

Vardhan Views: Week of January 10th, 2022

Periodic Returns									
	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	0.8%	-2.2%	-4.8%	0.8%	-2.2%	-4.8%	0.8%	-2.2%	-4.8%
U.S. Mid-Cap	-0.1%	-2.8%	-7.5%	-0.1%	-2.8%	-7.5%	-0.1%	-2.8%	-7.5%
U.S. Small-Cap	0.0%	-2.9%	-5.8%	0.0%	-2.9%	-5.8%	0.0%	-2.9%	-5.8%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-1.8%	-1.8%	-1.8%
NASDAQ Composite	-4.5%	-4.5%	-4.5%
International Developed	-0.3%	-0.3%	-0.3%
Emerging Markets	-0.5%	-0.5%	-0.5%
U.S. Aggregate Bond	-1.5%	-1.5%	-1.5%
U.S. Municipals	-0.7%	-0.7%	-0.7%
Corporate High Yield	-0.9%	-0.9%	-0.9%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- Despite some indexes hitting fresh all-time highs earlier in the week, equity markets walked back from year-end gains last week reflecting higher bond yields and hawkish central bank signaling.
- Growth stocks were disproportionately impacted as long-dated future cash flows were discounted back at higher rates. There was nearly a 6% difference between the results of large-cap growth and large-cap value stocks last week.
- Interest rates drove much of the performance within S&P 500 sectors. Financials were the greatest beneficiary, while technology and healthcare stocks suffered. Energy was also a top performer after U.S. oil prices pushed back towards \$80 per barrel.
- Value stocks had a strong start to 2022 and are positive to flat so far this year, despite the S&P Index declining in early trading sessions.

International Equity Markets

- International markets bested U.S. equities last week. Both developed, international and emerging market stocks had modest gains in U.S. dollar terms (USD).
- European equities fell, reflecting the potential for more hawkish central bank actions and rising omicron infections.
- Japanese equities rose modestly in local terms but declined in USD-terms. The yen has persistently grown weaker in recent months, causing the Japanese government to evaluate measures for currency stability.
- Chinese stocks declined over the week responding to both more hawkish global central banks paired with continued concerns over the local property sector.

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

- Treasury yields rose Friday following the December jobs report. The U.S. Treasury 10-year yield hit its highest level since the start of the pandemic.

- The curve steepened, with the 10-year yield at a two-year high of 1.78% during Friday's morning session.
- Corporate spreads were modestly tighter on the week. Investment-grade funds recorded \$3.8 billion of inflows, the second consecutive week. Corporate high yield funds also had inflows.
- Primary issuance was robust to start the year. Nearly 40 borrowers came to market adding \$60 billion vs. dealer's expectation of \$40 billion.
- Benchmark municipal yields were modestly higher, outperforming Treasuries, as strong wage numbers and expectations of a March hike drove rates higher.
- Tax-exempt ratios continued to richen as the upward move in Treasuries outpaced municipals. As of midday Friday, the 10-year municipal yield was at 65% of the equivalent Treasury yield.
- Municipal funds saw \$841 million of inflows, the 44th consecutive week.
- **Expanded fixed income commentary from Piton can be found using this [link](#)**

U.S. Economic Data/News

- Omicron case numbers continued to set new records domestically, although hospitalizations and severe cases were more stable and less extreme than in past spikes.
- Fed minutes released mid-last week revealed that policymakers are considering raising rates sooner and more aggressively in 2022 than initially expected. They also discussed reducing the size of the Fed's balance sheet which could pressure long-term rates.
- ISM's gauge for manufacturing and services both missed consensus but remained well into expansion territory. A recent ISM survey also indicated that supply challenges might be improving.
- Last week's job report had mixed signals. On the negative end, employers added just shy of 200,000 jobs in December, about half of expectations. On the positive end, wages rose ahead of expectations and the unemployment rate fell to 3.9%, below the 4.2% expected level.

International Economic Data/News

- Coronavirus cases reached record levels across Europe causing some countries to take more stringent actions. This included a variety of enhanced mask and vaccine requirements. Notably, most nations stopped short of imposing additional lockdown measures.
- Eurozone inflation reached a new record in December, reflecting higher energy and food costs. Consumer prices rose more than 5% year-over-year in December.
- Japan's manufacturing and services sector results were encouraging in December, showing a slow but positive recovery from the pandemic. That said, new omicron protective measures have the potential to erode future economic data readings.
- The Chinese property sector remained volatile as developers faced large liquidity squeezes due to falling prices and high debt levels. Several notable developers have recently either missed or delayed local interest payments.

Odds and Ends

- The Securities and Exchange Commission (SEC) is preparing to force more transparency from big private companies, as regulators grow concerned about the lack of oversight of the private fundraising that has fueled their rise. Private capital markets have become an increasingly popular way for companies to raise money in the U.S., allowing firms to acquire funding from institutions and wealthy individuals without the regulatory burdens of going public. The SEC has begun work on a plan to require more private companies to routinely disclose information about their finances and operations. It is also considering tightening the qualifications that investors must meet to access private markets and increasing the amount of information that some nonpublic companies must file

with the agency.

- Real-estate investors are pulling cash out of offices and putting it into data centers as a hedge against the impact of remote working. But data centers have their own problems with oversupply and demanding tenants. Interest in data centers has been growing for years but took a big leap forward as the pandemic pushed more daily life online. One measure is acquisitions: Global data center deals hit a record \$47.1 billion in 2021, according to Synergy Research Group, more than three times 2019's tally and up from \$34.5 billion in 2020.
- Government retirement funds are pumping record sums into private equity, defying concerns about risk and cost as they try to plug pension shortfalls. U.S. pension funds' private-equity investments swelled to an average 8.9% of holdings in 2021 after three years of straight growth, according to analytics company Preqin. That amounts to roughly \$480 billion of state and local pension fund assets tracked by the Federal Reserve, up from about \$300 billion in 2018.

Resource of the week:

- In this episode of *Invest Like the Best*, host Patrick O'Shaughnessy speaks with Orlando Bravo, co-founder and managing partner of a leading private equity firm, Thoma Bravo. Thoma Bravo manages over \$90 billion of assets and is best known for investing in software and technology businesses. It was Orlando who led the firm's early entry into software buyouts some 20 years ago, and he has overseen more than 350 software acquisitions since. There are few, if any, people better placed to discuss private equity and software investing and the ever-evolving environment. Please enjoy this conversation with Orlando Bravo.
- **Podcast link:** <https://www.joincolossus.com/episodes/88585306/bravo-the-art-of-software-buyouts?tab=blocks>

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

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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.

Data in this newsletter is obtained from sources which 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.

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