Monthly Update

January 2022

KANDOR GLOBAL

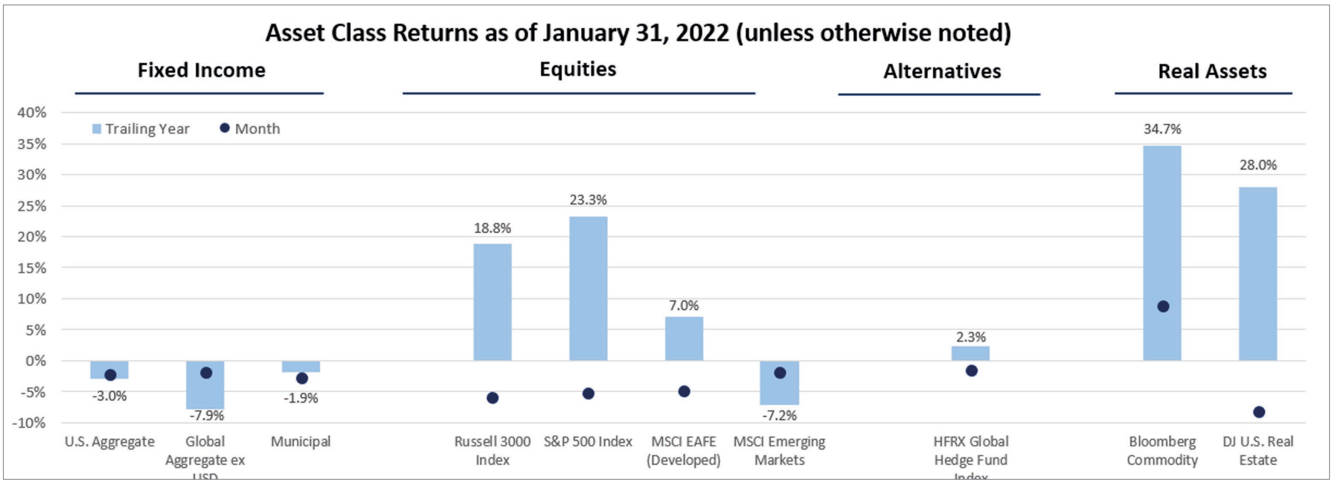
The New Year began inauspiciously, with global equity and bond markets falling in unison. Commodities proved to be a diversifier, benefiting from strong price gains, particularly in energy. The market downturn was driven by signs that major central banks are poised to reverse the monetary stimulus that has supported the global economy and capital markets during the coronavirus pandemic. Political tensions between the U.S. and Russia and rising Omicron rates in some countries also weighed on investors. While economic growth and corporate earnings surpassed expectations in 2021, rising inflation and interest rates, ongoing supply shortages, and an antagonistic geopolitical environment portend a more difficult year ahead.

The U.S. economy grew at a 6.9% annual rate in the fourth quarter, driven by a surge in services spending and inventories. The end of COVID-related fiscal spending, the residual drag from the Omicron variant, and potential inventory reductions may cause economic growth to decelerate in 2022. Recent consumer spending and retail sales have been disappointing and consumer sentiment is at its weakest level in over 10 years. While business activity is still expanding, it has fallen in the U.S. and Europe. China, which has taken a tough approach to suppress a recent increase in COVID cases, could roil the global economy. However, the recent pick up in construction spending, increase in the labor force, and heightened spending on services as daily life continues to normalize should sustain the economic expansion.

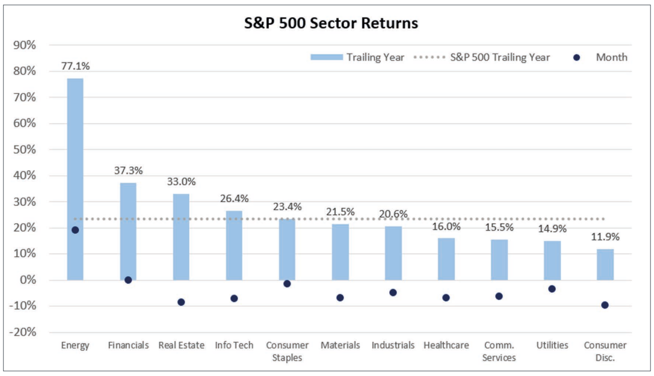
There is growing concern the U.S. Federal Reserve has been too slow to respond to the surge in demand and inflation. The inflation rate is outpacing forecasts, jumping to 7% in December, its highest level since June 1982. The Fed's preferred inflation measure, core PCE, rose 4.9% YoY in December, more than twice the 2% target. While the supply shortages that boosted prices are likely improving, increases in wage costs and housing may be more sustainable. The labor market remains tight and demographic trends limit the supply of new workers. Likewise, shortages of labor, materials and land in some areas, should prolong the housing boom. Recently the Fed has clearly indicated it is poised to take aggressive action to tame inflation including multiple interest rate hikes, the end of asset purchases as well as steps to shrink its balance sheet. Central banks in other countries have already started to tighten their monetary policy or announced their intentions to do so, pushing up global yield curves.

All major bond sectors declined in January due to higher government yields and wider credit spreads. U.S. interest rates increased across all maturities, but the yield curve flattened as short-term yields rose more than long-term equivalents. Treasuries outperformed taxable spread sectors and municipal bonds. Non-U.S. investors searching for yield and safe income have boosted Treasuries, particularly at the long end of the curve. U.S. bonds generally underperformed global bonds although the U.S. dollar gained against most currencies. U.S. corporate investment-grade debt produced the lowest returns, partially due to longer duration and elevated new issue supply. Municipal funds experienced their first net outflow in almost two years, which was aggravated by a retrenchment in dealer liquidity and an upswing in new issuance. The pullback in municipal prices has made the sector more attractive relative to Treasuries and the tax-equivalent yield is materially higher than taxable sectors.

Global equity market declines were led by U.S. equities. Emerging markets stocks outperformed developed markets but with wide dispersion across countries. Brazil and Chile posted double-digit gains while China and Russia were thwarted by heightened domestic and political risks. Small-cap stocks have underperformed large-cap stocks for several months. Growth sectors including technology and consumer cyclicals as well as healthcare saw the steepest declines. Value stocks, which tend to be less impacted by rising interest rates than growth stocks, outperformed. Energy was the only sector with a positive return. Energy-oriented stocks and commodity futures surged amid rising oil prices, strong inflation and potential supply disruption from the Russian/Ukraine conflict. At one point, several major market benchmarks were down over 12%. Technical factors exacerbated price volatility with poor liquidity and heavy selling activity from index-oriented ETFs. A mixed earnings season, with several high-profile misses in consumer and financial stocks, also spooked investors. The end of the month saw some relief, has volatility subsided and technology stocks led a robust bounce back.



Morningstar & Hedge Fund Research, Inc.; Bond indices from Bloomberg Barclays



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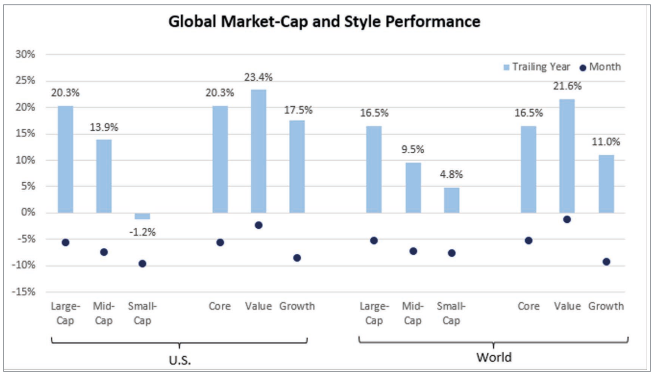
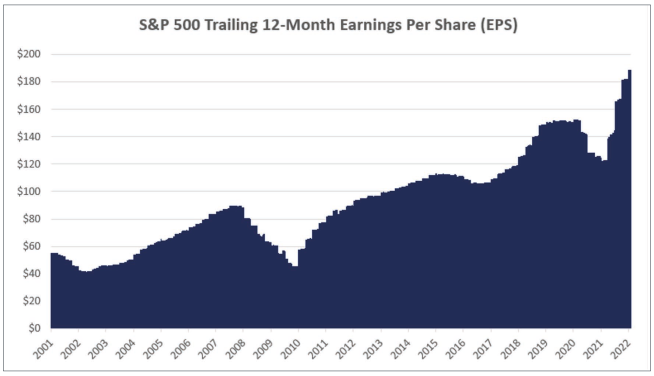


Bloomberg; U.S. indices from Russell and World indices from MSCI



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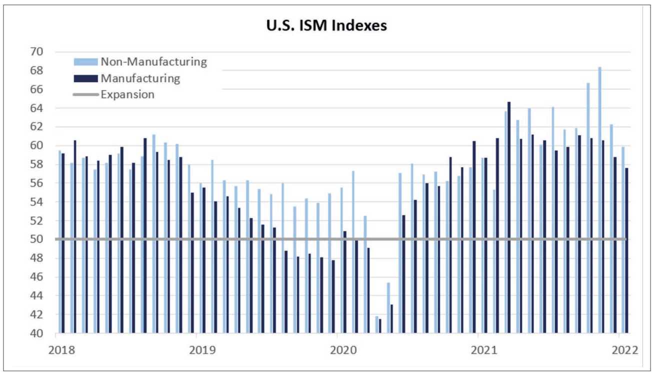

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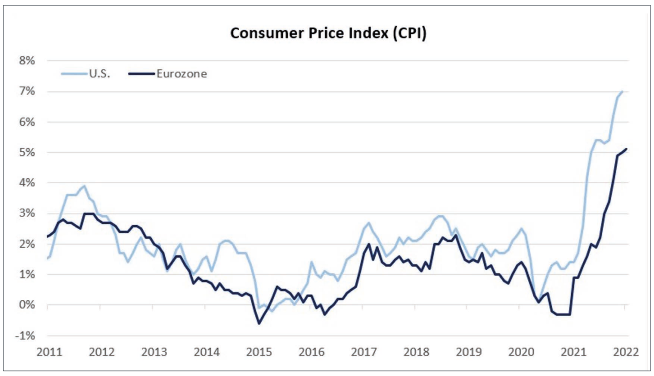
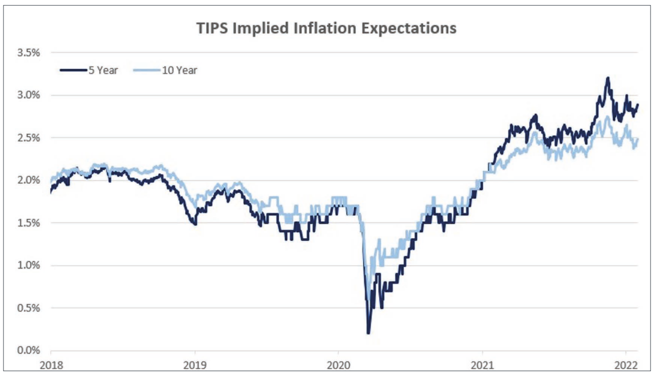


U.S. Bureau of Labor Statistics



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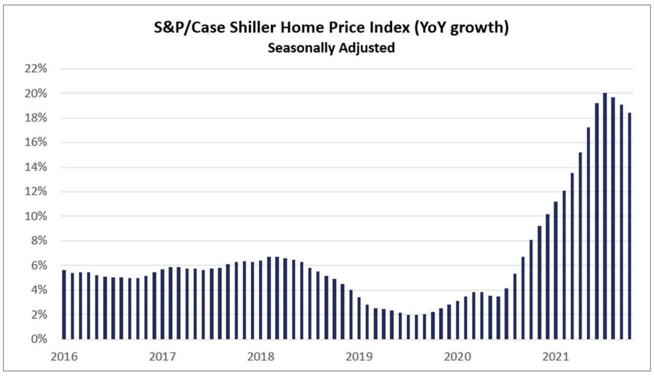
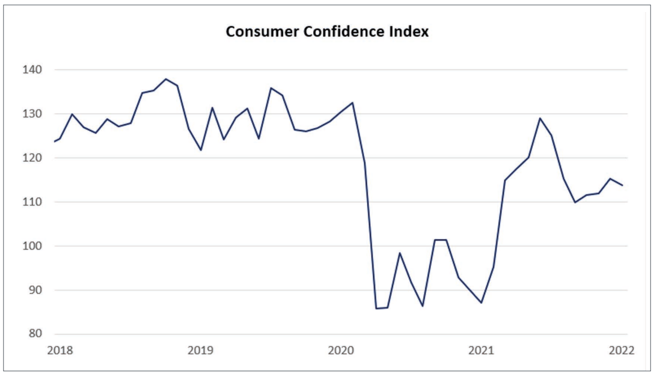


S&P/Case Shiller



Conference Board

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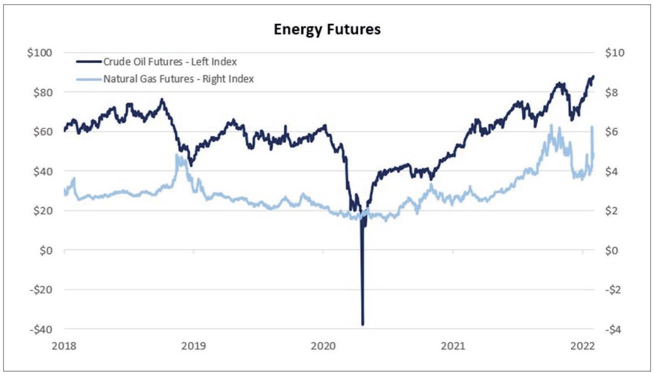

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This commentary was written by Craig Amico, CFA®, CIPM®, Senior Investment Analyst, Noreen Brown, CFA®, Director of Portfolio Management and Steven Melnick, CFA®, Senior Investment Analyst at Summit Financial, LLC., an SEC Registered Investment Adviser ("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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