SUMMIT FINANCIAL

Summit Snapshot: Week of February 14th, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-0.5%	-1.6%	-2.6%	-2.3%	-7.4%	-12.0%	-2.3%	-7.4%	-12.0%
U.S. Mid-Cap	0.3%	0.2%	0.0%	-4.0%	-7.4%	-13.5%	-4.0%	-7.4%	-13.5%
U.S. Small-Cap	1.4%	1.4%	1.5%	-5.4%	-9.5%	-13.6%	-5.4%	-9.5%	-13.6%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-1.8%	-7.2%	-7.2%
NASDAQ Composite	-2.2%	-11.8%	-11.8%
International Developed	1.4%	-2.4%	-2.4%
Emerging Markets	1.6%	0.8%	0.8%
U.S. Aggregate Bond	-0.4%	-3.4%	-3.4%
U.S. Municipals	-0.9%	-3.2%	-3.2%
Corporate High Yield	-1.0%	-4.0%	-4.0%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- Domestic stocks were mixed following another week of elevated volatility. Large-cap indices fell following large declines in mega-cap stocks Meta Platforms and both share classes of Alphabet.
- Some notable companies worth mentioning include discount airline company Frontier which has acquired 51.5% of Spirit Airlines for $2.9 billion in cash and stock. The new company is positioned to compete more aggressively against larger airline rivals, offering more economical fares. Stationary bike manufacturing company Peloton named former Spotify executive Barry McCarthy as the next CEO to succeed John Foley who will become the executive chairman. The company also lowered its revenue forecast and announced roughly 20% of its corporate positions will be cut to cope with the widespread losses.
- Within S&P 500 Index sectors, energy and materials rose as the "reopening" sector rotation resumed. The communication services and technology sectors were weighed down by the declines of mega-cap stocks.
- Small-cap stocks rose last week and easily outperformed large-caps. Separately, value-oriented companies marginally beat growth-oriented which is typical during high inflationary periods.

International Equity Markets

- International markets had another strong week, easily beating U.S. counterparts. Developed and emerging market equities both rose around 1.5% in U.S. dollar terms (USD).
- European equities rallied, buoyed by strong corporate earnings. Value stocks and cyclical industries fared well reflective of the pressure that inflation has on the market.
- Japanese stocks rose last week supported by solid corporate earnings reports. The yen weakened after high inflation increased the dollar and expectations increased for future monetary policy tightening actions implemented by the Federal Reserve.
- Chinese equities also rose as rumors hinted that the country's regulatory crackdown activity on different companies and market segments may have peaked.

Authored by the Summit Financial Investment Team 02142022-0131

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

- The Treasury market is off to its worst start in over four decades. The yield curve moved sharply higher last week, as Thursday's stronger-than-expected inflation data prepared investors for more aggressive monetary policy action from the Fed.
- Market volatility continued after Fed Governor Bullard stated he favored stronger interest rate hikes and would like to see rates 100 basis points higher by July.
- The U.S. 10-year Treasury yield reached as high as 2.05% on Thursday, breaking a 2% psychological resistance level not seen since July 2019. Shorter maturity bond yields rose the most, as the two-year note topped 1.63% given the increased probability for a 50 bp interest rate increase in March from the Fed.
- Corporate investment-grade bonds reported $1.08 billion of inflows to wash out the $69 million of outflows from the prior week. On the contrary, high yield funds reported $1.96 billion of outflows albeit less than the $4 billion of outflows reported the week prior.
- Municipal bond yields climbed higher, outperforming Treasuries last week given the hawkish comments by the Fed. Muni funds also saw $216 million of inflows, snapping three straight weeks of outflows.
- **Expanded fixed income commentary from Piton can be found using this link.**

U.S. Economic Data/News

- On Thursday, the Labor Department declared the consumer price index rose 7.5% year over year through January, higher than expected and the largest annual increase in 40 years. Core prices, which exclude food and energy, rose 6.0%, its highest annual increase since August 1982.
- The University of Michigan's gauge of consumer sentiment in February tallied in at 61.7, well below expectations of a reading near 67 and the lowest level since October 2011. Released after the inflation figures were public, this survey likely considers consumers' negative views on inflation-adjusted income.
- According to data maintained by FactSet, about three out of four S&P 500 companies that have reported earnings have mentioned "inflation" within the dialogue. However, many companies are simply passing on higher costs to consumers given minimal declines in net margin estimates.
- For the first time since September 2019, the government recorded a monthly budget surplus in January to the tune of $119 billion. During the month, receipts rose by 21% to $465 billion while spending fell by 37% to $346 billion compared to January 2021. A large reason for this includes the recent expiration of the monthly child tax-credit payments in December. Reducing the national debt level is a focus of figureheads going forward, in coordination with bringing inflation down to manageable levels.

International Economic Data/News

- Future European Central Bank (ECB) policy moves remain uncertain given different internal opinions. The heads of the Dutch and German central banks both stated the ECB should taper its asset-purchase programs to potentially raise interest rates before year-end. However, ECB President Christine Lagarde and Chief Economist Philip Lane were more conservative in their views, reserving a less definitive viewpoint to making any immediate monetary policy moves given the uncertain outlook.
- The Japanese government extended states of emergency in Tokyo and 12 other prefectures by three weeks to March 6th despite the deceleration of new daily COVID-19 cases. Also, Prime Minister Fumio Kishida publicly declared a goal of administering one million booster shots per day by the end of February.
- China's strict measures to stop the recent rise in cases slowed recent growth momentum. This was evident in the private Caixin/Markit services purchasing managers' index which fell to 51.4 in January, down from 53.1 in December. January's reading came in at a five-month low.
- Property-development company China Evergrande Group vowed to complete at least 50% of presold homes this year by sparking construction and sales activity, not by selling assets at depressed prices. Nonetheless, worries about cross defaults and delayed payments throughout the risky sector have kept investors nervous about what lies ahead.

Odds and Ends

- ARK Investment Management, controlled by innovative thinker Cathie Wood, is not changing its philosophy regardless of the immense scrutiny it has undergone so far this year. Ms. Wood's flagship fund ARK Innovation (ARKK) has bought more than $400 million of high-growth stocks, citing their potential to change the world in the long term. The fund's concentration in companies it believes will define the future include Tesla, Roku, and Teladoc, all down substantially in 2022. Regardless, some investors continue to believe in Wood's outlook as ARKK saw $350 million of inflows last week.
- The number of employees who missed work surged in January following the spike in COVID-19 cases, mostly of the Omicron variant. Many people who missed work were either sick with the virus, caring for someone who was, or simply rearranging schedules to deal with ever-shifting school closure policies. Also, nearly 75% of the 8.7 million people who missed work in January were vaccinated while approximately 25% were not. More recently though, school districts around the country are easing coronavirus policies in a mass return to normalcy. Mask mandates are being dropped, less stringent testing regimes, and even some vaccine requirements are sweeping across the education industry. However, which changes will take effect and how quickly they'll be implemented seems to be left up to each state and district to decide independently.
- Congratulations to the Los Angeles Rams on winning Super Bowl LVI on their home field at SoFi Stadium. It is their second super bowl victory ever, and the first since 1999 when they played as the St. Louis Rams. At the start of the 2016 season, the team relocated to Los Angeles with plans of constructing a new state-of-art stadium all teams can admire. Team owner and billionaire real estate tycoon Stanley Kroenke wanted to build a stadium for his newfound team which turned into the most expensive in the league at more than $5 billion. He's proud it hosted the Super Bowl and looks forward to a bright future for his team.

Resource of the week:

- The dominant elephant having an impact on all aspects of business and everyone's lives in some way is inflation. How quickly it escalated, and how carefully an investor should navigate these uncertain times is critical to long-term success. This podcast created by and offered through Allspring Global Investments (formerly Wells Fargo Asset Management), helps put inflation into perspective for an interested investor. A few experienced and qualified individuals from Allspring's investment division provide their views on inflation, as well as what they think is the biggest mistake an investor can make in the current environment. The speakers include Ann Miletti, head of active equities, George Bory, managing director of fixed income strategy and product specialists, and Matthias Scheiber, global head of portfolio management for the multi-asset solutions team. Have a listen to hear their candid, unbiased opinions on how to best navigate today's environment. The podcast is titled "Unlock What's Possible: Inflation – The Balancing Act" and may require clicking the play button on the website to listen.
- **Podcast link**: https://allspringglobal.com/about-us/allspring-elevated-podcasts.html?ecid=a19b7c6d1e1

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.