

## Summit Snapshot: Week of August 8<sup>th</sup>, 2022

### Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-0.2%	0.7%	1.5%	6.4%	10.0%	13.7%	-7.3%	-13.0%	-18.2%
U.S. Mid-Cap	-0.2%	0.7%	2.4%	8.3%	10.6%	14.9%	-9.2%	-13.2%	-20.7%
U.S. Small-Cap	0.9%	2.0%	3.0%	10.7%	12.6%	14.5%	-8.4%	-13.8%	-19.2%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	0.4%	9.6%	-12.2%
NASDAQ Composite	2.2%	14.8%	-18.7%
International Developed	-0.6%	4.3%	-16.1%
Emerging Markets	1.0%	0.7%	-17.0%
U.S. Aggregate Bond	-1.0%	1.4%	-9.1%
U.S. Municipals	-0.1%	2.5%	-6.7%
Corporate High Yield	0.7%	6.6%	-8.5%

Source: Morningstar, see 'Disclaimer' for details

### U.S. Equity Markets

- U.S. stocks were mixed last week following the release of a stronger-than-expected jobs report which resurfaced concerns that the Federal Reserve may need to maintain an aggressive stance to stifle inflation.
- Indices that finished with gains include the Nasdaq Composite, Russell 2000, and S&P 500, likely supported by above-consensus corporate earnings results. Meanwhile the Dow Jones Industrial Average and S&P MidCap 400 finished in negative territory.
- Ride-hailing giants Uber and Lyft both reported positive news as their stock prices spiked. Uber's revenue more-than-doubled last quarter while Lyft said its staff of drivers has increased as people look to offset higher household costs. Walmart announced layoffs in hundreds of corporate roles as it struggles with declining profits and price markdowns. Other companies that recently announced meaningful layoffs include Ford, Microsoft, and Facebook parent company Meta Platforms.
- Within the S&P 500, sectors were also mixed. Technology and communication services were positive to reduce some of their losses for the year. Energy lagged following a drop in crude oil prices.
- Growth stocks beat their value counterparts while small-cap stocks easily led large-caps last week.

### International Equity Markets

- International equities varied based on the region. Developed non-U.S. stocks marginally declined while emerging market stocks were nearly 1% higher in U.S. Dollar terms according to their MSCI indices.
- European stocks weakened as expectations mounted that aggressive future rate hikes are on the table.
- Japanese equities rose last week in local terms supported by some positive corporate earnings reports. Not all was rosy though as heightened tensions between the U.S. and China suppressed sentiment.
- Chinese stocks were mostly muted despite the heightened geopolitical tensions. U.S. House Speaker Nancy Pelosi's recent trip to Taiwan angered China and sparked some live-fire drills in the surrounding water.

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

- Following the surprise July jobs report announcement, interest rates moved 7-8 basis points higher led by the short end of the curve steepening the yield curve inversion.
- As of Friday afternoon, the yield on the 2-year note was 3.25%, up from last week's close of 2.89%. Similarly, 10-year Treasuries were trading around 2.83%, up from 2.65% on the week.
- The Fed's benchmark rate and policy decisions remain highly dependent on the employment landscape. As of today, a stronger chance of a 0.75% rate hike is priced in as the likely outcome for the September Federal Open Market Committee meeting.
- Corporate investment grade spreads were marginally tighter on the week. Investment grade funds recorded \$1.2 billion of inflows versus the \$2.4 billion of outflows the week prior. Following the highest weekly inflow since 2020, high yield corporate funds saw another \$2.9 billion of added capital.
- Massive amounts of corporate bonds primary issuance came to market last week, totaling around \$56 billion versus dealers' estimates near \$25-\$30 billion.
- Municipal yields finished the week up to eight basis points higher inside 7-years and were unchanged greater than 10-years after a steady start from August reinvestment was met with weakness as a strong jobs number drove Treasury rates higher.
- The outperformance of municipals versus Treasuries moved relative value ratios lower across the curve.
- Municipals saw \$1.1 billion of inflows for the week ended Wednesday, up from \$236 million the week prior.

## **U.S. Economic Data/News**

- Friday's jobs report released by the Labor Department showed that 528,000 nonfarm jobs were added in July, more than double consensus estimates near 250,000. Nonfarm employment has returned to its pre-pandemic level as the unemployment rate fell to 3.5% from 3.6%. Job gains were broadly spread across leisure, hospitality, business services, and health care sectors.
- Initial jobless claims edged up to 260,000 compared to the week prior, which was in line with projections.
- Data collected by the Institute for Supply Management (ISM) indicated an unexpected surge in service sector growth. However, the manufacturing sector growth reading fell to its lowest level since June 2020.
- An increase in exports of energy products sharply narrowed the U.S. trade deficit in June to its lowest level in six months. The trade gap shrank 6.2% to \$79.6 billion according to the Commerce Department, lower from May's revised deficit of \$84.9 billion. Besides the increase in energy exports, imports fell as American purchases of food and autos has meaningfully declined given higher prices.

## **International Economic Data/News**

- The Bank of England raised its target interest rate by 0.50% to 1.75%, the largest rate hike since 1995. The central bank also predicted the U.K. economy will fall into a five-quarter recession later this year – similar to the duration as the Global Financial Crisis but the bank doesn't expect it to be nearly as severe.
- The count of unemployed Eurozone people slightly rose by 25,000 to just under 11 million for the first time in 14 months. However, because of the small size, the jobless rate remained at a record low of 6.6%.
- In Japan, a government panel approved a record hike in the average minimum wage for all workers for the fiscal year 2022. The central bank's goal to strike a balance between wage and price increases leading to an improvement in people's living standards remains lofty.
- Aside from the Chinese tensions ignited by Nancy Pelosi's trip to Taiwan, China's economic news was murky. The manufacturing purchasing managers' index (PMI) fell into contraction territory to 49.0 in July from 50.2 in June. Non-manufacturing business activity fell to 53.8 from 54.7. New home prices and sales volume fell in July according to research firm China Index Academy as a new movement has started amongst homebuyers to stop paying mortgages on unfinished projects.
- According to the Institute of International Finance gauging foreign investors, Chinese debt outflows totaled about \$3 billion last month compared to \$6 billion which exited other emerging markets. Chinese equity outflows reported about \$3.5 billion in July compared to \$2.5 of inflows into other emerging markets.

## Odds and Ends

- Omaha, Nebraska based conglomerate company Berkshire Hathaway posted a meaningful earnings slide in the second quarter given the impact of the market volatility on its stock portfolio. The holding company that owns subsidiaries including Dairy Queen, Fruit of the Loom, GEICO, and Brooks Sports apparel reported a loss of \$43.8 billion last quarter compared to a gain of \$28.1 billion a year ago. Chief Executive Warren Buffett said he prefers to look at operating earnings to gauge performance since accounting rules require his firm to include investment unrealized gains and losses when reporting net income. When markets fall, it can be impactful to Berkshire's bottom line even if the underlying businesses are doing well.
- Chancellor Kathaleen McCormick is a 42-year-old, most famously known as the judge who will decide whether Elon Musk must buy Twitter after the trial concludes later this year. Historically, she has a reputation of quickly deciding urgent cases over controversial corporate deals such as the one Musk is involved in. Her initial decision ruled against Musk whose lawyers asked for seven months to prepare for a trial. McCormick denied this request, citing that Twitter deserved a quicker resolution and set the trial for mid-October. She assigned the Twitter case to herself and coincidentally is in the middle of another multibillion-dollar lawsuit with Musk the focal point involving Tesla.
- On late Sunday, the Senate voted 51-50 using a tiebreaker vote from Vice President Kamala Harris to send the Inflation Reduction Act to a final vote at the House of Representatives scheduled for Friday. The bill pledges to spend around \$740 billion focused in affecting climate, healthcare, prescription-drug, and tax policies. It also includes a 15% minimum corporate tax while a proposed tax increase on private equity managers' carried-interest income was dropped. It has not without controversy since Republicans claim it will do nothing to address decades-high inflation and may even exacerbate the situation. Over the weekend, several voters called for various amendments before it was finally approved.

## Resource of the week:

- Sarah Samuels is the Head of Investment Manager Research at NEPC where she oversees teams across public equities, credit, hedge funds, and private markets for the \$1.5 trillion investment advisory juggernaut. Prior to joining NEPC three years ago, Sarah worked at the senior level of both a top-notch endowment and a public pension fund. She sought to bring the best of both worlds to her role at NEPC. This conversation between host Ted Seides and Sarah touches on her early career investing, time in the allocator seat at Mass PRIM and Wellesley College, and her decision to join NEPC. They discuss her key investment themes, investment framework blending qualitative and quantitative analysis, second-level thinking, CIO mindset, alignment of interest, private equity allocations, and investment committees. Have a listen to hear more good insight from an experienced industry professional.
- **Podcast link:** <https://capitalallocators.com/podcast/framework-and-rigor-at-nepc/>

Sources: The WSJ, T. Rowe Price Global Markets Weekly Update

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This commentary was written by Craig Amico, CFA®, CIPM®, Associate Director of Investment Management, Noreen Brown, CFA®, Deputy Chief Investment Officer 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 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.