

# SUMMIT PERSPECTIVE

## THE 2022 TIME MACHINE

Many of us grew up in a Cold War era where the USSR was the primary enemy, and our military and political attention was focused on keeping communism at bay and averting nuclear war. Over time, capitalism triumphed ... the Berlin Wall fell, Russia adopted Perestroika, the Soviet Bloc crumbled, and Eastern European countries gained their sovereignty. Before you could relearn the European map, Russia was an active trading partner and had become part of the interconnected world economy. However, the moment the Red Army rolled into Ukraine this February, it seems we entered a time machine and landed in a world where Russia attacks its neighbors and threatens the West with nuclear war. While western countries were sleeping, Vladimir Putin was building his forces and making plans to create his version of the USSR. What is old is new again as Russia returned to being public enemy number one.

Of course, this is not 1980, but from an economic perspective there are similarities. Inflation is running rampant after the massive stimulus injected into the economy to combat the COVID pandemic (the CPI was up 7.9 percent in February<sup>1</sup>). Interest rates are rising as Jerome Powell does his best Paul Volker impression, and commodities (especially oil and gas) have surged due to the war in Ukraine. One can imagine how economic forces would react to this financial and geopolitical stew.

### How it has played out (so far)

After the substantial runup in asset prices after the COVID panic in the spring of 2020, equities were trading at relatively high valuations at the end of 2021<sup>2</sup>. It would not take much to cause a correction, and the combination of rising interest rates plus an actual war were just the ticket. The U.S. equity markets sold off, with the S&P 500 reaching a correction of more than -10 percent, and the tech heavy NASDAQ



reaching a “bear market” of -20 percent in mid-March before rallying in recent days<sup>3</sup>. So far, the stock selloff merely constitutes a garden variety downturn, but it feels anything but “normal” with the backdrop of Russian tanks attacking innocents in Ukraine. Meanwhile, commodities (especially oil and gas) have jumped dramatically with Russia’s oil supplies being taken offline. Gas prices have spiked, and consumers are feeling it at the pump and in their heating bills.

### What about the “safety” of fixed income?

Normally, bonds provide the ballast that protects a portfolio from the volatility of stocks. Often, investors pile into bonds when stocks decline as they seek safety in the predictable coupon payments with a return of principal at maturity. However, in 2022, bonds are performing **worse** than stocks as inflation has caused the Fed to hike interest rates and signal for more. Rising interest rates cause bond prices to fall, and on the first day of April, the Bloomberg Aggregate U.S. Bond Index was down almost 6 percent for the year while the S&P 500 had declined less than 4.6 percent<sup>4</sup>. Bondholders understand that they lack the upside of stocks, but they typically trade that for less volatility and chance of loss. For many bondholders, this type of decline was not even considered when they invested. Much is being written about how a balanced portfolio (a mixture of stocks and bonds) are underperforming the more aggressive portfolios that signed up for more volatility. Note that this is an exceedingly rare occurrence. According to research by New York University, there have been only four years since 1926 where both the S&P 500 and U.S. Treasuries posted negative returns in the same year. We will

*Continued on Page 3*



## INSIDE THIS EDITION

### Feature Article:

The 2022 Time Machine

### Summit Spirit Award:

Angela and Kids  
Against Hunger

**Summit University:** Our Spring Session is Here and There’s a Lot to Learn!

### Staff Spotlight:

Welcome Evan and David!

### Ready to Unload?

Our Annual Paper Shredding Event Is Back!

### Summit Trivia Challenge

“

*A river cuts through rock, not because of its power, but because of its persistence.”*

– James N. Watkins

”

# KUDOS!

## Summit Spirit Award:

### Angela and Kids Against Hunger

Each quarter, Summit recognizes one team member who receives kudos from their peers and managers for going the extra mile. The winner receives \$1,000 to donate to the charity of his or her choice. Congratulations to Angela King, Marketing Manager, as the recipient of this quarter's Summit Spirit award!

*Angela:* I am donating my Summit Spirit Award to Kids Against Hunger, a non-profit humanitarian organization with a mission to provide nutritious food to impoverished children and families around the world and around the corner.



Photo Credit: Maryna Petrenko-Shvets

They have recently sent food to local schools in the Bay Area, Modesto, and Manteca as well as to remote locations across the globe where populations are deprived of food such as those affected by Tropical Storm Amanda in El Salvador.

Currently, the organization is working closely with Convoy of Hope, K-Love Radio, and the Ukrainian Culture Community to get as many meals as possible to Ukrainian refugees. The charity has been organizing meal packing events at their Pleasanton warehouse since the crisis began. They have already managed to airlift 150,000 meals to those in need there.

If you would like to donate your time to this organization, visit [kahbayarea.org](http://kahbayarea.org) to see available meal packing dates and times. If you have a group of 20 or more who want to participate, call 925-400-7201 to sign up.

# SUMMIT UNIVERSITY



Upcoming  
Virtual Courses  
and Workshops



## Retire Wise: An Educational Retirement Planning Workshop

Registration is now open  
for May classes

Retirement is a time to create the life you have dreamed of living – free of the commute, the deadlines, and the pressures of professional life. The challenge is finding a way to finance those dreams. Reaching retirement doesn't matter if you can't live comfortably for the duration of your post-career years. Inflation, market shocks, emergency spending, and long-term care needs can derail your plans. Are you as prepared as you could be? Join us for this educational and interactive workshop, which consists of two, hourlong workshops and a scheduled one-on-one session with the instructor to discuss your personal financial questions and concerns.

## Women and Money: Financial Self-Care

Wednesday, May 4 at 5 p.m.

You have probably heard of practicing self-care to maintain your physical and mental health. One component of self-care that is often overlooked is related to your money. Gaining more knowledge and control of your finances will benefit your wellbeing by increasing confidence, reducing stress, and empowering you to invest in your future self. Created with the novice investor in mind, this webinar will cover practices that will help you get where you want to go, financially. Attendees will receive a copy of a *Financial Self-Care Checklist*.



## Five Fundamentals of Wealth Management

Thursday, May 19 at 4:30 p.m.

Most people know what a financial advisor is, but don't truly understand how working with one can help them achieve their financial goals. There are no gimmicks or shortcuts to achieving wealth and financial security but there are basic principles. Join us for this online class designed to help you understand the five fundamentals of wealth management.

Learn more and register for classes through the Summit University page on our website: [summitadvisors.com/education/university/](http://summitadvisors.com/education/university/) OR call 925-866-7800.

## 2022 TIME MACHINE *Continued from Page 1*

not guess as to whether that will happen this year, but rising rates are, no question, a headwind for bonds.

### **Global changes on the horizon?**

In the wake of Russia/Ukraine, there are bound to be some changes on the world stage – some of which will have impacts on markets and economies. While Russia's annual GDP represents only one month of U.S. production, they are major oil and gas suppliers to Europe. In fact, Europe is so reliant on Russian fuels that the massive sanctions placed on Moscow do not include exports of oil and gas to Europe (convenient for Mr. Putin). Western Europe has been outsourcing its energy production for many years, with a focus on green energy and renewables at the expense of energy security. Germany, for example, has shuttered all but three of its nuclear power plants (and those remaining were scheduled to be shut down this year)<sup>5</sup>. Russia, on the other hand, ramped up its nuclear power production so it could sell even more oil and gas to western Europe. Oil and gas production is not turned on and off like a light switch. It is capital intensive and time consuming to bring production online and significant investment in both the U.S. and Europe is likely in the wake of Russian aggression.

One key difference between today and the energy crisis of the late 1970s is that the U.S. is no longer captive to OPEC nations for access to oil. Higher oil prices no longer depress overall measures of prosperity like GDP and national income, but they do shift prosperity to regions like North Dakota and Texas<sup>6</sup>. Furthermore, the pain at the pump is real for consumers as gas prices spike and it takes time before new production can bring prices down. Nevertheless, an entire U.S. industry stands to prosper in this environment where in times past – that industry was in the Middle East.

Another area of likely change is in the supply chains that support manufacturing. Supply chains have been exposed as fragile, first by the pandemic, and then again with the war in Ukraine. While the sunflower oil trade from Ukraine is not likely to set back global economies ... an interruption of the supply chain for semiconductors out of Taiwan would be much more damaging. As companies ponder the geopolitical risks in the wake of Russia/Ukraine, we expect significant investment to be made domestically to shore up the supply chains. The pendulum is swinging away from "outsourcing" and moving toward "local sourcing" where the supply chain is brought nearer to the end users. This is a titanic shift and likely takes years and lots of capital investment. On the one hand, this may prove inflationary as labor in developed countries is more expensive than in emerging economies. On the other, it is going to create more jobs and some areas of the economy will thrive that were previously hurt by the outsourcing phenomenon.

### **What about interest rates?**

This may be the trillion-dollar question with the most impact for markets and economies in the near term. The Fed has a very difficult job ahead. Inflation is running far above the target rate of 2 percent, and the playbook to combat inflation is to

raise interest rates and slow the economy. However, nobody wants to cause a recession, and there is concern that the Fed may cause one if they overdo it. We don't envy their position, and we cannot venture a guess as to whether they will be successful. What does seem plausible is that inflation will stay persistently high for some time as the food and energy costs stay elevated due to the war in Ukraine and the strain on the supply chain. Many economists predict a moderation of the inflation rate late in 2022 or early 2023<sup>7</sup>, but this is exceedingly hard to predict. The bond market has already begun to reflect higher interest rates based on these expectations, and it seems wise to plan for higher rates ahead.

### **What should clients consider?**

As we often do, we first ask clients to review their financial goals and make sure the strategies employed still fit those goals. Solid strategy should follow goals and planning, not react to short-term phenomena in the world. A diversified portfolio of equities has historically been a good hedge against inflation, and if you have a plan for the cash flow needed in the short term and avoid panicking out of long-term investments during downturns, success has followed. Revisiting your portfolio spending strategy (assuming withdrawals are needed) and recommitting to a long-term orientation with your invested assets would be solid preparation in this environment.

On our time machine trip back to a world of Russian aggression, high inflation, and sky-high gas prices, it is easy to overlook the dynamic power of markets and free market capitalism. A lot of ground has been covered since the last time we faced some of these same issues. It might be interesting to note that the S&P 500 began trading at 107.94 in 1980. Today's level is in excess of 4,600 – 40 times higher than that Cold War era economic puzzle. We will get through this too!

<sup>1</sup> CPI reported by the Department of Labor – February 2022

<sup>2</sup> 12 Month Forward P/E Ratio of S&P 500 reached 22 in 2021 vs a historical average of 14-16 (Yardeni Research – Selected P/E Ratios – 3-24-2022)

<sup>3</sup> Ycharts peak to trough decline for price level of S&P 500 and NASDAQ indices – March 2022

<sup>4</sup> Ycharts YTD Total Return Data for the Bloomberg US Aggregate Bond index (-5.85%) and the S&P 500 Index (-4.57%) through April 1, 2022

<sup>5</sup> Howard Marks – Oaktree Capital – The Pendulum in International Affairs – March 2022

<sup>6</sup> Axios – The US is now Energy Independent, Neil Irwin, 2-19-2022

<sup>7</sup> The Conference Board – Economic Forecast for the US Economy 3-10-2022

The Nasdaq Composite Index is a market-value weighted index, which measures all securities listed on the NASDAQ stock market.

The S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S. Please note an investor cannot invest directly in an index.

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any funds or stocks in particular, nor should it be construed as a recommendation to purchase or sell a security. Past performance is no guarantee of future results. Investments will fluctuate and when redeemed may be worth more or less than when originally invested.

# STAFF SPOTLIGHT

## Welcome to Summit, Evan and David!



**Evan Zeller,**  
**Financial Planning Associate**

Prior to joining Summit in 2021, Evan worked as a Financial Planning Analyst in the Bay Area where he gained valuable financial planning experience. Evan has a passion for supporting the creation of comprehensive financial plans for families, new and old, that will enable them to plan for their financial independence.

Evan was born and raised in Orange County, CA. He attended California State University, Monterey Bay, and received his Bachelor of Science degree in Business Administration with a concentration in accounting while playing four years of NCAA basketball. When away from the office, Evan can be spotted on the court coaching high school junior varsity basketball at Granada High School. He also enjoys playing basketball, hiking, weight training, golfing, watching sports and preparing new recipes in the kitchen. When he's not being active, Evan spends time with his family, friends, girlfriend, and his pug, Frank.



**David Moe,**  
**New Business Coordinator**

David is one of our New Business Coordinators at Summit. He has 3 years of industry experience under his belt. David is passionate in his role working with our advisors, clients, and services team. He plays a key role in processing investment and insurance applications, transfers, and performing other account set-up procedures. He holds a bachelor's degree in psychology from the University of California, Davis, and continued his education in finance and economics.

In his free time, David loves to spend time with his friends and family (He adores his nephew and three nieces!). He is interested in sports and is a big 49ers and Warriors fan. He also enjoys cooking and exploring new restaurants.



## SPRING CLEANING PAPER SHREDDING

Do you feel the urge to purge?

Our annual paper shredding event is coming! Take a load off. Bring your paper to us to shred during this complimentary community service. Summit advisors and staff will be on hand to greet you. Stop by with your stacks, enjoy some conversation and a snack, and leave feeling a little lighter than when you arrived.

**When:** Saturday, May 7, 1 to 4 p.m.

**Where:** Summit Financial Group Parking Lot  
2000 Crow Canyon Place, San Ramon, CA 94583  
Please RSVP to [veronica@summitadvisors.com](mailto:veronica@summitadvisors.com)  
by May 6th.

## SUMMIT TRIVIA CHALLENGE



The answer to this quarter's question can be found on the Summit Facebook page ([facebook.com/summitfinancialgroup/](https://facebook.com/summitfinancialgroup/)). Each person to submit the correct response will be entered to win a \$25 Starbucks gift card.

**Ready? Here it is ...**

**Which charity did the Summit Financial Foundation support at our 10th Annual Summit Symposium?**

Know the answer?

Email it to [angela@summitadvisors.com](mailto:angela@summitadvisors.com) by May 20.  
The Trivia Challenge winner will be notified via email.

## CONTACT US



**SUMMIT**  
FINANCIAL GROUP LLC

2000 Crow Canyon Place, Suite 450  
San Ramon, CA 94583

Office: 925.866.7800

[info@summitadvisors.com](mailto:info@summitadvisors.com) ■ [summitadvisors.com](https://summitadvisors.com)

Securities and investment advisory services offered through Securian Financial Services, Inc. Member FINRA/SIPC. Summit Financial Group is independently owned and operated. 2000 Crown Canyon Place, Suite 450, San Ramon, CA 94583. TR# 4647426 DOFU 4/2022