

## Summit Snapshot: Week of January 24<sup>th</sup>, 2022

### Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-4.6%	-5.8%	-7.0%	-3.6%	-8.2%	-12.2%	-3.6%	-8.2%	-12.2%
U.S. Mid-Cap	-5.7%	-6.1%	-6.8%	-5.9%	-9.4%	-15.7%	-5.9%	-9.4%	-15.7%
U.S. Small-Cap	-7.3%	-8.1%	-8.9%	-7.0%	-11.4%	-15.9%	-7.0%	-11.4%	-15.9%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-5.7%	-7.7%	-7.7%
NASDAQ Composite	-7.6%	-12.0%	-12.0%
International Developed	-2.1%	-2.2%	-2.2%
Emerging Markets	-1.0%	1.0%	1.0%
U.S. Aggregate Bond	0.0%	-1.8%	-1.8%
U.S. Municipals	-0.5%	-1.4%	-1.4%
Corporate High Yield	-0.7%	-1.5%	-1.5%

Source: Morningstar, see 'Disclaimer' for details

### U.S. Equity Markets

- U.S. stocks had their worst week in over a year following rising interest rates and slowing growth concerns. The S&P was off nearly 6% while the tech-heavy NASDAQ Composite fell nearly 8%. The NASDAQ is now in correction territory or more than 10% off mid-November highs.
- Following a flight-to-safety mentality, small-caps and growth stocks lagged, although nearly every portion of the equity market was in the red last week.
- Within the S&P 500 Index, more defensive sectors including utilities and consumer staples were the best relative performers. Weakness in auto and home improvement stocks contributed to the consumer discretionary sector falling nearly 9%. Declines in semiconductor stocks and several big banks weighed on the IT and financials sectors, respectively.
- Technical factors appeared to enhanced volatility. Heavy flows from and to index-oriented ETFs suggested that investors were trading asset classes versus responding to fundamentals.

### International Equity Markets

- Developed and emerging, non-U.S. equities both had losses last week, although they declined less than U.S. counterparts. International equities are starting to gather a sizeable lead over U.S. equities, although we're only a few weeks into 2022.
- European stocks fell over the week following a risk-off sentiment paired with early concerns that the European Central Bank (ECB) would be required to act in a more hawkish manner than anticipated. Notably, this has so far been refuted.
- Japanese equities were negative over the week following increasing coronavirus cases and additional government restrictions.
- Chinese equities were one of the few markets that logged gains last week after the Chinese government introduced new easing measures.

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

- Treasury yields reached two-year highs earlier last week with the 10-year note reaching 1.90% before closing ending Friday closer to 1.75%. The curve also moved flatter.
- Corporate investment-grade spreads widened around 0.04%. Investment-grade funds recorded \$638 million of inflows. High yield funds reported \$2.14 billion in outflows as investors shed risk from their portfolios.
- Tax-exempt yields rose 7-10 basis points, underperforming Treasuries and reaching levels not seen since May 2020.
- Municipal funds had their first outflows in 45 weeks, losing \$239 million.
- Municipal issuance this week is expected to be nearly \$6 billion. Notable deals include Thomas Jefferson University \$799.3 million, San Francisco International Airport \$749.2 million, Kentucky Public Energy \$683.3 million, and Yale University \$400 million.
- **Expanded fixed income commentary from Piton can be found using this [link](#)**

## **U.S. Economic Data/News**

- Economic sentiment appeared to be heavily driven by anticipated Fed actions required to ease rising inflation. The market is increasingly expecting that the Fed will announce a 50 basis point (0.50%) target rate increase in March compared with a recent precedent for 25 basis point (0.25%) increases. Futures markets now assign a roughly 2/3 probability that the Fed will raise the target rate by at least 1% over 2022.
- Recent economic data has underwhelmed expectations, possibly due to the impact of the Omicron variant. New York factory activity unexpectedly dropped for the first time since the beginning of the pandemic. Jobless claims also unexpectedly rose to their highest level since mid-October.
- While the Omicron variant is still very much felt, it appears to be peaking in some of the earliest hit areas in the U.S. Cases have started to decline in New York and other large cities.
- Tensions are heating up between Russia and the U.S. along with its allies. Early U.K. allegations indicated that Russia is plotting to replace the Ukraine government and that it could invade with around 100,000 troops staged at the border. Most recently, NATO announced that they are sending ships and jet fighters to Eastern Europe to support Ukraine.

## **International Economic Data/News**

- ECB President, Christine Lagarde denied allegations that she would raise rates more quickly than many expected, to curb inflation. She noted that the U.S. economic recovery is ahead of Europe's and that inflation should fall back near target levels by the end of 2022.
- Stabilizing COVID-19 hospitalizations caused several European nations (France, U.K., etc.) to ease certain restrictions. Most U.K. measures were canceled immediately while France's controls will phase off in early February.
- The Bank of Japan (BoJ) remained committed to dovish policies keeping short- and long-term rates unchanged at its January meeting. Notably, the BoJ shifted its view on inflation for the first time in nearly a decade reflecting higher energy prices.
- The People's Bank of China (PBoC) unexpectedly cut its short- and medium-term lending facilities by 10 basis points (0.10%). This is the first time this rate was reduced since the start of the pandemic. The PBoC also announced that it could roll out other measures to stabilize the economy.

## Odds and Ends

- Peloton, a prior pandemic darling, had a terrible, horrible, no good, very bad week. Over the weekend, an activist investor wants Peloton to fire its CEO and explore a sale after the stationary-bike maker's stock plummeted more than 80% from its high, as growth slowed. Blackwells Capital has a significant stake of less than 5% in Peloton and is preparing to push the company's board to fire CEO John Foley and pursue a sale, according to people familiar with the matter. The firm believes Peloton could be an attractive acquisition target for larger technology or fitness-oriented companies, the people said. Peloton's shares plunged 24% Thursday after a CNBC report that it was temporarily halting production of its products because of decreasing demand. Mr. Foley said in a subsequent letter to employees that Peloton is reviewing the size of its workforce and resetting production levels, as the company adapts to more seasonal demand for its equipment. He also said the report was incomplete.
- Ford is taking the unusual step of cutting off customer orders for the Maverick, a more affordable pickup that it rolled out last fall, saying it has maxed out on what it can build. The move is a sign that American shoppers are hungry for more-affordable options as prices for new cars and trucks hit new records and availability remains constrained on dealership lots. Ford told dealers Monday that it is suspending customer orders for the Maverick pickup truck because it is already straining to fill a backlog. The company will resume taking orders for the 2023 Maverick in the summer.
- Triun Fund Management, an activist hedge fund run by Nelson Peltz, acquired a stake in Unilever, adding pressure to the packaged food and consumer goods giant in the wake of its failed \$68-billion bid for GlaxoSmithKline's consumer-health business. Unilever's shares have been under pressure in recent months as it has struggled to boost volumes. Analysts say it has underperformed some rivals during the COVID-19 pandemic in areas such as hygiene and packaged food and hasn't launched any blockbuster innovations in some time.

## Resource of the week:

- Bloomberg Opinion columnist Barry Ritholtz speaks with Michael Mauboussin, who is head of consilient research at Morgan Stanley Investment Management's Counterpoint Global and co-author of the recently revised and updated book "Expectations Investing: Reading Stock Prices for Better Returns." Mauboussin joined Morgan Stanley in 2020 and has more than three decades of experience. He previously served as director of research at BlueMountain Capital Management, head of global financial strategies at Credit Suisse, and chief investment strategist at Legg Mason Capital Management. He is also an adjunct professor of finance at Columbia Business School and chairman of the board of trustees at the Santa Fe Institute. Please enjoy this conversation with Michael Mauboussin.
- **Podcast link:** <https://www.bloomberg.com/news/audio/2021-12-17/michael-mauboussin-on-how-to-read-stock-prices-podcast>

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

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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 or solicitation to buy any securities mentioned. 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 Bloomberg US Agg Bond TR USD Index, U.S. Municipals by the Bloomberg Municipal TR USD Index, and Corporate High Yield by the Bloomberg 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 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 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 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 the 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. The 5s30s spread is the difference between the yield on the 30-year Treasury bond and the yield on the 5-year Treasury note.

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