Summit Snapshot: Week of January 31st, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	0.2%	0.7%	1.1%	-3.4%	-7.6%	-11.3%	-3.4%	-7.6%	-11.3%
U.S. Mid-Cap	0.0%	-0.3%	-0.9%	-5.9%	-9.7%	-16.4%	-5.9%	-9.7%	-16.4%
U.S. Small-Cap	-0.7%	-1.0%	-1.3%	-7.6%	-12.3%	-17.0%	-7.6%	-12.3%	-17.0%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	0.8%	-6.9%	-6.9%
NASDAQ Composite	0.0%	-12.0%	-12.0%
International Developed	-3.6%	-5.7%	-5.7%
Emerging Markets	-4.3%	-3.3%	-3.3%
U.S. Aggregate Bond	-0.4%	-2.1%	-2.1%
U.S. Municipals	-1.3%	-2.7%	-2.7%
Corporate High Yield	-1.3%	-2.8%	-2.8%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- U.S. stocks were mixed last week after equity market volatility, as measured by the CBOE Volatility Index (more commonly known as the VIX), reached its highest level since the onset of the pandemic. A strong rally into Friday's close saved several indices from posting another weekly decline. Weighing on investor sentiment are fears that the Federal Reserve may likely raise short-term interest rates quickly.
- Within the S&P 500 Index, the energy sector performed the best after it rose about 5% following higher international oil prices. The consumer discretionary sector lagged, heavily dampened by a 10% drop in Tesla's price after it reported better-than-expected fourth-quarter earnings. Tesla's stock price reaction doesn't coincide with the earnings beat, which has analysts confused.
- Large-cap stocks rallied to outperform during the week, beating small-caps. Before the late rally, most major indices temporarily fell into correction territory, or down more than 10% from recent highs. Notably, the small-cap Russell 2000 Index is lower by about 20% since its November peak, teetering on the edge of a bear market.

International Equity Markets

- Developed and emerging, non-U.S. equities both had sizable declines last week as represented by their MSCI indices. Emerging markets suffered worse than developed, dragged down by China.
- European stocks fell during the week on concerns around interest rate increases and elevated tensions that exist in the Russia-Ukraine dynamic. In an interesting matter, several European countries including Denmark, the U.K., Ireland, and the Netherlands all plan to remove almost all coronavirus-related restrictions on February 1st even though new infections remain near record highs across Europe.
- Japanese stocks also fell following the Federal Reserve's comments. Contrasting Europe, Japanese authorities may extend a state of emergency to more prefectures to thwart the COVID-19 spread.
- Chinese equities were also negative ahead of the Lunar New Year in which stock exchanges will be closed all week. Investor sentiment was low as China-listed companies will soon report annual results.

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

- Treasury yields fluctuated last week after the 10-year note closed at almost 1.87% on Wednesday, only to retreat throughout the rest of the week and end at 1.78%.
- Corporate investment-grade spreads widened around 0.07%. Investment-grade funds recorded $465 million of outflows contrasting the $638 million of inflows the week prior. Separately, high yield funds reported $2.8 billion in outflows after the $2.14 billion in outflows from a week ago.
- Volatility of the stock market coupled with earnings and the Fed's statements, created a less favorable backdrop for new debt issuance. The U.S high-grade primary market, slowed dramatically last week and missed dealers' expectations. Around $2.6 billion was issued versus the $20 billion that was projected.
- Tax-exempt yields moved sharply higher on the week, between 5-30bps. It was the largest increase seen in 2-5 years, as investors digested the Fed's commentary on asset purchases and rate hikes.
- Through Friday, the Bloomberg Municipal Bond Index is down 2.7% for the year. On a relative basis, municipals have cheapened but remain on the more expensive side of historical averages.
- Municipal funds saw their largest outflow since April 2020 as investors pulled $1.4 billion, following last week's $239 million outflow.
- **Expanded fixed income commentary from Piton can be found using this link.**

U.S. Economic Data/News

- Federal Reserve policymakers met on Wednesday and formally announced they are keeping interest rates unchanged. However, Chair Jerome Powell implied it's possible the Fed may raise rates this year more than the three 0.25% increases previously indicated. He said the first increase may come in March based on inflation remaining above the 2% target, coupled with an overall improved job market. By week's end, futures markets were pricing in a significant probability for at least 1.25% worth of rate increases in 2022.
- As reported by the Commerce Department, the U.S. economy grew at an annualized rate of 6.9% in the fourth quarter, well above consensus estimates near 5.5%. For the entire year, output grew by 5.7% which is the fastest pace of growth since 1984. The fourth-quarter gain reflected solid spending by households and companies which actively tried to overcome the persistent supply chain shortages. Important to note the two factors which drove a lot of last year's expansion – an immense amount of cash sent from the government to households along with ultra-loose monetary policies – are fading quickly.
- Other economic readings were bleak. IHS Markit's composite gauge of service and manufacturing activity fell to 50.8, barely in expansion territory and its lowest level in 18 months. Also, the University of Michigan's gauge of consumer sentiment was revised lower to 67.2, the lowest level since 2011. These surveys were likely clouded by the complications the omicron variant has had on the economy along with genuine inflation and wage pressure concerns.

International Economic Data/News

- Germany reported a 0.7% contraction in its fourth-quarter gross domestic product as the effects from supply-chain bottlenecks were felt. However, France and Spain expanded by 0.7% and 2.0% respectively. All three economies grew in 2021 following sharp contractions in 2020.
- Bank of Japan Governor Haruhiko Kuroda repeated the bank's commitment to an accommodative monetary policy. He acknowledged the inherent risk that prices may rise before wage growth, which could make things challenging. Currently, wage growth has been sluggish in Japan compared to other developed economies. The Prime Minister has advocated for pay increases by some profitable companies.
- The Chinese property sector debt crisis has popularized the use of local government financing vehicles (LGFVs). These vehicles allow local governments to borrow money without it appearing on their balance sheets. Maybe they'll spark some progress at the Evergrande Group which has said it would develop a preliminary restructuring proposal within six months' time. The company remains under intense pressure.

Odds and Ends

- The decision is anything but clear and unified, but several pockets of the world have slowly begun to accept COVID-19 outbreaks more so than were tolerated for the past two years. Since vaccines are widely available, which make the disease less deadly, and treatments are being developed for any seriously ill patients, people are slowly coming to grips with the fact that the pandemic may become a part of everyday life. Deaths and hospitalizations are at exceptionally high levels in many countries, even overwhelming hospitals in some areas, but the hope is that modern science can play a big part in taking the next step. Since omicron is regarded as so transmissible, even the harshest, strictest lockdowns may not keep the virus at bay. Time will tell whether the world accepts the virus as being endemic or not, but the success of global economies and industries may depend on it.
- The price of aluminum has spiked more than 24% over the past six months to roughly $3,100 per metric ton on the London Metal Exchange. However, this isn't a large enough increase since the manufacturing of aluminum is tied to energy, of which prices have spiked even more. Given the rise in energy costs, plants in China and Europe have closed since they were not profitable. This may have rippling effects as auto-manufacturers rely heavily on aluminum production. Without an adequate amount of aluminum produced to match consumer demand, then another supply-chain bottleneck may form. Smelters, or places that extract a base metal from ore, scattered throughout the world may curtail production or even close if energy prices don't retreat over the next few months.
- Congratulations are in store for famed tennis professional Rafael Nadal who beat Daniil Medvedev early Sunday morning to win the Australian Open. This is a record-breaking title for Nadal who became the first man ever to win 21 Grand Slam titles (three women have more than 21), breaking a tie at 20 with Roger Federer and Novak Djokovic. Even more amazing is that about six weeks ago, the 35-year-old was lying in bed at home with all the debilitating COVID-19 symptoms, unsure if he would play professional tennis again. The record-breaking match took around five and a half hours to complete but was well worth it. He is also the second man, after Djokovic, to win all four Grand Slams at least twice in the Open era.

Resource of the week:

- This episode of *Invest Like the Best* features a conversation with Gavin Baker, managing partner and CIO of Atreides Management. Gavin's focus is on consumer and tech growth investing, which makes him the perfect person to discuss the bloodbath that has been seen in many growth equities over the past few months. Other topics discussed include inflation, semiconductors, and the disconnect between private and public markets. Please enjoy this conversation with the interesting, honest investor Gavin Baker.
- **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

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 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.

Data in this newsletter is obtained from sources that 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. The attached materials, URLs, or referenced external websites are created and maintained by a third party, which is not affiliated with Summit Financial LLC. or its affiliates. The information and opinions found within have not been verified by Summit, nor do we make any representations as to its accuracy and completeness. Summit Financial, LLC, and affiliates are not endorsing these third-party services, or their privacy and security policies, which may differ from ours. We recommend that you review these third-party's policies and terms.