SUMMIT FINANCIAL

Summit Snapshot: Week of September 12th, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	3.7%	3.9%	4.1%	6.7%	8.3%	9.9%	-7.0%	-14.4%	-21.0%
U.S. Mid-Cap	4.3%	4.8%	5.7%	8.9%	10.3%	13.0%	-8.8%	-13.5%	-22.0%
U.S. Small-Cap	3.4%	4.1%	4.7%	8.1%	10.5%	12.9%	-10.6%	-15.4%	-20.4%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	3.7%	7.8%	-13.7%
NASDAQ Composite	4.1%	10.0%	-22.2%
International Developed	0.9%	0.1%	-19.5%
Emerging Markets	-0.1%	-2.2%	-19.4%
U.S. Aggregate Bond	-0.7%	-1.4%	-11.6%
U.S. Municipals	-0.4%	-0.5%	-9.4%
Corporate High Yield	1.3%	4.6%	-10.2%

Source: Morningstar, see ‘Disclaimer’ for details

U.S. Equity Markets

- Last week broke the U.S. equity market’s three-week losing streak with the S&P 500 Index logging a near 4% gain.
- Investor sentiment was boosted by moderating inflation fears and select comments from the Fed that could be interpreted as dovish. Notably, volumes were light, partially due to the observance of Labor Day last Monday.
- Within the S&P 500 Index, the consumer discretionary and materials sectors were the top performers. The consumer discretionary sector got a boost from strong results by Tesla, a large constituent. The energy sector lagged after oil prices briefly reached their lowest level since the start of the conflict in Ukraine.
- Growth stocks outpaced value shares last week while small-caps exceeded large-caps in each style aside from the value space. Value shares still remain well ahead of growth shares year-to-date.

International Equity Markets

- Non-U.S. stocks were mixed last week with developed, international equities rising close to 1% while emerging market equities were slightly down.
- Many international indexes are behind U.S. equity market equivalents year-to-date.
- European shares rose after several constituent nations announced measures to help citizens cope with the looming energy crisis and support the economy.
- Japanese stocks rose nearly 2% in local terms but were closer to flat when converted to U.S. Dollar (USD) performance due to continued weakness in the yen.
- Chinese equities were little changed last week despite expectations of further policy support from Beijing.

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

- Yields out the U.S. Treasury curve were slightly higher last week. The 10-year Treasury yield closed Friday at 3.31% while the 2-year yield (~3.56%) rose to its highest level since 2007. The inversion spread between the 2s and 10s closed the week to 22 basis points (0.22%).
- Current market expectations point towards a 75-basis point (0.75%) hike at the next FOMC meeting, although the Fed still has several key economic indicators to study over the coming two weeks.
- Corporate investment grade spreads were little changed on the week. Investment grade funds recorded outflows last week of $866 million, down from the $4.64 billion outflow a week prior. High-yield funds also experienced sizeable outflows of $2.28 billion, although the amount was again lower than the $5.04 billion level from the prior week.
- Last week was among the busier periods for new insurance ($51 billion+) as the market returned from the Labor Day Holiday. Next week's projected supply is also robust at $35 - $40 billion dollars expected.
- Municipal yields moved higher, steepening the curve, as continued outflows and aggressive Fed speak drove rates higher.
- Treasury volatility and seasonally negative supply/demand dynamics should provide headwinds for municipal yields.
- Municipal funds saw outflows of $1.1 billion for the week that ended last Wednesday.

U.S. Economic Data/News

- There are continuing indications that inflation could finally be moderating. A recent report from the Fed showed that price increases were easing in nine of its 12 districts. In particular, lower fuel costs have alleviated upward price pressures across many areas of the economy.
- Service sector activity indicators from the Institute for Supply Management (ISM) and S&P Global sent mixed messages. The S&P August service sector indicator fell to 43.7 and experienced its largest contraction since early 2020. On the other hand, the similar ISM gauge was revised upwards to 56.9, the highest level since April. Part of the reason for the divergence could be that the ISM gauge is somewhat broader and can include areas of the economy like construction.
- The labor market retained its strength with weekly jobless claims coming in well below expectations and hitting their lowest level since the start of the summer.
- Last week's nonfarm payrolls showed an increase of 315,000 jobs, with the unemployment rate above consensus at 3.7% for August.

International Economic Data/News

- The ECB followed through with its well-telegraphed intention to hike rates with a 75 basis points increase. This increase placed ECB policy rates at their highest level since 2011 and helps them get closer to target levels of near-2%.
- Many notable European nations announced large-scale efforts to help their citizens cope with rapidly rising energy costs. Both the UK and Germany announced new measures that would use borrowing or tax increases to offer subsidiaries to residents and businesses to offset higher energy bills.
- The British Pound has experienced considerable weakness relative to the USD. Last week, it depreciated further and fell to around £1.16/$1.00, near the lowest level since 1985.
- The Japanese yen also has continued to weaken relative to other major global currencies reflecting significantly lower policy rates compared with much of the developed world. Last week, the yen fell to its lowest level in nearly a quarter-century.
- China's consumer and factory inflation pace of increase declined from July and came in below expectations. Consumer prices rose 2.5% year-over-year in August while factory prices also rose 2.5%, down sharply from the 4.2% increase in July. For reference, factory gate inflation levels peaked in October 2021 at 13.5% and have trended downwards since.

Odds and Ends

- Upcoming earnings results will play a key role in determining whether last week's recovery in U.S. equities can be sustained. Analysts have cut their estimates for third-quarter earnings growth by 5.5% since June 30th, according to FactSet. That is more than usual and marks the biggest cut since the second quarter of 2020 when the COVID-19 pandemic and ensuing lockdowns brought economic activity to a standstill. Companies also have been increasingly pessimistic lately. A total of 240 companies in the S&P 500 mentioned recession on their post-earnings conference calls for the last quarter, the most ever in FactSet's data going back to 2010.
- Illness caused by COVID-19 shrank the U.S. labor force by around 500,000 people, a hit that is likely to continue if the virus continues to sicken workers at current rates, according to a new study. Millions of people left the labor force, the number of people working or looking for work, during the pandemic for various reasons, including retirement, lack of childcare, and fear of COVID. The total size of the labor force reached 164.7 million people in August, exceeding the February 2020 pre-pandemic level for the first time. The labor force would have 500,000 more members if not for the people sickened by COVID, according to the study's authors, economists Gopi Shah Goda of Stanford University and Evan J. Soltas, at MIT.
- Over the weekend, Carlos Alcaraz, a 19-year-old Spanish tennis player, beat Casper Ruud of Norway to win his first Grand Slam singles title at the U.S. Open. The match converted the nearly 24,000 fans in the stadium onto his bandwagon as he claimed not only the men's singles championship and $2.6 million in prize money, but also the Number 1 ranking in the world, becoming the youngest man to do so. He is the youngest man to win a Grand Slam title since Rafael Nadal won the 2005 French Open as a 19-year-old.

Resource of the week:

- This episode of *Invest Like the Best* features Mitch Lasky, a partner at Benchmark and one of the leading figures in the video game industry. Over the last 30 years, he has built, led, and invested in a few of the best gaming companies in the world, including Activision, Electronic Arts, Riot, Snapchat, and Discord. Mitch is likely one of the best people to break down the anatomy of a great gaming business. Please enjoy this insightful conversation with Mitch Lasky.
- **Podcast link**: https://www.joincolossus.com/episodes/99764091/lasky-the-business-of-gaming?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.