

Vardhan Views: Week of February 7th, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	1.6%	1.7%	1.9%	-1.9%	-6.0%	-9.6%	-1.9%	-6.0%	-9.6%
U.S. Mid-Cap	1.8%	2.3%	3.5%	-4.2%	-7.6%	-13.5%	-4.2%	-7.6%	-13.5%
U.S. Small-Cap	1.0%	1.7%	2.5%	-6.7%	-10.8%	-14.9%	-6.7%	-10.8%	-14.9%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	1.6%	-5.5%	-5.5%
NASDAQ Composite	2.4%	-9.8%	-9.8%
International Developed	2.1%	-3.7%	-3.7%
Emerging Markets	2.5%	-0.8%	-0.8%
U.S. Aggregate Bond	-0.9%	-3.1%	-3.1%
U.S. Municipals	0.4%	-2.3%	-2.3%
Corporate High Yield	-0.3%	-3.1%	-3.1%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- Equity market volatility remained high despite indexes closing the week in positive territory. The S&P 500 Index finished up 1.6%.
- Growth shares broke their period of relative underperformance, besting value stocks across different market-caps. That said, value stocks retain a large lead so far in 2022 despite still being negative.
- Sizeable moves in mega-cap names weighed heavily on benchmark performance. This included a nearly 30% daily decline in Meta's share price after reporting slower growth and a ~14% rise from Amazon.com after earnings surprised to the upside.
- Within the S&P 500 Index, energy stocks were the top-performing portion of the market as oil prices jumped above \$90/barrel. Conversely, the communication services, materials, and real estate sectors all lagged.

International Equity Markets

- International markets had a strong week, besting U.S. counterparts. Emerging market equities were a top performer, rising 2.5% in U.S. dollar terms (USD).
- European equities declined in local terms but rose in USD-terms reflecting dollar weakness last week.
- Japanese stocks were positive for the week in both local and USD-terms benefitting from broader reopening news.
- Chinese equities logged strong gains last week throughout a period of limited trading due to the Lunar New Year.

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

- The Treasury market sold off after a strong jobs report, reinforcing sentiment that the Federal Reserve could tighten policy aggressively this year.
- Encouraging economic data last week pushed the front end higher as the yield curve continued to flatten.
- The 10-year Treasury currently yields around 1.91%, up 0.08% from Friday's close and the highest since November 2019.
- Corporate spreads widened modestly over the week. Aggregate investment-grade spreads were also slightly wider to close the week.
- Both investment grade and high yield funds recorded outflows, although high yield outflows were significantly larger at \$4 billion versus \$69 million, respectively.
- Municipals reversed course from the worst January on record with yields moving lower by 0.10%, as higher yields and cheaper ratios enticed some investors off the sidelines.
- January "statement shock" contributed to municipal funds seeing the largest outflow since March 2020, losing \$2.9 billion for the week. Notably, ETF flows turned positive midweek.
- **Expanded fixed income commentary from Piton can be found using this [link](#).**

U.S. Economic Data/News

- It was an active and somewhat confusing week for economic data. Notably, private payrolls fell by the largest level since the start of the pandemic. On the contrary, last Friday's jobs report showed a gain of nearly 500,000 jobs in January, well above consensus expectations. The unemployment rate also ticked up to 4.0% but mostly represented an increase in the labor participation rate.
- Manufacturing prices increased more than expected, reflecting upside surprises in factory activity. ISM service sector activity continued to fall from a record high reached in November of last year. The decline incorporated the impact of the Omicron variant, although it was not as severe as expected.
- The end of the Child Tax Credit paired with easing coronavirus concerns is translating to more people returning to work. It's possible that January's early payroll data could be revised higher given the unique circumstances of the pandemic.

International Economic Data/News

- European Central Bank (ECB) President Christine Lagarde made comments that retained the possibility for rate increases this year, conflicting earlier comments.
- The Bank of England (BoE) raised its key interest rate for the second month in a row in effort to curb inflation. The UK Monetary Policy Committee (MPC) voted 5 to 4 to increase the bank rate by a 0.25% to 0.5%.
- The Bank of Japan (BoJ) recently reaffirmed its commitment to easy monetary policy - helping boost sentiment. While Japanese inflation has increased of late, BoJ officials noted the need to see inflation above the 2% growth rate for an extended period versus several months of higher gains before taking additional action.
- In China, January economic surveys showed a slowing of growth momentum as has been recently reported. The manufacturing Purchasing Managers' Index (PMI) declined to 50.1 from December's 50.3 reading, and the nonmanufacturing gauge—which measures activity in the construction and services sectors—fell to 51.1 from 52.7. The 50-mark separates expansion from contraction.

Odds and Ends

- Peloton's fall from stock market grace has attracted several deep-pocketed potential suitors, according to sources. Amazon.com, Apple, and Nike have all been rumored to be evaluating a

possible acquisition. Despite Peloton’s recent challenges, the company could offer its acquirer access to the data and attention spans of millions of wealthy users making it an attractive target.

- Queen Elizabeth resolved a question hanging over her succession, stating that Camilla, Duchess of Cornwall, should be referred to as queen once Prince Charles accedes the throne. In a message to mark her 70 years on the throne, Queen Elizabeth said it was her “sincere wish that, when that time comes” her eldest son’s wife take the title “Queen Consort.” Queen Consort refers to the spouse of a ruling king. As a result, the Duchess of Cornwall would be referred to as “Queen Camilla” if her husband comes to the throne.
- Frontier Group agreed to buy Spirit Airlines in a deal valued at \$6.6 billion that unites two of the country’s largest low-fare carriers. The consolidation comes as the travel industry continues to claw its way back toward pre-pandemic levels despite higher costs, labor shortages and disruptions caused by COVID-19. In the latest quarter, the emergence of the Omicron variant disrupted what industry officials expected to be a smooth and profitable holiday travel season. Upon the deal’s close, Frontier will own about 51.5% of the combined company, and its chairman, William Franke, will become chairman of the combined company’s board.

Resource of the week:

- Ali Hamed is the founder of CoVenture, a \$2 billion investor across the capital stack of technology start-ups reinventing the economy of the future. This is the second time Ali was featured on the *Capital Allocator’s* podcast and this conversation starts with an update on CoVenture’s growth and dives into Crossbeam Venture Partners, CoVenture’s venture business. The conversation discusses Crossbeam’s sweet spot, sourcing, due diligence, deal dynamics, ownership, and decision-making for follow-on rounds. They then turn to examples in fintech and platforms, and close with how CoVenture’s taste for novel assets fits into the venture ecosystem. For an update on all things venture, be sure to give this episode a listen.
- **Podcast link:** <https://capitalallocators.com/podcast/novel-venture-investing-at-coventure/>

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. 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 5s30s spread is the difference between the yield on the 30-year Treasury bond and the yield on the 5-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.

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