

Vardhan Views: Week of May 9th, 2022

Periodic Returns

| | Trailing Week | | | Quarter-to-Date | | | Year-to-Date | | |
|----------------|---------------|-------|--------|-----------------|--------|--------|--------------|--------|--------|
| | Value | Blend | Growth | Value | Blend | Growth | Value | Blend | Growth |
| U.S. Large-Cap | 0.6% | -0.5% | -1.6% | -5.0% | -9.3% | -13.5% | -5.7% | -14.0% | -21.3% |
| U.S. Mid-Cap | 0.2% | -1.0% | -3.7% | -5.7% | -8.6% | -14.5% | -7.4% | -13.8% | -25.3% |
| U.S. Small-Cap | -0.1% | -1.3% | -2.7% | -7.9% | -11.1% | -14.6% | -10.1% | -17.8% | -25.4% |

| | Trailing Week | Quarter-to-Date | Year-to-Date |
|-------------------------|---------------|-----------------|--------------|
| S&P 500 Index | -0.2% | -8.9% | -13.1% |
| NASDAQ Composite | -1.5% | -14.5% | -22.2% |
| International Developed | -2.8% | -9.1% | -14.5% |
| Emerging Markets | -4.1% | -9.5% | -15.8% |
| U.S. Aggregate Bond | -1.1% | -4.9% | -10.5% |
| U.S. Municipals | -0.7% | -3.5% | -9.5% |
| Corporate High Yield | -1.2% | -4.7% | -9.3% |

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- Most U.S. equity indices were lower last week as interest rate and inflation concerns mounted. The Dow Jones Industrial Average entered correction territory, joining the S&P 500 and S&P MidCap 400 indices down more than 10% from their recent high levels.
- Last week saw meaningful volatility swings as the S&P 500 Index produced small gains to start the week and a sizable 3.0% increase on Wednesday following the Federal Open Market Committee meeting. Then Thursday's -3.6% loss wiped it all out as investors further digested meeting comments.
- A few notable stocks include Marriott International which capitalized on the increased travel demand as its first quarter sales jumped by 81%. Similarly, Airbnb Inc.'s gross bookings grew 67% last quarter to \$17.2 billion. Peloton is looking to sell a 15-20% stake to a qualified private-equity firm to shore up its struggling business or even Amazon.com which explored a full purchase of the company.
- Within S&P 500 sectors, energy was up 10% as the price of Brent crude oil surpassed \$112 per barrel. Consumer discretionary stocks fell by 3% on average.
- Large-cap stocks led small-caps and value outperformed growth last week.

International Equity Markets

- Developed international equities did relatively better overall than emerging markets as represented by their MSCI indices in U.S. Dollar terms, although both regions had meaningful declines.
- European stocks tumbled amid fears that central bank intervention may be further warranted to control inflation. The European Union will continue discussions of implementing further bans on Russian oil despite initially being met with resistance from Hungary, Slovakia, and the Czech Republic.
- Japanese equities slightly rose in a holiday-shortened week supported by a historically weak yen.
- Chinese stocks tanked as the nation showed no signs of easing its strictly enforced lockdowns.

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

- The U.S. Treasury market headed into the close with benchmark yields higher. The 5-year, 7-year and 10-year yields all are above 3%. The yield on the 10-year breached 3.10%, its highest level since late 2018.
- The Treasury yield curve continued its recent steepening trend as long-term inflation expectations—and long-maturity Treasury yields—increased, reducing the likelihood of further yield curve flattening.
- Corporate spreads were slightly wider last week. Both investment-grade and high-yield corporate funds reported considerable outflows of \$5.9 and \$1.1 billion, respectively in the risk-off environment.
- Last week was the second consecutive week in which some companies chose to delay their bond issuance amid the market volatility and uncertainty. Dealers anticipated \$20-\$25 billion of primary issuance but only saw around \$17 billion.
- Municipal yields continued to be at the mercy of Treasuries, although less volatile, moving 5-10 basis points higher on the week. Relative valuations have become attractive for both tax-exempt investors and crossover buyers with yields 80-90% of corresponding Treasuries.
- Municipal funds saw the twelfth consecutive week of outflows losing \$2.67 billion compared to \$2.88 billion the week prior.

U.S. Economic Data/News

- The highly anticipated FOMC decision from last Wednesday resulted in an increase to the federal funds target rate by 0.50%, the largest increase since 2000. To reduce its balance sheet, the Fed will also begin to allow its Treasury and agency mortgage-backed securities holdings to decline in June by \$47.5 billion per month which should increase to \$95 billion per month in September.
- During the press conference that followed the meeting, Fed Chairman Jerome Powell offered forward guidance on the next couple of meetings, stating 50 basis points rate hikes are on the table while ruling out 75 basis point hikes. However, not all investors are convinced interest rate hikes of 75 basis points will not be considered sparking Thursday's equity market sell-off.
- Inflation remains "much too high" according to the Fed, with all eyes looking ahead to Consumer Price Index data expected to be released this Wednesday.
- Friday's nonfarm payrolls came in strong with 428,000 jobs added in April, above expectations of around 390,000 but did not serve to calm markets. The national unemployment rate was stagnant at 3.6%. However, the average wages' monthly growth rate in April was 0.3%, down from 0.5% in March and below expectations which may ease some labor market pressure. On an annual basis, wages for all private sector workers rose by 5.5% in April which was also slightly lower than the annual increase in March.

International Economic Data/News

- The Bank of England raised its key interest rate 25 basis points to a target level of 1.0%, the highest level since 2009. Unlike the U.S., the central bank chose to delay rolling off many of the bonds it purchased during the asset purchasing program. These moves helped push the British pound to a two-year low.
- German manufacturing orders declined by 4.7% in March, a much steeper decrease than was expected driven primarily by fewer foreign orders outside of the Eurozone. Industrial production fell 3.9% in March, the largest decrease since the start of the pandemic, likely due to the situation in Ukraine.
- The Tokyo core CPI rose 1.9% annually in April compared to 0.8% in March. The Bank of Japan believes a significant rise in energy prices is the leading cause which may be temporary.
- In Beijing, widespread coronavirus testing and varying degrees of restrictions are being enforced. As a sign of how impactful Chinese lockdowns have been, spending over the five-day Labor Day holiday plummeted by 43% to \$9.8 billion compared to last year.
- Poland's latest year-over-year inflation reading tallied in at 12.3% versus expectations of 11.4%. This increase is likely due to higher food prices as Poland has accommodated about 3.1 million of the 5.7 million refugees that have left Ukraine, increasing the demand for food.

Odds and Ends

- The destruction of rainforests in Indonesia to build alternate structures fixed on revenue generation has been slowed somewhat from environmentalists' efforts. As demand for commodities has increased, included in this is palm oil which has tripled in price over the last two years to record levels. They are likely to remain high, feeding inflation, exacerbated by environmental groups' continual pressure to prevent rainforest deforestation. As prices increased over the last two years, David Gaveau who is head of TheTreeMap, a forest monitoring organization, expected to see more palm oil extracted upon the destruction of Indonesian rainforests but that is not happening. The higher prices have a silver lining in that some consumers opted for a higher quality, marginally more expensive chocolate made with cocoa butter rather than chocolate made with palm oil.
- Rich Strike, the horse with the longest odds to win the Kentucky Derby out of all horses posted, near 80-1, shocked attendees and spectators everywhere as it won the first leg of the Triple Crown. The horse wasn't even slated to run until Friday when a spot became available after another horse was scratched. Rich Strike had started the race as the second longest odds of any previous Derby winners in history. The race was also the first one held since before the pandemic without any capacity constraints as nearly 150,000 spectators packed the Churchill Downs complex in Louisville, Kentucky.
- As Elon Musk works to close his recent purchase of Twitter, he has received substantial funding from some of his uber-rich friends. Included are Prince al-Waleed bin Talal of Saudi Arabia, Oracle founder Larry Ellison, and a bitcoin exchange which offer up more than \$7 billion in total to the world's wealthiest person. This new funding will cut in half the amount of money the Tesla CEO needs to borrow against his Tesla ownership. Additionally, Musk will now owe around \$20 billion of his personal capital to go through with the purchase. He has told Twitter investors that he could return the company to public markets after a few years of ownership.

Resource of the week:

- This episode of the *Framework Podcast* features an interview with Zach and Michael Conway who discuss their homegrown Seeds Investor business centered on aligning life and wealth goals. Zach and Mike, who also lead the Conway Wealth Group within the Summit Financial ecosystem, focus their efforts on building a business aimed at enabling truly intentional and purposeful investing for clients. They speak with hosts Jamie Hopkins and Ana Trujillo Limón about zeroing in on the "life" aspect of financial planning for clients and choosing a more productive approach for advisors when talking about sustainable investing. Give this episode a listen to hear more about a firm focused on using an increasingly popular investing style today, personalization.
- **Podcast link:** <https://www.carsongroup.com/insights/blog/zach-and-michael-conway-aligning-life-and-wealth-in-investing/>

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. CPI is often used as a barometer to measure inflation. 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. Investment advisory and financial planning services offered through Summit Financial, LLC (“Summit”), an SEC Registered Investment Advisor, doing business as Vardhan Wealth Management (2755 Executive Drive, Suite 190, Farmington Hills, MI 48331-3550; Telephone: 248.365.4440; Fax: 248-365-4446).