SUMMIT FINANCIAL

Summit Snapshot: Week of August 23rd, 2021

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-1.2%	-0.7%	-0.3%	1.6%	2.9%	4.2%	18.9%	18.3%	17.7%
U.S. Mid-Cap	-1.9%	-1.5%	-1.0%	0.5%	0.5%	0.5%	20.0%	16.8%	11.0%
U.S. Small-Cap	-2.3%	-2.5%	-2.6%	-5.0%	-6.1%	-7.1%	20.4%	10.4%	1.2%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-0.5%	3.6%	19.4%
NASDAQ Composite	-0.7%	1.5%	14.7%
International Developed	-2.9%	0.3%	9.2%
Emerging Markets	-4.6%	-10.8%	-4.1%
U.S. Aggregate Bond	0.2%	1.0%	-0.7%
U.S. Municipals	0.0%	0.5%	1.6%
Corporate High Yield	-0.1%	0.0%	3.6%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- Stocks fell during last week, but not before the S&P 500 Index set a new all-time high on Monday afternoon. Notably, the index has more than doubled from its most recent low set during the beginning of the pandemic on March 23, 2020.
- This WSJ article touches on some of the noteworthy stocks last week. First there's Pfizer and Moderna which both benefitted from the recent announcement that COVID vaccine booster shots will be offered to prior recipients of the first two shots who qualify due to a compromised immune system. From a retail sense, Target and Walmart both reported strong in-store sales in the second quarter relative to a year ago. Somewhat related, Amazon plans to open new behemoth-sized physical retail footprints that may pose a threat to their competitors.
- Within S&P 500 sectors, energy stocks fared the worst falling around 7% due to worries about future demand levels. Health care and utilities led and rose almost 2%.
- Although all segments declined, large-cap stocks beat small-caps in a relative sense. The small-cap Russell 2000 Index reached correction territory after it has fallen more than 10% since March. Growth marginally beat value over the week.

International Equity Markets

- International stocks also declined, for the most part more than domestic. International developed beat emerging markets as represented by their MSCI indices.
- European equities fell amid concerns about the delta spread risk, the situation in Afghanistan, and hampered Chinese growth expectations.
- Japanese stocks also fell after discouraging reports that Toyota was planning to cut production by 40% for September relative to prior forecasts, invoking doubt of any future economic growth.
- Chinese stocks plummeted following expanded regulations enforced in various sectors and industries. The MSCI China Index fell almost 8% last week and is down nearly 19% for the year.

Credit Markets

- Treasury yields slightly declined last week as the 10-year yield hit 1.26%, just 2 bps lower than the week prior. Dovish signals released from the Federal Reserve and ongoing concerns around the spread of the delta variant of the coronavirus led the decline.
- Credit spreads widened last week as demand for both short- and long-duration investment grade corporate bonds was strong. High yield bonds were flat and experienced modestly light levels of trading. New issuance was expectedly light in both flavors of corporate bonds.
- Municipal bonds were largely unchanged for the week and underperformed Treasuries. Muni yields rose a few basis points compared to last week, mostly further out on the yield curve. The Bloomberg Barclays Municipal Bond Index consequently rose a modest 2 bps.

U.S. Economic Data/News

- As was widely expected by economists, on Wednesday the Federal Reserve released minutes from their July 27th-28th policy-setting meeting which indicated a willingness to start tapering their $120 billion monthly asset purchases. This news naturally spooked investors but officials stressed there is no link between potential tapering and interest rate hikes. Inflation risk remains a concern.
- Retail sales news was mixed. The Commerce Department reported that overall retail sales fell by 1.1% in July compared to June, but the results varied per sector. Auto sales plunged by 3.9% after exceedingly high prices capped consumer demand and semiconductor chip shortage problems continued. However, sales at restaurants and bars soared indicative the latest wave of new cases did not hurt their businesses.
- The amount of new home construction fell 7% in July compared to June's level and was much more than consensus expectations. Contrary to this, industrial production rose 0.9% in July, higher than forecasted. This is due in large part to automakers altering plans to shut down production lines.
- Initial weekly jobless claims fell to a new pandemic-era low of 348,000. New jobless claims have fallen for four consecutive weeks and are down more than 50% since January.

International Economic Data/News

- Inflation rates differed per European region. In the U.K., the annual CPI increase fell to 2.0% in July, down from 2.5% in June. This new level is in-line with the Bank of England's target. Meanwhile in the Eurozone, annual inflation increased to 2.2% in July, up from 1.9% in June. Higher energy costs are responsible for the Eurozone increase.
- Other economic news from the U.K. was mixed. Retail sales fell by 2.5% in July compared to June, below expectations. However, the national unemployment rate fell to 4.7% in July as employers added 182,000 net new jobs to the economy.
- Japan's government made the difficult decision to extend the coronavirus-induced state of emergency to September 12th. It now affects many more prefectures, up to twelve total including Tokyo. Offsetting this news, the Japanese gross domestic product grew by an annualized 1.3% in the second quarter, rebounding from the annualized 3.7% contraction in the first quarter.
- Aside from dealing with various new regulations that China instituted in different industries, other economic data was murky. Retail sales and consumer services were lower attributed to poor weather and localized coronavirus outbreaks. Diminished construction and industrial production were reflective of some regulations and slowing export growth.

Odds and Ends

- Citadel LLC, the well-known multinational hedge fund and financial services company founded and owned by Ken Griffin, is planning to redeem around $500 million of the $2 billion they invested in Melvin Capital Management. Melvin severely suffered from several bets made on short stocks which soared in price. In return for Citadel's investment, the firm received a share of Melvin's revenue for three years. It's not yet known if Citadel will be withdrawing additional capital in the future, but a spokesperson who remained anonymous claimed Citadel is expected to remain a large investor for the time being.
- In the second-most populous city in the country, Los Angeles, the center of the COVID crisis is spreading to alternate locales. Since the onset, the majority of confirmed cases have been centered in low-income, densely crowded neighborhoods but that has recently shifted to more affluent areas filled with younger people. Ironically, the vaccination rates in the affluent areas trumps the poorer ones but that unfortunately isn't stopping the disease from spreading amongst the unvaccinated, mostly indoors. Other major cities around the country started mandating the return of masks and even requiring proof of vaccination to eat indoors. Hopefully this dynamic does not turn into a trend and spread to other cities for one reason or another.
- For decades, fishermen from the personal side and commercial industries would flock to the inland Pacific northwest to capitalize on the plethora of wild salmon up for grabs in the numerous rivers and tributaries. This year wildlife agencies and fishermen alike recorded one of the smallest counts of adult Chinook salmon ever, mostly attributable to rising temperatures and climate change. Motels across the entire region, tackle and bait shops, and even restaurants are paying the price for the smaller-than-expected pull. Many of them fear they can't continue to operate indefinitely without the support of their long-term trusted revenue catalyst.

Resource of the week:

- Investors are seemingly always wondering if or when the next economic bubble may form or even pop. Some feel strongly we may be in a bubble currently, that is destined to burst given the consistent equity markets incline but not fully supportive economic data. This episode of *We Study Billionaires* features a conversation with billionaire Jeremy Grantham, cofounder and long-term investment strategist at GMO, a long-term well-respected asset management firm. He proactively identified and largely avoided historical corrections such as the Japanese market crash in 1989, the technology bubble in 2000, and the global financial crisis in 2008. Listen to his viewpoint on what to think of asset bubbles and how to be a prudent investor focused on the long-term outlook. He boasts more than 50 years of investing wisdom over different market cycles, which naturally comes with an abundance of experiences.
- Podcast link: https://www.theinvestorspodcast.com/episodes/top-of-the-cycle-w-jeremy-grantham/

Sources: The WSJ, T. Rowe Price Global Markets Weekly Update

DISCLAIMER

This commentary was written by Craig Amico, CFA®, CIPM®, Associate Director, Noreen Brown, CFA®, Chief Wealth Strategist and Steven Melnick, CFA®, Associate Director 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. It 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) captures large- and mid-cap representation across developed markets countries around the world, excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country. The MSCI Emerging Markets Index captures large- and mid-cap representation across emerging markets countries across the world. The index covers approximately 85% of the free float-adjusted market capitalization in each country. The MSCI China Index captures large- and mid-cap representation across China A shares, H shares, Red chips, P chips and foreign listings. The index covers about 85% of this China equity universe. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency. 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 Bloomberg Barclays U.S. Corporate High-Yield Index measures the U.S. dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. 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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