SUMMIT FINANCIAL

Investment Newsletter

Second Quarter 2022

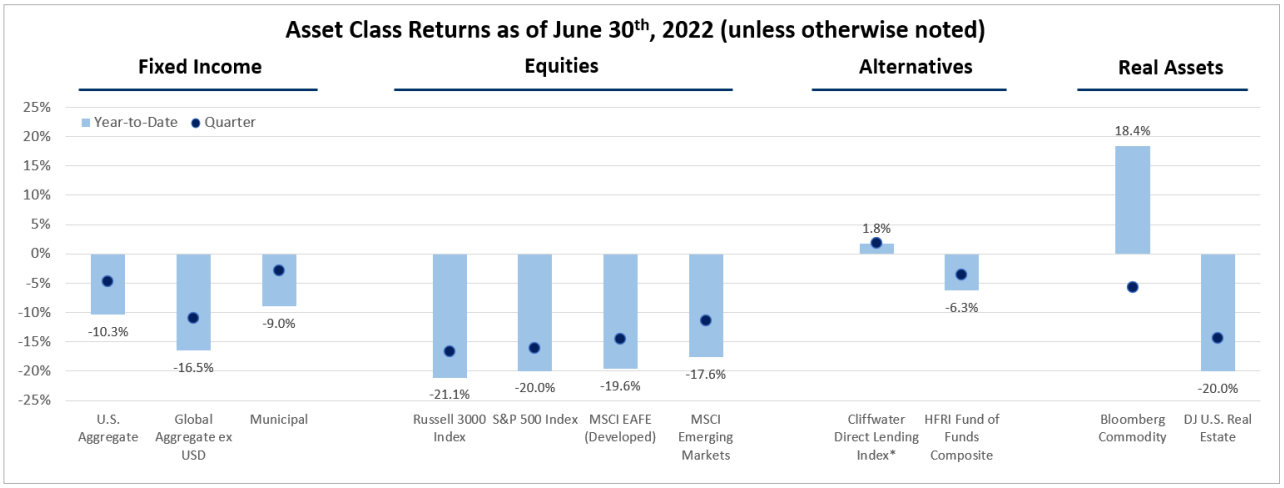
Executive Summary

The end of June concluded one of the worst starts of the year for markets ever. There were few places to hide with many major stock and bond indices down in the double-digits over the first six months of 2022. Notably, entering the year with historically elevated valuations paired with select areas of excess within the economy exacerbated the magnitude of year-to-date declines. The combination of sustained higher inflation and subsequent hawkish actions by global central banks has quickly reset investment asset valuations across the board while also increasing yields. These actions paired with recessionary fears, the enduring military conflict in Ukraine, and renewed coronavirus lockdowns in China were enough to push U.S. consumer sentiment to its lowest level ever. Although it's easy to get caught up with the current headwinds for investors, markets are by nature forward-looking. More attractive starting valuations, higher yields, and lower expectations should contribute to considerably higher future returns for many investment asset classes relative to where we were only a few months ago. That said, with a potential recession looming, it could be a bumpy path to get there.

The past quarter was an eventful one in terms of economic events. After its first rate hike since 2018 over the first quarter, the Federal Reserve (Fed) proceeded to raise its policy rate twice more with increasing magnitude each time. A surprising 8.6% CPI print in May and subsequent 75 basis points (0.75%) fed funds rate hike in June unsettled markets. Higher U.S. rates have contributed to a strong dollar, which has reached its highest level compared to a basket of other major world currencies since 2002. A strong USD negatively impacts the competitiveness of domestic exports creating another headwind to growth. Inflation continued to run hot, although there are some signs that it may be peaking. Supply-chain issues are abating and some of the upward price pressures on commodities have alleviated. Longer-term, it will be higher wages that keep inflation elevated as other factors normalize. After an incredible recovery following the COVID-induced recession, corporate earnings growth has slowed meaningfully. Estimates call for around an 8% annual gain which might still be optimistic. All these factors contribute to slowing GDP growth with the Atlanta Fed's GDPNow estimate for the second quarter now indicating another negative print somewhere around -1.2%.

As the year progresses, the probability of the U.S. entering a recession is increasing. This reflects a variety of factors including widening credit spreads, negative GDP growth, and notable treasury curve inversions, among other factors. Despite a potentially higher likelihood, the timing and severity are still uncertain – the latter of which might be the most important. Compared to past recessionary periods, the economy is starting on a relatively strong footing. Both corporate and household balance sheets remain on solid ground and the housing market is still robust, despite showing signs of slowing. The labor market also is starting from a point of strength with a 3.6% unemployment rate. The big question is how far the Fed needs to go to fend off inflation both in terms of monetary tightening and the derivative impact on labor, housing, and other markets.

The second quarter brought little reprieve to investors across traditional asset classes. Several major equity benchmarks are either in, or hovering near bear market territory, beaten down by slumping earnings expectations and compressed multiples reflecting higher discount rates. Fixed-income returns were also negative for the quarter but to a lesser degree. In addition to higher rates, credit suffered from wider spreads that incorporated greater recessionary fears. Taking a longer-term view, the first six months of this year have served to greatly reset valuations across most investment assets in addition to forward expectations. Markets rapidly went from valuing growth above all to a focus on profitability and quality. Although undoubtedly painful in the short-term, the forward outlook over the medium- to long-term is more encouraging and could contribute to higher returns in the future.



*Morningstar & Hedge Fund Research, Inc.; Bond indices from Bloomberg, * as of 3/31/2022*

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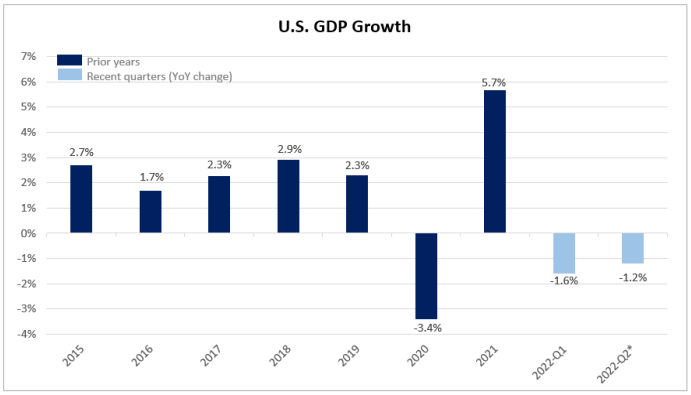
Economic Growth

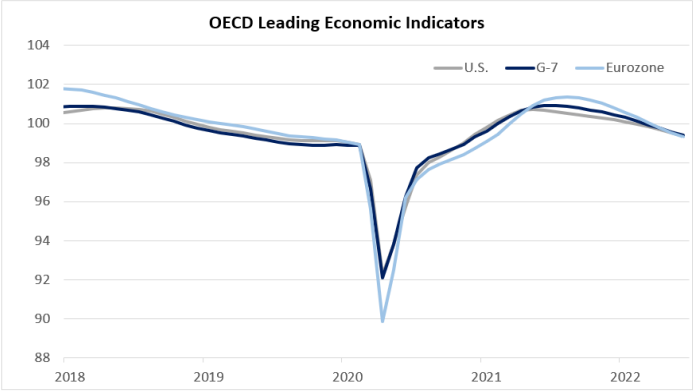
Economic growth has been slowing throughout 2022 as global central banks enacted hawkish policies to reign in high and more pervasive inflation than initially expected. In addition to monetary policy, fiscal spending has been significantly reduced as pandemic-oriented stimulus rolls off. To add perspective, the federal budget deficit declined by the single largest percentage level relative to GDP since the end of World War II. GDP growth initially turned negative over the first quarter and is expected to again be negative over the second quarter, according to the Atlanta Fed GDPNow metric. With slowing economic momentum, recession risks are on the rise creating new challenges for investors and policymakers alike. The tightrope between managing inflation while preserving growth has become thinner and thinner, making a 'soft' or even a 'softish' landing more challenging.

Despite a more difficult outlook, it's not all negative. The impact of the pandemic appears to lessen with each passing quarter. New waves will keep cropping up but higher levels of natural immunity, greater vaccination rates, and society's ability to adapt to evolving conditions should allow most aspects of business and everyday life to continue functioning. The fading of the pandemic has allowed many of the most impacted areas of the economy, such as travel, leisure, dining, and entertainment, to rebound. This has supported non-manufacturing (services) PMI, which has remained robust, although it is below prior record levels following the economy reopening. Elsewhere, many areas of the economy appear to be slowing but aren't necessarily falling off. For example, higher mortgage rates have slowed the number of transactions and the pace of price increases, but supply/demand dynamics should offer support relative to other periods of economic turbulence. The same could be said about the labor market, where the unemployment rate is at multi-decade lows and job openings continue to well exceed the level of accessible labor. Added together, the growth prospects going forward are diminished relative to coming out of the pandemic, but slower growth should also help contain inflation, potentially leading to a new equilibrium and hopefully, less economic volatility.



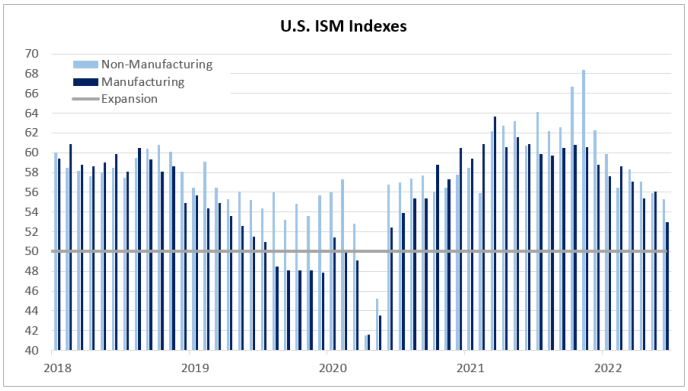
*U.S. Department of Commerce, * Atlanta Fed GDP Now Estimate SAAR*

Second-quarter year-over-year GDP is now expected to be modestly negative, following the path set in the first quarter. Drastically reduced economic and fiscal stimulus have so far proved effective in tempering growth with the hopes of alleviating elevated inflation.



Organization for Economic Cooperation and Development

Leading economic indicators, designed to highlight inflection points in the economy, have continued to roll over. The trend potentially foreshadows slower growth and reflects declines in consumer confidence, housing, and asset markets.



Institute for Supply Management

Coming out of the pandemic, the manufacturing index was a select bright spot as the demand for durable goods skyrocketed. Currently, we're seeing a reversal in this trend where manufacturing levels are stagnating as the services sector remains more robust. Notably, both indexes are still in expansionary territory indicating that the pace of growth has slowed but not reversed.

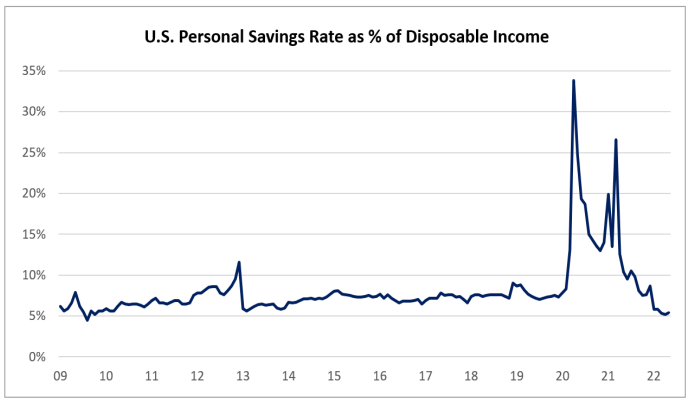
Citigroup

Economic surprise indexes have been volatile since the start of the pandemic, reflecting large swings in data and expectations. Recently, the U.S. and eurozone indexes have turned negative, reflecting that economic data has generally missed forecasts. Notably, the emerging market surprise index has remained positive, possibly reflecting lower expectations.

Consumer

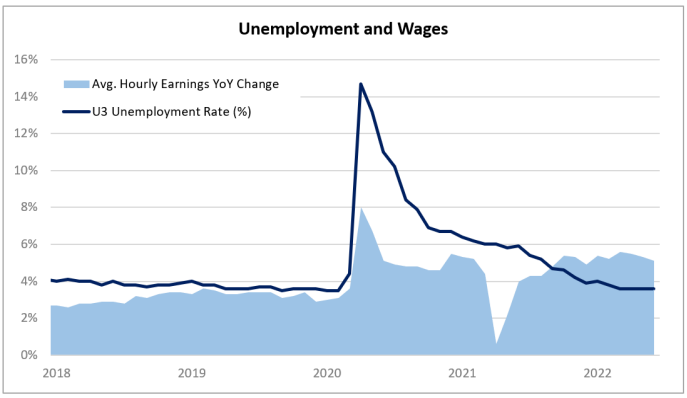
If any silver lining has emerged during the gloomy economic landscape, it most certainly would be the labor market. For four straight months through June, the national unemployment rate has remained at a healthy 3.6%, just 0.1% above its 50-year low mark set in 2019. Although the baseline figure is attractive, there remains a massive excess demand for labor as the latest data indicates around 5.45 million more job openings exist than unemployed workers. Amazingly, this roughly translates to 1.9 openings per unemployed person in the country. The insatiable demand levels could be slowly diminished over the next few months as economic growth slows and investor confidence lags reflective of the overall economy, but may further contribute to increased wages and exacerbate already-elevated inflation. Annual wage growth is still north of 5% through June as companies continually try to entice workers with higher wages, and even offer some non-monetary benefits such as more paid time off and flexible working schedules. Nonetheless, the Fed is keeping the labor market in its sights as they carefully analyze how aggressively to act in their financial tightening efforts.

The last quarter and even the entire first half of the year have been wildly disappointing for various reasons including the lasting effects of the pandemic, spiking inflation, and the unprecedented attack on Ukraine by Russia. For these reasons amongst others, consumer sentiment has been pushed lower. Based on the Index of Consumer Sentiment survey conducted by the University of Michigan, sentiment has never been lower in nearly 70 years of monthly data focusing on individuals' financial circumstances. Consumer spending is keeping the developed world growing as many countries have benefited from excess savings, but this has also contributed to high inflation. Typically higher-income households may be somewhat insulated from higher food and energy costs, while lower-income homes and emerging markets may soon be susceptible to non-durable goods' shortages unless supplies replenish and prices moderate.



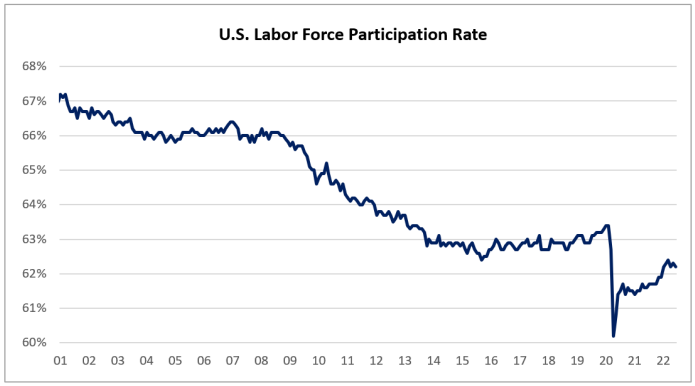
Bureau of Economic Analysis

The average savings rate for American has fallen, which is potentially a troublesome sign for the U.S. economy. April's reading was the lowest since the Global Financial Crisis as consumers have been forced to dip into their savings to cover increased living costs amongst other necessities.



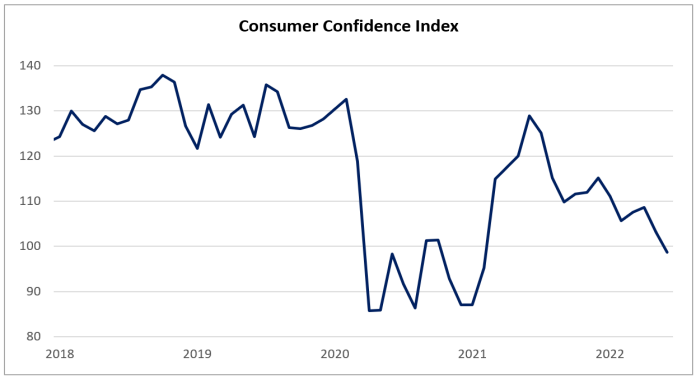
Bureau of Labor Statistics

The national unemployment rate remained static at 3.6% throughout the second quarter, indicative of a strong jobs market. The growth of average wages has remained high compared to the past, intensified by aging worker demographics and a large number of job openings.



Bureau of Labor Statistics

Labor force participation has rebounded since the depths of the pandemic but is well below its pre-pandemic average. Increasing this figure will help to further enhance the economy but is not easily accomplished as evident by the average wage growth which has not simply correlated to higher amounts of people working.



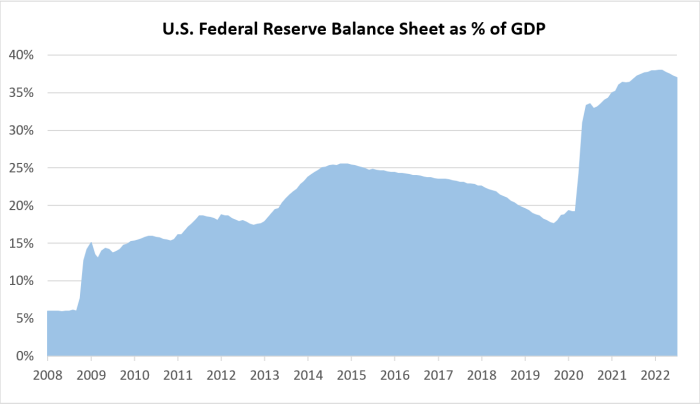
Conference Board

Consumer confidence as reported by the Conference Board has tailed lower since the start of the year, compounded by the geopolitical conflict, high inflation, and even prolonged impacts played out by COVID-19. In a related sense, consumer sentiment also typically correlates to the level of risky assets investors target.

Government Policy

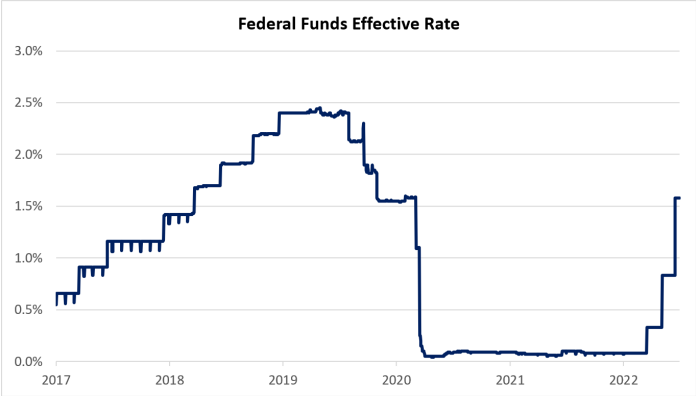
The Fed acted aggressively during the second quarter to combat inflation. Price gains have broadened to core goods and services which could be more sustainable than the commodity-led spike from last year. The Fed raised the federal funds rate twice during the quarter, by 0.50% and 0.75%, to reach a target range of 1.50% to 1.75%. The Fed also began reducing its $8.5 trillion balance sheet to mitigate the expansionary impact of quantitative easing. After ending bond purchases in March, the Fed has begun scaling back the reinvestment of maturing bonds, increasing borrowing costs. The fiscal backdrop is also helping to tame inflation. Stimulus spending is in the rearview mirror and there appears to be little appetite for new spending programs in the current political environment. Higher social security and debt payments could check discretionary spending over the long-term. The largest release in history of strategic oil reserves by the Biden administration should put a ceiling on energy prices. There are signs that the Fed's actions are succeeding. The Personal Consumption Expenditure Price index (PCE) rose an annual 6.3% in May, below the 6.6% high reached in March. Excluding food and energy, PCE inflation eased to 4.7% from 4.9%. Commodity prices have retrenched and the housing market seems to be cooling in response to higher mortgage rates. Five-year inflation break-evens derived from TIPS are close to one-year lows, suggesting the markets believe inflation has peaked.

Financial conditions are contracting globally, but most countries trail the U.S. The European Central Bank is poised to raise policy rates and wind down its asset purchase program while Switzerland and England both raised rates. In Asia, the Bank of Japan (BoJ) and China remain committed to easy monetary policy. The BoJ believes long-term inflation prospects are subdued. China announced wide-ranging stimulative measures but left the one-year policy rate unchanged. COVID-19 lock-downs and other harsh restrictions in China that limit economic activity have been a huge concern for investors due to the impact on global supply chains and corporate earnings.



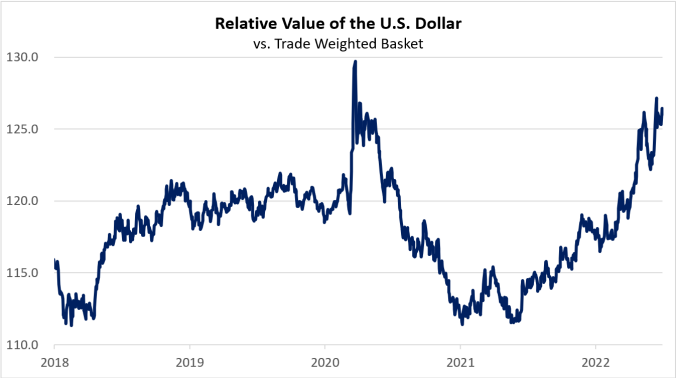
Bloomberg

The Fed balance sheet is at historical highs both in absolute terms and as a share of GDP. The Fed is reducing its balance sheet as part of its efforts to tame inflation. After ending bond purchases in March, the Fed began scaling back the reinvestment of maturing securities with an additional reduction scheduled for September.



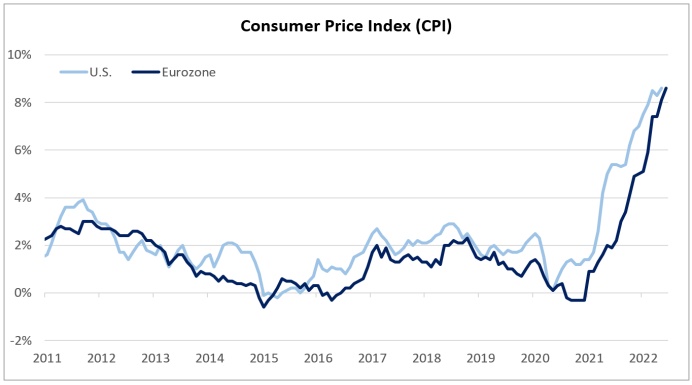
Board of Governors of the Federal Reserve System

The Fed raised the federal funds rate twice during the quarter reaching a target range of 1.50% to 1.75%. Further large increases are expected this year with a projection of 3.25% to 3.50% by year-end. The Fed has signaled it will pursue this tightening cycle until inflation has retreated closer to its 2% target.



Bloomberg

The U.S Dollar continued to climb and in July reached twenty-year highs versus its major trading partners. Disparate global monetary policies and higher U.S. interest rates have pushed the dollar upward. Its status as a safe-haven currency also supported dollar appreciation amid volatile stock markets and mounting recession fears.



Bureau of Labor Statistics

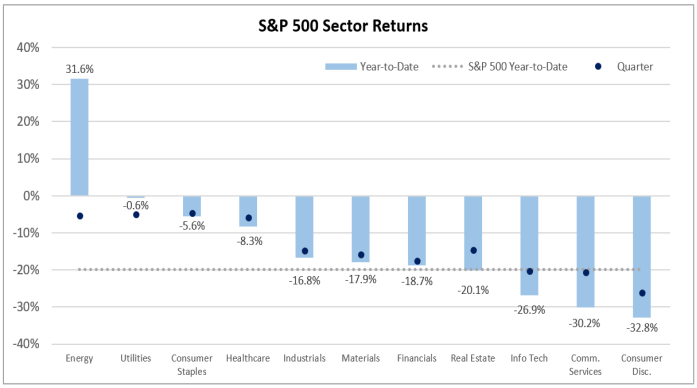
Consumer prices in the U.S. and Europe once again reached fresh highs. Eurozone CPI rose to 8.6% in June, the highest level in history. U.S. CPI also accelerated to 8.6% through May. Core CPI, which excludes food and energy, has been moderating in both regions. The Fed and other central banks are closely monitoring this data.

Equity Markets

Equity markets had another challenging quarter, wrapping up one of the worst starts of the year ever. Many major indexes fell close to, or greater than 20%, approaching or entering bear market territory. Stocks entered the year at historically elevated valuations which quickly fell back to long-term averages after pricing in higher interest rates, elevated inflation, slower growth, and potentially lower profit margins. Underneath the surface, higher discount rates continued to pull back valuations for many of the fastest growing, least profitable portions of the market. This trend reversed a decade of growth outpacing value – creating a new dynamic that could persist under the current investing regime. The same factors also contributed to large-caps outpacing small-caps for both the quarter and year-to-date. Whereas the prior cycle often valued revenue growth above all else, this cycle prioritizes traditional fundamental factors including valuation, profitability, and stability of cash flows. Although slumping equity markets are painful to experience, it should set the stage for more encouraging forward performance.

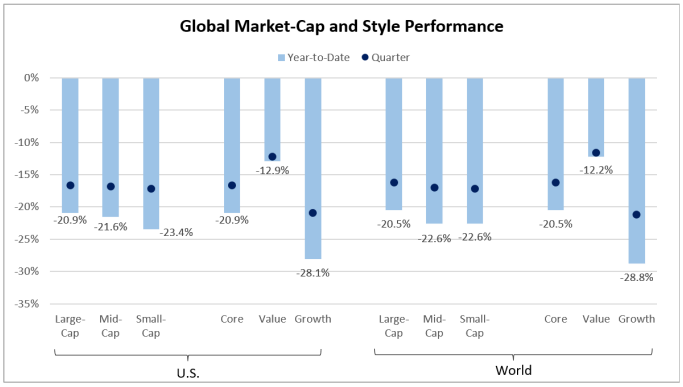
A variety of factors from the last cycle, such as cheap borrowing costs, stable inflation, and globalization, were supportive of expanding corporate profit margins and earnings. Many of these factors have reversed to an extent, possibly creating headwinds to margins in the future. So far in 2022, S&P 500 operating earnings have risen at a low single-digit pace, well below 2021's pandemic recovery driven 70%. A variety of risk factors are also building that heighten a risk of recession which could contribute to a temporary decline in corporate profits in the future.

International equity markets have modestly outpaced U.S equities in USD terms for both the quarter and year-to-date. Relative outperformance would be even more pronounced in local terms as the USD has experienced significant strength in 2022. While many developed and emerging nations are grappling with similar challenges as the U.S., lower starting valuations offered some support during recent volatility.



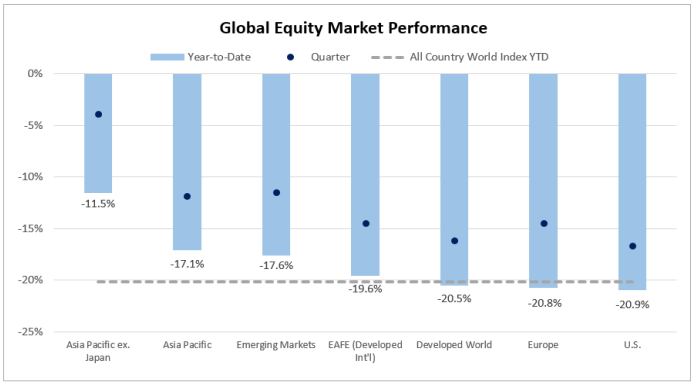
Bloomberg

Every sector within the S&P 500 Index was negative for the quarter while only the energy sector remains in positive territory year-to-date. Many of the best performing sectors of the prior cycle (consumer discretionary, IT, communication services), have suffered the worst declines in 2022.



Bloomberg, U.S. indices from Russelll and World Indices from MSCI

Across nearly all geographies, value has meaningfully outpaced growth over the quarter and throughout the year. Market-cap performance has been more consistent, although large-caps have gained a small lead over small-caps for both the quarter and year.



Bloomberg, U.S. indices from Russelll and World Indices from MSCI

U.S. stocks have suffered the greatest losses so far this year relative to most geographies. Notably, U.S. stocks were among the most richly valued regions of the world leaving little room for error. Asian equities have generally offered relative outperformance but have still realized sizeable losses.

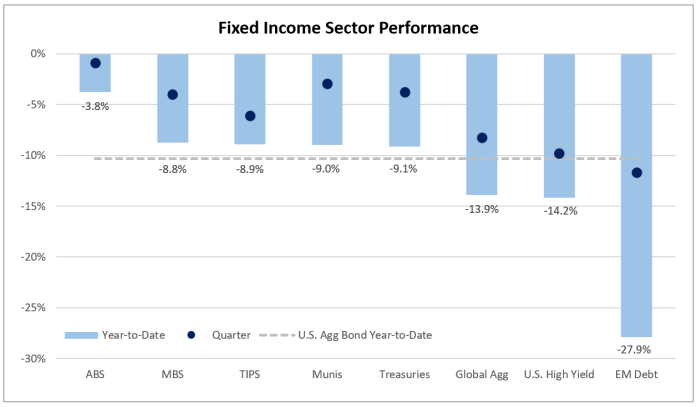
Bloomberg

After a liquidity-infused run-up following the pandemic, equity market valuations across the board have come back to earth. In many cases, certain valuation metrics are on the cheaper end of history which could contribute to higher forward returns.

Fixed Income Markets

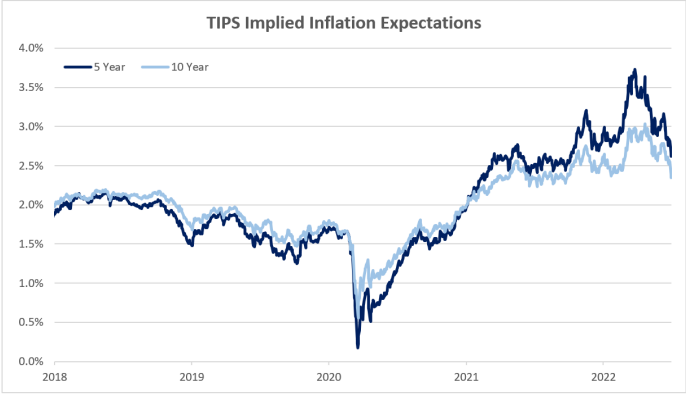
Fixed-income investments experienced another volatile quarter because of various headwinds including sustained high inflation and the starkly hawkish rhetoric and actions delivered by the Fed. Most economists predict a few more interest rate hikes this year which should already be priced into the market, and hopefully stabilize bond prices in the near term. The Treasury yield curve increased last quarter and inverted in certain instances as some short-term yields rose more than long-term yields. The benchmark 10-year Treasury yield spiked to 3.47% on June 14th, its highest reading since 2011, before receding to 3.02% at quarter-end. This elevated interest rate volatility is captured within the Merrill Lynch Option Volatility Estimate (MOVE) Index, a measurement that can be thought of as the bond equivalent of the CBOE Volatility Index (VIX). According to Bloomberg, the index surged to its highest level since March 2020 reflective of the existing conditions. Credit spreads widened in anticipation of a slowing economy and diminishing market liquidity which could warily create new opportunities for some higher-yielding issuers. Agency mortgage-backed securities (MBS) spreads widened after the Fed began allowing some of its MBS holdings to mature as part of its balance sheet reduction efforts. High-yield corporate and emerging market bond spreads widened materially and lagged investment-grade corporate bonds as the risk-off sentiment escalated. Given the lower demand and expectations for long-term future inflation, Treasury Inflation-Protected Securities (TIPS) declined last quarter. More than $100 billion of outflows exited from taxable fixed income mutual funds and ETFs, according to the Investment Company Institute.

The AAA-rated municipal yield curve increased and steepened last quarter which led to a 2.9% pullback for the Bloomberg Municipal Bond Index. Around $50 billion was redeemed from municipal bond funds, approximately half the amount of taxable fund net flows. The same amount of tax-exempt municipal bond supply has been issued year-over-year through the second quarter despite a different economic backdrop this year versus last. Municipal fundamentals remain compelling as tax revenues tick up and the ratio of rating upgrades to downgrades has increased. Some new opportunities for long-term oriented, taxable investors have taken shape.



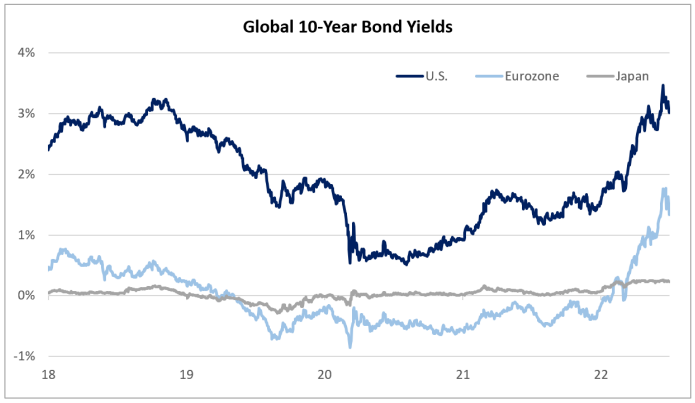
Bloomberg

All fixed income sectors' declines continued last quarter, as riskier sectors underperformed high-quality bonds. The Bloomberg U.S. Aggregate Bond Index fell another 4.7%, extending the year-to-date total to more than 10%.



Bloomberg

Medium-term inflation expectations over the next 5-10 years declined as the Fed reiterated its stance to combat inflation in a full-scale effort. Some supply-chain bottlenecks have eased due to China's relaxation of its COVID-19 zero-tolerance policy.



Bloomberg

Most global bond yields continued their ascent as economies deal with heightened levels of inflation. The notable exception to this is Japan, as its yield curve has not risen much because of the mostly accommodative government policy unlike other global economies implementing financial tightening measures.

Bloomberg

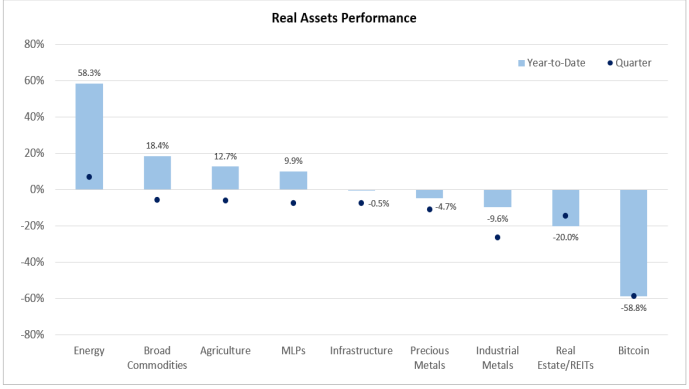
High-yield corporate bond spreads rose to their highest levels in six years, outside of the dramatic spike during the COVID-19 panic. The credit market is usually a good predictor of upcoming recessions, but it remains to be seen what will play out this time around given the unknowns caused by inflation and the geopolitical landscape.

Real Assets

The first-quarter sizzle created by various real assets was largely muted over the last quarter, although they still acted as a ballast versus other risk asset classes. Performance was mixed as energy rose around 7% for an array of factors including lower levels of domestic supply, normalized demand levels after the pandemic, and the conflict in Ukraine. Interestingly, the multinational oil and gas producing company ExxonMobil said the high energy prices are because of underinvestment by many in the energy industry over the last several years, rationalizing the normalization. The price of West Texas Intermediate (WTI) was moderately higher quarter-over-quarter but not without a volatile ride throughout. Meanwhile natural gas returns have varied across the globe as many countries deal with supply-chain and storage dynamics.

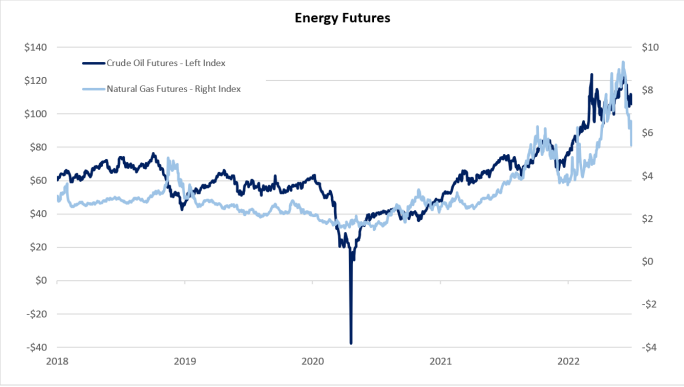
Other public real assets were marginally lower by single-digit percentages but remain attractive in high inflationary periods. Often commercial real estate has rent escalators built-in, infrastructure may regularly be adjusted for CPI readings, and farmland is buoyed by rising crop and land values which help bolster the industries' short-term outlooks given existing inflation levels. The price of gold fell nearly 7% last quarter and faces a bearish outlook. The efficacy of gold used as an inflation hedge continues to be evaluated as higher interest rates draw investors away from zero-yield bullion. Separately, mortgage rates continued to increase as the average 30-year fixed mortgage rate settled at just under 6.0% by quarter-end following a 1.0% quarterly increase. This inevitably decreased demand for homes as their affordability dropped.

The hype of cryptocurrencies came crashing down in the second quarter, as prices plummeted across the board. After a relatively flat first quarter, the price of Bitcoin plunged by 58% which induced various crypto firms' layoffs and cutbacks. Interestingly, since the "currency" was first launched in 2009, it has only existed in a low-interest-rate environment. It remains to be seen how it performs as interest rates increase and how effective it is to use as a hedge against elevated inflation.



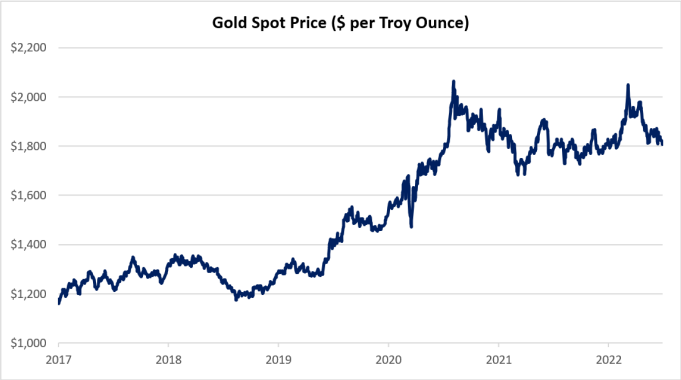
Bloomberg

All real asset sectors declined aside from energy due to marginally higher oil prices. Bitcoin, and all cryptocurrencies in general, had a sobering quarter, questioning their validity. The total crypto sector market value declined by around $890 billion, punishing interested investors.



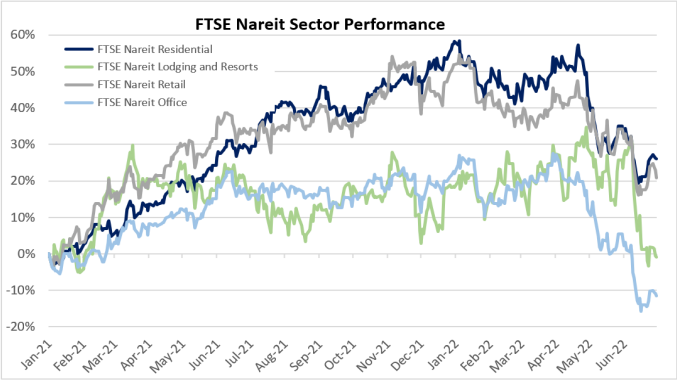
Bloomberg

Natural gas prices had a small decline over the quarter which vastly disguised the volatile month of June. An inventory report was released from the U.S. Energy Information Administration showing a larger-than-expected storage supply which sparked fears of an oversupplied market, subsequently dropping the price.



Bloomberg

The most popular precious metal, gold, saw its worst quarter since early 2021 as a combination of rising yields and a strong U.S. dollar impacted gold's price. The U.S. dollar hovered near its two-decade peak, which made gold more expensive for buyers holding other currencies.



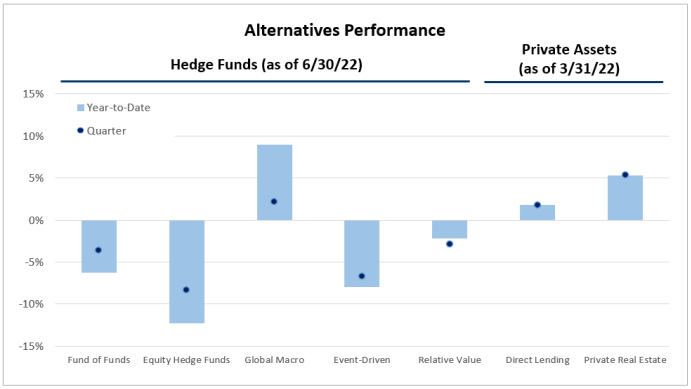
National Association of Real Estate Investment Trusts

Real estate sectors were challenged during the quarter. Residential prices fell because of higher mortgage rates leading to decreased demand for homes. The office sector lagged as employers allow increased remote work flexibility to keep and attract talented employees. Hospitality fell but the outlook is positive post-COVID.

Alternatives

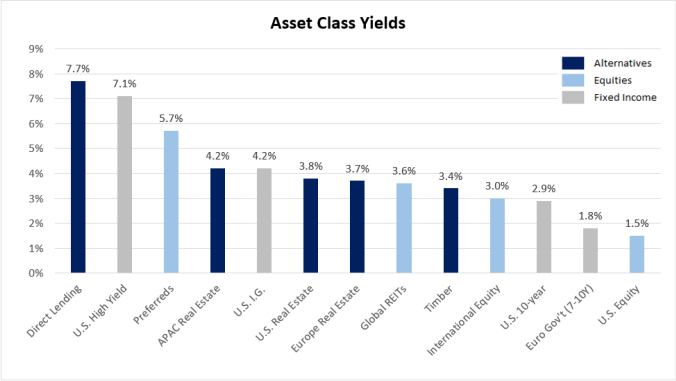
Hedge fund results overall were negative for the quarter, but losses were much less than stocks and bonds. Year-to-date, hedge funds posted the largest outperformance versus equity markets since the inception of the HFR Indexes in 1990. Several strategies proved their value as diversifiers providing uncorrelated returns to equity markets. Tactical and trend following global macro funds were positive for the quarter and year-to date, benefiting from volatility in the capital markets. Low beta strategies such as market neutral also outperformed. Equity hedge and interest rate-sensitive fixed income funds saw material declines. Event-driven activist managers plummeted almost 20% year-to-date as the tumultuous economic climate led to a slowdown in corporate restructuring and financing became more difficult. As usual, fund selection was critical, with a more than 60% return differential between the best and worst performing funds. Larger funds had the advantage as liquidity providers and outperformed smaller funds. Buoyed by strong results and volatile traditional asset classes, hedge funds experienced the largest inflows from investors in years.

Fund raising and deal activity in the private markets surged in 2021 following a COVID-induced slowdown but have since retreated to levels in line with long-term trends. Private assets are less volatile than public securities which are impacted by investor sentiment and technical factors that change daily. Private market valuations typically lag those of public markets, and it would not be surprising to see lower valuations as private asset prices adjust. Volatility in the capital markets, economic uncertainty, and higher credit spreads create a challenge for private asset managers. However, the dislocations resulting from the coronavirus pandemic and the current market tumult also create opportunities. So far, private equity deal multiples have been fairly stable. Tighter financial conditions have forced a pullback in bank lending and direct private loans fill the void while providing a more reliable source of capital and customized loan terms. Lower default rates, higher recovery values, and stronger covenants provided by private credit are increasingly important as economic conditions deteriorate. Real estate continues to benefit from secular changes in demand and supply shortages in the housing and infrastructure sectors.



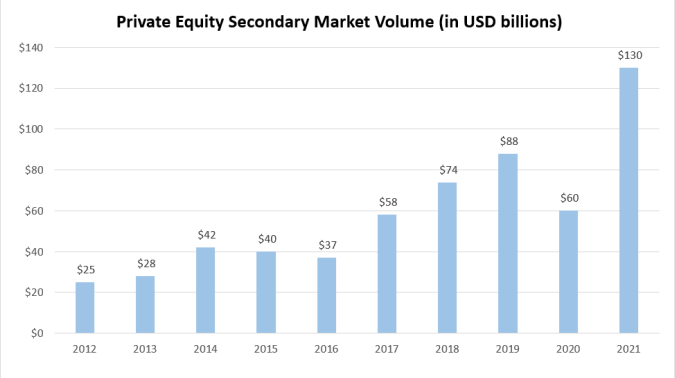
Bloomberg and Hedge Fund Research, Inc. (HFRI)

Private assets were less volatile than public securities, providing downside protection during the current market downturn. Real estate also benefited from supply/demand imbalances. Direct lending loans typically have floating rates, driving dramatic outperformance versus duration-sensitive bonds. Hedge funds overall declined less than equities and bonds.



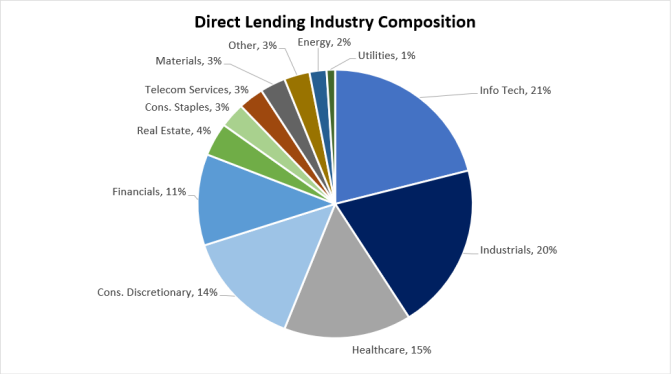
JPMorgan Asset Management as of 5/31/2022; Alternatives as of 3/31/22

Public fixed income yields have surged in response to higher rates and falling bond prices. Private credit and real estate continue to provide attractive yields. Although the yield premium provided by private loans has declined, these assets should benefit from wider rates over the long-term. Yields on real estate have been fairly stable since the beginning of the year.



JPMorgan Asset Management as of 5/31/2022

Private equity secondaries are a maturing asset class that has seen exponential growth over the last ten years. Secondaries allow general and limited partners of private equity funds to sell their holdings. In addition to providing liquidity, this facilitates active management of private assets which is valuable in a rapidly changing and uncertain economic and business environment.



JPMorgan Asset Management as of 5/31/2022

The direct lending universe has reached $1 trillion in assets and comprises almost 40% of private credit assets. Tighter financial conditions have forced a pullback in bank lending and direct loans fill the void while providing more customized terms than bank loans. Borrowers come from a range of growth-oriented and cyclical sectors with credit risk comparable to high yield bonds.

Capital Market Returns

	Quarter	Year-to-Date
Cash and Fixed Income		
U.S. Treasury Bills	0.1%	0.2%
Bloomberg Barclays U.S. Aggregate Bond	-4.7%	-10.3%
Bloomberg Barclays Municipal Bond	-2.9%	-9.0%
Bloomberg U.S. Treasury Inflation-Link Bond	-6.1%	-8.9%
Bloomberg Barclays Global Aggregate ex. USD	-11.0%	-16.5%
Bloomberg Emerging Markets Tradeable Debt	-11.7%	-27.9%
Real Assets		
Bloomberg Commodity	-5.7%	18.4%
DJ U.S. Real Estate	-14.5%	-20.0%
S&P Global Infrastructure Index	-7.4%	-0.5%

	Quarter	Year-to-Date
U.S. Equity		
S&P 500	-16.1%	-20.0%
Russell 3000	-16.7%	-21.1%
Russell 2000	-17.2%	-23.4%
International Equity		
MSCI ACWI ex. U.S.	-14.3%	-19.1%
MSCI EAFE (Developed)	-14.5%	-19.6%
MSCI Emerging Markets	-11.4%	-17.6%
Alternatives		
HFRI Fund of Funds Composite	-3.6%	-6.3%
Cliffwater Direct Lending Index*	1.8%	1.8%
NCREIF Property Index*	5.3%	5.3%

*Morningstar, Bloomberg, and Hedge Fund Research, Inc. (HFRI), * as of 3/31/2022*

Disclaimer

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 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 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 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 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 HFRI Fund of Funds Composite Index is an equally weighted hedge fund of funds benchmark composed of global constituent funds. The underlying constituents are typically diversified among multiple managers and styles to provide a comprehensive representation of the hedge fund of funds investment space.; The HFRI Equity Hedge Index is an equally weighted hedge fund benchmark composed of investment managers who maintain both long and short positions, primarily in equity and equity derivative securities. Equity hedge managers typically maintain at least 50% exposure to, and may in some cases be entirely invested in, equities, both long and short; The HFRI Event-Driven Index is an equally weighted hedge fund benchmark composed of investment managers who maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Event-driven exposure includes a combination of sensitivities to equity markets, credit markets, and idiosyncratic, company-specific developments; The HFRI Macro Index is an equally weighted hedge fund benchmark composed of investment managers which trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency, and commodity markets. Managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top-down and bottom-up theses, quantitative and fundamental approaches, and long- and short-term holding periods. The HFRI Relative Value Index is an equally weighted hedge fund benchmark composed of investment managers who maintain positions in which the investment thesis is predicated on the realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types can range broadly across equity, fixed income, derivative, or other security types. The Cliffwater Direct Lending Index seeks to measure the unlevered, gross of fee performance of U.S. middle-market corporate loans, as represented by the asset-weighted performance of the underlying assets of Business Development Companies (BDCs), including both exchange-traded and unlisted BDCs, subject to certain eligibility requirements. The NCREIF Property Index is a quarterly, unleveraged composite total return for private commercial real estate properties held for investment purposes only. Constituents include operating apartment, hotel, industrial, office, and retail properties. 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. Economic and market forecasts presented herein reflect our judgment as of the date of this presentation and are subject to change without notice. These forecasts are subject to high levels of uncertainty that may affect actual performance. Accordingly, these forecasts should be viewed as merely representative of a broad range of possible outcomes. These forecasts are estimated, based on assumptions, and are subject to significant revision and may change materially as economic and market conditions change. These forecasts do not take into account the specific investment objectives, restrictions, tax and financial situation or other needs of any specific client.