SUMMIT FINANCIAL

Summit Snapshot: Week of October 3rd, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-2.6%	-2.7%	-2.8%	-5.6%	-4.6%	-3.6%	-17.8%	-24.6%	-30.7%
U.S. Mid-Cap	-2.5%	-1.9%	-0.7%	-4.9%	-3.4%	-0.7%	-20.4%	-24.3%	-31.5%
U.S. Small-Cap	-2.3%	-0.8%	0.6%	-4.6%	-2.2%	0.2%	-21.1%	-25.1%	-29.3%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-2.9%	-4.9%	-23.9%
NASDAQ Composite	-2.7%	-3.9%	-32.0%
International Developed	-1.4%	-9.4%	-27.1%
Emerging Markets	-3.3%	-11.6%	-27.2%
U.S. Aggregate Bond	-1.0%	-4.8%	-14.6%
U.S. Municipals	-1.0%	-3.5%	-12.1%
Corporate High Yield	-1.4%	-0.6%	-14.7%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- U.S. equities were punished amid signs that the Federal Reserve may still face a bumpy path ahead in their fight against inflation. Friday's close resulted in the third consecutive quarterly decline for the S&P 500, which is the first time this has happened since 2009.
- Each day last week resulted in market pullbacks aside from Wednesday's rally following the surprise decision by the Bank of England to purchase long-dated U.K. government bonds. Equity volatility represented by the Cboe Volatility Index (VIX) remained elevated week-over-week.
- All S&P 500 sectors were lower last week aside from energy which boasted a small price increase. Utilities and technology stocks saw sizable losses of nearly 9% and 4% respectively. Within the consumer discretionary sector, Nike announced future price markdowns after the company reported a 44% jump in inventories last quarter. Amazon declared a second "Prime Day" on October 11th-12th to increase revenue approaching year-end and the all-important holiday sales time.
- Small-cap growth stocks had a small weekly gain while all other size and style segments were lower as shown in the above matrix. Large-cap stocks fell by under 3% lower across the board.

International Equity Markets

- Like in the U.S., international developed and emerging market stocks declined last week although the latter fell more severely in U.S. dollar terms than the former.
- European equities were slightly lower in their local currency but mostly muted when converted to dollars. Disappointing corporate earnings and recession fears were offset by central bank supportive actions.
- Japanese shares ended the week at a three-month low despite some encouraging economic readings. The strengthening of the U.S. dollar against the Japanese yen and Chinese yuan has been a headwind.
- Chinese stocks fell as currency weakness and a lagging economy fueled investors' concerns.

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

- Interest rate volatility continued heading into the final quarter of the year. The 10-year Treasury yield was modestly higher for the week closing at 3.82% after nearly breaching 4% on Tuesday.
- The 2s10s spread inversion remained intact, landing around 45 basis points at week's end.
- Fed Vice Chair Lael Brainard spoke on Friday, relaying that monetary policy will remain restrictive for some time as the Fed is committed to avoiding premature easing.
- Corporate spreads were noticeably wider on the week, reflective of the enhanced risk-off environment.
- Corporate, investment grade funds recorded more than $10 billion of outflows, double the week prior's outflows total near $5 billion. Similarly, high yield funds reported $3 billion of outflows to piggyback on the $1.7 billion of outflows from one week earlier.
- Because of market volatility, weekly and monthly corporate primary issuance failed to meet dealers' projections as $78 billion was newly issued in September, roughly half the estimated amount of $145 billion.
- Municipal yields moved higher by 11-17 basis points amidst continued volatility, although valuations have become cheaper relative to Treasuries.
- Municipal funds saw the eighth consecutive week of outflows losing $3.6 billion through the week ended Wednesday. Year-to-date outflows total $91.5 billion, the highest on record.
- Increased borrowing costs resulted in a 40% decline in new issuance for the month of September as just $24 billion was released during a typically busy month.

U.S. Economic Data/News

- The personal consumption expenditures price index increased by 4.9% on an annual basis, more than the 4.7% estimate and higher than last month's annual reading of 4.7%. On a monthly basis, the index was 0.3% higher in August compared to a 0.2% hike in July. The index is the Fed's preferred measure of inflation since it reflects consumer behavior although long-term inflation expectations remain modest. Based on a survey conducted by the University of Michigan, consumers expect inflation to fall to 2.7% over the next five years.
- In the housing sector, mortgage interest rates approached 7% and are now nearly 4% higher throughout 2022. Despite this alarming spike, new home sales surprised to the upside by rising nearly 29% in August to a new five-month high. However, pending sales of homes where contracts have been signed but not yet closed, fell slightly on a monthly basis.
- The Case-Shiller Home Price Index fell by 0.2% in July. Amazingly, this is the first monthly decline since early 2012. Prices fell on an annual basis through July, compared to June, at the fastest pace in the index's history.
- Initial weekly unemployment claims fell to their lowest level in five months of 193,000, well below expectations nears 215,000. This is a sign the labor market is strengthening in the face of the Fed's efforts to cool the economy and tame inflation.

International Economic Data/News

- Wednesday saw a surprise announcement from the Bank of England (BoE) that declared it would begin purchasing long-dated bonds to calm the recent market turmoil. Before the BoE intervened, U.K. gilt yields were on pace for their sharpest monthly rise since 1957.
- European Central Bank President Christine Lagarde stated the economic outlook "is darkening" and she expects business activity to "slow substantially" in the coming months amid elevated inflation. She also expects economic output to be negative in the short-term, while the central bank is focused on addressing inflation and will likely increase interest rates.
- The Japanese picture was murky. Industrial production and retail sales figures for August both surpassed expectations. Additionally, the August unemployment rate fell to 2.5%. However, pressure on the yen remains concerning as the national currency slightly weakened on the week versus the dollar.
- In China, industrial firms' profit shrank by 2.1% from January through August this year. The Caixin/Markit manufacturing purchasing managers index fell to 48.1 in September, firmly in contractionary territory.

Odds and Ends

- Tesla reported that 343,830 vehicles were delivered to customers in the third quarter, which was a company record. This was much higher than the 255,000 deliveries in the second quarter although still below the FactSet forecast of 371,000. Tesla stated the delivery shortfall was largely attributed to changes it's making to its processes which the company said was necessary to meet consumer demand amid higher prices. It boosted production capacity in its U.S., European, and Chinese plants to keep up with orders. The company produced 365,923 vehicles in the third quarter, around 128,000 more than was produced from one year ago. To reach the company's self-declared goal of a 50% annual average output increase, the auto manufacturer would need to deliver 495,000 vehicles in the fourth quarter.
- As food inflation is running near its highest rate in 40 years, most U.S. supermarkets have greatly reduced the number of sales and discounts on popular goods. According to research firm Information Resources Inc., about 20.6% of all food and beverage products were sold with price reductions last quarter. This compares to roughly 25.7% for the third quarter in 2019. Food makers which supply supermarkets with the goods said fewer products are available to be put on sale because of persistent supply-chain problems limiting their production. This contrasts other retail companies like Macy's, Walmart, Target, and Nike, which have excess inventory of durable goods and subsequently posted discounted prices.
- Two of the most well-known rideshare companies in the world, Uber and Lyft, have gradually diverged for various reasons. Uber has become a globally recognized name within the transportation industry due to its ride-hailing, food and package delivery, freight transportation, and even electric bike or scooter rental service. On the other hand, Lyft is predominantly active in the U.S. with most of its revenue coming via the rideshare service. In 2022, analysts expect Lyft's revenue to account for around 30% of Uber's revenue total. Historically, the two competitors represented different clientele as Lyft maintained a quirky, fun, and friendly look in which many drivers attached a fuzzy pink mustache to the grille of their cars (this has since been scrapped). Uber has usually opted for a more professional, button-down approach which appealed to many city-oriented business folk.

Resource of the week:

- Matt Brown is the CEO of CAIS, a leading investment platform that connects financial advisors with unique alternative investment strategies. Recently, the widespread flow of private wealth assets into alternatives have accelerated rapidly given the public market volatility. This conversation with Matt covers the size of the private wealth market, increased flow of capital coming into the space, and key drivers of the adoption of alternatives. He also talks about the characteristics of managers and products that receive flows and key attributes interested investors who want to learn more about alternatives should consider. The agenda then turns to CAIS' business philosophy, including deploying a substantial capital raise, upgrading its technology and team, and building custom solutions fit for advisors and their clients. Please enjoy this episode to hear more interesting dialogue.
- **Podcast link**: https://capitalallocators.com/podcast/tidal-wave-of-capital-for-alternatives-from-retail/

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.