Vardhan Views: Week of March 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	-0.5%	-1.5%	-2.5%	-3.4%	-9.5%	-14.8%	-3.4%	-9.5%	-14.8%
U.S. Mid-Cap	-1.0%	-1.8%	-3.5%	-5.3%	-9.5%	-17.1%	-5.3%	-9.5%	-17.1%
U.S. Small-Cap	-0.4%	-1.9%	-3.6%	-5.0%	-10.7%	-16.5%	-5.0%	-10.7%	-16.5%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-1.2%	-8.9%	-8.9%
NASDAQ Composite	-2.8%	-14.8%	-14.8%
International Developed	-6.5%	-12.7%	-12.7%
Emerging Markets	-2.3%	-7.0%	-7.0%
U.S. Aggregate Bond	0.9%	-3.1%	-3.1%
U.S. Municipals	-0.1%	-3.3%	-3.3%
Corporate High Yield	-0.2%	-4.1%	-4.1%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- U.S. stocks suffered additional losses last week as investors continued to price in the developments in Ukraine and the potential economic implications of the conflict.
- Within the S&P 500 Index, growth-oriented sectors including technology, consumer discretionary, and communication services were among the bottom performers.
- The energy sector was the top performer, rising nearly 10% last week, contributing to a ~36% so far this year. More defensive sectors, including utilities and consumer staples, also performed well reflecting the flight-to-safety market sentiment.
- Growth stocks meaningfully lagged value equivalents for both the week and year-to-date. This is in stark contrast to the performance of these segments of the market over the past several years.
- The Cboe Volatility Index or VIX reached its highest point so far this year last week, although volumes have so far been lower than during prior periods of significant market volatility.

International Equity Markets

- Developed, international equities suffered substantial losses, reflecting the direct impact Europe faces from the Ukraine conflict. Emerging market equities also fell but to a much lesser extent.
- European stocks tumbled, giving up much of the relative outperformance versus other major developed economy markets year-to-date.
- Japanese equities were also impacted by recent events but fell to a much smaller degree than European counterparts.
- Chinese equities weren't immune from the sell-off but declined to a lesser extent than other markets.

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

- U.S. Treasury prices were up again last week as government bonds provided haven demand amid the geopolitical backdrop.
- Yields continued to move lower with the 10-year hitting a 9-week low of 1.71% last week.
- Corporate investment-grade spreads were wider on the week by approximately 0.07%.
- Most corporate bond funds received outflows. Investment-grade funds had $3.3 billion of outflows compared with ~$750 million last week. High yield funds reported around $500 million of outflows.
- Between the Russia/Ukraine conflict and employment data on Friday, mid-week - issuers piled into the primary market. Dealers and issuers took the opportunity as 31 new deals came to market.
- State and local debt in the 10-year maturity range yielded 87.9% of comparable US treasuries (up from 81.1% last week) as municipal debt lagged treasury bonds.
- Despite volatile markets, Moody's upgraded the State of New Jersey to A2 with a stable outlook. NJ was a deteriorating credit pre-pandemic and has come out stronger like other municipalities.
- While the treasury curve continues to flatten, the difference between short- and longer-term muni yields has become steeper.

U.S. Economic Data/News

- Russia's actions in Ukraine have been met with a wide series of responses by nations around the world. The U.S. levied meaningful sanctions on Russia, which was followed by many U.S. domiciled companies pulling operations from the region. As an example, Visa and Mastercard suspended their operations over the weekend. MSCI also announced that it would remove Russian securities from its indices.
- Fed Chairman Powell spoke Wednesday in front of the House Financial Services Committee. In his prepared remarks, he signaled for a March rate hike. He was inclined to support a "traditional" 0.25% move. The street also expects a 0.25% liftoff as opposed to more recent talks of 0.50% possibility on March 16th.
- On last week's economic front, February's ISM Manufacturing Survey report increased to 58.6, pointing to signs that the Omicron impact has dissipated. The nonfarm payrolls report out Friday was strong, with 678,000 jobs added in February versus the 481,000 added the month before. The unemployment rate moved lower to 3.8% from 4.0% last month.
- Investors continued to show concern for rising prices, a concern that has only been accelerated by the Ukraine conflict. Commodities have had their strongest start to the year since 1915.

International Economic Data/News

- Like the U.S., many European nations acted in retaliation against Russia's invasion of Ukraine. This included sanctions, cutting access to EU airspace, and removing several major Russian banks from the SWIFT payments system.
- The ECB changed its tone on monetary policy following the potential implications of the conflict in Eastern Europe. Higher energy prices and inflation have the potential to slow growth and push the region back into recession. As a result, they are seeking to retain more flexibility in their forward course of action.
- The Japanese government also joined in enacting sanctions towards Russia. This included also blocking several major Russian banks from SWIFT and freezing local assets of Russian oligarchs.
- China announced a 2022 GDP growth target of 5.5%, the first time the growth target was below 6% since 1991. The target is seen as ambitious with the current economic backdrop and could require their central bank to cut interest rates and stimulate the economy in other ways.
- The Russian Ruble has been under significant pressure and fell to its lowest level on record. Russia's Central Bank raised its policy rate from 9.5% to 20% to help combat the currency's decline, although to little avail so far. Russia's stock market was also closed last week and it's uncertain when it will reopen.

Odds and Ends

- It's been a rocky start to the year for stocks. The S&P 500 has risen or fallen at least 1% in six of the past nine trading days as anxieties over the war in Ukraine, high inflation, and the path of interest rates buffet the market. While volatility continues to be high, some investors see promising signs under the surface. Many investors see reasons for optimism when stocks from different corners of the market rally simultaneously. Such moves hint at the underpinnings of a durable advance, even when that has yet to materialize at the level of major stock indexes. That contrasts with periods in recent years when big tech stocks lifted the market while other sectors languished.
- Shares of Bed Bath & Beyond soared early this week after Ryan Cohen, the billionaire co-founder of pet-supplies retailer Chewy, disclosed a 9.8% stake through his investment firm in the housewares retailer. Cohen, who also serves as chairman of GameStop, sent a letter to Bed Bath & Beyond's board Sunday outlining steps it should take to turn the company around.
- Russia's invasion of Ukraine and hints of slowing wage growth have driven money back into U.S. government bonds, dragging down longer-term interest rates and providing some relief to investors buffeted by declines in riskier assets. Yields on U.S. government bonds dropped last week in two big bursts — early on when investors reacted to a nuclear threat from Russian President Vladimir Putin and then on Friday after data showed a smaller-than-expected increase in workers' average hourly earnings. The decline in yields is in some ways a downbeat economic signal, partially reflecting doubts among investors that the Fed will be able to keep raising interest rates in the coming years due to the myriad ways that the invasion could disrupt the global economy.

Resource of the week:

- Occasionally, an event takes place that causes investors to reassess risk. Russia's actions in Ukraine last week could be a tipping point for one of those events. In a divergence from his normal show, Ted Seides from *The Capital Allocator's* podcast reached out to Marko Papic to see what could be learned about the current crisis. Marko is the Chief Strategist at Clocktower Group, where he provides research on geopolitics, macroeconomics, and markets. The conversation tackles the implication of the events in Ukraine on geopolitics and markets over time. The pair cover Russia, the U.S., oil, China, and answers to the most pressing questions his clients are asking in response to last week's event. It's a fascinating and sobering discussion of what this event could mean for the near-term future of the world.
- **Podcast link**: https://capitalallocators.com/podcast/geopolitical-shock-in-a-multi-polar-world/

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

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