

Vardhan Views: Week of March 14th, 2022

Periodic Returns

| | Trailing Week | | | Quarter-to-Date | | | Year-to-Date | | |
|----------------|---------------|-------|--------|-----------------|--------|--------|--------------|--------|--------|
| | Value | Blend | Growth | Value | Blend | Growth | Value | Blend | Growth |
| U.S. Large-Cap | -2.2% | -2.9% | -3.6% | -5.6% | -12.1% | -17.9% | -5.6% | -12.1% | -17.9% |
| U.S. Mid-Cap | -2.0% | -2.7% | -4.3% | -7.1% | -12.0% | -20.7% | -7.1% | -12.0% | -20.7% |
| U.S. Small-Cap | -0.4% | -1.0% | -1.8% | -5.3% | -11.7% | -18.0% | -5.3% | -11.7% | -18.0% |

| | Trailing Week | Quarter-to-Date | Year-to-Date |
|-------------------------|---------------|-----------------|--------------|
| S&P 500 Index | -2.8% | -11.5% | -11.5% |
| NASDAQ Composite | -3.5% | -17.8% | -17.8% |
| International Developed | 0.5% | -12.2% | -12.2% |
| Emerging Markets | -5.1% | -11.7% | -11.7% |
| U.S. Aggregate Bond | -1.8% | -4.8% | -4.8% |
| U.S. Municipals | -1.1% | -4.4% | -4.4% |
| Corporate High Yield | -1.5% | -5.5% | -5.5% |

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- Domestic stocks pulled back last week amid continued elevated levels of volatility given the uncertain economic impacts the Russian invasion of Ukraine may have. Both the Nasdaq Composite and S&P 500 indices remain in market correction territory for the year.
- Shell and BP both pledged to stop doing business with Russia. This was announced Tuesday shortly before Biden's executive order had prohibited doing such business with the U.S. Shell also apologized for hastily acquiring a discounted cargo of Russian crude oil after its competitors passed on the opportunity.
- Within the S&P 500 Index, all sectors declined aside from energy which rose more than 2%. The sector's stocks benefited from the highest level of oil prices in years, despite retreating in recent days. The price of crude oil briefly breached \$130 per barrel on Monday, March 7th. Consumer staples underperformed as several food and drink manufacturers announced they were suspending business in Russia.
- Value stocks relatively led growth stocks while small-caps bested large-caps although no area of the market was spared from volatility.

International Equity Markets

- International stocks were mixed. Developed markets had a slight weekly gain while emerging markets declined 5% given extreme volatility from China in USD terms as represented by their MSCI indices.
- European equities rose as hopes of a resolution may eventually form in the Russia-Ukraine conflict. These local markets were outcasts last week, somehow appreciating in price.
- Japanese stocks fell because of the ongoing political and civil unrest. The yen remained at its weakest level in five years against the U.S. dollar.
- Chinese stocks plummeted as a resurgence of COVID-19 cases took hold and the war in Ukraine ravaged.

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

- Yields headed higher Friday morning led by the front end. The yield on the 2-year note approached 1.75%, while the 10-year yield hovered just above 2.00%.
- On the supply front, the 30-year bond auction drew in 2.375%, the highest since May 2021. The spread on 2s30s flattened to 61bps from 67bps last Friday, March 4th.
- Corporate investment-grade spreads were wider on the week by approximately 16bps.
- Corporate bond funds' outflows continued. Investment-grade funds recorded \$5.4 billion of outflows (the largest amount since April 2020) compared with \$3.3 billion the week prior. High yield funds reported \$1.6 billion of outflows to follow up the \$481 million from the week before.
- Around \$67 billion of new debt was issued compared to dealers' projections of \$50 billion. Borrowers piled on debt issuance this week as the Russia/Ukraine tensions were muted ahead of the upcoming Federal Open Market Committee rate decision.
- Municipal yields continued to rise as much as 22bps as a fresh round of inflation figures moved rates higher putting expectations of a more aggressive Fed back on the table.
- Municipal debt maturing in 10 years yields 91.3% of Treasuries with a similar maturity compared to 88.4% a week ago, and 76.7% a month ago. On a relative scale, maturities greater than five years are currently more attractive than shorter maturities.
- Muni funds continued to see outflows, losing \$662 million through Wednesday following last week's outflows of \$2.8 billion. Year-to-date outflows have totaled \$12 billion.

U.S. Economic Data/News

- On Tuesday, President Biden announced the U.S. was eliminating all imports of Russian oil and gas. Furthermore, he warned Americans to brace for higher sustained prices at gas pumps. Broader commodities outside of oil also rose in price including nickel as Russia supplies more than 9% of the world's supply. Russian threats to ban nickel exports globally caused the stainless-steel metal to be halted on the London Metal Exchange after it doubled in price.
- The consumer price index rose 7.9% in February from a year ago, the highest annual increase since January 1982. On a monthly basis, it rose 0.8% in February alone. The largest contributors to the increase were gas prices, groceries, and shelter costs while prices for autos eased.
- Initial weekly jobless claims through March 5th tallied in at 227,000 and remained at low levels. However, the average employee paycheck fell by 0.8% in February after adjusting for inflation. Over the past year, the average inflation-adjusted paycheck is down around 2.6%.
- The University of Michigan's preliminary gauge of consumer sentiment in March fell more than expected to 59.7. This is a new decade-long low level and reflective of Americans' negative view of the economy. Chief reasons for this viewpoint mainly include inflation concerns which are clouded by the Russia-Ukraine conflict.

International Economic Data/News

- The European Central Bank announced that since inflation expectations seem to be exacerbated by the Russia-Ukraine conflict, it may end its asset purchase program in the third quarter, sooner than by year-end it had previously predicted. ECB President Christine Lagarde stressed the timing of a rate increase is very dependent on data after the asset purchasing efforts conclude.
- Japan's consumer price index was flat, but its producer price index rose by 9.3% annually through February, its highest gain on record. BoJ Governor Haruhiko Kuroda reiterated the bank's intentions to maintain dovish policies and achieve moderate inflation with rising wages and corporate profits.
- Chinese exports rose 16.3% in February from one year ago while imports increased 15.5%. These figures are up from last year but have slowed since December amid the rise in geopolitical uncertainty.

Odds and Ends

- Amazon announced late on Wednesday it will institute a 20-for-1 stock split and a stock buyback plan worth around \$10 billion after receiving approval from its board. The outlined stock split would instantly make the stock more accessible to retail investors and allow its employees greater flexibility to manage any individual stock they own in the company. Shares should be trading post-split on June 6th, but if it took place today then the stock would be a candidate for inclusion in the Dow Jones Industrial Average. The firm last split its shares in 1999 although was valued at a market cap nearly 100 times less than it is today. Also, it has focused on retaining top employees in high-demand fields such as software engineering and other corporate roles. It recently increased the maximum amount it pays to corporate workers to \$350,000 per year from the previous level of \$160,000.
- The soaring price of fuel would naturally incline drivers to seek out more fuel-efficient modes of transport than gas-guzzling SUVs and trucks. However, in recent years the sales of these automobiles have risen leading automakers to produce more of these and fewer models that require less gasoline to function, namely hybrids and electric vehicles. Average gas prices in the U.S. hit \$4.33 Saturday, breaking a record set in July 2008. Furthermore, Biden's ban on Russian oil imports stands to drive fuel costs higher in the short term. Although it's too early in the oil crisis to draw conclusions, buyers are showing preliminary signs of greater interest in hybrids and electric vehicles.
- The average American upgrades their cellphone to a newer model every 38 months according to data from research firm International Data Corp. After this, many buyers will leave their old devices in drawers when they could be seeking out ways to monetize these phones. Apple and Samsung buy back the older devices if a buyer is upgrading to a newer model while Best Buy and Amazon offer gift cards. Estimated from used-device buyer EcoATM, there could be hundreds of millions of idle devices sitting around in the U.S. losing their value. Companies will typically set the price they expect to receive when reselling the phone, but depending on the model, demand levels, timing, and condition, a buyer can expect a wide range of offers for their retired phones.

Resource of the week:

- To hear more about the ins and outs of trading options, this episode of *Millennial Investing* features a thorough dialogue that touches on the details. Interviewee Tom Sosnoff, the founder of "Think or Swim" which he subsequently sold to TD Ameritrade for \$606 million, talks about his options and futures trading background and what he has learned in his career. Tom explains that options ultimately price themselves based on fear and opportunity, formally known as implied volatility, and are truly mathematically derived financial products accessible to investors today. He also gives a real-life example of how a put or call spread may provide relevant economic exposure at a fraction of the price needed to purchase some of the more expensive and popular stocks today. Have a listen to hear more about how options may fit into some investment portfolios.
- **Podcast link:** <https://www.theinvestorspodcast.com/millennial-investing/rewind-options-trading/>

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 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.

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