	0.4%	7.3%
U.S. Municipals	0.1%	1.8%	5.1%
Corporate High Yield	0.1%	5.9%	6.6%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- U.S. benchmarks finished last week mixed amidst conflicting signals surrounding fiscal stimulus and progress combatting the coronavirus pandemic.
- Small caps (as measured by the Russell 2000 Index) outperformed as they are often viewed as more direct beneficiaries of stimulus efforts. The Russell 2000 Index is now up more than 100% from its March 18th low.
- The S&P 500 Index was nearly flat for the week. Within the S&P, technology stocks outperformed partially due to strength in Apple. The communication services, consumer discretionary and, energy sectors all lagged.
- Value shares modestly lagged growth shares. For the full year, the difference between value and growth shares is at levels not seen since the early 2000s as the Russell 1000 Growth Index is more than 35% ahead of the Russell 1000 Value Index.

International Equity Markets

- Developed, International equities (as measured by the MSCI EAFE Index) lagged U.S. counterparts in USD terms.
- European shares were little changed for the week with earlier losses bolstered by news of a UK-EU trade deal. Japanese stocks fell for the week and the yen was little changed.
- Emerging market equities (as measured by the MSCI EM Index) was the bottom performer for the week.
- A regulatory probe from the Chinese government into Alibaba pressured shares of major e-commerce platforms, large constituents of the MSCI EM Index.

Credit Markets

- The yield on the 10-year U.S. Treasury fell slightly, ending the week at 0.9231%. Notably, this is well below where it started the year (1.9175%) but well above the intra-year low (0.5069%).
- Deal activity was limited over the holiday week. Investment-grade corporate spreads widened slightly due to renewed coronavirus uncertainty around the potentially more infectious new strain.
- The high yield market also had light issuance and trading. Credit spreads were marginally wider.
- Munis posted small gains supported by strong flows and limited supply. Despite historic volatility, the broad Bloomberg Barclays U.S. Muni Index is up over 5% year-to-date.

U.S. Economic Data/News

- A new stimulus package was passed at the last minute before the holiday. The Senate and House met in the middle with a $900 billion relief package and a spending bill to fund the government through next year. The bill will include aid for small businesses, extended unemployment benefits and $600 direct checks to individuals.
- President Trump openly expressed criticism against the relief package, mainly for the smaller size of the direct payments. That said, the President reluctantly signed the bill with pressure from both sides of the aisle over the weekend.
- President Trump also vetoed a $741 billion military spending bill as it didn't include new regulations for social media companies. Many experts believe that the veto will be overturned.
- The U.S. government secured another 100 million doses of the Pfizer-BioNTech vaccine. Distribution of the first doses of the Moderna vaccine also began last Monday. Upwards of two-million doses of the vaccine have already been received by Americans.
- Household spending fell in November for the first time since April. Reduced levels of government assistance could be at least partially attributable to the decline. Household income and consumer confidence also fell over the month.
- The robust housing sector showed some signs of weakness as existing home sales fell more than expected (-2.5%), although this might be a result of limited supply.

International Economic Data/News

- A mutated strain of the coronavirus was identified in the UK that is potentially significantly more transmissible. The new strain prompted many nearby countries to impose travel restrictions on the UK. While concerning, health officials offered the public some calm by indicating that it would still be treatable by the existing vaccines.
- Surges in cases contributed to tighter restrictions across many European countries. In the UK, the toughest level of restrictions was imposed on London and eastern portions of the UK heading into Christmas.
- The EU approved the Pfizer-BioNTech vaccine and is expected to receive 12.5 million doses by the end of the year. The EU Commission also doubled its order of the Moderna vaccine to 160 million doses.
- The UK and the EU finally reached a post-Brexit trade deal, although it must still be approved by all EU member states. The deal represents a significant change to business between the two regions with some speculating it's a 'hard' Brexit in all but the name. The Office for Budget Responsibility predicts that the deal could cost the UK 4% of its GDP over the next 15 years.

Odds and Ends

- Chinese e-commerce behemoth, Alibaba, has made headlines recently as the Chinese government increased regulatory scrutiny on the company's financial business – Ant Group. Recently considered a jewel asset readied for an IPO, Ant is now at the center of the controversy with regulators pushing for a shift back to its focus of lending and away from the more lucrative digital payments business. The news has put significant pressure on the stock and its no longer China's most valuable company.
- Chasing market gains, many retail investors have doubled down on stocks pushing personal margin debt levels to new records. This comes as meteoric rises in stocks like Tesla have made certain early investors paper millionaires. Despite the potential to heighten the upside, significant amounts of leverage and concentration have the potential for devastating losses were the market's recent strength to reverse course.
- Bitcoin is once again making headlines after a remarkable run this year. Bitcoin first crossed the $20,000 mark in 2017 and then again topped that mark this year in addition to surpassing the $25,000 mark for the first time. The digital currency has more than tripled this year and sources suggest that this rally is more sustainable as it has been fueled by more established investors.

Resource of the week:

- Growth investing had an incredible run in 2020 with many funds' NAVs increasing by more than half their starting value. UK-based Baillie Gifford is an institutional investment management firm that can trace its history back more than a century. This episode of *Masters in Business* sits down with Baillie Gifford's head of U.S. equities, Tom Slater who also serves as the decision-maker on long-term global growth portfolios – several of which have nearly doubled in value in 2020. Give this episode a listen to learn more about their investment approach and how they achieved such stark returns this year.
- **Podcast link:** https://www.bloomberg.com/news/audio/2020-12-18/tom-slater-on-growth-investing-podcast

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

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 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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