SUMMIT FINANCIAL

Summit Snapshot: Week of February 1st, 2021

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-3.5%	-3.4%	-3.4%	-0.9%	-0.8%	-0.7%	-0.9%	-0.8%	-0.7%
U.S. Mid-Cap	-4.0%	-4.1%	-4.2%	-0.2%	-0.3%	-0.3%	-0.2%	-0.3%	-0.3%
U.S. Small-Cap	-3.6%	-4.4%	-5.1%	5.3%	5.0%	4.8%	5.3%	5.0%	4.8%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-3.3%	-1.0%	-1.0%
NASDAQ Composite	-3.5%	1.4%	1.4%
International Developed	-3.4%	-1.1%	-1.1%
Emerging Markets	-4.5%	3.1%	3.1%
U.S. Aggregate Bond	0.0%	-0.7%	-0.7%
U.S. Municipals	0.4%	0.6%	0.6%
Corporate High Yield	-0.1%	0.3%	0.3%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- U.S. equities fell sharply for the week given the unusually heavy focus placed on short squeezes and status-quo comments from the Federal Reserve on the economic outlook.
- Dominating headlines throughout the week were interesting developments circulating around some individual stocks, most of which were small- and micro-cap companies. The most recognized were GameStop (GME) and AMC Entertainment Holdings (AMC). In short (pun intended), these two companies had a high level of short-interest, positions mostly taken from some large hedge funds in which they would profit if the stock prices fell. Some social media sites including Reddit displayed posts encouraging retail investors to buy large quantities of these stocks to drive their price higher. Consequently, the hedge funds were then required to buy back shares to cover their short positions adding fuel to the fire. For a brief period, some online brokerage sites even halted trading in such stocks or more practically required 100% margin collateral to purchase them.
- Another point worth mentioning is just how volatile these stocks were during the week. For reference, the market-cap of GameStop spiked to $24 billion on Wednesday, an increase of almost 2,000% of its market-cap from just three weeks ago while AMC Entertainment's market-cap rose nearly 1,000%. Both companies retreated slightly to end the week at $22.7 billion and $4.5 billion respectively. Time will tell if this level of volatility is sustainable and the future of short squeezes.
- In the latest Federal Open Market Committee meeting on Wednesday, Chair Jerome Powell indicated the economic outlook remains uncertain and the existing amount of Central Bank asset purchases will persist for the time being. The fourth quarter GDP growth level also reported in at an annualized rate of 4.0%, much lower than a comparable 33.4% in the third quarter.
- Real estate led all sectors after a nearly flat performance week while energy lagged falling more than 6%. All size and style categories fell between 3.0% to 4.5% except for small-cap growth which plummeted 5%. Small-cap stocks remain in positive territory for the year thus far.

International Equity Markets

- Both international developed and emerging markets equities struggled mightily like U.S. stocks.
- European equities lagged given much of the same rhetoric, extended lockdowns and delays in their vaccine distribution efforts.
- Despite a third economic stimulus package being passed in Japan totaling ¥19 trillion ($185 billion), Japanese equities fell in-line with European and U.S. stocks.
- Chinese equities fell hard, near 4% represented by the MSCI China Index, as asset flows transferred from mainland China to Hong Kong given a recent increase in arbitrage opportunities in dual-listed companies between the two locales.

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

- Yields out the curve were slightly higher, with the 10-year yield back around 1.08%. Mid-week yields dipped around 1%.
- The spread between the 2-year and 10-year yield steepened to 97 bps. The spread between the 5-year and 30-year remained slightly unchanged around 140 bps.
- The corporate spread for the USD Investment Grade All Sector OAS was wider by 1 bps. Investment grade funds reported $6 billion of inflows while high yields reported $1.3 billion of outflows.
- One notable deal this week was 7-Eleven (Baa2/AA-), which issued an $11 billion deal in 8-parts. It garnered a peak interest book size of about $60 billion, tightened spread of 35 bps and was six-times oversubscribed.
- Municipals outperformed Treasuries on the week with benchmark yields 2-8 bps lower across the curve, moving ratios lower.
- Municipal funds recorded inflows of $2.79 billion for the week ending 1/27, the 12th straight week and the second longest streak on record.
- **Expanded fixed income commentary from Piton can be found using this link.**

U.S. Economic Data/News

- As briefly mentioned above, the U.S. gross domestic product grew at a 4% annualized rate but it was not enough to offset the large decline earlier in the year. Consequently, the reported GDP level contracted by 3.5% on a year-over-year comparison. This is the largest annual decline since the World War II era and the first since 2009.
- Reversing the Trump administration's policy of leaving the choice to local leaders, President Biden recently issued an executive order that requires all people to wear masks on federal property and transportation across state lines. Then on Friday, the CDC issued a more specific mandate which requires anyone using any form of public transportation to wear a mask on the mode of transport and inside waiting hubs. This policy will go into effect on Tuesday.
- The filing of initial jobless claims fell to 847,000 through the week ended January 23rd. This is still well above the long-term pre-pandemic average but lower than the prior week's level.
- The average U.S. household monthly income rose by 0.6% in December, the first increase in three months. This increase was likely attributed to some federal aid relief funds, such as recently distributed unemployment benefits. Household income should rise even further this quarter given the expected disbursement of $600 stimulus checks to qualified candidates.

International Economic Data/News

- A few European nations reported hopeful GDP figures for the fourth quarter which sparked the belief the eurozone may avoid a more severe recession. On a quarter-over-quarter basis, Germany's economy grew by 0.1%, Spain's expanded by 0.4%, and France's shrunk by 1.3% which is not positive but much less than the forecasted 4.1% contraction. Complete eradication of the coronavirus will further boost these economies back to full strength.
- A Nikkei survey indicated about three-quarters of Japanese companies in 32 different industries reduced their capital expenditure plans by an average of 2.9% from initial estimates. The weakest industries lacking demand were air transport, rubber, and chemicals while auto-related sectors were among the strongest.
- China reported their industrial profits rose by about 4% in 2020 after a decline in 2019. China will soon celebrate its weeklong Lunar New Year holiday in mid-February and is expected to enforce widespread restrictions on traveling and gatherings to squash any further outbreaks.

Odds and Ends

- The hedge fund which assumed the lion's share of losses from the recent short squeezes of stocks, Melvin Capital Management, lost 53% of its assets in January. It started the year managing approximately $12.5 billion and now controls $8 billion. Amazingly, this figure already reflects the $2.75 billion emergency injection from other hedge funds Citadel LLC, Point72 Asset Management, and other internal partners to stay afloat. Reportedly new and existing clients have committed to investing more money with Melvin on February 1st.
- One of the investing bright spots that came to light in 2020 is solar energy. The expected support by the Biden administration for sustainable investing further boosts the sector's outlook after a remarkable year in which the MAC Global Solar Energy Index rose 233%, dwarfing the S&P 500 Index's 18% total return. Positive sentiment should persist indefinitely since solar panels are among the cheapest methods to generate electricity in many sectors of the world.
- The 2020 Summer Olympics were initially postponed to the summer of 2021 due to the pandemic, but now skeptics are worried the games will be postponed again. The Games' organizers are refuting these claims but would like President Biden to make a strong statement promoting the safety of the Games and ensuring they will commence as planned. Since the U.S. brings the most athletes and indirectly provides the most revenue, Biden's support is key.

Resource of the week:

- One of the fastest growing, most unorthodox investment management firms in existence today is ARK Investment Management LLC, created and led by Cathie Wood since 2014. ARK provides a suite of thematic actively managed ETFs focused on disruptive innovation in various sectors and geographies of the world. This episode of *We Study Billionaires* features a conversation with Cathie who discusses her investment thesis and where she thinks opportunities may exist.
- **Podcast link:** https://www.theinvestorspodcast.com/episodes/tip334-disruptive-innovation-w-cathie-wood/

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 periodic 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 S&P 500 Index is a market capitalization-weighted Index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity, and industry group representation. Included are the stocks of eleven different sectors. The Russell 2000 Index measures the performance of the small cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 1000 Index measures the performance of the large cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index representing approximately 90% of the total market capitalization of that index. It includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. The Russell 3000 Index is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are reflected. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of global developed markets, excluding the U.S. and Canada. The MSCI Europe Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of developed markets countries in Europe. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The MSCI Japan Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of 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-dominated securities. The Bloomberg Barclays Municipal Bond Index covers the U.S. dollar-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. The CBOE Volatility Index is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. It is created by the Chicago Board Options Exchange (CBOE). 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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