SUMMIT FINANCIAL

Summit Snapshot: Week of September 19th, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-4.2%	-4.8%	-5.4%	2.2%	3.1%	4.0%	-11.0%	-18.5%	-25.2%
U.S. Mid-Cap	-4.9%	-5.1%	-5.4%	3.6%	4.8%	7.0%	-13.2%	-17.8%	-26.2%
U.S. Small-Cap	-3.9%	-4.5%	-5.0%	3.9%	5.6%	7.2%	-14.1%	-19.2%	-24.4%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-4.7%	2.7%	-17.8%
NASDAQ Composite	-5.5%	4.0%	-26.4%
International Developed	-2.7%	-2.7%	-21.7%
Emerging Markets	-2.6%	-4.8%	-21.5%
U.S. Aggregate Bond	-0.9%	-2.3%	-12.4%
U.S. Municipals	-0.7%	-1.2%	-10.1%
Corporate High Yield	-2.0%	2.5%	-12.0%

Source: Morningstar, see ‘Disclaimer’ for details

U.S. Equity Markets

- U.S. stocks declined last week after an alarming August inflation report came in above expectations and spooked investors. The S&P 500 Index posted its largely weekly price drop since mid-June.
- All S&P 500 sectors were negative. Health care and energy were down less than 3% on the week while other sectors including communication services and technology were more than 6% lower. Mega-cap parent companies Alphabet (Google) and Meta Platforms (FaceBook) set fresh 52-week stock price lows.
- A few other names worth mentioning include FedEx which warned of a quarterly revenue decline and is going to freeze hiring, close offices, and reduce ground operations to cope. Disney’s CEO Bob Chapek recently stated that ESPN should be a growth engine and large part of Disney in the future as the price of sports broadcasting has risen. Billionaire investor and Third Point founder Dan Loeb originally called for an ESPN spinoff but has since backed down following Chapek’s statement. Starbucks plans to spend hundreds of millions of dollars to update store designs and equipment. These improvements should lead to speedier customer service and higher profit levels.
- Within styles, value stocks led growth while small market-cap stocks slightly beat out large-caps.

International Equity Markets

- International stocks suffered last week, as both developed non-U.S. and emerging markets moved more than 2.6% lower in U.S. dollar terms represented by their MSCI indices.
- European equities pulled back amid concerns that a broadening economic slowdown is taking shape. The British pound relative to the U.S. dollar sank to levels last seen 37 years ago.
- Japanese stocks fell as the government stated it will ease COVID-related restrictions on tourists. The yen finished the week at 143 ¥/$ despite rumors the Bank of Japan would step in to ease the currency slide.
- Chinese stocks were lower as weakness of the yuan and property sector data weighed on sentiment.

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

- The yield curve continued to invert further, as the 10-year level rose 14 basis points to 3.45%. Front-end yields soared with the two-year yield reaching 3.89%, from 3.56% at the end of the week prior.
- One-year Treasury bills reached 4% on Friday morning. This is the first time one-year bill rates have topped 4% since 2001. Current market sentiment still calls for the FOMC to move 75 basis points higher next week, but the potential increased for a 100-basis point hike.
- Corporate investment grade spreads were slightly tighter last week. Investment grade funds recorded outflows last week of $757 million, somewhat less than the $866 million in outflows one week before. High-yield funds reported $734 million in inflows compared to sizable outflows near $2.28 billion a week earlier.
- In the weeks following Labor Day, corporate bond issuance is typically robust, but last week was an exception as the Treasury yield curve steepened. Higher interest rates don't bode well for new issuers as funding costs are increased. September has seen roughly half the amount of new issuance that was expected so far.
- The municipal yield curve shifted higher, 12 basis points on average, as continued Treasury volatility drove rates higher ahead of next week's FOMC meeting.
- The outsized move in Treasuries resulted in richening ratios over the course of the week. For reference, 10-year municipal bonds are yielding around 82% of comparable 10-year Treasury bonds.
- Municipal bond funds saw outflows of $1.4 billion for the week that ended last Wednesday.

U.S. Economic Data/News

- Last week's defining news was consumer price index report released Tuesday which indicated inflation rose more than expected. This was not what the market and economists priced in and refreshed economic slowdown concerns. Headline prices rose 8.3% for the year through August versus expectations for an 8.1% increase. Core inflation excluding food and energy rose 6.3% annually compared to a 6.1% forecast.
- Labor market news was mixed. Weekly jobless figures reported that 213,000 people filed claims through the week ended September 10th, the lowest level since late May. However, rumors circulated that some major companies have planned layoffs including Goldman Sachs, Ford Motor Company, and Microsoft.
- Retail sales data was mostly upbeat. The Labor Department reported a 4.2% decline in August's gasoline pump sales which inspired higher sales of cars, restaurants, and bars. In addition, the lower gas prices boosted the University of Michigan's preliminary September reading on consumer sentiment to a five-month high. Likewise, five-year inflation expectations fell to 2.8%, the lowest in a year.
- According to Freddie Mac, 30-year mortgage rates surpassed 6% last week, the highest level since 2008. Remarkably just one year ago, the national average rate was under 3%, emphasizing the incredible annual growth which is largely attributed to the Fed's efforts to increase interest rates among other things.

International Economic Data/News

- August inflation in the U.K. came in at 9.9%, slightly below the 10.1% reported in July. However, core inflation excluding volatile food and energy prices was up a tick to 6.3%. Producer output prices were about 16.1% greater compared to a year ago, which is high but still lower than the 17.1% reported in July.
- Eurozone industrial production fell by 2.3% in July because of elevated energy prices and supply chain bottlenecks. The drop was the biggest in two years and worse than the 1.0% forecasted decline.
- The Japanese 10-year government bond yield increased from 0.23% to 0.25% week over week. The central bank began purchasing bonds at the upper limit of the range set in the yield curve control policy. Given where U.S. interest rates sit, international investors are rarely enticed to purchase Japanese debt.
- According to trade data released for August, Japanese exports grew by 22.1% from August 2021, even higher than the 19% increase through July. Japan's top exporting nation was the U.S.
- Chinese factory output levels and retail sales were higher last month, and the unemployment rate for cities declined reflecting strength. However, the property sector struggled as new home prices in 70 cities fell in August for the 12th straight month. New housing starts were 46% lower in August compared to a year ago.

Odds and Ends

- The U.S. dollar has become the dominant global currency. It's still the primary currency used in global trade which means its fluctuations have far-reaching impacts. The ICE U.S. Dollar Index, which measures the greenback versus a basket of other currencies, has risen more than 14% so far this year, on track for its best year since the index's inception in 1985. For instance, the euro, Japanese yen, British pound, and other emerging market currencies have been pummeled and some have fallen to multidecade relative lows. Dismal economic outlooks for the rest of the world have acted as tailwinds as well. In the U.S., a strong dollar translates to cheaper imports and incredible purchasing power for Americans. It also makes dollar-denominated debt that non-U.S. companies have outstanding on their books more expensive to pay back.
- China is aggressively focused on the automation of manufacturing in factories. Last year the nation installed nearly as many robots in its factories, 243,000, as did the rest of the world. Currently, the world's second-largest economy lags behind manufacturing powerhouses such as the U.S., Japan, Germany, and South Korea which have more robots involved in production lines. The focus on automation also coincides with the shrinking supply of cheap labor and higher wages. The hope in China is for the increased automation to make it less appealing for Western companies to shift production to other emerging markets or even their home countries. Despite the ongoing global trade tensions, China is still the leading nation which accounts for 29% of global manufacturing according to U.N. data.
- Natural-gas prices have more than doubled this year because of a global supply shortage exacerbated by the war in Ukraine. They're expected to remain high for months as U.S. utility customers will feel the pinch. Aside from natural gas, electricity prices have surged throughout the country as some renewable-energy sources not yet operational are reliant on natural gas for electricity production. For instance, Eversource Energy, a utility company which serves four million electric and natural-gas customers in the New England region doubled rates from 10.67 cents per kilowatt-hour to 22.57 cents. The increase is not expected to subside this year as the war continues and the supply constraints in Europe are real.

Resource of the week:

- Once the largest company in the world dominating the industrial pipeline, General Electric has dramatically transformed and adapted its business to fit today's world. This episode of Business Breakdowns features a conversation with Morningstar senior equity analyst Josh Aguilar who talks about GE's time as a conglomerate, and its rise and fall since the 19th century. The company's origins date back to Thomas Edison in 1896 and include the incandescent light bulb, ex-ray machine, electric locomotive, and commercial jet engine. Jack Welch took over the company in 1981 and repositioned it for global dominance, which has led to its current structure. Have a listen to this interesting episode which breaks down a transcendent company adapt in the ever-changing world around it.
- **Podcast link**: https://www.joincolossus.com/episodes/73872497/aguilar-ge-a-broken-conglomerate?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.