



SUMMIT FINANCIAL

Summit Snapshot: Week of October 4th, 2021

Periodic Returns

	Trailing Week			3rd Quarter			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-0.8%	-2.2%	-3.5%	-0.8%	0.2%	1.2%	17.6%	16.5%	15.5%
U.S. Mid-Cap	-0.6%	-1.9%	-4.1%	-1.0%	-0.9%	-0.8%	20.0%	16.6%	10.6%
U.S. Small-Cap	1.5%	-0.2%	-1.9%	-3.0%	-4.4%	-5.7%	25.2%	14.3%	4.4%

	Trailing Week	3rd Quarter	Year-to-Date
S&P 500 Index	-2.2%	0.6%	17.3%
NASDAQ Composite	-3.2%	-0.2%	13.6%
International Developed	-3.1%	-0.4%	7.5%
Emerging Markets	-1.4%	-8.1%	-1.8%
U.S. Aggregate Bond	-0.1%	0.1%	-1.3%
U.S. Municipals	-0.5%	-0.3%	0.8%
Corporate High Yield	-0.3%	0.9%	4.5%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- Most large-cap indices declined last week and reached some of the worst weekly drawdown levels in months. The panic was mostly due to inflation and interest rate fears.
- Within the S&P 500 Index, nearly every sector's return was negative aside from energy which rose more than 5% boosted by higher oil prices. Health care and technology stocks lagged the most and fell by more than 3%.
- Some newsworthy stocks include Facebook (FB) which has scrapped plans it put together to launch Instagram Kids after lawmakers criticized the benefits the platform provided to kids. The standout health care stock of the week, Merck (MRK), rose 10% after it released a COVID-19 treatment drug which claims to cut the risk of hospitalization in infected people by 50%. Discount retail store Dollar Tree (DLTR) plans to add more products for sale at slightly higher prices above \$1 in some stores to combat higher wages and shipping costs it burdens. Its stock rose nearly 16%.
- Small-cap stocks beat large-caps and value led growth. Interestingly all sectors of the size and style matrix declined as shown above, besides small-cap value which rose 1.5%.

International Equity Markets

- Developed markets non-U.S. equities lagged emerging markets although both broad international regions declined meaningfully. For the year, emerging markets have a small negative return.
- European stocks fell due to ongoing concerns of a low-growth outlook and higher-than-optimal inflation. The MSCI Europe Index was down 3% in USD terms.
- Japanese equities sharply declined as Fumio Kishida won the Liberal Democratic Party's election and is all but assured the reigns of prime minister. The Nikkei 225 Index fell about 5% in USD terms.
- Chinese stocks were mixed during last week although markets were closed on Friday for the weeklong National Day holiday. The MSCI China Index rose 0.4% in USD terms.

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

- The yield on the 10-year note remained range bound and ended around 1.46% on Friday.
- The Bloomberg U.S. Aggregate Bond Index was down -0.9% for September and -1.3% year-to-date reflecting the modest increase in rates and expectations factoring in the Fed's tapering plans.
- The intermediate section of the curve rose to the highest levels in a month, as seen by the flattening in the 5s30s curve.
- Corporate investment-grade spreads were modestly (0.04%) tighter over the week.
- Corporate investment-grade funds recorded \$3.1 billion of inflows compared with \$1.5 billion of inflows last week. High yield funds reported \$196 million of inflows versus \$535 million of inflows the prior week.
- Municipal bond yields rose 5-15 bps last week underperforming Treasuries. The 10-year note saw its largest increase since March, up around 15 bps week over week.
- Municipal funds recorded \$408 million of inflows last week, the 30th consecutive week on inflows despite falling from around \$1.55 billion of inflows the week prior. On the contrary, high yield municipal bonds had \$103 million of outflows, the first week of outflows in this sector since March.
- **Expanded fixed income commentary from Piton can be found using this [link](#).**

U.S. Economic Data/News

- The country's fiscal policy events were active. Late last week, Congress passed a short-term spending bill designed to avoid a partial federal government shutdown, which was swiftly signed into law by President Biden. However, no progress has been made to raise the federal debt limit after which Treasury Secretary Janet Yellen warned of future defaults if it is not acted upon by October 18th. On the monetary policy front, no real progress has been made on advancing the bipartisan \$1 trillion infrastructure bill through the branches.
- Inflation concerns resurfaced after continuing reports of supply chain disruptions affected major retail outlets. Namely Nike, Bed Bath & Beyond, Kohl's, and Dollar Tree (mentioned above) have experienced stressed supply chains and even higher labor costs before the holiday season. Based on a wide consensus, the season is expected to be strong which may compound these issues.
- Other economic news was positive. New orders for durable goods rose 1.8% in August compared to July, while pending home sales rose unexpectedly. After a slight decline in July, consumer spending was up 0.8% and average income rose 0.2% in August as some early signs that delta variant fears may initially be slightly subsiding, but clearly tail risk events remain.

International Economic Data/News

- Eurozone consumer prices spiked 3.4% through August on a year-over-year basis, up from 3% in July and the highest level since late 2008. Higher energy costs are largely responsible. European Central Bank President Christine Lagarde reiterated its view that higher inflation is temporary.
- Fumio Kishida's recent victory over Taro Kono in the political runoff nearly assures his position as Japan's next prime minister. He is expected to initially support the structural reform measures introduced by current prime minister Yoshihide Suga.
- Behemoth property developer China Evergrande Group plans to sell 20% of its stake in Shengjing Bank Co. to a state enterprise for \$1.5 billion. This will ease its debt load and is welcome news to investors. Also, the People's Bank of China pledged to maintain a "healthy property market."

Odds and Ends

- In an unpredictable development, one of the world's largest consumers of fossil fuels, Exxon, has recently defied skeptics and claims to be on the brink of developing a biofuel able to be used in jet planes and heavy trucks. The firm is very close to manufacturing oil from algae, hoping it will be viable by the end of the decade. Hurting the firm's claims, almost every other major oil producer has scrapped their algae research efforts based on little momentum, but Exxon previously claimed a breakthrough in 2017. The allure of one of Earth's most plentiful natural organisms is obvious. Investors will wait to see what the historically fossil fuel-dominant corporation can develop, to the benefit of investors globally.
- The Supreme Court will resume its first in-person cases on October 4th since March of 2020. Like other industries, protocols will be in place including attendance that is limited to staff, attorneys, and accredited journalists. All attendees must wear masks when not speaking and must produce a negative COVID-19 test prior to entering the courtroom. This will also mark the first time previously appointed Justice Amy Coney Barrett will physically occupy the seat of late Justice Ruth Bader Ginsberg who passed away in September 2020.
- The pandemic is changing the wine industry to be more automated. In Italy, winemakers have regularly relied on migrant workers to assist with the annual autumn harvest. However, due to COVID-induced travel restrictions and higher wages the nation has recently experimented using some automated robots to perform the redundant task. Purchasing these robots is not cheap but overcomes some barriers present in humans. In the past, vintners were leery to use robots for the task fearing they could damage the grapes and consequently the quality of wine. If successful, this labor shift could alter the wine production industry for good.

Resource of the week:

- In this episode of *Manager Meetings* as part of the *Capital Allocators* series, host Ted Seides speaks with Daniel Grana who is responsible for managing Janus Henderson's emerging markets equity strategy. The conversation ranges across an array of topics including the unconstrained early days in emerging markets, Daniel's strategy to focus on the intersection of good companies with good governance and good countries, and general portfolio construction. It also touches on implications for China, benefits of aligning with a large organization when tackling with emerging markets, and the opportunity set that exists today. Have a listen to an interesting, very dynamic investing space which differs from developed markets in many ways.
- Podcast link: <https://capitalallocators.com/podcast/janus-henderson-investors-emerging-markets-equity/>

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 Europe Index captures large- and mid-cap representation across developed markets countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization across the European developed markets equity universe. 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 the China equity universe. The Nikkei 225 Index is a stock market index for the Tokyo Stock Exchange which is price-weighted operating in Japanese Yen. The index measures the performance of 225 large, publicly owned companies in Japan from different industry sectors. 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.

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