SUMMIT FINANCIAL

Investment Newsletter

January 2023

Investors are deluged daily with data about the economy. Invariably, the data does not emit consistent clues about the direction of the economy. It is important to remember that some data is classified as leading economic indicators that tend to move before changes in the overall economy (akin to a driver looking out front through the windshield). Other data is classified as coincident indicators, and the last group is classified as lagging indicators that tend to move after changes in the overall economy, (akin to a driver looking in the rearview mirror).

January witnessed noteworthy leading and lagging data announcements. Employment is a lagging indicator, and the almost incredulously strong increase in the number of new jobs, 517,000 in January, and the reduction in the unemployment rate to 3.4% demonstrated strength in employment. However, the Conference Board's Index of Leading Economic Indicators declined 6% year-over-year. Corporate earnings, especially among the largest firms, have been disappointing. Market participants continue to be heartened by decreases in inflation measures. Housing, a leading indicator, is slowing as the lagged impacts of higher mortgage rates become more keenly felt.

The Federal Reserve Board announced a 25 basis point, or ¼ of 1% increase, in the short-term Federal Funds rates to 4.75%. This announcement was expected by the market. The Fed had maintained a pace of 75 basis points increases over the spring to fall, reduced the increase to 50 basis points in December, and now has ratcheted down the increase to 25 basis points. We expect one or two more increases of 25 basis points before a pause. The Fed could pivot to relying more on Hawkish speeches and less on additional interest rate increases.

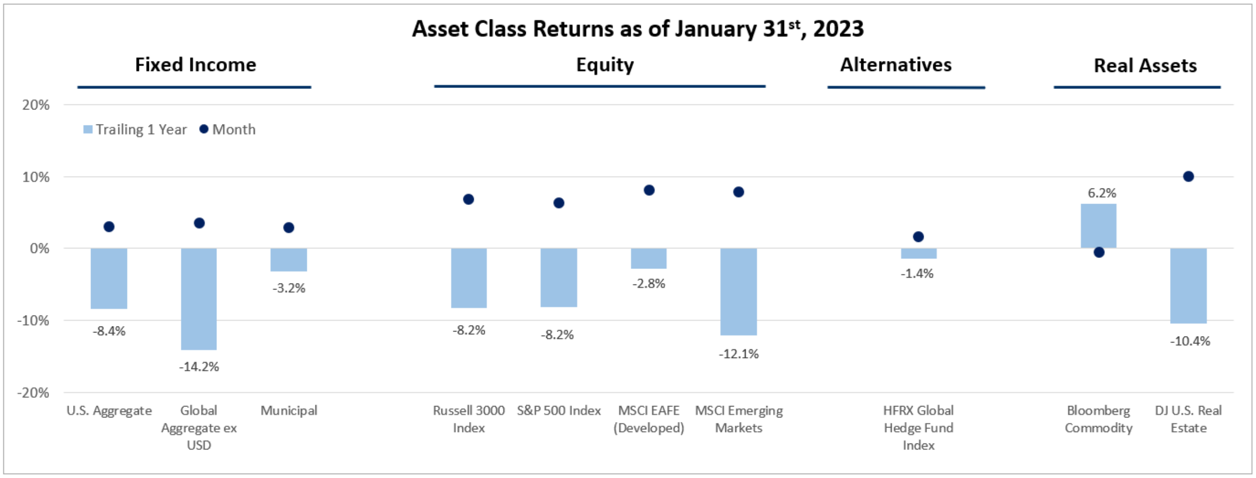
Equity investors, bolstered by strong employment and sanguine inflation reports, pushed up stock prices. In the US, the S&P 500 index returned 6.28% for January. Small Cap stocks as measured by the Russell 2000 index returned 9.75%. Developed International equities as measured by the MSCI EAFE index returned 8.1%, while emerging market equities, encouraged by the reopening of China returned 7.9% as measured by the MSCI Emerging Markets index.

Fixed Income markets also had positive returns in January. The Bloomberg U.S. Aggregate Bond index returned 3.08%, while the Bloomberg Municipal Bond Index returned 2.87%.

Moving from Wall Street to Washington, D.C., we note that both political parties met last week to begin discussions on increasing the debt limit for the U.S. This was encouraging. We expect a heightened focus on this issue closer to late spring/early summer- as the U.S. is expected to be able to continue interest payments and bond redemptions until then.

Abroad, we expect an increase in the severity of the Ukrainian conflict, and last week, the appearance of a Chinese surveillance balloon over the U.S., highlighted ongoing and increasing Sino-U.S. tensions.

For the balance of February, we expect the market to focus on Fed speakers, earnings, and additional geopolitical events.



Morningstar & Hedge Fund Research, Inc.; Bond indices from Bloomberg

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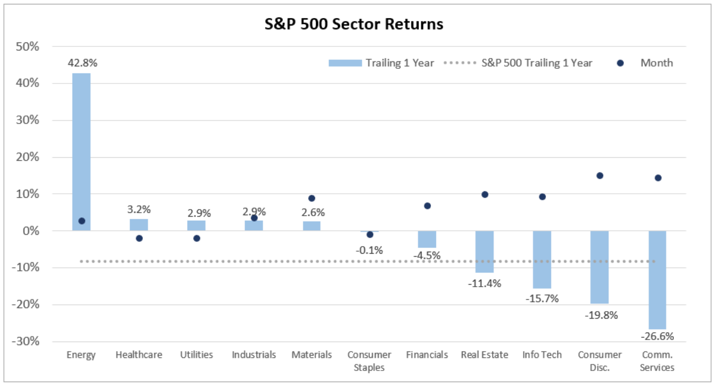

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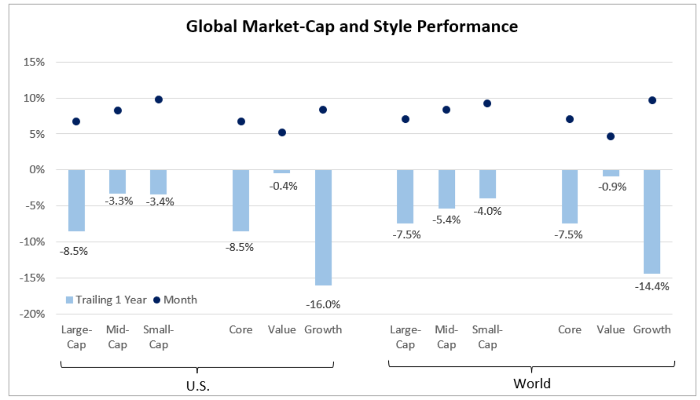

Bloomberg; U.S. indices from Russell and world indices from MSCI

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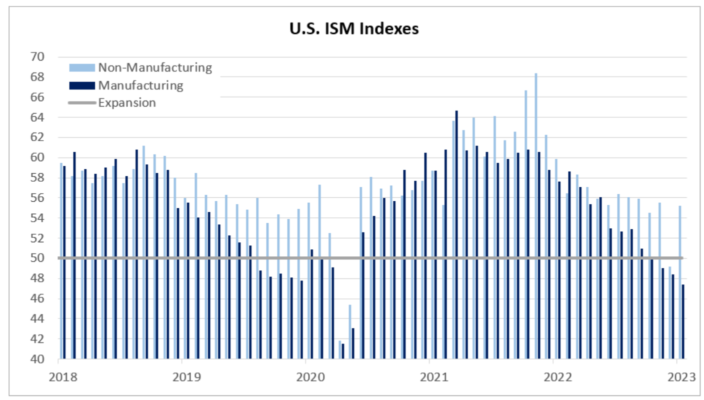

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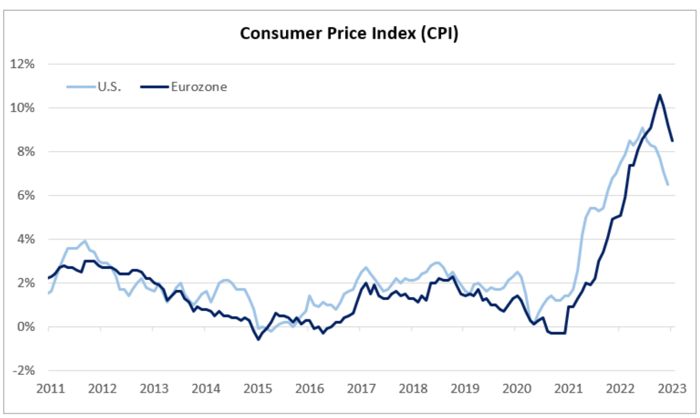

U.S. Bureau of Labor Statistics

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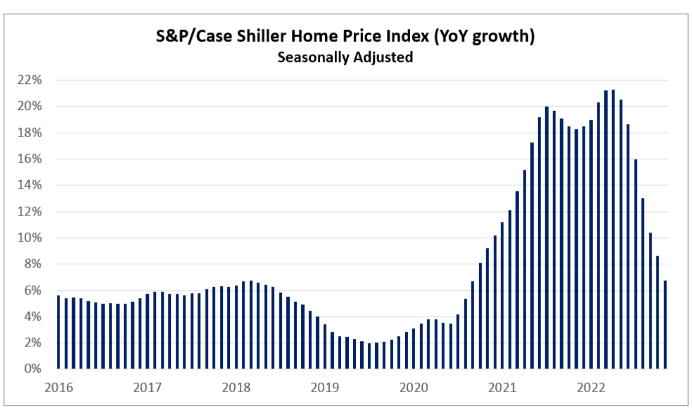
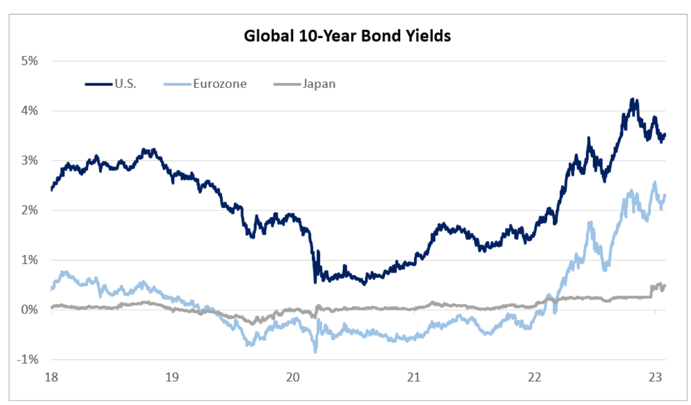


S&P / Case Shiller



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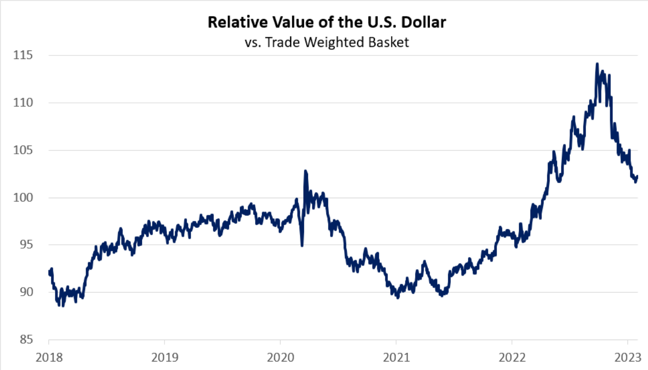

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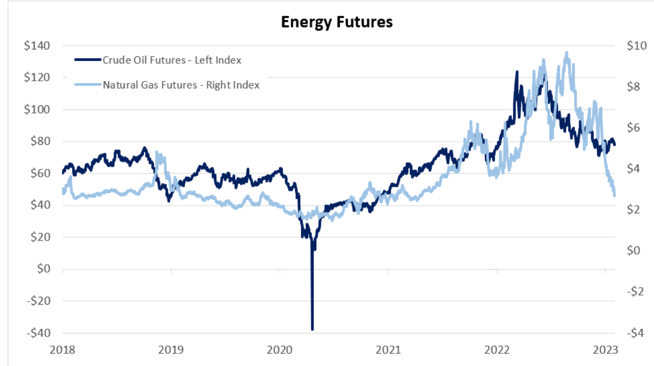

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This commentary was written by Kevin Barry, Chief Investment Officer, Noreen Brown, CFA®, Deputy Chief Investment Officer, and Steven Melnick, CFA®, Director of Investment Management at Summit Financial, LLC., an SEC Registered Investment Adviser ("Summit"), 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 to sell securities. Summit is an investment adviser and offers asset management and financial planning services. Indices are unmanaged and cannot be invested into directly. 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. The Russell 3000 Index 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 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 Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap Index represents approximately 31% of the total market capitalization of the Russell 1000 companies; 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 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 World Index captures large- and mid-cap representation across developed markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country; the Bloomberg Commodity Index reflects commodity futures price movements and is calculated on an excess return basis. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production, and weight-caps are applied at the commodity, sector, and group level for diversification. Roll period typically occurs from the 6th-10th business day based on the roll schedule; the Bloomberg Barclays 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 Barclays Global Aggregate Ex U.S. Index is a measure of investment-grade debt from twenty-four local currency markets. This multi-currency benchmark includes Treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Bonds issued in U.S. dollars are excluded; the Bloomberg Barclays 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 Dow Jones U.S. Real Estate Index measures the performance of real estate investment trusts (REITs) and other companies that invest directly or indirectly in U.S. real estate through development, management, or ownership, including property agencies; The Bloomberg Barclays 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 Barclays EM country definition, are excluded; The HFRX Global Hedge Fund Index is comprised of funds representing the overall hedge fund universe. Constituent funds include but are not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, even driven, macro, merger arbitrage, and relative value arbitrage. The underlying strategies are asset weighted based on the distribution of assets in the hedge fund industry; The S&P Case-Shiller Home Price Index measures the value of single-family housing within the U.S. The index is a composite of single-family home price indices for the nine U.S. Census divisions. Leading economic indicators (LEI) are statistics that precede economic events. They predict the next phase of the business cycle. The OECD Composite leading indicators (CLIs), designed to anticipate turning points in economic activity relative to trend, continue to strengthen in most major economies. 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. The Consumer Confidence Index is a measure based on a survey administered by The Conference Board that reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitude, buying intentions, vacation plans and consumer expectations for inflation, stock prices and interest rates. A Treasury Bill (T-Bill) is a short-term U.S. government debt obligation backed by the Treasury Department with a maturity of one year or less. The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of executives covering all North American Industry Classification System's businesses in the manufacturing sector. The ISM Non-Manufacturing Index is a monthly indicator of U.S. economic activity based on a survey of executives covering all North American Industry Classification System's businesses in the services (or non-manufacturing) sector. Data in this newsletter is obtained from sources which 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. 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