MONTHLY ECONOMIC UPDATE

INVESTMENT NEWSLETTER / FEBRUARY 2020

February Summary

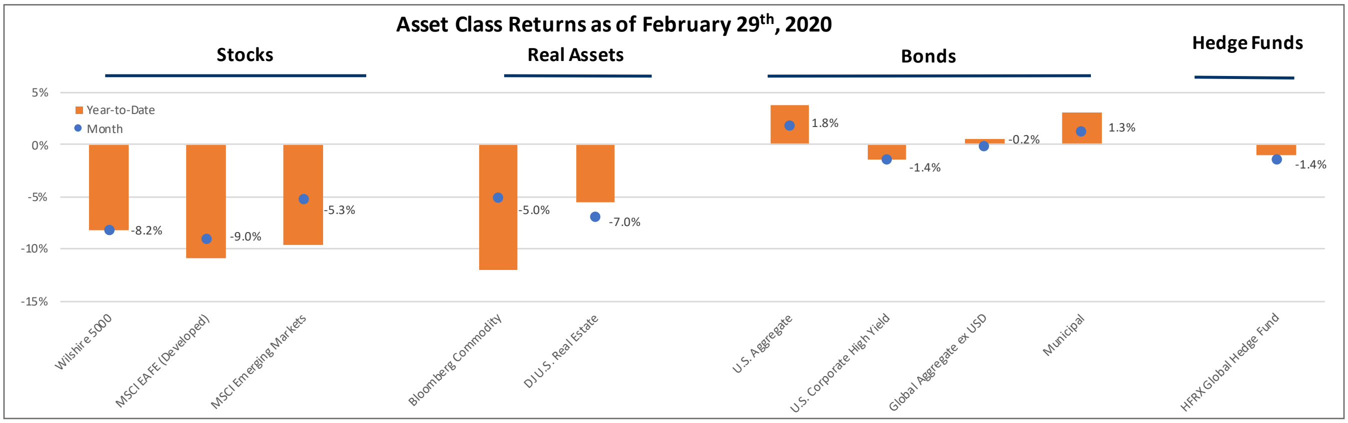
Over the past two weeks, global equities and other risk-oriented investments have suffered large price swings reminiscent of the global financial crisis. The immediate cause of the market correction was the coronavirus outbreak which has upended the outlook for global growth as well as the political and business landscape. Interest rates fell globally in response to investor anxiety and deteriorating growth expectations. After month-end, the Federal Reserve made an emergency interest rate cut to support liquidity and protect the U.S. economy. This surprise Fed action spooked investors, driving U.S. stocks downward and the 10-year U.S. Treasury yield to an all-time low of 0.7%. On a positive note, despite large trading volumes, there were no major market disruptions or price spikes. Trading was robust on both the buying and selling sides.

Monthly returns for investable assets generally reflected a flight-to-quality mentality. Safe haven government and high-quality fixed income rose as bond yields fell sharply. Lower quality bond prices declined as credit spreads widened. Equity markets plummeted, but high quality growth stocks were more stable than lower quality companies. There were several notable anomalies. The U.S. stock market, normally considered a safe haven, fell further than the emerging markets. Forced selling by investors and central bank purchases of international bonds appear to have pushed down the price of gold and distorted the relationship between currencies. All equity sectors lost ground for the month and year to date. Energy and financial companies sharply underperformed over profitably fears. Technology companies and interest rate sensitive sectors such as utilities and real estate held up relatively well, declining less than the broad market.

Long-term structural changes in the capital markets have likely acerbated recent price volatility. Both stock and credit-oriented bond markets are less liquid than during prior major market downturns. A greater portion of market activity is now controlled by program trading which tends to move in unison as prices fluctuate. The low return offered by high quality bond investments has led to large asset flows in and out of riskier investments such as equities and high yield bonds and pushed up valuations. The upheaval and dispersion experienced in the capital markets over the past two weeks may have created a favorable environment for active managers.

Although many economic indicators showed improvement in February, the spread of the coronavirus will slow global economic growth and weaken the positions of consumers and corporations in the months ahead. Political concerns surrounding Brexit and trade disputes have dissipated, but the stark divisions on display in the U.S. election has likely contributed to market volatility. Central banks remain committed to accommodative policies that boost growth and fiscal support through additional government spending is probable. However, the magnitude and duration of the current health crisis and the potential impact on supply chains, global trade and human behavior are unknowable. Recent events have once again shown that market behavior is unpredictable, and diversification can protect investment portfolios from the most severe losses. We urge investors not to make significant changes to portfolio allocations based on short-term uncertainty and timing decisions.

Market Data



Morningstar,® bond indices from Bloomberg Barclays

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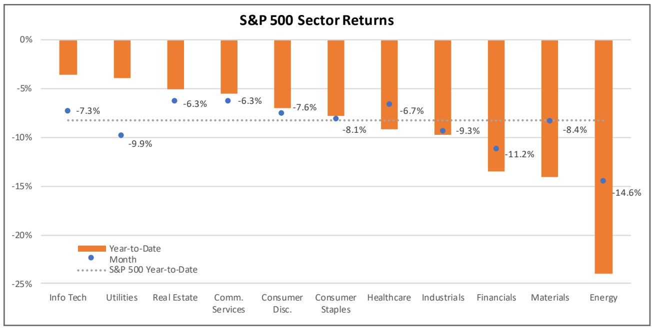
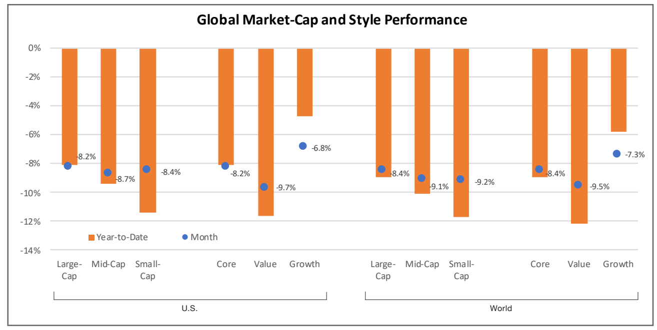
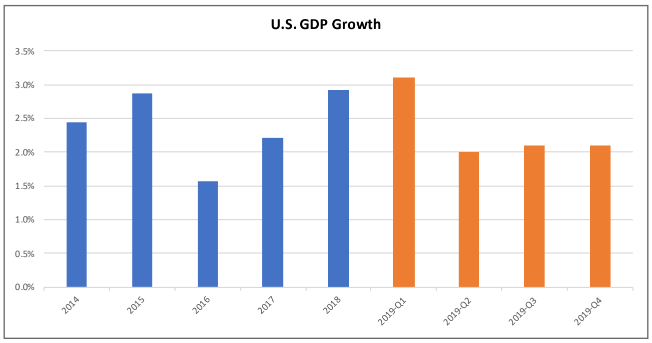


Bloomberg

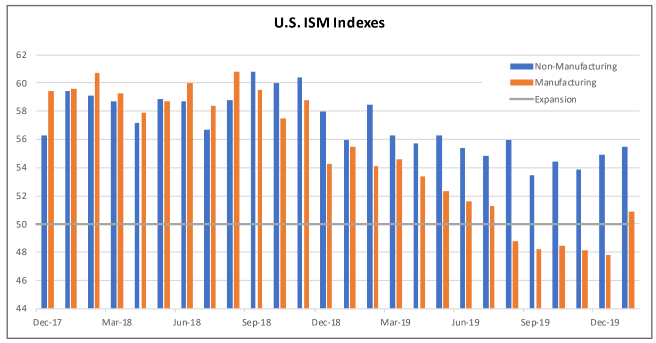


Bloomberg; U.S. indices from Russell and World indices from MSCI

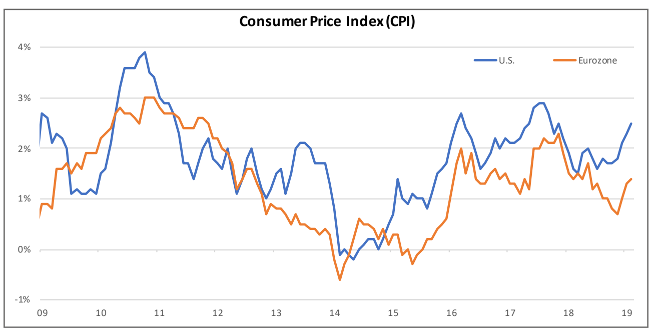
Economic Data



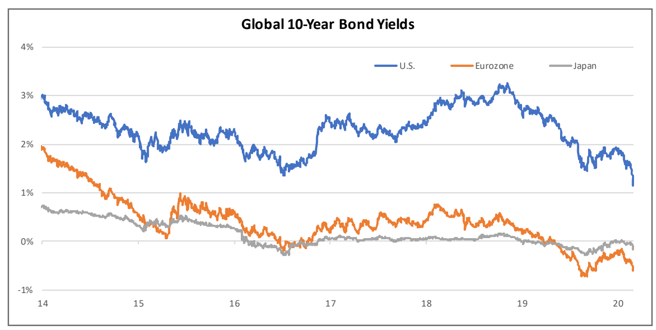
U.S. Department of Commerce



Institute for Supply Management



U.S. Bureau of Labor Statistics



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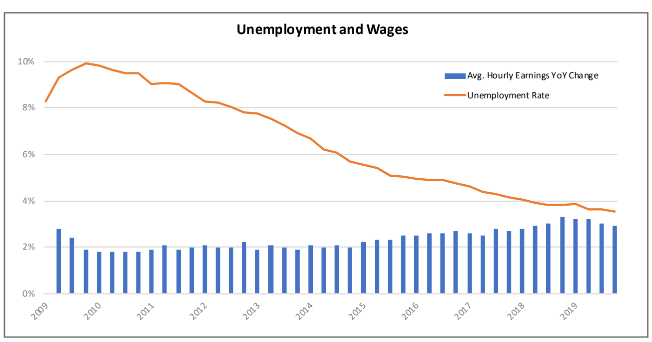
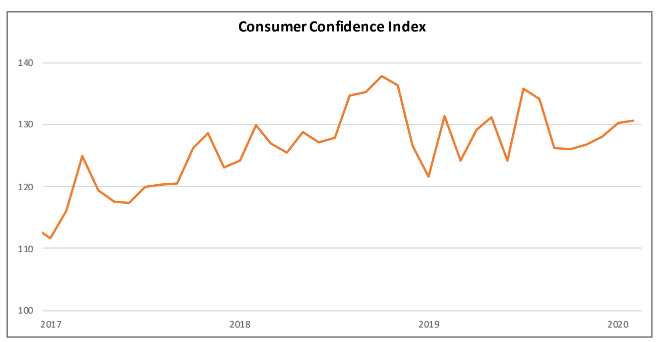
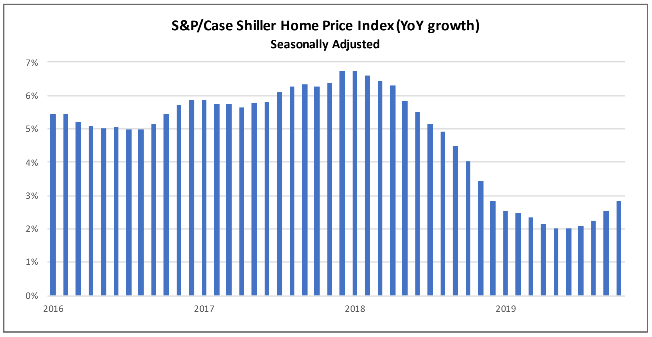


U.S. Bureau of Labor Statistics

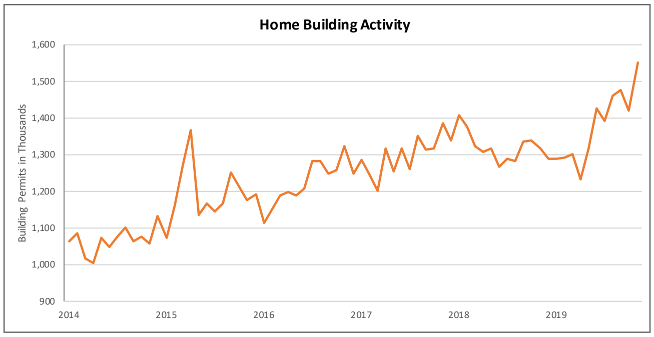


Conference Board

Economic Data



S&P/Case Shiller



U.S. Bureau of the Census,
U.S. Department of Housing and Urban Development

Disclaimers

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 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 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 Emerging Markets Index is a free float-adjusted market capitalization index designed to measure the equity market performance of emerging markets; the Bloomberg Commodity Index measures the performance of an unleveraged, long-only investment in commodity futures that is broadly diversified and primarily liquidity weighted; the HFRI Fund of Funds Composite Index is an equally-weighted benchmark composed of over 400 domestic and offshore constituent funds having at least $50 million under management or having been actively trading for at least 12 months; 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. 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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