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## Investment Newsletter May 2023

During the month of May, equity and bond markets generated mixed results after navigating through a federal debt ceiling stand-off, continuing strong employment numbers, moderating inflation, and another Fed rate hike. The S&P 500 added 0.43% while the Russell 2000 fell -0.93%. Growth stocks, led by a very narrow group of Nasdaq mega cap names, added 4.56%. Value names lost -3.86%. The Bloomberg Aggregate Bond Index was down -1.09% as longer dated yields rose.

The Federal Reserve continued its rate hiking campaign, completing its 10th consecutive increase. The 25-basis point rate hike brings the target Federal Funds rate to 5.0% - 5.25%. While the hikes began in March 2022, the lagging effects are likely greater this cycle given how far behind the curve the Fed was to start. At that time, inflation was already running near 7% and the Fed was still actively growing its balance sheet via quantitative easing. Arguably, the Fed reached neutral around 3% in September 2022 as the rate exceeded its long run inflation target of 2.5%. The Fed did not really reach restrictive status until January 2023 when the Fed Funds hit 4.5% - a level that was finally in range of current inflationary trends. Historically, the average time lag to slow the economy has been around 12 months with ranges between six to 18 months. Given the Fed path, the effective time lag so far is likely around six months.

Per the Fed Fund futures market, the Fed is very close to the terminal rate and an end to its rate hiking cycle. Futures predict another 25-basis point rate hike in June or July with a higher probability of a June pause followed by a July hike. The June/July hike is now forecast as the Fed's last with a strong probability of rate cuts beginning in Q1 next year. Rate cuts are sensitive to continuing declines in inflation across all measures, Core PCE in particular, but most importantly towards the Fed's cadence on specific components of inflation.

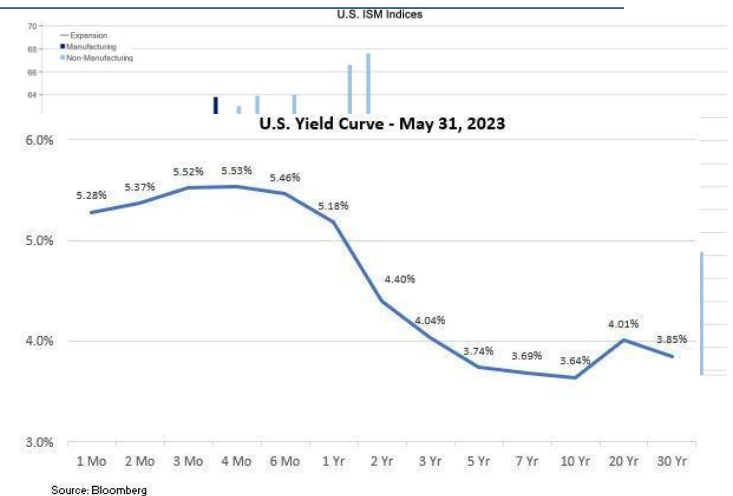
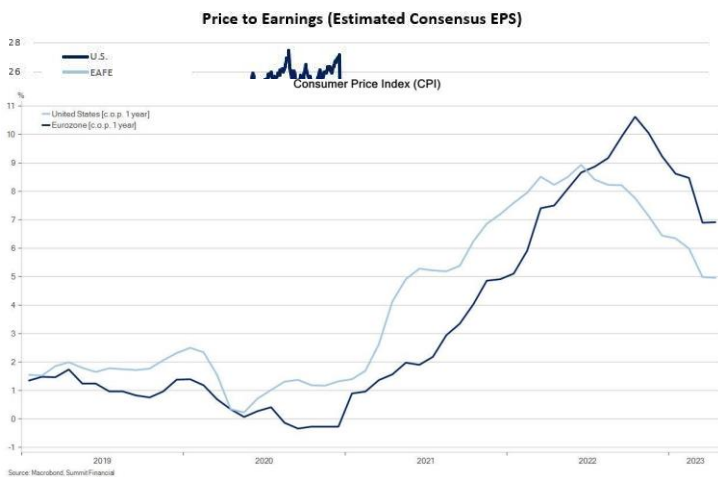
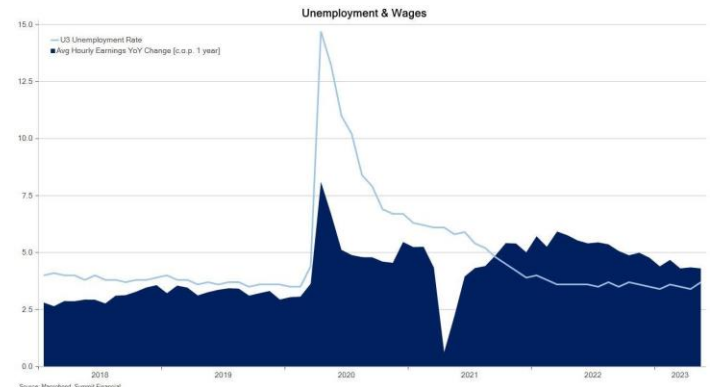
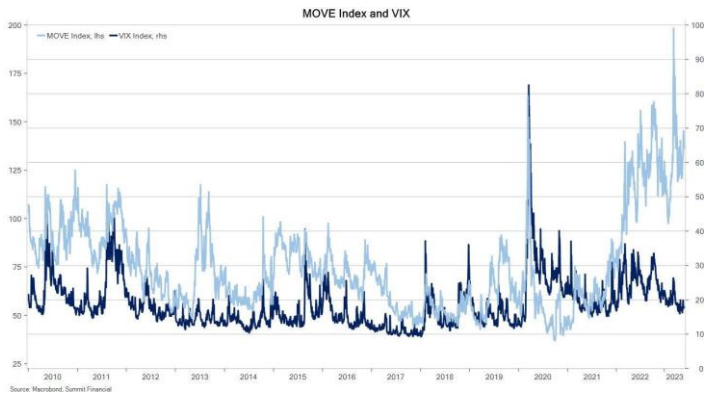
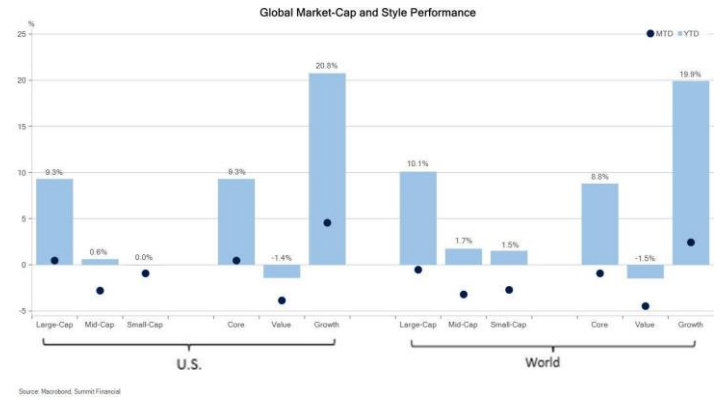
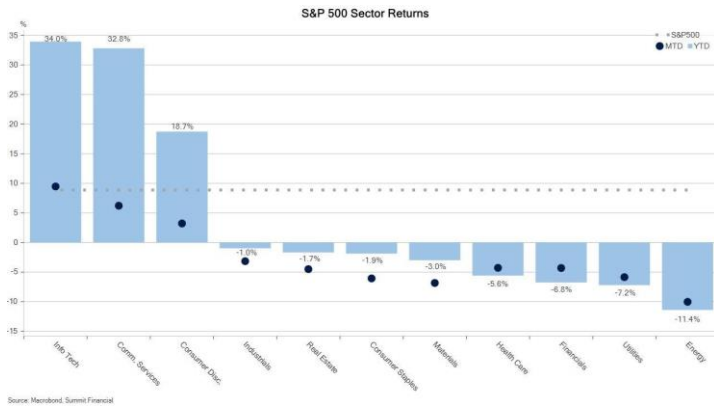
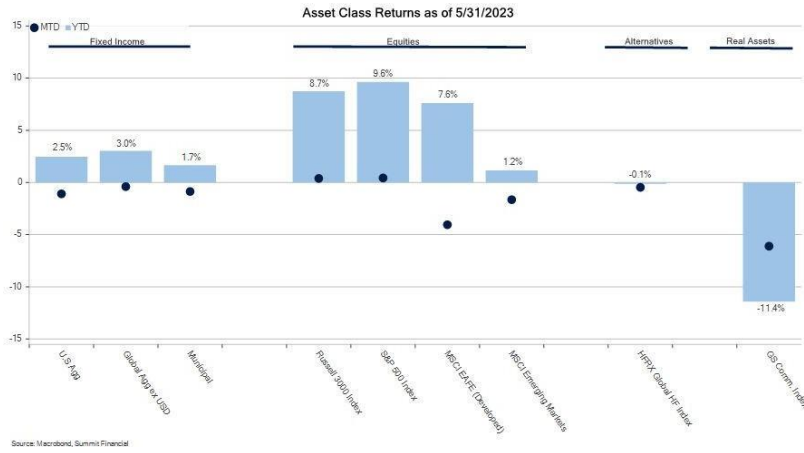
Under the backdrop of the risk of a US debt default, Congress and the President successfully negotiated a budget. The deal is estimated to reduce overall deficits by \$1.5 trillion over 10 years, but still see US debt levels rising from just under 100% of GDP towards 120%. The budget incorporates no tax changes, reduces discretionary spending marginally, maintains spending on mandatory programs, includes some work requirements for welfare programs and adds a sequester provision for cutting spending. Initial forecasts estimate its impact on overall economic growth to be minimal to mildly positive.

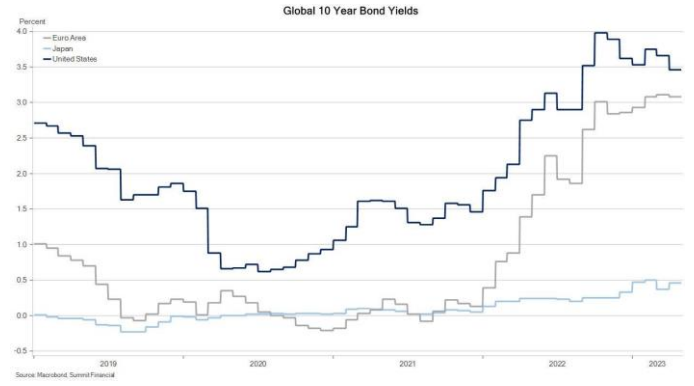
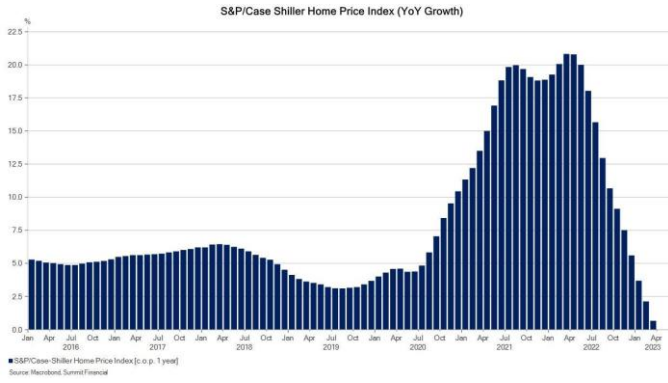
Internationally, concerns are mounting around China's near-term growth. While first quarter Chinese GDP growth reached 4.5%, it continues to run below the country's 5% target and the post-COVID bounce has been weaker than many analyst predictions. Germany's economy entered a recession with first quarter economic growth falling -0.3% after fourth quarter 2022 growth shrank -0.5%. This follows the UK narrowly avoiding a similar fate. In contrast, the US continues to experience moderate economic growth. US ISM Services activity remained positive in tandem with retail sales, non-farm payrolls growth and low initial unemployment claims. Of concern is the continuing contraction in commercial bank lending, though some of this may be offset by lending growth in private credit markets.

Within equity markets, S&P 500 earnings growth continues to struggle. Per Factset, current Year 2023 consensus earnings growth is projected at 1.2%. With reported Q1 growth at -4.1%, Q2 growth forecasted at -6.4% and Q3 growth forecasted at 0.9%, all the heavy lifting will shift to Q4 with its +8.3% growth projection. With high interest rates, rising labor costs and the Fed in restrictive mode, it is difficult to envision earnings accelerating towards year end even though a falling USD is beneficial. After almost one year of continuous cuts by analysts to EPS forecasts for Current Year 2023 and 2024, consensus estimates have stabilized, and analysts are maintaining their forecast for an economic soft landing.

Within fixed income markets, short-term treasuries offer the highest returns followed by short duration corporate bonds. Long-dated US treasuries, as measured by the US 10-year treasury, continue to offer yields near 3.7% providing a modest real return versus estimated inflation (five years forward) which is running near 2.1%. Short-term treasuries, as measured by 3-month T-Bills, are yielding near 5.3%, their highest levels in 16 years. With the Fed likely nearing the end of its rate hike cycle, and investment grade bonds yielding over 5%, extending duration is beginning to make more sense. With equity risk premiums versus both cash and bonds very low by historic standards, the risk/reward for equities remains tenuous.

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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 Russell 1000 Index measures the performance of the large-cap segment of the US equity universe. It is a subset of the Russell 3000 Index representing approximately 90% of the total market capitalization of that index. It includes approximately 1,000 of the largest securities based on a combination of their market-cap and current index membership; The Russell Midcap Index measures the performance of the mid-cap segment of the US equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap Index represents approximately 31% of the total market capitalization of the Russell 1000 companies; 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) captures large- and mid-cap representation across developed markets countries around the world excluding the US and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country; the MSCI Emerging Markets Index captures large- and mid-cap representation across emerging markets countries across the world. The index covers approximately 85% of the free float-adjusted market capitalization in each country; The MSCI World Index captures large- and mid-cap representation across developed markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country; the Bloomberg Commodity Index reflects commodity futures price movements and is calculated on an excess return basis. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production, and weight-caps are applied at the commodity, sector, and group level for diversification. Roll period typically occurs from the 6th-10th business day based on the roll schedule; the Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The index includes treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency); the Bloomberg Barclays Global Aggregate Ex US Index is a measure of investment-grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Bonds issued in US dollars are excluded; the Bloomberg Barclays Municipal Bond Index covers the US 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 US Real Estate Index measures the performance of real estate investment trusts (REITs) and other companies that invest directly or indirectly in US real estate through development, management, or ownership, including property agencies; The Bloomberg Barclays US Corporate High-Yield Index measures the US dollar-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. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded; The HFRX Global Hedge Fund Index is comprised of funds representing the overall hedge fund universe. Constituent funds include but are not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, even driven, macro, merger arbitrage, and relative value arbitrage. The underlying strategies are asset weighted based on the distribution of assets in the hedge fund industry; The S&P Case-Shiller Home Price Index measures the value of single-family housing within the US The index is a composite of single-family home price indices for the nine US Census divisions. Leading economic indicators (LEI) are statistics that precede economic events. They predict the next phase of the business cycle. The OECD Composite leading indicators (CLIs), designed to anticipate turning points in economic activity relative to trend, continue to strengthen in most major economies. The MOVE Index measures US interest rate volatility. The index tracks the movement in US treasury yield volatility implied by current prices of 1-month OTC options. The Cboe Volatility Index (VIX) is a real-time index that represents the market's expectations for the relative strength of near-term price changes of the S&P 500 Index. 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. The Consumer Confidence Index is a measure 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 expectations for inflation, stock prices and interest rates. A treasury Bill (T-Bill) is a short-term US government debt obligation backed by the treasury Department with a maturity of one year or less. The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of US economic activity based on a survey of executives covering all North American Industry Classification System's businesses in the manufacturing sector. The ISM Non-Manufacturing Index is a monthly indicator of US economic activity based on a survey of executives covering all North American Industry Classification System's businesses in the services (or non-manufacturing) sector. 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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