



SUMMIT FINANCIAL

Summit Snapshot: Week of September 7th, 2021

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-0.1%	0.6%	1.3%	3.1%	5.5%	7.8%	20.6%	21.2%	21.8%
U.S. Mid-Cap	0.1%	0.5%	1.2%	3.1%	4.0%	5.6%	23.2%	21.0%	16.7%
U.S. Small-Cap	-0.1%	0.7%	1.4%	-0.7%	-0.7%	-0.6%	25.8%	16.8%	8.4%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	0.6%	5.8%	22.0%
NASDAQ Composite	1.6%	6.1%	19.7%
International Developed	1.8%	4.1%	13.2%
Emerging Markets	3.4%	-3.7%	3.4%
U.S. Aggregate Bond	-0.1%	0.9%	-0.8%
U.S. Municipals	0.0%	0.4%	1.5%
Corporate High Yield	0.4%	1.1%	4.7%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- U.S. equities were mixed during the last quiet summer week before Labor Day. However, the benchmark S&P 500 and Nasdaq Composite indices briefly reached new highs on Thursday.
- This [WSJ article](#) touches on some of the noteworthy stocks last week. First, the airline stocks including United, Delta, and American Airlines all fell after the European Union recommended halting nonessential travel from the U.S. due to rising cases. Demand for Zoom videoconferences has fallen which trickled through to the stock last week, and Moderna has requested the FDA to authorize a smaller dosage COVID booster shot. Moderna stock was up 9% last week.
- The S&P 500 sectors were mixed. Real estate did well and rose about 4% while financials struggled and fell more than 2%.
- Growth beat value-oriented stocks last week but the large-cap versus small-cap stock comparison was muted. Neither market-capitalization outperformed the other. Interestingly for the year thus far and shown in the table above, small-cap value stocks are leading all size & style buckets, but small-cap growth stocks are lagging.

International Equity Markets

- Emerging markets equities beat developed non-U.S. stocks as represented by their MSCI indices. Emerging markets were flat for the year, so last week's gain is representative for the year too.
- European stocks were flat to slightly positive as investors digested an economic momentum lull. The number of COVID cases in the European Union remained stable but death counts rose.
- Japanese stocks soared after Prime Minister Yoshihide Suga announced he will soon resign amidst criticism of how he has handled the pandemic. Japan has also accelerated their vaccination drive.
- Chinese equities increased for the second straight week. President Xi Jinping announced the launch of a new local stock exchange aiming to provide financial support needed for smaller companies.

Credit Markets

- Treasury yields were mostly unchanged week over week and the Bloomberg U.S. Aggregate Bond Index fell just a few basis points. The 10-year maturity yield ended at 1.32%.
- High yield corporate bonds did well and were supported by strong demand and a limited amount of new issuance. For the year, the Bloomberg High Yield Corporate Index is up just under 5%.
- A recent increase in demand has taken hold for solar bonds, debt issued to help individuals finance their rooftop solar panels on their homes. They're popular for homeowners and investors who want access to cheaper and potentially more reliable electricity, while simultaneously reducing their carbon footprint. Issuance through the first six months of this year has nearly doubled the amount of bonds issued during the same timeframe in both 2019 and 2020.
- Municipal bonds were relatively flat throughout the week and underperformed Treasuries. Limited new issuance and continued asset flows strengthened the technical standpoint of municipal bonds.

U.S. Economic Data/News

- On the employment front, the August nonfarm payrolls reported in with 235,000 jobs that were added compared to 720,000 that was expected. Similarly, the national unemployment rate fell to 5.2% while certain sectors, namely leisure and hospitality, had limited to nearly no new hires given Delta variant resurgence fears. People should return to the workforce at a greater clip once children return to in-person school and extended unemployment benefits officially expire. Weekly jobless claims through August 28th tallied in at 340,000, a pandemic-era low. Cautiously, the average hourly wages rose 0.6% in August when compared to July spurring inflation worries.
- The smaller-than-expected decrease in the unemployment rate created some doubt the Federal Reserve would follow through with their planned asset purchase tapering this year but no decisions are final yet. They have also indicated tapering would precede any interest rate hikes. This tapering delay is likely supportive news for risky assets including equity.
- The Institute for Supply Management's (ISM) manufacturing and non-manufacturing August reports released last week both surprised to the upside. On the contrary, pending home sales fell 1.8% for the second straight monthly decline.

International Economic Data/News

- The surge in COVID cases in the U.S. prompted the European Council to officially remove the U.S. from its "safe list" for all nonessential travel accommodations. With that said, fully vaccinated people should still be permitted to visit if they can produce a negative COVID-19 test within three days after arrival. These rules are not mandatory, and any individual state can impose their own restrictions.
- Eurozone inflation spiked to 3% in August, well above the ECB's 2% target level and up from 2.2% in July. The increase was mostly attributed to higher energy, food, and industrial goods prices.
- Japan is considered a laggard in the digital technology world, so the formation of the Digital Agency aimed at enhancing their digital footprint is a welcome change. The lack of digitalization was impactful in some areas including delayed application filing for COVID support, and most schools had trouble to switch to online learning as the pandemic strengthened.
- Some Chinese services readings were disappointing. The official nonmanufacturing Purchasing Manager's Index fell to 47.5 from 53.3 in July, its lowest reading since February 2020.

Odds and Ends

- Given the downward trend of interest rates over the last few decades, some asset managers are slowly becoming open to alternate sources of yield. Specifically, the high yield corporate sector, sometimes termed junk bonds, has normally only invested in speculative grade bonds ranging up to bonds rated right below investment grade. More recently, some managers are investing in bonds with rock-bottom credit ratings or even others that unrated. These bonds typically pay the higher yields that the managers seek but are fraught with default risk or risk the borrower will not make all required payments on their debt obligation. A prudent investor should be aware of these enhanced risks that have become more pronounced in today's low-yielding environment.
- Hurricane Ida left a pummeling path of destruction as it blew through the nation. After it initially tore through Louisiana, it worked in a northeast trajectory and inflicted major damage in the tri-state area. Parts of New Jersey and New York state were walloped by the intense, major amounts of rain and wind, flooding many residences and buildings. President Biden surveyed the scene in Louisiana on Friday before a trip to Manville, NJ and Queens, NY this week. At least 63 people have died due to complications brought on from the storm. Electricity is expected to be restored to those areas without power as soon as this week but may take until late September if necessary.
- Many Seinfeld fans out there may remember the episode with George Costanza's bulging, exploding wallet. What likely wasn't known at the time was that the literal physical wallet may one day be obsolete as more options become digitalized. Initially, credit cards were replaced by mobile payments but eventually driver's licenses, work IDs, and even car keys may one day be accessible through a mobile smartphone. A negative aspect to this shifting dynamic is the strict reliance on a charged phone to access things, including the crucial phone charger.

Resource of the week:

- Private equity has exploded in popularity amongst investors looking for alternate sources of return outside of public markets. A behemoth management firm in the private space is Blackstone Group, which seemingly manages a product in any private asset class you can imagine totaling around \$684 billion in assets under management. This episode of *Masters in Business* features a conversation with Joan Solotar, the global head of private wealth solutions at Blackstone. She covers her extensive career including various experiences, how she helped bring Blackstone to the public market, and what unique and successful products the firm has developed and are currently managed by them today. Have a listen to this incredibly interesting podcast to hear from one of the Barron's 100 most influential women in U.S. finance.
- Podcast link: <https://www.bloomberg.com/news/audio/2021-08-27/joan-solotar-on-private-equity-funds-podcast-ksurm7v3>

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 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. 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.

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