# SUMMIT FINANCIAL

## Summit Snapshot: Week of February 22nd, 2021

**Periodic Returns**

| | Trailing Week | | | Quarter-to-Date | | | Year-to-Date | | |
|---|---|---|---|---|---|---|---|---|---|
| | Value | Blend | Growth | Value | Blend | Growth | Value | Blend | Growth |
| U.S. Large-Cap | 0.3% | -0.7% | -1.7% | 6.1% | 4.9% | 3.8% | 6.1% | 4.9% | 3.8% |
| U.S. Mid-Cap | 0.5% | -0.1% | -1.3% | 8.4% | 8.2% | 7.7% | 8.4% | 8.2% | 7.7% |
| U.S. Small-Cap | 0.1% | -1.0% | -2.0% | 15.6% | 14.9% | 14.2% | 15.6% | 14.9% | 14.2% |

| | Trailing Week | Quarter-to-Date | Year-to-Date |
|---|---|---|---|
| S&P 500 Index | -0.7% | 4.2% | 4.2% |
| NASDAQ Composite | -1.5% | 7.8% | 7.8% |
| International Developed | 0.3% | 4.1% | 4.1% |
| Emerging Markets | 0.1% | 10.9% | 10.9% |
| U.S. Aggregate Bond | -0.6% | -1.8% | -1.8% |
| U.S. Municipals | -0.8% | 0.2% | 0.2% |
| Corporate High Yield | 0.0% | 1.3% | 1.3% |

**Source**: Morningstar, see ‘Disclaimer’ for details

### U.S. Equity Markets

- Most major indexes were down for the short trading week as rising rates weighed on stocks.
- Increasing rates were particularly negative for fast growing technology stocks as valuations adjusted to reflect a higher discount rate. At the same time, it benefited financial stocks such as banks, as higher rates have historically translated to increased lending margins.
- Value outperformed growth across the board as energy and financials were the best performing sectors for the week. Large-caps also generally outperformed small-caps.
- Trading volumes fell back from record levels in January following one of the largest option expiration dates ever last month.
- So far this year, value stocks maintain a slight lead over growth names while small-caps have well exceeded large-caps - continuing the trend from late 2020.

### International Equity Markets

- Both developed and emerging non-U.S. equities rose modestly last week in U.S. Dollar terms. Emerging market equities remain a top performer so far in 2021.
- European shares were marginally higher supported by positive quarterly earnings.
- The widely watched Japanese Nikkei 225 Average broke 30,000 for the first time in more than 30 years. Notably, it still remains below its all-time peak of 38,597 which it reached in 1989.
- Chinese stocks were down slightly after the People’s Bank of China (PBoC) pulled liquidity from the financial system, dampening some purchasing momentum.

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

- Amidst the sell-off, rates climbed to the highest levels in almost a year as the 10-year reached 1.33%.
- The spread between the 5-year and 30-year bond steepened to 1.55%, a level last seen in 2015. The move out the curve comes in response to the ongoing fears of reflationary pressures and stimulus decisions.
- The corporate spread week-to-date for the USD Investment Grade All Sector option adjusted spread (OAS) was modestly tighter. The Bloomberg Barclays US Aggregate corporate Avg. OAS is the tightest since 2018.
- Investment grade funds recorded $4.53 billion in inflows and high yield funds reported $1.3 billion in outflows.
- Municipals played catchup with Treasuries this week in the face of a steepening yield curve. Benchmark yields rose modestly on the week, the most meaningful move since April, moving ratios higher.
- Municipal funds saw their 15th consecutive week of inflows adding $2 billion for the week ended 2/17.
- Clarity surrounding the next round of stimulus should surface in the next two weeks as Washington votes on the $1.9 trillion package with $350 billion proposed for state and local governments.
- **Expanded fixed income commentary from Piton can be found using this link.**

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

- Inflation concerns have increasingly emerged domestically. Producer prices rose 1.3% in January, the largest increased since December 2009.
- Bloomberg reported that vaccine supply is expected to double by April as additional candidates get approved. While the increased pace of vaccinations is encouraging, there are still lingering concerns that the vaccines might be less effective fighting against the newer strains.
- Retail sales rose 5.3% last month, partially attributable to the $600 direct payments to many lower- and middle-income Americans.
- Weekly jobless claims rose to 861,000 last week, the most since mid-January and supporting the case for further stimulus.
- Housing data surprised to the downside as housing starts fell back meaningfully from their recent decade+ high.

**International Economic Data/News**

- Similar reflation fears are emerging in Europe. Strong PMI data also put upward pressure on yields which are breaking recent highs, although they still remain historically low.
- Several major European nations, such as the UK and Switzerland, are in the process of easing lockdowns amongst improving infection data.
- Chinese demand has helped support Japan's economy into the new year. The Japanese economy grew at a 12.7% annualized pace over the fourth quarter, although it still contracted by 4.8% over 2020.

- Chinese economic data was muddied by the Lunar New Year holiday as travel was largely discouraged after a COVID flareup in northern China. Travel fell 71% over the three weeks after the government dissuaded citizens from using public transportation.

**Odds and Ends**

- A group of activist investors including Macellum Advisors GP LLC, Ancora Holdings Inc., Legion Partners Asset Management LLC, as well as 4010 Capital LLC announced a combined 9.5% stake in Kohls over the weekend. The group also nominated nine people to its now-12-person board earlier in the year. The investor group believes that the retail chain isn't moving fast enough to address falling sales and margins. They are also calling to add more experienced directors and consider a sale-leaseback of over $7 billion of non-core real estate.
- Select blue collar jobs in industries such as construction and trucking are booming domestically and, in many cases, exceeding pre-pandemic levels. Manufacturers have steadily added back jobs to meet excessive demand for products driven by strength in areas like housing and e-commerce. Many economists expect the trend to continue, albeit at a slower pace, after the pandemic is contained as select trends could wind up be structural.
- Small-cap stocks have seen a dramatic comeback from late 2020 and into 2021. Investors are piling into smaller companies and other cyclical stocks as many expect vaccine deployment will boost and broaden the economic recovery. The Russell 2000 Index has outperformed the large-cap Russell 1000 Index by 10% so far this year - one of the largest disparities since 2000.

**Resource of the week:**

- Ben Inker is the head of Asset Allocation at GMO, the Boston-based institutional investor that manages about $60 billion in assets. During the Dotcom implosion, GMO's U.S. Aggressive Long/Short Strategy achieved 80+% cumulative net returns for their clients after a longstanding view on the overvaluation of technology stocks. Inker is regarded as founder Jeremy Grantham's heir apparent. In his conversation with Barry Ritholz, Inker discusses why it is so challenging to determine precisely where we are in the market cycle, some signs of obvious signs of froth in today's market, and the level of monetary and fiscal stimulus and how it affects expectations for forward returns of risk assets. He also suggests several proactive changes value investors need to make like how traditional Price-to-Book measures of value fail to capture the worth of intangibles, like intellectual property, processes, expertise, networks, etc.
- **Podcast link:** https://ritholtz.com/2021/02/mib-ben-inker-gmo/

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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