SUMMIT FINANCIAL

Summit Snapshot: Week of July 11th, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	0.4%	2.0%	3.7%	1.6%	3.2%	4.8%	-11.4%	-18.4%	-24.6%
U.S. Mid-Cap	0.4%	1.4%	3.4%	1.8%	2.9%	4.8%	-14.7%	-19.3%	-27.7%
U.S. Small-Cap	1.0%	2.4%	3.9%	2.5%	3.6%	4.7%	-15.2%	-20.7%	-26.1%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	2.0%	3.1%	-17.5%
NASDAQ Composite	4.6%	5.5%	-25.3%
International Developed	1.0%	0.2%	-19.4%
Emerging Markets	0.9%	0.2%	-17.5%
U.S. Aggregate Bond	-0.9%	-0.3%	-10.6%
U.S. Municipals	0.8%	1.2%	-7.9%
Corporate High Yield	1.3%	1.5%	-12.9%

Source: Morningstar, see ‘Disclaimer’ for details

U.S. Equity Markets

- In a switch from last week, U.S. stocks gained ground as optimism mounted that the Federal Reserve could quell inflation and navigate a soft landing without inducing a recession. The gains brought the S&P 500 Index out of a bear market but is still around 17.5% lower on the year.
- Within the S&P 500, sectors were mixed. Communication services, consumer discretionary, and information technology outperformed and lessened their year-to-date negative returns. Energy and utilities lagged.
- Several companies had notable news to report. Shell anticipates strong second-quarter earnings around $1 billion because of record fuel prices while Ford reported a 32% increase in U.S. sales in June due to pent-up demand and a brand-new electric truck. American Airlines mistakenly dropped thousands of future flights because of a computer glitch and seeks to redeem this error by paying pilots triple their normal wages to work these flights, while airline industry tensions remain elevated.
- Small-cap stocks outpaced large-caps last week and growth beat value. These two themes reduced the disparity between market-caps and styles for the year as small-cap and growth stocks lag the most.

International Equity Markets

- International developed and emerging non-U.S. equities advanced last week to recover some ground. Both broad regions rose around 1.0% according to their MSCI indices in the U.S. dollar currency.
- European stocks were slightly higher although concerns grew after an energy shortage is thought to maybe cause a European recession. Digesting the Chinese coronavirus situation was also a factor.
- Japanese equities rose but were overshadowed by Friday’s shocking assassination of former prime minister Shinzo Abe who was giving a campaign speech in the city of Nara. He had formally resigned from his role in 2020 and previously developed the signature economic policy, “Abenomics”, still used in Japan today.
- Chinese stocks lagged as rising coronavirus cases and geopolitical tensions hurt sentiment.

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

- Two-year Treasury yield surged by 13 basis points (bps) to 3.13%, while the 10-year moved 10bps higher to 3.09%. The yield curve remained inverted with the 2s10s spread hovering around -3.135bps.
- Odds for the Fed to raise short-term rates by 75bps rather than 50bps in July increased, with next week's consumer price inflation (CPI) report in full focus.
- Corporate investment-grade bond spreads tightened last week by around 5bps reflective of some minor increased appetite for risk.
- Investment-grade funds recorded $5.7 billion of outflows versus $3.6 billion the week prior. However, high-yield bond funds saw $889 million of inflows compared to $1.59 billion of inflows one week ago.
- Municipal bonds outperformed Treasuries on the week with yields 8-13bps lower as July's reinvestment drove performance.
- Municipals divergence from Treasuries have resulted in valuations that continue to richen especially in the 0–5-year space with Muni/Treasury ratios in the 55%-67% range. The 7–10-year portion remains attractive (75%-85%) but has become more expensive since last week after the ratio was around 85-95%.
- Municipal funds saw outflows of $313 million for the week ended Wednesday following $1.3 billion the week prior. Next week will bring some elevated supply with $10.4 billion expected.

U.S. Economic Data/News

- On Friday, the Labor Department reported that 372,000 jobs were added in June, surpassing expectations of around 270,000. The national unemployment rate remained stagnant at a healthy 3.6%.
- Average hourly earnings increased 0.3% for the month and were 5.1% higher from a year ago. Earnings growth recently peaked in March at a 5.6% annual figure and makes it more probable the Fed will move ahead with aggressive interest rate hikes over the coming months.
- S&P Global and the Institute for Supply Management (ISM) both released their final services activity estimates for June. Both reports came in above expectations but indicated a slowdown in growth. In fact, the ISM measure fell to its lowest level since June 2020 during the pandemic.
- Federal Reserve officials reiterated their hawkish stance, vowing to raise interest rates as much as necessary to reduce long-term inflation. By week's end, federal funds futures were no longer pricing in any chance that the Fed would raise rates by less than 0.75% at its July 28th-29th policy meeting. Some futures even forecasted an aggressive 100bps hike.
- On late Friday, Tesla and SpaceX CEO Elon Musk publicly announced his intention to terminate the $44 billion purchase of Twitter based on claims the company hasn't provided the information he needs to determine the frequency that fake or spam accounts are used on the platform. Musk filed a letter with his lawyers which caps a two-month long saga between him and Twitter, and almost certainly will end up in a court battle. Twitter claims there are no guarantees that Musk can walk away from the deal entirely.

International Economic Data/News

- British prime minister Boris Johnson announced his intentions to step down from his leadership role on Thursday amid a series of scandals and distrust stemming from government officials. He said he would stay in an office "caretaker" position until a successor is found which may take until September. Johnson became prime minister in 2019 after a landslide victory solidified the position for him.
- Germany showed a trade balance deficit of €1 billion in May, the first since 1991, as exports fell unexpectedly largely because of supply chain constraints. On the other hand, imports surged given the higher prices for food, energy, and materials.
- The shooting of Shinzo Abe was a shock for a nation almost absent any gun violence. His economic policy, based on monetary easing, fiscal stimulus, and structural reforms, is still in use today under current prime minister Fumio Kishida.
- In China, the Caixin Servicing Purchasing Managers' Index for June spiked to 54.5 from 41.4 in May, evidence the nation is recovering from easing some coronavirus restrictions.

Odds and Ends

- Within currencies, the U.S. dollar has recently cemented its role as the dominant global currency. The dollar is near parity versus the Euro for the first time since 2002, and the strongest against the yen since 1998. After being adjusted for inflation, the dollar has only been stronger twice in the recent past, in 1985 and 2002. The rationale makes sense since even though the U.S. economy has been disappointing as of late, it has been even worse in other areas of the world. From a monetary stance, the wider the gap becomes between two-year bond yields in the U.S. versus other nations, the stronger the dollar is. Domestic money earns a higher yield than the rest of the developed world, also supporting the greenback. It's hard to pinpoint what could alter the path of the dollar but is closely watched by policymakers.
- On Saturday, a herd of protestors stormed Sri Lankan Prime Minister Ranil Wickremesinghe's private residence amid the mounting public anger over the country's worsening sovereign-debt crisis. This caused Mr. Wickremesinghe to resign from his post after only two months elapsed during his latest term. He was serving his sixth term as prime minister as the nation deals with sovereign defaults and hyperinflation, leading to political and social unrest. There have also been calls for a swift removal of President Gotabaya Rajapaksa, whose family has dominated Sri Lankan politics for two decades.
- Credit card giants Visa and Mastercard are working on ways to handle the mechanics of crypto payments. If they succeed, it will mark a significant turning point in that credit card companies would enable settling payments in assets beyond what is considered mainstream currencies. Currently, consumers can make payments with cryptocurrencies linked to Visa and Mastercard credit cards provided by fintech companies, a very targeted market. If all goes as planned, in the future people may logistically be able to pay for routine purchases by pulling out a card that's funded by cryptocurrency.

Resource of the week:

- Ashvin Chhabra is the President and Chief Investment Officer of Euclidean Capital, the family office for Jim Simons of Renaissance Technologies. Ashvin joined Euclidean in 2015 after spending time as CIO of the Institute for Advanced Study and CIO of Merrill Lynch Wealth Management. He is also recognized as one of the founders of goals-based wealth management. This episode of *Capital Allocators* with Ashvin covers his upbringing and his path from physics to investing. Also discussed are his "Beyond Markowitz" portfolio management framework, application of it to high-net-worth individuals, foundations, the Yale endowment, Warren Buffett, and a single-family office. Ashvin shares the story of interviewing with Jim Simons, his critique of endowment management, manager selection, and perspectives on interest rates and bitcoin.
- **Podcast link**: https://capitalallocators.com/podcast/the-aspirational-investor/

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. CPI is often used as a barometer to measure inflation. 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 2s30s spread is the difference between the yield on the 30-year Treasury bond and the yield on the 2-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.