Investment Newsletter

May 2021

Encouraging economic and vaccination data within the U.S. has solidified that the recovery is here. Domestic infection rates continue to fall as more than 40% of the population is fully vaccinated. Most states are in the process or have already lifted numerous pandemic-oriented restrictions leaving room for robust growth over the summer months. Sadly, despite many developed nations reaping the benefits of widely accessible vaccinations, the pandemic is still ravaging across certain areas of the world. It will take a coordinated effort and extensive resources to bring the pandemic more fully under control across the globe.

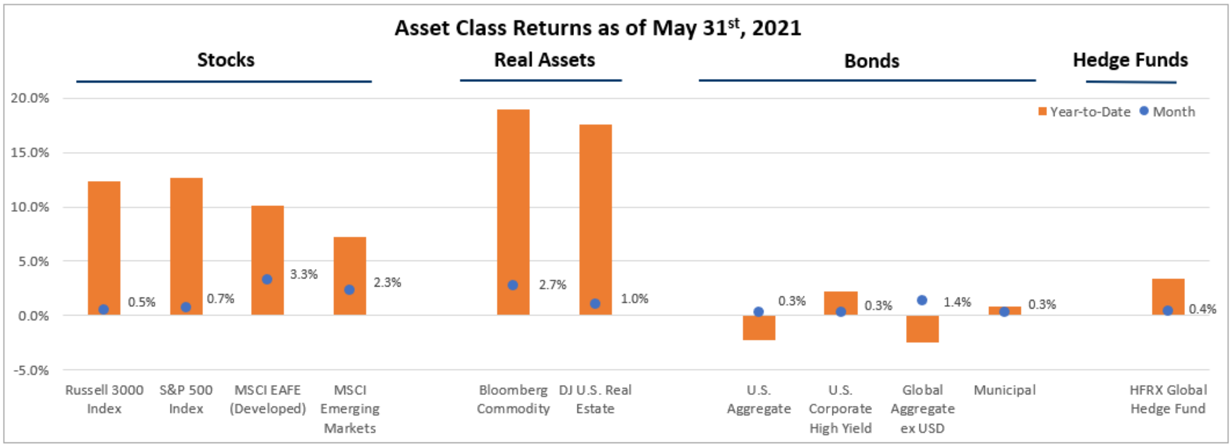
Approaching the back-half of 2021, the narrative has shifted to the economy's ability to walk the tightrope between strong growth/employment and manageable levels of inflation. On the growth side, the data did not disappoint with many economic metrics nearing or surpassing record highs. The labor market is robust and filling jobs is a bigger problem than creating jobs to fill. With inflation, the verdict is still not out. Early indicators show that inflation is already here while Fed statements reiterate that it is likely transitory, leaving the ability for easy money policies to continue. Market participants appear more skeptical as demonstrated by rising inflation expectations and leveling off consumer confidence. Rapidly rising prices for homes and nearly all consumer goods have not helped, influenced by supply shortages that are likely to persist for months. In the end, it will take time and data to fully comprehend which path we are on.

Relative to the strong pace of the recovery, investment asset returns were somewhat muted over May, reflecting that much of the good news is already priced in. Inflation concerns and premature central bank tightening also remained an overhang. This background created an environment that favored value over growth – a trend that has persisted so far in 2021. Large-caps exceeded small-caps for the month, although the opposite is true year-to-date. International equity markets beat domestic counterparts but remain behind so far this year. Sector leadership within the S&P 500 Index represents the inverse of 2020. Top performing sectors included energy and financials while technology and consumer discretionary stocks lagged the overall index's year-to-date return.

Bond markets eked out small gains from interest payments over May, as yields were relatively flat. Notably, more prominent benchmarks such as the Bloomberg Barclays U.S. Aggregate Bond Index maintain a negative return year-to-date. The front end of the yield curve is held near zero based on further central bank intervention, while the longer end has moved up modestly incorporating higher expectations for growth and inflation. Corporate spreads are historically tight and, in some cases, reaching all-time lows. Municipal market valuations (spreads) also reflect large inflows as investors are starved for tax-efficient income. According to AllianceBernstein, year-to-date municipal fund inflows reached $48.1 billion at the end of May. This would be the fourth highest full-year rate since record keeping began in 1992 and we are only in May!

Looking forward to the summer months, the U.S. economy should continue to recover as most states fully reopen and consumer pent-up demand is released. The caveat being that the public health crisis remains in check. While the Fed has so far remained committed to dovish policies, it is possible that higher than expected growth and inflation numbers could cause them to taper sooner than anticipated. The processing of these decisions by markets could contribute to volatility later in the year. While the outlook is positive going forward, elevated valuations across public and private investable assets suggest that allocations should stay close to target levels and that ample lifestyle liquidity is maintained.

MARKET DATA



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

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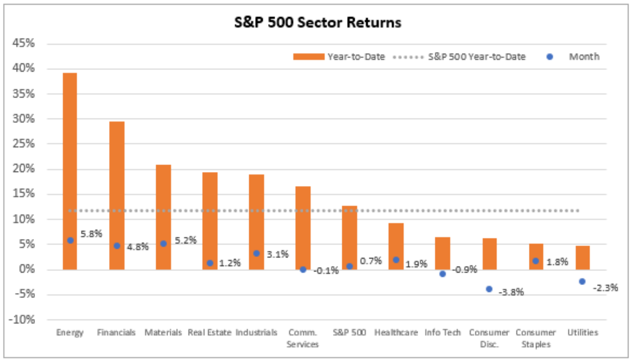
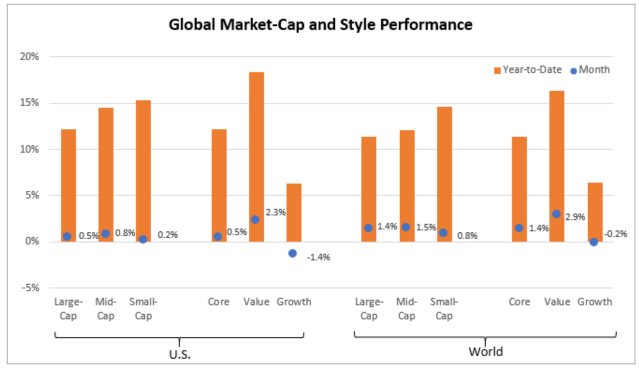
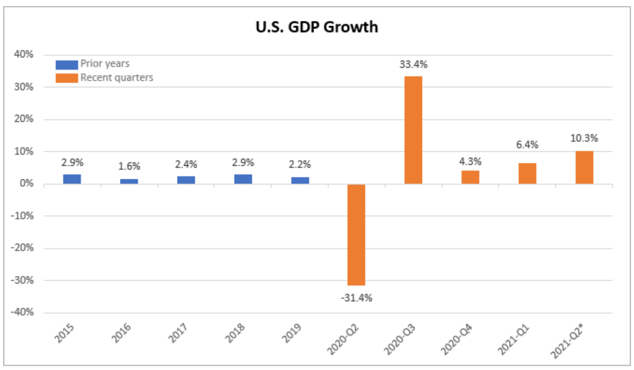


Bloomberg

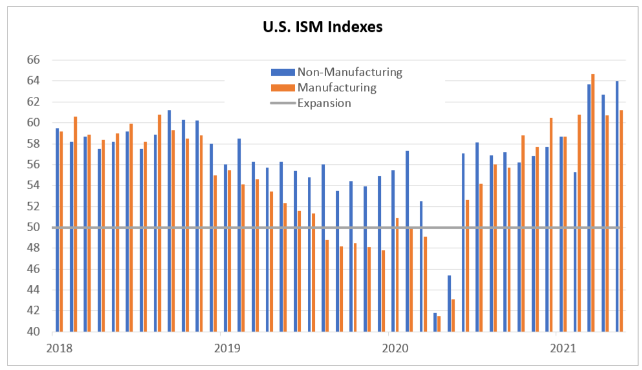


Bloomberg; U.S. indices from Russell and World indices from MSCI

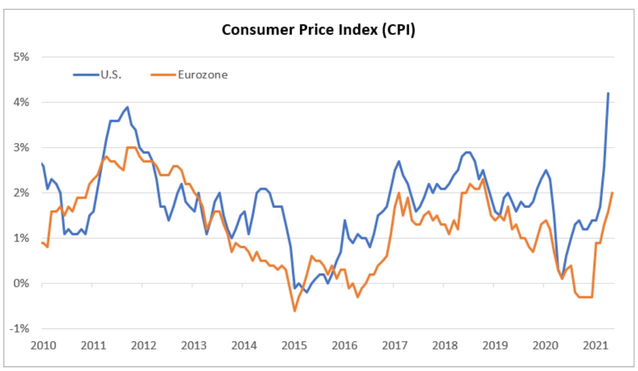
ECONOMIC DATA



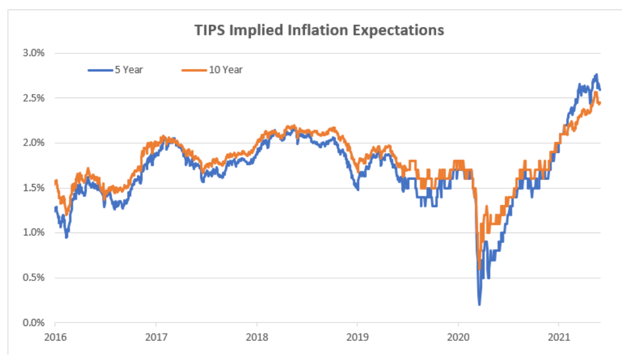
U.S. Department of Commerce, * Atlanta Fed GDP Now Estimate



Institute for Supply Management



U.S. Bureau of Labor Statistics



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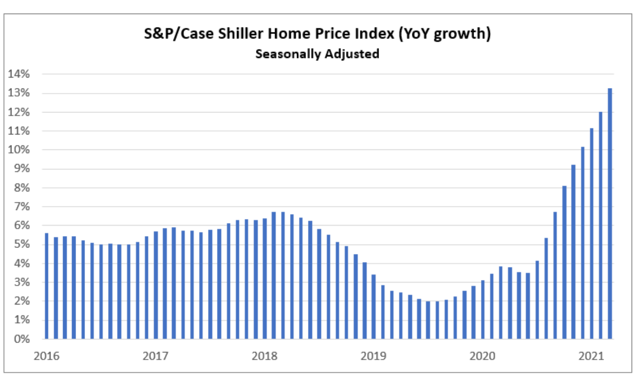
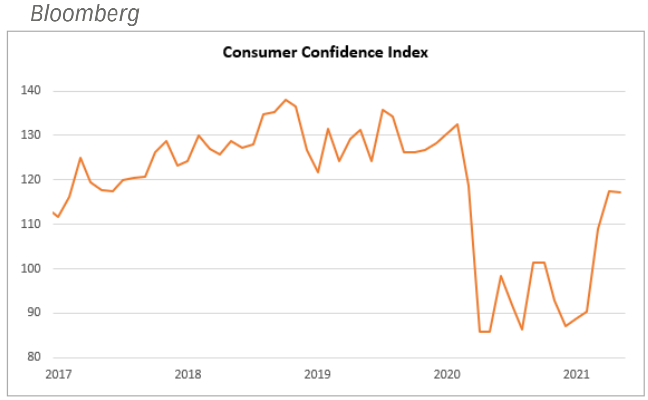
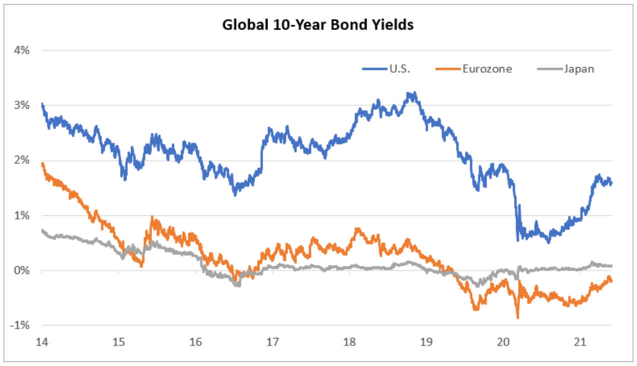


S&P/Case Shiller



Conference Board



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DISCLAIMER

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 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 All Country World Ex U.S. Index is a free float-adjusted market capitalization weighted Index that is designed to measure the equity market performance of global developed and emerging markets, excluding the U.S.; 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 HFRI Fund of Funds Composite Index is an equally-weighted hedge fund of funds benchmark composed of many domestic and offshore constituent funds having at least $50 million under management or having been actively trading for at least 12 months. 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 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 CBOE Volatility Index is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. It is created by the Chicago Board Options Exchange (CBOE); 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; The FTSE Nareit US Real Estate Index Series is a comprehensive family of REIT-focused indexes that span the commercial real estate industry, providing market participants with a range of tools to benchmark and analyze exposure to real estate across the US economy at both a broad industry-wide level and on a sector-by-sector basis. 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 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. A Treasury Bill (T-Bill) is a short-term U.S. 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 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 Citi Economic Surprise Index measures the pace at which economic indicators are coming in ahead of or below consensus forecasts. When the index is negative, it means that the majority of reports are coming in below expectations, while a positive reading indicates that most data is coming in ahead of expectations. 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. Economic and market forecasts presented herein reflect our judgment as of the date of this presentation and are subject to change without notice. These forecasts are subject to high levels of uncertainty that may affect actual performance. Accordingly, these forecasts should be viewed as merely representative of a broad range of possible outcomes. These forecasts are estimated, based on assumptions, and are subject to significant revision and may change materially as economic and market conditions change. These forecasts do not take into account the specific investment objectives, restrictions, tax and financial situation or other needs of any specific client.