

Vardhan Views: Week of June 13th, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-4.4%	-5.1%	-5.7%	-8.5%	-14.0%	-19.3%	-9.2%	-18.4%	-26.6%
U.S. Mid-Cap	-5.0%	-5.1%	-5.4%	-9.2%	-12.3%	-18.6%	-10.9%	-17.3%	-28.9%
U.S. Small-Cap	-4.0%	-4.4%	-4.8%	-8.9%	-12.8%	-17.1%	-11.1%	-19.4%	-27.6%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-5.0%	-13.6%	-17.6%
NASDAQ Composite	-5.6%	-20.1%	-27.3%
International Developed	-4.6%	-10.5%	-15.8%
Emerging Markets	-0.5%	-7.1%	-13.6%
U.S. Aggregate Bond	-1.5%	-5.0%	-10.7%
U.S. Municipals	-1.0%	-2.1%	-8.2%
Corporate High Yield	-2.3%	-6.0%	-10.5%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- U.S. equities finished the week with steep declines as higher-than-expected inflation raised further concerns the Federal Reserve may continue to implement hawkish actions.
- A few notable companies to mention include Microsoft which declared it will soon publicly disclose salary ranges for all U.S. job postings, making it one of the first major employers to take this step. Target warned future profits would further drop because it needs to either cancel orders or offer discounts to clear out unwanted items in lieu of others in higher demand. The major retail giant also claimed recent supply chain setbacks caused some goods to arrive past the ideal selling window, impacting sales' figures.
- All sectors of the S&P 500 declined. Energy was down under 1% buoyed by a small increase in oil prices. On the other hand, higher interest rates hurt many companies in that near-term profits may be hard to come by because of financing challenging. Example sectors with affected companies include financials and technology which both fell more than 6% last week.
- Small-cap stocks marginally outpaced large-caps and value slightly led growth, but no segment of the broad market was spared from volatility as seen in the matrix above.

International Equity Markets

- Developed, international equities fell in-line with their U.S. counterparts while emerging market stocks only experienced a small pullback, boosted by positive news stemming from China.
- European stocks tumbled after the European Central Bank (ECB) hinted it may increase interest rates at a faster than expected pace after July, ending its ultra-loose monetary policy regime.
- Japanese stocks slightly rose in the local currency as data hinted the economy shrunk by less than expected.
- Chinese equities spiked higher last week amid hopes for looser monetary policy. Also, signs emerged that Beijing was easing its crackdown on the technology sector after many years of scrutiny.

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

- The Treasury yield curve flattened significantly following the unexpected inflation news, with the front-end hit the hardest as one-month bills approached 0.99%.
- Two-year yields jumped as much as 12bps to 2.93%, while the 10-year level climbed 4bps to 3.08%. The spread between the five-year and 30-year briefly inverted as both tenors hover around 3.15%.
- Inflation does not appear to be cooling down any time soon and will continue to place heightened pressure on the Fed's course of action over the next few FOMC meetings. As of today, the market is now pricing three half-point hikes over June, July, and September.
- Corporate investment-grade spreads were modestly tighter on the week by around 5bps.
- Investment grade funds recorded \$2.9 billion of outflows versus \$3.03 billion of outflows the week prior. High yield funds reported \$1.34 billion of inflows versus \$4.77 billion of inflows the week prior.
- Weekly corporate supply exceeded dealers' expectations and totaled around \$33 billion by Friday's close, above the projected range of \$25-\$30 billion.
- Municipal bonds' benchmark yields have steepened around the 7-year tenor as shorter maturities have fallen while longer maturities are higher in a bid for safety as interest rate volatility remains.
- Municipal fund flows reversed course after one week of inflows, losing \$2.1 billion through Wednesday.

U.S. Economic Data/News

- Friday's release of the May Consumer Price Index (CPI) report was the economic focus last week. The report showed that headline inflation was 8.6% higher compared to one year ago and higher than April's 8.3% reading. This was a new 40-year high-water mark, disappointing investors who were anticipating price increases to slow. Core CPI, excluding food and energy, also climbed 6% compared to a year ago.
- Weekly initial jobless claims for the week ended June 4th unexpectedly rose to 229,000, above the Dow Jones estimate and is the highest level since January. However, the four-week moving average remained around its lowest level since 1970.
- The next Federal Open Market Committee meeting will be this week on Tuesday & Wednesday, June 14th and 15th. Some analysts think Fed Chairman Jerome Powell may surprise markets with a larger than anticipated rate increase of 0.75%, but such a move would be unlikely as it would be a departure from the central bank's actions thus far this year. Even if a three-quarter percentage point hike doesn't happen this week, it will likely still be in the discussion in July's FOMC meeting as well.

International Economic Data/News

- The ECB lowered its economic growth outlook and raised its projection for inflation. The central bank expects inflation to accelerate to 6.8% in 2022, fall back to 3.5% in 2023, and fall further to 2.1% in 2024. Notably, this implies a level of inflation above 2% for at least three years. The bank also expects the European economy to expand by 2.8% this year before slowing to a 2.1% expansion rate next year. These forecasts help justify why it's planning a future interest rate hike to its key deposit rate, currently at -0.5%.
- Japan's producer prices' rate of increase in May showed a 9.1% increase compared to one year ago. This is lower than a similar reading in April of 9.8%, suggesting that some governmental efforts to ease the pain of higher prices, including fuel subsidies, had an effect. That said, government officials voiced concerns about the rapid weakening of the yen. They plan to carefully monitor the situation at present.
- China's regulators are ceasing various efforts into several individual companies. DiDi Global's ride-hailing app will soon be restored to mobile app stores. Additionally, the initial public offering looks to be back on schedule for the Ant Group after it was scratched in 2020 following comments made by founder Jack Ma.
- Chinese exports grew at a double-digit pace in an encouraging sign for the world's second biggest economy as factories restarted and supply chains' issues subsided after authorities relaxed some COVID-related restrictions in Shanghai. Imports also expanded for the first time in three months in May. China's trade surplus rose to \$78.8 billion last month, up from \$51.1 billion in April.

Odds and Ends

- The average price of regular unleaded gasoline reached \$5 per gallon on Friday night according to Oil Price Information Service. The summer, laden with travel, is not expected to ease short-term demand for the fossil fuel. Gas prices skyrocketed following Russia's invasion of Ukraine in February as various consumers, including traders, shippers, and financiers shunned Russian oil supplies. State average gas prices per gallon ranged from as low as \$4.80 in southeastern states to as high as \$6.43 in western states along the Pacific according to American Automobile Association (AAA). President Biden may meet with leaders in the Middle East later this month to address these rising gasoline prices.
- On Friday, the FDA released a staff review indicating that two doses of Moderna's COVID-19 vaccine were generally safe and effective in children ages 6 months through 5 years old. Three doses of the Pfizer and BioNTech SE vaccine were also found to effective at preventing symptomatic disease in children aged 6 months to 4 years old according to U.S. health regulators. The FDA could make a formal decision this week whether to authorize the two vaccines for use among young children. The organization initially stated there were no new safety concerns using the vaccine in young children compared with the older age groups.
- More than a dozen former McDonald's restaurants reopened in Moscow under a new brand and ownership aimed at displaying Russia's resiliency to weather sanctions. The new brand, called "Vkusno & tochka" which translates to "Tasty & that's it", is owned by Siberian businessman Alexander Govor and uses a marketing campaign to convince Russians that the new chain's burgers are as good as the American version. The reopening provides a platform for Russian officials to highlight what they say is the country's ability to pull through the recent political tensions and remain a leading global nation. Govor agreed to buy all Russian McDonald's locations and keep their current employees on payroll for at least two years. He made his money in mining and oil refinery before exploring the fast-food industry.

Resource of the week:

- This episode of *Bloomberg's Masters in Business* podcast features a conversation between host Barry Ritholtz and Mark Mobius, known as the "Godfather of Emerging Markets". Mark has spent more than 40 years working in and traveling throughout developing economies. Prior to launching the eponymous Mobius Capital Partners in 2018, he served as executive chairman of Franklin Templeton Investments' emerging markets group, which he helped to grow from \$100 million across six markets to more than \$40 billion in 70 countries. He has a Ph.D. in economics from MIT and has authored 12 books. Please enjoy this interesting episode to hear more from an experienced investor who's navigated a challenging area of the market.
- **Podcast link:** <https://www.bloomberg.com/news/audio/2022-06-10/mark-mobius-on-emerging-market-funds-podcast-l48ng5lf>

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. 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).