Vardhan Views: Week of February 22nd, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-1.5%	-1.7%	-1.8%	-3.8%	-9.0%	-13.6%	-3.8%	-9.0%	-13.6%
U.S. Mid-Cap	-1.2%	-1.8%	-2.9%	-5.1%	-9.0%	-16.0%	-5.1%	-9.0%	-16.0%
U.S. Small-Cap	-0.2%	-1.0%	-1.8%	-5.6%	-10.4%	-15.2%	-5.6%	-10.4%	-15.2%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-1.5%	-8.6%	-8.6%
NASDAQ Composite	-1.7%	-13.3%	-13.3%
International Developed	-1.9%	-4.2%	-4.2%
Emerging Markets	-0.7%	0.1%	0.1%
U.S. Aggregate Bond	-0.2%	-3.7%	-3.7%
U.S. Municipals	-0.2%	-3.3%	-3.3%
Corporate High Yield	-0.3%	-4.3%	-4.3%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- U.S. stocks had another challenging week after the escalating Russia/Ukraine conflict and rate hike concerns weighed on sentiment.
- Large-cap and growth-oriented stocks generally suffered the largest declines as sizeable constituents within select benchmarks, such as Meta Platforms (Facebook), had meaningful losses.
- Within the S&P 500 Index, the communication services and energy sectors were the bottom performers.
- The more defensive consumer staples sector was one of the few areas of the market to book a gain driven by gains in Walmart and P&G.
- Trading volumes were light last week despite the level of volatility heading into the long weekend.
- Recent volatility has pushed the S&P 500 Index down 8.6% so far this year, while the tech-heavy NASDAQ Composite has fallen an even more sobering 13.3%.

International Equity Markets

- International markets also fell last week. International developed losses were in-line with U.S. counterparts while emerging markets outperformed in a relative sense. International equity markets have maintained a lead over domestic markets so far in 2022.
- European equities sold off following rising tensions in Ukraine, which is likely to have more of a direct impact on the region.
- Japanese equities produced a negative return last week weighed down by similar global factors as other areas of the market.
- Chinese equities were one of the few areas to log gains last week. Supportive comments by the government and lower-than-anticipated inflation figures helped support markets.

Credit Markets

Authored by the Summit Financial Investment Team

- The 10-Year Treasury yield fell from highs reached earlier in the week above the significant 2% threshold to close at ~1.93%.
- Impending Federal Reserve (Fed) action paired with mixed signals from Russia kept volatility elevated in the bond market.
- Investment-grade corporate spreads were wider during the week following a risk-off sentiment and higher than expected inflation. That said, new issuance was generally met with adequate demand as the market stabilized.
- The high yield market also sold off, suffering from similar inflation and supply chain concerns that may be exacerbated by a potential conflict in Russia.
- Municipal funds continued their recent trend of outflows following a record-breaking period of straight inflows over the past year+. That said, limited supply is likely to offer the market some support.

U.S. Economic Data/News

- After weeks of back-and-forth, Vladimir Putin ordered Russian troops into two breakaway regions of Ukraine after they recognized their independence. This move threatened to scrap peace negotiations with the West.
- Mixed messages from the Fed officials likely fueled additional volatility. St. Louis Fed President James Bullard said in a recent interview that the Fed's credibility was on the line and that he expected the fed funds rate to be 1% higher by July. However, the recent Fed minutes were generally more dovish and suggested that a 50-basis point rate increase out of the gate was unlikely.
- Underwhelming economic data could also lessen the likelihood of a higher magnitude rate hike to start. Weekly jobless claims rose last week for the first time in over a month while several regional manufacturing indexes also surprised to the downside.
- On the flip side, retail sales rose more than expected although higher inflation likely accounted for a large portion of the gain, mitigating the significance of the increase.

International Economic Data/News

- European Central Bank (ECB) President Christine Lagarde and governing members talked down rate hike expectations and noted that any monetary policy adjustments would be gradual and reflect key economic data at the time.
- UK inflation touched a 30-year high in January contributing to expectations that the Bank of England will introduce its third consecutive rate hike in March. Payrolls also rose and the local unemployment rate to fell to 4.1%.
- Japan's economy recently returned to growth over the fourth quarter of last year, boosted by robust private consumption amidst falling coronavirus cases. The government is also planning to ease additional pandemic restrictions which were among the strictest in the world.
- Chinese officials have reportedly pledged to roll out several measures to help support their slowing economy. The top finance minister also vowed to cut corporate tax rates and strengthen targeted fiscal spending. With many other global central banks are tightening policy, China is one of the few areas of the world with increasingly accommodative government economic assistance.

Odds and Ends

- While most of the world hates inflation, it's a goldmine for a small subset of traders at big banks and hedge funds. Certain traders are orchestrating complex transactions designed to profit from gyrations in inflation. In all, the biggest Wall Street banks shared some $2.3 billion from the exercise in 2021, more than double what they made in 2019, according to data from Vali Analytics Ltd. This is a welcome boost these firms as other kinds of fixed income trading dried up. There are outsized risks too. The sterling inflation market is known as “the widow maker,” reflecting the danger of becoming trapped in huge losses when traders can’t keep up with the many, messy factors that drive real-world prices.

- Investors are wagering that the recent pain in the stock and bond markets will intensify. Short sellers are adding to their positions against the SPDR S&P 500 Exchange-Traded Fund Trust (ticker: SPY) at the fastest rate in nearly a year. Other investors are scooping up at record pace options contracts that would payout if the recent declines in the stock and bond markets worsen. A surge in inflation, uncertainty about the pace of the Fed’s interest-rate increases, and the threat of war in Europe have whipsawed financial markets to start the year.
- Oil, natural gas, and agricultural prices rose as escalating tensions over the future of Ukraine threatened to disrupt flows of natural resources from Eastern Europe to world markets. Futures for Brent crude, the benchmark in international energy markets, are hovering near the significant $100 mark, their highest level since 2014. In Europe, natural-gas prices recently rose 11% to €80.58 ($91.40) a megawatt-hour after Germany halted the Nord Stream 2 pipeline in response to Russian aggression against Ukraine. U.S. natural-gas prices have also risen although the move was less pronounced than in Europe.

Resource of the week:

- IAC is a unique business in that it's a holding company, which builds world-class digital businesses. Since Barry Diller created IAC, it has produced 11 public companies, including Match Group, Expedia, and Live Nation. Today, the business is comprised of category leaders, like Angi, Dotdash, Meredith, and Care.com. Joey Levin joined IAC in 2003 and became CEO its 2015. In this discussion, Joey and host – Patrick, talk about why Joey tries to avoid centralization between businesses, what he's learned from Barry Diller, how he approaches capital allocation and so much more. This conversation serves as an excellent reminder that there is no one formula to company building. Everything is idiosyncratic and requires its own best decisions. Please enjoy this fascinating discussion with Joey Levin.
- **Podcast link**: https://www.joincolossus.com/episodes/21653644/levin-building-an-anti-conglomerate?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 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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