SUMMIT FINANCIAL

Summit Snapshot: Week of September 27th, 2021

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	0.7%	0.5%	0.3%	1.3%	3.7%	5.9%	18.6%	19.2%	19.6%
U.S. Mid-Cap	0.7%	0.7%	0.7%	1.0%	2.2%	4.4%	20.7%	18.9%	15.3%
U.S. Small-Cap	0.7%	0.5%	0.4%	-2.6%	-2.5%	-2.4%	23.4%	14.6%	6.4%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	0.5%	4.0%	19.9%
NASDAQ Composite	0.0%	3.9%	17.3%
International Developed	-0.3%	2.0%	11.0%
Emerging Markets	-1.0%	-7.3%	-0.3%
U.S. Aggregate Bond	-0.4%	0.4%	-1.2%
U.S. Municipals	-0.2%	0.2%	1.3%
Corporate High Yield	-0.1%	1.2%	4.9%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- Domestic equity markets closed the week with a small gain, overcoming earlier selloffs. Last Monday's ~1.7% drop for the S&P 500 Index was the largest daily decline since mid-May.
- Within the S&P 500 Index, the energy sector was a strong outperformer following higher oil prices. The financials sector also outperformed after rates moved higher.
- At the same time, higher interest rates negatively impacted the real estate and utilities sectors.
- Value stocks led growth stocks while large- and small-cap stocks rose by similar percentages.
- So far in 2021, large-caps lead small-caps across blend and growth investment styles (not value) while value/growth leadership is more mixed.

International Equity Markets

- Most non-U.S. equity markets fell last week following concerns over the potential default of one of China's largest property developers – Evergrande.
- European equities ended the week with a small gain in USD terms supported by hopes for continued economic growth.
- Japanese stocks had a volatile week and ended the period with a loss. That said, the Nikkei 225 Average remains just shy of its 30+ year high recorded recently.
- Chinese equities fell over the week reflecting concerns about the fallout from the potential Evergrande default.

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

- Throughout the week, yields on U.S. Treasury notes climbed higher as the Fed moved closer to a potential taper.
- Treasuries ended the week lower after yields rose. The 10-year yield started the week at 1.36% and ended at 1.45%.
- Corporate investment-grade spreads were modestly (0.03%) tighter over the week.
- Corporate investment-grade funds recorded $1.5 billion of inflows compared with $3 billion of inflows last week. High yield funds reported $535.5 million of inflows versus $499 million of outflows the prior week.
- Tax-exempt (muni) yields moved slightly higher (2-4bps) outperforming Treasuries as talk of a fall Fed taper drove rates higher.
- Municipal new issues for the week were mostly priced ahead of the Federal Open Market Committee (FOMC) meeting with the strongest demand seen inside 10 years.
- Municipal funds inflows last week were $1.55 billion. This marks the 29th consecutive week of inflows.
- **Expanded fixed income commentary from Piton can be found using this link.**

U.S. Economic Data/News

- Fed President Jerome Powell spoke on Wednesday concluding the two-day policy meeting. Key takeaways included the $120 billion taper which could begin "soon'' with moderation in the pace of bond-buying.
- A greater number of Fed participants now see higher rates by the end of 2023. The outlook for GDP was revised lower for this year, while the unemployment rate forecast moved higher.
- Last week's jobs data underwhelmed after initial jobless claims rose to 351,000, well above of estimates. IHS Manufacturing and Services sector activity also came in below expectations but remained well in expansion territory (above 50).
- Housing data beat expectations with both new home starts and permits surprising to the upside. New home sales also reached their highest level in several months, although they remain below the peak from last year.

International Economic Data/News

- The week started on a rough note following reports of the potential default of China's second largest property developer – Evergrande. Markets feared that the fallout from default could contribute to financial market contagion similar to the U.S. housing market in 2008.
- A series of cash injections from China's central bank over the week helped alleviate concerns about a messy default for the highly indebted property developer. Notably, the company is now in a 30-day grace period after a series of offshore bondholders failed to receive interest payments last Thursday. Many believe that China is aiming for an orderly default of the company which should help contain any potential systemic risk but still send a message about excessive use of corporate leverage.
- Several European nations are getting close to tapering with Norway leading the pack. The country recently became the first of the G10 nations to tighten its monetary policy by raising its short-term lending rate from 0.00% to 0.25%.

- Eurozone economic indicators suggest that growth has cooled somewhat recently. IHS Markit Purchasing Managers' Index (PMI) remained in expansion territory but fell to 56.1 down from a prior reading of 59.0. The pace of growth also slowed in both the manufacturing and services sectors.
- In Japan, polls suggest that Vaccination Minister Taro Kona is likely to succeed former PM Suga in the upcoming election. Kono is known for his reform-minded views and favors more drastic changes to Japan's pension system in addition to more stimulative measures.

Odds and Ends

- You wouldn't be alone in noticing that supply constraints still seem prevalent across many areas of the economy. In addition to coronavirus-related delays, the world's logistics ecosystem has been dealing with extensive shipping delays and cargo backlogs. While ports and facilities are seeking to work around the clock, they have struggled to find adequate labor to operate at such capacity.
- Cryptocurrency miners that have recently come under fire for the large environmental impact of their trade are seeking partnerships with a different form of energy production – nuclear. It's seemingly a good match as power hungry miners are looking for a stable and clean energy source while many nuclear power plants are facing competition from cheaper power sources and need new customers.
- Corporate buyouts are nearing highs last reached in 2007. Easy monetary policy paired with an impending capital gains tax rate increase has swept Wall Street deal making contributing to a flurry of deals. Companies have issued $120 billion of leveraged loans so far this year, just under the $124 billion record over the first nine months of 2007. Deals have also gotten bigger with the average buyout cost at around $2.5 billion compared to $2.0 billion in 2007.

Resource of the week:

- In this episode of *Masters in Business*, Bloomberg Opinion columnist Barry Ritholtz speaks with Campbell Harvey, a Duke University finance professor whose courses have included "Innovation and Cryptoventures" and "Blockchain Business Models." Dr. Harvey is also a research associate at NBER and a partner and senior adviser at Research Affiliates LLC, which oversees over $180 billion in client funds. This conversation is a worthy listen for anyone that is crypto-curious and wants to understand why several notable traditional financial institutions are embracing the evolving landscape. Interestingly, Campbell comes from a traditional finance background and offers a different take on the space.
- Podcast link: https://www.bloomberg.com/news/audio/2021-09-17/campbell-harvey-on-the-future-of-finance-podcast

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

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