SUMMIT FINANCIAL

# Summit Snapshot: Week of May 3rd, 2021

## Periodic Returns

| | Trailing Week | | | Quarter-to-Date | | | Year-to-Date | | |
|---|---|---|---|---|---|---|---|---|---|
| | Value | Blend | Growth | Value | Blend | Growth | Value | Blend | Growth |
| U.S. Large-Cap | 0.4% | -0.1% | -0.6% | 4.0% | 5.4% | 6.8% | 15.7% | 11.6% | 7.8% |
| U.S. Mid-Cap | 0.3% | -0.4% | -1.7% | 4.8% | 5.1% | 5.6% | 18.5% | 13.7% | 5.0% |
| U.S. Small-Cap | 0.0% | -0.2% | -0.5% | 2.0% | 2.1% | 2.2% | 23.6% | 15.1% | 7.2% |

| | Trailing Week | Quarter-to-Date | Year-to-Date |
|---|---|---|---|
| S&P 500 Index | 0.0% | 5.3% | 11.8% |
| NASDAQ Composite | -0.4% | 5.4% | 8.5% |
| International Developed | -0.8% | 3.0% | 6.6% |
| Emerging Markets | -0.4% | 2.5% | 4.8% |
| U.S. Aggregate Bond | -0.2% | 0.8% | -2.6% |
| U.S. Municipals | -0.2% | 0.8% | 0.5% |
| Corporate High Yield | 0.2% | 1.1% | 1.9% |

Source: Morningstar, see 'Disclaimer' for details

## U.S. Equity Markets

- Stocks ticked up to new record highs before falling late in the week to end the period roughly flat.
- Earnings were in prime focus as it was the busiest week of the Q1 reporting season. 180 constituents of the S&P 500 reported last week.
- Earnings are expected to increase by about a third relative to the first quarter of last year, which felt the brunt of the pandemic and related lockdowns.
- Rising oil prices boosted energy stocks, which was the best performing sector for the week. The communication services sector also outperformed based on strong earnings reports from Facebook and Alphabet.
- Technology stocks lagged, dragged down by Microsoft, which reported impressive earnings, but the stock still slumped. Health care stocks also lagged following declines in several major drug makers.
- Value outpaced growth while large-caps mostly beat small-caps. Year-to-date, value and small-caps each lead comparable areas of the market.

## International Equity Markets

- International markets generally lagged domestic counterparts in U.S. dollar terms.
- European shares were little changed although they remained near record levels.
- Japanese equity markets finished the week lower reflecting worse than expected earnings releases. The yen also weakened relative to the U.S. dollar.
- Chinese equities declined as the government continued its crackdown on technology firms – negatively impacting sentiment.

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

- Treasuries were down on the week as yields moved higher and inflation expectations continued to rise.
- The ten-year treasury yield reached 1.64% on Thursday, 0.08% higher on the week and the highest level since April 13th of this year.
- The spread between the 5-year and 30-year bond steepened throughout the week, with the long bond yielding 2.32%
- Yields remain anchored to zero in the front end of the curve, as Thursday's $40 billion 4-week bill auction yielded 0% for the first time since March 2020.
- Spreads over the week for corporate investment grade bonds was modestly tighter. Investment-grade funds recorded $5.19 billion of inflows vs $4.88 billion of inflows during the prior week.
- High yield funds reported $271 million of inflows vs $1.32 billion of outflows over the prior week.
- Municipals drifted higher with Treasuries as yields rose. Fund inflows were $1.64 billion for the week with $1.43 billion added to longer maturity funds.
- **Expanded fixed income commentary from Piton can be found using this link.**

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

- A Fed policy meeting mid-week reaffirmed that rate increases were still not on the horizon (for now). Fed chair Powell indicated that the Fed would wait "some time" before raising rates and they were still not planning for a reduction in asset purchases despite some alleged 'froth' in markets.
- Progress battling the pandemic domestically was encouraging. An anticipated fourth wave is showing signs of receding and additional restrictions, such as requirements to wear masks outdoors, are in the process of being lifted. NYC also committed to completely reopen on July 1st.
- Weekly jobless claims fell to a new pandemic low of 553,000. Consumer confidence rose to 121.7, the highest level since February of 2020 – before the pandemic started.
- U.S. GDP rose at an annualized rate of 6.4% over Q1 2021, boosted by a robust recovery from the pandemic and a sizeable increase in government spending and aid. Economists anticipate that this growth rate could rise to double digits for the second quarter as additional government spending is absorbed by the economy.

**International Economic Data/News**

- Some COVID-19 restrictions are starting to be lifted across Europe. Notably, France announced a 4-step process to start removing items such as nighttime curfews.
- The eurozone economy contracted over the first quarter but there are reasons to be more optimistic going forward. The outlook is more encouraging due to the rollout of vaccines and improved sentiment.
- The Bank of Japan decided to keep policy rates unchanged during April's meetings which matched expectations. It also raised its growth outlook for 2022 on the back of stronger domestic and external demand.
- China's tech sector continued to be under government scrutiny and Beijing imposed wide-ranging restrictions on the financial divisions of 13 well-known internet companies including Tencent and ByteDance.

**Odds and Ends**

- Berkshire Hathaway held its annual meeting with the usual pearls of wisdom from the Oracle of Omaha. Some of the highlights included skepticism towards SPACs and cryptocurrencies as well as the extensive levels of optimism incorporated into certain areas of the market. Potential successors Ajit Jain and Greg Abel were present at the meeting, although investors noted that they would like to hear more from Berkshire's future leaders.
- Freight industry executives expect a squeeze on trucking capacity, that has been driving up shipping costs for U.S. companies, to persist through the rest of the year. This is a byproduct of strong demand in a rebounding American economy colliding with a shortfall in truck availability. Manufacturers and retailers including General Mills Inc., Rubbermaid-owner Newell Brands Inc. and Bed Bath & Beyond Inc. have pointed in recent quarterly earnings reports to rising transport costs and tight capacity as operational hurdles as they seek to restock inventories and meet strong consumer demand.
- Medina Spirit took home the top spot at the Kentucky Derby over the weekend. The victory is a record breaking seventh win for trainer Bob Baffert. The official attendance of 51,838 at Churchill Downs on Saturday was the largest crowd at a U.S. sporting event since the pandemic began last year. The previous high of 47,218 was set at Alabama's spring football game last month. Still, it was far short of a typical Derby crowd of more than 150,000.

**Resource of the week:**

- Thomas Tull is the founder of Tulco – an alternative investing platform, structured as a holding company that was established to disrupt large sectors of the economy. Thomas is also the founder and former CEO of Legendary Entertainment, the production company behind the *Dark Knight*, *The Hangover*, *Inception*, *300*, and many more iconic movies, which he sold in 2016. In this thought-provoking conversation between Thomas and host, Patrick O'Shaughnessy, the pair cover the movie industry's value chain, how Legendary Entertainment pioneered the use of data analytics to improve their odds of success, and Thomas' concept of the new physics of business.
- Podcast link: https://www.joincolossus.com/episodes/18909468/tull-new-physics-of-business?tab=blocks

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 Nasdaq Composite Index is a large market capitalization-weighted index of more than 2,500 U.S.-domiciled stocks. The index's composition is heavily weighted to the information technology sector, with consumer services, health care and financials the next most prominent industries. 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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