

Vardhan Views: Week of September 26th, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-5.2%	-4.9%	-4.6%	-3.1%	-2.0%	-0.8%	-15.6%	-22.5%	-28.6%
U.S. Mid-Cap	-5.9%	-6.1%	-6.5%	-2.5%	-1.6%	0.0%	-18.3%	-22.8%	-31.0%
U.S. Small-Cap	-6.1%	-6.6%	-7.1%	-2.4%	-1.4%	-0.4%	-19.3%	-24.5%	-29.7%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-4.6%	-2.1%	-21.6%
NASDAQ Composite	-5.1%	-1.3%	-30.1%
International Developed	-5.6%	-8.1%	-26.1%
Emerging Markets	-4.0%	-8.6%	-24.7%
U.S. Aggregate Bond	-1.6%	-3.8%	-13.8%
U.S. Municipals	-1.3%	-2.5%	-11.3%
Corporate High Yield	-1.7%	0.7%	-13.6%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- U.S. stocks fell sharply over a renewed hawkish stance from the Fed and resurfacing growth concerns. The S&P 500 Index declined nearly 5%, putting it near recent bottoms from mid-June this year.
- The Cboe Volatility Index (VIX) rose sharply late in the week, although it was still under prior highs from earlier in the year.
- All S&P 500 sectors were lower last week. More defensive sectors, including consumer staples and healthcare, generally fared the best. More cyclical sectors, including energy and consumer discretionary, generally performed the worst.
- Market leadership by style was mixed, although small-caps lagged large-caps as investors fled to bigger companies with more established business models and balance sheets. Large-caps and value shares retain leadership year-to-date relative to small-caps and growth shares, respectively.
- The Nasdaq fell over 5% on the week and is now off over 30% so far in 2022. The S&P 500 is now down more than 20% year-to-date.

International Equity Markets

- International developed and emerging market equities both suffered sizable losses last week as few areas were immune from the selloff.
- European equities fell sharply and lost additional ground when converted to USD terms. Shares were dragged down by growth concerns along with central bank tightening actions.
- Japanese stocks declined over a shortened-trading week reflecting similar concerns globally.
- Chinese stocks fell in both local and USD terms reflecting local slowdown and currency worries.

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

- Treasuries sold off later in the week. Benchmark yields climbed with the 10-year yield around hovering around 3.7%, the highest level since 2010. The short end of the curve continued to spike, with the 2-year yield reaching close to 4.2% - a level not last seen since 2007.
- The yield curve continued to invert with the two-year note incorporating the implied Fed fund hikes, while the 30-year remains near 3.7%. The spread on 2s30s continued to flatten below 50 basis points.
- Corporate spreads were wider on the week, in line with investor de-risking.
- Corporate, investment grade funds recorded outflows of nearly \$5.0 billion. High yield funds also had sizeable outflows of ~\$1.7 billion.
- Municipal yields rose across the curve led by the front end as a result of the Fed hike, fund outflows, and uncertainty selling.
- While absolute municipal yields were higher across the board, relative valuations cheapened inside of 5 years and stayed relatively stable in the 7 – 10-year space. Relative valuations are on the richer side but are moving closer to fair value. Below are approximate municipal yields relative to treasuries.
 - 2 year - 67%
 - 5 year - 72%
 - 7 year - 74%
 - 10 year - 82%
- Municipal funds had sizeable outflows of \$2 billion for the week that ended last Wednesday.
- On one positive note, there were some notable muni upgrades last week. Fitch upgraded the states of Ohio (AAA) and New Jersey (A).

U.S. Economic Data/News

- Last Wednesday's much-anticipated FOMC meeting resulted in the U.S. Federal Reserve raising rates by 75 basis points to a range of 3.00% to 3.25%.
- Chairman Jerome Powell reiterated the focus on bringing down inflation to target levels. Following the announcement, the median dot plot shows the potential of two hikes for the remainder of 2022 for a total of 125 basis points. There are two final meetings of the year, November and December which will be strongly watched by market sentiment and implied price action.
- Economic data continues to show that the economy is slowing, although perhaps not to the extent that the market is indicating. S&P Global's manufacturing and service activity indicators both surprised to the upside, with manufacturing activity even accelerating modestly.
- Weekly jobless claims rose to 213,000 but would have been close to flat, had the prior week's numbers not been revised down. The 4-week moving average fell to its lowest level in 3-months.

International Economic Data/News

- Several central banks across Europe raised policy rates last week. This included Sweden's central bank raising its rate by 1%, Switzerland raising its rate by 75 basis points, and Norway raising its rate by 50 basis points. Perhaps most notable was the Bank of England which lifted its key rate to 2.25%, another 50-basis point increase.
- The UK also announced planned tax cuts and supply side reforms that would support households. The plan put pressure on the GBP which fell to ~1.09 per USD, the lowest level in 37 years.
- Eurozone business activity contracted for the third month in a row in September. The S&P Global Eurozone PMI compositive fell to 48.2, the lowest level since mid-2020.
- Recent Japanese yen weakness caused policymakers to intervene in the currency market for the first time since 1998. The intervention came after the yen fell to 145 per USD, the weakest level since 1990.
- Despite currency weakness, the Bank of Japan (BoJ) retained its dovish stance against a myriad of other central banks hiking rates. Japanese inflation accelerated to an 8-year high in August at 2.8%, although it

remains well below the pace of price increases in other developed nations.

- China also sought to help manage local currency weakness after the yuan fell to an over 2-year low relative to the USD. The People's Bank of China (PBOC) set its reference rate at its lowest level since early August 2020 and is attempting to slow the pace of depreciation.

Odds and Ends

- Italians elected a right-wing coalition to lead the country last night, choosing an untested leader who will confront a myriad of challenges including an economic downturn and energy crisis. Giorgia Meloni is expected to become Italy's new prime minister after her *Brothers of Italy* party won the biggest share of the vote in Sunday's parliamentary elections, according to projections based on counting nearly half of the votes for Italy's Senate. She will require approval from junior partners in her coalition to assume the role.
- Public companies are recently among the worst performers in this year's stock-market volatility, contributing to a freeze in the IPO market that shows few signs of improving. Roughly 87% of companies that went public in the U.S. last year are trading below their offering prices, down more than 49% on average according to Dealogic. By rough comparison, the S&P 500 is down 23% this year, while the tech-heavy Nasdaq Composite has fallen 31% as of last Friday's close. The recent IPO slump is also scaring off fund managers, who tend to shy away from new issues if the recent ones they have bought are performing badly.
- A handful of large companies, including Berkshire Hathaway and Amazon.com, could bear most of the burden from a 15% corporate minimum tax President Biden signed into law last month. Researchers at the University of North Carolina Tax Center analyzed securities filings to determine what companies would have paid if the tax had been in place last year. They found fewer than 80 publicly traded U.S. companies would have paid any corporate minimum tax in 2021, and just six including Amazon and Berkshire, would have paid half of the estimated \$32 billion in revenue the levy would have generated.

Resource of the week:

- In the American cable industry, there is one individual who stands out over the years in terms of gathering significant control and influence. Using at times controversial tactics, John Malone has inflicted antitrust injury on virtually every American consumer of cable services and technologies. Malone exerted monopoly power over key stages of the delivery of cable programming to the American consumer. This included control over the creation of programming and studios, control over cable programming services, control over the mechanics of transmitting programming by satellite, and control over the delivery of programming to the home. In this episode of *Founders*, David Senra dissects Malone's career and the imprint he left on the U.S. cable industry.
- **Podcast link:** <https://www.joincolossus.com/episodes/4886903/senra-john-malone-the-rise-of-the-modern-cable-business?tab=transcript>

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

DISCLAIMER

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. 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).