

Vardhan Views : Week of January 3rd, 2022

Periodic Returns									
	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	1.4%	0.8%	0.2%	7.8%	9.8%	11.6%	25.2%	26.5%	27.6%
U.S. Mid-Cap	1.9%	1.2%	0.2%	8.5%	6.4%	2.8%	28.3%	22.6%	12.7%
U.S. Small-Cap	0.8%	0.2%	-0.3%	4.4%	2.1%	0.0%	28.3%	14.8%	2.8%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	0.9%	11.0%	28.7%
NASDAQ Composite	0.0%	8.4%	22.2%
International Developed	0.9%	2.7%	11.3%
Emerging Markets	1.0%	-1.3%	-2.5%
U.S. Aggregate Bond	0.2%	0.0%	-1.5%
U.S. Municipals	0.0%	0.7%	1.5%
Corporate High Yield	0.2%	0.7%	5.3%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- Reflective of a “Santa Claus rally”, most domestic stocks rose during the final week of the year, aside from the Nasdaq Composite Index which was roughly flat. The benchmark S&P 500 Index rose an astounding 28.7% for the year.
- Coronavirus infections have skyrocketed to record levels, although largely dominated by the less-severe omicron variant. Hospitalization rates remained controlled, and on Wednesday, the Centers for Disease Control and Prevention (CDC) reduced the recommended quarantine period from 10 to five days for asymptomatic people who test positive. Despite the upbeat virus-related news, airlines’ stocks suffered due to many canceled flights across separate airline companies because of crew shortages.
- Within the S&P 500, all sectors were positive except for the communication services sector which was marginally in negative territory. Outperforming for the week were real estate, materials, and utilities which each rose by more than 2%.
- Last week, large-cap stocks beat small-caps while value-oriented stocks led growth. With that said, certain segments of the market performed differently for the full calendar year. According to their Russell indices, small-cap growth was up about 3% while small-cap value rose more than 28% in 2021.

International Equity Markets

- International developed and emerging market equities both rose around 1% last week, although their performance in 2021 diverged. Developed markets rose 11% while emerging markets fell around 2.5%.
- European stocks were positive following eased omicron fears and investor optimism about the economic recovery strengthened.
- Japanese equities were muted given the uncertain impact omicron poses. Last year, the MSCI Japan Index only rose around 2% in USD terms, indicative Japan is still working on its economic recovery.
- Chinese shares were up according to the MSCI China Index last week. However, in USD terms the index fell by 21.6% in a tumultuous year for Chinese stocks overall.

Credit Markets

- The U.S. Treasury 10-year yield reached an intra-month high on Wednesday of 1.55% before ultimately

- falling back to 1.51% by week's end. The Bloomberg U.S. Aggregate Bond Index rose a modest 20 bps.
- Corporate bond trading volume was exceptionally light last week before the New Year's holiday. With any trading that did occur, investment-grade spreads tightened, and such bonds rose around 30 bps. However, in 2021 investment-grade bonds fell around 1% according to the Bloomberg U.S. Corporate Investment-Grade Bond Index.
 - High-yield corporate bonds also rose a few basis points despite the ongoing concerns omicron has created. High-yield bonds had a positive year after rising more than 5%.
 - Municipals were flat-to-up a few basis points on the week. The Bloomberg Municipal Bond Index rose around 1.5% total last year, reflective that demand for municipal bonds remains strong.

U.S. Economic Data/News

- The latest economic news implies the lasting virus wave is having less of a pronounced impact on economic activity. Weekly jobless claims filed through the week ending December 25th totaled 198,000, near the five-decade low mark set in 1969. Continuing claims also fell to 1.72 million Americans which is the lowest mark since the start of the pandemic, March 7th, 2020.
- According to data compiled by MasterCard, holiday sales rose 8.5% in December compared to a year prior, the biggest annual gain in 17 years. The absolute level of sales figures was also around 10.7% higher than in 2019 before the pandemic began. The data also hinted some supply and labor challenges may be slowly easing for retailers, although it won't be known for certain until more data is collected.
- U.S. home-price growth slowed for the second consecutive month in October according to the S&P CoreLogic Case-Shiller National Home Price Index which reports on a two-month delay. The data compares rolling annual home prices, which rose 19.1% in the year that ended in October, lower than the 19.7% annual rate the prior month. As reported earlier this month, the median existing-home sale price in November rose 13.9% to \$353,900 from a year ago according to the National Association of Realtors.
- On Tuesday, Elon Musk, the famed billionaire CEO of Tesla Inc. and currently the wealthiest person on the planet, exercised his final batch of vested stock options in a series of transactions that began in November. Musk exercised 22.8 million stock options over two months which increased his shares of Tesla stock from around 170.5 million shares to 177 million shares. Musk publicly toyed with the idea of selling 10% of his Tesla stock holding and stated he would pay more than \$11 billion in taxes due in 2021.

International Economic Data/News

- Spain and Italy each approved 2022 budgets which include funds dedicated for recovery efforts as outlined by the European Union. Spain approved a budget totaling €240 billion, the largest in its history, while Italy's tallies in at €32 billion including business tax cuts and a new climate fund.
- Data out of Japan was mixed. First, industrial production grew by a monthly record 7.2% through November amidst alleviating supply chain inputs. However, the national unemployment rate rose slightly to 2.8% in November from 2.7% in October although more people are believed to have begun searching for employment.
- Japan's Prime Minister Fumio Kishida is seeking out methods to expedite booster shots for all people to combat the latest coronavirus wave. The waiting period for the booster has already been shortened from eight months to six months for health care workers and the elderly.
- Any Chinese company seeking an initial public offering for both local and international sales must now register with the China Securities Regulatory Commission, the country's securities industry regulatory body. The new standards were put in place to get a handle on local companies sidestepping domestic restrictions as the ride-hailing giant DiDi Global did in late June.

Odds and Ends

- Following last week's winter break, schools nationwide are moving forward with a variety of ways for

kids to return to school. Children in grades K-12 must follow the local guidance offered by their districts, with some opting for in-person instruction, some choosing fully virtual, and others adopting a hybrid schedule. The largest hurdle to overcome is obtaining enough tests to sustain long-term viable strategies. Up to this point, if a student tests positive or is deemed to have been within close proximity to someone who has tested positive, they are forced to quarantine for at least a few days and provide a negative test before returning. For in-person instruction to resume across the board, schools need access to enough rapid tests to use in the aforementioned situations. Other industries are feeling the heat as well, including airlines with thousands of canceled flights, restaurants and retail stores closed due to reduced staff, and other employees even putting in overtime hours.

- On Thursday, a massive wildfire broke out and quickly decimated numerous suburban areas outside of Denver, Colorado. Officials said nearly 1,000 homes were destroyed with hundreds more damaged although no official cause for the fire has been determined yet. Winds at this time of year were expectedly strong in the area which fueled the spread. Tens of thousands of people were ordered to evacuate last week while two individuals are still missing, complicated by the fact around eight inches of fresh snow blanketed the area making rescue operations difficult.
- Americans' mortgage borrowing reached a new high-water mark in 2021. Lenders issued a record \$1.61 trillion in new purchase loans last year, up from \$1.48 trillion in 2020, and beat the previous record of \$1.51 trillion in 2005 before the Global Financial Crisis. Total mortgage originations including refinances were down slightly year-over-year to \$3.9 trillion. The mortgage boom is reflective of the thriving housing market and sky-high prices. Sustained low mortgage interest rates coupled with built-up savings resulted in many investors looking to purchase or refinance real estate properties, driving up prices.

Resource of the week:

- In this episode of *Invest Like the Best*, host Patrick O'Shaughnessy speaks with Jenny Johnson, President and CEO of one of the world's largest asset managers, Franklin Templeton. Jenny joined the business in 1988 and has worked in the organization ever since. In early 2020 she became CEO of Franklin, which now manages some \$1.5 trillion. Important to note, podcast host Patrick is CEO of O'Shaughnessy Asset Management and met Jenny as their two firms explored a partnership, which was cemented 3 months ago when it was announced that Franklin Templeton would be acquiring O'Shaughnessy Asset Management. During the conversation, they discuss leadership qualities, large company problems, and private markets becoming more accessible to investors in the future. Please enjoy this insightful conversation with Jenny Johnson.
- **Podcast link:** <https://www.joincolossus.com/episodes/36382659/johnson-seven-decades-of-investing-expertise?tab=blocks>

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, 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. 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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