SUMMIT FINANCIAL

Summit Snapshot: Week of July 6th, 2021

Periodic Returns

	Trailing Week			Second Quarter			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	0.5%	1.5%	2.4%	5.2%	8.5%	11.9%	18.1%	16.3%	14.6%
U.S. Mid-Cap	0.0%	0.3%	0.7%	5.7%	7.5%	11.1%	20.5%	17.1%	10.9%
U.S. Small-Cap	-2.0%	-1.2%	-0.4%	4.6%	4.3%	3.9%	26.4%	17.3%	8.8%

	Trailing Week	Second Quarter	Year-to-Date
S&P 500 Index	1.7%	8.5%	16.7%
NASDAQ Composite	2.0%	9.7%	14.0%
International Developed	-1.1%	5.2%	9.3%
Emerging Markets	-1.7%	5.0%	6.0%
U.S. Aggregate Bond	0.5%	1.8%	-1.5%
U.S. Municipals	0.2%	1.4%	1.1%
Corporate High Yield	0.5%	2.7%	3.8%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- Major large-cap indices advanced again, as the S&P 500 Index and NASDAQ Composite reached new highs. Both indices also closed out June with their fifth consecutive positive quarter.
- Within the S&P 500 sectors, technology was the clear leader given strong returns from the sectors largest components – Apple, Microsoft, and Nvidia. These three companies make up nearly half of the entire sector's composition. Energy stocks lagged despite crude oil prices that rose last week. Some companies felt the pressure as OPEC+ works to loosen restrictions on crude production.
- Large-cap stocks beat small-caps and growth led value last week. In the second quarter, growth steadily reduced the disparity for the year between styles as large growth rose nearly 12%. Value and small-cap stocks maintain their general lead for the year thus far.
- Johnson & Johnson stock rose handsomely on Friday after it reported its COVID-19 vaccine proved largely effective against the new "delta" variant, which has stirred up some global fear recently.

International Equity Markets

- Most international equities fell in contrast to domestic stocks. Developed markets marginally outperformed emerging as represented by their MSCI indices in U.S. Dollar terms.
- European stocks lagged following fears that inflation would lead to rate increases. Also, the number of new coronavirus cases rose for the first time in 10 weeks and spooked investors. Unfortunately, this led government officials to impose curfews and renewed travel restrictions.
- Japanese equities were negative as new concerns surfaced focused on a new spike in coronavirus cases. Restrictions in Tokyo are set to expire on July 11th, just twelve days before the start of the Olympics. Authorities are contemplating whether to enforce new rules that would limit spectators.
- Chinese equities also fell last week, largely due to the decline on Friday. This came the day after China celebrated the 100th anniversary of the country's Communist Party on Thursday.

Credit Markets

- Treasury curve yields declined last week. The benchmark 10-year bond yield closed Friday at 1.43%, about 9 bps lower than the prior week. The declines contributed to strong returns in the bond market.
- Investment-grade corporate spreads tightened last week, largely due to technical support. Lower levels of new issuance and strong quarter-end buying activity contributed to higher investment-grade returns. High-yield funds also appreciated despite the new variant and inflation concerns.
- The consensus expectation among investors is for the Federal Reserve to begin paring the rate of bond purchases this year and potentially raise interest rates by 2023. This is complicated by the recent concerns of excess inflation and consequences it may have.
- Municipal bonds rose, supported by continued amounts of inflows. Last week, many July 1st coupon payments were automatically reinvested which boosted the level of inflows. The Bloomberg Barclays Municipal Bond Index rose 0.2%.

U.S. Economic Data/News

- On Friday, the Labor Department reported that 850,000 nonfarm jobs were added to the economy in June, well above estimates of 700,000 and the largest monthly gain since August 2020. Despite this growth, many more Americans entered the job market which ticked up the unemployment rate slightly to 5.9% from 5.8% in May. Weekly jobless claims fell to a pandemic-era low of 364,000.
- The consumer confidence index, maintained by the Conference Board, reached a 16-month high level. This is the highest level since February 2020, indicative of consumers' positive spirits. They may also have received a boost after the amount of home sales rose nearly 8% in May, despite expectations for a slight decrease.
- The U.S. has won international backing for a global minimum tax rate as proposed by the Biden administration to increase revenue and spending budgets. Officials from 130 countries met virtually and agreed to independently propose new laws in each country. Each individual nation would have the task of passing laws to tax any company with a local headquarters at least 15% in each nation they operate in, minimizing any opportunities for tax avoidance.

International Economic Data/News

- Eurozone government bond yields fell after European Central Bank President Christine Lagarde warned the risk that the new delta variant poses if it gains momentum in Europe. Only the Johnson & Johnson vaccine is believed to assuredly provide protection against it at this time.
- Similarly, the Eurozone's consumer price index representing the inflation level fell to 1.9% in June from 2.0% in May. This is now in the ECB's target zone of "below but close to 2.0%."
- Japan's economic news was mixed. On one hand the Tankan survey indicated the economic recovery was broadening as investor sentiment levels rose. However, the unemployment rate rose to 3.0% from 2.8% the month prior. The new level is the highest since December 2020.
- The Chinese June PMI readings were mixed depending on the sector measured but remained largely expansionary, hinting that the Chinese recovery is alive and well.
- An interesting real estate dynamic is brewing in Shenzhen, China. Home prices have skyrocketed for years, making many homes unaffordable. However, in May home prices retreated indicating government regulation measures may be paying initial dividends.

Odds and Ends

- The fading pandemic and heating economy is progressing swiftly as everyone hoped, cautiously soured by the developing delta variant news. For months, President Biden used the Fourth of July holiday as the benchmark date with which he wanted the U.S. to be prepared enough for families to be able to celebrate without fear of spreading COVID-19. More than 50% of the U.S. population has received as least one dose of a vaccine, less than Biden's goal to vaccinate 70% of all adults. Overall, the vaccination rate has slowed recently as the new delta strain continues to spread. Virus-news aside, restaurants, hotels, stores, and salons have generated business at rapid speeds lately, enhancing the domestic economic recovery. Time will tell what the future has in store.
- The shortage of small, single-family homes (termed "starter" homes) has left many first-time home buyers in a difficult situation. The factors that led to this dynamic include surging prices, heated competition levels among searchers, and of course the unplanned pandemic and recession. The inventory of starter homes seems to have dwindled over several years, and buyers may likely be required to demonstrate tremendous persistence and patience to find a home within their budget. As of 2020, the first-time home buyer was 33 years old, up from 30 years old in 2010, reflective of the contributing factors above.
- As some companies resume in-office schedules, some other companies are embracing a permanent hybrid working schedule to allow employees to mix their remote work and office attendance. UBS Group is the latest big bank to adopt this mentality, which wholly contradicts previous policies announced by Bank of America, Morgan Stanley, and Goldman Sachs. There will be guidelines for UBS employees to follow with which to take advantage of the hybrid schedule, but the bank's management team believes it will make it a more attractive employer. Some critics to this scheduling approach claim employees are sacrificing career development and productivity levels, but proponents point to the remarkable adaptation that took place over the last 16 months or so. Companies figured out ways to continue operating as their employees worked remotely, many of which flourished in several lines of business.

Resource of the week:

- As inflation heats up and takes centerstage for investors as a leading risk factor to be aware of, different products are pitched as being worthwhile to own to hedge that risk. This episode of *The Investor's Podcast* features a conversation with the CEO of AcreTrader, Carter Malloy, about farmland investing. They go into detail of the several trillion-dollar asset class, what to expect, and how it may help hedge that unwanted inflation effect that degrades an investment's value over the long-term. AcreTrader claims to a leading provider of diversified farmland holdings available to retail investors. Have a listen to this episode to learn more.
- Podcast link: https://www.theinvestorspodcast.com/episodes/inflation-hedging-with-farmland-w-carter-malloy/

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 IHS Markit Flash US Composite PMI Output Index is a monthly summary report concerning the changes in the working conditions of private companies in the manufacturing and service sectors. The indicator is based on monthly surveys of purchasing managers working in approximately 1,000 private companies of the US manufacturing sector. 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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