

Summit Snapshot: Week of April 11th, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	0.1%	-1.5%	-3.1%	-0.1%	-6.2%	-11.6%	-0.1%	-6.2%	-11.6%
U.S. Mid-Cap	-1.0%	-1.8%	-3.3%	-2.3%	-6.9%	-15.0%	-2.3%	-6.9%	-15.0%
U.S. Small-Cap	-4.1%	-4.6%	-5.1%	-5.6%	-10.9%	-16.1%	-5.6%	-10.9%	-16.1%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-1.2%	-5.5%	-5.5%
NASDAQ Composite	-3.8%	-12.2%	-12.2%
International Developed	-1.4%	-7.7%	-7.7%
Emerging Markets	-1.5%	-8.1%	-8.1%
U.S. Aggregate Bond	-1.8%	-7.9%	-7.9%
U.S. Municipals	-0.8%	-7.0%	-7.0%
Corporate High Yield	-1.3%	-6.3%	-6.3%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- U.S. equity indices were mostly lower throughout the week despite a wide dispersion within sectors. The Federal Reserve's likely future actions to combat elevated inflation along with the situation in Ukraine weighed on investors' sentiment.
- Within the S&P 500 Index, more defensive health care, consumer staples, and energy sectors outperformed after each rose by a few percent. On the contrary, the communication services, consumer discretionary, and technology sectors had meaningful declines. Notably, all FAANG+M stocks declined a few percent. Meta Platforms led the group of mega-caps after it only fell by 1%.
- On last Monday it was announced the world's richest person and CEO of Tesla, Elon Musk, had recently purchased a 9.2% stake in Twitter stock which sent the social media company's stock soaring. It was then announced he would have a seat on Twitter's board of directors although the situation continues to evolve. It's not yet known what his intentions are for these moves but his use of the platform in the past has not appeased regulators including the SEC.
- Although nearly all segments of the size and style matrix were negative, large-cap stocks outperformed small-caps and value modestly led growth.

International Equity Markets

- Both developed and emerging international equities declined last week in USD terms.
- European stocks represented by the MSCI Europe Index fell by nearly 0.7% in USD terms amid concerns about central bank tightening, inflation, and the Russian/Ukraine situation.
- Japanese equities also fell for similar reasons as in Europe and faced a headwind created by weakness in China. The yen depreciated to 124 ¥/\$ which is the weakest level versus the dollar in about seven years.
- Chinese stocks pulled back, compounded by the coronavirus-induced lockdown in Shanghai which has been in effect since March 28th to stop any further spread. An estimated 23 Chinese cities are under

some level of lockdown which likely affects 193 million people and 13.5% of China's economic activity.

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

- The U.S. Treasury yield curve continued its shift higher last week, led by the intermediate part of the curve. The 10-year yield level started the week at 2.385% and closed around 2.710%, hitting the highest level since 2019. This led to a steep decline in Treasury bonds' prices.
- After last week's inversion, the 2-year and 10-year spread re-steepened to 20 basis points, with 5s30s hovering around -1 basis point.
- Corporate investment-grade spreads were flat week-over-week. Investment-grade funds also recorded another \$1.7 billion of outflows to piggyback on the \$2.5 billion from the week prior. However, high yield funds tallied in with \$295 million of inflows albeit less than the \$1.2 billion from the week before.
- Primary issuance of corporate bonds last week met the top end of dealers' expectations. New issue concessions were higher, and an interest book hovered above average at 3.1 times.
- Municipal yields continued to rise 12 to 15 basis points across the curve, as increased hawkish Fed comments and expectations of a more aggressive quantitative tightening drove rates higher.
- Municipal fund outflows continued for the 8th consecutive week losing \$3.2 billion, the 5th largest on record.
- Muni totals out for bid remain elevated reaching \$2 billion on Wednesday, the highest since March 2020.

U.S. Economic Data/News

- On the Federal Open Market Committee front, Wednesday's release of the March committee meeting minutes pointed towards a balance sheet reduction of about \$95 billion per month. Fed Governor Lael Brainard stated the reduction could begin as early as May. Soon after Federal Reserve Bank of Kansas City President Esther George said it's without question the Fed must act quickly to mitigate any further unwanted effects from inflation.
- Aside from the balance sheet reduction, the meeting minutes were mainly in line with expectations, as many members see a more aggressive 50 basis point hike as appropriate. This hike is expected to be implemented in the upcoming May meeting. Pricing this in, futures markets predicted the federal funds' target rate to reach between 2.50% to 2.75% by the end of the year.
- This week's economic data show initial jobless claims decreased by 5,000 to 166,000 in the week ended April 2nd. This marks the lowest level in 54 years amid a very tight labor market.
- The Institute for Supply Management's (ISM) gauge of service sector activity came in slightly below consensus expectations at 58.3 in March but was still indicative of robust expansion.

International Economic Data/News

- The European Union imposed more sanctions on Russia. Proposals included banning imports of Russian coal and machinery exports while targeting the assets of Russian oligarchs including President Vladimir Putin's two adult daughters.
- Minutes from the ECB's March meeting indicated policymakers were split on future actions. Some called for tapering the central bank's asset purchase program by summer and that interest rate increases were warranted. However, others preferred to proceed more slowly given the uncertain outcome the situation in Ukraine has created.
- Bank of Japan (BoJ) Governor Haruhiko Kuroda commented that the weaker yen versus the U.S. dollar is a positive for economic growth since it boosts the value of domestic companies' overseas earnings. However, it also inflates the costs of imports in tandem with higher energy and commodity prices. The BoJ is sticking with its monetary easing philosophy in pursuit of maintaining its 2% inflation target.
- The International Monetary Fund downgraded Japan's 2022 economic growth projection from 3.3% to 2.4% year-over-year based on higher input costs and uncertainty stemming from Ukraine.
- In China, the Caixin Services Purchasing Managers' Index fell from a reading of 50.2 in February to 42 in

March, its lowest since early 2020 and reflective of the recent outbreak. Some investors believe the People's Bank of China will reduce the reserve requirement ratio to combat recent weak economic data.

Odds and Ends

- As AT&T completed the spinoff of its film and TV division into a new public company called Warner Bros. Discovery, it is shifting its business model given the shifting environment. CEO John Stankey warned that inflation could prompt the wireless and broadband company to raise prices for some core services. Costs have increased globally but the average rate cell carriers charge for their services has not changed. If the economy were to falter, Stankey stated his company would outperform others since consumers largely treat cellphone services as essential, opting to cut other discretionary expenses first. That said, AT&T still owns a high amount of debt, picky customers, and stiff competition industrywide.
- Inflation effects rippled through the economy in nearly every industry in some fashion. At the start of the year, the average 30-year mortgage rate was around 3.0%. Incredibly, today it is north of 4.7% according to Freddie Mac which translates to vastly higher borrowing costs for Americans looking to buy a home with a mortgage. To add context as to how expensive mortgage payments were in January, a median American household needed 34.2% of its gross income to cover mortgage payments on a median-priced home according to the Federal Reserve Bank of Atlanta. Consensus expectations indicate any company considering issuing debt in the near term will likely do so sooner than later given the forecast for the imminent 50 basis points Fed funds rate increase in May.
- Airline carriers are bracing for a high-demand summer, aiming to avoid a repeat of last year in which limited staffing and reduced numbers of flights resulted in many delays and long service queues. In addition, the war in Ukraine has resulted in a spike in oil and commodity prices, increasing retail prices for the flights that remain. American Airlines announced intentions to hire about 180 pilots per month this year and is preparing for supply chain bottlenecks to appropriately handle the widely expected increased demand for travel. According to data from Cirium, U.S. airlines are planning to fill around 16% more seats this summer than last, proof that demand is increasing. The only factor airlines cannot control or prepare for is the weather, which often alters flight schedules.

Resource of the week:

- This episode of Bloomberg's *Masters in Business* features an interesting, in-depth conversation between host Barry Ritholtz and Samara Cohen who is the chief investment officer of ETF and index investments at BlackRock. Cohen oversees about \$6 trillion of BlackRock's iShares ETFs and Index Funds globally, which goes without saying as being a very important role in a globally defining firm. She discusses the early stages of her career, how she transgressed over nearly 30 years of experience into her critical role today at BlackRock, and the future of index-oriented investing. Have a listen to hear more from an industry veteran.
- **Podcast link:** <https://www.bloomberg.com/news/audio/2022-03-30/samara-cohen-on-managing-etfs-podcast>

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.