

Vardhan Views: Week of June 27th, 2022

Periodic Returns

| | Trailing Week | | | Quarter-to-Date | | | Year-to-Date | | |
|----------------|---------------|-------|--------|-----------------|--------|--------|--------------|--------|--------|
| | Value | Blend | Growth | Value | Blend | Growth | Value | Blend | Growth |
| U.S. Large-Cap | 5.3% | 6.6% | 7.9% | -10.0% | -13.7% | -17.3% | -10.7% | -18.2% | -24.8% |
| U.S. Mid-Cap | 4.9% | 6.0% | 8.6% | -12.3% | -14.0% | -17.3% | -13.9% | -18.8% | -27.7% |
| U.S. Small-Cap | 4.0% | 6.0% | 8.4% | -12.8% | -14.4% | -16.3% | -14.9% | -20.9% | -26.9% |

| | Trailing Week | Quarter-to-Date | Year-to-Date |
|-------------------------|---------------|-----------------|--------------|
| S&P 500 Index | 6.5% | -13.3% | -17.3% |
| NASDAQ Composite | 7.5% | -18.2% | -25.5% |
| International Developed | 2.8% | -13.3% | -18.4% |
| Emerging Markets | 0.8% | -10.7% | -17.0% |
| U.S. Aggregate Bond | 0.6% | -5.3% | -10.9% |
| U.S. Municipals | 0.8% | -3.3% | -9.3% |
| Corporate High Yield | 0.6% | -8.2% | -12.6% |

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- Initial signs that inflation and growth could be moderating helped boost stocks over a shortened trading week.
- Every sector within the S&P 500 Index recorded a gain except for energy as oil prices fell from recent highs. The broad index rose 6.5%, lifting itself out of bear market territory.
- Growth-oriented portions of the market generally outperformed. The top-performing S&P 500 Index sectors for the week included consumer discretionary and IT, which are among the poorest performers year-to-date. Interest rate-sensitive sectors, such as real estate and utilities, also performed well – benefitting from modestly lower rates.
- Trading volumes were elevated into the month- and quarter-end period which includes the rebalancing of the Russell indexes.

International Equity Markets

- Developed and emerging market non-U.S. equities also rose last week, although to a lesser degree than U.S. stocks. While still positive, emerging market equities were a relative laggard, rising just under 1% compared to the S&P 500 Index's 6.5% gain.
- European equities broke a 3-week losing streak in hopes that slowing growth might cause the ECB to not raise interest rates as aggressively.
- Japanese stocks also had gains over the week fueled by expectations for the Bank of Japan would continue to implement extremely loose monetary policy.
- Chinese stocks were higher in hopes that President Xi would introduce more stimulative measures to help support the economy and offset the economic toll from zero-tolerance lockdowns.

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

- No slow summer start as the shortened holiday week saw a swift drop in rates as equity markets broke a 4-week losing streak.
- Probabilities and forecasts of a pending recession, drove the US 10-year yield from 3.23% last week to a 3.13% on Friday (dipping to 3.00% support levels on Thursday).
- The front end of the yield curve was also volatile, as 2-year Treasury notes dipped to 2.87% during the week, before settling back to 3.06% at Friday's close.
- Bond markets saw a steeper curve last week as a "bull steepening" trend led short bonds sharply lower in yield, while long-duration bonds were down only slightly in yield.
- Corporate investment-grade spreads were roughly flat on the week. Corporate investment grade and high yield funds both recorded outflows of \$7.5 billion and \$2.6 billion, respectively.
- Corporate weekly volume has been slow and sluggish; failing to reach dealers' estimate for the week and perhaps for the month. Lipper reported that bond investors withdrew cash from funds for the 13th consecutive time.
- Municipal yields fell 8 – 13 basis points on the week, as increased recession concerns drove investors to safe havens and Treasury yields declined.
- The outperformance of Treasuries vs. Munis has moved ratios higher across most of the curve. The 2-5yr part of the curve remains historically expensive while the 7-10yr space provides some attractive points with valuations more fairly priced.
- Municipal funds saw outflows of \$1.6 billion for the week – a trend that has persisted for 18 of the last 19 weeks.

U.S. Economic Data/News

- Fed Chairman Powell was consistent during his Senate banking committee testimony message last week. Tackling inflation was the Fed's main goal, and decisions on rates would be made on a "meeting to meeting" basis. He did acknowledge the challenging task of engineering a soft landing in the economy.
- Fed futures markets started pricing in a slightly higher chance of a 0.50% rate increase, although a 0.75% increase still seems most likely at the next FOMC meeting.
- Early signs suggest that the Fed's recent action to 'cool' the economy is having an impact. Within housing, higher mortgage rates contributed to the lowest level of existing-home sales since June 2020. Additionally, S&P Global manufacturing and service indexes both came in well below estimates.
- Manufacturing input inflation, while still elevated, fell to its lowest level in five months. Output charge inflation, or the prices companies charge, also fell to its lowest level since March of last year.
- The University of Michigan's consumer sentiment index was revised down to 50.0, the lowest level in over 40 years.

International Economic Data/News

- The S&P Global Flash Eurozone Composite PMI, which measures both the services and manufacturing sectors, fell to its lowest level since early 2021 in June. The decline was largely attributable to a noticeable drop in business confidence and new orders.
- Germany moved to its next emergency stage to reduce gas consumption and increase storage inventories after Russia meaningfully reduced pipeline flows. Other European nations, including Austria and the Netherlands, also implemented steps to counter a supply squeeze of natural gas in effort to avoid a winter shortage.
- Japanese inflation is finally exceeding the BoJ's 2% target as the core consumer price index rose 2.1% year-over-year in May. Despite rising inflation, Japan remains committed to its current monetary and fiscal policy stance.
- Many economists and analysts are lowering their growth expectations for China following the country's

zero-tolerance approach to the pandemic and the proceeding impact on local economic activity and supply chains.

Odds and Ends

- Russia appears to have defaulted on its foreign debt for the first time since 1918, pushed into delinquency because of punishing Western sanctions over its invasion of Ukraine. Russia missed payments on two foreign-currency bonds as of late Sunday, according to holders of the bonds. The day marks the expiration of a 30-day grace period since the country was due to pay the equivalent of \$100 million in dollars and euros to bondholders. The default has been long in coming since the West disconnected Russia from the global financial system, creating payment obstacles Moscow couldn't overcome.
- Shares of companies selling staples such as beer, chocolate, and canned soup have outpaced the broader market so far this year. Consumer staples companies are commonly regarded as a haven during volatile markets and recessionary periods. Investors often buy shares of companies that sell these day-to-day household goods for their strong dividend yields and steady business. Shares of staples companies trailed well behind those of technology companies over the past several years, but investors wary of decades-high inflation, tightening monetary policy and, a potential recession are now taking another look at the group.
- Bidding wars which have been a trademark of hot housing markets are becoming more commonplace in the rental market. Real-estate agents from New York to Chicago and Atlanta say they see more people than ever making offers above asking to lease homes and apartments that they will never own. An increasing number of white-collar professionals, some of whom recently sold homes, are reluctant to buy because of record-high home prices, rising mortgage rates, and limited supply. They are renting instead, helping to drive a frenzy for leased properties of all kinds, and helping fuel the trend of offering above asking rents, real-estate agents said.

Resource of the week:

- Bloomberg Radio host Barry Ritholtz speaks with Boaz Weinstein, who is the founder and chief investment officer of Saba Capital Management. Before launching Saba as an independent firm in 2009, Weinstein was co-head of global credit trading at Deutsche Bank, where he founded Saba Principal Strategies as a proprietary trading group in 1998. Weinstein first came to public notice as the fund manager on the other side of the derivatives trade from the London Whale, which ultimately cost JPMorgan Chase losses of at least \$6.2 billion in 2012. Give this podcast a listen for a dynamic conversation with a unique perspective on the hedge fund industry and credit investing.
- **Podcast link:** <https://www.bloomberg.com/news/audio/2022-05-13/boaz-weinstein-on-credit-investments-podcast>

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).