Summit Snapshot: Week of June 21st, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-6.6%	-5.9%	-5.1%	-14.6%	-19.1%	-23.4%	-15.2%	-23.2%	-30.3%
U.S. Mid-Cap	-7.9%	-7.4%	-6.4%	-16.4%	-18.9%	-23.8%	-17.9%	-23.5%	-33.4%
U.S. Small-Cap	-7.9%	-7.4%	-6.9%	-16.1%	-19.3%	-22.8%	-18.1%	-25.4%	-32.6%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-5.7%	-18.6%	-22.3%
NASDAQ Composite	-4.8%	-23.9%	-30.7%
International Developed	-5.7%	-15.6%	-20.6%
Emerging Markets	-4.7%	-11.4%	-17.6%
U.S. Aggregate Bond	-0.9%	-5.9%	-11.5%
U.S. Municipals	-2.0%	-4.1%	-10.1%
Corporate High Yield	-2.9%	-8.7%	-13.1%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- Renewed recessionary-founded fears and the largest interest rate increase in nearly 30 years resulted in a sharp decline in U.S. stocks last week. It also equated to the largest single-week drop in the S&P 500 Index since March 2020 in the midst of the pandemic.
- The once sizzling cryptocurrency market in 2021 has been challenged as of late. On late Sunday June 12th, crypto platform Celsius Network LLC announced it was suspending all withdrawals, swaps, and transfers between accounts due to extreme market conditions. This caused panic and a plummet in crypto assets' prices including bitcoin to below $18,000 as of this writing. Then last Tuesday, Coinbase Global, the largest crypto exchange in the U.S., announced company layoffs totaling around 18% of its workforce.
- All sectors of the S&P 500 were lower. Energy, utilities, and materials were the leading laggard sectors, lower by 17%, 9%, and 8% respectively week over week. Shockingly, every member of the S&P 500 was in negative territory at one point this year which has not happened since 1996 according to T. Rowe Price.
- Large-cap stocks led small-caps while growth beat value, but once again no segment of the broad market was immune to the downturn.

International Equity Markets

- International stocks also tumbled reinforcing investors' concerns that there is nowhere to hide from the current market turmoil. Emerging market stocks slightly led developed markets in U.S. Dollar terms.
- European and Japanese equities fell on concerns that economic growth may stall after several central banks announced interest rate increases. The Bank of Japan's unwavering commitment to maintain ultralow rates did not seem to calm local Japanese markets.
- Chinese equities advanced in the local currency after the thought an increase in fixed asset investments could boost the economy. The blue-chip CSI 300 Index rose 1.4% to its highest level in three months.

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

- Treasury-bills and the front end of the year curve saw the biggest moves on the week, as one-year T-bills moved over 35 basis points higher to around a 2.83% yield.
- The 10-year Treasury yield had a wild ride after it rose from 3.05% to 3.50% before Wednesday's FOMC announcement. It since fell back and only rose seven basis points to finish the week around 3.23%.
- The yield curve remains flat and even inverted comparing the 3/5 years and 10 years' levels, suggesting a strong bias to an upcoming recessionary environment.
- Corporate investment-grade spreads widened considerably last week, around 10 basis points.
- Both corporate investment grade and high-yield funds recorded substantial outflows of $8.7 and $5.7 billion respectively, reflective of the risk-off sentiment.
- Municipal yields were around 30bps higher across the curve through Tuesday and remained unchanged for the remainder of the week resulting in the worst municipal bond weekly performance since April 2020.
- Heading into what is normally a seasonably strong period for municipals driven by increased maturities and lighter supply, fund outflows and Treasury volatility continue to weigh on returns. Investors remained skittish pulling $5.6 billion from municipal funds, the 3rd largest on record.

U.S. Economic Data/News

- Following last Friday's surprising May inflation report, rumors circulated that the Federal Reserve was considering raising rates by 75 basis points at the conclusion of their Federal Open Market Committee meeting on Wednesday. Solidifying rumors, the Fed did raise the federal funds rate by 75bps to a target range of 1.50% - 1.75% marking the highest single interest rate increase since 1994. Stocks initially rallied supported by Fed Chair Jerome Powell's convincing statements to support economic growth. However, they since underwent large pullbacks on Thursday as the reality of inflation sank in with investors.
- The housing sector hinted of trouble. In May, building permits fell 7% to their lowest level since last September while housing starts dropped by 14.4%. A surprise contraction in mid-Atlantic factory activity mirrored a weaker-than-expected reading from the New York region.
- The average 30-year fixed rate mortgage interest rate rose to 5.78% on Thursday according to Freddie Mac, its highest level in more than 13 years. The recent rise of around 55bps in one week represents the largest weekly increase since 1987. The spike in mortgage rates may impact home prices which have so far remained resilient when compared to other market sectors.
- Retail sales data in May was disappointing. Overall sales fell 0.3% after being dragged down by depressed levels of auto purchases. Excluding autos and gasoline, sales only rose 0.1% which confirmed consumers were spending less in real terms given the recent elevated inflation.

International Economic Data/News

- Some European central banks raised their interest rates. The Swiss National Bank unexpectedly raised rates by a half percent to -0.25%, the first time in 15 years. The Bank of England (BoE) raised its key interest rate by a quarter percent to 1.25%. The BoE also forecasted a higher change in consumer prices in October, slightly above 11%, reflective of higher household energy costs.
- Japanese imports surged 48.9% in the year through May according to the Ministry of Finance. This easily beat out the 15.8% rise in exports over the same period indicative of soaring commodity prices and a historically weak yen.
- Chinese industrial production slightly rose year over year in May despite expectations for a small contraction. Retail sales fell less than expected as the latest draconian restrictions were somewhat eased, targeting localized lockdowns instead. However, China's unemployment rate in 31 cities rose to record high of 6.9% showing signs of labor market weakness.
- Australian wage inflation triggered a spike in government bond yields. The yield on Australia's three-year government bond rose more than 50 basis points and reached a 10-year high during the week.

Odds and Ends

- On Saturday, the Centers for Disease Control and Prevention approved both the two-dose Moderna COVID-19 vaccine, or the similar three-dose series produced by Pfizer and BioNTech SE for use in children aged 6 months and older. This age group has been the last to be approved for a vaccination following last month's approval for children aged 5-11 years old and the adults' approval in December 2020. Federal authorities have begun shipping vials to health departments and pharmacies which are expected to be available for use imminently. The approval by the CDC followed the Food and Drug Administration's authorization of the shots on Friday.
- The international governing body of soccer, FIFA, announced the 16 cities where the 2026 World Cup will be played across the United States, Mexico, and Canada. In all 11 U.S. cities that were selected, games will be played in NFL stadiums much to the delight of NFL team owners who view the World Cup games as very lucrative. The cities include Atlanta, Boston, Dallas, Houston, Los Angeles, Kansas City, Miami, New York, Philadelphia, San Francisco, and Seattle. There are also three cities in Mexico that were selected and two in Canada. The focus for these cities will now return to jockeying for the final championship match which has not been decided yet.
- As global warming reduces the amount of year-round ice in the arctic regions, some companies view the environmental effects as an opportunity to flourish. Three Alaskan, Finnish, and Japanese companies joined forced, including the Russian government as well, in an effort to improve digital infrastructure by installing an undersea cable throughout the Arctic. Essentially this cable would aim to significantly expedite the time it takes to transmit data worldwide. Because of less Arctic ice and longer accessibility to the ocean, these companies plan to build a cable that connects the Atlantic with the Pacific Ocean, slated to begin survey work in the summer of 2023. The proposed Far North Fiber route is expected to be operational in 2026 and consist of roughly 8,700 miles of undersea cables.

Resource of the week:

- After a tough start in 2022 due to rising rates, AllianceBernstein Municipal Portfolio Manager Daryl Clements discusses his municipal bond outlook for the remainder of the year. Daryl joined AB in 2002, is a tenured member of the Tax-Exempt Fixed Income Investment Policy Group and is a listed PM on the popular High-Quality Municipal Bond Strategy. Despite the recent volatility he maintains an optimistic viewpoint for municipal bonds because of two main reasons. These include their ability to be resilient in stressed environments and because the sell-off has not been fundamentally driven, rather more based on interest rates. Have a listen to hear more from this industry veteran.
- **Podcast link**: https://www.bernstein.com/our-insights/podcasts/the-pulse/what-bond-investors-should-expect-during-the-balance-of-2022.html

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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