MONTHLY ECONOMIC UPDATE

INVESTMENT NEWSLETTER / FEBRUARY 2021

February Summary

2021 continues to be a transitionary year. The world has made considerable progress battling the pandemic with accelerating vaccine distribution helping to bring down the number of cases, hospitalizations, and deaths related to COVID-19. While the pandemic will continue to have ups and downs, there is hope that the end could be in sight. As result, the world has begun the process of looking forward to what the new normal might look like.

Economic data showed signs of improvement in February suggesting increasing evidence that the recovery is taking hold. At the end of the month, weekly jobless claims reached their lowest level since last November and personal incomes rose, although some of the increase was due to stimulative measures. Healthy consumer balance sheets have powered demand for a variety of durable goods helping maintain strength in the manufacturing sector. The housing sector has also kept up its momentum with recent data indicating that home prices increased by over 10% compared to a year earlier. Additionally, prices of many commodities, including housing inputs such as lumber, have risen to multi-year highs.

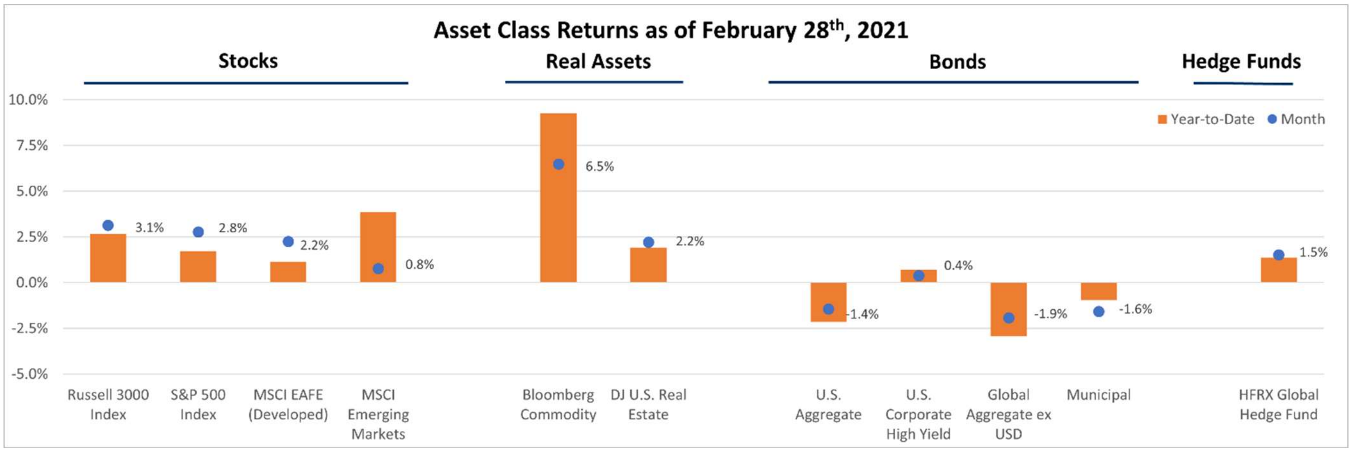
Much of Washington is advocating for continued stimulus although many are starting to question if additional large-scale aid is still necessary. Concerns that stimulative measures are approaching excessive levels are being reinforced by rising interest rates and inflation fears. That said, the Fed appears committed to maintaining easy-money policies until the economy approaches full employment. In their view, inflation levels are contained and while yields have risen meaningfully from 2020 market depths, they are still historically low.

This year's equity market leadership has so far been starkly different compared to 2020. Instead of growth and technology stocks leading the way, energy and financials have made sizable strides benefitting from normalized levels of demand and higher rates, respectively. At the same time, rising interest rates have disproportionately impacted the valuations of select higher growth sectors such as IT. This dynamic contributed to value stocks outpacing growth stocks year-to-date. Small-cap stocks have continued their rally from late 2020 are among the best performing portions of the market. Emerging markets have also been a source of strength, besting many developed market counterparts so far this year despite modest underperformance in February.

After crossing 1% for the first time since the start of the pandemic in January, the pace of increase in the 10-year U.S. Treasury yield accelerated in February. The Treasury curve became considerably steeper and the gap between the 5-year and 30-year note recently realized one of its largest increases since last March. Rising rates served as a headwind for most higher quality and longer duration portions of the bond market where spreads were already excessively tight. This also applied to the higher rated portion of the municipal market, which generated a modestly negative return for the month. Lower rated, credit sensitive assets generally fared better helped by tightening spreads. Notably, high yield spreads are now considerably lower than before the start of the pandemic. Narrow spreads and low yields continue to limit the total return potential in many portions of the bond market in the short-term.

The pace of change and level of government intervention in much of the world presents the possibility that the global economy is on the cusp of a regime change. The next several months will offer important insights into whether higher rates and inflation could be here to stay. The range of outcomes is historically wide, advocating the case for diversification and appropriate levels of portfolio risk aligned with long-term financial goals.

Market Data



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

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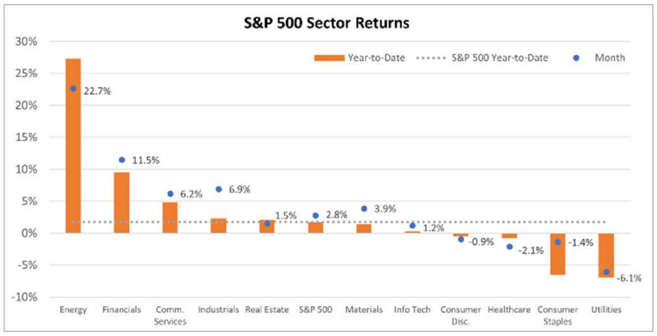
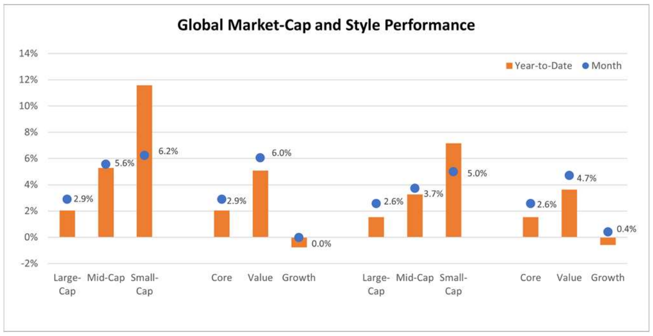
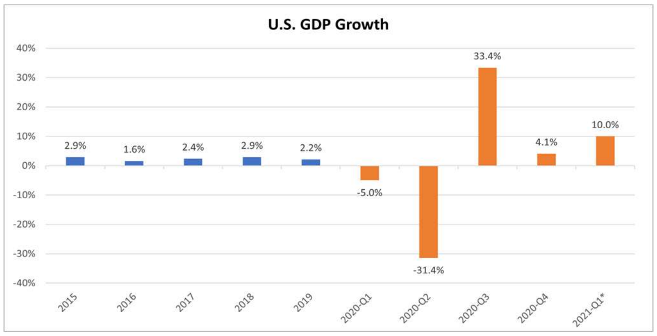


Bloomberg

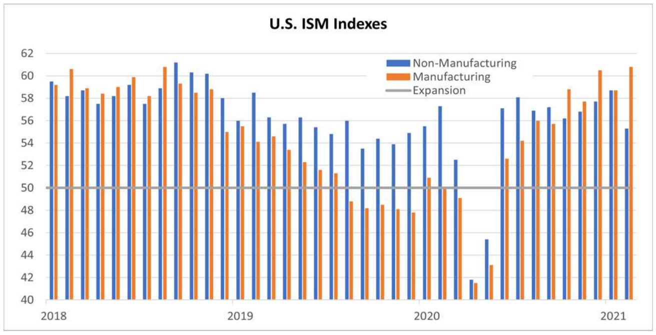


Bloomberg; U.S. indices from Russell and World indices from MSCI

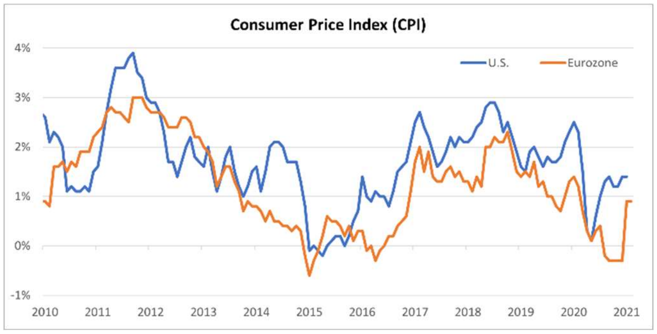
Economic Data



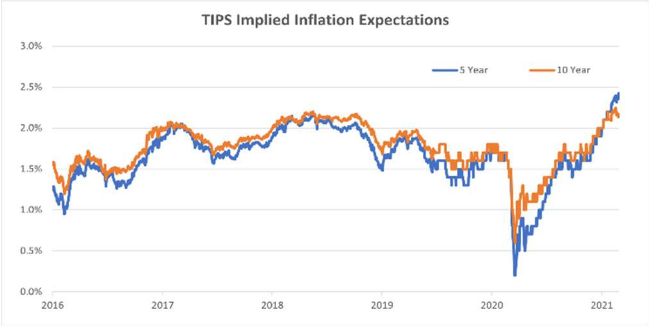
U.S. Department of Commerce



Institute for Supply Management



U.S. Bureau of Labor Statistics



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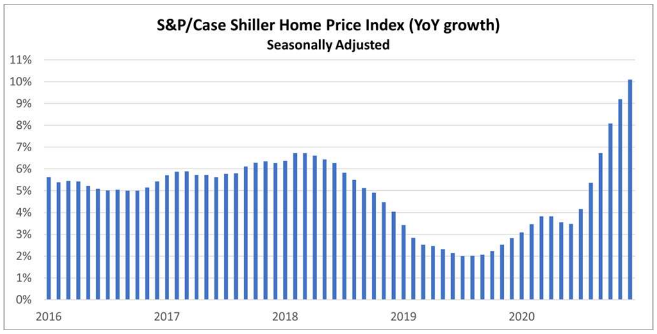
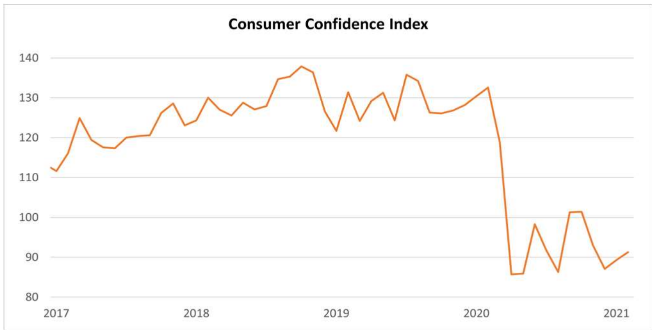
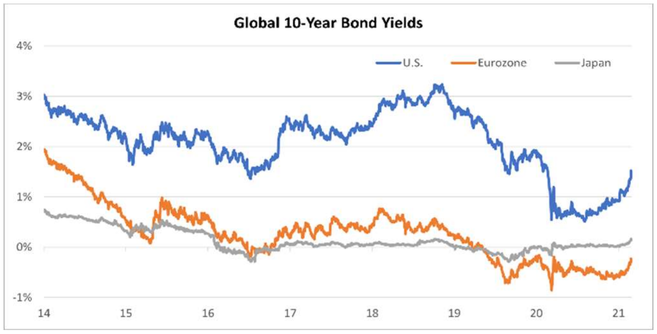


S&P/Case Shiller



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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