

Vardhan Views: Week of October 24th, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	3.9%	4.7%	5.4%	5.5%	4.6%	3.7%	-13.2%	-21.1%	-28.1%
U.S. Mid-Cap	3.3%	3.6%	4.1%	3.9%	3.5%	2.7%	-17.2%	-21.6%	-29.6%
U.S. Small-Cap	3.3%	3.6%	3.8%	6.0%	4.7%	3.5%	-16.4%	-21.6%	-26.8%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	4.8%	4.7%	-20.3%
NASDAQ Composite	5.2%	2.7%	-30.2%
International Developed	0.5%	1.1%	-26.3%
Emerging Markets	0.2%	-1.2%	-28.0%
U.S. Aggregate Bond	-1.1%	-2.5%	-16.7%
U.S. Municipals	-1.2%	-0.3%	-12.4%
Corporate High Yield	0.3%	0.6%	-14.3%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- Domestic stocks flourished last week as investors reacted to positive earnings and hints the Fed may reduce the size and frequency of interest rate hikes. The S&P 500 produced its best weekly gain in four months.
- Some companies worth mentioning include airline juggernauts United and American Airlines. Both firms reported record revenue last quarter as consumers continued traveling for business and leisure despite higher costs. Netflix said it added 2.4 million new subscribers last quarter, double expectations. The streaming giant is focused on password crackdowns and is in the early stages of using ad-supported content. Procter & Gamble is on pace for its first annual sales decline in five years. The firm plans to reduce some marketing expenses but not the headcount it grew during the pandemic to meet consumers' demand.
- Within the S&P 500 Index, energy outperformed even though President Biden announced the release of another 15 million barrels from the Strategic Petroleum Reserve likely sometime in December. The utilities and consumer staples were only up a couple percent each to round out the bottom sectors.
- Large-cap stocks led small-caps and growth beat value last week, turning all size and style buckets positive for the fourth quarter thus far.

International Equity Markets

- International equities were mixed based on the specific region considered. Developed non-U.S. stocks slightly rose and marginally led emerging markets in U.S. dollars.
- European shares were higher after the most recent U.K. Prime Minister Liz Truss resigned ending her ability to make questionable policy decisions in the current inflationary environment.
- Japanese stocks declined as recession fears and currency weakness remained prevalent. The value of the yen decreased further versus the dollar to about 150 USD/JPY, a 32-year low.
- Chinese stocks showed a weekly loss as the release of key economic data was mysteriously delayed.

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

- U.S. Treasuries prices were down early Friday, as benchmark yields continued to drive higher.
- The 10-year yield approached 4.29%, the highest level since 2007, before moving back down to 4.21% on Friday afternoon. The front-end was flat on the week, with the yield on the 2-year note ending at 4.49%.
- Corporate investment-grade spreads were flat. Investment-grade funds reported \$3.62 billion of outflows compared to \$144 million of outflows in high yield funds although both corporate sectors' outflow totals were less than the week prior.
- Primary issuance fell short of dealers' expectations amid interest rate volatility. Last week approximately \$19 billion of investment-grade bonds were issued versus estimates north of \$25 billion. Similarly, for the month of October issuance totals near \$39 billion are compared to \$75 billion of projections.
- Municipal yields were slightly higher on the week heading into Friday despite continued Treasury curve volatility. Municipal bond funds saw \$2.6 billion of outflows for the week ending Wednesday.
- Although absolute value is attractive, relative ratios remain on the richer side of historical fair value. Below are approximate current muni yield valuation levels relative to Treasuries:
 - 2 year- 69%
 - 5 year- 72%
 - 7 year- 74%
 - 10 year- 78%

U.S. Economic Data/News

- On Tuesday, Minneapolis Fed Bank President Neel Kashkari indicated an unwillingness to slow interest rate hikes until inflation decreases. Futures markets subsequently priced in the federal funds rate reaching near 5% by early 2023. On Friday however, the Wall Street Journal cited Kansas City Fed President Esther George, nicknamed the "Fed whisperer", called for a slower pace of rate increases and to evaluate the impact the Fed's actions have had on the economy already. Markets liked the WSJ article and reacted accordingly.
- The housing market seems to be cooling off as U.S. existing home sales fell for an eighth straight month in September, the longest streak in 15 years according to the National Association of Realtors. Since homes typically go under contract a month or two before closing, recent data likely reflects contractual decisions made around August, when interest rates were somewhat lower than they are today.
- Initial jobless claims decreased to a seasonally adjusted 214,000 from the prior week's 226,000 reading according to the Labor Department. This low level of initial claims is symbolic of a low number of layoffs amid the tight labor market.
- The federal budget deficit shrank to roughly \$1.4 trillion in the 2022 fiscal year and is expected to remain steady at that level in the near-term according to economists. However, consensus calls for a widening deficit in the future as the economy cools and higher interest rates impact the borrowing ability of businesses. Recently the White House estimated the shortfall will increase to \$1.6 trillion in 10 years.

International Economic Data/News

- Great Britain's political and economic confusion continued as Prime Minister Liz Truss resigned last week making her the shortest serving prime minister in the history of the United Kingdom with just 45 days in office. Her policies called for large-scale borrowing and tax cuts, which resulted in financial instability. A leadership contest took place as former Chancellor Rishi Sunak won and is slated to become the next U.K. prime minister. He beat out other top contenders Penny Mordaunt and Jeremy Hunt.
- The U.K. consumer price index was 10.1% higher in September on a year over year basis because of higher food prices. This is higher than the 9.9% recorded in August. Also, retail sales dropped 1.4% in September.
- Japan's core inflation hit 3% for the first time in three decades. In response, the Japanese Trade Union Conference will advocate for the largest union members' pay raise in 30 years amid the high inflation.
- China's National Bureau of Statistics reported Chinese GDP grew by 3.9% in the third quarter. It initially failed to report this data on schedule without an explanation, raising speculation amongst observers.

Odds and Ends

- Nearly one-third of all S&P 500 companies, or more specifically 161 total, are scheduled to report their third quarter results this week. Analysts can meticulously glean insights as to how well companies have navigated the bumpy path of the economy. Mega-cap names reporting and dominating headlines include Amazon.com, Apple, Meta Platforms, Alphabet, and Microsoft, as high inflation, supply-chain challenges, and a strong dollar all likely impact the bottom line in some way. Results from credit-card companies Visa and Mastercard will indicate to what extent inflation has impacted consumer spending. In total, 12 of the 30 companies in the Dow Jones Industrial Average are expected to report. Overall, broad S&P 500 earnings are on track to rise 1.5% last quarter compared to last year while revenue is expected to grow 8.5%, according to FactSet.
- China's most powerful leader in decades, President Xi Jinping, was reelected as head of the ruling Communist Party on Sunday. Jinping, who is 69 years old, had first assumed power in 2012 and served two five-year terms. He was awarded a third five-year term which broke the 10-year leadership cycle in place since the 1990s. Soon after being awarded his third term, Mr. Xi reiterated his agenda which includes a "self-revolution", reorienting the economy towards "high-quality development", and an assertion that China remains central and influential in global affairs.
- The current commissioner of the Internal Revenue Service, Charles Rettig, has three weeks left in his term at the helm. President Biden still hasn't selected anyone to fill this critical role in the dominant tax agency. In August, the Inflation Reduction Act of 2022 was pushed through Congress and called for increased tax enforcement at the IRS, aiming to increase gross revenue over 10 years and emphasizing the importance that a qualified, able-bodied leader be in place. The lack of a new leader at this point almost certainly guarantees there will be an interim IRS commissioner after Rettig's term expires on November 12th. If the vacancy lasts until January and Republicans win the Senate majority, then that party could influence or even reject a Biden nominee for the role.

Resource of the week:

- This episode of *Masters in Business* includes an interesting conversation with host Barry Ritholtz and Marta Norton, Chief Investment Officer of Morningstar Investment Management. Norton's responsibilities are widespread from equity, fixed income, and alternative asset research, asset allocation, and portfolio management. Prior to Morningstar, Norton's career included a brief stint at the Bureau of Labor Statistics where she was a research analyst and economist and some time at LECG LLC. The conversation spans legacy inflation tracking indices, the development of ETF research and managed portfolios available at Morningstar, as well as personalization – sometimes known as direct indexing within investment management. Have a listen to hear more from Marta.
- **Podcast link:** <https://www.bloomberg.com/news/audio/2022-10-21/marta-norton-on-direct-indexing-and-investments-podcast>

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).