



# SUMMIT FINANCIAL

## Summit Snapshot: Week of March 1<sup>st</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	-1.0%	-2.7%	-4.4%	5.1%	2.1%	-0.8%	5.1%	2.1%	-0.8%
U.S. Mid-Cap	-0.9%	-2.7%	-5.9%	7.5%	5.3%	1.4%	7.5%	5.3%	1.4%
U.S. Small-Cap	-0.4%	-2.9%	-5.2%	15.2%	11.6%	8.3%	15.2%	11.6%	8.3%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-2.4%	1.7%	1.7%
NASDAQ Composite	-4.9%	2.5%	2.5%
International Developed	-2.8%	1.2%	1.2%
Emerging Markets	-6.3%	3.9%	3.9%
U.S. Aggregate Bond	-0.4%	-2.2%	-2.2%
U.S. Municipals	-1.2%	-1.0%	-1.0%
Corporate High Yield	-0.6%	0.7%	0.7%

Source: Morningstar, see 'Disclaimer' for details

### U.S. Equity Markets

- Piggybacking on last week's theme, longer-term Treasury interest rates continued their climb which spooked equity markets and the decline of major indices.
- The recent decline of equities could be attributed to the fear that higher inflation and bond yields may soon lead to a gradual industry allocation shift from some stocks to bonds over time.
- Value outperformed growth on a relative basis although both investment styles declined. The disparity in market-caps was less noticeable although small-cap growth notably fell more than 5%.
- Most S&P 500 sectors fell aside from a strong increase in energy following a rise in oil prices, perhaps as investors anticipate the continued reopening of oil-dependent businesses. Consumer discretionary and technology stocks lagged after Amazon.com, Tesla, and Apple fell significantly.

### International Equity Markets

- Both developed and emerging non-U.S. equities declined last week in U.S. Dollar terms represented by their MSCI indices. Emerging markets stocks plummeted more than 6% after Chinese stocks struggled.
- European equities fell amidst heavy volatility as concerns arose that the European Central Bank may have to act quickly to counteract the pressure hinting of increased inflation.
- Japanese stocks, represented by the MSCI Japan Index, fell more than 4% last week. Year-to-date the index is slightly positive, up a modest 0.5% in U.S. Dollar terms.
- Chinese equities plunged 7.7% for the week according to the local currency large-cap CSI 300 Index which was its worst weekly drop since October 2018. Semiconductor and electric vehicle manufacturing companies fell although previously impacted industries, such as gaming and travel, benefitted on the heels of relaxed travel and quarantine restrictions.

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

- The U.S. Treasury market experienced steep losses this week as the selloff brought yields to recent highs heading into month-end. The 10-year yield remains more than 12 bps higher on the week, trading in the middle of the range of 1.37% to Thursdays high of 1.61%.
- Friday's economic releases pointed to growth in U.S. personal income, with consumer spending rebounding up 2.4%. Market sentiment remains focused on inflation trends and the stimulus package out of D.C.
- The corporate spread week-to-date for the U.S. Dollar Investment Grade All Sector OAS was wider by 6 bps.
- Investment grade corporate bond funds reported \$4.22 billion in inflows while high-yield funds reported \$2.22 billion in outflows, a stark difference between two styles in this sector.
- Municipals took a bit of a breather on Friday after a 2-week slide from record levels with benchmark yields 3-28 bps higher on the week, underperforming Treasuries.
- Municipal funds saw just \$38 million in inflows for the week after \$1.8 billion the week prior, a sharp decline and a possible beginning of an outflow cycle after 16-straight weeks of inflows driving municipals to record highs.
- **Expanded fixed income commentary from Piton can be found using this [link](#).**

## U.S. Economic Data/News

- Reported on Tuesday, national home prices increased more than 10% throughout 2020 compared to 2019 according to the S&P Core Logic Case-Shiller Home Price Indices. This is the strongest annual growth rate in more than six years. Similarly, lumber and copper prices reached or neared all-time highs to fund the arguably expensive homes.
- Weekly initial jobless claims fell dramatically to 730,000, the lowest level in three months.
- Encouragingly, personal incomes spiked 10% in January but could largely be due to the recently paid out coronavirus relief payments that passed through Congress in December.
- Democrats urged the Senate to quickly pass the most recent \$1.9 trillion COVID-19 relief package. It passed through the House early Saturday and is one step closer to providing Americans more vaccinations, \$1,400 direct payments to qualified individuals, and additional aid measures. The soft deadline is March 14<sup>th</sup> when some federal unemployment assistance methods will expire.

## International Economic Data/News

- Europe's harsh restrictions are easing. U.K. Prime Minister Boris Johnson presented a plan to lift restrictions in England from March 8<sup>th</sup> through June 21<sup>st</sup>. Similarly, most of the economy and social events will likely reopen by May 17<sup>th</sup>. Denmark will allow some schools to reopen on March 1<sup>st</sup>.
- The Tankan Index recorded a positive reading for Japanese manufacturing companies, the first instance since mid-2019. The index rose from -1 in January to 3, largely due to strong overseas demand in chemicals and manufactured foods. This sentiment level is even expected to continue rising over the next few months due to an enhanced economic environment.
- China is discussing implementing a change in how its citizens can invest in U.S. assets. The proposed rule change would allow them to buy overseas securities and insurance within the \$50,000 exchange limit for any purpose. This differs from today's rule which only permits these purchases for travel, study, or work but not for personal financial benefits or property ownership.

## Odds and Ends

- On Saturday, the U.S. Food and Drug Administration approved the Johnson & Johnson single-dose COVID-19 vaccine for emergency use. This is the first single-dose vaccine and the third overall to be approved after the prior vaccines by Pfizer and Moderna were approved in late 2020. Although advertising a lower efficacy rate in the U.S. around 72% compared to the competition, it still has merit. The vaccine is also easier to store in more tolerable temperatures for future use.
- Some major retail brands have introduced a buy-now-and-pay-later option to attract more customers who are reluctant to use credit cards. The department stores offering this service for now include Macy's, The Gap, and Neiman Marcus Group. The assumed risk is that the new payment plans may unfortunately offset income that store-branded credit cards generate but executives believe the new business benefits outweigh the inevitable costs during the pandemic.
- A team that quietly climbed the ranks in Major League Baseball during the offseason are the Toronto Blue Jays. They spent \$186 million on unrestricted free agents, the most amongst all MLB teams but still do not have their home stadium location nailed down. Due to regulations preventing cross-border travel, they were not permitted to commute between Canada and the U.S. last season or in the upcoming one. Time will tell where fans can watch one of the more intriguing teams play their "home" games this season.

## Resource of the week:

- The current condition of capital markets is an interesting discussion point, with a plethora of integrated, influential factors including the persistently low interest rate environment. This episode of *We Study Billionaires* touches on a few key points worth understanding in the current dynamic. Namely these include comments from billionaire investor Stanley Druckenmiller and the opportunity that commodities present to outperform going forward. The conversation also focuses on accurately defining and estimating appropriate levels of inflation and discount rates. It is an interesting podcast that is very educational, so have a listen this week.
- **Podcast link:** <https://www.theinvestorspodcast.com/episodes/current-market-conditions-27-february-2021-w-stig-and-trey/>

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 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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