SUMMIT FINANCIAL

Investment Newsletter

May 2022

Headline market returns were modestly positive, but May brought another volatile month for investors adding to an already tumultuous 2022. Macro risks remained abundant with the war continuing to rage in Ukraine, several notable central banks transitioning to restrictive monetary policy, and the pandemic still having a material impact on select areas of the world (most notably China). The world economy appears to be within a significant regime change which brings a variety of uncertainties to investors. Large-scale macroeconomic shifts usually lead to choppy markets but can create new opportunities on the other side. In the meantime, prudence and thoughtful planning are key.

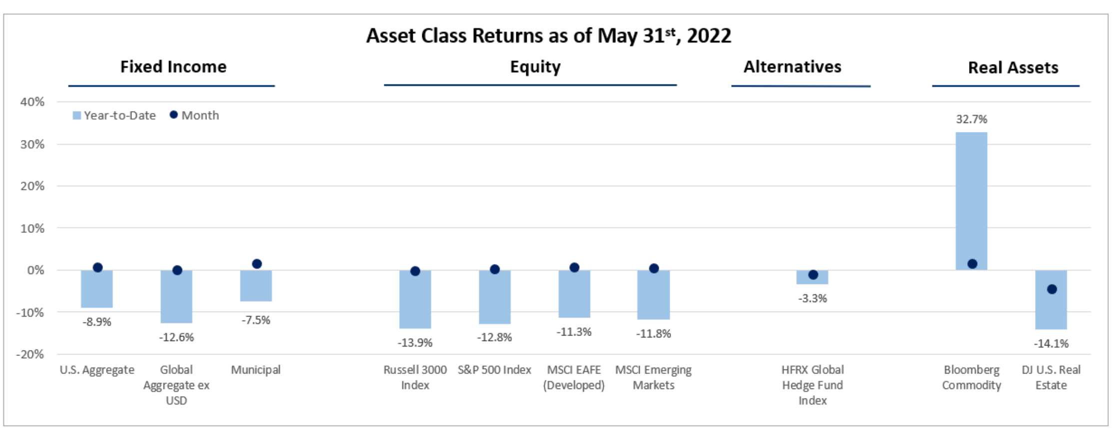
Inflation was still top of mind for investors. The headline consumer price index (CPI) fell slightly from 8.5% to 8.3% (year-over-year change) in April but is still well above target levels. Strong employment and a firm economic footing have supported the Federal Reserve (Fed) in implementing its second rate hike of 2022 in May and its first 50 basis points (0.50%) rate increase since 2000. The Fed's recent actions were in-line with expectations and consequently caused minimal movement in yields. Going forward, futures markets are expecting two additional 50 basis point rate hikes in June and July with further, but potentially smaller magnitude rate increases from there. Ultimately, the Fed is seeking to bring policy rates back or slightly above neutral levels in hopes of quelling inflation.

Small gains in major equity market indexes disguised significant intra-month volatility. The S&P 500 Index was off nearly 6% at its low in May and amid a seven-week losing streak before a late-month rally brought returns closer to break-even levels. Both cyclical (energy, financials) and defensive (utilities, healthcare) portions of the market were relative outperformers while consumer names lagged. A similar trend is also mostly representative of year-to-date results and value names have far outpaced growth stocks – defying a theme that persisted for much of the last decade. Non-U.S. equities demonstrated outperformance over May, and year-to-date returns are now ahead of domestic counterparts in U.S. dollar terms. Valuations for equities outside of the U.S. remain more compelling, although come with their own set of risks. That said, negative performance across the board this year has brought valuations much closer to historical averages. The last cycle could be characterized by ample liquidity and tame inflation which translated to record valuations and profit margins for many investment assets, particularly equities. These tailwinds have since converted into headwinds likely leading to lower forward returns for equities.

Fixed-income assets generated positive returns over the month, modestly offsetting losses from earlier in the year. After a swift rise, yields fell slightly while moves in spreads were mixed but muted. Corporate spreads were slightly wider while municipal spreads were tighter – contributing to a strong result for the asset class. Asset flows have turned around for municipals as valuations relative to Treasuries reached their most compelling level since the depths of the COVID-19 Crisis. The municipal market should also be supported by favorable supply/demand factors heading into the summer months following large reinvestment demand paired with muted issuance. The rapid rise in rates throughout 2022 has been damaging to year-to-date fixed income returns but could provide some support going forward as rates are likely to stabilize and yields have reset to higher levels providing greater future income. Wider credit spreads could also compress if recession/credit concerns turn out to be overblown.

The alternative asset market continues to grow as investors seek to add further diversification and return generation to traditional balanced portfolios. Hedge funds as a group have offered some protection against market volatility, although performance is highly varied across different strategies. Global Macro funds have been able to profit from volatility and generate positive returns while more directional strategies, such as long/short equity, have again struggled to demonstrate their value-add. Private equity and real estate funds have so far weathered the storm better than public market equivalents and sit on historic levels of dry powder ready to capitalize on further distress.

As an investor, the current environment remains perplexing. Certain areas of the economy, such as employment, still seem to be on solid footing although might be at an inflection point. On the other hand, historic inflation and monetary tightening are rapidly reining in areas of excess in other areas. During times like these, it's essential to ensure that your portfolio is at or near target levels and that ample lifestyle liquidity is maintained to prevent drawing on investment assets during periods of heightened volatility.



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

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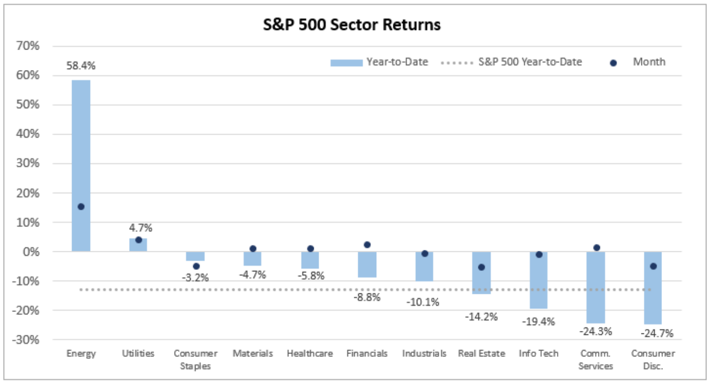

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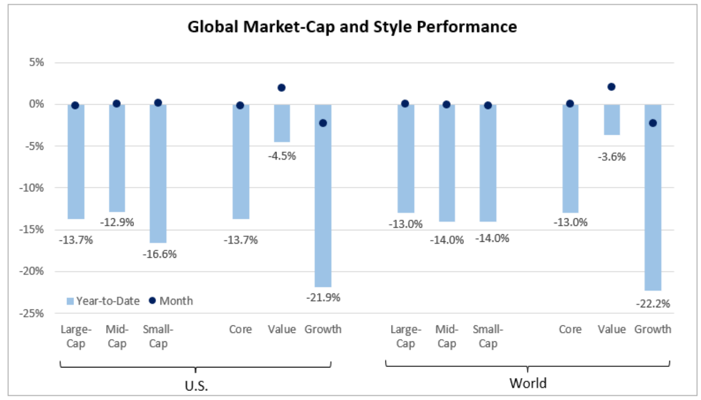

Bloomberg; U.S. indices from Russell and world indices from MSCI

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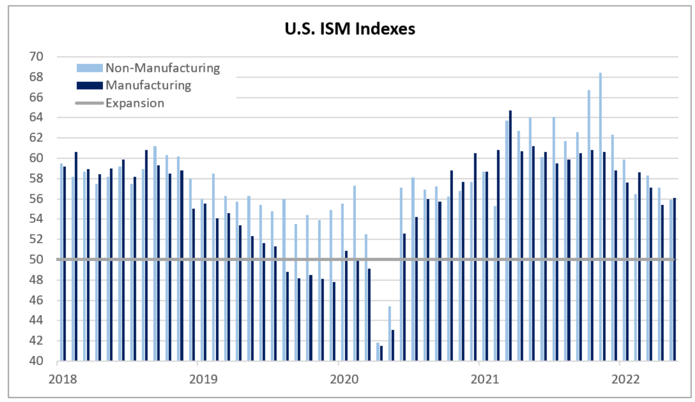

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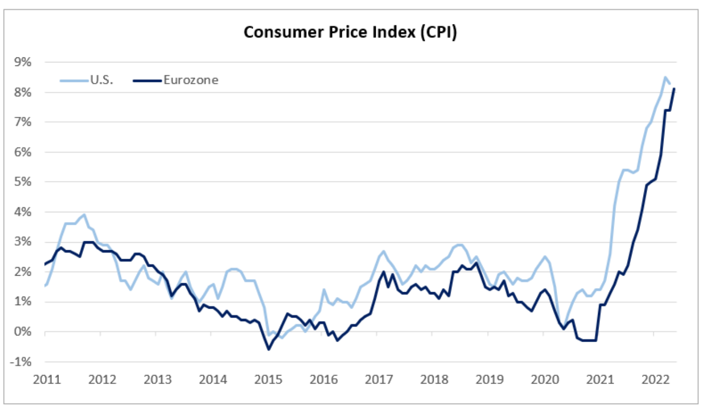

U.S. Bureau of Labor Statistics

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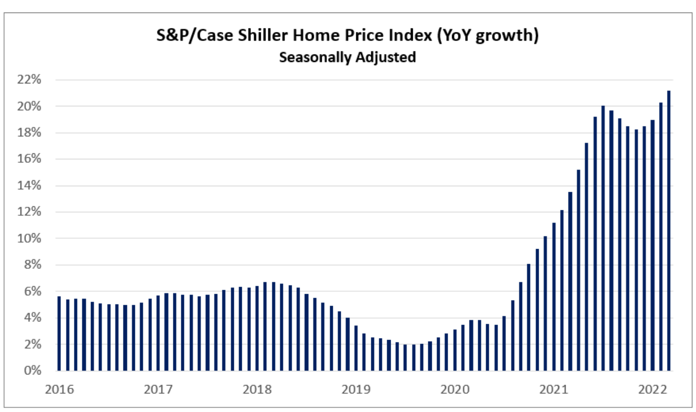
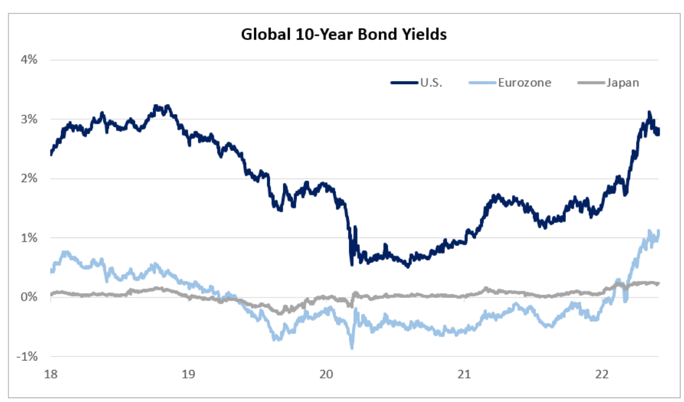


S&P / Case Shiller



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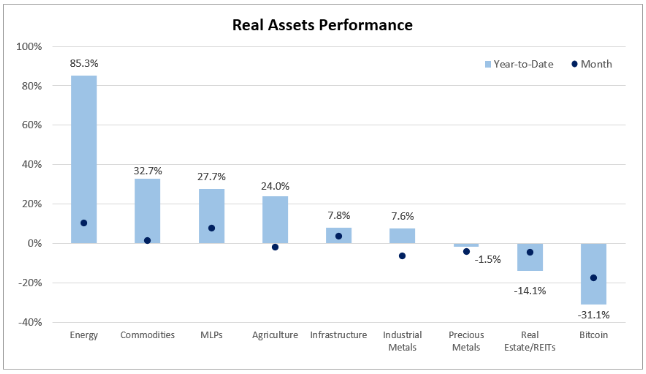

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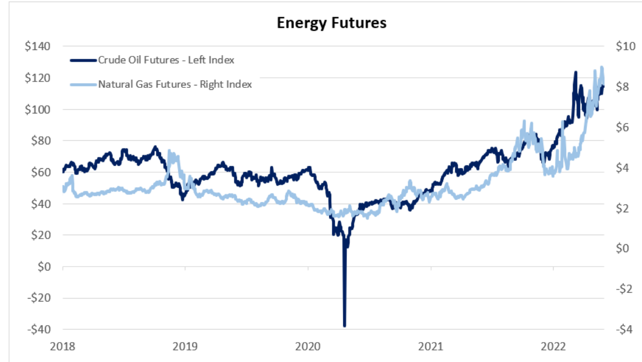

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This commentary was written by Craig Amico, CFA®, CIPM®, Associate Director of Investment Management, Noreen Brown, CFA®, Chief Wealth Strategist and Steven Melnick, CFA®, Associate Director of Investment Management at Summit Financial, LLC., an SEC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