SUMMIT FINANCIAL

Summit Snapshot: Week of August 15th, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	3.9%	3.4%	2.9%	10.6%	13.8%	17.0%	-3.6%	-10.1%	-15.9%
U.S. Mid-Cap	4.6%	4.2%	3.4%	13.4%	15.3%	18.8%	-5.0%	-9.6%	-18.0%
U.S. Small-Cap	5.2%	5.0%	4.8%	16.5%	18.2%	19.9%	-3.7%	-9.5%	-15.4%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	3.3%	13.3%	-9.3%
NASDAQ Composite	3.1%	18.4%	-16.2%
International Developed	2.2%	6.6%	-14.3%
Emerging Markets	1.6%	2.4%	-15.7%
U.S. Aggregate Bond	0.2%	1.6%	-8.9%
U.S. Municipals	-0.1%	2.4%	-6.8%
Corporate High Yield	0.9%	7.6%	-7.7%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- U.S. equities had another strong week with the S&P 500 Index rising over 3%. This brought year-to-date losses to -9.3%, up nearly 17% from lows reached on 6/16/2022.
- Within the S&P 500, energy was the top performing sector – rising nearly 8%. More economically sensitive sectors, such as financials and materials, also fared well following a risk-on sentiment.
- More defensive portions of the market generally lagged. This included consumer staples and healthcare.
- Value demonstrated leadership of growth while small-caps bested large-caps. Value retains a strong lead over growth stocks year-to-date while small-caps have made up a lot of lost ground relative to large-caps in recent weeks.

International Equity Markets

- International equities also rose but to a lesser degree than U.S. stocks. Developed, international stocks outperformed emerging market equities, which were dragged down by its Chinese exposure.
- European stocks rose in both local and USD terms after concerns over more aggressive central bank rate hikes eased.
- Japanese equities rose in local terms and more so in USD terms as the yen strengthened relative to the USD. A reshuffling of Japan's cabinet that is likely to ensure policy continuity seemed to boost sentiment.
- Chinese stocks were again a notable laggard last week amongst an otherwise strong period for global equities. A flare-up in coronavirus cases seemed to weigh on sentiment.

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

- The U.S. Treasury yield curve steepened sharply towards the end of last week amid signs of cooling inflation.

- On the supply front, last Wednesday's 10-year note auction was met with strong demand, drawing 2.755%. As of late last week, the spread on the 2-year and 10-year narrowed to minus 0.35%, less inverted than the 0.49% the curve hit earlier in the week.
- Corporate investment grade spreads were modestly tighter on the week in-line with a greater appetite for risk within markets.
- Corporate investment grade and high yield funds both recorded modest inflows for the week, reversing recent trends.
- Last week was another robust period for new issuance. Over a dozen issuers came to market totaling $30 billion compared with dealers' estimates of $20 to $25 billion.
- Municipal bonds finished slightly higher in yield as benchmark tax-exempt 10-year notes rose 0.06% to 2.27%. This yield represents 79.9% of the comparable treasury curve, which is more expensive than 1 month ago (the muni/treasury ratio was 85% last month).
- Corresponding to the U.S. yield curve, the gap between short-term and long-term municipal debt flattened slightly.
- Municipal funds saw $635 million of outflows last week – the majority came from longer-term funds, while high yield municipal debt saw small inflows.

U.S. Economic Data/News

- Month over month, CPI was flat at 0.0%, while year-over-year came in at 8.5%. The release was relatively better than anticipated as lower gasoline prices offset price increases on other goods.
- A sizeable fall in energy prices led the decline. Notably, core inflation, which excludes food and energy costs, was also below estimates and unchanged from last month.
- Last Thursday, the initial jobless claims came in around 262,000, mostly in line with the surveyed 265,000 and 260,000 claimed last month.
- Like CPI, PPI also came in lower than expected, down -0.5% in July, below the 0.2% surveyed and 1.1% the prior month.
- Friday morning's University of Michigan Consumer sentiment for August came in at a three-month high of 55.1 versus the 52.5 estimated.
- Following several key data points out last week, the inflation outlook for the 3- and 5-year horizon has trended downward, despite the continued near-term concerns.
- The Fed reiterated its narrative that there was still work to do to tame inflation despite the upbeat reports. That said, the market lowered its expectation of a 0.75% fed funds rate hike in September.

International Economic Data/News

- Several core EU nations announced that they would provide emergency relief to help citizens combat elevated inflation and higher cost of living. This included 10 billion euros in tax relief for German citizens and a 44-billion-euro support package in France.
- The UK economy shrank by less than expected in June, paving the way for another potential rate increase to combat spreading inflation.
- Months of significant drought in Europe have the potential to severely impact a variety of key sectors including agriculture, energy production, and transportation. Germany is among the countries facing critical water shortages and its Rhine River may soon become unnavigable
- Japan's new minister of economy, trade, and industry has expressed a more supportive tone for nuclear power. Most of Japan's nuclear power plants were turned off following the 2011 Fukushima disaster.
- China reported a record trade surplus in July, well ahead of the $90 billion consensus forecast. Exports increased more than expected while imports were below expectations.

Odds and Ends

- One surprising effect of recent inflation, restaurants offer a more compelling relative value than in the past. Consumer prices at grocery stores and restaurants increased 13.1% and 7.6%, respectively, year-over-year in July, according to the Labor Department. This represents the biggest inflationary gap between grocery stores and restaurants since the 1970s. The unusual pricing dynamic has given ammunition to fast-food chains and sit-down restaurants, which are increasingly touting their prices and overall value in advertisements. So, if you are on the fence, you can feel a little less guilty opting to dine out.
- Later this year, the global population is projected to cross eight billion people. Since the 1960s, when the global number of people first hit three billion, it has taken a bit over a decade to cross each new billion-person milestone, and so it might seem natural to assume that nine billion humans and then 10 billion are just around the corner. That is exactly what the latest population projections from the U.N. and the U.S. Census Bureau have calculated. But some are projecting lower birthrates going forward, which could mean that the world's population is currently nearing or at its peak.
- The yen's historic fall is boosting sales and profits at top Japanese companies, prompting many to maintain healthy outlooks for the current year despite supply-chain disruptions and economic uncertainty. For example, Toyota, the world's biggest carmaker by sales volume, kept its forecast for operating profit of 2.4 trillion yen, equivalent to $18 billion, for the fiscal year through March, despite being hit by supply-chain troubles and higher raw-material prices recently. The strengthening of the dollar and euro against the yen will likely offset rising costs for the remainder of the current year. The yen was trading Monday at around 133 to the dollar, compared with about 115 to the dollar at the beginning of this year. In July, the yen fell as low as 139 to the dollar, its weakest point since 1998.

Resource of the week:

- This episode of *Invest Like the Best* features a conversation with Ravi Gupta. Ravi spent a decade in private equity at KKR before joining Instacart as their first CFO and COO. He navigated them through a critical moment in their history and returned to investing in 2019, as a partner at Sequoia. The discussion gets to the heart of what it means to build and invest in great businesses, and he speaks about the personal side of the journey, which tends to get overlooked. Please enjoy this conversation with Ravi Gupta.
- **Podcast link**: https://www.joincolossus.com/episodes/87892878/gupta-focus?tab=transcript

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

DISCLAIMER

This commentary was written by Craig Amico, CFA®, CIPM®, Associate Director of Investment Management, Noreen Brown, CFA®, Deputy Chief Investment Officer 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 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.