Monthly Newsletter

May 2022

KANDOR GLOBAL

Headline market returns were modestly positive, but May brought another volatile month for investors adding to an already tumultuous 2022. Macro risks remained abundant with the war continuing to rage in Ukraine, several notable central banks transitioning to restrictive monetary policy, and the pandemic still having a material impact on select areas of the world (most notably China). The world economy appears to be within a significant regime change which brings a variety of uncertainties to investors. Large-scale macroeconomic shifts usually lead to choppy markets but can create new opportunities on the other side. In the meantime, prudence and thoughtful planning are key.

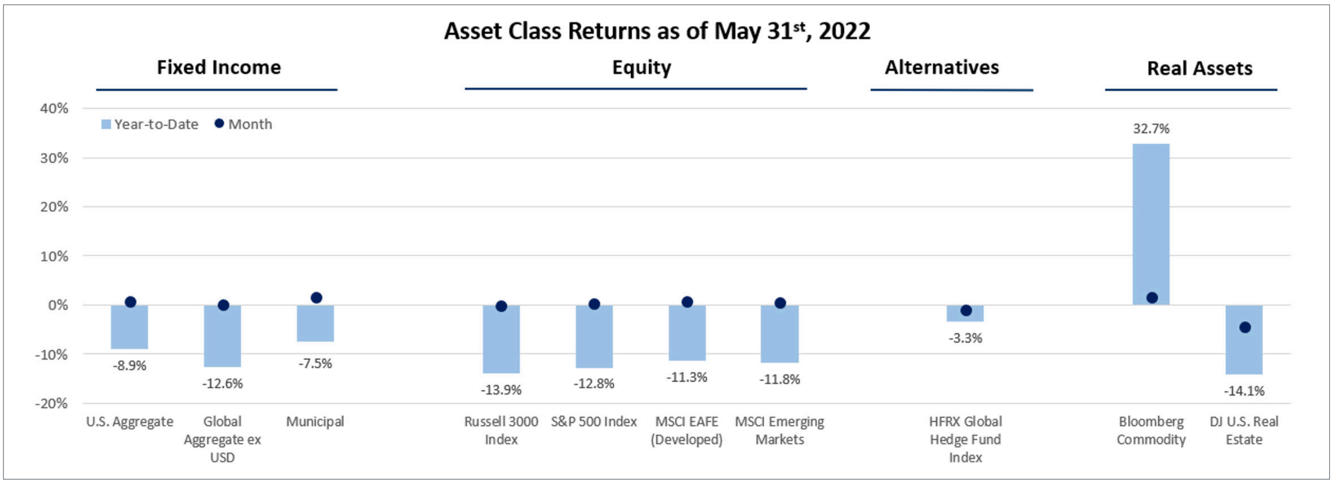
Inflation was still top of mind for investors. The headline consumer price index (CPI) fell slightly from 8.5% to 8.3% (year-over-year change) in April but is still well above target levels. Strong employment and a firm economic footing have supported the Federal Reserve (Fed) in implementing its second rate hike of 2022 in May and its first 50 basis points (0.50%) rate increase since 2000. The Fed's recent actions were in-line with expectations and consequently caused minimal movement in yields. Going forward, futures markets are expecting two additional 50 basis point rate hikes in June and July with further, but potentially smaller magnitude rate increases from there. Ultimately, the Fed is seeking to bring policy rates back or slightly above neutral levels in hopes of quelling inflation.

Small gains in major equity market indexes disguised significant intra-month volatility. The S&P 500 Index was off nearly 6% at its low in May and amid a seven-week losing streak before a late-month rally brought returns closer to break-even levels. Both cyclical (energy, financials) and defensive (utilities, healthcare) portions of the market were relative outperformers while consumer names lagged. A similar trend is also mostly representative of year-to-date results and value names have far outpaced growth stocks – defying a theme that persisted for much of the last decade. Non-U.S. equities demonstrated outperformance over May, and year-to-date returns are now ahead of domestic counterparts in U.S. dollar terms. Valuations for equities outside of the U.S. remain more compelling, although come with their own set of risks. That said, negative performance across the board this year has brought valuations much
closer to historical averages. The last cycle could be characterized by ample liquidity and tame inflation which translated to record valuations and profit margins for many investment assets, particularly equities. These tailwinds have since converted into headwinds likely leading to lower forward returns for equities.

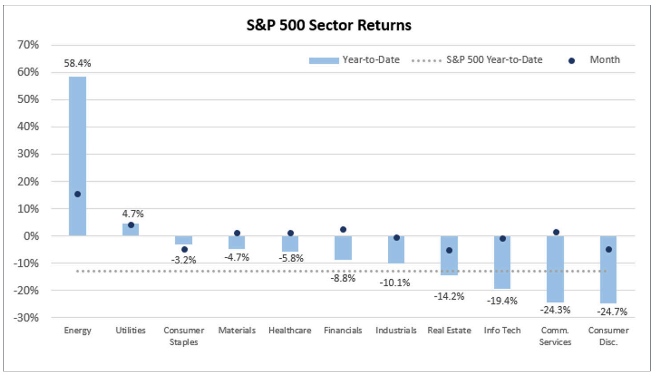
Fixed-income assets generated positive returns over the month, modestly offsetting losses from earlier in the year. After a swift rise, yields fell slightly while moves in spreads were mixed but muted. Corporate spreads were slightly wider while municipal spreads were tighter – contributing to a strong result for the asset class. Asset flows have turned around for municipals as valuations relative to Treasuries reached their most compelling level since the depths of the COVID-19 Crisis. The municipal market should also be supported by favorable supply/demand factors heading into the summer months following large reinvestment demand paired with muted issuance. The rapid rise in rates throughout 2022 has been damaging to year-to-date fixed income returns but could provide some support going forward as rates are likely to stabilize and yields have reset to higher levels providing greater future income. Wider credit spreads could also compress if recession/credit concerns turn out to be overblown.

The alternative asset market continues to grow as investors seek to add further diversification and return generation to traditional balanced portfolios. Hedge funds as a group have offered some protection against market volatility, although performance is highly varied across different strategies. Global Macro funds have been able to profit from volatility and generate positive returns while more directional strategies, such as long/short equity, have again struggled to demonstrate their value-add. Private equity and real estate funds have so far weathered the storm better than public market equivalents and sit on historic levels of dry powder ready to capitalize on further distress.

As an investor, the current environment remains perplexing. Certain areas of the economy, such as employment, still seem to be on solid footing although might be at an inflection point. On the other hand, historic inflation and monetary tightening are rapidly reining in areas of excess in other areas. During times like these, it's essential to ensure that your portfolio is at or near target levels and that ample lifestyle liquidity is maintained to prevent drawing on investment assets during periods of heightened volatility.



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



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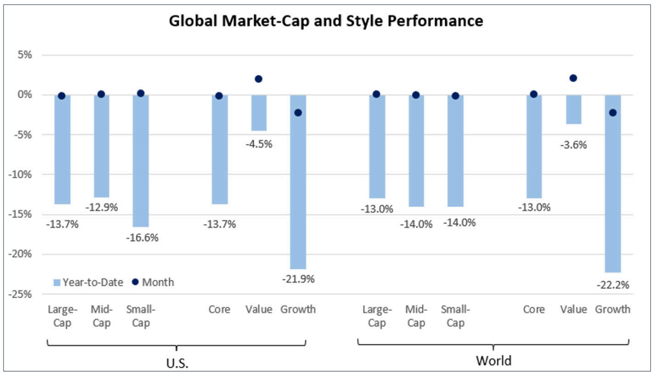

Bloomberg; U.S. indices from Russell and World indices from MSCI

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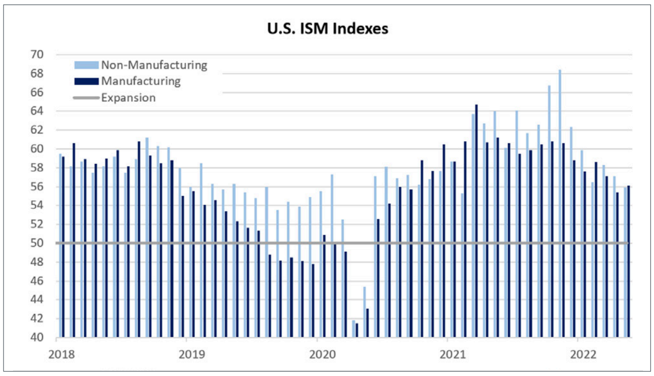

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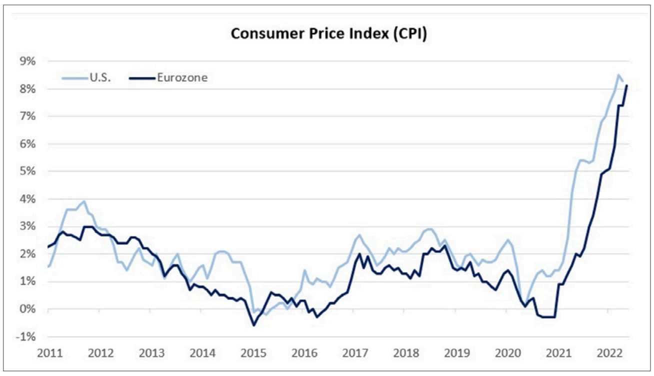
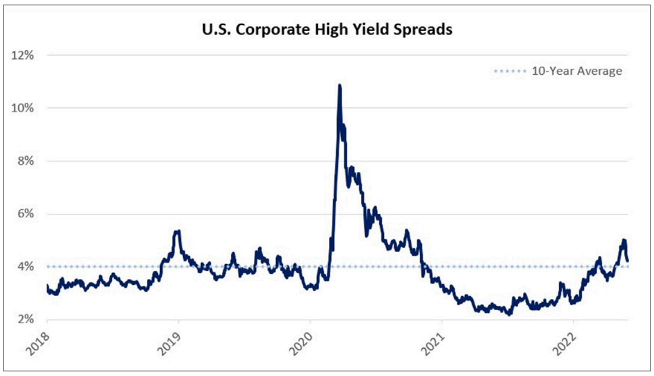


U.S. Bureau of Labor Statistics



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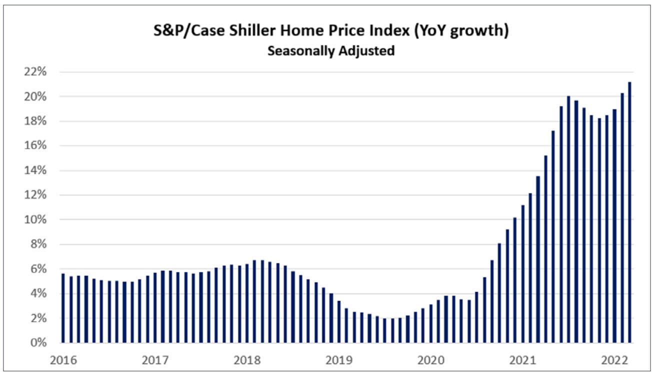

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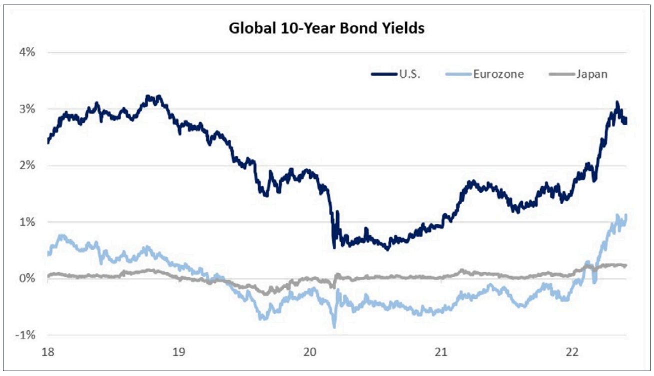

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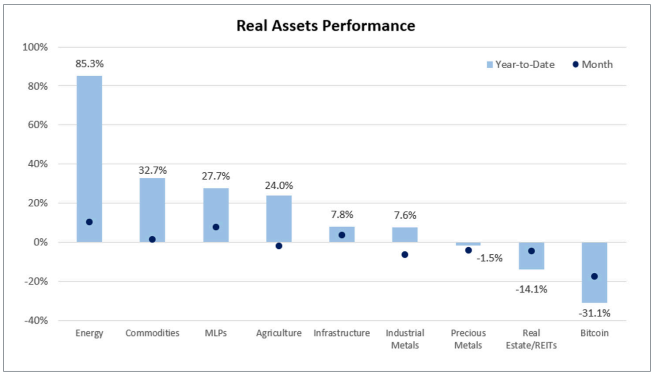

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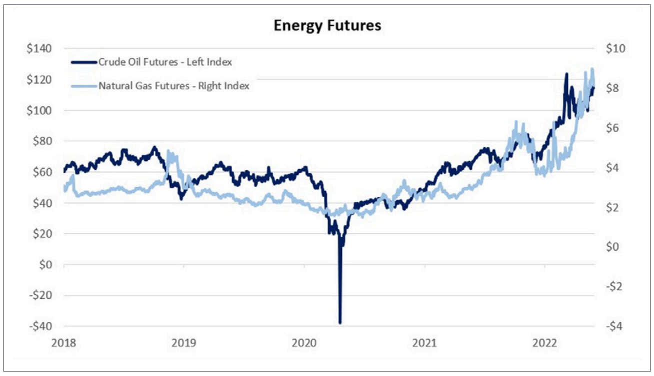

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This commentary was written by Craig Amico, CFA®, CIPM®, Senior Investment Analyst, Noreen Brown, CFA®, Director of Portfolio Management and Steven Melnick, CFA®, Senior Investment Analyst at Summit Financial, LLC., an SEC Registered Investment Adviser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