Summit Snapshot: Week of August 1st, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	3.4%	4.2%	5.0%	6.6%	9.3%	12.0%	-7.1%	-13.6%	-19.4%
U.S. Mid-Cap	4.1%	4.4%	4.7%	8.6%	9.9%	12.2%	-9.0%	-13.8%	-22.6%
U.S. Small-Cap	4.4%	4.3%	4.3%	9.7%	10.4%	11.2%	-9.3%	-15.4%	-21.6%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	4.3%	9.2%	-12.6%
NASDAQ Composite	4.7%	12.4%	-20.5%
International Developed	2.1%	5.0%	-15.6%
Emerging Markets	0.4%	-0.2%	-17.8%
U.S. Aggregate Bond	0.6%	2.4%	-8.2%
U.S. Municipals	0.9%	2.6%	-6.6%
Corporate High Yield	1.5%	5.9%	-9.1%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- U.S. stocks shook off a disappointing second quarter GDP print with the S&P 500 Index rising 4.3% over the week. To a degree, bad news was interpreted as positive news for equities as it could allow for a lower terminal federal (fed) funds rate.
- Index strength was broad-based. Within the S&P 500 Index, energy was the top performing sector following rising oil prices. Interest-rates sensitive sectors (ex. utilities, real estate) also performed well – benefitting from lower yields. While still positive, the bottom performing sectors included consumer staples and healthcare.
- Corporate earnings reports have been mixed. A disappointing update from Walmart brought down sentiment after it lowered guidance due to reduced consumer spending. Many of the major tech platform businesses also reported last week. While most are experiencing slower growth, the market reacted positively in many cases to better-than-feared results.
- Growth shares generally led value shares while small-caps largely outpaced large-caps (except in growth).
- Value stocks continue to have a sizeable lead versus growth stocks year-to-date, while large-caps continue to outpace small-caps.

International Equity Markets

- International developed and emerging non-U.S. equities were both higher last week, although to a lesser degree than U.S. stocks. Emerging market equities were a relative laggard with a modest gain of 0.4%.
- European equities gained ground boosted by better-than-expected eurozone economic growth data.
- Japanese stocks were negative in local terms but gained ground in USD-terms as the dollar fell relative to the yen.
- Chinese stocks were a notable outlier last week, falling several percent. The Chinese tech sector was weaker

after news broke that Alibaba's Jack Ma was planning to hand over control of its Ant Group subsidiary.

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

- Overall yields were down on the week, as the ten-year Treasury fell below 2.64% for the first time since early April, after opening the week at 2.79%. The front end of the curve also fell, as the 2-year Treasury yield went from 2.97% last week to close at 2.88%. The 2s/10s spread remains inverted.
- Corporate investment grade spreads were marginally tighter on the week. Investment grade funds recorded $2.4 billion of outflows to contrast with high yield funds which reported $4.8 billion of inflows (the biggest inflow level since June 2020).
- Corporate supply was heavily front-loaded last week before the FOMC meeting on Wednesday. Total weekly supply exceeded the low end of the range and surpassed the monthly estimate. Deals are coming with higher-than-average new issue concession and average interest books.
- Municipal yields fell across the curve, 10-19 basis points, as a result of the decline in Treasury yields and another strong month of upcoming maturities.
- Muni valuations remain on the richer side of historical fair value. The 7 – 10-year part of the curve provides the most value with yields 76% - 85% of Treasury.
- Muni fund flows continued to oscillate with funds seeing inflows of ~$240 million after outflows of ~$700 million the week prior.
- The weekly SIFMA rate jumped with the Fed hike to 1.33% from 0.67% last week.

U.S. Economic Data/News

- The Federal Reserve announced a policy rate increase by 75 basis points last week in a unanimous vote and widely in line with street expectations. The Fed reiterated its attention to inflation risks and "anticipates that ongoing increases in the target range will be appropriate" according to the FOMC statement. The next FOMC meeting is scheduled for September 20-21 and will remain dependent on the trends in the labor market and inflation data.
- Last Thursday's GDP release showed the economy slowed down for a second quarter in a row, fueling recession fears. GPD was down -0.9% after posting a decline of -1.6% last quarter. The market appeared to respond positively likely due to expectations that the Fed could slow or stop its rate hikes sooner than was anticipated.
- Dovish statements from the Fed helped steepen the Treasury yield curve with shorter-end yields falling while longer maturity yields were more stable.

International Economic Data/News

- Eurozone inflation reached a new high last week, hitting 8.9% in July compared to an 8.6% reading in June. The uptick in inflation was driven by higher prices for food and energy. European natural gas prices continued to spike as Russia reduced gas supplies to the Nord Stream pipeline.
- The IMF cut its growth estimate for the euro area in 2022 to 2.6%, down from a prior estimate of 2.8%. It also lowered its estimate for 2023 to 1.2%, down from 2.3%. The downward revisions reflect several headwinds to growth including the war in Ukraine, rising inflation, and energy costs in addition to more restrictive monetary policy.
- Japan's economy has gained momentum according to its central bank. The recovery in growth was driven by private consumption which is expected to continue. Inflation has also risen in Japan but has gained by much more modest levels relative to other developed nations.
- The Chinese property sector will get some help from Beijing after reports that it plans to set up a real estate fund to support distressed developers.
- U.S. and Chinese tensions are on the rise as the two nations seek to find a compromise on how U.S.-listed Chinese stocks should be regulated. While an agreement might be reached soon, heightened tensions could lead to potential delistings down the road.

Odds and Ends

- Bearish investors aren't buying into hopes that July's rapid advance for stocks means the start of a new bull market. If anything, they say the worst might be yet to come as inflation remains high, the Federal Reserve plans more interest-rate increases, and stocks trade at valuations that still don't look cheap. After a punishing first half, the S&P 500 rallied 9.1% in July, its strongest month since November 2020. The gains pared the index's year-to-date decline to 13%. The S&P 500 traded last week at about 17 times its projected earnings over the next 12 months, roughly in line with its average over the past 10 years, FactSet data show.
- After more than a year of record run-ups in apartment rents, growth is starting to cool off. Nationally, average apartment rents rose 9.4% in the second quarter of 2022 compared with the same quarter in 2021, according to data firm CoStar Group. While that is high by historical standards, it is down from the more than 11% annual increases seen the previous two quarters, CoStar said. The decline also comes at the time of year when the rental market is typically at its strongest. CoStar projects that rent growth will continue to slow in the coming months, finishing the year 6.2% higher than last year. The firm is projecting a 4.9% increase for 2023.
- Merger activity has slowed dramatically after a record year in 2021, and some deal makers are bracing for an even quieter second half. In the U.S., about $1 trillion of deals had been struck in 2022 through late July, according to Dealogic. That is the lowest in five years, excluding 2020, when deal-making ground to a halt at the outset of the pandemic, and a nearly 40% drop from the same period in 2021. Globally, some $2.4 trillion of deals were announced, representing a roughly 30% decrease. The total number of transactions also was down. Driving the decline is the lack of clarity about the direction of the economy and markets, as inflation rises and war rages in Ukraine.

Resource of the week:

- Josh Friedman is the Co-Founder and Co-CEO of Canyon Partners, a $25 billion multi-strategy firm that specializes in credit-related analysis across distressed securities, securitizations, risk arbitrage, and real estate. Josh founded Canyon in 1990 with Mitch Julis, his roommate from their time at Harvard Law School and Business School. This episode of *The Capital Allocator's* podcast covers Josh's background at Goldman Sachs and Drexel Burnham with Michael Milken, the founding of Canyon, its investment philosophy, key stages on its path, and the structure of the organization. The conversation then turns to Josh's thoughts on the evolution of credit markets, liquidity, competitive dynamics among creditors, opportunities, and risks. The episode closes with advice for investment committees based on Josh's experience as a Trustee at Harvard Management, Los Angeles County Museum of Art, and CalTech, among others. Please enjoy this episode of *The Capital Allocator's* podcast.
- **Podcast link**: https://capitalallocators.com/podcast/master-class-in-credit-investing-at-canyon/

Sources: The WSJ, T. Rowe Price Global Markets Weekly Update

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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.