Vardhan Views: Week of November 21st, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-0.5%	-0.8%	-1.1%	13.9%	10.6%	7.3%	-6.3%	-16.6%	-25.6%
U.S. Mid-Cap	-1.3%	-1.6%	-2.1%	13.0%	12.0%	10.2%	-10.0%	-15.2%	-24.5%
U.S. Small-Cap	-1.8%	-1.7%	-1.6%	13.6%	11.3%	9.1%	-10.4%	-16.6%	-22.8%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-0.6%	10.9%	-15.6%
NASDAQ Composite	-1.5%	5.6%	-28.2%
International Developed	0.3%	15.9%	-15.5%
Emerging Markets	0.8%	7.8%	-21.5%
U.S. Aggregate Bond	0.5%	1.1%	-13.7%
U.S. Municipals	1.9%	2.8%	-9.7%
Corporate High Yield	0.7%	3.7%	-11.6%

Source: Morningstar, see ‘Disclaimer’ for details

U.S. Equity Markets

- U.S. equities, as measured by the S&P 500 Index, declined slightly last week as investors continued to price in the likelihood and magnitude of a potential recession.
- Growth stocks lagged value shares, which were supported by gains within constituent sectors. Small caps also lagged large caps.
- Within the S&P 500 Index, defensive sectors including consumer staples, utilities, and healthcare were positive and were the top performers. More cyclically sensitive areas of the market, including consumer discretionary and energy, were the biggest laggards.
- A variety of retailers reported earnings last week with mixed results. Target shares fell meaningfully after the company announced disappointing consumer spending while other retailers, such as Walmart, Ross Stores, and Foot Locker had more constructive earnings.
- So far this year, value shares continue to lead growth stocks while large caps have led small caps.

International Equity Markets

- Developed, international equities had slight gains last week while emerging market stocks rose just under 1%.
- European equities rose slightly last in both local and USD terms.
- Japanese stocks lost ground in local terms and were down further when converted to USD terms. The yen continues to be at historically weak levels compared with other global currencies at around JPY 140 against the dollar.
- Chinese equities had strong gains in both local and USD terms as investors were encouraged by loosening COVID restrictions despite rising cases.

Authored by the Summit Financial Investment Team

Credit Markets (from our partners at Piton Investment Management)

- Treasury yields were little changed last week, although the 10-year yield fell to a low of ~3.69% last Wednesday.
- Investment grade, corporate bond performance was positive last week benefitting from modestly tighter spreads.
- High yield bond funds saw investors add cash for the fourth straight week while investment grade bond funds had outflows for the 13th consecutive week.
- The corporate bond market has been in a "feast or famine" environment over the last few weeks as inflation data and Fed comments have spiked volatility in rate markets. On days of calmness, issuers flock to sell new bonds and disappear when rate movements are more volatile. November volume currently sits at $73.8 billion, in line with estimates of $75 billion.
- Within the primary issuance market, there is an increasing divergence between winners (ex. defensive company/strong demand) and losers which are more vulnerable to a potential economic downturn.
- Municipal yields fell sharply, outperforming Treasuries, as muted supply, attractive valuations, and fund flows drove performance. Outperformance moved relative value ratios vs Treasuries lower.
- After 14 consecutive weeks of outflows, municipal funds reversed course and saw $605 million of inflows last week.

U.S. Economic Data/News

- Earlier last week saw a rise in yields following Fed rhetoric. St. Louis Fed President James Bullard suggested rates need to continue to rise, indicating the main policy rate target may need to move to around 5% to 7%.
- Signals out of the labor market point to conditions that remain tight. Initial jobless claims came in at 222,000 which was slightly lower than expectations, and just below the prior week of 225,000 claims. Retail Sales pointed to strength as the headline figure rose 1.3%, up from 1.0% surveyed and no change the prior month.
- Despite resilient headline labor figures, there are increasingly large layoff numbers from a variety of notable employers. For example, Amazon.com announced around 10,000 job cuts last week and is among a host of other major tech companies following a similar trend.
- Industrial production was lower in October, dragged down by weakness in energy and materials.
- The U.S. Treasury yield curve inverted further during the week, pushing the 2s10s inversion to its deepest level in 40 years. Historically, this part of the curve is the most closely watched as an indicator of an impending recession.

International Economic Data/News

- The UK finance minister unveiled a series of fiscally austere policy measures. This included tax increases, spending cuts, and new fiscal rules aimed at restoring Britain's credibility within international markets. These measures come as the UK's inflation surged to a 40+ year high in October.
- Japanese core inflation rose to its highest level in 40 years in October at 3.6% compared to a year earlier. While staying committed to its ultra-loose monetary policy, Bank of Japan Governor Kuroda acknowledged that there could be a continued acceleration of inflation from here.
- Chinese economic officials have announced a variety of new programs to help support its challenged property market. This included extending loans to both developers and homebuyers.
- President Biden and Xi had an extended meeting last week which some saw as an encouraging de-escalation data point for further tensions.

Odds and Ends

- Sinking stock prices and a change in proxy-voting rules are emboldening many first-time shareholder activists to seek changes at some of the biggest names in American companies. Businesses are feeling particularly vulnerable because of new rules imposed by U.S. regulators in September requiring the use of an universal proxy card in corporate-director elections, bankers and lawyers say. In the new format, directors nominated by a company must be listed on the same ballot as those put forth by activists, enabling investors to pick and choose, rather than voting entirely with either the company or the activist.
- Citing an increase in the bear population and a rise in the number of bear-human interactions, New Jersey Governor Phil Murphy reversed his position on allowing the killing of black bears. He signed an executive order this past Tuesday that will give hunters a six-day season next month. "The facts on the ground have shown that we cannot rely on nonlethal methods alone to protect New Jersey residents from a growing black bear population," he said. The fierce debate that accompanied New Jersey's actions demonstrates the increasingly politicized nature of wildlife-management decisions, something experts expect will grow over time.
- Disney's board of directors on Sunday night replaced Chief Executive Bob Chapek with Robert Iger, the company's former chairman and CEO who left the company at the end of last year. The surprise change comes at a tumultuous time for Disney. This month, the company reported weaker-than-expected fourth quarter financial results, hurting the momentum built up over a strong year that saw record revenue and profits in multiple divisions, especially the one that includes theme parks.

Resource of the week:

- Bloomberg Radio host Barry Ritholtz speaks with ETF industry pioneer Dave Nadig, who currently serves as a financial futurist at the data, analytics, and thought-leadership firm VettaFi. Nadig, who has more than 25 years of experience in the field — including as managing editor at ETF.com — co-authored a definitive book on ETFs, "A Comprehensive Guide To Exchange-Traded Funds," for the CFA Institute. For an update on all things ETFs, give this fascinating conversation a listen.
- **Podcast link**: https://www.bloomberg.com/news/audio/2022-11-11/dave-nadig-on-exchange-traded-funds-podcast

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

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This commentary was written by 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).