MONTHLY ECONOMIC UPDATE

INVESTMENT NEWSLETTER / JULY 2021

July Summary

Despite anxiety about new COVID-19 variants, July was a solid month for the investment markets. Broad equity markets reached new highs as investors assessed healthy economic and corporate earnings data against a backdrop of surging inflation and heightened asset valuations. At the same time, the resurgence of the coronavirus pandemic dominated the news, boosting bonds and other defensive assets. Bond yields fell to levels not seen in several months, suggesting that investors foresaw a slowdown in economic growth and inflation.

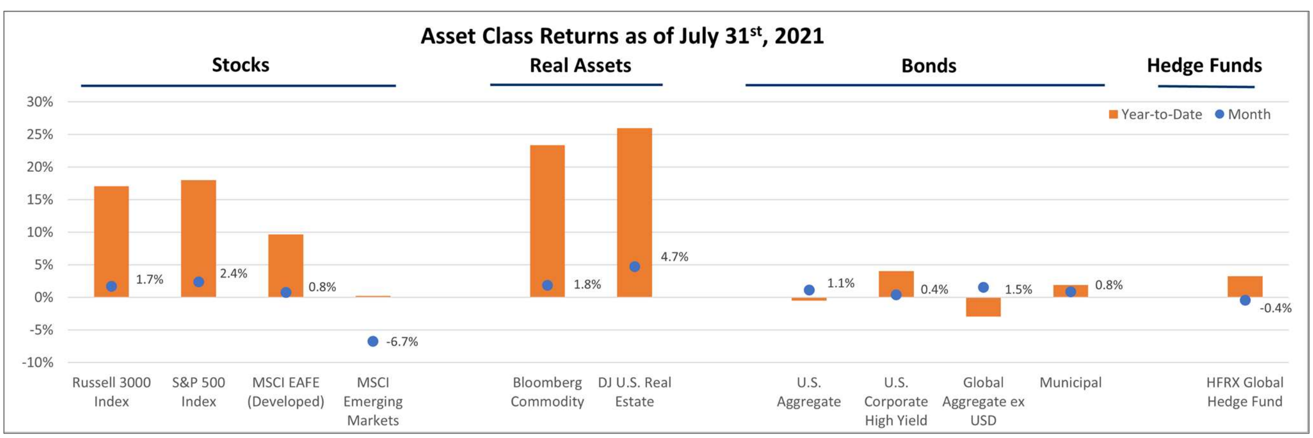
The U.S. economy continued to recover from the COVID recession. Annualized real GDP growth of 6.5% during the second quarter was below expectations but was thwarted by supply shortages affecting construction and auto sales. Consumer confidence and spending were healthier than expected. The labor market remains far from pre-pandemic levels, but jobs are being added at a robust pace. Inflation continues to be high due to supply shortages in labor and raw materials, but inflation expectations have eased. Vaccination rates in Europe are catching up to those in the U.S., driving a surge in activity and shifting Eurozone GDP growth into positive territory. It is important to note that economic data is on a lag and does not reflect the effects of rising COVID rates and the return of restrictions in some regions.

Although broad equity markets did well for the month, results across regions and sectors were mixed. In the U.S., over 90% of reporting companies beat earnings expectations and an unusually high level of share buybacks boosted stock prices. Although growth stocks overall beat value stocks, defensive sectors real estate and healthcare were top performers. Small capitalization and energy stocks plummeted as investors shifted away from sectors that would be hardest hit by a slowdown. Although the energy sector remains ahead year to date, OPEC's plan to maintain the oil supply will likely be a headwind in the coming months. The emerging equity market index was weighed down by China, its largest component. Increased government oversight and tighter regulations for the housing market, online educational services, and technology companies triggered a sharp decline in Chinese stock prices.

U.S. Treasuries had the best month in almost a year as demand for safe-haven assets and fears of an economic slowdown shifted the yield curve lower. Real interest rates are negative and arguably at unsustainable levels. The Federal Reserve reiterated its commitment to dovish policies but suggested that bond purchases would be cut back by early next year which would put upward pressure on interest rates. Demand has been unusually robust with institutional and retail investors pursuing a mix of safe-haven bonds and riskier higher yielding securities. Strong demand combined with paltry debt issuance pushed bond prices higher but tight credit spreads limited the upside for corporate and municipal bonds.

With the equity and bond markets sending mixed signals, investors should expect elevated volatility in the coming weeks. The unpredictable path of the coronavirus pandemic and political turmoil may contribute to investor's unease. The U.S. Congress seems poised to pass an infrastructure bill that would increase domestic spending, providing a catalyst for economic growth and inflation, but a divided Congress may make this task difficult. The U.S. debt ceiling has once again expired, an event that has triggered market volatility in the past. China is also a wildcard with a long history of government intervention and a precarious relationship with the U.S. Investors should ensure that portfolios are aligned with their long-term risk tolerance and incorporate defensive and diversifying components.

Market Data



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

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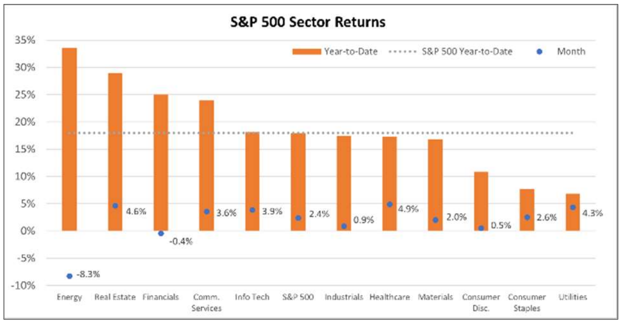
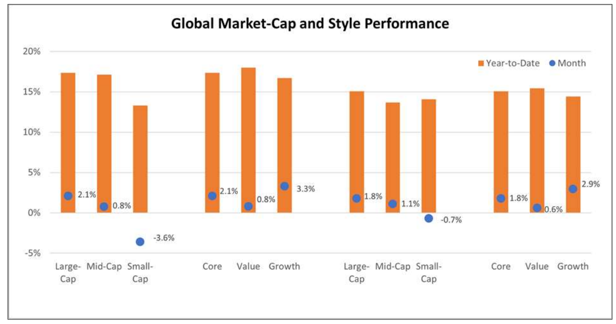
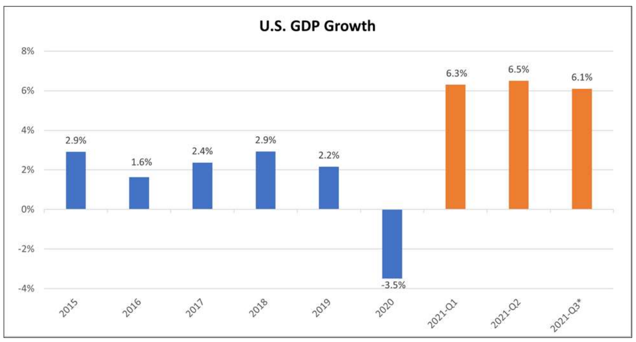


Bloomberg

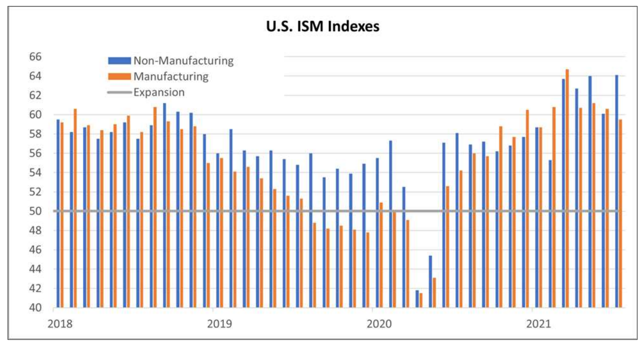


Bloomberg; U.S. indices from Russell and World indices from MSCI

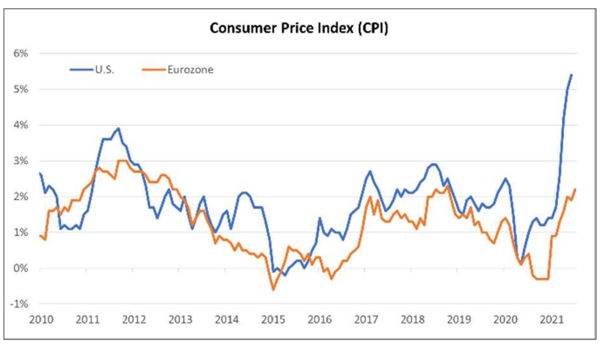
Economic Data



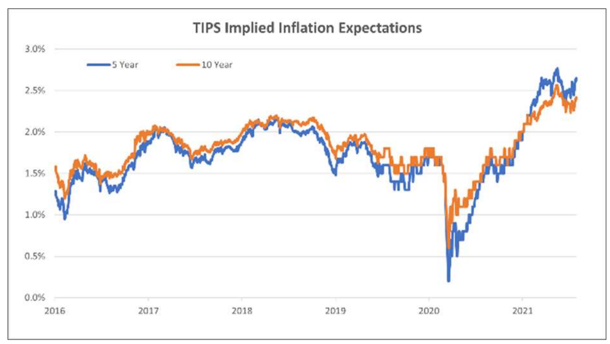
U.S. Department of Commerce,* Atlanta Fed GDP Now Estimate



Institute for Supply Management



U.S. Bureau of Labor Statistics



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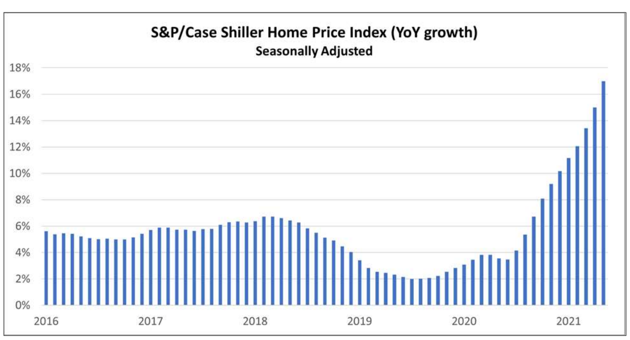
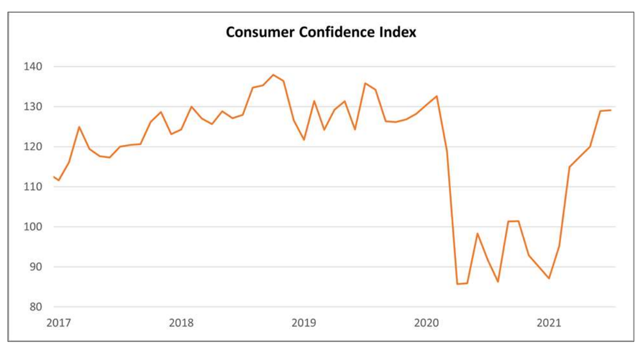
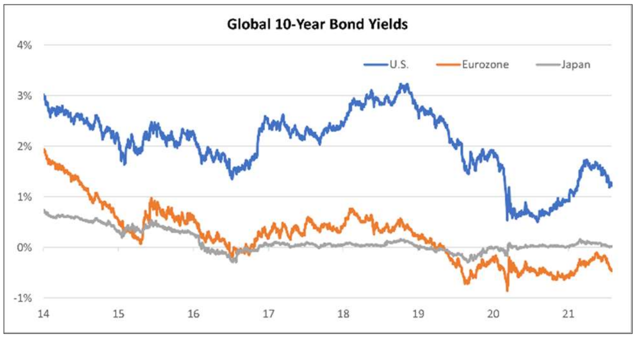


S&P/Case Shiller



Conference Board

Economic Data



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This commentary was written by Craig Amico, CFA®, CIPM®, Associate Director, Investment Management, Noreen Brown, CFA®, Chief Wealth Strategist, and Steven Melnick, CFA®, Associate Director, Investment Management 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 Russell 2000 Index measures the performance of the small cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership; 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 500 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 comprised of funds representing all main hedge fund strategies. The underlying strategies are asset weighted based on the distribution of assets in the hedge fund industry; 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 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.

U.S. GDP growth refers to the percent change in real Gross Domestic Product (GDP), the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. Real GDP corrects the nominal GDP for price changes and is net of inflation. The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms. It is considered to be a key indicator of the state of the U.S. economy. The ISM Non-Manufacturing Index is an economic index based on surveys of more than 400 non-manufacturing (or services) firms' purchasing and supply executives. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. TIPS Implied Inflation Expectations is the difference in the yields between U.S. treasury bonds and Treasury Inflation-Protected Securities (TIPS) with the same maturity date and is a useful measure of the market's expectation of future consumer price index inflation. The S&P Case-Shiller Home Price Index measures the value of single-family housing within the United States. The index is a composite of single-family home price indices for the nine U.S. Census divisions. The Consumer Confidence Index is based on a survey administered by The Conference Board that reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitude, buying intentions, vacation plans and consumer expectation for inflation, stock prices and interest rates. U.S. corporate high yield spreads are the calculated spreads between the Barclays Capital Option Adjusted Spread index of U.S. dollar denominated below investment grade rated corporate debt publicly issued in the U.S. domestic market and a spot Treasury curve.

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