SUMMIT FINANCIAL

Summit Snapshot: Week of May 31st, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	6.0%	6.6%	7.3%	-3.0%	-8.4%	-13.6%	-3.7%	-13.1%	-21.4%
U.S. Mid-Cap	6.5%	6.5%	6.5%	-3.2%	-6.5%	-13.3%	-5.0%	-11.8%	-24.2%
U.S. Small-Cap	6.9%	6.5%	6.0%	-5.0%	-8.6%	-12.6%	-7.3%	-15.5%	-23.7%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	6.6%	-8.0%	-12.2%
NASDAQ Composite	6.9%	-14.6%	-22.2%
International Developed	3.5%	-5.9%	-11.4%
Emerging Markets	0.9%	-8.2%	-14.6%
U.S. Aggregate Bond	0.8%	-2.7%	-8.5%
U.S. Municipals	2.9%	-1.5%	-7.6%
Corporate High Yield	3.3%	-3.4%	-8.1%

Source: Morningstar, see ‘Disclaimer’ for details

U.S. Equity Markets

- U.S. stocks broke their seven-week losing streak, posting sizeable gains. Every sector in the S&P 500 Index rose last week.
- Within the S&P 500 Index, many of the top-performing sectors were the most beaten down year-to-date. Top performers included IT and consumer discretionary. Energy and financials also had substantial gains. More defensive areas of the market, including healthcare and utilities, were positive but lagged broad index gains.
- Gains across portions of the market were broad-based but growth segments outperformed value areas (except in small-cap value) while small- and large-cap leadership was mixed.
- Nearly all segments of the market remain down double-digits year-to-date, although last week’s rally could be a positive indicator of inflation pressures peaking and sentiment inflecting.

International Equity Markets

- Both developed and emerging non-U.S. equities had positive results last week, although developed international equities had stronger gains – rising 3.5% in U.S. Dollar (USD) terms.
- European equities rallied last week reflecting that inflation might be peaking which could take some of the pressure from central banks to raise rates as aggressively going forward.
- Japanese stocks were also positive, although weaker than anticipated economic data dampened a potentially larger rally.
- Chinese equities were a notable laggard as concerns over slowing growth stemming from the zero-tolerance COVID-19 policy has continued to weigh on sentiment.

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Credit Markets

- 10-year U.S. Treasury yields ticked down over the week, ending the period at 2.74%. Lower Treasury yields seemed to reflect signs that the economy was slowing, and that the Fed could potentially slow the pace of rate hikes in the future.
- Investment-grade corporate spreads tightened as investors increased their risk appetite last week. The U.S. Aggregate Bond Index rose nearly a percent, softening losses from earlier in the year.
- A risk-on sentiment meaningfully bolstered high yield performance, with the asset class rising over 3%. Demand for high yield bonds was strong across various subsectors.
- Municipal bonds rallied over the week as compelling valuations brought in investors from the sidelines. Falling yields paired with favorable supply/demand dynamics heading into the holiday weekend likely also supported the market.

U.S. Economic Data/News

- The recent Federal Reserve (Fed) minutes from the Federal Open Market Committee (FOMC) were in line with expectations. All members voted in support of 0.50% rate increases over the next several meetings to bring the policy rate to neutral levels without overly restricting economic growth.
- Several key economic indicators have shown signs of softening recently. Early Purchasing Managers' Indexes (PMIs) that reflect around 85% of survey responses retreated from last month's levels in both the manufacturing and services portions of the economy. Notably, they still remain in expansionary territory.
- There are some early signs that inflation could have peaked. Nondefense capital goods orders, excluding aircraft, increased 0.3% in April, a slowdown from the 1.1% increase recorded in March. The personal core expenditures price index (PCE) rose modestly in April, but the year-over-year pace of increase is moderating.

International Economic Data/News

- European Central Bank (ECB) president, Christine Lagarde offered hawkish statements last week confirming an early fade of their bond buying program and paving the way for a rate hike in Q3.
- European economic data showed more strength than expected bolstered by strong demand for services from households. Input costs for the manufacturing sector also fell for the second month in a row.
- Japan's economy has been flashing signs of slower growth recently after manufacturing slowed and concerns over a spillover effect from China's coronavirus surge could further limit sentiment.
- China has been slowly easing lockdowns, although prior restrictive measures are likely to leave a meaningful mark on the local economy. Further easing to dampen the blow from lockdowns is likely in the future.

Odds and Ends

- It isn't the office that workers heading into the city despise. It's the commute. The COVID-19 pandemic led to a surge in remote work, emptying office towers as more people worked from home. Cities with longer commutes have taken the biggest economic hit, while urban areas where people live closer to work have a higher return-to-office rate, according to The Wall Street Journal's analysis of U.S. Census Bureau data and building-access company Kastle Systems. In a Gallup survey last summer, 52% of those who want to work remotely listed avoiding commuting time as a top reason they don't want to go to the office. Other common reasons, like well-being and flexibility, are also closely tied to the commute.
- Lumber prices have come crashing down in a new sign of how rising interest rates are deflating markets that boomed during the pandemic. Wood prices were a leading indicator of the supply-chain problems and inflation that followed pandemic lockdowns. Prices shot up in the summer of 2020 as cooped-up

Americans remodeled and demand for suburban houses soared. By last spring, lumber cost more than twice the pre-pandemic high. Now, two-by-four prices are flashing caution. Lumber futures for July delivery ended Friday at $695.10 per thousand board feet, down 52% from a high in early March.

- Unilever said it would add Nelson Peltz to its board and disclosed his fund now holds a 1.5% stake, moves that ratchet up pressure on the maker of Dove soap and Hellmann's mayonnaise to reinvigorate growth across its vast portfolio. Unilever said the company had held "extensive and constructive discussions" with Peltz and that he believed the investor's experience in the consumer goods sector would prove valuable. Unilever has been under pressure to buoy sales growth in recent quarters, with the company's share price drifting lower so far this year.

Resource of the week:

- Ray Dalio is a global macro-investor and author. Ray joins the *Armchair Expert*, Dax Shepard, to discuss how the world's economy is driven by debt, how investors can study history to try to predict financial outcomes, and how new world orders can shape the rules for the rest of humanity. Ray and Dax talk about what equal opportunity looks like, how education is affecting the future of the economy, and how compromise is the key to creating a system that works for everyone. Ray explains the different types of wars, how ideologies now rule in the public space, and how meditation has helped him with painful experiences in his life.
- **Podcast link**: https://armchairexpertpod.com/pods/ray-dalio

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.

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