Investment Newsletter

August 2021

The global economic reopening progressed through August supported by some easing of restrictions in developed countries despite the broadening spread of the Delta variant. Sporadic supply chain disruptions in different industries may endure as long as the virus keeps mutating, access to proven vaccines remains elusive in emerging markets, and if more qualified individuals don't willingly receive a vaccine dosage when they are available. The virus has affected major nations in different ways. In most of Europe, the U.K., China, and India, high vaccination rates have kept hospitalizations down while in the U.S. and other larger nations they've risen indicative of the relatively lower percentage of people vaccinated. As of this writing, approximately 62% of the U.S. population is at least partially vaccinated while 53% is fully vaccinated. Recently reported data also implies the vaccines' efficacy dwindles after six months, including the Pfizer-BioNTech version which in late August was approved by the FDA for general use by anyone at least 16 years of age.

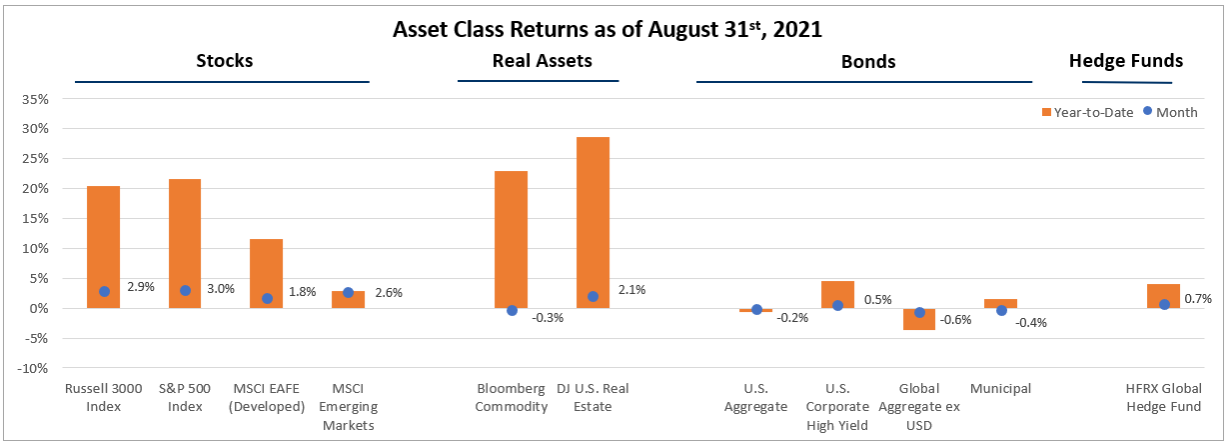
The U.S. economy remains supportive in several different areas. An additional 235,000 jobs were added in August dropping the unemployment rate to 5.2%. Although these figures are encouraging considering the past, August's jobs total fell far short of economists' estimates for around 720,000 new jobs added. Employers reported difficulty in filling job vacancies, a persistent problem that may take time to correct itself. This implies a greater portion of the population has decided to leave the workforce, but it remains to be seen for how long as unemployment benefits have already or may soon expire across the nation. Average wages rose 0.6% in August after a 0.4% rise in July. With inflation, the Federal Reserve remains steadfast given its perspective it is transitory. The Consumer Price Index (CPI) rose 5.4% year over year through July inclusive of elevated auto prices. The Fed also has indicated it plans on tapering its monthly purchase of about $120 billion in bonds by the end of 2021 but is largely dependent on the labor market's recovery path and level of inflation. Despite inflation concerns, the Senate passed a new $550 billion infrastructure bill focused on new spending, but the chances of it passing through the House of Representatives is slim unless it is tied to a larger proposed $3.5 trillion spending bill including tax increases.

Global equity markets did well despite the hostile Taliban takeover of power in Afghanistan. The U.S. barometer S&P 500 Index rose 3.0% bringing its year-to-date return to 21.6%. Globally, large-cap stocks led small-caps and growth beat value, like the trend throughout the year. Within the S&P 500, all sectors rose aside from energy. Oil demand was cloudy given the pandemic's resurgence risk despite the forced closure of some refineries by Hurricane Ida. The financial and communication services sectors were strong after each rose 5.0%. Emerging markets led developed markets despite the new Chinese regulatory changes implemented abroad. Markets seemed to digest China's new legislation after some foreign internet giants initially plummeted.

Fixed-income returns were flat-to-slightly negative for the month as yields marginally rose across all maturities. Within credit, high yield bonds rose and outperformed their investment-grade counterparts which lagged. Municipal bonds remain expensive compared to the past, but the outlook for new issuance is limited assuming the infrastructure bill stalls. Adopting an active management style may be a prudent approach given the challenge to earn attractive yields and tax-efficient total returns in this asset class. According to AllianceBernstein, year-to-date municipal fund inflows reached $80.8 billion through August. In terms of flows, that already makes this calendar year the second largest on record with four months to go.

The global reopening is in full swing but as forecasted, countries far along in the process have seen their growth rates slow. The Delta variant risk is real but how countries and economies handle it is dependent upon a multitude of factors. Looking past any COVID-induced hiccups, the outlook going forward is mostly constructive and serves as a reminder to invest your portfolio according to your personal goals incorporating a risk framework.

MARKET DATA



Morningstar & Hedge Fund Research, Inc.; Bond indices from Bloomberg Barclays

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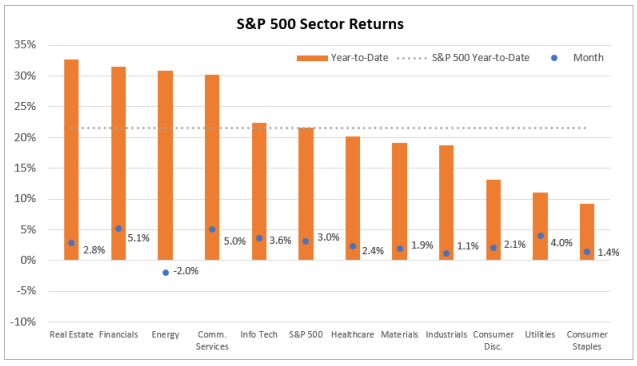
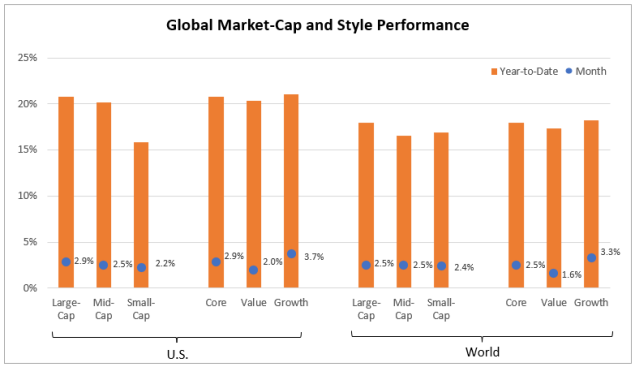
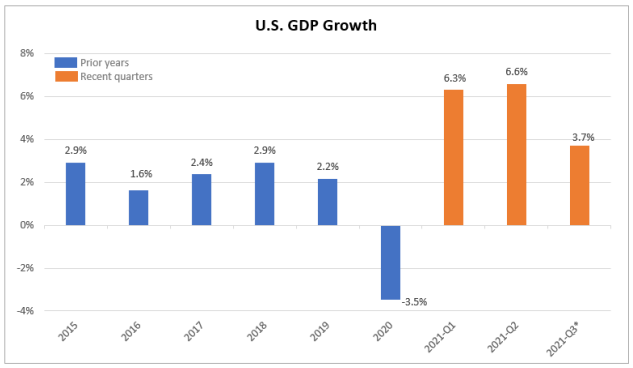


Bloomberg

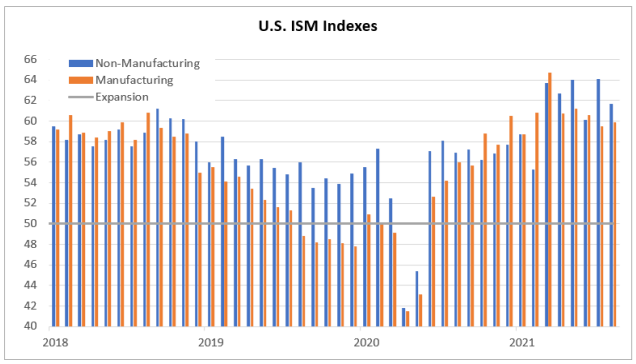


Bloomberg; U.S. indices from Russell and World indices from MSCI

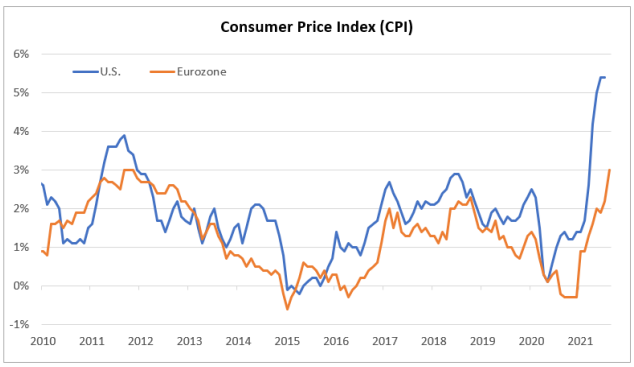
ECONOMIC DATA



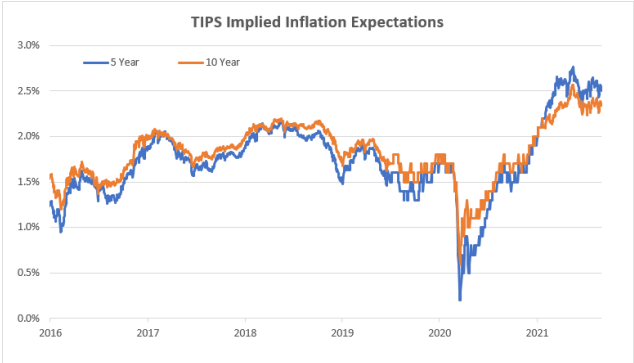
*U.S. Department of Commerce, * Atlanta Fed GDP Now Estimate*



Institute for Supply Management (ISM)



U.S. Bureau of Labor Statistics



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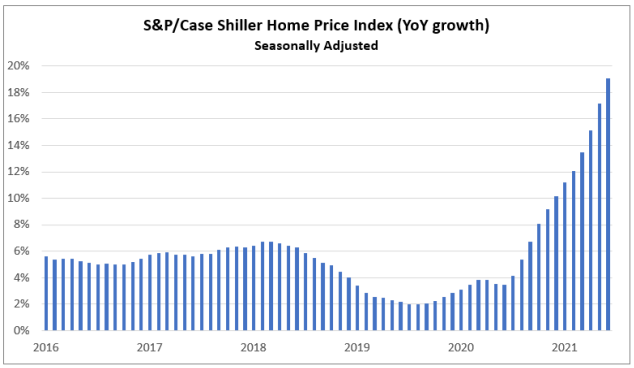
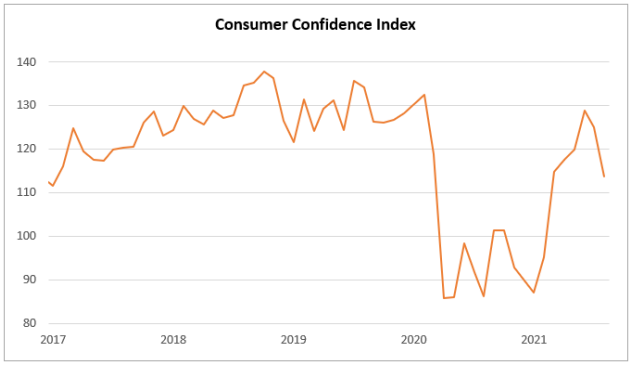
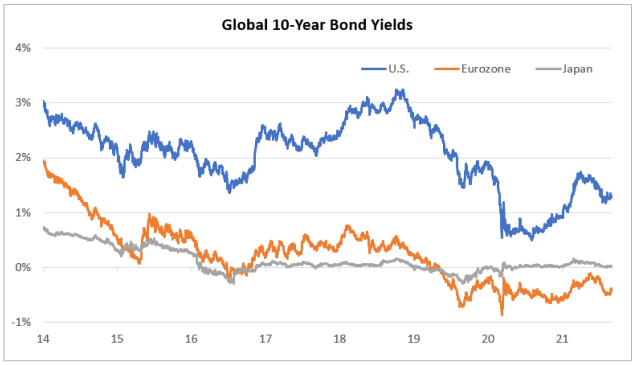


S&P/Case Shiller



Conference Board



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DISCLAIMER

This commentary was written by Craig Amico, CFA®, CIPM®, Associate Director of Investment Management, Noreen Brown, CFA®, Chief Wealth Strategist and Steven Melnick, CFA®, Associate Director of Investment Management 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 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 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 Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap Index represents approximately 31% of the total market capitalization of the Russell 1000 companies; 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 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 World Index captures large- and mid-cap representation across developed markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country; the Bloomberg Commodity Index reflects commodity futures price movements and is calculated on an excess return basis. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production, and weight-caps are applied at the commodity, sector, and group level for diversification. Roll period typically occurs from the 6th-10th business day based on the roll schedule; 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 Global Aggregate Ex U.S. Index is a measure of investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes Treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Bonds issued in U.S. dollars are excluded; 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 Dow Jones U.S. Real Estate Index measures the performance of real estate investment trusts (REITs) and other companies that invest directly or indirectly in U.S. real estate through development, management, or ownership, including property agencies; 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 HFRX Global Hedge Fund Index is comprised of funds representing the overall hedge fund universe. Constituent funds include but are not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, even driven, macro, merger arbitrage, and relative value arbitrage. The underlying strategies are asset weighted based on the distribution of assets in the hedge fund industry; The S&P Case-Shiller Home Price Index measures the value of single-family housing within the U.S. The index is a composite of single-family home price indices for the nine U.S. Census divisions. Leading economic indicators (LEI) are statistics that precede economic events. They predict the next phase of the business cycle. The OECD Composite leading indicators (CLIs), designed to anticipate turning points in economic activity relative to trend, continue to strengthen in most major economies. 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. The Consumer Confidence Index is a measure based on a survey administered by The Conference Board that reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitude, buying intentions, vacation plans and consumer expectations for inflation, stock prices and interest rates. A Treasury Bill (T-Bill) is a short-term U.S. government debt obligation backed by the Treasury Department with a maturity of one year or less. The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of executives covering all North American Industry Classification System's businesses in the manufacturing sector. The ISM Non-Manufacturing Index is a monthly indicator of U.S. economic activity based on a survey of executives covering all North American Industry Classification System's businesses in the services (or non-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. Economic and market forecasts presented herein reflect our judgment as of the date of this presentation and are subject to change without notice. These forecasts are subject to high levels of uncertainty that may affect actual performance. Accordingly, these forecasts should be viewed as merely representative of a broad range of possible outcomes. These forecasts are estimated, based on assumptions, and are subject to significant revision and may change materially as economic and market conditions change. These forecasts do not take into account the specific investment objectives, restrictions, tax and financial situation or other needs of any specific client.