

August 2020

## Overview

The global equity markets surged during August, once again led by U.S. stocks. As businesses and schools continued to reopen, investors seemed to look past the upswing in new COVID-19 cases and mixed economic data. Steady monetary support from the Federal Reserve and the promise of additional fiscal spending supported equities as well as cyclical commodities. Fixed income returns for the month were lackluster with low yields compounded by price declines in long-term and lower quality bonds.

Historically low interest rates have made equities more attractive relative to fixed income by increasing the value of future earnings and lowering the return offered by bonds. However, the equity markets are poised to be disappointed if efforts to conquer the coronavirus pandemic and accommodative government policy falls short. There has been considerable optimism that an effective vaccine for COVID-19 will soon be available and that new treatments will mitigate the long-term health effects of the virus. The upcoming U.S. election is widely expected to usher in a period of extreme uncertainty and ongoing tensions with China could once again roil the stock markets. We recommend that investors remain well diversified with a mix of growth, defensive, and low volatility assets that are in line with their target allocations.

## Equity Markets

- The technology, health care, and cyclical consumer sectors outperformed for the month. The energy sector continued to sharply lag.
- Growth stocks, particularly in the U.S. technology sector, are supported by favorable earnings growth but are expensive relative to other sectors.
- Market volatility expectations, as measured by the CBOE Volatility Index (VIX), remained above average, but hovered in the 20 to 25 range.

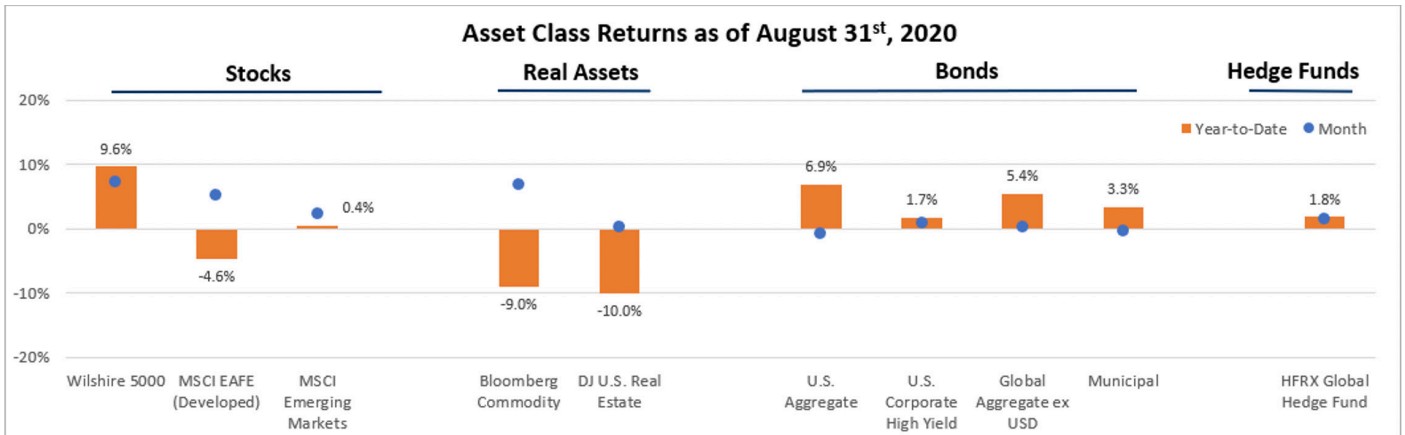
## Fixed Income Markets

- The Fed announced they would be implementing a more flexible approach that would allow inflation to exceed the current 2% target. This raised expectations for interest rates and inflation over the long term. Inflation sensitive investments such as TIPs benefited but long-term bond prices declined.
- Credit concerns remain elevated in the municipal and corporate bond markets for some issuers. Overall, higher yielding bonds have outperformed Treasuries and high-quality credit-sensitive bonds in recent months.

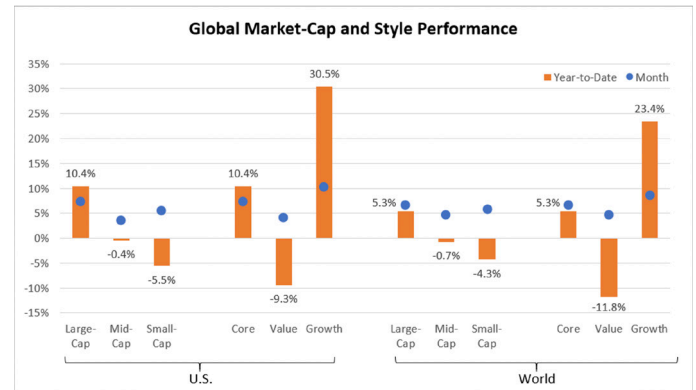
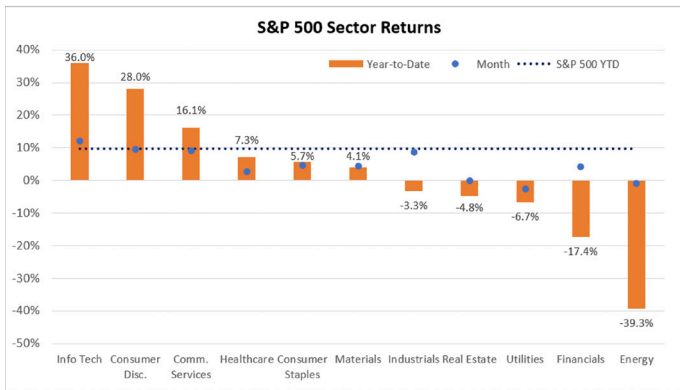
## The Economy

- Global economic growth is expected to sharply rebound in the third quarter. U.S. economic activity, as measured by the Institute for Supply Management (ISM) Indexes, has now expanded for three months. The Atlanta Fed GDP Estimate for third-quarter annualized growth is 28.5%. Economic growth is expected to rebound sooner and be more robust outside the U.S.
- The U.S. dollar continued to weaken. This should be positive for U.S. companies that can benefit from more competitive exports.
- Employment data was better than predicted but unemployment remains elevated. U.S. consumers are being conservative and saving more. Consumer sentiment has weakened which could dampen the domestic economic rebound.
- Oil prices rallied due to a reduction in supply and a favorable outlook for global economic recovery. Other cyclical commodities such as copper also gained.

## Market Data



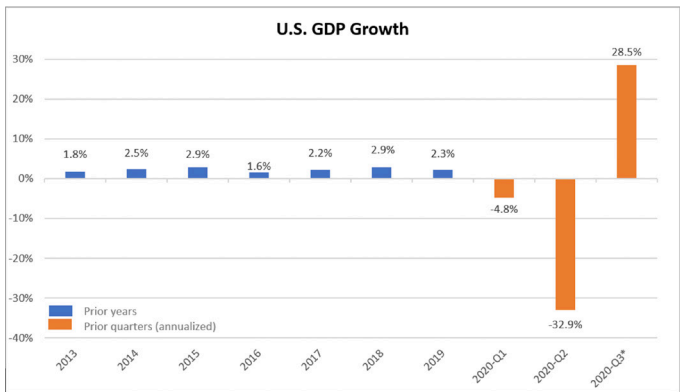
Morningstar®, bond indices from Bloomberg Barclays



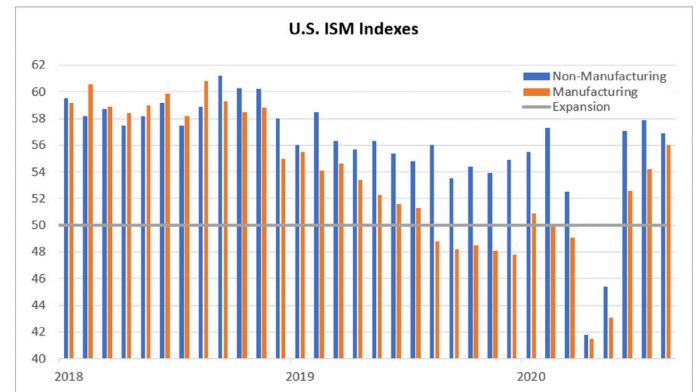
Bloomberg

Bloomberg; U.S. indices from Russell and World indices from MSCI

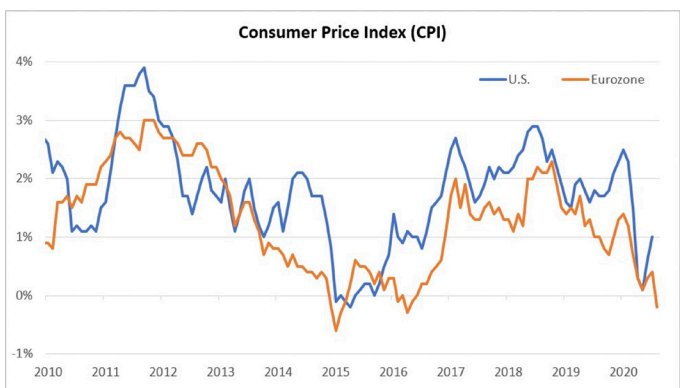
## Economic Data



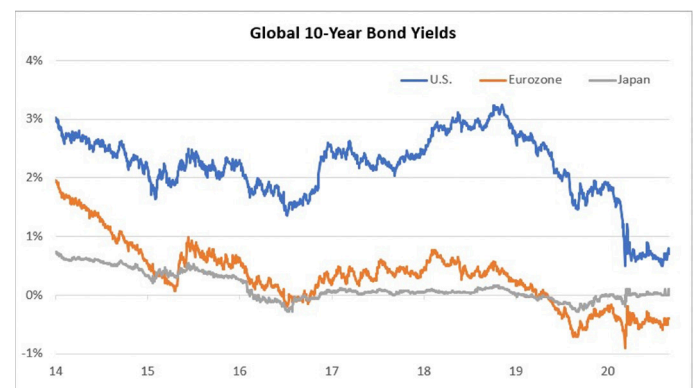
U.S. Department of Commerce, \*Atlanta Fed GDP Now estimate



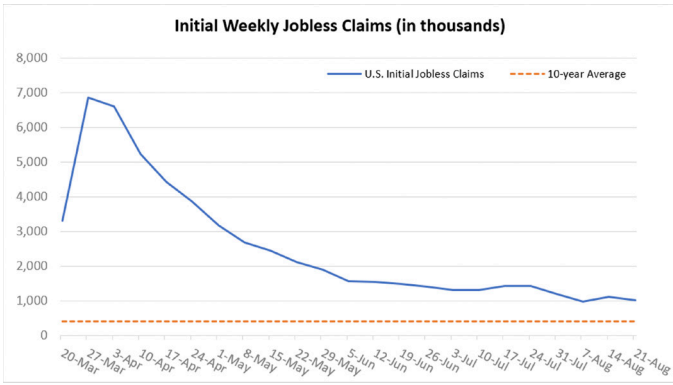
Institute for Supply Management



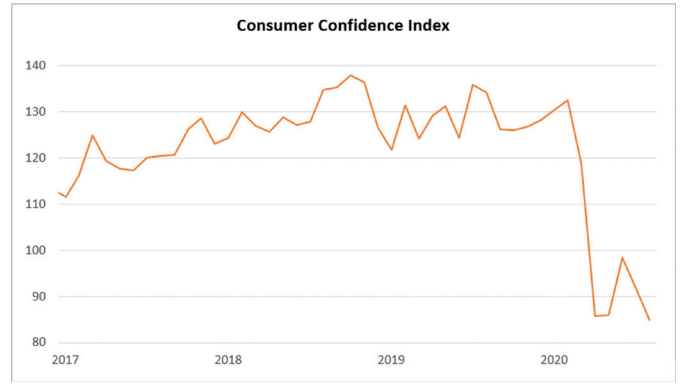
U.S. Bureau of Labor Statistics



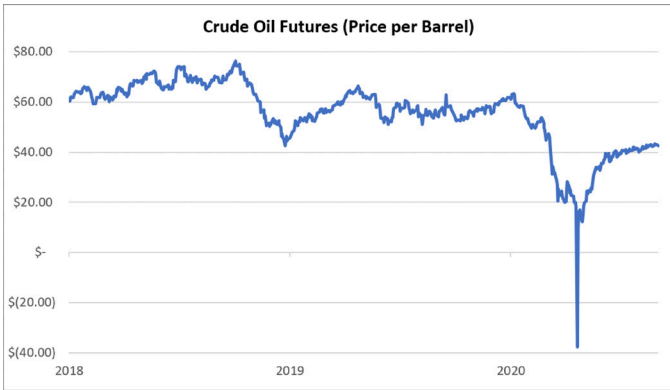
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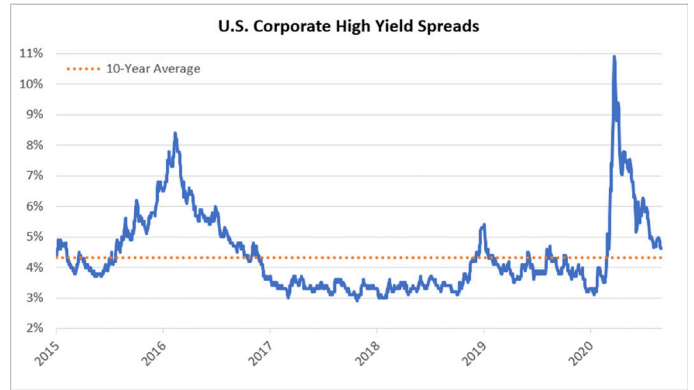
U.S. Department of Labor



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This commentary was written by Craig Amico, CFA®, CIPM®, Senior Investment Analyst, Noreen Brown, CFA®, Director of Portfolio Management and Steven Melnick, CFA®, Senior Investment Analyst 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 to sell securities. Summit is an investment adviser and offers asset management and financial planning services. Indices are unmanaged and cannot be invested into directly. The Sustainable Spotlight portion of this report is written and provided by Seeds Investor LLC (“Seeds”). Seeds is an SEC Registered Investment Advisor which is not affiliated with Summit. The market return chart 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 BBgBarc US Agg Bond TR USD Index, U.S. Municipals by the BBgBarc Municipal TR USD Index, and Corporate High Yield by the BBgBarc US Corporate High Yield TR USD Index. The Wilshire 5000 Total Market Index measures the performance of all U.S.-headquartered equity securities with readily available price data. The Standard & Poor’s 500 Index (S&P 500) is an unmanaged group of securities considered to be representative of the stock market. The Russell 2000 Index is a market-cap weighted index comprised of the smallest 2,000 companies within the Russell 3000 Index, a larger market-cap index made up of the largest 3,000 publicly traded companies in the U.S., nearly 98% of the investable U.S. stock market. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI Europe Index captures large- and mid-cap representation across 15 Developed Markets countries in Europe, covering approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe. The MSCI Emerging Markets (EM) Index captures large- and mid-cap representation across 26 Emerging Markets countries, covering approximately 85% of the free float-adjusted market capitalization in each country. The MSCI Japan Index captures large- and mid-cap representation of the Japanese market, covering approximately 85% of the free float-adjusted market capitalization in Japan. The Bloomberg Barclays U.S. Aggregate Bond Index is a market capitalization-weighted index comprising Treasury securities, Government agency bonds, mortgage backed bonds, corporate bonds, and some foreign bonds traded in the U.S. The Bloomberg Barclays Global Aggregate Ex U.S. Index measures the performance of global investment grade fixed-rate debt markets that excludes USD-denominated securities. The Bloomberg Barclays Municipal Bond Index covers the U.S. dollar-denominated long-term tax-exempt bond market. Created by the Chicago Board Options Exchange (CBOE), the Volatility Index, or VIX, is a real-time market index that represents the market’s expectation of 30-day forward-looking volatility. Data in this newsletter is obtained from sources which 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.

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