SUMMIT FINANCIAL

Summit Snapshot: Week of March 28th, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	1.6%	1.7%	1.7%	0.2%	-5.0%	-9.5%	0.2%	-5.0%	-9.5%
U.S. Mid-Cap	1.5%	1.0%	-0.2%	-1.3%	-5.6%	-13.3%	-1.3%	-5.6%	-13.3%
U.S. Small-Cap	0.7%	-0.4%	-1.5%	-1.4%	-7.2%	-13.0%	-1.4%	-7.2%	-13.0%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	1.8%	-4.3%	-4.3%
NASDAQ Composite	2.0%	-9.3%	-9.3%
International Developed	0.2%	-7.1%	-7.1%
Emerging Markets	0.2%	-8.4%	-8.4%
U.S. Aggregate Bond	-1.8%	-6.9%	-6.9%
U.S. Municipals	-1.4%	-6.2%	-6.2%
Corporate High Yield	-0.6%	-5.7%	-5.7%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- Major U.S. equity indices ended mostly higher as the S&P 500 Index reached its highest level since February 10th despite the ongoing developments in the Russia-Ukraine war and hawkish comments made by Federal Reserve Chair Jerome Powell last Monday.
- Large-cap stocks easily beat small-caps last week, and value mostly led growth as seen in the performance matrix above. Year-to-date the large-cap value segment eked into positive territory, albeit slightly.
- Within the S&P 500 Index, all sectors aside from health care increased led by energy, materials, and utilities given the continued rise in broad commodity prices. Apple and Tesla rose by 6.5% and 11.6% respectively last week in the land of mega-cap names. Tesla's stock price rose for eight consecutive days through Thursday although fell back Friday. The run put the company's market cap above $1 trillion again.
- According to Bloomberg, the S&P 500 had gained one-third of one percent in the last hour of trading for five consecutive days, which is the longest streak in two decades.

International Equity Markets

- International equities were mixed based on country or region, while broad developed and emerging equity indices both managed to produce small positive gains according to their MSCI indices.
- European stocks mostly declined amid the sustained geopolitical tensions and potential for expedited monetary policy tightening. Several western nations also agreed to extend sanctions on Russian institutions, companies, and individuals as well as provide more military support to Ukraine.
- Japanese stocks rose last week, boosted by expectations of further economic stimuli and a reassurance the Bank of Japan will maintain ultra-accommodative policies for the foreseeable future.
- Chinese stocks fell as the fate of some dual-listed Chinese companies hurt sentiment. Such companies were search engine Baidu, e-commerce platforms Alibaba and JD.com, and social media firm Weibo.

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

- U.S. Treasury yields continued to climb higher following last week's Federal Open Market Committee rate hike, with the 10-year yield hitting a two-year high of 2.47%.
- Two-year Treasury yields surged to levels last seen in May 2019, and the 30-year rate shifted up to 2.62%, more than 18 basis points higher from last week's close.
- Citigroup and Bank of America economists both publicly declared their expectations for the Fed to raise short-term interest rates by around 275 bps in 2022 until the Fed's target policy rate is reached in 2023. Citi estimated a target range to reach by next year of 3.5-3.75% while BofA called for 3.0-3.25%.
- Corporate credit spreads tightened by around seven bps. Investment-grade funds recorded $209 million inflows to offset the $3.1 billion outflows from the week prior. High-yield corporate funds' outflows continued with another $2.7 billion offloaded last week.
- Municipal yields continued to move sharply higher by 18-23 bps as Treasury movement, hawkish Fed comments, and forced selling from outflows contributed to the weakness.
- Outflows persisted as municipal bond funds lost $1.5 billion for the week following $2.1 billion of outflows last week. The iShares National Muni Bond ETF (ticker MUB) saw its largest one-day outflow in history on Tuesday losing $275 million.

U.S. Economic Data/News

- On Monday, Fed Chair Powell reiterated his stance that the central bank reserves the right to deliver rate increases of larger than 25 basis points at future meetings if the bank deems them necessary to control inflation. This hawkish comment was largely responsible for the weekly rise in Treasury yields.
- Durable goods orders fell 2.2% in February, the first decline in five months and more than expected. Also, February's pending home sales fell 4.1%, sharply contrasting expectations for roughly a 1% gain.
- In a positive spin, IHS Markit's gauge of manufacturing activity rose more than expected and reached its highest level since September 2020. Additionally, weekly jobless claims tallied in at 187,000 for the week ended March 19th. It was the lowest level reported since 1969, spanning more than 52 years.
- Released on Friday morning, the University of Michigan's consumer sentiment survey came in at 59.4 in March, which was lower than February's reading of 62.8. Americans' one-year inflation expectations hit their highest level since 1981, as readings showed an increase in prices of 5.4%.

International Economic Data/News

- In unified efforts directly tied to sanctions put forth in Russia, the U.S. agreed to supply the European Union with an additional 15 billion cubic meters of liquified natural gas this year.
- Given the recent turmoil, the S&P Global composite purchasing managers' index fell to 54.5 from 55.5 in February reflective of slowing Eurozone business activity in March. Input costs and prices rose on soaring commodity prices and new supply chain constraints due to the altered conditions in Ukraine.
- Tokyo's core consumer price index rose 0.8% in March as compared to one year ago. However, bank of Japan Governor Haruhiko Kuroda said it's too early for the central bank to change its dovish stance but is aware that conditions may change swiftly given the rise in energy costs.
- Whether anything will materialize in the feared delisting of U.S.-listed Chinese companies remains uncertain while U.S. supervision continues to meet with Chinese regulators. In early March, the Securities and Exchange Commission named a few Chinese companies that could be delisted under the Holding Foreign Companies Accountable Act. This law requires the SEC to delist stocks of companies if regulators cannot review their audits for three consecutive years.
- The Russian stock market opened Thursday for the first time since Russia invaded Ukraine in late February. There were many restrictions in place in efforts to prevent a massive selloff like what took place on February 24th. Foreigners were unable to sell stocks, and traders were restricted from short selling.

Odds and Ends

- The market volatility experienced thus far this year has provided an opening for some opportunistic investors to take advantage of what they consider undervalued investments. The most actively traded ETF this year is ProShares UltraPro QQQ (ticker TQQQ) according to FactSet data which analyzed the average daily traded volume. The fund's assets have surged by 58% over the past year to around $18 billion despite some fluctuation this year given lackluster performance. The fund is designed to provide a return that is three times the magnitude of the Nasdaq-100 Index which has resulted in around a -31% return this year compared to around a -9% for the index. Three of the 10 most actively traded exchange-traded products use leverage in some fashion which magnifies the investment's return when compared to a tracking index. The products can be some of the most dangerous, intended to be used as short-term trading tools rather than long-term strategic investments.
- The Russian invasion of Ukraine has caused surges in commodity prices globally, and most recently the cost of renewable energy projects including wind and solar power. Projects to build more environmentally friendly sources of energy have been forced to suffer through supply-chain bottlenecks throughout the pandemic, and now face soaring input prices for key materials including aluminum and steel. Additionally, the high oil prices and elevated inflation increased transportation costs related to these projects because there is no economical workaround to move giant wind turbine blades around the world. Some of these projects face a roughly two-year waiting period to be fulfilled as companies work through a backlog of requests.
- President Biden will propose a new minimum tax on households worth more than $100 million as part of his annual budget. The intent is to ensure the very wealthiest Americans pay at least 20% in tax on their income and rising asset values each year. The proposal would impact less than 20,000 households nationwide and would generate around $360 billion in revenue for the government over 10 years according to data released by the White House. The Biden Administration thinks the founders of the large technology giants, Amazon.com, Apple, and Meta Platforms would be most affected. The latest plan would essentially create a new tax structure that would collect taxes on rising asset values even before those assets are liquidated. If enacted, the measure would likely face an uphill battle of legal challenges under the 16th Amendment.

Resource of the week:

- As alternative investments' popularity skyrockets amongst investors globally, the asset class leaves a lot to be learned by knowledgeable participants. This episode of *Manager Meetings with Capital Allocators* features a conversation between Greg Dowling and Chris Heller. Greg is the Co-CIO and Head of Research for Fund Evaluation Group, an institutional OCIO and investment consultant with $83 billion in assets under advisement. Chris is Co-Founder and Co-Managing Partner at Cordillera Investment Partners, a $1.2 billion alternative investment fund that invests in niche, non-correlated assets like aged whiskey, boat marinas, spectrum, and water rights. The conversation spans Chris's background, the evolution of alternative assets, sourcing new opportunities, conducting due diligence, portfolio construction, and much more. Have a listen to hear from an experienced investor.
- **Podcast link**: https://capitalallocators.com/podcast/weird-alternatives-at-cordillera-investment-partners/

Sources: The WSJ, T. Rowe Price Global Markets Weekly Update

DISCLAIMER

This commentary was written by Craig Amico, CFA®, CIPM®, Associate Director, Noreen Brown, CFA®, Chief Wealth Strategist and Steven Melnick, CFA®, Associate Director 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.