

Vardhan Views: Week of May 16th, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-1.8%	-2.4%	-2.9%	-6.8%	-11.5%	-16.0%	-7.5%	-16.0%	-23.6%
U.S. Mid-Cap	-1.9%	-2.0%	-2.1%	-7.5%	-10.4%	-16.4%	-9.2%	-15.5%	-26.9%
U.S. Small-Cap	-2.8%	-2.5%	-2.1%	-10.5%	-13.3%	-16.4%	-12.6%	-19.8%	-27.0%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-2.4%	-11.0%	-15.1%
NASDAQ Composite	-2.8%	-16.9%	-24.3%
International Developed	-1.4%	-10.4%	-15.7%
Emerging Markets	-2.6%	-11.8%	-18.0%
U.S. Aggregate Bond	0.9%	-4.0%	-9.7%
U.S. Municipals	-0.7%	-4.2%	-10.1%
Corporate High Yield	-1.2%	-5.9%	-10.4%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- U.S. equities had another challenging week despite the rally last Friday. The S&P 500 Index finished the period off another 2.4%, bringing the year-to-date decline to over 15%. This was the benchmark's sixth consecutive weekly decline.
- Selling reflected increasing skepticism at the Federal Reserve's (Fed) ability to execute a soft landing whereby they can tame inflation while not stifling growth.
- The Cboe Volatility Index (VIX) remained elevated and didn't reach its recent high from earlier in May.
- Within the S&P 500 Index, more defensive portions of the market, such as consumer staples and healthcare, were relative outperformers. Cyclical and higher growth areas of the market generally lagged.
- Nearly all segments of the market fell but growth shares lagged value stocks (except in small-caps) and small-caps underperformed large-caps (except in growth).

International Equity Markets

- Developed and emerging non-U.S. equities both fell last week with emerging markets declining more than 2.5%. Year-to-date, developed international equities have fallen roughly the same amount as the S&P 500 Index while the emerging markets index is off closer to 20%.
- European equities rose in local terms but fell modestly in U.S. dollar (USD) terms. Despite still being negative, European stocks made a dramatic recovery from losses earlier in the week.
- Japanese equities fell just over 2% in USD terms and closer to 3% in local terms as the yen strengthened against the dollar.
- Chinese stocks fell last week but to a lesser magnitude than other major markets. Stocks were supported by a fall in coronavirus cases and encouraging comments from local financial regulators.

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

- Amidst a rough week for equity markets, the U.S. Treasury yield curve was choppy with yields drifting lower for the first time since early April.
- The 2-year yield was mostly unchanged on the week at 2.60%, whereas the 30-year fell to ~2.9%, with the 2s30s spread flatter at 0.49%.
- Corporate spreads widened modestly over the week. Investment grade (IG) and high yield funds had mixed flows. IG funds had over \$8 billion of outflows while high yield funds reported modest (~\$170mm) inflows.
- Pent-up supply should start to affect secondary trading. For the third week in a row, new issuance has missed dealer's forecast as companies continue to stand down from issuing new debt. The backdrop of uncertainty and volatility has kept companies on the sidelines.
- Municipals underperformed Treasuries last week as continued selling from fund redemptions drove yields higher.
- Last Wednesday, muni bonds out for bids surged to \$2.5 billion, a high for the year and the most since March 2020.
- The yield on the 10-year muni at 2.88% has reached the highest level since 2014 and is currently at the cheapest level relative to treasuries (98%) since November 2020.
- Muni funds saw \$2.4 billion in outflows for the week ended Wednesday, marking the 13th consecutive week of outflows.

U.S. Economic Data/News

- While the widely watched April inflation figure moderated relative to last month, it came in higher than expected at an 8.3% year over year increase which brought down sentiment. March's record figure was also revised higher.
- Another blow to inflation data came when consumer prices for services rose 0.7% last month, suggesting that inflationary pressures are broadening out within the economy beyond just manufacturing, energy, etc. Airline fares also increased at a record rate of 18.6% over the month.
- High and rising inflation data is further eroding consumer sentiment. The preliminary survey of consumer confidence fell to its lowest level in 13 years, well below consensus estimates.
- In response to inflation data, Fed Chair Jerome Powell reaffirmed that the central bank is likely to raise interest rates by 0.50% at the next two meetings.

International Economic Data/News

- The ECB has been slowly changing its tune on monetary tightening following the undeniable trend in inflation data. ECB President, Christine Lagarde, recently said that their bond-buying program could end as early as Q3 of this year and rate increases might be only a few weeks behind that.
- The Bank of Japan (BoJ) has been an outlier in standing committed to easy monetary policy. According to the BoJ governor, much of the price pressures has come from transitory factors including higher energy costs and are unlikely to lead to structurally high inflation.
- Both Finland and Sweden are set to apply for membership to NATO, marking a dramatic shift from both nations shunning military alliances in the past.
- Russia imposed fresh sanctions on EU energy companies in retaliation for similar actions by the other side in addition to cutting off gas shipments to the Yamal pipeline which runs through Poland to Germany. Natural gas prices are near their highest level since 2008.
- The China Securities Regulatory Commission announced its intent to increase the participation of institutional investors in the country's stock markets and expand the investible universe of the exchange link with Hong Kong.

Odds and Ends

- JetBlue is going hostile in its attempts to take over budget carrier, Spirit Airlines. This comes as Spirit recently rejected JetBlue's \$3.6 billion offer in favor of an existing deal with Frontier Airlines. JetBlue is appealing to Spirit's shareholders by launching a tender offer for their shares, in hopes of pressuring Spirit's management to re-engage in negotiations. At the same time, JetBlue said it is urging Spirit shareholders to vote against Spirit's planned merger with Frontier on June 10th to send a message to the Spirit board. JetBlue is offering \$30 a share in cash in its tender offer but would be open to paying its initial offer price of \$33 a share if Spirit comes to the negotiating table and provides data that JetBlue has requested.
- Marking the end of an era, McDonald's has finally thrown in the towel on its Russian stores after around 30 years of operating in the country. McDonald's isn't alone as a slew of western companies have exited operations in Russia as the conflict in Ukraine drags on. McDonald's said that continued ownership of its business in Russia was no longer tenable nor "consistent with McDonald's values." McDonald's is now going to pursue the sale of its entire portfolio of restaurants in Russia to a local buyer. Local restaurants will no longer be able to use the McDonald's name, logo, branding, or menu.
- Buffett has been following his own advice of being greedy when others are fearful by deploying some of Berkshire's record cash pile. Berkshire has deployed tens of billions of dollars over the past couple of months acquiring a sizeable stake in several energy companies including Occidental Petroleum and Chevron Corp. Berkshire also placed a merger-arbitrage bet on Activision Blizzard, bought an 11% stake in HP Inc., and continued adding to its position in Apple Inc., its biggest stockholding.

Resource of the week:

- Sahil Bloom is a dynamic up-and-coming creator in the financial community. He spent a decade in investment banking and private equity before turning to writing prolific threads about finance and frameworks to have a more fulfilling life and career. He's amassed over half a million followers on Twitter in just the last two years, writes a blog called *The Curiosity Chronicle*, started a podcast, and recently launched a seed-stage venture fund called SRB Ventures. This *Capital Allocator's* episode covers Sahil's upbringing, his career in private equity, developing his edge, and transitioning from the corporate world to life as a creator. Host, Ted Seides and Sahil then discuss his favorite frameworks and how they apply to investing, including mentorship, goal setting, luck, and paradoxes of life. For a far-reaching and refreshing conversation, give this episode a listen.
- **Podcast link:** <https://capitalallocators.com/podcast/creativity-investing-and-engineered-serendipity/>

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. Investment advisory and financial planning services offered through Summit Financial, LLC (“Summit”), an SEC Registered Investment Advisor, doing business as Vardhan Wealth Management (2755 Executive Drive, Suite 190, Farmington Hills, MI 48331-3550; Telephone: 248.365.4440; Fax: 248-365-4446).