SUMMIT FINANCIAL

Investment Newsletter

October 2021

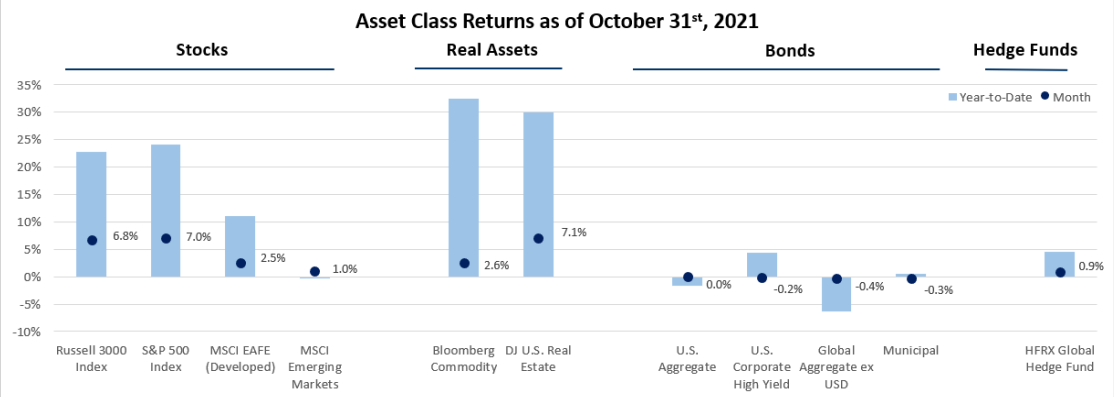
The recovery continued its path upwards during October, although the road forward is becoming bumpier. Economic activity measured by a variety of metrics was robust as more of the world is vaccinated and the pandemic transitions to an endemic. Mobility has increased in many developed countries as large scale vaccination campaigns limit the risks of new breakout infections. As economic activity increases, supply across many areas of the economy has struggled to play catch up. Restrained supply across manufacturing and services has pushed prices up across the board translating to the highest inflation figure (as measured by CPI) since 1991. Energy prices have soared in response to similar factors. Brent crude rose to over $80 per barrel while natural gas prices rose to their highest level since 2008. A steadily falling unemployment rate paired with a shortage of workers has awoken previously tame wage growth adding yet another upward price pressure that permeates through many areas of the economy.

The Federal Reserve (Fed) has held the view that much of the recent inflationary pressures are transitory. While this still may be the case long-term, the consensus view has evolved to where higher inflation may be around for longer than expected. In response to recent data, the Fed announced its plan to taper its bond-buyer program to help moderate price pressures. Tapering will help limit the expansion of the Fed's balance sheet. New messaging could also pave the path for future rate increases, potentially as soon as next year after the bond purchasing program is wound down. Periods of Fed rate hikes have historically been a threat to bull markets. Extending the run in risk assets will require the Fed to walk the dangerous tightrope of pulling back support at a pace that isn't too fast as to stifle the recovery but not too slow whereby inflation and asset valuations would reach levels of excess. Time will tell how successful this attempt will be.

Outside of the U.S., the growth picture is more mixed. In Europe, some of the positive momentum has slowed as supply shortages have held back manufacturing in certain key areas, such as automotives. The European Central Bank (ECB) finds itself in a similar position to the Fed and for now, has kicked the can on when it will start tapering. The Bank of England is a bit further along and could start hiking rates as soon as this year. In Japan, the subsiding of infections following its vaccination campaign has given a jolt to its recovery. While China was initially one of the first major nations in the world to emerge from the pandemic, its growth has recently started to decelerate. The health of China's property sector has also come into question following distress within one of the largest property developers. While some of these concerns have eased, Chinese authorities are likely to introduce new regulations to rein in areas of economic excess and limit potential contagion.

Most risk-oriented financial assets had a strong month backed by an impressive start to the third-quarter earnings season. Strong gains were enough to push many major U.S. equity indices to fresh all-time highs. More cyclical portions of the market, such as energy and financials, were among the top performing areas which added to already impressive year-to-date gains. International equity markets also rose over the month but generally lagged U.S. counterparts. Emerging markets have struggled in 2021 due to additional pandemic-related hindrances to their recovery and further regulatory measures from the Chinese government. Overall fixed income markets had a tougher time, responding to an uptick in inflation and rates. U.S. Treasury 10-year yields surpassed 1.7% during the month for the first time since May before retreating lower. While headline returns were muted, municipals modestly lagged other areas of the bond market including treasuries and taxable investment-grade bonds.

As we enter the final months of 2021, global growth is robust as the pandemic recedes but new threats to the continuation of the recovery have emerged. Notably, inflation has spiked to levels not seen in decades and many major global central banks are preparing to curb monetary intervention. As was the case with much of the last two years, the dispersion of outcomes appears higher than usual. As a result, it remains a time to ensure that portfolios are near target levels and that allocations are appropriately aligned with long-term goals.



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

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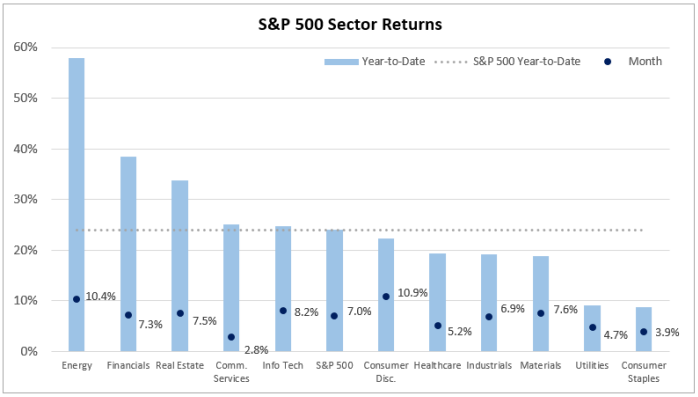

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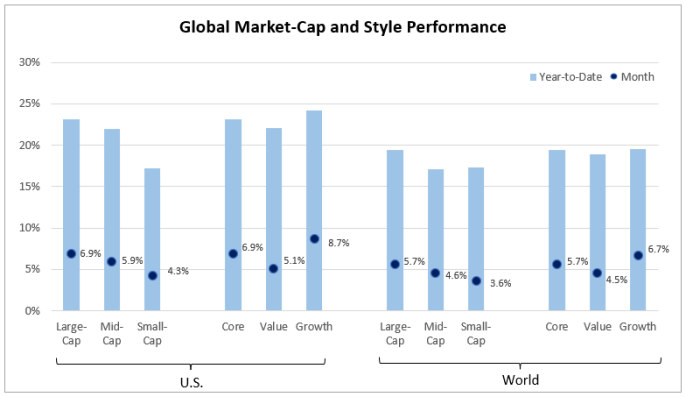
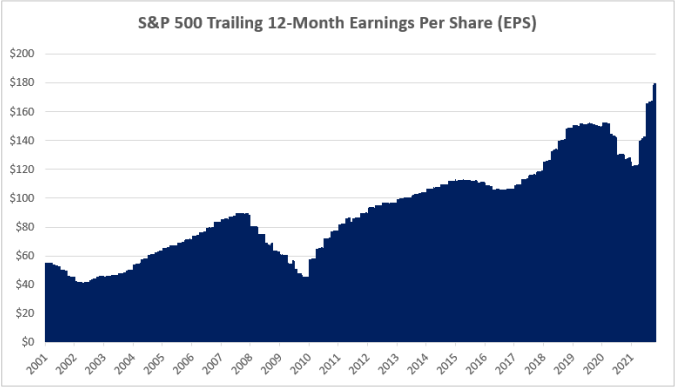


Bloomberg; U.S. indices from Russell and world indices from MSCI



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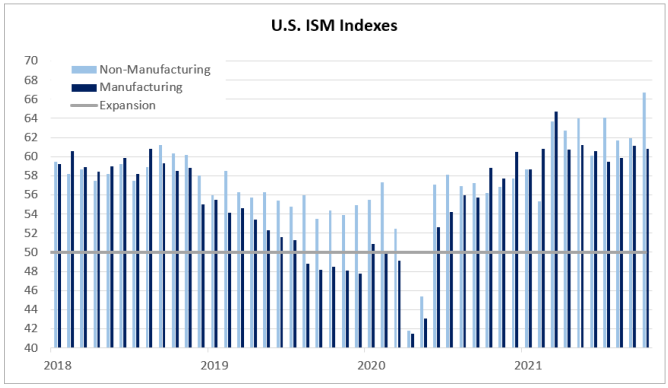

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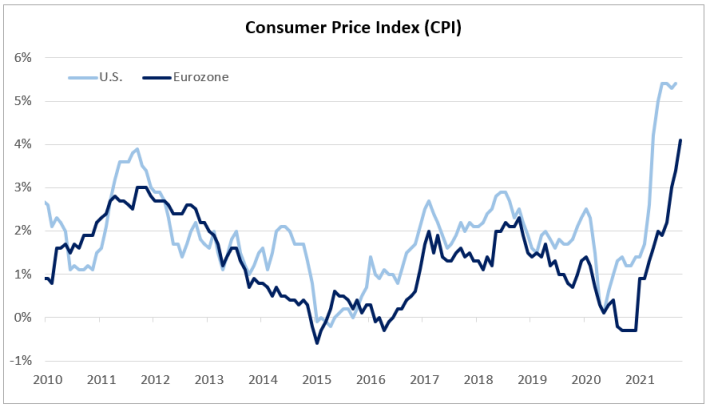
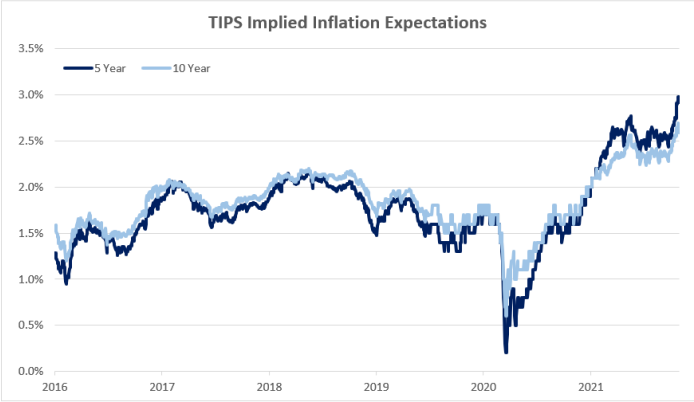


U.S. Bureau of Labor Statistics



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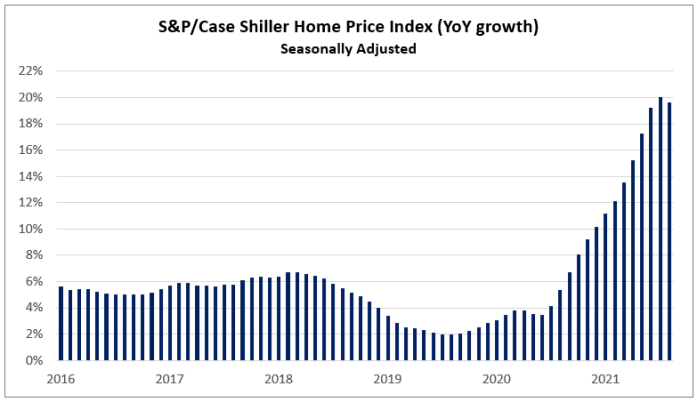
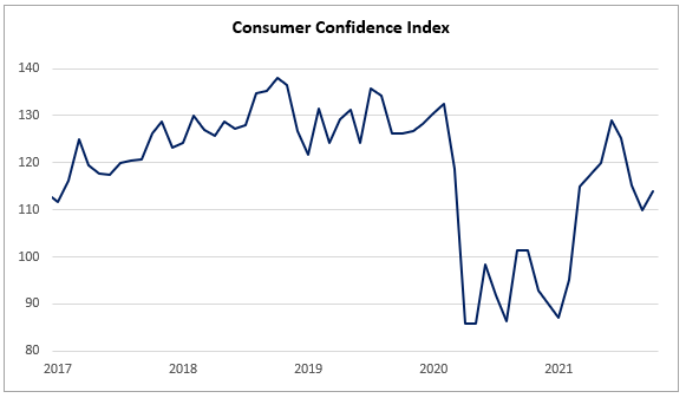


S&P / Case Shiller



Conference Board

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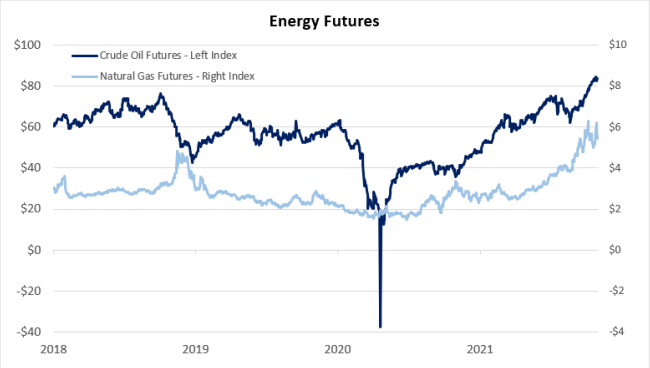

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This commentary was written by Craig Amico, CFA®, CIPM®, Associate Director of Investment Management, Noreen Brown, CFA®, Chief Wealth Strategist and Steven Melnick, CFA®, Associate Director of Investment Management at Summit Financial, LLC., an SEC 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. 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