

Summit Snapshot: Week of October 31st, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	5.0%	4.0%	3.0%	10.8%	8.8%	6.8%	-8.9%	-18.0%	-25.9%
U.S. Mid-Cap	5.7%	5.6%	5.4%	9.8%	9.3%	8.2%	-12.5%	-17.3%	-25.8%
U.S. Small-Cap	6.3%	6.0%	5.8%	12.6%	11.0%	9.5%	-11.2%	-16.9%	-22.6%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	4.0%	8.9%	-17.1%
NASDAQ Composite	2.2%	5.0%	-28.6%
International Developed	4.1%	5.3%	-23.2%
Emerging Markets	-2.2%	-3.4%	-29.6%
U.S. Aggregate Bond	1.7%	-0.9%	-15.4%
U.S. Municipals	-0.6%	-0.9%	-12.9%
Corporate High Yield	2.4%	3.0%	-12.2%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- U.S. stocks rallied throughout the week, despite significant declines from several notable tech platform companies.
- Value shares outpaced growth names while small-caps led large-caps.
- Within the S&P 500 Index, industrial and financial stocks handily outperformed more growth-oriented names for the week. Disappointing earnings from key constituents translated to a negative return for the communication services sector and a near-flat return from the consumer discretionary sector.
- The Cboe VIX, which is commonly used to associate index volatility and fear levels, fell below its 50-day moving average for only the fourth time since February.
- Year-to-date, value shares remain ahead of growth stocks by a wide margin. Small caps have generally lagged large caps but have made up some lost ground recently as mega cap names have stumbled.

International Equity Markets

- Developed, international equities realized strong gains last week while emerging market equities declined. EM stocks were dragged down by disappointing performance by the Index's Chinese exposure.
- European shares were again higher last week in hopes that the ECB might slow the pace of rate increases. The euro also gained some ground relative to other major global currencies.
- Japanese stocks were modestly positive amid similar hopes that global central bank policy might become less hawkish going forward.
- Chinese stocks were down nearly double digits after investor sentiment was pulled down by additional COVID-related lockdowns and continued regulatory fears.

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

- U.S. Treasury Yields were down again on the week, with a slight give-up Friday following several key economic releases.
- The Treasury 10-year yield opened Monday at a recent high of ~4.24% and trended down to close the week near 4%. The spread between the 2-year and the 10-year moved 14 basis points (0.14%) on the week from -26 basis points (0.26%) to -40 basis points (0.40%).
- The belly of the curve climbed following the data drop, with 5-year yields up to 4.185%, and 7-year yields up to 4.103%
- According to street expectations, a 75-basis point (0.75%) rate hike is still priced in for the November FOMC meeting.
- Corporate investment grade spreads were little changed last week. Investment grade funds still recorded outflows, but the magnitude was significantly lower relative to the prior week. Notably, high-yield funds recorded sizable inflows for the week.
- Investment grade primary issuance and supply exceeded dealer's expectations while monthly volume should also surpass estimates.
- The municipal curve steepened, underperforming Treasuries, as an increase in longer-dated issuance weighed on yields.
- The divergence from Treasuries has moved muni relative valuations closer to fair value.
- Muni funds continue to see outflows losing \$1.8 billion last week, adding to year-to-date outflows approaching \$120 billion.
- Despite persistent outflows from traditional funds, municipal ETFs are seeing record inflows adding approximately \$18 billion year to date, the most since 2008.

U.S. Economic Data/News

- It was a stacked week of economic headlines, as Friday's inflation figures showed inflation falling, but at a slow pace. GDP for the third quarter was up 2.6% compared to -0.6% in the prior period. This is the first GDP figure that indicates growth so far this year.
- Personal income came in on the target, up 0.4% compared to 0.3% the prior month. Personal spending came in slightly above expectations at 0.6% vs. 0.4% showing resiliency in consumer spending.
- The core PCE index rose 5.1% year over year as expected. All indications support further aggressive action by the Federal Reserve.
- S&P Global's gauge of U.S. manufacturing fell into contraction territory (below 50) for the first time since mid-2020. The service gauge also surprised to the downside, indicating a meaningful slowdown in activity.
- The Conference Board's Consumer Confidence Index fell for the first time in three months, reflecting still present inflation fears.

International Economic Data/News

- The Bank of Canada surprised markets by raising rates by 0.50% versus the expected 0.75%. This decision gave some investors hope that the Fed might follow its example.
- The ECB raised its key interest rate by 0.75%, pushing the deposit rate to 1.5% - the highest level since 2009. It also said that it may have to raise rates further to curb inflation that is still too high.
- UK Parliament elected former finance minister, Rishi Sunak as prime minister. Sunak replaces Liz Truss who stepped down after several fiscal policy decisions caused market turmoil and eroded confidence in her administration.
- The Bank of Japan (BoJ) increased its purchases of Japanese government bonds at the long end of the curve, pushing down yields and offering sharp gains to bondholders.
- China's economy grew 3.9% over the third quarter relative to a year prior. The pace of growth was well ahead of the 0.4% rate from the second quarter.

Odds and Ends

- With his six-month takeover saga behind him, Elon Musk now looks to righting Twitter amid a tumultuous operating environment. In just the past 10 days, as Musk's \$44 billion bid lurched to the finish just as the landscape turned increasingly challenging. Meta (Facebook), Snapchat, and Alphabet (Google) all saw their stock prices get pummeled after delivering a drumbeat of troubling data points. YouTube posted its first-ever decline in advertising revenue, while Snap warned investors that it is operating on an assumption of no revenue growth this quarter from the year-ago period.
- Natural-gas prices have fallen more than 40% since hitting shale-era highs in late August, reducing the risk of budget-busting heating bills this winter for millions of Americans and potentially easing a major cost pressure for manufacturers. The decline is due to warm autumn weather, record U.S. production, and gas-storage facilities that have filled up fast since the end of air conditioning season. Now, one of the big drivers of inflation costs roughly the same as it did a year ago. That said, analysts warn that unusually cold weather could send prices soaring this winter, especially in the Northeast, where maxed out pipelines have effectively capped output from Appalachia's prolific producers.
- Emerson Electric is selling a majority stake in its climate-technologies business to Blackstone, in a transformational deal for the industrial company that would value the unit at \$14 billion including debt. This would also mark the biggest private-equity buyout in months at a time when such activity has been choked off by market volatility. The deal would give Blackstone a 55% stake in the unit, which sells compressors and other HVAC products and services. In a typical market, banks would provide the debt financing, carving it up and selling it off to several buyers. Banks currently aren't offering such so-called syndicated financing, so Blackstone had to place the debt itself, selling it off to an assortment of direct lenders and others in a process that took the better part of a month. It is a process the firm has undergone before during times of market illiquidity, most recently in the aftermath of the 2008-09 financial crisis, though never with a deal of this size.

Resource of the week:

- This episode of *Invest Like the Best* features Jason Droege, a venture partner at Benchmark. Jason's had a long entrepreneurial career, which most recently culminated in building and leading Uber Eats. He joined Uber in 2014 with a blank piece of paper to grow the business beyond ridesharing. Within 6 years, he found product market fit with food delivery, refined the service, and scaled Uber Eats to a global \$20 billion GMV run rate. This conversation pulls out the most important lessons learned during that period and how Jason now employs them in his role at Benchmark. Please enjoy this conversation with Jason Droege.
- **Podcast link:** <https://www.joincolossus.com/episodes/57349226/droege-building-a-second-act?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.