MONTHLY ECONOMIC UPDATE

INVESTMENT NEWSLETTER / JANUARY 2021

January Summary

As the new year began, hopes for an economic rebound drove stock markets higher. However, surprises were in store for investors. The first surprise was a positive for risk markets when Democrats unexpectedly won two senate seats in the Georgia runoff elections, boosting fiscal stimulus expectations. But this was soon followed by a surge in volatility as retail investors used online trading platforms to drive sudden price spikes in a few stocks with large short positions favored by hedge funds. Some online brokerages halted trading in the affected stocks to stave off a market crisis. The path to eradicate COVID-19 also became more uncertain as new strains were identified and outbreaks reignited in some regions. In the meantime, Bitcoin was experiencing a speculative frenzy marked by enormous price gains and volatility.

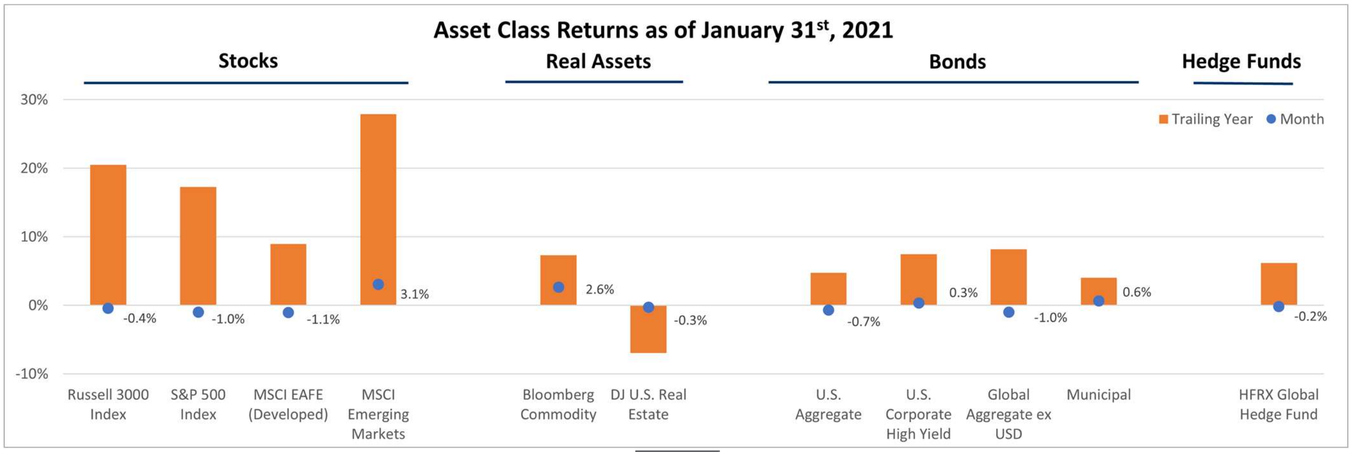
Global economic data was mixed. The U.S. economy expanded 4% in the fourth quarter, but contracted 3.5% for the year, the largest annual decline since World War II. The Eurozone shrank by more than expected over the fourth quarter, but China's 2020 GDP grew by a remarkable 2.3%. The World Bank reduced its global growth forecast for 2021 to 4.0% to reflect challenges containing the pandemic and massive levels of sovereign debt accumulation. U.S. business activity is expanding, but the labor market may have stagnated. Non-farm payrolls took an unexpected dive in December before moderating in January. Jobless claims have trended upward. Wage growth and labor market participation are well below pre-pandemic levels.

Despite a turbulent month, broad stock markets suffered modest declines. Cyclical assets such as small-caps, emerging markets equities and commodities outperformed by a wide margin. Returns were mainly driven by country and stock factors. Stocks caught up in the short squeeze such as GameStop partially drove the rally in small cap companies. China, the largest emerging markets country, returned over 7%, while many of its peers struggled. Growing manufacturing and trade activity drove up energy and industrial metal prices. The energy sector was the best performer after Saudi Arabia made a surprise production cut and U.S. oil inventory dropped.

Rising interest rates and narrow credit spreads weighed on taxable fixed income during the month. High yield bonds and senior bank loans with relatively attractive yields and muted interest rate sensitivity outperformed other taxable bonds. The 10-year U.S. Treasury yield breached 1.0% for the first time since the onset of the coronavirus pandemic. The U.S. Treasury yield curve hit the steepest level since 2016 as rising inflation expectations and growth prospects drove long-term yields higher. Despite elevated equity volatility, high-grade credit spreads barely moved and lower-rated spreads even declined. Although default rates have risen to over 6%, this is much lower than had been feared. The prospects for an improving economy, ample liquidity and steady short-term rates should continue to propel demand for higher yielding debt.

Municipal bonds eked out a positive return for the month. Healthy investor demand and limited supply balanced the impact of rising interest rates and high valuations. Like their taxable counterparts, high yield municipal bonds outperformed and are experiencing muted default rates. Although municipal bonds are expensive with yield spreads over Treasuries far below historical averages, fears over higher tax rates and better than expected fundamentals should be a tailwind. Tax revenues for 2020 were much stronger than anticipated, with gains in personal income, property and investment taxes offset by modestly lower sales tax revenues. President Biden's economic relief plan should also support states and municipalities.

Market Data



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

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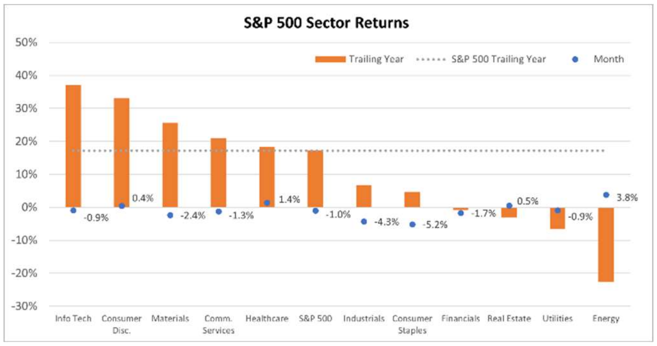
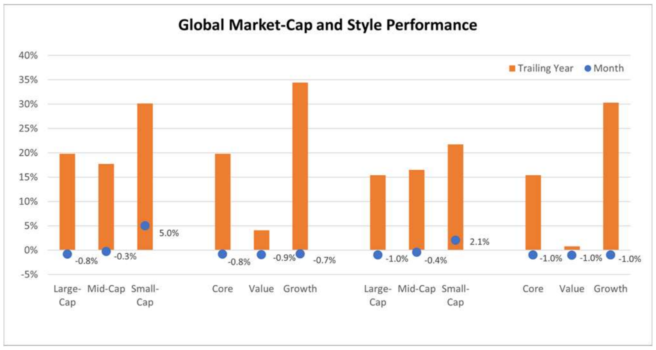
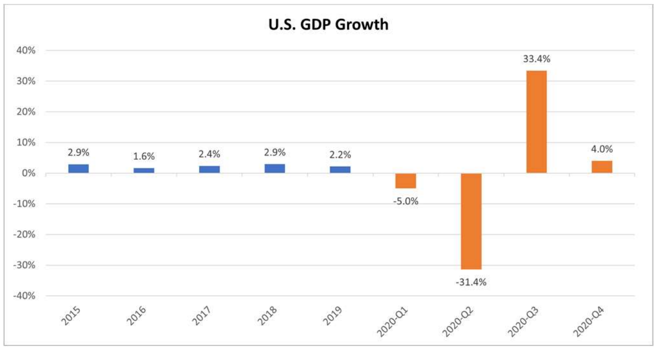


Bloomberg

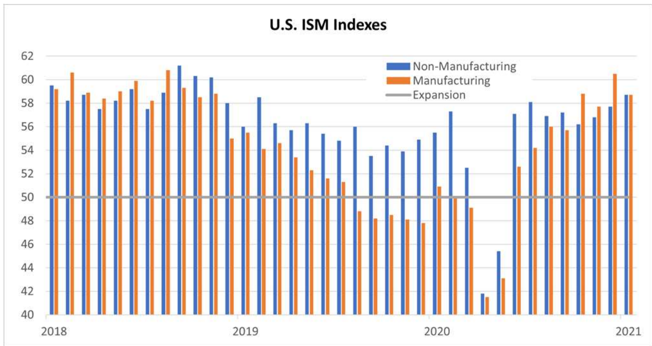


Bloomberg; U.S. indices from Russell and World indices from MSCI

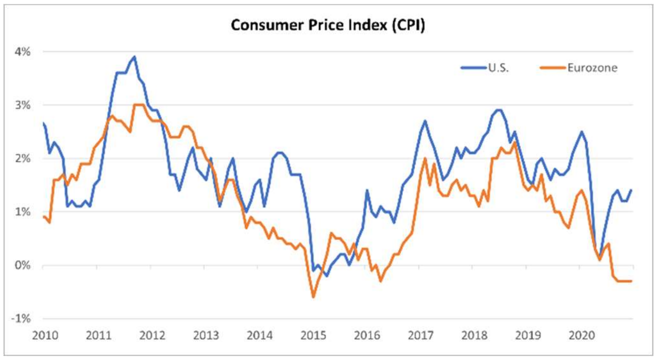
Economic Data



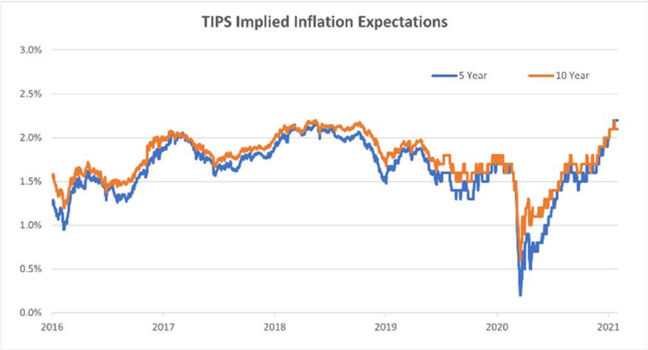
U.S. Department of Commerce



Institute for Supply Management



U.S. Bureau of Labor Statistics



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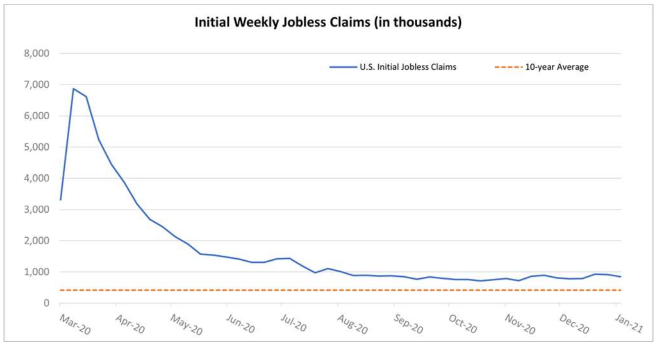
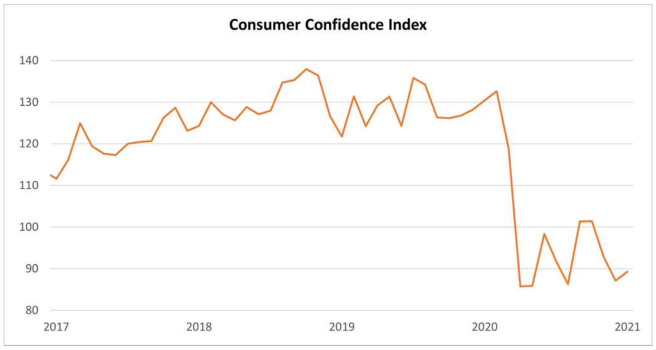
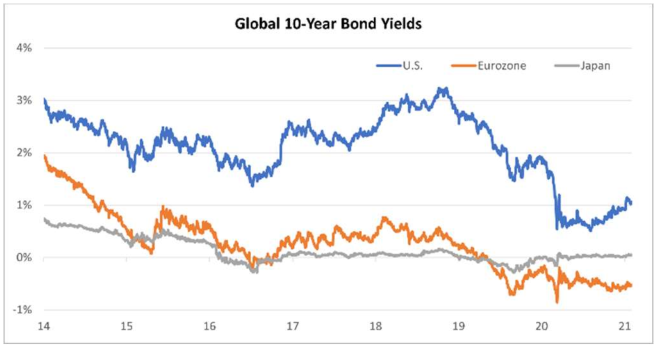


U.S. Department of Labor



Conference Board

Economic Data



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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 Russell 3000 Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. The Russell 3000 Index is constructed to provide a comprehensive, unbiased and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are reflected; the S&P 500 Index is a market capitalization-weighted Index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the Index based on market size, liquidity and industry group representation. Included are the stocks of eleven different sectors; the MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of global developed markets, excluding the U.S. and Canada; the MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global 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 HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. The underlying constituents include funds with multiple managers to provide a comprehensive representation of the hedge fund of funds investment space; 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-dominated securities; the Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below; the Bloomberg Barclays Municipal Bond Index covers the U.S. dollar-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds; the Dow Jones U.S. Real Estate Index measures the performance of real estate investment trusts (REITs) and other companies that invest directly or indirectly in U.S. real estate through development, management, or ownership, including property agencies. 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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