Market Weekly Update

Week of July 25, 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	2.3%	2.7%	3.1%	3.1%	4.9%	6.7%	-10.1%	-17.1%	-23.3%
U.S. Mid-Cap	3.2%	3.7%	4.6%	4.3%	5.3%	7.2%	-12.6%	-17.4%	-26.1%
U.S. Small-Cap	3.2%	3.6%	3.8%	5.1%	5.8%	6.6%	-13.1%	-19.0%	-24.8%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	2.6%	4.7%	-16.2%
NASDAQ Composite	3.3%	7.3%	-24.0%
International Developed	4.4%	2.8%	-17.3%
Emerging Markets	3.0%	-0.6%	-18.2%
U.S. Aggregate Bond	1.2%	1.8%	-8.7%
U.S. Municipals	0.2%	1.7%	-7.4%
Corporate High Yield	2.5%	4.3%	-10.5%

Source: Morningstar, see 'Disclaimer' for details

Resource of the Week

- This episode of Business Breakdowns reviews the global financial institution known as Charles Schwab. The firm reports over $8 trillion in assets under management and a market-cap scratching $120 billion. However, the most fascinating part about this breakdown may be the strategic pivot taken by Schwab. Today the company makes the majority of their money earning interest on customer cash deposits. This discussion between host Patrick O'Shaughnessy and Holland Advisors Founder and Portfolio Manager Andrew Hollingworth is worth the listen as Andrew has written extensively on Schwab in the past. They cover what it means to operate as a bank versus an online broker, how Charles Schwab himself grew this business out of a newsletter, and what's on the horizon for Schwab in the future. Please enjoy this breakdown of a financial conglomerate.
- Podcast link

U.S. Equity Markets

- U.S. equities rose last week, mostly pushed higher on Tuesday. Investors welcomed signs of a slowing economy and fading inflationary pressures.
- The Monthly Fund Manager Survey released by Bank of America last week highlighted that global funds' aggregate cash positions have reached their highest levels since 2001 while their equity exposure was the lowest since the Global Financial Crisis. The survey indicated its Bull/Bear indicator was at "max bearish" levels suggesting a market turnaround may be around the corner.
- Within the S&P 500 Index, most sectors were higher led by consumer discretionary which rose nearly 7% given strong performance from Amazon.com and Tesla. Industrials and materials also outperformed while the typically defensive sectors of health care and utilities lagged.
- Small-cap stocks beat large-caps and growth marginally led value last week. These two instances helped to shrink the performance gap between market-caps and styles for the year.

International Equity Markets

- International developed and emerging non-U.S. equities were higher last week, despite varied actions and messages delivered from central banks around the world.
- European stocks rose even though reports of disappointing economic data were released, and the European Central Bank raised interest rates for the first time in 11 years.
- Japanese stocks were sharply higher as the Bank of Japan maintained its ultra-loose monetary policy diverging from many other central banks' tightening efforts. The yen slightly strengthened versus the U.S. Dollar but remains near its 24-year lows given the dominance of the Dollar globally.
- Chinese equities were mixed after Li Keqiang, Premier of the People's Republic of China, reduced expectations of additional stimuli and showed interest in revisiting China's annual growth target.

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

- Yields on U.S. Treasuries dropped to sessions lows and the dollar fell following a string of weaker than expected economic data. As of Friday, Treasuries extended the rally with 10-year bonds down 0.08% to 2.79% and around 0.14% lower on the week.
- The focus will be on next week's Federal Open Market Committee rate decision, along with several other key economic indicators. Officials have signaled that the central bank is likely to hike rates by 75 basis points at its July 26th-27th meeting.
- Corporate investment grade spreads were slightly tighter last week. Investment grade and high yield funds' trend of outflows continued, as an additional $3.3 billion and $885 million respectively was redeemed.
- New corporate issuance surpassed expectations last week as around $45 billion was submitted, more than the $25-$30 billion forecasted. Since investors will be looking ahead to next week's FOMC decision on Wednesday, new issuance may be frontloaded at the beginning of the week.
- Municipal yields moved lower on Friday after being flat for most of the week as Treasuries rallied on weak economic data. Municipal bond funds saw outflows of $699 million for the week ended Wednesday.
- The front end of the municipal yield curve continues to be very expensive with yields 46%-65% of Treasury inside of 5-years. The intermediate portion of the curve has garnished the most attention with more attractive levels of 70%-85% of Treasuries.

U.S. Economic Data/News

- Through last week, around a fifth of companies in the S&P 500 have reported second-quarter earnings. Netflix that said it lost nearly a million subscribers last quarter, albeit less than expected. The streaming giant also anticipates attracting back subscribers later this year. So far, around 70% of companies have topped second-quarter earnings estimates and 26% have missed projections according to FactSet.
- Business activity fell sharply in July as represented by the U.S. Composite Purchasing Managers Index released by S&P Global. The index fell to 47.5 and reflected a sharp decline from last month when the rate of expansion was 52.3 (below 50 is indicative of a contraction). Readings are based on survey data from manufacturing and services' businesses and are considered a barometer for U.S. growth expectations.
- Initial weekly jobless claims totaled 251,000 for the week ended July 16th, up 7,000 from the week prior, and hit their highest level since mid-November. Continuing unemployment claims which are lagged by an additional week increased to 1.384 million, the highest since mid-April. These may be initial signs the extremely tight labor market has begun to cool.
- Despite the stock-market rout and rising interest rates in the first half of the year, wealthy people increased the amount of loan borrowing they undertook. The wealth-management divisions of wirehouse giants Morgan Stanley and Bank of America posted double-digit loan growth in the second quarter. The increase is attributed to clients taking out mortgages and loans backed by stocks and bonds according to executives.

International Economic Data/News

- As mentioned above, the European Central Bank raised interest rates by a larger-than-expected 0.50% and outlined a new debt-purchasing plan targeting the most vulnerable European economies. The rate increase set the ECB's key interest rate at 0%, ending the eight-year duration in negative rate territory. For the last few weeks, ECB President Christine Lagarde hinted the central bank would only gradually raise rates when necessary, starting with a quarter-percentage increase this month.
- The Bank of Japan lowered its economic growth forecast to 2.4% in the 2022 fiscal year. It also increased its expectation for higher inflation to 2.3% from 1.9% declared in April. Inflation in Japan remains much lower compared to other developed economies as the island nation maintains a loose monetary policy regime.
- The People's Bank of China kept interest rates unchanged as expected. The one-year loan prime rate is 3.70% while the five-year rate sits at 4.45%.
- London-based multinational financial services company HSBC became the first foreign bank to set up a Chinese Communist Party committee in its banking subsidiary in China. Other global banks could follow suit.

Odds and Ends

- Consumers feeling the inflation pinch on tobacco and alcohol have migrated to cheaper brands in efforts to save money. In a survey released by the National Retail Federation, nearly half of consumers said that because of rising prices on daily goods, they opted to switch to cheaper alternatives. In the four weeks through July 2nd, retail-store sales of economy beer increased by 5.4% from the same period last year according to data collected by Nielsen. Brands with the largest increase in sales include Busch Light, Icehouse, and Milwaukee's Best Ice. By comparison, economy beer sales in retail stores fell by 10.9% in 2021. Similarly, sales of the market-leading cigarette brand Marlboro have declined as discount manufacturer Liggett Vector Brands gains market share. Consumers are much more price-conscious now than in the past which is reflected in sales figures.
- Gold is on pace for its fourth consecutive month of price declines. It has fallen about 5.5% so far this year compared to the 16% drop in the S&P 500. As inflation keeps rising, government bond yields keep increasing along with the dominant hold the U.S. Dollar has on currencies. These two factors have decreased demand for gold and is reflected in its price. Prices are off about 15% from near-record levels set in March when geopolitical uncertainty, sticky inflation and the market volatility led investors to seek safe-haven assets.
- On Friday, Walt Disney Co. started streaming R-rated movies on its bellwether streaming service Disney+. The company is very focused on catering more to adults than in the past, expanding its market share of adult-themed entertainment. Disney+ will now carry at least three R-rated superhero movies "Deadpool", "Deadpool 2", and "Logan" which were acquired in the 2019 acquisition of most of 21st Century Fox's entertainment assets. Disney quoted that nearly half of all Disney+ subscribers are adults without children.

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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