SUMMIT FINANCIAL

Investment Newsletter

February 2022

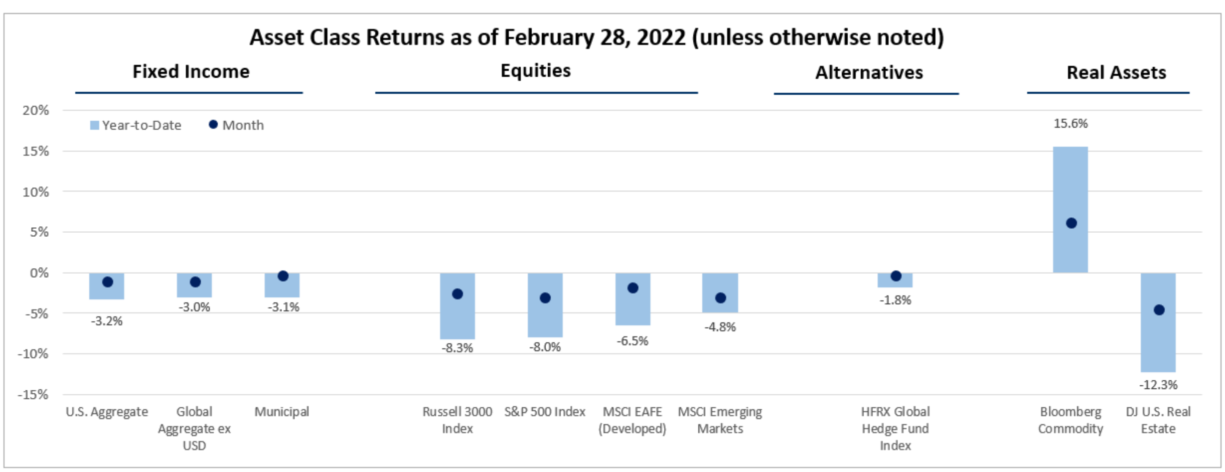
Headlines regarding future Federal Reserve (Fed) policy action and the ensuing path of the pandemic temporarily faded into the background as the escalation of tension in Ukraine quickly stole the world's attention. Russia's decision to invade Ukraine is heartbreaking and represented a dramatic departure from how many experts expected the situation to evolve. Russia's actions and Putin's unpredictability will have long-lasting implications on the balance of power in Europe and the world. Additionally, recent events paired with the implications of the pandemic could further shift the world towards fragmentation, interrupting a multi-decade trend of globalization.

In economic terms, the size of both the Russian and Ukrainian economies is relatively small – accounting for around 1% of global GDP. While it's impossible to predict the full implications of Russia's actions, what's perhaps more apparent is the effect on energy and commodity markets. Russia and Ukraine were collectively significant exporters of important commodities including crude oil, natural gas, metals, and wheat. This is especially true for Europe, which imports a significant amount of its energy supplies from Russia. Brent crude oil futures rocketed past $100 per barrel for the first time since 2014 and European natural gas prices rose by double-digits over the month with little signs of stopping. Higher commodity prices present a new challenge in central banks' fight against inflation coming out of the pandemic.

Outside of the Russia/Ukraine conflict, growth has been robust in many developed areas of the world as the economy recovered from an Omicron-induced lull. The labor market remained a strong suit with wages rising for many employees. Strong wage increases have also fueled healthy consumer spending helping support GDP growth. Although elevated consumer spending has been supportive for growth, higher wages and further supply-chain disruptions also had the adverse impact of fueling hotter than desired inflation. Central banks have been keen to take action to combat higher prices. While consensus expectations had the Fed raising rates six times by the end of 2022, the ensuing Russian military conflict and its impact on global growth could take some pressure off the Fed and other major central banks to raise rates as quickly as expected.

February proved to be a challenging month for risk assets. At its start, markets started to more aggressively price in multiple rate hikes by global central banks. Around mid-month, the focus quickly shifted to the conflict in Ukraine and a bearish sentiment more fully took hold. Investors shed risk from their portfolios resulting in declining equity markets, widening credit spreads, and receding sovereign bond yields. Within equities, higher earnings paired with negative price performance have brought down valuations, although this reflects the current geopolitical environment. Lower starting valuations could present a higher upside case were the current crisis to de-escalate while also providing central banks more latitude to normalize rates to fend off inflation. Most bond markets generated modest losses but still offered diversified portfolios some stability relative to equities. Municipal yields rose for much of the month but then retraced after the news of the Russian invasion broke. After a record period of fund inflows, municipals have had several consecutive weeks of redemptions. Despite recent outflows, the fundamental landscape for municipals remains supportive and the asset class should continue to offer investors stability during the current bout of volatility.

The swift recovery of risk assets since the start of the pandemic has made markets susceptible to a wide variety of risk factors. Although the catalyst is rarely what's anticipated, we again find ourselves in a period of elevated volatility. We had long been advising that it was a better time to be cautious rather than aggressive and maintain that belief today, at least in the short term. Higher levels of uncertainty in the near term should perpetuate volatility but ultimately, a new equilibrium will be reached. As the Ukraine Crisis unfolds and valuations reset, there will likely be select opportunities to take advantage of others' fear. As a result, we encourage investors to maintain a focus on long-term goals while attempting to selectively take advantage of compelling investment opportunities as they arise.



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

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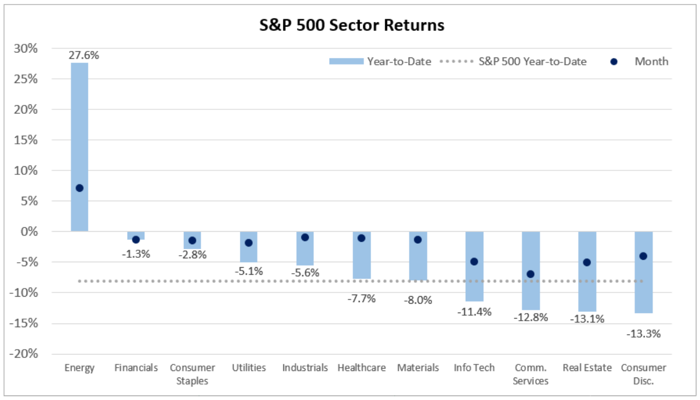

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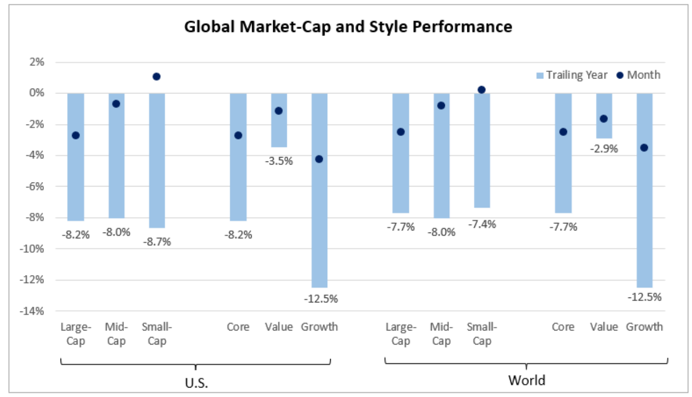

Bloomberg; U.S. indices from Russell and world indices from MSCI

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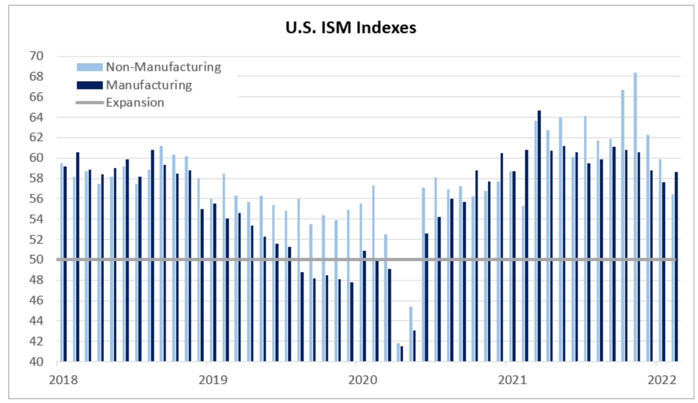

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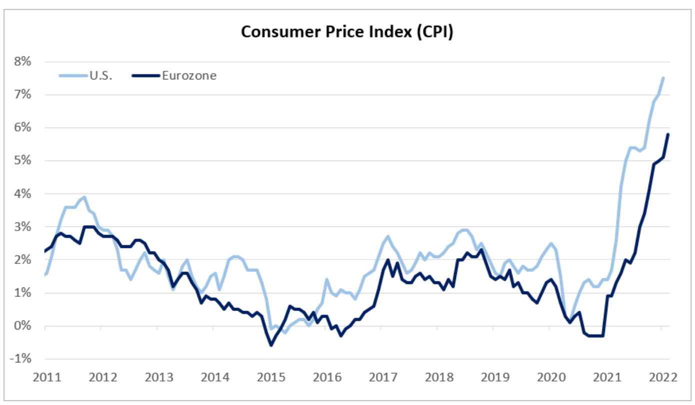
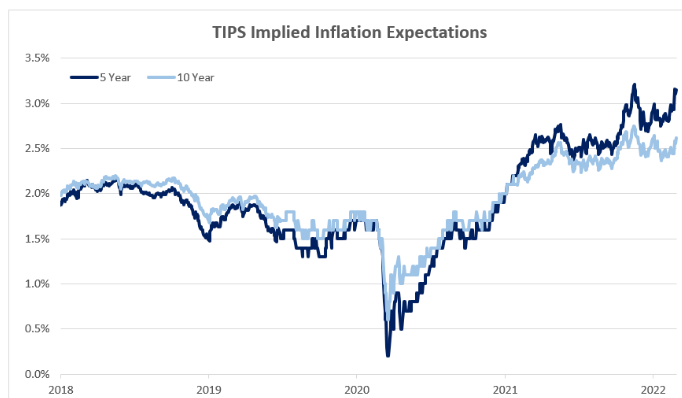


U.S. Bureau of Labor Statistics



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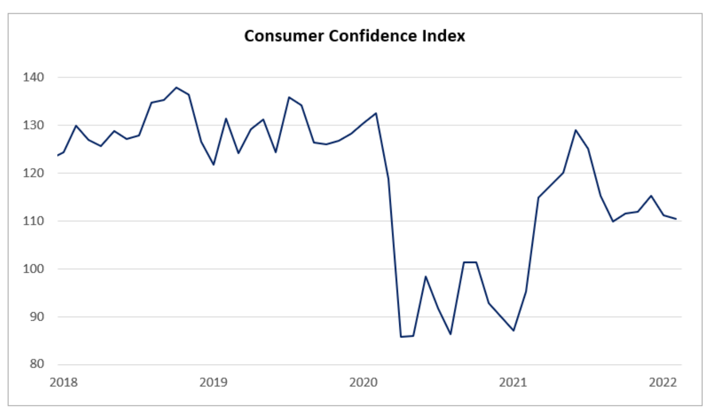
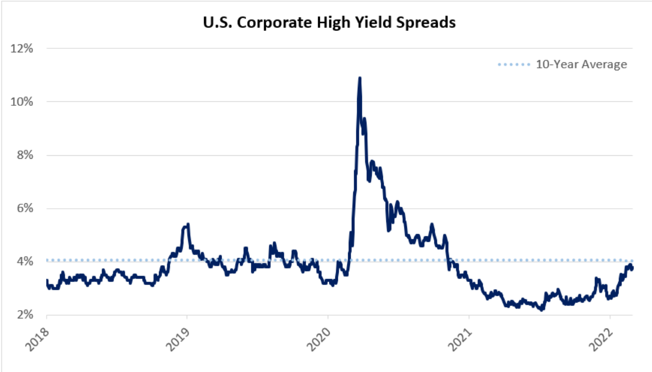
S&P / Case Shiller



Conference Board



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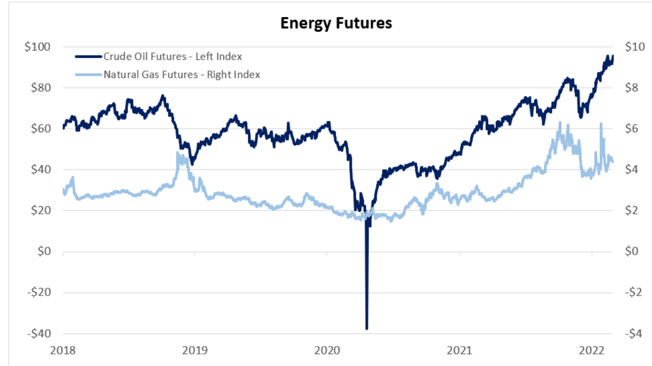

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This commentary was written by Craig Amico, CFA®, CIPM®, Associate Director of Investment Management, Noreen Brown, CFA®, Chief Wealth Strategist and Steven Melnick, CFA®, Associate Director of Investment Management at Summit Financial, LLC., an SEC 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 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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