SUMMIT FINANCIAL

Summit Snapshot: Week of September 6th, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-2.8%	-3.3%	-3.9%	2.9%	4.2%	5.6%	-10.4%	-17.6%	-24.1%
U.S. Mid-Cap	-3.2%	-3.5%	-3.9%	4.4%	5.3%	6.9%	-12.5%	-17.4%	-26.2%
U.S. Small-Cap	-4.6%	-4.7%	-4.8%	4.6%	6.2%	7.8%	-13.5%	-18.7%	-23.9%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-3.2%	4.0%	-16.8%
NASDAQ Composite	-4.2%	5.6%	-25.3%
International Developed	-3.0%	-0.8%	-20.2%
Emerging Markets	-3.4%	-2.0%	-19.3%
U.S. Aggregate Bond	-1.0%	-0.7%	-10.9%
U.S. Municipals	-0.9%	-0.1%	-9.1%
Corporate High Yield	-1.8%	3.3%	-11.4%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- U.S. stocks declined last week as investors continued to digest hawkish messages delivered by the Federal Reserve despite the strong August's jobs report. The S&P 500 produced negative results each day aside from Thursday's modest increase.
- All sectors within the S&P suffered losses, with technology leading the way. Nvidia's stock price fell 16% after the country's largest chip maker by market value faces new licensing requirements on shipments of its innovative chips to China which could weigh on its future sales. Energy stocks lagged as oil prices slipped below $90 per barrel based on West Texas Intermediate crude.
- Value stocks once again led growth stocks, while large-caps were a little less volatile than small-caps. Large-cap value's 10% year-to-date price decline is less than half the drop of growth stocks.
- According to T. Rowe Price, companies that missed earnings estimates declined much more in magnitude than companies that beat estimates and rose.

International Equity Markets

- International equities fell in tandem with U.S. indices. Both international developed and emerging market stocks were at least 3% lower according to their MSCI indices.
- European shares sank on fears that central banks could enter an aggressive tightening policy for an extended period and that Russia may soon stop supplying Europe with natural gas.
- Japanese stocks fell, also impacted by the bearish outlook on U.S. interest rates. The yen plunged to a historic low not seen since 1998 as the divergence between the Fed and Bank of Japan continues. The BoJ remains committed to maintaining ultralow rates, during the high-inflation environment.
- Chinese equities slipped lower as coronavirus outbreaks triggered renewed lockdowns and clouded the economic outlook. Estimated by research firm Capital Economics, 41 Chinese cities responsible for 32% of the country's GDP are dealing with outbreaks. This is the highest number since April.

Credit Markets

- U.S. Treasury yields rose week-over-week following the observed resiliency of the labor market. Disguised in this metric is the fact both the two-year and 10-year yields were trading at notably higher levels on Thursday and moved lower after the small unemployment rate increase was announced. The two-year Treasury yield reached levels not touched since 2007. Importantly, the inversion between the two-year and the 10-year continued, a common signal of a coming recession.
- Investment-grade corporate bonds suffered from the weaker macroeconomic backdrop as corporate spreads widened. Both high yield and investment-grade funds' yield levels rose and declined in price as represented by their respective Bloomberg indices.
- As typically seen in late August before Labor Day, secondary market trading volumes were very low, and no new issuance occurred. However, several financing deals are anticipated after the federal holiday.
- Overall, municipal bonds were also victim to the rising interest rates, but less impacted than Treasury bonds. On Friday, municipal-Treasury ratios reported by ICE Data Services showed the five-year ratio level was at 70%, the 10-year at 85%, and the 30-year at 100% which reinforced the importance of owning federally tax-exempt income producing securities.

U.S. Economic Data/News

- On Friday, the Labor Department reported that 315,000 jobs were added in August which was lower than the revised 526,000 jobs added in July. However, the unemployment rate rose 0.2% to 3.7% in August, largely because of an increase in the labor force participation rate as more workers entered the job market.
- Earlier last week, the Bureau of Labor Statistics' Job Openings and Labor Turnover Survey (JOLTS) for July indicated that job postings unexpectedly increased, reaching nearly two per unemployed worker. The industries with the largest increases include transportation, warehousing, and utilities.
- More public statements were issued by Fed officials reiterating the message that the central bank is determined to raise rates enough to bring inflation under control. Most recently, Cleveland Fed President Loretta Mester and Atlanta Fed President Raphael Bostic voiced their concerns, and warned there is more work for the Fed to do on behalf of inflation moderation.
- The University of Michigan survey of consumer sentiment measures how U.S. consumers feel about their personal finances and overall business conditions. Recent surveys indicate that consumers have rarely displayed such dismal readings on these surveys compared to the past. After setting a low mark in the June reading, the survey has slightly risen each of the past two months but remains near levels associated with the recessions in 1980 and 2007-2009. Typically, these levels are coupled with higher unemployment and stocks being in a bear market, but the main reason this year has been excessive inflation.

International Economic Data/News

- Eurozone inflation rose to a record 9.1% in August, up from 8.9% in July, amid surging food and energy prices. Ironically, the count of unemployed people in the 19-country union dropped by 77,000 which left the unemployment rate at a record-low 6.6%.
- Gazprom, a Russian majority state-owned multinational energy corporation and the largest natural gas company in the world by revenue, is working to resume its Nord Stream 1 pipeline with Germany after an extended maintenance effort has halted services. Natural gas storage levels have reached 90% and 80% of their capacity in France and Germany respectively.
- The historic decline of the yen has been a windfall for Japanese exports but has significantly increased the cost for energy and food imports. As a net energy importing nation, Japan has felt the impact of higher energy prices. Core inflation has surpassed the central bank's 2% target for four straight months.
- The Chinese official manufacturing Purchasing Managers' Index (PMI) rose to 49.4 in August from 49.0 last month. It beat expectations but is still below the 50-point mark that separates growth from contraction. Meanwhile, the private Caixin manufacturing PMI fell to 49.5 from 50.4, reflective of the nationwide power outages and persistent virus-associated lockdowns.

Odds and Ends

- The Biden administration has leased fewer acres for oil and gas drilling, around 126,000 total, than any other administration dating back to the end of World War II through the first 19 months of their presidential term. The last president to lease out fewer acres was Harry Truman in 1945, during which the government was not using deep-water leases that have comprised the federal oil and gas program more recently. Biden promised to stop drilling on federal lands as part of his efforts to transition to clean energy. This stance was somewhat modified as oil prices spiked following the Russian invasion of Ukraine, sparking the U.S. to ban imports of Russian produced oil inventories. On the flipside, the Reagan administration leased out 47.5 million acres of federal land for oil and gas production at this stage of his presidency, three times as much as any other president.
- As inflation spikes around the globe, prices for most goods and services have trickled higher too. An easily overlooked benefit to consumers may be the higher interest rates which some online banks have begun to offer on certificates of deposit and savings accounts. The interest rates on these "safe havens" plunged early in the pandemic but have since made a modest recovery as the Federal Reserve raised interest rates several times since March in its bid to fight high inflation. The annual percentage yield on a one-year CD reached 0.46% in August according to the Federal Deposit Insurance Corp, up from 0.15% in March. Similarly, the average rate offered on savings accounts rose from 0.06% to 0.13%. Online banks such as Ally Financial and Capital One Financial Corp have been leading the shift in the space while large banks like JPMorgan Chase and Bank of America are slow to make such sweeping changes given their large amounts of deposits already on hand.
- The PGA Tour has been the dominant professional golf organization for nearly 100 years, but has since been threatened by a new tour, called LIV Golf, which is backed by the sovereign wealth fund of Saudia Arabia. Given the tour is backed by the lucrative foreign fund, the purses awarded to players have been dramatically higher than past PGA Tour prize pools, which have been quite attractive to players. Recently the PGA Tour announced a few material changes to their tour starting next year. There will 12 elevated events with average purses of $20 million each, much higher than the average tournament that has been played this year. Players will be required to play more events together, increasing competition levels amongst themselves, and a new fund that rewards the game's most popular players has doubled in size to $100 million. It remains to be seen what the future of professional golf will be, but a lot of factors are at play.

Resource of the week:

- Alternative investments have exploded in popularity amongst retail investors lately. This episode of *The Money Maze* features a detailed conversation with Philipp Freise, the Co-Head of European Private Equity at leading global investment management firm KKR. Today the firm employs around 2,300 people and manages nearly $500 billion of assets invested across alternative asset classes including private equity, infrastructure, real estate, and credit. The episode covers a wide swath of topics ranging from Philipp's educational background and career journey to the extensive track record of KKR's products. In addition, the importance of portfolio diversification and the focus on his firm's thematic and sector positioning is mentioned. Have a listen for an interesting episode including a very respected firm that centers on an ever-growing asset class for investors.
- **Podcast link**: https://www.moneymazepodcast.com/podcast/philipp-freise

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 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.