



# SUMMIT FINANCIAL

## Summit Snapshot: Week of January 11<sup>th</sup>, 2021

### Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	3.0%	2.1%	1.2%	3.0%	2.1%	1.2%	3.0%	2.1%	1.2%
U.S. Mid-Cap	3.2%	3.2%	3.1%	3.2%	3.2%	3.1%	3.2%	3.2%	3.1%
U.S. Small-Cap	6.0%	5.9%	5.9%	6.0%	5.9%	5.9%	6.0%	5.9%	5.9%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	1.9%	1.9%	1.9%
NASDAQ Composite	2.5%	2.5%	2.5%
International Developed	3.2%	3.2%	3.2%
Emerging Markets	4.8%	4.8%	4.8%
U.S. Aggregate Bond	-0.9%	-0.9%	-0.9%
U.S. Municipals	-0.1%	-0.1%	-0.1%
Corporate High Yield	0.2%	0.2%	0.2%

Source: Morningstar, see 'Disclaimer' for details

### U.S. Equity Markets

- U.S. stocks moved to fresh highs on stimulus hopes despite an otherwise turbulent week for domestic politics.
- Expectations for greater fiscal stimulus following Democrat wins in the Georgia runoff elections boosted sentiment. This notable result creates a tie between both parties in the Senate (50-50) with the tiebreaker going to Democratic VP-elect, Kamala Harris.
- Within the S&P 500 Index, the energy sector was among the best performers after Saudi Arabia made a surprise production cut. Financials also performed well, boosted by a rise in longer-term rates. The same rise in rates weighed on the real estate sector.
- Cyclical exposure was rewarded last week with value outpacing growth in most portions of the market. Small-caps also outperformed large-caps by a wide margin.

### International Equity Markets

- Developed, international equities (as measured by the MSCI EAFE Index) started the year off strong, exceeding the results of the S&P 500 Index in U.S. dollar terms.
- The MSCI Emerging Markets Index was the strongest performer, rising nearly 5% over the week.
- Further progress combatting the pandemic within many Asian nations has contributed to higher growth expectations for EMs in 2021.

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

- The new year started with the yield on the U.S. Treasury 10-year breaching 1.00% on Tuesday for the first time since March 2020 and continued to climb through the week.

- On this move, the US Treasury curve hit the steepest level since 2016.
- Rising rates weighed on certain fixed income markets. The U.S. Aggregate Bond Index was off by nearly 1% over the week.
- The corporate spreads for the USD Investment Grade All Sector OAS was next to flat.
- Municipal yields were modestly higher (1-4 basis points) but outperformed Treasuries on the week because of a steepening yield curve.
- Many Municipal/Treasury ratios are at or near record lows. Supply/demand dynamics and continued fund inflows (\$1.1 billion for the week ending 1/6) remain supportive. Taxable issuance continues to be approximately a third of the new supply.
- **Expanded fixed income commentary from Piton can be found using this [link](#).**

### **U.S. Economic Data/News**

- An assault on the U.S. Capitol following President Trump's rally contesting the 2020 election results roiled the country last Wednesday. In efforts of preventing additional acts of violence, many prominent social media channels have moved to ban President Trump's account temporarily or indefinitely.
- Regulators are once again clamping down on potential U.S. investments in Chinese listed entities that support their military. Despite a brief reversal, Americans will be banned Monday from investing in dozens of Chinese companies. There are also rumors that the U.S. is considering adding Alibaba and Tencent to the list, although this could change with the new administration.
- Recent economic data has been mixed as coronavirus cases surge across most of the nation and the vaccine rollout has been slower than expected.
- The ISM gauge of U.S. manufacturing and services (non-manufacturing) both surprised to the upside. Manufacturing activity rose to its highest level since 2018 while service activity hit a 3-month high.
- The labor market showed signs of slowing reflecting the forced closures of many business to suppress the pandemic. Nonfarm payrolls fell by 140,000 last month, the first monthly decline since April.

### **International Economic Data/News**

- Stricter lockdown measures were imposed across much of Europe. The UK imposed its third national lockdown, Germany extended restrictions until the end of the month, and France is keeping bars, restaurants, and gyms closed until February.
- Italy is tapping more than 200 billion euros from the EU's coronavirus relief fund to help revive its economy.
- Japan declared a state of emergency after new confirmed coronavirus cases spiked. The government is seeking to implement 'limited and concentrated' restrictions that balance public safety and stifling the economy. These measures allow schools to remain open.
- The World Bank reduced its global growth forecast for 2021 to 4.0% from its earlier 4.2% target. The reduction in growth expectations reflects recent challenges in containing the pandemic and massive levels of sovereign debt accumulation.

## Odds and Ends

- A small tax change is potentially a boost to the permanent (whole) life insurance industry. The government's year-end spending package included a small revision in the tax code that lowers the minimum interest rate used to determine whether combination savings and death-benefit policies (known as permanent or whole life insurance) are too much like investments to qualify for tax advantages granted to insurance. The initial floor was put in place in 1984 to avoid policies that were mostly investment-oriented with a small layer of insurance.
- Despite an extended period of underperformance, new research finds that the 'small-cap effect' or small-cap's propensity to outperform large-caps, still exists. One caveat is that it now almost exclusively exists within the S&P 500. The smallest 10% of stocks within the S&P 500 Index has outperformed the largest portion by over 1% annualized over the past 15 years through the end of 2019.
- Retailers are occasionally finding that it's cheaper for customer to keep potentially returned items and still refund them than to fully process the return. Amazon, Walmart, and others are starting to use artificial intelligence to quickly determine if it makes economic sense to process a return or just let the customer keep it, get a refund, and earn some goodwill.

## Resource of the week:

- Ram Parameswaran is the founder of Octahedron Capital and previously a partner at Altimeter Capital, a \$10+ billion tech, media, and telecom hedge fund based in Boston. In this episode of *Invest Like the Best*, host Patrick O'Shaughnessy and Ram cover the potential for internet-scale business, explore the common characteristics of these businesses, and the most important qualities for 8 business models. Like many episodes of this podcast, this episode is a worthy listen.
- **Podcast link:** <https://www.joincolossus.com/episodes/22392883/parameswaran-internet-scale-businesses>

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.

The attached materials, URLs, or referenced external websites are created and maintained by a third-party, which is not affiliated with Summit Financial LLC. or its affiliates. The information and opinions found within have not been verified by Summit, nor do we make any representations as to its accuracy and completeness. Summit Financial, LLC, and affiliates are not endorsing these third-party services, or their privacy and security policies, which may differ from ours. We recommend that you review this third-party's policies and terms