Market Weekly Update

Week of July 11, 2022

KANDOR GLOBAL

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-toDate		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	0.4%	2.0%	3.7%	1.6%	3.2%	4.8%	-11.4%	-18.4%	-24.6%
U.S. Mid-Cap	0.4%	1.4%	3.4%	1.8%	2.9%	4.8%	-14.7%	-19.3%	-27.7%
U.S. Small-Cap	1.0%	2.4%	3.9%	2.5%	3.6%	4.7%	-15.2%	-20.7%	-26.1%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	2.0%	3.1%	-17.5%
NASDAQ Composite	4.6%	5.5%	-25.3%
International Developed	1.0%	0.2%	-19.4%
Emerging Markets	0.9%	0.2%	-17.5%
U.S. Aggregate Bond	-0.9%	-0.3%	-10.6%
U.S. Municipals	0.8%	1.2%	-7.9%
Corporate High Yield	1.3%	1.5%	-12.9%

Source: Morningstar, see 'Disclaimer' for details

Resource of the Week

- Ashvin Chhabra is the President and Chief Investment Officer of Euclidean Capital, the family office for Jim Simons of Renaissance Technologies. Ashvin joined Euclidean in 2015 after spending time as CIO of the Institute for Advanced Study and CIO of Merrill Lynch Wealth Management. He is also recognized as one of the founders of goals-based wealth management. This episode of Capital Allocators with Ashvin covers his upbringing and his path from physics to investing. Also discussed are his "Beyond Markowitz" portfolio management framework, application of it to high-net-worth individuals, foundations, the Yale endowment, Warren Buffett, and a single-family office. Ashvin shares the story of interviewing with Jim Simons, his critique of endowment management, manager selection, and perspectives on interest rates and bitcoin.
- Podcast link

U.S. Equity Markets

- In a switch from last week, U.S. stocks gained ground as optimism mounted that the Federal Reserve could quell inflation and navigate a soft landing without inducing a recession. The gains brought the S&P 500 Index out of a bear market but is still around 17.5% lower on the year.
- Within the S&P 500, sectors were mixed. Communication services, consumer discretionary, and information technology outperformed and lessened their year-to-date negative returns. Energy and utilities lagged.
- Several companies had notable news to report. Shell anticipates strong second-quarter earnings around $1 billion because of record fuel prices while Ford reported a 32% increase in U.S. sales in June due to pent-up demand and a brand-new electric truck. American Airlines mistakenly dropped thousands of future flights because of a computer glitch and seeks to redeem this error by paying pilots triple their normal wages to work these flights, while airline industry tensions remain elevated.
- Small-cap stocks outpaced large-caps last week and growth beat value. These two themes reduced the disparity between market-caps and styles for the year as small-cap and growth stocks lag the most.

International Equity Markets

- International developed and emerging non-U.S. equities advanced last week to recover some ground. Both broad regions rose around 1.0% according to their MSCI indices in the U.S. dollar currency.
- European stocks were slightly higher although concerns grew after an energy shortage is thought to maybe cause a European recession. Digesting the Chinese coronavirus situation was also a factor.
- Japanese equities rose but were overshadowed by Friday's shocking assassination of former prime minister Shinzo Abe who was giving a campaign speech in the city of Nara. He had formally resigned from his role in 2020 and previously developed the signature economic policy, "Abenomics", still used in Japan today.
- Chinese stocks lagged as rising coronavirus cases and geopolitical tensions hurt sentiment.

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

- Two-year Treasury yield surged by 13 basis points (bps) to 3.13%, while the 10-year moved 10bps higher to 3.09%. The yield curve remained inverted with the 2s10s spread hovering around -3.135bps.
- Odds for the Fed to raise short-term rates by 75bps rather than 50bps in July increased, with next week's consumer price inflation (CPI) report in full focus.
- Corporate investment-grade bond spreads tightened last week by around 5bps reflective of some minor increased appetite for risk.
- Investment-grade funds recorded $5.7 billion of outflows versus $3.6 billion the week prior. However, high-yield bond funds saw $889 million of inflows compared to $1.59 billion of inflows one week ago.
- Municipal bonds outperformed Treasuries on the week with yields 8-13bps lower as July's reinvestment drove performance.
- Municipals divergence from Treasuries have resulted in valuations that continue to richen especially in the 0–5-year space with Muni/Treasury ratios in the 55%-67% range. The 7–10-year portion remains attractive (75%-85%) but has become more expensive since last week after the ratio was around 85-95%.
- Municipal funds saw outflows of $313 million for the week ended Wednesday following $1.3 billion the week prior. Next week will bring some elevated supply with $10.4 billion expected.

U.S. Economic Data/News

- On Friday, the Labor Department reported that 372,000 jobs were added in June, surpassing expectations of around 270,000. The national unemployment rate remained stagnant at a healthy 3.6%.
- Average hourly earnings increased 0.3% for the month and were 5.1% higher from a year ago. Earnings growth recently peaked in March at a 5.6% annual figure and makes it more probable the Fed will move ahead with aggressive interest rate hikes over the coming months.
- S&P Global and the Institute for Supply Management (ISM) both released their final services activity estimates for June. Both reports came in above expectations but indicated a slowdown in growth. In fact, the ISM measure fell to its lowest level since June 2020 during the pandemic.
- Federal Reserve officials reiterated their hawkish stance, vowing to raise interest rates as much as necessary to reduce long-term inflation. By week's end, federal funds futures were no longer pricing in any chance that the Fed would raise rates by less than 0.75% at its July 28th-29th policy meeting. Some futures even forecasted an aggressive 100bps hike.
- On late Friday, Tesla and SpaceX CEO Elon Musk publicly announced his intention to terminate the $44 billion purchase of Twitter based on claims the company hasn't provided the information he needs to determine the frequency that fake or spam accounts are used on the platform. Musk filed a letter with his lawyers which caps a two-month long saga between him and Twitter, and almost certainly will end up in a court battle. Twitter claims there are no guarantees that Musk can walk away from the deal entirely.

International Economic Data/News

- British prime minister Boris Johnson announced his intentions to step down from his leadership role on Thursday amid a series of scandals and distrust stemming from government officials. He said he would stay in an office “caretaker” position until a successor is found which may take until September. Johnson became prime minister in 2019 after a landslide victory solidified the position for him.
- Germany showed a trade balance deficit of €1 billion in May, the first since 1991, as exports fell unexpectedly largely because of supply chain constraints. On the other hand, imports surged given the higher prices for food, energy, and materials.
- The shooting of Shinzo Abe was a shock for a nation almost absent any gun violence. His economic policy, based on monetary easing, fiscal stimulus, and structural reforms, is still in use today under current prime minister Fumio Kishida.
- In China, the Caixin Servicing Purchasing Managers’ Index for June spiked to 54.5 from 41.4 in May, evidence the nation is recovering from easing some coronavirus restrictions.

Odds and Ends

- Within currencies, the U.S. dollar has recently cemented its role as the dominant global currency. The dollar is near parity versus the Euro for the first time since 2002, and the strongest against the yen since 1998. After being adjusted for inflation, the dollar has only been stronger twice in the recent past, in 1985 and 2002. The rationale makes sense since even though the U.S. economy has been disappointing as of late, it has been even worse in other areas of the world. From a monetary stance, the wider the gap becomes between two-year bond yields in the U.S. versus other nations, the stronger the dollar is. Domestic money earns a higher yield than the rest of the developed world, also supporting the greenback. It’s hard to pinpoint what could alter the path of the dollar but is closely watched by policymakers.
- On Saturday, a herd of protestors stormed Sri Lankan Prime Minister Ranil Wickremesinghe’s private residence amid the mounting public anger over the country’s worsening sovereign-debt crisis. This caused Mr. Wickremesinghe to resign from his post after only two months elapsed during his latest term. He was serving his sixth term as prime minister as the nation deals with sovereign defaults and hyperinflation, leading to political and social unrest. There have also been calls for a swift removal of President Gotabaya Rajapaksa, whose family has dominated Sri Lankan politics for two decades.
- Credit card giants Visa and Mastercard are working on ways to handle the mechanics of crypto payments. If they succeed, it will mark a significant turning point in that credit card companies would enable settling payments in assets beyond what is considered mainstream currencies. Currently, consumers can make payments with cryptocurrencies linked to Visa and Mastercard credit cards provided by fintech companies, a very targeted market. If all goes as planned, in the future people may logistically be able to pay for routine purchases by pulling out a card that’s funded by cryptocurrency.

Disclaimer

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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