SUMMIT FINANCIAL

Summit Snapshot: Week of October 11th, 2021

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	1.3%	0.8%	0.3%	2.5%	1.9%	1.4%	19.1%	17.4%	15.9%
U.S. Mid-Cap	1.1%	0.6%	-0.3%	2.6%	1.9%	0.6%	21.3%	17.3%	10.3%
U.S. Small-Cap	0.5%	-0.4%	-1.2%	2.4%	1.3%	0.2%	25.9%	13.9%	3.1%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	0.8%	2.0%	18.2%
NASDAQ Composite	0.1%	0.9%	13.7%
International Developed	0.3%	-0.5%	7.8%
Emerging Markets	0.9%	0.3%	-0.9%
U.S. Aggregate Bond	-0.8%	-0.5%	-2.0%
U.S. Municipals	-0.2%	-0.2%	0.6%
Corporate High Yield	-0.3%	-0.3%	4.2%

Source: Morningstar, see ‘Disclaimer’ for details

U.S. Equity Markets

- Stocks were mixed last week depending on the area evaluated. The well-known S&P 500 Index was up 0.8% adding to its already double-digit year-to-date positive return.
- The sectors of the S&P 500 were also mixed. Energy was by far the leading sector rising 5% after oil prices reached their highest level in about seven years. Major oil exporters are sticking with their previously agreed upon plan to limit supply increases which is driving up the price. Laggard sectors included real estate and communication services.
- Some newsworthy stocks include airline companies Southwest Airlines (LUV) and American Airlines (AAL) which mandated their employees become vaccinated by December 8th. Multiple platforms of parent company Facebook (FB) including WhatsApp, Instagram, and Facebook itself were offline last Monday around the world due to a networking issue. Globally, people dealt with social media withdrawal from their services for around six hours. General Motors (GM) announced plans to double its revenue by 2030 with a new fleet of electric vehicles it has been developing.
- Large-cap stocks outperformed small-caps while value beat growth last week. As referenced in the matrix above, small-cap growth was down more than 1% reducing its minimal gain this year.

International Equity Markets

- Most international equities rose. Emerging markets slightly led developed non-U.S. markets as referenced by their respective MSCI indices.
- European equities ended higher as wholesale local natural gas prices spiked to record levels amidst the global fuel shortage. Russia has initially offered to deliver fuel to European regions in need.
- Japanese stocks declined for the third straight week given the concerns around global inflation, oil prices, and newly proposed policies by Prime Minister Fumio Kishida.
- Chinese stocks rose on Friday, the only day markets were open after the weeklong National Day holiday. The government’s regulations and property sector volatility took a temporary backseat.

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

- The 10-year Treasury yield ended the week at 1.61%, higher than it where it began near 1.46%.
- Treasuries were down as the yield curve steepened. The 5s30s curve expanded 2.3 bps on Friday.
- Corporate investment-grade spreads widened by 8 bps over the week.
- Corporate investment-grade funds recorded $2.5 billion of outflows compared with $3.1 billion of inflows last week. This is the largest outflow of investment grade funds since April 2020. High yield funds reported $294 million of outflows versus $196 million of inflows the prior week.
- Dealers are expecting $15 billion of corporate issuance this week versus $1.149 trillion for the year.
- Municipal yields were 1-2 bps higher over the week outperforming Treasuries as rates continued to rise with expectations of a Fed purchase tapering.
- Municipal funds added just $37 million in inflows last week compared to $408 million of inflows the week prior and was the lowest figure in months. High yield funds saw outflows of $460 million.
- **Expanded fixed income commentary from Piton can be found using this link.**

U.S. Economic Data/News

- Prior rumors around the nation's debt ceiling were put to rest late Wednesday night as the Senate agreed to push forth a bill to raise the Treasury's borrowing limit by $480 billion. This would temporarily alleviate assumed debt obligations through at least early December, which expectedly will be the next deadline the government will face.
- On Friday morning, the Labor Department reported that nonfarm payrolls grew by 194,000 in September which was well below consensus expectations of around 500,000. The unemployment rate consequently fell to 4.8%. Surprisingly, the workforce participation rate fell despite the expiration of extended unemployment benefits during the month.
- Separately, average wages in the private sector continued their ascent. Wages grew another 0.6% in September compared to August as employers compete to attract job seekers from the ever-shrinking pool. Year-over-year, wages are up 4.6%. Existing employees are also working more hours per week on average to fulfill their duties.
- Pfizer and BioNTech submitted approval to the U.S. Food and Drug Administration for the use of their COVID-19 vaccine in children between the ages of 5-11 years old. Approval may be granted as early as November paving the way for schools to announce and implement guidelines.

International Economic Data/News

- Inflation pressures abound in Europe, although through different perspectives from its leaders. At a conference last week, European Central Bank Chief Economist Philip Lane downplayed the long-term risk of inflation while Board Member Isabel Schnabel saw a persistent outlook and risks going forward. ECB President Christine Lagarde warned to not overreact to temporary developments.
- Japan's 100th prime minister was appointed last week as Fumio Kishida was inaugurated. In his first speech he outlined his intention to spark further economic growth and strengthen the middle class. Squashing any doubt, he also promised to strengthen pandemic management and the health care sector in case of another resurgence.
- In China, the Caixin/Markit services Purchasing Managers' Index rose to 53.4 from 46.7 in August indicative of an expansive economy. However, tourism during Golden Week fell 5% from a year ago which did not bode well for expectations of October's retail sales.

Odds and Ends

- Due to the severity of global supply chain disruptions, some large U.S. retailers have come up with an innovative albeit expensive solution to hopefully not alter the customer experience. Brands including Walmart, Home Depot, Costco, and Target have chartered their own cargo ships to import goods for the upcoming holiday season, in anticipation of strong demand. Some of the companies fortunate to be able to facilitate these operations are passing the extra costs onto customers through increased prices. Traditional shipping methods are taking approximately 80 days to transport goods across the Pacific Ocean, nearly double the duration from before the pandemic. The increased prices only add fuel to existing inflation concerns.
- As real estate prices surge, home sales are sometimes paying the "price" (pun intended). Buyers are frequently paying above asking price to win out in bidding wars, but appraisals haven't kept pace with the higher offers. About 13% of appraisals nationwide came in below the contract price in August which typically requires the buyer to make up the difference, renegotiate a new contract price with the seller, or let the deal fall through. Also, the time required for a sale contingent upon a mortgage being granted to close is usually a few months. That lag can skew appraisals too low in dynamic markets according to some homeowners.
- Many companies in less-populous regions of the country are offering attractive incentives in hopes they may entice new remote employees to relocate and fill vacant roles. Areas including but not limited to Kansas, Minnesota, and West Virginia have extended extra benefits in both financial and nonfinancial ways. A straight financial bonus is usually hard to refute for an interested candidate, but other benefits include free co-working space, coffee, martial arts classes, rock climbing, and even child-care services coined "grandparents on demand." Companies hope by attracting skilled workers to their area they will appear more attractive over time and continue to grow in many ways.

Resource of the week:

- Real estate is one of the hottest investment asset classes this year, influenced by many different factors. Many firms have succeeded in navigating the space and are able to boast handsome portfolios and track records for interested investors. One such firm, Starwood Capital Group, manages over $95 billion in assets with 4,000 employees and 16 offices worldwide, and is near the top of the pack in terms of success. This episode of *Capital Allocators* features a conversation with Barry Sternlicht, CEO and founder of Starwood. The chat covers Barry's entrepreneurial beginnings, the current opportunity set across real estate and geographies, and his experience during the pandemic. The list of related real estate companies he's created, results, and associated accolades are extensive and truly impressive. Have a listen to learn more.
- Podcast link: https://capitalallocators.com/podcast/masterclass-in-real-estate-in-a-post-covid-world/

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. The Caixin China General Services PMI (Purchasing Managers’ Index) is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 private service sector companies. The index tracks variables such as sales, employment, inventories, and prices. A reading above 50 indicates that the services sector is generally expanding; below 50 indicates that it is generally declining.

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