Vardhan Views: Week of July 18th, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-0.8%	-1.1%	-1.3%	0.8%	2.1%	3.4%	-12.2%	-19.3%	-25.6%
U.S. Mid-Cap	-0.8%	-1.3%	-2.2%	1.0%	1.5%	2.5%	-15.4%	-20.4%	-29.3%
U.S. Small-Cap	-0.8%	-1.4%	-2.0%	1.7%	2.2%	2.7%	-15.9%	-21.8%	-27.6%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-0.9%	2.1%	-18.3%
NASDAQ Composite	-1.6%	3.9%	-26.5%
International Developed	-1.8%	-1.5%	-20.8%
Emerging Markets	-3.7%	-3.5%	-20.5%
U.S. Aggregate Bond	0.9%	0.6%	-9.8%
U.S. Municipals	0.3%	1.5%	-7.7%
Corporate High Yield	0.3%	1.8%	-12.7%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- U.S. stocks had modest losses over a busy and volatile week for economic data and markets. Notably, trading volumes were among the lowest for the year.
- The S&P 500 dropped to its lowest level since last month, mid-week before a late rally brought returns to more muted levels.
- Within the S&P 500 Index, more defensive sectors were the best relative performers. Both consumer staples and utilities were next to flat. IT and healthcare also had more muted losses than the broad benchmark.
- Energy and the communication services sector had the largest losses. Oil has now fallen to its lowest price since before the invasion of Ukraine.
- Growth stocks lagged relative to value shares last week. Small-caps also lagged large-caps, although by a small margin. The same trends have persisted throughout the year.

International Equity Markets

- International developed and emerging non-U.S. equities both fell last week. Emerging market equities were a notable laggard – falling nearly 4% dragged by weakness in Chinese shares.
- European equities were lower last week. The euro continued to fall against the USD and broke parity for the first time in over 20 years.
- Japanese stocks were positive last week in local terms but negative in USD terms as the yen continued to slide. The yen is now at its lowest level relative to the USD in 24 years.
- Chinese equities suffered significant losses last week as a wave of unsettling economic and policy data came out of the country.

Authored by the Summit Financial Investment Team

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

- U.S. Treasury yields had mixed results last week as June inflation data rolled in. Front-end rates rose, and longer duration yields fell. Shorter bonds were led by FOMC expectations, while the long end worried about a pending recession.
- Last week was a supply week for U.S. Treasuries. The 3-year auction was well bid, as was the 30-year auction. The 10-year auction last Tuesday came in much weaker than anticipated. Investors were skeptical before pending inflation data. The $33 billion 10-year auction was the weakest since 2020 as foreign buyers "sat out," driving the softer "bid to cover".
- The weekly catalyst was inflation data, including CPI on Wednesday, and PPI on Thursday. While PPI came in just shy of expectations, the consumer price index remained stubbornly elevated. The components of the data were broad-based, and investors' perception for 100 basis points of Fed tightening is "on the table" for the July 27th meeting.
- T-bills and short bonds surged as traders priced in at least 75 basis points of FOMC tightening at the next two meetings. The potential of a 100-basis point hike rose to about 30%. Fed governors fueled the fire, some backing the idea of larger rate hikes, while some remained content with 75 basis point increments
- U.S. high-grade bonds seem somewhat stalled as market volatility and upcoming earnings have many companies on the sideline. There was no issuance on Friday, and this week also looks to be subdued in the primary issuance arena.
- Corporate investment grade spreads were marginally wider last week. Investment grade and high yield funds recorded outflows of ~$3.0 billion and ~$652 million, respectively.
- Municipals proved to be defiant of Treasury volatility with yields steadily lower by 4-5 basis points over the week.
- Muni relative valuation remains decidedly richer inside of 5 years with yields 47%-64% of Treasuries. Fund flows reversed course adding ~$200 million.

U.S. Economic Data/News

- The biggest news last week was the widely anticipated CPI reading from the Labor Department. With a 9.1% increase over the past year ending in June, the inflation rate was the highest since 1981 and dominated sentiment. The increase was relatively broad-based although an 11.2% jump in gas prices didn't help.
- The producer price increase release was more mixed. Headline producer prices rose 1.1% in June over the past year, ahead of consensus. That said, the increase was heavily concentrated in energy prices, and other inputs, such as lumber, fell meaningfully.
- While markets initially interpreted hotter than anticipated inflation negatively, sentiment seemed to shift by the end of the week. Several other inflation indicators came in below expectations and a preliminary survey of consumer sentiment also showed that Americans' five-year forward inflation expectations had declined meaningfully in July.
- Indications of peaking inflation data would further the case for a 75-basis point rate hike at the end of the month versus 100 basis points, which the market had started to price in.
- Yield curve moves have resulted in the widest 2-year/10-year inversion since 2000. Many consider this an important recessionary indicator.

International Economic Data/News

- The Nord Stream 1 gas pipeline supplying Germany with Russian natural gas closed to maintenance work last week. With volumes already down 40%, Germany fears that it may not reopen, in retaliation for European sanctions. Should gas supplies be cut off, Germany may be forced to start rationing gas usage across the country, which could impact the manufacturing sector particularly hard.
- The European Commission (EC) recently lowered its growth forecast based on higher inflation and the continued impact of the war in Ukraine. The EC now expects growth to slow sharply in 2023 to 1.5%, down from a prior estimate of 2.3%.

- Italy's ruling coalition fell last week and Prime Minister Mario Draghi attempted to resign. The right-wing, Five Star Movement, expressed concerns that the government hadn't offered enough to households and businesses to cope with rising inflation and high energy prices. Draghi will now attempt to form a new majority after the President rejected his resignation.
- The Bank of Japan Governor reaffirmed the central bank's commitment to ultra-loose monetary policy, defying the actions of many other global central banks in developed nations. Yields on Japanese sovereign bonds have continued to slide, and the 10-year Japanese Government Bond now yields ~24 basis points.
- China's GDP for the quarter ending in June grew at a below expected 0.4% relative to the prior year. Just after the underwhelming GDP report, news broke that an increasing number of Chinese homebuyers are refusing to pay their mortgages for unfinished construction protections, putting further pressure on sentiment.

Odds and Ends

- A weaker euro is providing a reason for Americans traveling to Europe to splurge. The euro recently touched parity with the U.S. dollar, allowing the USD to go significantly further when traveling abroad. Parity occurs when the two currencies are equal in value. The move marked the euro's lowest level since 2002, with the currency's value relative to the dollar down 15% over the past year. For investors, the milestone caps several months of declines for the euro as the war in Ukraine and other problems affect Europe's energy supplies and economy. But for Americans traipsing across the continent, the euro's weakness and the rising dollar are prompting a shopping spree.
- GE Vernova will be the name of General Electric power business when it splits off from the company in 2024. The new name is a mashup of the Spanish word "verde" for green and "verdant" plus "nova" derived from the Latin "novus," or "new." It joins a growing list of linguistic creations — Altria, Mondelez, Tronc, and Verizon—that companies have adopted to rebrand themselves with varying levels of success. The other two companies will be called GE Aerospace and GE Healthcare.
- More private-equity firms are trying to raise more money than ever before, creating tough competition for investor dollars during a rough time for markets and deal-making. There are 2,845 funds currently in the market, collectively aiming to raise over $1 trillion in capital, according to Preqin. Both figures represent increases of more than 60% over the beginning of 2021. Among those seeking capital are at least nine private-equity funds with targets of $20 billion or more, including the latest vehicles from giants Blackstone Inc., Hellman & Friedman, and Apollo Global. Together, these nine megafunds are responsible for more than $216 billion of the total being sought, the data show.

Resource of the week:

- This episode of *Business Breakdowns* reviews one of the strongest brands in the world, Rolex. Founded in the UK in 1905 under the name Wilsdorf and Davis, Rolex has become the leading name in luxury watches. But while the company's products are iconic, the business itself is highly secretive. Owned by a foundation and run as a nonprofit entity, little is known about Rolex. To unlock the secrets, host Patrick O'Shaughnessy is joined by Ben Clymer, the founder of Hodinkee and an expert on all things luxury watches. Ben has had rare access to Rolex and the people behind the manufacturer, making him the perfect person to dissect the business. Please enjoy this excellent dissection of Rolex.
- **Podcast link**: https://www.joincolossus.com/episodes/12878745/clymer-rolex-timeless-excellence?tab=transcript

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. 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).