Monthly Newsletter

KANDOR GLOBAL

April 2023

Markets and the economy remained on a better-than-expected trajectory so far in 2023. Inflation is higher than desired but has likely peaked, the labor market is still robust with around 3.5% unemployment, and corporate earnings have surpassed low expectations. Even residential housing, which many called for a swift decline in 2023, has defied consensus reflecting a slight decline in mortgage rates paired with still low levels of supply. Markets reflected this 'better than expected' mentality with positive results across most core areas in April. This brought year-to-date gains to levels that most investors would be happy with for the full year despite being only four months into the year.

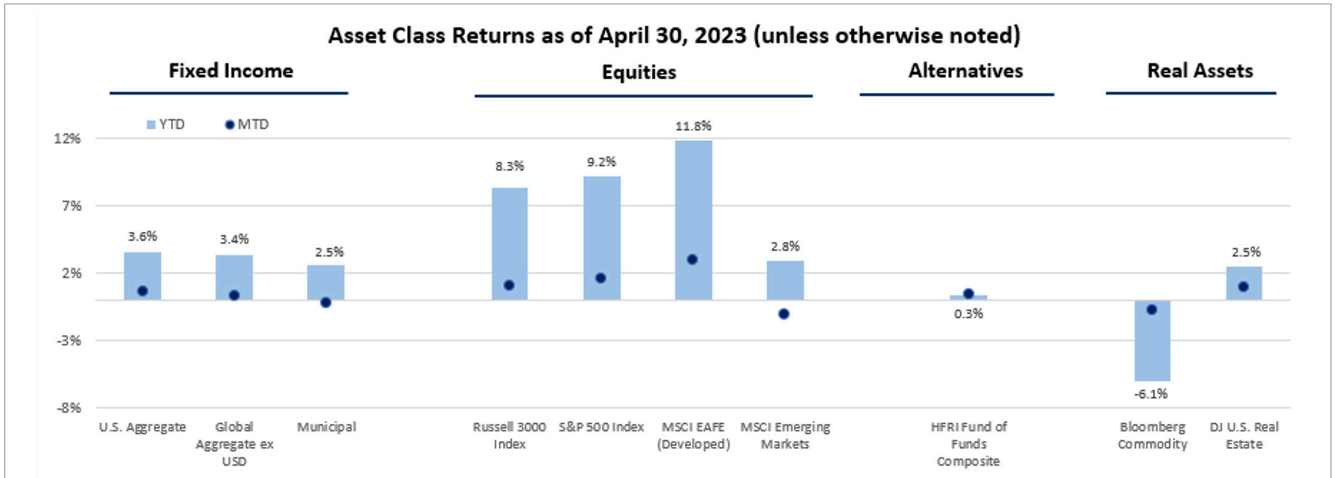
Against the Fed's best efforts, the economy remains on solid footing except for a few notable cracks – the most notable of which is the current regional banking crisis. Underpinning core areas is a still strong labor market with low unemployment and supportive wage growth. Although jobless claims are rising in line with notable large-scale layoff headlines, there is likely a lot of room down from here before easing would enter the conversation. This was reinforced by the most recent FOMC meeting where the Fed raised policy rates by another 25 basis points (0.25%) defying earlier expectations for a pause. With Fed Funds now above 5%, there should be less upward momentum to hikes going forward, although policy rates may not decline as fast as the market currently expects.

Entering May, many asset class valuations are moderately elevated while the wall of worry builds. Following the failure of several notable regional banks (Signature, Silicon Valley Bank), First Republic Bank was the latest casualty after being acquired by JPMorgan following regulatory intervention. Also on the horizon is the looming debt ceiling, which could be reached as soon as early June. Although a temporary solution is likely to be reached, political rhetoric and a standoff until the last minute could introduce significant volatility into financial markets. As it stands, the 1-month Treasury yield fell to its lowest level since late last year demonstrating the premium investors are willing to pay to avoid the impending uncertainty.

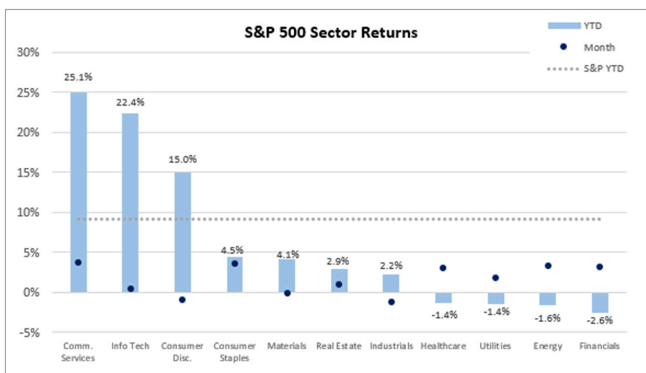
As we enter the heart of earnings season, many companies have benefited from a dramatic lowering of expectations in 2022. Revenues often surprised to the upside although earnings and profits were more mixed. A greater focus on efficiency and costs, especially within the tech sector, was supportive and boosted the returns of many of the tech platform companies. Management teams appear cautious in their outlooks reflecting the heightened level of uncertainty in the economy. Within the broad equity market, the equity risk premium is compressed resulting in valuation susceptibility. This is more acute in U.S. markets as many international equity benchmarks are trading near or below long-term historical averages.

Having taken much of the pain last year, most fixed income asset classes were positive for the month and year-to-date. Fixed income benefited from a reset in yields in 2022 which brought income levels to the highest points in nearly a decade. Duration sensitive assets also received a boost from a falling middle and long portion of the curve. Corporate spreads have widened relative to historically tight levels last year but are far from levels reached during past periods of distress. On the margin, many short and intermediate duration fixed income assets offer compelling entry points and unlike last year, should now provide a buffer to volatility.

2023 has so far been a view into a new regime with structurally higher inflation and volatility levels more reminiscent of a time prior to extensive central bank intervention. Throughout these environments, it's important to ensure portfolios have ample near-term liquidity and are rebalanced close to target levels. Future volatility, while painful, can be looked to as compelling entry points into many long-term asset classes.



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



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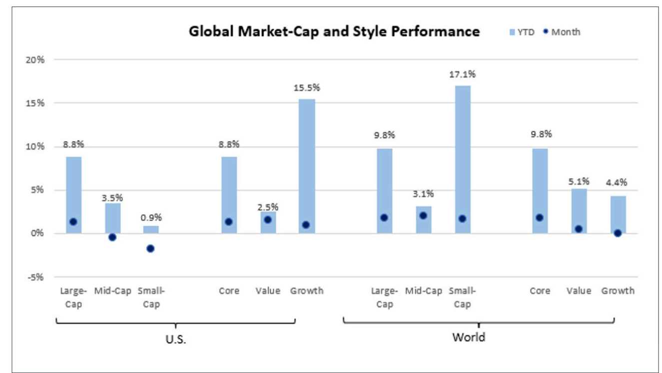
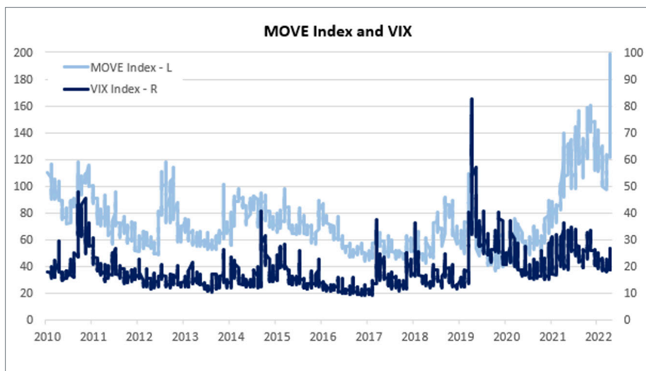


Bloomberg; U.S. indices from Russell and World indices from MSCI



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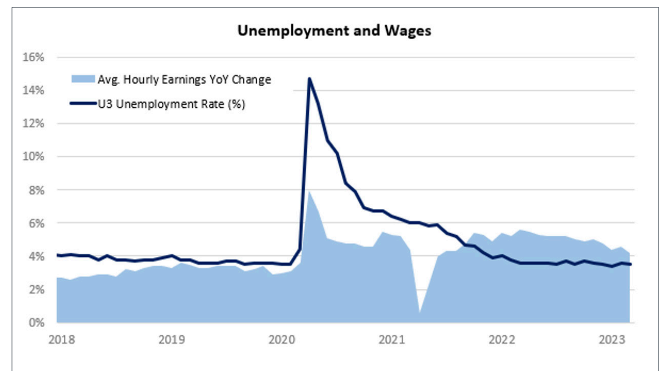

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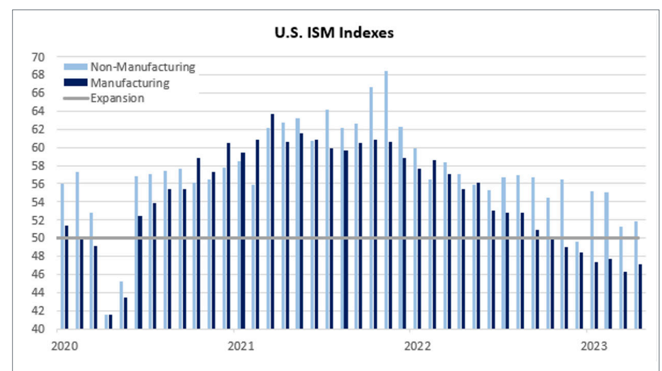
U.S. Bureau of Labor Statistics



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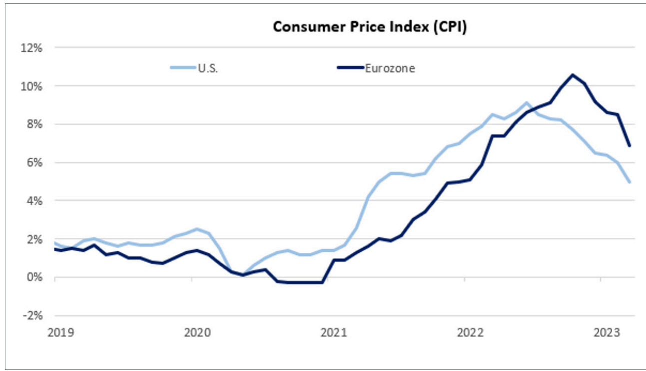

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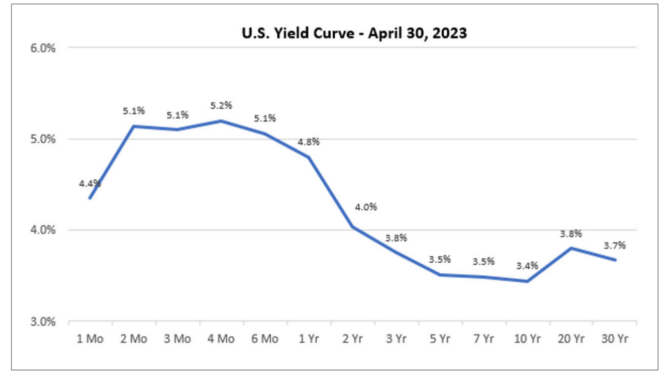

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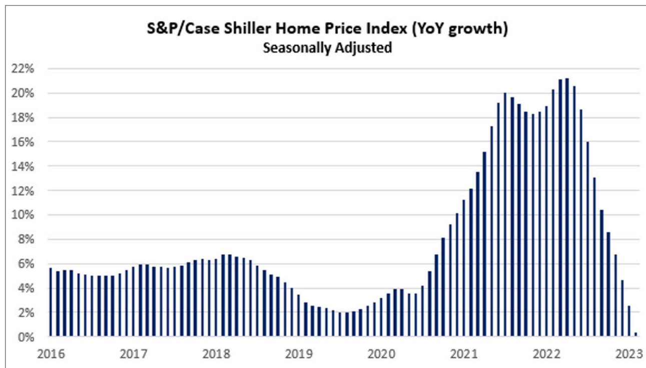

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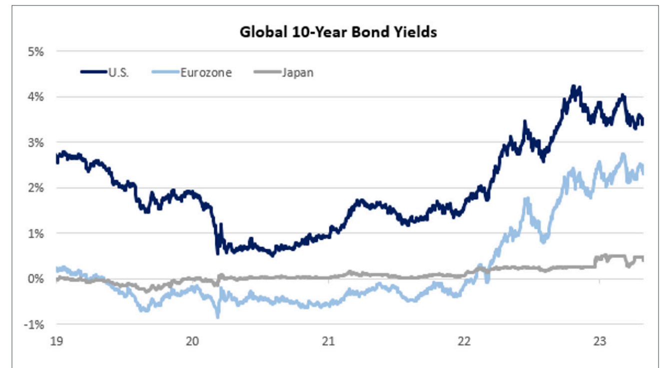

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This commentary was written by Craig Amico, CFA®, CIPM®, Senior Investment Analyst, Noreen Brown, CFA®, Director of Portfolio Management and Steven Melnick, CFA®, Senior Investment Analyst at Summit Financial, LLC., an SEC Registered Investment Adviser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