Summit Snapshot: Week of July 25th, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	2.3%	2.7%	3.1%	3.1%	4.9%	6.7%	-10.1%	-17.1%	-23.3%
U.S. Mid-Cap	3.2%	3.7%	4.6%	4.3%	5.3%	7.2%	-12.6%	-17.4%	-26.1%
U.S. Small-Cap	3.4%	3.6%	3.8%	5.1%	5.8%	6.6%	-13.1%	-19.0%	-24.8%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	2.6%	4.7%	-16.2%
NASDAQ Composite	3.3%	7.3%	-24.0%
International Developed	4.4%	2.8%	-17.3%
Emerging Markets	3.0%	-0.6%	-18.2%
U.S. Aggregate Bond	1.2%	1.8%	-8.7%
U.S. Municipals	0.2%	1.7%	-7.4%
Corporate High Yield	2.5%	4.3%	-10.5%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- U.S. equities rose last week, mostly pushed higher on Tuesday. Investors welcomed signs of a slowing economy and fading inflationary pressures.
- The Monthly Fund Manager Survey released by Bank of America last week highlighted that global funds' aggregate cash positions have reached their highest levels since 2001 while their equity exposure was the lowest since the Global Financial Crisis. The survey indicated its Bull/Bear indicator was at "max bearish" levels suggesting a market turnaround may be around the corner.
- Within the S&P 500 Index, most sectors were higher led by consumer discretionary which rose nearly 7% given strong performance from Amazon.com and Tesla. Industrials and materials also outperformed while the typically defensive sectors of health care and utilities lagged.
- Small-cap stocks beat large-caps and growth marginally led value last week. These two instances helped to shrink the performance gap between market-caps and styles for the year.

International Equity Markets

- International developed and emerging non-U.S. equities were higher last week, despite varied actions and messages delivered from central banks around the world.
- European stocks rose even though reports of disappointing economic data were released, and the European Central Bank raised interest rates for the first time in 11 years.
- Japanese stocks were sharply higher as the Bank of Japan maintained its ultra-loose monetary policy diverging from many other central banks' tightening efforts. The yen slightly strengthened versus the U.S. Dollar but remains near its 24-year lows given the dominance of the Dollar globally.
- Chinese equities were mixed after Li Keqiang, Premier of the People's Republic of China, reduced expectations of additional stimuli and showed interest in revisiting China's annual growth target.

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

- Yields on U.S. Treasuries dropped to sessions lows and the dollar fell following a string of weaker than expected economic data. As of Friday, Treasuries extended the rally with 10-year bonds down 0.08% to 2.79% and around 0.14% lower on the week.
- The focus will be on next week's Federal Open Market Committee rate decision, along with several other key economic indicators. Officials have signaled that the central bank is likely to hike rates by 75 basis points at its July 26th-27th meeting.
- Corporate investment grade spreads were slightly tighter last week. Investment grade and high yield funds' trend of outflows continued, as an additional $3.3 billion and $885 million respectively was redeemed.
- New corporate issuance surpassed expectations last week as around $45 billion was submitted, more than the $25-$30 billion forecasted. Since investors will be looking ahead to next week's FOMC decision on Wednesday, new issuance may be frontloaded at the beginning of the week.
- Municipal yields moved lower on Friday after being flat for most of the week as Treasuries rallied on weak economic data. Municipal bond funds saw outflows of $699 million for the week ended Wednesday.
- The front end of the municipal yield curve continues to be very expensive with yields 46%-65% of Treasury inside of 5-years. The intermediate portion of the curve has garnished the most attention with more attractive levels of 70%-85% of Treasuries.

U.S. Economic Data/News

- Through last week, around a fifth of companies in the S&P 500 have reported second-quarter earnings. Netflix that said it lost nearly a million subscribers last quarter, albeit less than expected. The streaming giant also anticipates attracting back subscribers later this year. So far, around 70% of companies have topped second-quarter earnings estimates and 26% have missed projections according to FactSet.
- Business activity fell sharply in July as represented by the U.S. Composite Purchasing Managers Index released by S&P Global. The index fell to 47.5 and reflected a sharp decline from last month when the rate of expansion was 52.3 (below 50 is indicative of a contraction). Readings are based on survey data from manufacturing and services' businesses and are considered a barometer for U.S. growth expectations.
- Initial weekly jobless claims totaled 251,000 for the week ended July 16th, up 7,000 from the week prior, and hit their highest level since mid-November. Continuing unemployment claims which are lagged by an additional week increased to 1.384 million, the highest since mid-April. These may be initial signs the extremely tight labor market has begun to cool.
- Despite the stock-market rout and rising interest rates in the first half of the year, wealthy people increased the amount of loan borrowing they undertook. The wealth-management divisions of wirehouse giants Morgan Stanley and Bank of America posted double-digit loan growth in the second quarter. The increase is attributed to clients taking out mortgages and loans backed by stocks and bonds according to executives.

International Economic Data/News

- As mentioned above, the European Central Bank raised interest rates by a larger-than-expected 0.50% and outlined a new debt-purchasing plan targeting the most vulnerable European economies. The rate increase set the ECB's key interest rate at 0%, ending the eight-year duration in negative rate territory. For the last few weeks, ECB President Christine Lagarde hinted the central bank would only gradually raise rates when necessary, starting with a quarter-percentage increase this month.
- The Bank of Japan lowered its economic growth forecast to 2.4% in the 2022 fiscal year. It also increased its expectation for higher inflation to 2.3% from 1.9% declared in April. Inflation in Japan remains much lower compared to other developed economies as the island nation maintains a loose monetary policy regime.
- The People's Bank of China kept interest rates unchanged as expected. The one-year loan prime rate is 3.70% while the five-year rate sits at 4.45%.
- London-based multinational financial services company HSBC became the first foreign bank to set up a Chinese Communist Party committee in its banking subsidiary in China. Other global banks could follow suit.

Odds and Ends

- Consumers feeling the inflation pinch on tobacco and alcohol have migrated to cheaper brands in efforts to save money. In a survey released by the National Retail Federation, nearly half of consumers said that because of rising prices on daily goods, they opted to switch to cheaper alternatives. In the four weeks through July 2nd, retail-store sales of economy beer increased by 5.4% from the same period last year according to data collected by Nielsen. Brands with the largest increase in sales include Busch Light, Icehouse, and Milwaukee's Best Ice. By comparison, economy beer sales in retail stores fell by 10.9% in 2021. Similarly, sales of the market-leading cigarette brand Marlboro have declined as discount manufacturer Liggett Vector Brands gains market share. Consumers are much more price-conscious now than in the past which is reflected in sales figures.
- Gold is on pace for its fourth consecutive month of price declines. It has fallen about 5.5% so far this year compared to the 16% drop in the S&P 500. As inflation keeps rising, government bond yields keep increasing along with the dominant hold the U.S. Dollar has on currencies. These two factors have decreased demand for gold and is reflected in its price. Prices are off about 15% from near-record levels set in March when geopolitical uncertainty, sticky inflation and the market volatility led investors to seek safe-haven assets.
- On Friday, Walt Disney Co. started streaming R-rated movies on its bellwether streaming service Disney+. The company is very focused on catering more to adults than in the past, expanding its market share of adult-themed entertainment. Disney+ will now carry at least three R-rated superhero movies "Deadpool", "Deadpool 2", and "Logan" which were acquired in the 2019 acquisition of most of 21st Century Fox's entertainment assets. Disney quoted that nearly half of all Disney+ subscribers are adults without children.

Resource of the week:

- This episode of *Business Breakdowns* reviews the global financial institution known as Charles Schwab. The firm reports over $8 trillion in assets under management and a market-cap scratching $120 billion. However, the most fascinating part about this breakdown may be the strategic pivot taken by Schwab. Today the company makes the majority of their money earning interest on customer cash deposits. This discussion between host Patrick O'Shaughnessy and Holland Advisors Founder and Portfolio Manager Andrew Hollingworth is worth the listen as Andrew has written extensively on Schwab in the past. They cover what it means to operate as a bank versus an online broker, how Charles Schwab himself grew this business out of a newsletter, and what's on the horizon for Schwab in the future. Please enjoy this breakdown of a financial conglomerate.
- **Podcast link**: https://www.joincolossus.com/episodes/31064864/hollingworth-charles-schwab-the-8-trillion-dollar-gorilla?tab=transcript

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.