

Vardhan Views: Week of August 22nd, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-1.2%	-1.4%	-1.6%	9.3%	12.2%	15.1%	-4.8%	-11.3%	-17.2%
U.S. Mid-Cap	-1.7%	-2.1%	-2.8%	11.4%	12.8%	15.5%	-6.7%	-11.5%	-20.3%
U.S. Small-Cap	-2.7%	-2.9%	-3.1%	13.3%	14.8%	16.3%	-6.3%	-12.1%	-18.0%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-1.2%	12.0%	-10.4%
NASDAQ Composite	-2.6%	15.3%	-18.4%
International Developed	-2.2%	4.2%	-16.2%
Emerging Markets	-1.5%	0.9%	-16.9%
U.S. Aggregate Bond	-0.9%	0.7%	-9.7%
U.S. Municipals	-1.2%	1.2%	-7.9%
Corporate High Yield	-1.2%	6.3%	-8.8%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- U.S. equities declined which snapped a four-week winning streak for the large-cap S&P 500 Index. Recent hawkish comments from Federal Reserve officials along with the release of July's meeting minutes reignited inflationary pressure concerns for investors.
- Within the S&P 500, most sectors fell aside from consumer staples, energy, and utilities which rose. The communication services sector was weighed down by FaceBook parent company Meta Platforms which fell almost 7% last week. Other mega-cap names including Amazon, Apple, and Netflix lagged more than 3%.
- Meme stocks, including GameStop and AMC Entertainment Holdings quite popular among retail investors, slid meaningfully last week. Notably, Bed Bath & Beyond saw a plummet in its stock price by more than 40% on Friday after billionaire activist investor Ryan Cohen sold his entire stake in the company. Cohen is the founder of e-commerce company Chewy and the current chairman of GameStop. He took a sizable position in Bed Bath & Beyond in March inciting changes to the company, only to liquidate it all last week.
- Large-cap stocks led small-caps last week while value marginally outperformed growth, although all equity size and style segments were lower.

International Equity Markets

- International equities lagged as investors considered possible future inflation-dampening measures. Emerging markets slightly led developed, non-U.S. international stocks but both areas declined last week.
- European stocks pulled back amid renewed fears of central bank tightening policies to address inflation.
- Japanese equities started out strong following last week's positive U.S. economic data release. However, sentiment soured, and stock prices fell in-line with other global economies.
- Chinese stocks posted a loss last week reacting to weak economic data and the worst seven-day period of new COVID infections since May as more than 18,000 cases were reported.

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

- The U.S. Treasury curve saw continued steepening and higher rates across the board as a combination of economic data and global central banks were pressuring bond prices.
- Of note, two-year Treasury notes were unchanged at 3.24% while longer-dated yields reset approximately 10 basis points higher last week. The curve remains inverted as two-year notes were nearly 0.28% higher than the benchmark 10-year Treasury level.
- On the supply front, Wednesday's 20-year bond auction was surprisingly weak, tailing from a pre-sale yield of 3.35%. Treasury auctions have become sensitive to the market as investors gauge demand from foreign buyers and dealers.
- Corporate investment grade spreads were mostly unchanged last week. Investment grade (+\$3.48 billion) and high yield (+\$1.46 billion) funds both reported sizable inflows last week compared to the week prior.
- Corporate bond new issuance again exceeded estimates as supply was met with healthy demand at being multiple times oversubscribed. Primary issuance for several weeks has surpassed dealers' projections.
- The municipal curve flattened significantly and shifted higher over the course of the week with short-term yields higher by nearly 40 basis points. The curve is now inverted out to five years.
- The much-needed repricing of the front end has moved yields closer to fair value on a relative basis. As of mid-Friday, ratios currently sat between 65%-80% of short-term Treasuries.
- Municipal funds saw \$229 million in outflows for the week ended Wednesday.

U.S. Economic Data/News

- On Thursday, Federal Reserve Bank of St. Louis President James Bullard said he's considering supporting a 0.75% interest rate hike during next month's Federal Open Market Committee meeting. He is not convinced inflation has peaked despite a small decrease reported through July. Interestingly, he expects the Fed to follow an 18-month process of bringing inflation lower to the 2% target level.
- Minutes from July's Fed policy meeting were released which contained very few surprises. The minutes indicated a consensus decision for the Fed to continue implementing interest rate increases.
- Retail sales surprised to the upside in July, rising 0.7% excluding the volatile gas and auto segments. Industrial production was also strong, rising 0.6% in the month, roughly twice consensus expectations.
- Initial jobless claims totaled 250,000 for the week ended August 13th, down 2,000 from the previous week and below the 260,000 Dow Jones estimate.
- Housing data continued to come in weak as housing starts fell 9.6% month over month. Existing home sales fell 5.9% compared to last month as well.
- The Philadelphia Federal Reserve's monthly manufacturing index rose to 6.2 this month from -12.3 in July, topping all estimates in a poll of Reuters economists, which had a prediction for a reading of -5.0.

International Economic Data/News

- Headline inflation in the U.K. reached 10.1% in July, which surpassed expectations and was the first double-digit reading since 1982. The core rate, excluding food and energy prices, rose to 6.2% which was higher than expected. At the same time, wage growth rose to an annual rate of 4.7% in the second quarter while the labor market has remained historically tight.
- Norway's central bank raised its key interest rate by 0.5% to the 1.75% level to stifle future inflation. The bank, more formally known as Norges Bank, anticipated making another rate hike next month as well.
- Japan's gross domestic product expanded by an annualized 2.2% in the second quarter according to the Cabinet Office's preliminary release which slightly missed expectations. However, industrial production rose by a seasonally adjusted 9.2% in June, more than forecasted.
- The Chinese government issued a national drought alert amid soaring temperatures. Crop harvesting and industrial activity are threatened as the heat wave sparked power outages and forest fires. Industries ranging from steel to electric vehicle batteries are likely to be affected in some way.

Odds and Ends

- The drought in China written about above is not unique to the area, rather a major concern across the entire northern hemisphere of the world. Supply chains are once again complicated along with higher food and energy prices, further stressing the global trade system. The drought affecting Spain, Portugal, France and Italy is on track to be the worst one in 500 years while the western U.S. may be seeing the worst conditions in nearly 1,200 years. Droughts are measured by tree rings reflecting rainfall and average temperatures. Scientists think several droughts are caused by La Niña which creates weather patterns that leave parts of Europe, the U.S., and Asia with less rain. Economies are feeling the pinch as electricity generation, agriculture, manufacturing, and tourism have been affected already.
- Signify Health, a leading home-health services provider, is slated to be included in an auction sale by Labor Day that could value the firm at more than \$8 billion. Major companies vying for this acquisition include Amazon.com, CVS, and United Health Group which would all like to expand in home-health services. This comforting industry exploded with demand as the pandemic took hold in 2020 and less people wanted to leave the safety and well-being of their own home. Signify is currently valued at \$5 billion, which first announced their intent to be purchased earlier this month.
- The regulating body overseeing the country's freight railroads, called the Surface Transportation Board, is toying with the idea of new rules which would force railroads to share tracks and improve competition for customers. The board is also demanding that railroads address the persistent shipment delays that have affected people, customers, and politicians nationwide. So far, the railroads have defended their lackluster service as being subject to the severe staffing shortages like many businesses face in today's world. In 2021, President Biden passed an executive order to ensure the rail freight industry is competitive to all participating companies.

Resource of the week:

- ChargePoint is the clear market leader in the United States for your electrical vehicle chargers, founded in 2007 by five technical founders. The business has ridden the wave of EV (electric vehicle) growth and has manufactured some 40% of the charging points in the US. This episode of *Business Breakdowns* features a conversation with Mark Tomasovic, a principal at Energize Ventures. Along with host Jesse Pujji, they discuss the challenges of a commoditized business, how ChargePoint is leading the EV land grab and why the U.S. is at a particularly interesting point for EV adoption. Please enjoy this business breakdown of the innovative firm ChargePoint.
- **Podcast link:** <https://www.joincolossus.com/episodes/98235358/tomasovic-chargepoint-fuel-stations-of-the-future?tab=transcript>

Sources: The WSJ, T. Rowe Price Global Markets Weekly Update

DISCLAIMER

This commentary was written by Craig Amico, CFA®, CIPM®, Associate Director of Investment Management, Noreen Brown, CFA®, Deputy Chief Investment Officer and Steven Melnick, CFA®, Associate Director of Investment Management 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).