SUMMIT FINANCIAL

Investment Newsletter

April 2022

Developments that manifested during the first quarter persisted into April as capital markets experienced widespread pullbacks. Investors yearned for some type of solace within markets, but that did not come to fruition last month given the various global events that continue to rattle economies. The war in Ukraine, draconian lockdowns in China to oppose the recent local uptick in COVID-19 cases, and the probability of substantially tighter U.S. monetary policy all weighed on sentiment. Market volatility has remained elevated when compared to pre-pandemic levels and several areas along the yield curve briefly inverted, typically thought of as a forecast for a recession.

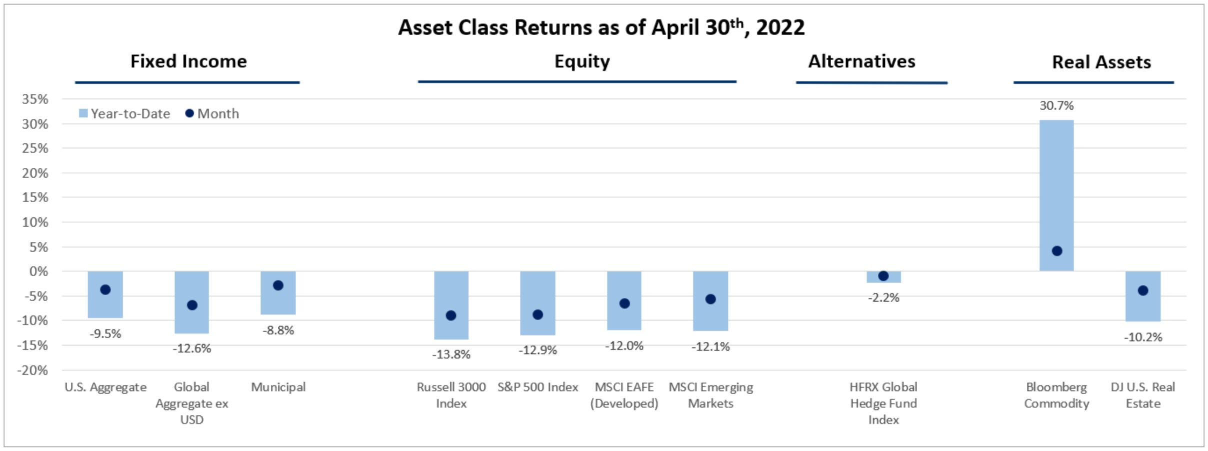
With headline inflation in the U.S. hovering around 8.5%, its highest level since 1981, several members of the Federal Reserve's Board of Governors recently declared their desire to take rates back to neutral as quickly as possible. After the initial 25 basis points Fed Funds rate increase in March, the central bank raised rates an additional 50 basis points in early May, the first hike of this magnitude in two decades. Fed Chairman Jerome Powell hinted a few more large increases are feasible, which have been priced into the market, along with shrinking the Fed’s balance sheet at a “considerably more rapid pace” than in the past. He hopes that higher borrowing costs will slow spending enough to tame inflation yet not so much as to cause a recession, coined a "soft landing" by many economists. Additionally, the strong labor market may serve to support the financial tightening actions from the Fed. In April, the unemployment rate remained at 3.6% as the U.S. added 428,000 jobs marking the twelfth straight month of reporting a net increase in new jobs.

Bond yields were higher responding to the Fed's actions and from upward pressure from inflation. Ten-year Treasury yields increased to 2.9% through April and have since breached 3.0% as of this writing. Two-year yields also rose in April, although to a lesser extent than the ten-year returning the 2s–10s maturity segment to a positive slope at month-end from an inverted position of -8 basis points on April 1st. All fixed income sectors decreased and credit spreads widened due to investors' increased risk aversion, redemptions from fixed income, and impacts from the potentially quick removal of monetary policy. The heightened market volatility has caused industry-wide outflows to persist as $47 billion of net redemptions were reported this year from investment-grade corporate funds, of which $13 billion occurred last month. Within credit spreads, high-yield corporate bond spreads widened the most, climbing more than 50 basis points during the month.

Equity markets were overcome with volatility as the S&P 500 Index fell by 8.7%, cementing the worst four-month start of a year since 1939. Company earnings were largely in-line or beat expectations, but some mega-cap companies that missed (Netflix, Google) added to some wild day-to-day swings. The normally defensive consumer staples sector produced the lone positive return while technology, consumer discretionary, and communication services plummeted by more than 10%. Markets outside of the U.S. were not spared from pain either as both international developed and emerging markets fell more than 5% in U.S Dollar terms. Shanghai spent all of April in full lockdown which further dampened sentiment and roiled local markets. Valuations on Chinese stocks relative to developed markets now stand at levels last seen in 2015.

Asset classes less correlated to stocks and bonds were mixed. Oil prices have come off of recent highs, but supply constraints may still outweigh demand loss from the Chinese lockdowns. Commodities' prices rose as heightened demand continued given the conflict in Europe. Mortgage rates have skyrocketed to start the year and showed no signs of slowing down in April as the average 30-year fixed-rate mortgage rate ended the month around 5.4%, shockingly 200 basis points higher than at the start of the year. Residential home prices took a breather last month slightly falling, as economists suggest further declines are possible given the increased inability for people to afford homes at relatively higher mortgage rates.

These periods of elevated volatility are rarely fun but often lead to better investment opportunities throughout and rewarding outcomes on the other end. As markets continue to oscillate, we recommend that investors stay focused on long-term goals and ensure portfolio allocations remain near target levels assuming all short-term liquidity needs are satisfied.



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

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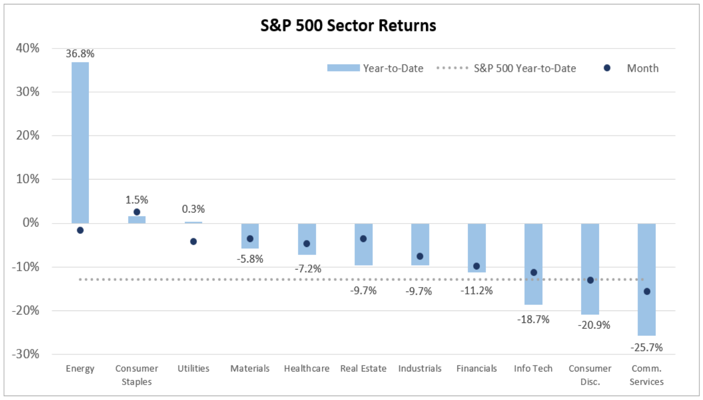

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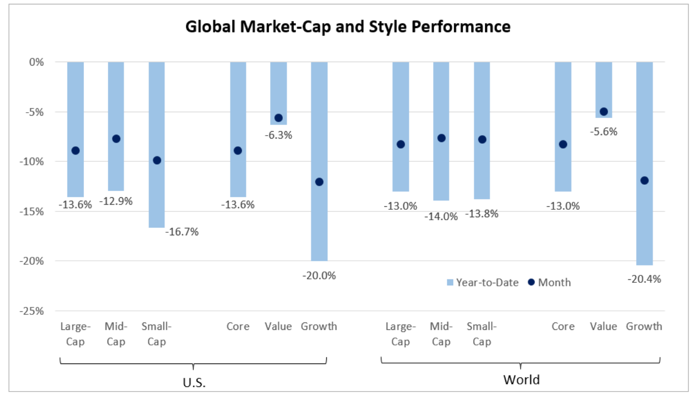

Bloomberg; U.S. indices from Russell and world indices from MSCI

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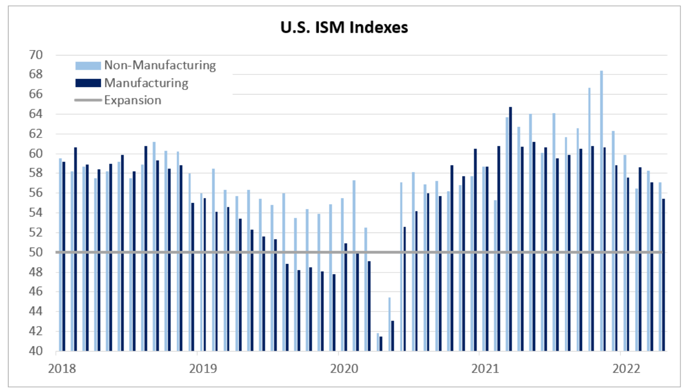

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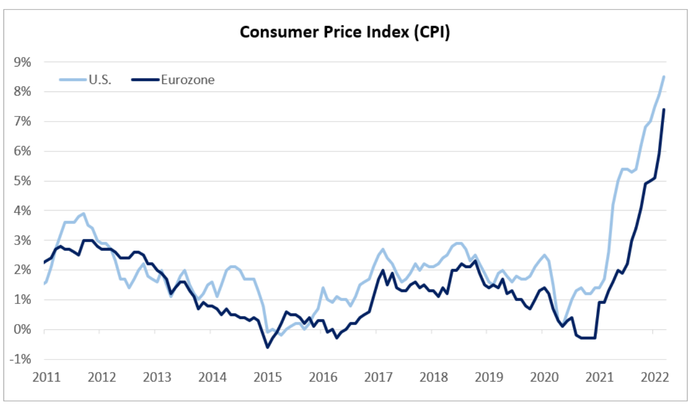
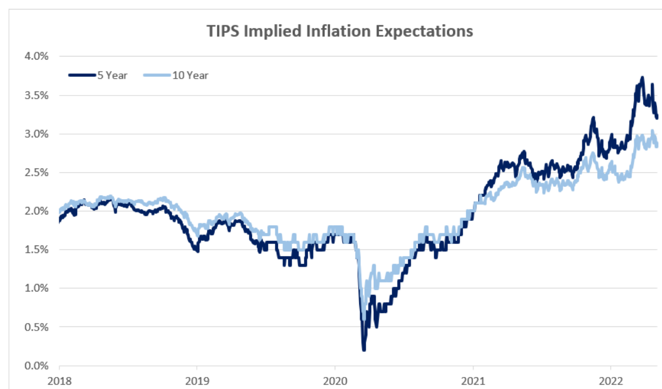


U.S. Bureau of Labor Statistics



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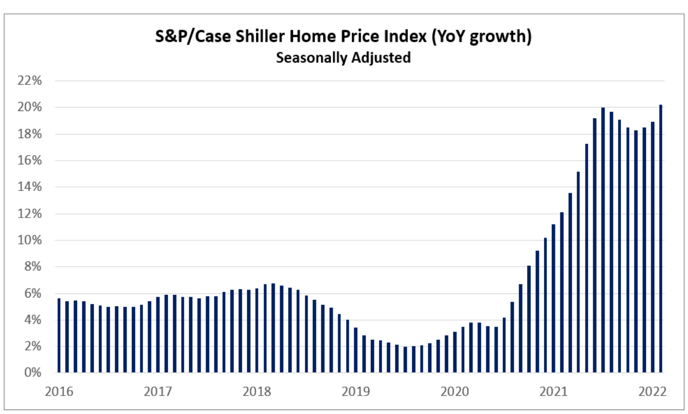
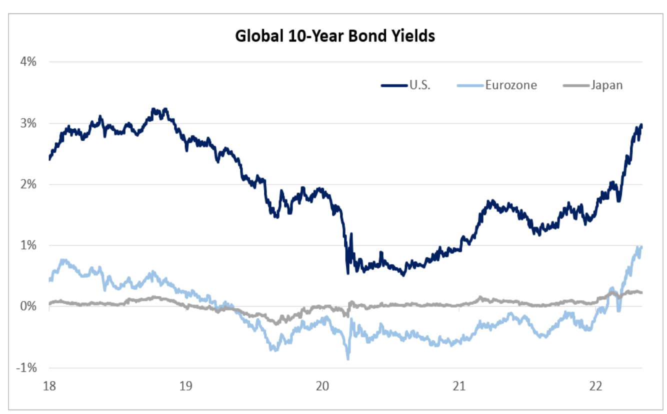


S&P / Case Shiller



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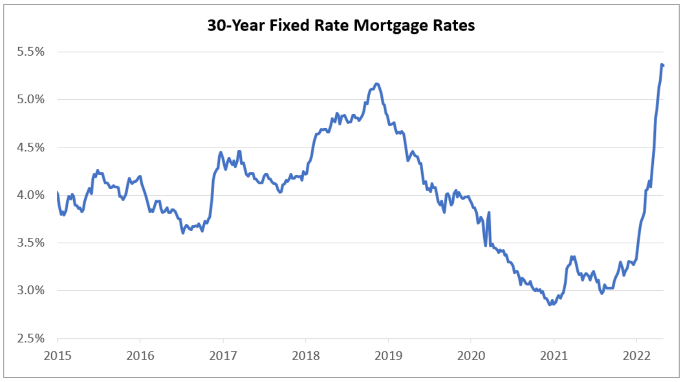

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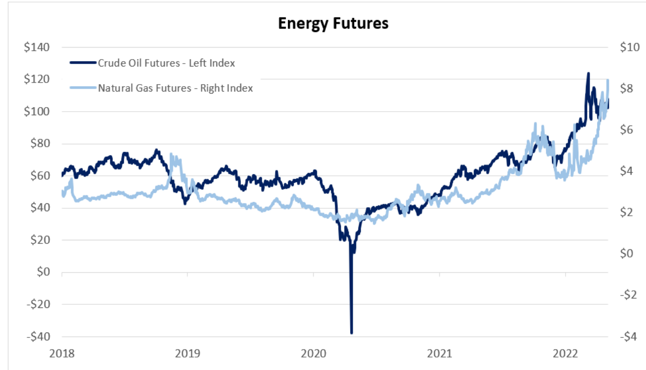

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This commentary was written by Craig Amico, CFA®, CIPM®, Associate Director of Investment Management, Noreen Brown, CFA®, Chief Wealth Strategist and Steven Melnick, CFA®, Associate Director of Investment Management at Summit Financial, LLC., an SEC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