SUMMIT FINANCIAL

Investment Newsletter

April 2023

Markets and the economy remained on a better-than-expected trajectory so far in 2023. Inflation is higher than desired but has likely peaked, the labor market is still robust with around 3.5% unemployment, and corporate earnings have surpassed low expectations. Even residential housing, which many called for a swift decline in 2023, has defied consensus reflecting a slight decline in mortgage rates paired with still low levels of supply. Markets reflected this ‘better than expected’ mentality with positive results across most core areas in April. This brought year-to-date gains to levels that most investors would be happy with for the full year despite being only four months into the year.

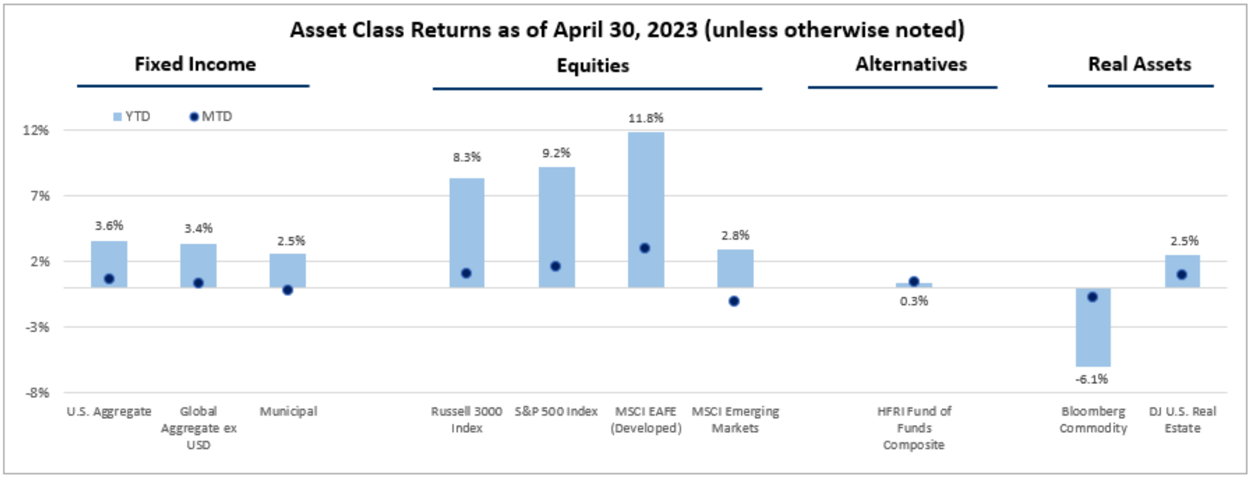
Against the Fed’s best efforts, the economy remains on solid footing except for a few notable cracks – the most notable of which is the current regional banking crisis. Underpinning core areas is a still strong labor market with low unemployment and supportive wage growth. Although jobless claims are rising in line with notable large-scale layoff headlines, there is likely a lot of room down from here before easing would enter the conversation. This was reinforced by the most recent FOMC meeting where the Fed raised policy rates by another 25 basis points (0.25%) defying earlier expectations for a pause. With Fed Funds now above 5%, there should be less upward momentum to hikes going forward, although policy rates may not decline as fast as the market currently expects.

Entering May, many asset class valuations are moderately elevated while the wall of worry builds. Following the failure of several notable regional banks (Signature, Silicon Valley Bank), First Republic Bank was the latest casualty after being acquired by JPMorgan following regulatory intervention. Also on the horizon is the looming debt ceiling, which could be reached as soon as early June. Although a temporary solution is likely to be reached, political rhetoric and a standoff until the last minute could introduce significant volatility into financial markets. As it stands, the 1-month Treasury yield fell to its lowest level since late last year demonstrating the premium investors are willing to pay to avoid the impending uncertainty.

As we enter the heart of earnings season, many companies have benefited from a dramatic lowering of expectations in 2022. Revenues often surprised to the upside although earnings and profits were more mixed. A greater focus on efficiency and costs, especially within the tech sector, was supportive and boosted the returns of many of the tech platform companies. Management teams appear cautious in their outlooks reflecting the heightened level of uncertainty in the economy. Within the broad equity market, the equity risk premium is compressed resulting in valuation susceptibility. This is more acute in U.S. markets as many international equity benchmarks are trading near or below long-term historical averages.

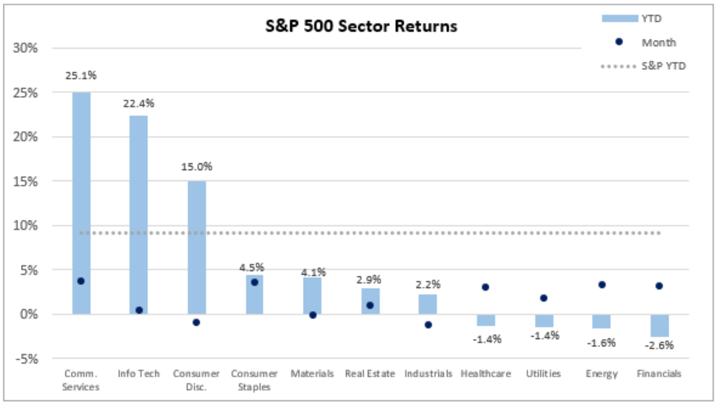
Having taken much of the pain last year, most fixed income asset classes were positive for the month and year-to-date. Fixed income benefited from a reset in yields in 2022 which brought income levels to the highest points in nearly a decade. Duration sensitive assets also received a boost from a falling middle and long portion of the curve. Corporate spreads have widened relative to historically tight levels last year but are far from levels reached during past periods of distress. On the margin, many short and intermediate duration fixed income assets offer compelling entry points and unlike last year, should now provide a buffer to volatility.

2023 has so far been a view into a new regime with structurally higher inflation and volatility levels more reminiscent of a time prior to extensive central bank intervention. Throughout these environments, it’s important to ensure portfolios have ample near-term liquidity and are rebalanced close to target levels. Future volatility, while painful, can be looked to as compelling entry points into many long-term asset classes.

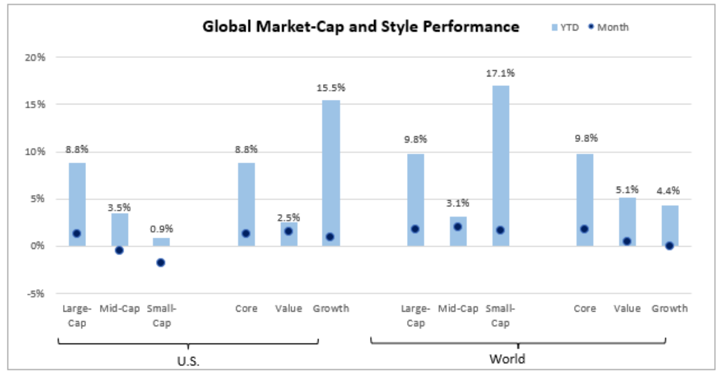


Morningstar & Hedge Fund Research, Inc.; Bond indices from Bloomberg

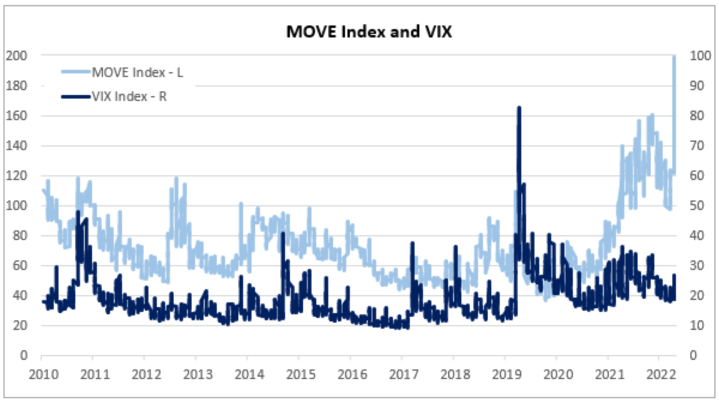
5669765.1



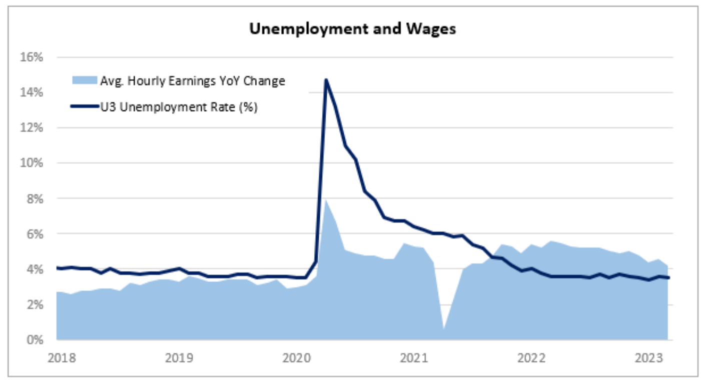
Bloomberg



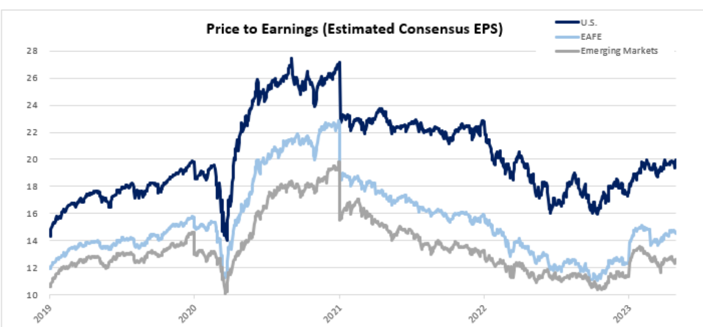
Bloomberg; U.S. indices from Russell and world indices from MSCI



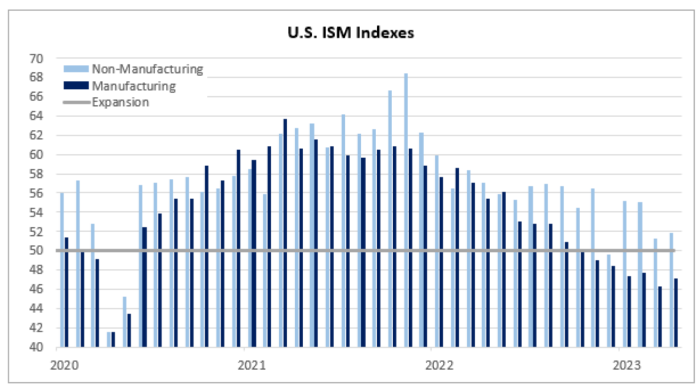
Bloomberg



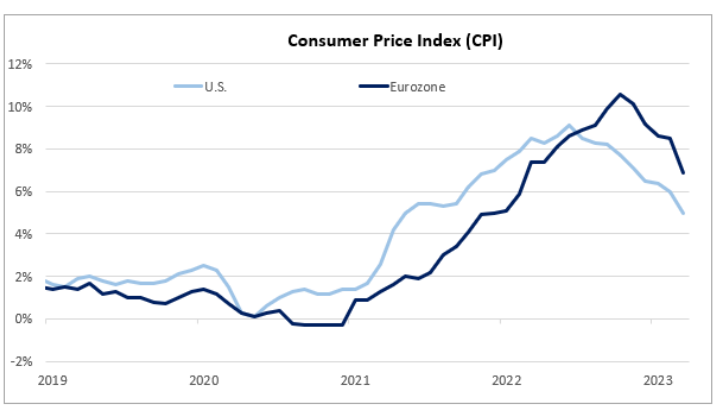
Bloomberg



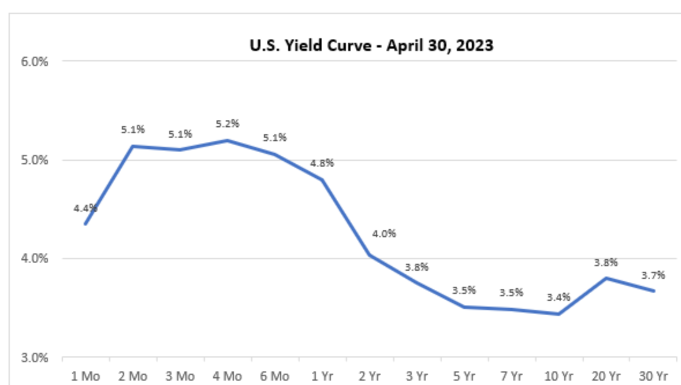
U.S. Bureau of Labor Statistics



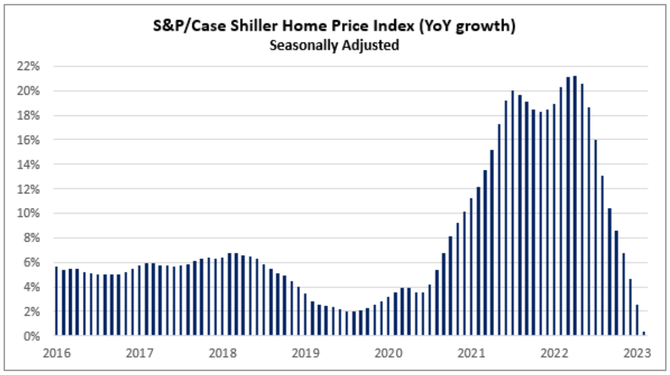
Bloomberg



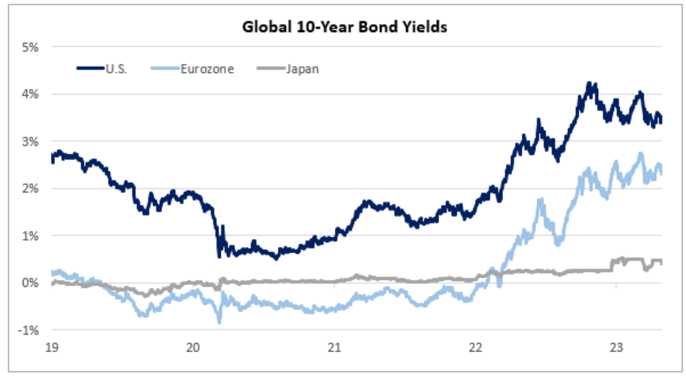
S&P / Case Shiller



Bloomberg



Bloomberg



Bloomberg

Disclaimer

This commentary was authored by the investment team 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 MOVE Index measures U.S. interest rate volatility. The index tracks the movement in U.S. Treasury yield volatility implied by current prices of 1-month OTC options. The Cboe Volatility Index (VIX) is a real-time index that represents the market's expectations for the relative strength of near-term price changes of the S&P 500 Index. 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. Economic and market forecasts presented herein reflect our judgment as of the date of this presentation and are subject to change without notice. These forecasts are subject to high levels of uncertainty that may affect actual performance. Accordingly, these forecasts should be viewed as merely representative of a broad range of possible outcomes. These forecasts are estimated, based on assumptions, and are subject to significant revision and may change materially as economic and market conditions change. These forecasts do not take into account the specific investment objectives, restrictions, tax and financial situation or other needs of any specific client.